



carbon**energy**

FINANCIAL REPORT 2018

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Directors' Report

Board Information

The Directors of Carbon Energy Limited (Company) present their report together with the financial statements of the Consolidated Group, being the Company and its controlled entities, for the financial year ended 30 June 2018.

Directors

The names of Directors in office at any time during or since the end of the year are:

Mr Peter Hogan	Chairman and Non-Executive Director
Mr George Su	Non-Executive Director Interim Executive Director (from 19 July 2017 to 30 May 2018) Non-Executive Director and Consultant (from 30 May 2018)
Mr Huihai Zhuang	Non-Executive Director
Mr Bryan O'Donnell	Managing Director (appointed 8 January 2018)

Company Secretary

Ms Ye-Fei Guo	Company Secretary (appointed 5 October 2017)
Mr Ian Morgan	Company Secretary (appointed 31 July 2017)
Ms Catherine Costello	Company Secretary (resigned 31 July 2017).

Other Key Management Personnel

Mr Bryan O'Donnell	Chief Executive Officer and Managing Director (appointed 2 January 2018 and 8 January 2018 respectively)
Ms Ye-Fei Guo	Chief Financial Officer and Company Secretary (appointed 22 August 2017 and 5 October 2017 respectively)
Dr Clifford Mallett	Technical Director
Mr Stuart MacKenzie	General Counsel
Mr Terry Moore	General Manager, Operations (resigned 8 September 2017)

Directors' Information

Mr Peter Hogan

Chairman and Non-Executive Director

BBus, CA

Mr Hogan was appointed to the Board on 29 August 2008 and elected as Chairman on 9 March 2017.

Mr Hogan is a Chartered Accountant providing business advisory services to a diverse range of clients. Mr Hogan worked with PwC for 23 years, including 17 years as Partner before retiring in 2008. He has extensive experience in providing business advisory services to Australian and overseas listed public companies and large private companies. He has particular experience with companies in the consumer and industrial product sectors and the mining sector.

During the past three years Mr Hogan has held the following other ASX listed company Directorships:

- OneAll International Ltd (from December 2015) Non-Executive Director

Mr Hogan is also Deputy Chairman of Villa Maria Catholic Homes Ltd which operates in the retirement living, aged care, social housing, disability and disability education sectors.

Directors' Report

Board Information (continued)

Directors' Information (continued)

Mr George Su

Non-Executive Director and Consultant

BA (Bus Admin)

Mr Su was appointed to the Board on 4 December 2015 as Alternate Director to Mr Zhuang and as Non-Executive Director on 9 March 2017.

Mr Su has over 30 years of business experience in the Asia Pacific region and is currently based in Sydney. Mr Su was formerly head of the Australian operations of CITIC Securities, China's largest investment bank, between 2009 and 2013. He continues to work with CITIC Securities as their business partner for Australia through Silk Road Corporate Finance Pty Ltd, providing corporate advisory services.

Mr Su also served as an independent director on the board of Macquarie Bank's China property fund between 2006 and 2014.

Born in China, Mr Su was educated in China and USA and holds a Bachelor of Arts degree in Business Administration from Hamline University, Saint Paul, USA.

During the past three years Mr Su has held the following other ASX listed company Directorships:

- Oriental Technologies Investment Limited (from September 2007) Non-Executive Director after serving as Managing Director since 1998; and
- YPB Group Limited (from July 2014) Non-Executive Director.

Mr Huihai Zhuang

Non-Executive Director

BS degree (Shantou University)

Mr Zhuang was appointed to the Board on 29 October 2015.

Mr Zhuang is the 100% owner of the Company's previous and current cornerstone investors, Kam Lung Investment Development Company (Kam Lung) and Beijing JinHong Investment and Development Co. Ltd (Beijing JinHong), respectively. Mr Zhuang was appointed to the Board as the nominee for Kam Lung following their increase in shareholding to 19.99%. Mr Zhuang brings to the board strong networks across Chinese business and government sectors, which is anticipated to create a more effective cultural and relationship building leverage for the Company in doing business in China.

Mr Bryan O'Donnell

Managing Director and Chief Executive Officer

BE Civil Hons 1

Mr O'Donnell was appointed as Chief Executive Officer on 2 January 2018 and Managing Director on 8 January 2018.

Mr O'Donnell is a seasoned oil and gas executive and brings a wealth of commercial, operating and project development experience to the Company at this critical point in its next phase of growth.

Mr O'Donnell has extensive commercial and upstream petroleum development expertise from over 30 years of managing oil, gas and CSG developments for ExxonMobil, Oil Search, Arrow Energy, Westside Corporation and BHP Petroleum. Prior to joining the Company, Mr O'Donnell was part of the Westside Executive Team as the Development Manager responsible for the Meridian Development. Previously, Mr O'Donnell was the General Manager Surat Development for Arrow Energy where he was responsible for managing the Surat upstream LNG development, domestic gas projects and the LNG ramp gas commercial strategy and the negotiation of a number of GSAs. Prior to that, Mr O'Donnell was the Manager of Projects for Oil Search Limited where he managed successful safe delivery of more than USD800 million of oil & gas development projects.

Directors' Report

Company Secretary Information

Ms Ye-Fei Guo

Chief Financial Officer and Company Secretary
BCom, CA

Ms Guo was appointed as Chief Financial Officer on 22 August 2017 and Company Secretary on 5 October 2017.

Ms Guo brings extensive experience across a number of sectors including asset and funds management, real estate, energy and financial services. Her experience spans across listed and unlisted entities with operations in both Australia and overseas. Prior to joining the Company, Ms Guo held various positions at Brookfield Asset Management and PricewaterhouseCoopers.

Mr Ian H Morgan

Company Secretary

BCom, B Bus (UTS), MComLaw (Macquarie University), Grad Dip App Fin (FINSIA), CA, ACIS, ACSA, MAICD, F Fin

Mr Morgan was appointed as Company Secretary on 31 July 2017.

Mr Morgan is a qualified Company Secretary and Chartered Accountant with over 30 years of experience in businesses operating in Australia and overseas. Mr Morgan's experience includes many years in the resource sector. He provides secretarial and advisory services to a range of companies and is company secretary of other public listed companies.

Ms Catherine Costello

Company Secretary

(Resigned as Company Secretary 31 July 2017)

BCom, MSc, CA, GradDipACG, GAICD

Ms Costello joined the Company in April 2014 as the Company's Chief Financial Officer and assumed the role of Company Secretary in September 2015. Ms Costello has 20 years of international experience in the mining, engineering and technology sectors. Her experience extends to global listed entities undergoing significant growth and she brings extensive financial, commercial and corporate governance skills. Prior to accepting the position with the Company, Ms Costello held several senior management roles including senior financial positions in Ausenco, Lihir Gold (now Newcrest Mining) and Placer Dome (now Barrick Gold).

Ms Costello has a Bachelor of Commerce Degree from the University of Queensland, a Master of Science (Mineral Economics) from Curtin University, is a member of the Chartered Accountants Australia and New Zealand and a member of the Governance Institute of Australia.

Principal Activities

During the financial year, the principal activities of the Consolidated Group remained consistent with that in prior years as the company continues to prioritise the establishment of its proprietary underground coal gasification (UCG) *keyseam*® technology as a commercial technology to be licensed internationally and for *keyseam*® to be the technology of choice for UCG projects worldwide.

Consolidated Results

The Consolidated Group recorded a net loss after tax of \$717,098 for the year ended 30 June 2018 (2017: net loss after tax of \$39,324,959). The net loss after tax includes a \$2,324,560 unrealised loss on fair value of financial derivatives and a \$3,712,241 gain recognised upon settlement of the Pacific Road Convertible Note Facility.

Directors' Report

Consolidated Results (continued)

Other key financial results for the year are:

- Total revenue and other income of \$6,823,215 (2017: \$2,603,685) which includes \$3,712,241 gain recognised upon settlement of the Pacific Road Convertible Note Facility;
- Net assets of \$1,978,992 (2017: net liabilities of \$1,042,279); and
- Cash and cash equivalents of \$1,181,966 (2017: \$79,435).

Review of Operations

The Consolidated Group's operations are based around its UCG projects and business development opportunities. Significant events during the financial year are detailed as follows.

Hydrogen Production

The Consolidated Group's commercial strategy now includes hydrogen production as a key product along with ammonia and synthetic natural gas. Utilising the Consolidated Group's existing keyseam® technology, which has been acknowledged independently as being safe and effective, the Consolidated Group is placing focus on pursuing opportunities of hydrogen production as a key use and commercial strategy for its keyseam® syngas production. The Consolidated Group's keyseam® technology is ideally suited to hydrogen production as the produced gas output has a high composition of both hydrogen (35-50%) and methane (10-20%). This makes utilising the Consolidated Group's existing technology for the commercial production of hydrogen or ammonia very attractive to the market.

The Consolidated Group is now also working towards partnering with several companies to develop keyseam® technology deep coal gasification (DCG) projects in several countries worldwide including a CO₂ free hydrogen production project in the Cooper Basin of South Australia.

The Consolidated Group met with the South Australian Government and a number of operators in the Cooper Basin to identify potential coal tenure for DCG for a CO₂ free hydrogen production project. The Cooper Basin is an ideal location as the project can easily transport liquid CO₂ for enhanced oil production and/or sequestration into depleted oil and gas reservoirs. Suitable tenure has been identified and the Consolidated Group is negotiating an acquisition of the potential coal tenure for DCG.

In parallel to seeking Cooper Basin tenure, the Consolidated Group has contracted thyssenkrupp Industrial Solutions (Australia) Pty Ltd to carry out the CO₂ free hydrogen production plant conceptual studies in May 2018. The final report of these concept studies are expected in the September 2018 quarter. The preliminary results of these studies are extremely encouraging and form a compelling case for the Consolidated Group to seek partners for a CO₂ free Hydrogen Production Project in the Cooper Basin in South Australia.

In the September 2018 quarter the Consolidated Group will be leading discussions with several companies with interests in hydrogen production, transportation and trading for the Japanese led hydrogen economy. These companies include energy companies and chemical companies.

The Consolidated Group, together with its advisors, continues with the conceptual design of the hydrogen production plant and estimations of the keyseam® technology panels for Cooper Basin at particular depths. Upon completion, it is anticipated that the Consolidated Group will progress towards estimates for the pre-FEED and FEED (Front End Engineering Design) for a hydrogen production plant at the Cooper Basin.

This is an exciting but extremely challenging time for the Consolidated Group. Currently the Consolidated Group is seeing potentially a new beginning for the development of keyseam® technology as it is extremely well placed to produce low cost hydrogen. Based on the preliminary results from the conceptual studies, it is anticipated that the ideal depth for keyseam® technology panels for hydrogen, ammonia or methane production is between 600 metres and 1800 metres.

Directors' Report

Review of Operations (continued)

Hydrogen Production (continued)

The Consolidated Group has chosen to describe its keyseam® UCG activities as DCG (Deep Coal Gasification) which differentiates our keyseam® technology from other conventional industries, such as coal seam gas (CSG) or coal mining. It is anticipated that there will be no surface effects or other effects on valuable near surface water aquifers.

The Consolidated Group intends to continue building its future brand of keyseam® technology and CO₂ free hydrogen production under our 100% wholly owned subsidiary named Hydrogen Production Group Pty Ltd.

JinHong Joint Venture (JV)

The Beijing JinHong New Energy Co. Ltd joint venture between the Consolidated Group and its partner Beijing JinHong Investment Co. Ltd (JinHong Joint Venture) remains key for the Consolidated Group's strategy for growth into China.

The initial geotechnical modelling for the Mori UCG Project (at Mori (Mulei) County, Changji, Xinjiang, China) and UCG process model were completed in December 2017. The June 2018 quarter has seen finalisation of the optimised UCG panel design for best economics and the coal recovery from the very thick coal seam in Kulen coal deposit in Mori (Mulei) County. These options include different gasification chamber dimensions and extraction sequences to maximise coal recovery and the Mori UCG Project economics while maintaining stable geomechanical conditions for the integrity of the UCG gasification chambers.

The Consolidated Group has been informed by the Jinhong Joint Venture that the Mori UCG Project coal partner has indicated that it no longer wishes to continue its involvement in the project and that its preference is for the Consolidated Group to purchase the coal deposit. Unfortunately, mutually acceptable terms for the acquisition of the coal deposit could not be agreed and, consequently, the Jinhong Joint Venture is unable to continue progressing the Mori UCG Project.

The Consolidated Group is supporting proposed UCG projects at two sites in Shanxi Province where there is an opportunity to provide its keyseam® technology. A number of coal mining and energy companies in Shanxi have been assessing coal deposits and progressing permitting requirements for UCG, as a basis for clean coal initiatives being encouraged by the Chinese central government. These uses include particulate free power generation with gas, synthetic natural gas for the expanding gas pipeline network, and feedstock for chemicals.

Bloodwood Creek Rehabilitation

The Consolidated Group continues to fulfil its environmental obligations in progressing rehabilitation requirements and on-going monitoring at its Bloodwood Creek Site following the recommendations of the independent experts accredited by the Queensland Government that the Bloodwood Creek site requires no active remediation. However continued environmental monitoring provides the Consolidated Group with further assurance and confidence in our successful keyseam® technology.

The Consolidated Group will continue to assess relevant commercial opportunities for use of the Bloodwood Creek Site for alternative purposes, and in seeking to maximize value from the assets held at Bloodwood Creek.

Tenements

The Exploration Permit for Coal (EPC) tenements were granted when the Consolidated Group's exploration goal was to find and characterise a coal resource suitable for a commercial UCG project in Queensland. On 24 August 2017, the Queensland Parliament passed legislation which places a moratorium on all activities relating to UCG through the Mineral Resources Act 1989. The Consolidated Group has reached a decision that continued development of the EPC tenements no longer aligns with the Consolidated Group's strategic direction. The Consolidated Group has been in contact with relevant Departments of the Queensland Government to commence the 'surrender' process for all EPC tenements.

Directors' Report

Review of Operations (continued)

Tenements (continued)

MDL374 tenement will be retained to enable the rehabilitation activities at the Bloodwood Creek site to continue.

Corporate Affairs

Significant corporate affairs during the financial year include:

- The Company held its 2016 Annual General Meeting (AGM) on 18 July 2017, whereby shareholders passed all resolutions, including the approval of the recapitalisation transactions contemplated under the Amended Deed of Company Arrangement (DOCA) and the consolidation of share capital. All conditions precedent provided for under the DOCA were subsequently satisfied and the DOCA completion was achieved. The Company completed its 1:100 share consolidation on 24 July 2017. Further details are provided in the section below;
- On commencement of trading on 26 July 2017, the suspension of trading in the Company's securities was lifted by the ASX;
- Correspondence was received by the Company from Ferrier Hodgson (with reference to the appointment of Will Colwell and Tim Michael as Voluntary Administrators on 22 November 2016, Deed Administrators on 9 March 2017 and Trustees of the Carbon Energy Creditors' Trust on 20 July 2017), advising that the priority dividend to creditors was declared and paid on 13 September 2017 and a first and final dividend to unsecured creditors was declared and paid on 18 September 2017. All matters in respect of the Voluntary Administration, DOCA and Creditors' Trust are now finalised and the termination of the Creditors' Trust occurred on 23 October 2017;
- The Company held its 2017 AGM on 29 November 2017, whereby shareholders passed all resolutions;
- In January 2018, the Company received \$1.0 million as a research and development (R&D) tax incentive rebate (inclusive of interest) from the Australian Taxation Office (ATO) for eligible R&D expenditure incurred in the prior 2017 financial year; and
- The Company welcomed a number of appointments during the year, as detailed under the Board Information and Company Secretary Information sections above.

Completion of DOCA and Recapitalisation Transactions

As noted, the Company held its 2016 AGM on 18 July 2017, whereby shareholders passed all resolutions, including the approval of the recapitalisation transactions contemplated under the DOCA.

As part of the recapitalisation, the Company:

- entered into a secured convertible note facility with Kam Lung Investment Development Co Ltd (Kam Lung) whereby convertible notes totalling \$9.2 million were issued (Kam Lung Convertible Note Facility);
- entered into a secured uncommitted cash advance facility, up to an aggregate limit of \$5.0 million, with Kam Lung (Kam Lung Cash Advance Facility), which remains undrawn at current year ended 30 June 2018;
- entered into a \$1.0 million unsecured loan facility with Pacific Road Capital A Pty Limited, Pacific Road Capital B Pty Ltd and Pacific Road Capital Management G.P. Limited (Pacific Road Group) (Pacific Road Loan Facility); and
- received \$3.85 million consideration from Kam Lung for the issue of 4,679,911,281 ordinary fully paid shares in the Company (prior to the Company undertaking a 1:100 share consolidation on 24 July 2017).

Directors' Report

Completion of DOCA and Recapitalisation Transactions (continued)

Proceeds from the above were used by the Company to fund a number of transactions, including:

- the release and discharge of the Pacific Road Convertible Note Facility which matured on 18 January 2017 for \$7.0 million;
- the repayment of \$1.9 million to Kam Lung for \$1.7 million of short-term interim funding and the \$0.2 million Administrators Indemnity Amount (as defined in the DOCA) previously made available by Kam Lung to the Company;
- the payment of \$0.3 million into a creditors' trust for the benefit of eligible creditors of the Deed Companies (as defined in the DOCA) whose claims will be released by the DOCA; and
- the settlement of various associated outstanding fees and costs.

All conditions precedent provided for under the DOCA were subsequently satisfied and DOCA completion was achieved.

Dividends Paid or Recommended

No dividend was paid or declared during the year ended 30 June 2018 (2017: nil).

Significant Changes in the State of Affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Consolidated Group that occurred during the financial year other than those disclosed in this report or in the financial statements.

After Balance Date Events

Effective 16 July 2018, there was a change in the nature of Kam Lung's and Beijing Jinhong's relevant interest as a result of the transfer of 51,946,721 fully paid ordinary shares from Kam Lung to Beijing Jinhong. Kam Lung and Beijing Jinhong are both entities that are, and remain, wholly owned and controlled by the Company's Director, Mr HuiHai Zhuang. 46,799,113 of the Shares (Escrowed Shares) were subject to the Voluntary Escrow Deed previously detailed in the Company's Notice of Annual General Meeting dated 15 June 2017 (which meeting was held on 18 July 2017) (AGM Notice) and attached to the Company's Notice of Initial Substantial Holder (ASIC Form 603) dated 20 July 2017. Approval was granted by the Company for Kam Lung to transfer the Escrowed Shares to Beijing Jinhong and Beijing Jinhong agreed to be bound by the terms and conditions of the Voluntary Escrow Deed for the remaining voluntary escrow period, from 16 July 2018 to 19 July 2018. Upon completion of the voluntary escrow period on 19 July 2018, the Escrowed Shares held by Beijing Jinhong were released from Voluntary Escrow.

The Consolidated Group has entered into an offer to lease for a new office premise commencing in 2019.

In August 2018, correspondence was received by the Consolidated Group stating that the administering authority has decided to approve the application for the surrender of EPC 1132.

Apart from the matters noted above, the Directors are not aware of any other matters or circumstances not otherwise dealt with in the report or financial statements that have significantly, or may significantly, affect the operations of the Company or the Consolidated Group, the results of the operations of the Company or the Consolidated Group, or the state of affairs of the Company or the Consolidated Group in subsequent financial years.

Environmental Performance and Approvals

The Consolidated Group's operations are subject to significant environmental regulation under the Laws of the Commonwealth and State. The Consolidated Group operates the Bloodwood Creek site under a Level 2 Environmental Authority, where the focus has moved to Rehabilitation after completion of a comprehensive drilling and sampling program in May 2014 and submission of the Decommissioning Report and Rehabilitation Plan to the Queensland Government in August 2014 and October 2014 respectively. During the 2018 financial year, the Bloodwood Creek permit (MDL374) was renewed for another five year term

Directors' Report

Environmental Performance and Approvals (continued)

(expiring 31 Jan 2023) by the Department of Natural Resources, Mines and Energy (Department) with respect to Bloodwood Creek. The Consolidated Group continues to provide regular groundwater quality reports to the Department and no issues relating to environmental compliance have been raised by the Department.

Non-audit Services

No fees were paid for non-audit services to Grant Thornton during the year ended 30 June 2018.

Indemnifying Officers

The Company has continued an insurance policy insuring Directors and Officers of the Company against any liability arising from a claim brought by a third party against the Company or its Directors and Officers, and against liabilities for costs and expenses incurred by them in defending any legal proceedings arising from their conduct while acting in their capacity as a Director or Officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

In accordance with a confidentiality clause under the insurance policy, the amount of the premium paid to insurers has not been disclosed. This is permitted under section 300(9) of the Corporations Act.

Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act.

Meeting Attendance

Director	Board Meeting (i)		Audit and Risk Committee Meeting		Remuneration Committee Meeting		Nomination Committee Meeting	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Peter Hogan	10	10	1	1	1	1	0	0
George Su	10	10	1	1	1	1	0	0
Huihai Zhuang	10	10	1	0	1	0	0	0
Bryan O'Donnell	4	4	NM	NM	NM	NM	NM	NM

NM – Not a member of the Committee.

(i) Directors may have partial attendance at certain Board meetings as a result of agenda items reserved for disinterested Directors only or availability. Includes circulating resolutions.

Directors' Interests

As at 30 June 2018, the interests of the Directors in shares and unlisted options of the Company are:

	No. Shares Held (i)		Listed Options		Unlisted Options	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Peter Hogan	-	7,500	-	-	-	-
George Su	-	-	-	-	-	-
Huihai Zhuang	-	51,946,721	-	-	-	-
Total	-	51,954,221	-	-	-	-

(i) The Company undertook a 1:100 Share Consolidation, which was approved by shareholders on 18 July 2017 and completed on 24 July 2017.

Directors' Report

Remuneration Report (Audited)

The Directors present Carbon Energy Limited's 2018 Remuneration Report which sets out information about the remuneration of the Company's Non-Executive Directors, Executive Director and other Key Management Personnel. The information provided in this report has been audited as required by section 308(3C) of the Corporations Act 2001 and forms part of the Directors' report.

Key Management Personnel

Key Management Personnel are divided into three separate groups:

Directors

Mr Peter Hogan	Chairman and Non-Executive Director
Mr George Su	Non-Executive Director
	Interim Executive Director (from 19 July 2017 to 30 May 2018)
	Non-Executive Director and Consultant (from 30 May 2018)
Mr Huihai Zhuang	Non-Executive Director
Mr Bryan O'Donnell	Managing Director (appointed 8 January 2018)

Company Secretary

Ms Ye-Fei Guo	Company Secretary (appointed 5 October 2017)
Mr Ian Morgan	Company Secretary (appointed 31 July 2017)
Ms Catherine Costello	Company Secretary (resigned 31 July 2017)

Other Key Management Personnel

Mr Bryan O'Donnell	Chief Executive Officer and Managing Director (appointed 2 January 2018 and 8 January 2018 respectively)
Ms Ye-Fei Guo	Chief Financial Officer and Company Secretary (appointed 22 August 2017 and 5 October 2017 respectively)
Dr Clifford Mallett	Technical Director
Mr Stuart MacKenzie	General Counsel
Mr Terry Moore	General Manager, Operations (resigned 8 September 2017)

Remuneration Governance

The Remuneration Committee is a committee of the Board. It is primarily responsible for making recommendations to the Board on:

- The over-arching executive remuneration framework;
- Operation of the incentive arrangements which apply to Executive Directors and senior executives (the executive team), including key performance indicators and performance hurdles;
- Remuneration levels of executives; and
- Non-Executive Director fees.

The objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company.

The Corporate Governance Statement provides further information on the role of this committee and the Remuneration Committee Charter is set out on the Company's website: www.carbonenergy.com.au

Directors' Report

Remuneration Report (Audited)

Voting and Comments made at the Company's 2017 Annual General Meeting

The Company received 81.59% of "yes" votes on its remuneration report for the 2017 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Non-Executive Director Remuneration Policy

The remuneration and terms of employment for the Non-Executive Directors are subject to annual review with no fixed term, with one third of the Directors being subject to re-election at each Annual General Meeting of Shareholders. Remuneration during the current year ended 30 June 2018 was \$40,000 per annum for Non-Executive Directors and \$80,000 per annum for the Chairman of the Board. Non-Executive Directors who also undertake a consulting role for the Company receive further remuneration for their role as Consultant.

No termination payment provisions are currently in place for Non-Executive Directors.

Executive Remuneration Policy

Executives and the Managing Director receive a base salary, superannuation, car park and performance incentives. The Remuneration Committee reviews Executive packages annually by reference to group performance, Executive performance and, where appropriate, comparable information from industry sectors and other listed companies and independent advice. The performance of Executives is reviewed annually by the Managing Director and the Managing Director's performance is reviewed by the Remuneration Committee. Revised remuneration packages generally take effect on cycles in accordance with employment terms.

Short term and long term incentive payments are reviewed by the Remuneration Committee annually as part of the review of Executive remuneration and a recommendation is put to the Board for approval. All incentives are linked to performance criteria. The Board may exercise discretion in approving performance incentives and can recommend changes to the Remuneration Committee recommendations.

Remuneration Consultant

From time to time, the Remuneration Committee may engage advisors to assist in the continual evolution and development of the Consolidated Group's remuneration policies and framework. No remuneration consultants have been engaged during the current year.

Executive Remuneration Framework

Subject to specific roles and responsibilities, there are three general components of remuneration used to reward permanent employees, including Executives:

1. Total Fixed Remuneration;
2. Short Term Incentive (STI); and
3. Long Term Incentive (LTI).

The STI and LTI components paid to permanent Executives are generally determined as a percentage of fixed remuneration package or base salary and are payable in cash, shares, performance rights or options in the Company.

Remuneration structures are implemented to enable the Consolidated Group to attract and retain key talent and align strategic and business objectives with growth of long-term shareholder value.

Directors' Report

Remuneration Report (Audited)

Total Fixed Remuneration

Total Fixed Remuneration comprises base salary and statutory superannuation. Total Fixed Remuneration is set with reference to market data and adjustments, reflecting the scope of the role and employee performance. Remuneration is reviewed annually, with reference to various sources of data as appropriate, to ensure market competitiveness. Due to the nature of the business, fixed remuneration of Executives is not linked to the performance of the Company due to the requirement to retain these employees to develop the Company and meet its current strategic objectives.

Short Term Incentive (STI)

STI's are offered to permanent Executives, including the Executive Director, primarily to align Executives with the achievement of key targets and individual contribution for sustained and improved business performance; and to reward and recognise superior performance. Metrics, weightings and performance measures are reviewed annually to ensure business needs are met and the overall STI is consistent with general market practices.

The STI scheme involves establishing the STI value for the financial year and is generally cash settled, subject to company performance metrics and the satisfactorily meeting of key performance indicators on an annual basis at the end of each financial year or in accordance with employment terms.

Long Term Incentive (LTI)

During the financial year, shareholders approved the implementation of an omnibus incentive plan (Incentive Plan) for the Company and for the issue of equity securities under the Incentive Plan. The Board considers this Incentive Plan to be a key part of the Company's remuneration strategy going forward and to assist in the alignment of interests. The Incentive Plan is intended to furnish an incentive to directors, officers, senior executives and other employees of the Company, as well as consultants and service providers providing ongoing services to the Company, and when such eligible participants are granted awards, to continue their services for the Company and to encourage eligible participants whose skills, performance and loyalty to the objectives and interests of the Company are necessary to its success. The Incentive Plan will permit the granting of options, bonus shares, and performance rights to eligible participants of the Company. The Incentive Plan will be administered by the Board or by a committee appointed by a resolution of the Board.

During the year, the Managing Director was entitled to participate in the Company's LTI plan and receive performance rights equivalent to 150% of annual base salary (subject to approval by members of the Company) over the term of employment. The performance rights will be split into three tranches of equal quantum (i.e. 50% of annual base salary each), subject to the following vesting conditions to be determined at the relevant vesting determination dates.

Tranche	Vesting Condition	Vesting Determination Date
1	Successful ignition of the Jinhong JV Demonstration Project and the issue of an exclusive licence being granted to the Joint Venture.	30 September 2018
2	Securing at least one third party Licencing and Technical Services Agreement with a significant upfront cash component.	30 June 2019
3	Securing one more third party Licencing and Technical Services Agreement with a significant upfront cash component.	30 June 2020

Upon vesting, each performance right shall confer the right, upon exercise, to receive one share in the Company. The performance rights will be granted for nil cash consideration. The expiry date of each performance right will be 5 years after the vesting date.

Directors' Report

Remuneration Report (Audited)

Long Term Incentive (LTI) (continued)

Performance rights offered to other Key Management Personnel during the current year ended 30 June 2018 remain subject to further details surrounding its terms and conditions and therefore have not been accounted for in the current year.

Relationship between Remuneration and the Company's Performance

The STI scheme includes an element of company performance metrics that is subject to the Company's share price movements for the performance period under assessment.

Details of Remuneration

The remuneration for each Director of the Consolidated Group during the current year is noted as follows:

2018	Cash							Non-cash			Performance Related	
	Short term employee benefits				Post employment benefits			Total Cash Payments	Share-based Payments Expense			Forfeited Options
	Cash Salary	Bonus	Directors Fee	Other	Super Contributions	Termination costs	Rights		Shares			
								\$		\$		\$
NON-EXECUTIVE DIRECTOR												
Peter Hogan(i)(ii)	-	-	80,000	-	-	-	80,000	-	-	-	-	
George Su (ii)(iii)	-	-	60,000	-	-	-	60,000	-	-	-	-	
Huihai Zhuang(ii)(iv)	-	-	40,000	-	-	-	40,000	-	-	-	-	
SUB-TOTAL \$	-	-	180,000	-	-	-	180,000	-	-	-	-	
EXECUTIVE DIRECTOR												
Bryan O'Donnell (v)	148,913	-	-	-	14,147	-	163,060	78,862	-	-	33%	
SUB-TOTAL \$	148,913	-	-	-	14,147	-	163,060	78,862	-	-	-	
GRAND TOTALS	148,913	-	180,000	-	14,147	-	343,060	78,862	-	-	-	

(i) Mr Hogan's fees are paid to Horizon Court Pty Ltd, as an associated entity of Mr Hogan.

(ii) Fees may include amounts accrued at 30 June 2018 and settled subsequent to year end.

(iii) Mr Su's fees are paid to Silk Road Corporate Finance Pty Ltd, as an associated entity of Mr Su.

(iv) Mr Zhuang's fees are paid to Kam Lung Investment Development Co Limited, as an associated entity of Mr Zhuang.

(v) Mr O'Donnell was appointed as Managing Director on 8 January 2018 and Chief Executive Officer on 2 January 2018. The remuneration figures disclosed is for Mr O'Donnell's role as Managing Director and Chief Executive Officer.

Directors' Report

Remuneration Report (Audited)

Details of Remuneration (continued)

The remuneration for each Director of the Consolidated Group during the prior year is noted as follows:

2017	Cash							Non-cash			Performance Related
	Short term employee benefits				Post employment benefits			Share-based Payments Expense		Forfeited Options	
	Cash Salary	Bonus (ix)	Directors Fee	Other (x)	Super Contributions	Termination costs	Total Cash Payments	Rights	Shares		
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
NON-EXECUTIVE DIRECTOR											
Peter Hogan(i)(ii)	-	-	36,216	-	-	-	36,216	-	-	-	-
George Su (ii)(iii)	-	-	22,493	-	-	-	22,493	-	-	-	-
Huihai Zhuang(iv)	-	-	-	-	-	-	-	-	-	-	-
Helen Garnett (ii)	-	-	22,219	-	-	-	22,219	-	-	-	-
Chris Rawlings (ii)	-	-	40,415	-	3,984	-	44,399	-	-	-	-
Louis Rozman(v)	-	-	10,000	-	-	-	10,000	-	-	-	-
SUB-TOTAL \$	-	-	131,343	-	3,984	-	135,327	-	-	-	-
EXECUTIVE DIRECTOR											
Morné Engelbrecht (vi)	48,109	73,531	-	495	-	34,677	156,812	-	-	-	-
Kerry Parker (vii)	166,193	-	-	2,030	-	9,228	177,451	-	-	-	-
Chris Rawlings (viii)	19,731	-	-	150	-	-	19,881	-	-	-	-
SUB-TOTAL \$	234,033	73,531	-	2,675	-	43,905	354,144	-	-	-	-
GRAND TOTALS	234,033	73,531	131,343	2,675	3,984	43,905	489,471	-	-	-	-

(i) Mr Hogan's fees are paid to Horizon Court Pty Ltd, as associated entity of Mr Hogan.

(ii) Fees include amounts accrued at 30 June 2017 year end and settled subsequent to year end either directly by the Company or via partial dividend from the creditor's trust as contemplated under the DOCA.

(iii) Up to 9 March 2017, Mr Su did not receive Director fees from the Company as he is Mr Zhuang's Alternate Director when appointed and translator for Board meetings and correspondence. Mr Su's fees for these services have been negotiated between Mr Zhuang and Mr Su. From 9 March 2017 onwards, Mr Su received fees from the Company as Director. Mr Su's fees are paid to Silk Road Corporate Finance Pty Ltd, as an associated entity of Mr Su.

(iv) Mr Zhuang's fees are paid directly to Silk Road Corporate Finance Pty Ltd, an associated entity of Mr Su.

(v) Mr Rozman's fees are paid directly to Pacific Road Capital Management Holdings Pty Limited.

(vi) Mr Engelbrecht ceased to be an Executive Director upon resignation on 12 August 2016.

(vii) Mr Parker was appointed 1 September 2016 and ceased to be Managing Director upon resignation on 5 April 2017 and Chief Executive Officer upon resignation on 31 May 2017. Mr Parker continued to provide consulting services subsequently to July 2017.

(viii) Mr Rawlings was appointed as Interim Executive Chairman from 15 August 2016 and remained in this position until two weeks after the start date of the newly appointed Chief Executive Officer and Managing Director.

(ix) Represents FY16 bonus paid in FY17.

(x) Other payments include car parking and associated fringe benefits tax.

Directors' Report

Remuneration Report (Audited)

Details of Remuneration (continued)

The remuneration for each Key Management Personnel of the Consolidated Group during the current year is noted as follows:

2018	Cash					Non-cash				Performance Related %	
	Short term employee benefits		Post-employment benefits			Total	Long-term benefits	Share-based Payments			
	Cash Salary	Bonus (iii)	Other (iv)	Super Contributions	Termination Costs		Long Service Leave	Rights	Shares		Forfeited Rights
	\$	\$	\$	\$	\$	\$	\$	\$	\$		\$
Ye-Fei Guo	207,384	15,436	5,412	19,701	-	247,933	-	-	-	-	-
Ian Morgan (v)	28,454	-	-	-	-	28,454	-	-	-	-	-
Stuart MacKenzie	8,228	-	-	756	-	8,984	-	-	-	-	-
Cliff Mallett (ii)	177,176	1,903	1,499	17,013	167,763	365,354	-	-	-	-	-
Terry Moore(i)	45,812	-	98	5,557	36,718	88,185	-	-	-	-	-
TOTALS	467,054	17,339	7,009	43,027	204,481	738,910	-	-	-	-	-

(i) Mr Moore ceased to be a KMP upon resignation on 8 September 2017.

(ii) Dr Mallett entered into a new employment agreement with the Company during the year.

(iii) Bonuses include amounts approved and accrued at 30 June 2018 and settled subsequent to year end.

(iv) Other payments include relocation costs, car parking and associated fringe benefits tax.

(v) Mr Morgan was appointed as Company Secretary on 31 July 2017. Remuneration for Mr Morgan is paid to IHM Corporate Services Pty Ltd, as an associated entity of Mr Morgan.

Directors' Report

Remuneration Report (Audited)

Details of Remuneration (continued)

The remuneration for each Key Management Personnel of the Consolidated Group during the prior year is noted as follows:

2017	Cash						Non-cash				Performance Related %
	Short term employee benefits			Post-employment benefits			Long-term benefits	Share-based Payments			
	Cash Salary	Bonus	Other (iii)	Super Contributions	Termination Costs	Total		Long Service Leave	Rights	Shares	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Catherine Costello(i)	211,634	27,000	2,714	22,670	24,566	288,584	-	-	-	-	-
Stuart MacKenzie	84,885	-	-	8,395	-	93,280	-	-	-	-	-
Cliff Mallett	166,465	15,407	3,020	25,802	-	210,694	4,150	-	-	-	-
Terry Moore(ii)	228,891	20,304	2,495	26,563	-	278,253	-	-	-	-	-
TOTALS	691,875	62,711	8,229	83,430	24,566	870,811	4,150	-	-	-	

(i) Ms Costello ceased to be a KMP upon resignation on 1 May 2017. Ms Costello continued to provide consulting services subsequently to 31 July 2017.

(ii) Mr Moore ceased to be a KMP subsequent to year end upon resignation on 8 September 2017.

(iii) Other payments include car parking and associated fringe benefits tax.

Directors' Report

Remuneration Report (Audited)

Service Agreements of Executive Directors and Key Management Personnel

Remuneration and other terms of employment for the Executives are formalised in service or employment agreements. The service or employment agreements specify the components of remuneration, benefits and notice periods. Participation in the STI and LTI arrangements is subject to the Company's or Board's discretion. Other major provisions of the agreements relating to remuneration are set out below for Executive Directors and Key Management Personnel in office during the current financial year.

Termination benefits are within the limits set by the *Corporations Act 2001* such that they do not require shareholder approval.

Name	Term of Agreement	Total Fixed Remuneration (per annum)	Notice Period ^(vii)	Termination Payments ^(viii)
Bryan O'Donnell ⁽ⁱ⁾	3 year term with a further 2 year extension option	\$328,500	6 months	-
George Su ⁽ⁱⁱ⁾	From 19 July 2017 to 30 May 2018	\$60,000	-	-
Ye-Fei Guo ⁽ⁱⁱⁱ⁾	No fixed term	\$262,800	3 months	-
Ian Morgan ^(iv)	Casual basis	nil	1 month	-
Stuart MacKenzie	Casual basis	nil	7 days	-
Cliff Mallett ^(v)	3 year term (part time)	\$136,875	3 months	-
Terry Moore ^(vi)	No fixed term	\$270,720	3 months	-

(i) Mr O'Donnell was appointed as Managing Director on 8 January 2018 and Chief Executive Officer on 2 January 2018.

(ii) Mr Su was appointed as Interim Executive Director from 19 July 2017 to 30 May 2018. Remuneration was paid to Silk Road Corporate Finance Pty Ltd, as an associated entity of Mr Su.

(iii) Ms Guo was appointed Chief Financial Officer on 22 August 2017 and Company Secretary on 5 October 2017.

(iv) Mr Morgan was appointed as Company Secretary on 31 July 2017. Remuneration for Mr Morgan is paid to IHM Corporate Services Pty Ltd, as an associated entity of Mr Morgan.

(v) Mr Mallett's agreement allows for extensions which, if not formally agreed within a specific time frame, will be extended by a rolling six month period.

(vi) Mr Moore ceased to be a KMP upon resignation on 8 September 2017.

(vii) Under certain circumstances, contracts may allow for immediate termination and/or, payment in lieu of notice.

(viii) Under certain circumstances, payable if the Company terminates employment during the term of the agreement. Certain contracts may also allow for payment of maximum STI entitlements and immediate vesting of any performance rights already issued in the event of termination from redundancy or change of control. Where no termination payment is specified, statutory entitlements on termination apply, based on length of service.

Details of Options and Performance Rights

During the current year ended 30 June 2018, LTI's were offered to the Managing Director and Chief Executive Officer in the form of performance rights and are subject to a number of vesting conditions to be determined at the relevant vesting dates. Further details on this can be found on under Executive Remuneration Policy.

Directors' Report

Remuneration Report (Audited)

Equity Instruments held by Key Management Personnel

The tables on the following pages show the number of:

- options or performance rights over ordinary shares in the Company; and
- shares in the Company;

that was held during the financial year by Key Management Personnel of the Consolidated Group, including their close family members and entities related to them.

(a) Option Holdings held Directly and Indirectly by Directors

No options were held directly and indirectly by Directors during the current year ended 30 June 2018.

Prior year holdings are detailed in the table below.

2017	Balance at 1 Jul 2016	Granted as Remuneration	Options Forfeited	Net Change Other (vi)	Balance at 30 Jun 17	Total Vested 30 Jun 17	Total Exercisable 30 Jun 17	Total Unexercisable 30 Jun 17
Peter Hogan	220,000	-	(220,000)	-	-	-	-	-
George Su	-	-	-	-	-	-	-	-
Huihai Zhuang	171,818,615	-	(171,818,615)	-	-	-	-	-
Helen Garnett (i)	188,551	-	(188,551)	-	-	-	-	-
Chris Rawlings (ii)	3,950,000	-	(3,950,000)	-	-	-	-	-
Louis Rozman (iii)	35,075,000	-	(75,000)	(35,000,000)	-	-	-	-
Morné Engelbrecht (iv)	9,470,534	-	(355,093)	(9,115,441)	-	-	-	-
Kerry Parker (v)	-	-	-	-	-	-	-	-
TOTAL	220,722,700	-	(176,607,259)	(44,115,441)	-	-	-	-

(i) Ms Garnett ceased as Director on 13 March 2017.

(ii) Mr Rawling ceased as Director on 9 March 2017.

(iii) Mr Rozman ceased as Director on 10 October 2016. Indirect Holding of 35,000,000 represents Pacific Road related entities. Mr Rozman was an employee and Director of some Pacific Road Capital entities at time of being Director of the Company. While Mr Rozman had no power to exercise or control the exercise of these options, they are disclosed as a result of the Pacific Road Capital entities being party to the \$10 million Convertible Note with Carbon Energy Limited which gave rise to the issue of options.

(iv) Mr Engelbrecht ceased as Director on 12 August 2016.

(v) Mr Parker was appointed 1 September 2016 and resigned as Managing Director on 5 April 2017.

(vi) Includes impact from ceasing to be a Director / Key Management Personnel.

(b) Option Holdings held Directly and Indirectly by Other Key Management Personnel

All residual unlisted options on issue at prior year ended 30 June 2017 were cancelled in July 2017 for nil consideration as part of the completion of the DOCA. No new options were issued to key management personnel during the year ended 30 June 2018.

Prior year holdings are detailed in the table below.

2017	Balance at 1 Jul 2016	Granted as Remuneration	Options Forfeited	Net Change Other (iii)	Balance at 30 Jun 17	Total Vested 30 Jun 17	Total Exercisable 30 Jun 17	Total Unexercisable 30 Jun 17
Catherine Costello (i)	229,190	-	-	(229,190)	-	-	-	-
Stuart Mackenzie	-	-	-	-	-	-	-	-
Cliff Mallett	3,371,963	-	(3,175,487)	-	196,476	196,476	196,476	-
Terry Moore (ii)	3,009,168	-	(1,815,249)	-	1,193,919	1,193,919	1,193,919	-
TOTAL	6,610,321	-	(4,990,736)	(229,190)	1,390,395	1,390,395	1,390,395	-

(i) Ms Costello ceased to be a KMP upon termination on 1 May 2017.

(ii) Mr Moore ceased to be a KMP subsequent to year end upon resignation on 8 September 2017.

(iii) Includes impact from ceasing to be a Director / Key Management Personnel.

Directors' Report

Remuneration Report (Audited)

Equity Instruments held by Key Management Personnel (continued)

(c) Performance Rights held Directly and Indirectly by Directors

During the current year ended 30 June 2018, LTI's were offered to the Managing Director in the form of performance rights and were subject to a number of vesting conditions to be determined at the relevant vesting dates. Refer to Executive Remuneration Policy section for further information.

(d) Performance Rights held Directly and Indirectly by Other Key Management Personnel

Performance rights offered to other Key Management Personnel during the current year ended 30 June 2018 remain subject to further details surrounding their terms and conditions and therefore have not been accounted for in the current year.

(e) Share Holdings held Directly and Indirectly by Directors

2018	Balance at 1 Jul 2017	Options Exercised	Granted as Remuneration	Share issued / purchased	Net Change Other (i)	Disposal	Balance at 30 Jun 18
Peter Hogan	750,000	-	-	-	(742,500)	-	7,500
George Su	-	-	-	-	-	-	-
Huihai Zhuang	514,760,847	-	-	4,679,911,281	(5,142,725,407)	-	51,946,721
Bryan O'Donnell	-	-	-	-	-	-	-
TOTAL	515,510,847	-	-	4,679,911,281	(5,143,467,907)	-	51,954,221

(i) The Company undertook a 1:100 Share Consolidation, which was approved by shareholders on 18 July 2017 and completed on 24 July 2017.

2017	Balance at 1 Jul 2016	Options Exercised	Granted as Remuneration	Renounceable Rights Issue	Net Change Other (vi)	Disposal	Balance at 30 Jun 17
Peter Hogan	750,000	-	-	-	-	-	750,000
George Su	-	-	-	-	-	-	-
Huihai Zhuang	514,760,847	-	-	-	-	-	514,760,847
Helen Garnett (i)	716,306	-	-	-	(716,306)	-	-
Chris Rawlings (ii)	9,100,000	-	-	-	(9,100,000)	-	-
Louis Rozman (iii)	162,084,521	-	-	-	(162,084,521)	-	-
Morné Engelbrecht (iv)	4,546,109	-	-	-	(4,546,109)	-	-
Kerry Parker (v)	-	-	-	-	-	-	-
TOTAL	691,957,783	-	-	-	(176,446,936)	-	515,510,847

(i) Ms Garnett ceased as Director on 13 March 2017.

(ii) Mr Rawling ceased as Director on 9 March 2017.

(iii) Mr Rozman ceased as Director on 10 October 2016. Indirect Holding of 161,607,249 shares represents Pacific Road related entities. Mr Rozman was an employee and Director of some Pacific Road Capital entities at time of being a Director of the Company. While Mr Rozman had no power to exercise or control the disposal of these share, they are disclosed as a result of the Pacific Road Capital entities being party to the \$10 million Convertible Note with Carbon Energy Limited which gave rise to the issue of options.

(iv) Mr Engelbrecht ceased as Director on 12 August 2016.

(v) Mr Parker was appointed 1 September 2016 and resigned as Managing Director on 5 April 2017.

(vi) Includes impact from ceasing to be a Director / Key Management Personnel.

Directors' Report

Remuneration Report (Audited)

Equity Instruments held by Key Management Personnel (continued)

(d) *Share Holdings held Directly and Indirectly by Other Key Management Personnel*

2018	Balance at 1 Jul 2017	Options Exercised	Granted as remuneration	Shares issued / purchased	Net Change Other (i) (ii)	Disposal	Balance at 30 Jun 18
Ye-Fei Guo	-	-	-	-	-	-	-
Ian Morgan	-	-	-	2,862	-	-	2,862
Stuart Mackenzie	-	-	-	-	-	-	-
Cliff Mallett	19,609,607	-	-	-	(19,413,511)	-	196,096
Terry Moore (iii)	4,967,912	-	-	-	(4,967,912)	-	-
TOTAL	24,577,519	-	-	2,862	(24,381,423)	-	198,958

(i) The Company undertook a 1:100 Share Consolidation, which was approved by shareholders on 18 July 2017 and completed on 24 July 2017.

(ii) Includes impact from ceasing to be a Director / Key Management Personnel.

(iii) Mr Moore ceased to be a KMP upon resignation on 8 September 2017.

2017	Balance at 1 Jul 2016	Options Exercised	Granted as remuneration	Renounceable Rights Issue	Net Change Other (ii)	Disposal	Balance at 30 Jun 17
Catherine Costello (i)	498,659	-	-	-	(498,659)	-	-
Stuart Mackenzie	-	-	-	-	-	-	-
Cliff Mallett	19,609,607	-	-	-	-	-	19,609,607
Terry Moore	4,967,912	-	-	-	-	-	4,967,912
TOTAL	25,076,178	-	-	-	(498,659)	-	24,577,519

(i) Ms Costello ceased to be a KMP upon termination on 1 May 2017.

(ii) Includes impact from ceasing to be a Director / Key Management Personnel.

Loans to Key Management Personnel

In 2018 and 2017 there were no loans to Key Management Personnel.

Other Transactions with Key Management Personnel or Related Parties

As part of the DOCA process, the Company:

- entered into the Kam Lung Convertible Note Facility with Kam Lung;
- entered into the Kam Lung Cash Advance Facility with Kam Lung;
- entered into the Pacific Road Loan Facility with the Pacific Road Group;
- issued 4,679,911,281 ordinary fully paid shares in the Company to Kam Lung;
- settled the release and discharge of the Pacific Road Convertible Note Facility which matured on 18 January 2017; and
- repaid to Kam Lung the short-term interim funding and Administrators Indemnity Amount (as defined in the DOCA) previously made available by Kam Lung to the Company.

As a result, Kam Lung's ownership in the Company increased to 80%. Mr Huihai Zhuang (Non-Executive Director of the Company) holds a Directorship and shares in Kam Lung. Refer to Completion of DOCA and Recapitalisation Transactions section for further information.

The Consolidated Group has also provided technical services to Beijing JinHong New Energy Co. Ltd, a joint venture between the Consolidated Group and its partner Beijing JinHong Investment Co Ltd.

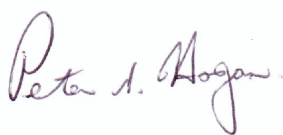
Directors' Report

Auditor's Independence Declaration

The auditor's independence declaration under section 307C of the *Corporation Act 2001* is set out on page 22 and forms part of the Directors' Report for the year ended 30 June 2018.

Signed in accordance with a resolution of the Board of Directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in blue ink that reads "Peter A. Hogan". The signature is written in a cursive style with a large initial 'P' and a distinct 'A'.

Mr Peter Hogan
Chairman

Brisbane, Queensland
24 September 2018

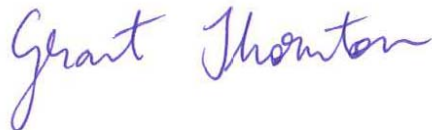
Level 18
King George Central
145 Ann Street
Brisbane, QLD 4000
Correspondence to:
GPO Box 1008
Brisbane QLD 4001

T 61 7 3222 0200
F 61 7 3222 0444
E info.qld@au.gt.com
W www.grantthornton.com.au


Auditor's Independence Declaration to the Directors of Carbon Energy Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Carbon Energy Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



Grant Thornton Audit Pty Ltd
Chartered Accountants



CDJ Smith
Partner – Audit & Assurance

Brisbane, 24 September 2018

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Financial Report

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2018

		CONSOLIDATED GROUP	
	Notes	2018 \$	2017 \$
Revenue and other income			
Technology service fee revenue	2	1,210,920	50,000
Other income	2	5,612,295	2,553,685
Total revenue and other income		6,823,215	2,603,685
Employee benefits expense	3	(1,554,777)	(2,382,025)
Administration, legal and corporate costs		(1,475,980)	(2,047,314)
Consultancy costs		42,724	(411,032)
Operating expenditure		(415,639)	(305,981)
Share-based payments	15	(78,862)	-
Depreciation expense		(101,050)	(141,342)
Finance costs	3	(1,632,169)	(2,129,759)
Movement in fair value of derivatives	5(d)	(2,324,560)	-
Impairment expense	3	-	(34,511,191)
Loss before income tax expense		(717,098)	(39,324,959)
Income tax benefit/(expense)	4	-	-
Net loss for the year		(717,098)	(39,324,959)
Other comprehensive income for the year (net of tax)		-	-
Total comprehensive loss for the year		(717,098)	(39,324,959)
Loss attributable to owners of the parent		(717,098)	(39,324,959)
Total comprehensive loss attributable to owners of the parent		(717,098)	(39,324,959)
Basic loss per share (cents per share)	7	(0.29)	(217.03) ¹
Diluted loss per share (cents per share)	7	(0.29)	(217.03) ¹

¹Amounts have been restated to reflect the Share Consolidation (1:100) completed on 24 July 2017.

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Financial Report

Consolidated Statement of Financial Position

AS AT 30 JUNE 2018

CONSOLIDATED GROUP			
	Notes	2018 \$	2017 \$
Assets			
Current assets			
Cash and cash equivalents	5	1,181,966	79,435
Trade and other receivables	5	1,641,907	1,287,204
Other current assets	5	115,621	69,140
Total current assets		2,939,494	1,435,779
Non-current assets			
Trade and other receivables	5	43,140	244,553
Intangible assets	6	13,567,134	13,509,367
Property, plant and equipment	6	554,719	610,809
Other non-current assets	5	246,209	-
Total non-current assets		14,411,202	14,364,729
Total assets		17,350,696	15,800,508
Liabilities			
Current liabilities			
Trade and other payables	5	1,284,117	1,566,301
Loans and borrowings	5	-	1,710,000
Financial liabilities	5	1,000,000	10,000,000
Provisions	6	90,135	1,228,679
Total current liabilities		2,374,252	14,504,980
Non-current liabilities			
Trade and other payables	5	492,121	-
Provisions	6	1,787,297	2,337,807
Financial liabilities	5	5,893,474	-
Financial derivatives	5	4,824,560	-
Total non-current liabilities		12,997,452	2,337,807
Total liabilities		15,371,704	16,842,787
Net assets		1,978,992	(1,042,279)
Equity			
Issued capital	8	248,390,911	244,731,404
Reserves	9	20,082,453	20,003,591
Accumulated losses		(266,494,372)	(265,777,274)
Total equity		1,978,992	(1,042,279)

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Financial Report

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Issued Capital	Options Reserve	Share- Based Payments Reserve	Other Reserve	Accumulated Losses	Total
		\$	\$	\$	\$	\$	\$
Balance at 1 July 2016		244,226,148	1,650,406	16,251,613	2,101,590	(226,452,315)	37,777,442
Shares issued during the year	8	526,339	-	-	-	-	526,339
Exercise of options		-	(18)	-	-	-	(18)
Transaction Costs	8	(21,083)	-	-	-	-	(21,083)
Losses attributable to member of parent entity		-	-	-	-	(39,324,959)	(39,324,959)
Balance at 30 June 2017		244,731,404	1,650,388	16,251,613	2,101,590	(265,777,274)	(1,042,279)
Balance at 1 July 2017		244,731,404	1,650,388	16,251,613	2,101,590	(265,777,274)	(1,042,279)
Shares issued during the year	8	3,850,000	-	-	-	-	3,850,000
Transaction costs	8	(190,493)	-	-	-	-	(190,493)
Recognition of Share Based Payments	9	-	-	78,862	-	-	78,863
Losses attributable to member of parent entity		-	-	-	-	(717,098)	(717,099)
Balance at 30 June 2018		248,390,911	1,650,388	16,330,475	2,101,590	(266,494,372)	1,978,992

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Financial Report

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2018

CONSOLIDATED GROUP		
Notes	2018 \$	2017 \$
Cash flows from operating activities		
Payments to suppliers and employees	(4,386,491)	(5,572,987)
Receipt of government grants	997,975	1,384,419
Interest received	49,522	42,978
Other receipts	214,315	141,271
Net cash flows used in operating activities	(3,124,679)	(4,004,319)
Cash flows from investing activities		
Payments for property, plant and equipment	(48,452)	(59,444)
Payments for intangible assets	(52,921)	(18,479)
Net cash flows used in investing activities	(101,373)	(77,923)
Cash flows from financing activities		
Proceeds from issues of shares	3,850,000	400,000
Proceeds from issue of convertible notes	8,300,000	-
Proceeds from borrowings	1,230,000	1,710,000
Repayment of borrowings	(8,940,000)	-
Term facility costs	-	(135,310)
Capital raising and financing costs	(111,417)	(21,084)
Net cash flows provided by financing activities	4,328,583	1,953,606
Net increase / (decrease) in cash and cash equivalents held	1,102,531	(2,128,636)
Cash and cash equivalents at the beginning of the financial year	79,435	2,208,071
Cash and cash equivalents at the end of the financial year	1,181,966	79,435

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

Financial Report

Notes to the Consolidated Financial Statements

1. BASIS OF PREPARATION

The consolidated financial statements comprise that of the Consolidated Group, being Carbon Energy Limited (Company) and its controlled entities. Carbon Energy Limited is a listed public company, incorporated and domiciled in Australia.

The consolidated financial statements are presented in Australian dollars, unless otherwise stated.

The consolidated financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at re-valued amounts or fair values as described in the notes. Historical cost is generally based on the fair values of the consideration given in exchange for assets.

(a) Going Concern

The financial report has been prepared on a going concern basis, which assumes the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Company held its 2016 Annual General Meeting (AGM) on 18 July 2017, whereby shareholders passed all resolutions, including the approval of the recapitalisation transactions contemplated under the Amended Deed of Company Arrangement (DOCA) and the consolidation of share capital.

The ability to continue as a going concern is also dependent on securing funds from a range of sources and opportunities including:

- the ability to raise capital and seek funding opportunities;
- the receipt of fees for services provided to the Beijing JinHong New Energy Co. Ltd joint venture in China (JinHong Joint Venture);
- further licensing and services relating to the Company's keyseam® UCG technology; and
- the ability to access the secured uncommitted Kam Lung Cash Advance Facility (refer Note 5(c) Financial Assets and Liabilities – Financials Liabilities for further details).

Factors which can influence these opportunities include, but are not limited to, progress of current development and licensing activities and general market sentiment.

Notwithstanding this, as a technology development and exploration company with start-up projects, a dependency upon continuing support from current shareholders and financiers and on securing additional sources of funds, should the Consolidated Group not receive the forecast cash inflows, there are material uncertainties as to whether the Consolidated Group will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Consolidated Group not continue as a going concern.

(b) Principles of Consolidation

A controlled entity is any entity over which the Company if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

A list of controlled entities is contained in Note 11 Controlled Entities to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the Consolidated Group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

Financial Report

Notes to the Consolidated Financial Statements

1. BASIS OF PREPARATION (continued)

(b) Principles of Consolidation (continued)

All inter-group balances and transactions between entities in the Consolidated Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

(c) Critical Accounting Estimates and Judgements

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information that they believe to be reasonable under the circumstances. Estimates assume a reasonable expectation of future events, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. Estimates are based on current trends and economic data, obtained both externally and within the Consolidated Group. Actual results may differ from these estimates.

The estimates and judgements which involve a higher degree of complexity or that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period are addressed in the following notes:

Note 2 Revenue and Other Income (recognition of revenue)

Note 5 Financial Assets and Liabilities (financial derivatives)

Note 6 Non Financial Assets and Liabilities (intangible asset carrying values and provision for rehabilitation)

2. REVENUE AND OTHER INCOME

	Note	2018 \$	2017 \$
Revenue			
Technology service fee revenue		1,210,920	50,000
		1,210,920	50,000
Other income			
Government grants		-	2,382,394
Interest received		53,917	30,019
Change in rehabilitation provision	6	1,549,857	-
Net gain on settlement of Pacific Road Convertible Note Facility	5	3,712,241	-
Other income		296,280	141,271
		5,612,295	2,553,685

Recognition and Measurement

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services supplied stated net of discounts, returns and GST.

The Consolidated Group's transactions may comprise multiple deliverables over a period of time and in these instances revenue recognition criteria are applied to each separately identifiable component in order to reflect the substance. The Consolidated Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Consolidated Group's activities, as described below.

Financial Report

Notes to the Consolidated Financial Statements

2. REVENUE AND OTHER INCOME (continued)

Technology Service Fees

The Consolidated Group provides technology services to customers. Where the delivery of services are provided on a fixed price basis, the related revenue is recognised in the accounting period in which the services are rendered by reference to the stage of completion and assessed on the basis of the actual service provided as a proportion of the total services to be provided unless the outcome of the contract cannot be reliably estimated. Where it is probable that a loss will arise from a contract, the excess of total costs over revenue is recognised as an expense immediately. Otherwise technology services fees are provided on a cost plus an agreed margin basis.

Government Grants

Grants from the Government are recognised at their fair value where the amount of the grant can be reliably measured and when it is probable that future economic benefits will flow to the entity. Where the grants relate to recognised expenses, the grant is presented as other income. Grants related to expenditure recognised as assets are presented in the statement of financial position as a deduction against the asset carrying value.

Interest Received

Interest revenue is recognised using the effective interest rate method.

Critical Accounting Estimates

The provision of technology service fee services to customers requires judgement in assessing both the components of contracted services and an assessment on the stage of completion of each component. The technology service fees earned during the current year were provided on a cost plus agreed margin basis.

3. EXPENSES

	Note	2018 \$	2017 \$
Impairment			
UCG intangible asset	6	-	34,511,191
		-	34,511,191
Employment expenses			
Remuneration and on-costs		1,446,299	2,200,293
Superannuation expense		108,478	181,732
		1,554,777	2,382,025
Finance costs			
Interest expense		781,876	743,730
Finance facility fees		492,121	-
Refinancing expenses		-	567,475
Pacific Road Convertible Note Facility accretion expense		-	789,953
Kam Lung Convertible Note Facility accretion expense	5	261,557	-
Rehabilitation provision accretion expense	6	92,273	27,286
Other finance costs		4,342	1,315
		1,632,169	2,129,759
Operating lease rental expense		434,696	426,467

Financial Report

Notes to the Consolidated Financial Statements

3. EXPENSES (continued)

Recognition and Measurement

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. INCOME TAX

Income tax recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income:

	2018 \$	2017 \$
Current year tax (benefit)/expense	-	-
Deferred tax expense	-	-
Prior year tax expense	-	-
Income tax (benefit)/expense	-	-

Reconciliation between tax benefit/(expense) and profit/(loss) before income tax:

	2018 \$	2017 \$
Net loss before taxation	(717,098)	(39,324,959)
Tax benefit at the Australian tax rate of 30% (2017: 27.5%) (i)	215,130	10,814,364
<i>Tax effect of amounts which are not taxable in calculating taxable income</i>		
Non-deductible items	(963,149)	(1,019,688)
Net exempt income	1,550,948	655,158
Non-deductible impairment expense and other	-	(9,490,577)
Deferred tax assets not brought to account	(802,929)	(959,257)
Income tax benefit/(expense)	-	-

(i) The full company tax rate of 30% has been applied for the current year ended 30 June 2018 on the assumption that the Consolidated Group will not be eligible for the lower company tax rate of 27.5% applied in the prior year ended 30 June 2017.

Deferred Tax Assets

Future income tax benefits not brought to account, the benefits of which will only be realised if the conditions for deductibility set out below occur. An income tax Consolidated Group was formed from 1 July 2008.

	2018 \$	2017 \$
Balance at the beginning of the year	90,337,454	97,608,705
Adjustment to prior year carry forward losses	144,694	-
Impact from change in tax rate	8,212,496	(8,134,059)
Reduction against revenue losses	(1,113,672)	-
Temporary differences	423,214	(96,449)
Tax losses (after income tax at 30% (2017: 27.5%))	802,929	959,257
Deferred tax assets not brought to account	98,807,115	90,337,454

Recognition and Measurement

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantially enacted by the reporting date.

Financial Report

Notes to the Consolidated Financial Statements

4. INCOME TAX (continued)

Recognition and Measurement (continued)

Deferred tax is accounted for using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of profit or loss and other comprehensive Income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future tax profits will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, when they relate to income taxes levied by the same taxation authority and the Consolidated Group intends to settle its current tax assets and liabilities on a net basis.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Consolidated Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law. The utilisation of any unused tax losses or unused tax credits is subject to strict criteria under tax law, including the need to satisfy relevant tests surrounding an entity's maintenance of the same ownership and control or carrying on the same business since the tax loss was incurred, in the future year for which the tax consolidated group seeks to utilise the carried forward tax losses. The final amount of carried forward tax losses able to be utilised by the tax consolidated group may, therefore, be different to the deferred tax assets not brought to account presented above for the current financial year end.

5. FINANCIAL ASSETS AND LIABILITIES

Financial assets	Note	2018 \$			2017 \$		
		Current	Non-current	Total	Current	Non-current	Total
Cash and cash equivalents							
Cash at bank		81,966	-	81,966	79,435	-	79,435
Short term deposits		1,100,000	-	1,100,000	-	-	-
Total cash and cash equivalents	5(a)	1,181,966	-	1,181,966	79,435	-	79,435
Trade and other receivables							
Trade receivables		1,440,640	-	1,440,640	1,185,673	-	1,185,673
Provision for impairment of trade receivable		(57,134)	-	(57,134)	-	-	-
Other receivables		-	-	-	101,531	-	101,531
Deposits		258,401	43,140	301,541	-	244,553	244,553
Total trade and other receivables		1,641,907	43,140	1,685,047	1,287,204	244,553	1,531,757
Other assets		115,621	246,209	361,830	69,140	-	69,140
Total financial assets		2,939,494	289,349	3,228,843	1,435,779	244,553	1,680,332

Financial Report

Notes to the Consolidated Financial Statements

5. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial liabilities	Note	2018 \$			2017 \$		
		Current	Non-current	Total	Current	Non-current	Total
Trade and other payables							
Trade payables		1,248,357	-	1,248,357	762,793	-	762,793
Other payables		35,760	492,121	527,881	803,508	-	803,508
Total trade and other payables		1,284,117	492,121	1,776,238	1,566,301	-	1,566,301
Loans and borrowings	5(b)	-	-	-	1,710,000	-	1,710,000
Financial liabilities							
Pacific Road loan facility		1,000,000	-	1,000,000	-	-	-
Pacific Road convertible note facility		-	-	-	10,000,000	-	10,000,000
Kam Lung convertible note facility		-	5,893,474	5,893,474	-	-	-
Total financial liabilities	5(c)	1,000,000	5,893,474	6,893,474	10,000,000	-	10,000,000
Financial derivatives	5(d)	-	4,824,560	4,824,560	-	-	-
Total financial liabilities		2,284,117	11,210,15	13,494,272	13,276,301	-	13,276,301

5(a) Cash and cash equivalents

	2018 \$	2017 \$
Cash and cash equivalents	1,181,966	79,435
Reconciliation of cash flow from operations with loss after income tax		
Loss after income tax	(717,098)	(39,324,959)
<i>Adjustments for:</i>		
Depreciation	101,050	141,342
Interest expense	781,876	126,027
Accretion expense	353,830	817,239
Share options expensed	78,862	-
Movement in fair value of derivative	2,324,560	-
Impairment of non financial assets	-	34,511,191
Change in rehabilitation provision	(1,549,857)	-
Net gain on settlement of Pacific Road Convertible Note Facility	(3,712,241)	-
Other	492,121	135,603
<i>Changes in assets and liabilities:</i>		
Increase in trade receivables and other receivable and other assets	(445,980)	(786,853)
(Decrease) / Increase in trade and other payables	(600,332)	599,124
Decrease in provisions	(234,470)	(223,034)
Net cash flows used in operating activities	(3,124,679)	(4,004,319)

Recognition and Measurement

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

5(b) Loans and borrowings

Kam Lung Interim Loan Facility

In the prior year ended 30 June 2017, certain entities within the Consolidated Group entered into an interim loan agreement with Kam Lung Investment Development Co Ltd (Kam Lung) (Kam Lung Interim Loan Facility) with a total facility limit of \$1,740,000, as part of the DOCA arrangement. At 30 June 2017, a total of \$1,510,000 was drawn under the Kam Lung Interim Loan Facility. A further \$200,000 was made available under the DOCA to the Administrators pursuant to the Deed of Indemnity between the Administrators and the Deed Proponent in respect of the Administrators' remuneration. On 18 July 2017, the transactions contemplated under the DOCA were approved by shareholders and the interim loan was repaid.

Financial Report

Notes to the Consolidated Financial Statements

5. FINANCIAL ASSETS AND LIABILITIES (continued)

5(c) Financial liabilities

Pacific Road Loan Facility

The Company has entered into a \$1 million unsecured loan facility with Pacific Road Capital A Pty Limited, Pacific Road Capital B Pty Ltd and Pacific Road Capital Management G.P. Limited (Pacific Road Group), which is interest free and shall be repayable upon the satisfaction of various conditions. The repayment of this loan is guaranteed by Kam Lung. If Kam Lung is required to make any payment in its capacity as guarantor under the Pacific Road Loan Facility, that payment will be a deemed advance under the Kam Lung Cash Advance Facility (see below).

Pacific Road Convertible Note Facility

The release and discharge of the Pacific Road Convertible Note Facility, which matured on 18 January 2017, was settled by the Company in July 2017 for \$7 million. A net gain on settlement of \$3,712,241 was recognised in Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Kam Lung Convertible Note Facility

In July 2017, the Company entered into a secured convertible note facility with Kam Lung, whereby convertible notes totalling \$9.2 million were issued. Interest accrues at 8% per annum and is settled in cash or, subject to election, can be capitalised to the outstanding principal or converted into shares or a combination of both. The Company must redeem each note on the maturity date, being the date that is 5 years from the issue of the notes. Notes may be converted, upon election by the noteholder, at any time on or after the first anniversary of the issue date.

The Kam Lung Convertible Note Facility has been classified in the financial statements as having two components – a host debt component and an embedded derivative component.

The host debt component represents a financial liability to the Consolidated Group and includes the impact of associated transaction costs. The host debt component is subsequently recorded at amortised cost using the effective interest method and unwinds over its life upon which, at maturity, the financial liability will equate to the face value of the \$9.2 million of convertible notes outstanding plus any accrued interest capitalised to the convertible notes balance.

The embedded derivative component represents the conversion option within the Kam Lung Convertible Note Facility. Refer to Note 5(d) Financial Assets and Liabilities - Financial Derivatives for further information.

A reconciliation of the financial liability is as follows:

	2018 \$	2017 \$
Initial fair value liability	5,631,917	-
Unwind of fair value discount	261,557	-
Closing balance	5,893,474	-

Kam Lung Cash Advance Facility

In July 2017, the Company entered into a secured uncommitted cash advance facility, up to an aggregate limit of \$5,000,000 which remains undrawn at 30 June 2018. Interest accrues at 8% per annum or if the parties so agree, the aggregate of BBSY in relation to the interest period for that advance and the 5.5% per annum margin. Interest may be capitalised or cash settled. The facility terminates on the fifth anniversary of the completion date under the DOCA.

Financial Report

Notes to the Consolidated Financial Statements

5. FINANCIAL ASSETS AND LIABILITIES (continued)

5(d) Financial derivatives

The Kam Lung Convertible Note Facility has been classified in the financial statements as having two components – a host debt component and an embedded derivative component. The embedded derivative component represents the conversion option within the Kam Lung Convertible Note Facility and is recognised as separate financial instrument in the financial statements.

The options are valued at fair value using the Black Scholes option pricing model and unrealised movements to the fair value have been taken to the Consolidated Statement of Profit or Loss and Other Comprehensive Income during the period.

Both the convertible notes and the interest accrued on the convertible notes may be converted into the Company's shares, subject to election and in accordance with criteria set out under the facility.

	2018 \$	2017 \$
Financial derivatives – initial fair value liability	2,500,000	-
Movement in fair value of derivatives	2,324,560	-
Financial derivatives – closing fair value liability	4,824,560	-

The embedded derivative has been classified as level 2 under the fair value hierarchy as the financial instrument is not traded in an active market but its fair value is determined using valuation techniques where significant inputs are based on observable market data.

5(e) Accounting Policies - Financial Instruments

Trade dated accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments, incorporating financial assets and liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to Consolidated Statement of Profit or Loss and Other Comprehensive Income immediately. Financial instruments are classified and measured as set out below.

Financial Assets

Financial Assets at Fair Value through Profit and Loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: *Recognition and Measurement of Financial Instruments*. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the profit and loss component of the statement of profit or loss and other comprehensive income in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Impairment of Financial Instruments

At each reporting date, the Consolidated Group assess whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the profit and loss component of the statement of profit or loss and other comprehensive income.

Financial Report

Notes to the Consolidated Financial Statements

5. FINANCIAL ASSETS AND LIABILITIES (continued)

5(e) Accounting Policies - Financial Instruments (continued)

De-recognition of Financial Assets

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Financial instruments incorporating financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arms length transactions, reference to similar instruments and option pricing models.

Financial Liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Short- term liability includes secured loan facilities to assist with short term working capital.

The liability is initially measured at fair value, net of transaction costs and subsequently re-measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method calculates the amortised cost of the financial liability and allocates interest expense over the relevant period based on the discount rate of estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Compound Instruments

The component parts of compound instruments (convertible bonds) issued by the Consolidated Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion options that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Consolidated Group's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recognised as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently re-measured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised.

No gain or loss is recognised in Consolidated Statement of Profit or Loss and Other Comprehensive Income upon conversion or expiration of the conversion option.

Financial Report

Notes to the Consolidated Financial Statements

5. FINANCIAL ASSETS AND LIABILITIES (continued)

5(e) Accounting Policies - Financial Instruments (continued)

Compound Instruments (continued)

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity.

Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

Hybrid Financial Instruments

The component parts of hybrid financial instruments (convertible notes) issued by the Consolidated Group are classified entirely as financial liabilities, with separate recognition of the host debt and embedded derivative components, in accordance with the substance of the contractual arrangements and definitions of financial liabilities and embedded derivatives.

The host debt component is accounted for in accordance with that for financial liabilities.

The embedded derivative component is accounted for as fair value through profit or loss using the Black Scholes option pricing model for fair value measurement. Unrealised movements to the fair value are taken to the profit or loss during the period in which they arise.

De-recognition of Financial Liability

The Consolidated Group derecognises financial liabilities when, and only when the Consolidated Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in Consolidated Statement of Profit or Loss and Other Comprehensive Income.

6. NON FINANCIAL ASSETS AND LIABILITIES

30 June 2018	Note	Opening balance	Additions	Impairment loss	Change in rehabilitation provision	Other movements	Closing balance
Technology asset							
Intangible assets	6(b)	13,509,367	57,767	-	-	-	13,567,134
Property, plant and equipment		610,809	44,959	-	-	(101,049)	554,719
Other non-financial assets and liabilities							
Current provisions	6(c)	1,228,679	80,625	-	(969,856)	(249,313)	90,135
Non-current provisions	6(c)	2,337,807	6,639	-	(487,728)	(69,421)	1,787,297
Total other non-financial assets and liabilities		3,566,486	87,264	-	(1,457,584)	(318,734)	1,877,432
Total non-financial assets and liabilities		17,686,662	189,990	-	(1,457,584)	(419,783)	15,999,285

Financial Report

Notes to the Consolidated Financial Statements

6. NON FINANCIAL ASSETS AND LIABILITIES (continued)

30 June 2017	Note	Opening balance	Additions	Impairment loss	Change in rehabilitation provision	Other movements	Closing balance
Technology asset							
Intangible assets	6(b)	47,968,814	51,744	(34,511,191)	-	-	13,509,367
Other non-current assets		692,707	59,444	-	-	(141,342)	610,809
Other non-financial assets and liabilities							
Current provisions	6(c)	864,031	128,751	-	420,443	(184,546)	1,228,679
Non-current provisions	6(c)	2,898,203	23,222	-	(578,646)	(4,972)	2,337,807
Total other non-financial assets and liabilities		3,762,234	151,973	-	(158,203)	(189,518)	3,566,486
Total non-financial assets and liabilities		52,423,755	263,161	(34,511,191)	(158,203)	(330,860)	17,686,662

6(a) Impairment of Tangible and Intangible Assets other than Goodwill

Recognition and Measurement

At the end of each reporting period, the Consolidated Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets, other than goodwill, that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Intangible Assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired.

Tangible Assets

At the end of each reporting period, tangible assets are assessed for events or changes in circumstances that indicate that the carrying amount may not be recoverable. Deferred exploration and evaluation costs are assessed under AASB 6: *Exploration for and Evaluation of Mineral Resources*. All other assets are assessed under AASB 136: *Impairment of Assets*.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Critical Accounting Estimates

The Consolidated Group assesses impairment at each reporting date by evaluating conditions specific to the Consolidated Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. The value-in-use and/or fair value, less cost of disposal calculations performed in assessing recoverable amounts incorporate a number of key estimates.

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Notes to the Consolidated Financial Statements

6. NON FINANCIAL ASSETS AND LIABILITIES (continued)

6(a) Impairment of Tangible and Intangible Assets other than Goodwill (continued)

UCG Intangible Assets

The value in use cash flows have been estimated for each potential project based on the technology, licence and service fees and ongoing royalty contractual arrangements entered into or contracts under negotiation to date. The growth factor is based on known and potential projects expected to progress to a commercial scale.

6(b) Intangible Assets

Recognition and Measurement

Research and Development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in Consolidated Statement of Profit or Loss and Other Comprehensive Income in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

UCG Intangible Asset

A 'know-how' intangible asset was recognised for the first time in the 2011 financial year and relates to transfers from Mine Development costs and Property, Plant and Equipment from the Bloodwood Creek trial. This balance also includes design and engineering costs in relation to the modification of carburettors and other associated work to enable the engines to run on syngas which resulted in significant technological know-how gains.

A further \$57,767 (2017: \$51,744) was added to the 'know-how' intangible asset during the 2018 financial year for ongoing patent costs following achievement of 'Proof of Concept' of the Consolidated Group's keyseam® UCG Technology.

Internally generated UCG intangible assets recognised by the Consolidated Group have an indefinite life and are not amortised. Each period, the useful life of the intangible asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. The Consolidated Group has assessed that the asset is regenerative and knowledge continues to build. Such assets are tested for impairment.

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Notes to the Consolidated Financial Statements

6. NON FINANCIAL ASSETS AND LIABILITIES (continued)

6(b) Intangible Assets (continued)

Recognition and Measurement (continued)

Where there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased, the entity shall estimate the recoverable amount of that asset. An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall (provided it does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the assets in prior year) be increased to its recoverable amount. That increase represents a reversal of an impairment loss.

A total provision for impairment of \$34,511,191 has been included in the net UCG intangible asset carrying value of \$13,567,134 at 30 June 2018 and represents impairment amounts recognised in prior years. No further impairment has been taken in the current financial year ended 30 June 2018 and no reversal of prior impairments has been recognised.

Impairment Test for Indefinite Life Intangible Assets

The recoverable amount of the UCG intangible asset has been determined based on a fair value less costs of disposal basis for the current financial year ended 30 June 2018. As the assessed recoverable amount is greater than the UCG intangible asset carrying value, no further provisions for impairment have been recorded against the asset value in the current financial year ended 30 June 2018. The approach and key assumptions used in the assessment of fair value is predominantly based on references to the market capitalisation of the Company as at the reporting date and the Consolidated Group's other assets and liabilities. As the valuation is based on a combination of observable market data and unobservable inputs, the valuation has been considered to be level 2 in the fair value hierarchy.

In the prior financial year, the recoverable amount of the UCG intangible asset was determined based on the value in use approach and BDO Corporate Finance (QLD) Ltd (BDO), who were appointed as independent experts to opine on the proposed transaction under the DOCA, valued the Consolidated Group's UCG intangible asset at between \$10 million and \$17 million.

De-recognition of Intangible Assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

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Notes to the Consolidated Financial Statements

6. NON FINANCIAL ASSETS AND LIABILITIES (continued)

6(c) Provisions

	2018 \$	2017 \$
Current		
Employee benefits	60,135	228,823
Rehabilitation	30,000	999,856
	90,135	1,228,679
Non-current		
Employee benefits	30,932	93,714
Rehabilitation	1,756,365	2,244,093
	1,787,297	2,337,807
Total provisions	1,877,432	3,566,486
Movement in provision - Rehabilitation:	2018 \$	2017 \$
Opening balance	3,243,949	3,402,152
Reduction for revised cost estimates	(1,549,857)	(1,046)
Cash spend	-	(119,535)
Movements in discount rates	92,273	(65,953)
Movements in timing of expenditure	-	28,331
Closing balance	1,786,365	3,243,949
Current	30,000	999,856
Non-current	1,756,365	2,244,093

Employee Provisions

A liability is recognised for benefits accruing to employees in respect of annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities expected to be settled wholly within 12 months are measured at the amounts expected to be paid when the liabilities are settled. The Consolidated Group has assessed its annual leave provision and determined that the entire amount of the provision be presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations.

Liabilities not expected to be settled wholly within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

Site Rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of exploration and development activities undertaken, it is probable that an outflow of benefits will be required to settle the obligation and the provision can be measured reliably. The estimated future obligations will include (but are not limited to) the costs of site restoration, investigative bore holes, decommissioning of wells and removal/transfer of surface infrastructure (if applicable).

The provision for future restoration is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. Future restoration costs will be reviewed where appropriate and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

The initial estimate of restoration and rehabilitation relating to the construction or installation of site assets is capitalised into the cost of the related asset and amortised on the same basis as the related asset.

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Notes to the Consolidated Financial Statements

6. NON FINANCIAL ASSETS AND LIABILITIES (continued)

6(c) Provisions (continued)

Site Rehabilitation (continued)

Changes in the estimate of the provision for restoration and rehabilitation are treated in the same way while the asset remains capitalised. When the assets to which restoration and rehabilitation had been capitalised are fully impaired, any future changes in these costs are credited or expensed through the profit and loss. The unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset, when the cost of the asset was recognised.

Panel Rehabilitation

The amount recognised as a provision will be the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. The provision will be measured using the cash flows estimated to settle the present obligation, therefore the carrying amount will be the present value of those cash flows.

When the Panel assets to which restoration and rehabilitation had been capitalised are fully impaired, any future changes in these costs are credited or expensed through the profit and loss.

Critical Accounting Estimates

Provision for Restoration and Rehabilitation

The Consolidated Group has an obligation to restore and rehabilitate the area disturbed as a result of its exploration and development activities. The provision for rehabilitation is based on the best estimate of the current obligations to rehabilitate the Bloodwood Creek site, taking into consideration relevant work programs submitted to and approved by the Queensland Government, adjusted for various factors including forecast inflation rates, discount rates and expected timing of the rehabilitation expenditure.

7. EARNINGS PER SHARE (EPS)

	2018\$	2017 \$
Net loss for the year attributable to owners of the parent	(717,098)	(39,324,959)
Basic loss per share (cents per share)	(0.29)	(217.03) ¹
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	244,011,447	18,119,341¹
Diluted loss per share (cents per share)	(0.29)	(217.03) ¹
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	244,011,447	18,119,341¹

¹Amounts have been restated to reflect the Share Consolidation (1:100) completed on 24 July 2017.

Options and performance rights outstanding at 30 June 2018 are not considered to be dilutive potential ordinary shares as the effect is anti-dilutive and/or due to the nature of vesting conditions.

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Notes to the Consolidated Financial Statements

8. ISSUED CAPITAL

	2018		2017	
	No. shares	\$	No. shares	\$
Share capital				
64,933,515 fully paid ordinary shares (2017: 1,813,428,879)				
<i>Movement:</i>				
Balance at start of period	1,813,428,879	244,731,404	1,775,730,120	244,226,148
Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	-	-	6,924,582	126,027
Share issued	4,679,911,281	3,850,000	-	-
Share consolidation (1:100)	(6,428,406,645)	-	-	-
Exercise of listed options	-	-	4,945	312
Renounceable rights issue	-	-	30,769,232	400,000
Share issue costs	-	(190,493)	-	(21,083)
Balance at end of period	64,933,515	248,390,911	1,813,428,879	244,731,404

Ordinary Fully Paid Shares

The Company has no maximum authorised share capital. Ordinary shares are of no par value.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

On 19 July 2017, the Company issued 4,679,911,281 of ordinary fully paid shares to Kam Lung as part of the DOCA process.

On 24 July 2017, the Company completed its 1:100 share consolidation.

On commencement of trading on 26 July 2017, the suspension of trading in the Company's securities was lifted by the ASX.

Recognition and Measurement

Issued and paid up capital is recognised at the fair value of the consideration received by the Consolidated Group. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Listed Options

There are no listed options on issue as at the year ended 30 June 2018. In the prior year ended 30 June 2017, the remaining listed options on issue expired without being exercised.

Unlisted Options and Performance Rights

During the current year ended 30 June 2018, long term incentives (LTI's) were offered to the Managing Director and Chief Executive Officer in the form of performance rights and are subject to a number of vesting conditions to be determined at the relevant vesting dates.

All residual unlisted options on issue at prior year ended 30 June 2017 were cancelled in July 2017 for nil consideration as part of the completion of the DOCA. No new options were issued during the year ended 30 June 2018.

Refer to Note 15 Share Based Payments for further details of outstanding options and performance rights. Options and performance rights carry no rights to dividends and no voting rights.

Options with respect to the embedded derivative component of the Kam Lung Convertible Note Facility are detailed in Note 6 Non Financial Assets and Liabilities.

Financial Report

Notes to the Consolidated Financial Statements

8. ISSUED CAPITAL (continued)

Capital Risk Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

In order to maintain or adjust the capital structure, the entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, enter into joint ventures or sell assets.

The entity does not have a defined share buy-back plan. No dividends were declared in 2018 (2017: nil).

Stock Exchange Listing

Quotation has been granted for 64,933,515 (2017: 1,813,428,879) of the Company's ordinary shares on all Member exchanges of the Australian Stock Exchange Limited ("ASX").

9. RESERVES

	2018 \$	2017 \$
Share based payments reserve	16,330,475	16,251,613
Options reserve	1,650,388	1,650,388
Other reserve	2,101,590	2,101,590
Total reserves	20,082,453	20,003,591

Movements in reserves and reserve balances are detailed in the consolidated statement of changes in equity. The nature and purpose of each reserve account is as follows:

Share Based Payments Reserve

The share based payments reserve is used to recognise the fair value of options and performance rights issued to employees, including Key Management Personnel in relation to equity-settled share based payments.

Options Reserve

The options reserve records the value of listed options on issue.

Other Reserve

The other reserve records the conversion option attached to the Pacific Road Convertible Note Facility which was released and discharged in July 2017, with the equity component remaining in other reserves. Refer to Note 5 Financial Assets and Liabilities for additional information.

10. FINANCIAL RISK MANAGEMENT

Financial Risk Management Objectives

The Consolidated Group's management of financial risk is aimed at ensuring net cash flows are sufficient to meet all its financial commitments and maintain the capacity to fund the Consolidated Group's growth activities.

Market, liquidity and credit risk (including interest rate and foreign exchange risk) arise in the normal course of the Consolidated Group's business. These risks are managed under Board approved directives which underpin finance practices and processes.

The Consolidated Group's principal financial instruments comprise interest and non-interest bearing debt, cash and short-term deposits. Other financial instruments include trade receivables and trade payables, which arise directly from operations.

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Notes to the Consolidated Financial Statements

10. FINANCIAL RISK MANAGEMENT (continued)

Financial Risk Management Objectives (continued)

Other minor risks are either summarised below or disclosed at Note 8 Issued Capital in the case of capital risk management.

(a) Liquidity Risk

The liquidity position of the Consolidated Group is managed to ensure sufficient liquid funds are available to meet the Consolidated Group's financial commitments in a timely and cost effective manner.

Management continually reviews the Consolidated Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels.

The following tables detail the Consolidated Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Consolidated Group can be required to pay.

The maturity analysis of contracted payables at the reporting date is as follows:

2018	Payables Maturity Analysis				
	TOTAL	<1 year	1-2 years	2-3 years	>3 years
Trade and other payables	1,776,238	1,284,117	-	-	492,121
Financial liabilities	6,893,474	1,000,000	-	-	5,893,474
Financial derivatives	4,824,560	-	-	-	4,824,560
	13,494,272	2,284,117	-	-	11,210,155
2017					
Trade and other payables	1,566,301	1,566,301	-	-	-
Pacific Road Convertible Note	10,000,000	10,000,000	-	-	-
Loans and borrowings	1,710,000	1,710,000	-	-	-
	13,276,301	13,276,301	-	-	-

(b) Market Risk

(i) Interest Rate Risk

The Consolidated Group's exposure to the risks of changes in market interest rates relates largely to the Consolidated Group's cash deposits with a floating interest rate and its short term deposits and bonds with fixed interest rates (these are predominantly 30, 60 and 90 day revolving term deposits). These financial assets expose the Consolidated Group to cash flow interest rate risk.

Refer to Note 5 Financial Assets and Liabilities for further details.

In regard to its interest rate risk, the Consolidated Group continuously analyses its exposure. Within this analysis, consideration is given to potential renewals of existing positions, alternative investments and the mix of fixed and variable interest rates. The Consolidated Group does not engage in any hedging or derivative transactions to manage interest rate risk.

The following table sets out the carrying amount by maturity of the Consolidated Group's exposure to interest rate risk and the effective weighted average interest rate for each class of these financial instruments.

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Notes to the Consolidated Financial Statements

10. FINANCIAL RISK MANAGEMENT (continued)

(b) Market Risk (continued)

	Weighted Ave		Floating Interest		Fixed Interest Rate		Non-Interest		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	%	%	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	2.32	1.00	81,246	61,242	1,100,000	-	720	18,193	1,181,966	79,435
Trade and other receivables	2.51	2.53	-	-	266,541	202,553	1,418,503	1,329,204	1,685,047	1,531,757
Other assets	-	-	-	-	-	-	361,830	69,140	361,830	69,140
Total financial assets			81,246	61,242	1,366,541	202,553	1,781,053	1,347,357	3,228,843	1,680,332
Trade and other payables	-	-	-	-	-	-	(1,776,238)	(1,566,301)	(1,776,238)	(1,566,301)
Loans and borrowings	-	-	-	-	-	-	-	(1,710,000)	-	(1,710,000)
Financial liabilities	7.06	8.13	-	-	(5,893,474)	(10,000,000)	(1,000,000)	-	(6,893,474)	(10,000,000)
Financial derivatives	-	-	-	-	-	-	(4,824,560)	-	(4,824,560)	-
Total financial liabilities			-	-	(5,893,474)	(10,000,000)	(7,600,798)	(3,276,301)	(13,494,272)	(13,276,301)
Net financial assets / (liabilities)			81,246	61,242	(4,526,933)	(9,797,447)	(5,820,466)	(1,928,944)	(10,265,429)	(11,665,109)

The following table provides a sensitivity analysis on profit and equity after tax if interest rates at that date had been 10% higher or lower with all other variables held constant.

	Interest Rate Risk Sensitivity 2018		Interest Rate Risk Sensitivity 2017	
	+10% Profit \$	-10% Profit \$	+10% Profit \$	-10% Profit \$
Cash	189	(189)	61	(61)
Total financial assets	189	(189)	61	(61)
Total financial liabilities	-	-	-	-
Net financial assets / (liabilities)	189	(189)	61	(61)

A sensitivity of 10% has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. A 10% sensitivity would increase/(decrease) short term interest rates at 30 June 2018 by approximately 23 basis points.

Based on the sensitivity analysis only interest revenue from cash and cash equivalents are impacted resulting in a decrease or increase in overall income.

(ii) Market Price Risk

Price risk is the risk that the Consolidated Group's financial position will be adversely affected by movements in the market value of its financial assets arising from investments in equity securities. To manage its price risk arising from investments in equity securities, the Consolidated Group only invests in equity securities approved by the Board of Directors and where the investment provides a strategic advantage to the Consolidated Group. The Consolidated Group currently has no investments in equity instruments. Accordingly, a sensitivity analysis has not been performed.

(iii) Foreign Currency Risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The establishment and settlement of foreign exchange transactions require senior and financial management approval to minimise exposures to currency fluctuations. To date the Consolidated Group's foreign transactions have not been material however this will be monitored to ensure foreign currency risk is managed effectively.

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Notes to the Consolidated Financial Statements

10. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit Risk

Credit risk arises mainly from cash and cash equivalents and deposits with banks and financial institutions. Receivables include amounts owing from debtors, amounts on deposit and interest.

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount, net of any provision for impairment of those assets, as disclosed in Note 5(b) Financial Assets and Liabilities – Trade and Other Receivables.

The credit risk for counterparties in trade and other receivables at 30 June 2018 are not credit rated by the Company. Their maturities are detailed below:

	2018 \$	2017 \$
Contracted maturities of receivables at year ended		
Receivable:		
Less than 6 months	1,383,506	1,185,673
	1,383,506	1,185,673

(d) Fair Values of Financial Instruments Carried at Fair Value through Profit and Loss

Fair Value Technique Utilised

Refer to Note 5 Financial Assets and Liabilities for information on the embedded derivative component under the Kam Lung Convertible Note Facility.

11. CONTROLLED ENTITIES

	Country of Incorporation	Principal Activity	Percentage Owned	
			2018 %	2017 %
Carbon Energy Ltd	Australia	Parent entity of the Consolidated Group	-	-
Carbon Energy (Holdings) Pty Ltd	Australia	Holding company for subsidiary entities	100	100
Carbon Energy (Operations) Pty Ltd	Australia	Facilitate the construction and commissioning of the Underground Coal Gasification project in Queensland	100	100
Hydrogen Production System Pty Ltd (formally Coronation Drive (Energy) Pty Ltd)	Australia	Dormant company	100	100
Hydrogen Production Group Pty Ltd (formally Carbon Energy (Galilee) Pty Ltd)	Australia	Dormant company	100	100
Carbon Energy (Latin America) Pty Ltd	Australia	Holding company for the investment in Mulpun, Chile	100	100
Carbon Energy Chile Limitada	Chile	To jointly assess and develop an Underground Coal Gasification project at Mulpun, Chile	100	100

The subsidiaries noted above are all controlled entities and are dependent on the parent entity for financial support.

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Notes to the Consolidated Financial Statements

12. PARENT ENTITY DISCLOSURES

Financial information for the parent entity is as follows:

	2018 \$	2017 \$
Assets		
Current assets	1,341,453	1,094,376
Non-current assets	13,643,993	10,514,092
Total assets	14,985,446	11,608,468
Liabilities		
Current liabilities	2,028,604	12,319,584
Non-current liabilities	11,210,154	-
Total liabilities	13,238,758	12,319,584
Equity		
Issued capital	248,390,911	244,731,404
Accumulated losses	(266,726,676)	(265,446,111)
Reserves		
Share based payments reserve	16,330,475	16,251,613
Options reserve	1,650,388	1,650,388
Other reserve	2,101,590	2,101,590
Total equity	1,746,688	(711,116)
Net loss for the year	(1,280,565)	(38,993,796)
Other comprehensive income	-	-
Total comprehensive loss	(1,280,565)	(38,993,796)

For details on contingent liabilities, refer to Note 13 Commitments, Claims, Guarantees, Contingent Assets and Liabilities, and Credit Facilities.

For details on loans and borrowings, financial liabilities and financial derivatives, refer to Note 5 Financial Assets and Liabilities.

13. COMMITMENTS, CLAIMS, GUARANTEES, CONTINGENT ASSETS AND LIABILITIES, AND CREDIT FACILITIES

(a) Exploration Commitments

The Exploration Permit for Coal tenements were granted when the Consolidated Group's exploration goal was to find and characterise a coal resource suitable for a commercial UCG project in Queensland. On 24 August 2017, the Queensland Parliament passed legislation which places a moratorium on all activities relating to UCG through the Mineral Resources Act 1989. The Consolidated Group has reached a decision that continued development of the EPC tenements no longer aligns with the Consolidated Group's strategic direction. The Consolidated Group has been in contact with relevant Departments of the Queensland Government to commence the surrender process for all EPC tenements.

MDL374 tenement will be retained to enable the rehabilitation activities at the Bloodwood Creek site to continue. A provision for rehabilitation liability continues to be provided for in the financial statements.

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Notes to the Consolidated Financial Statements

13. COMMITMENTS, CLAIMS, GUARANTEES, CONTINGENT ASSETS AND LIABILITIES, AND CREDIT FACILITIES (continued)

(b) Operating Lease Commitment

	2018 \$	2017 \$
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
• not later than one year	256,072	429,931
• later than one year but not later than five years	-	256,072
Total operating lease commitments	256,072	686,003
Future minimum sublease payments expected to be received	(87,174)	(231,198)

The Consolidated Group leases assets for office premises. The lease has a life of 7 months.

The lease for the Consolidated Group's Brisbane office commenced on 1 February 2013 for a term of 6 years and expires on 31 January 2019 with a further 5 year option. Rent increases are set at a 4% increase per annum.

The Consolidated Entity entered into a lease agreement to sublet part of its Brisbane office lease. The lease commenced on 1 August 2016 and expires on 30 January 2019. Rent increases are set at a 4% increase per annum.

Subsequent to the current year ended 30 June 2018, the Consolidated Group has entered into an offer to lease for a new office premise commencing in 2019.

(c) Claims of Native Title and Cultural Heritage

Mineral Exploration

Native title claims may be made in accordance with the Native Title Act 1993 (NTA) enacted to accommodate the decision of the High Court in *Mabo v Queensland (No2)* (1992) 175 CLR 1, which recognised the rights and interests of the Aboriginal and Torres Strait Islanders as a form of common law native title. Where a tenement covers land over which native title has been extinguished, no native title process is applicable.

Exploration and UCG

A Cultural Heritage Management Plan (CHMP) was developed in partnership with the Aboriginal traditional owners of the lands the subject of the UCG demonstration trial and lapsed during the period ended 31 December 2017. The CHMP was registered under the provisions of the Aboriginal Cultural Heritage Act and ensured that there was minimal impact or damage caused to Aboriginal cultural heritage items, materials or values during the exploration and UCG activities on mining and petroleum tenements owned by the Consolidated Group. The Consolidated Group has been in contact with relevant Departments of the Queensland Government to commence the 'surrender' process for all EPC tenements. The MDL374 tenement will be retained to enable the rehabilitation activities at the Bloodwood Creek site to continue and is not expected to cause any additional ground disturbances or impacts on cultural heritage.

(d) Contingent Liabilities

The following matter was finalised during the financial year.

Summa Resources Holdings LLC (Summa)

As announced to the market on 25 November 2015, the Company was served with proceedings filed by Summa Resource Holdings LLC (Summa) against it in the United States District Court for the Northern District of California (the Complaint). On 6 May 2016 the Court dismissed the Complaint on the basis of forum non conveniens without the need for a hearing.

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Notes to the Consolidated Financial Statements

13. COMMITMENTS, CLAIMS, GUARANTEES, CONTINGENT ASSETS AND LIABILITIES, AND CREDIT FACILITIES (continued)

(d) Contingent Liabilities (continued)

Summa Resources Holdings LLC (Summa) (continued)

When the Company entered Voluntary Administration on 22 November 2016, Summa submitted a proof of debt to the Administrators totalling US\$9 million in relation to a claim pursuant to a share sale agreement dated February 2011 between Summa and the Company. After correspondence between Summa and the Administrators, the Administrators determined that, in their opinion, Summa's claim was a "subordinate claim" against the Company within the meaning of Section 563A of the Corporations Act.

In general terms, creditors who have subordinate claims are postponed until all other debts payable by, and claims against, the Company have been satisfied. That is, subordinate creditors are placed last on the priority ladder. The DOCA provided that there was insufficient consideration available to fully repay unsecured creditors and accordingly insufficient funds were available to make any payment to subordinate creditors.

On approval of the DOCA, all unsecured claims against the Company which existed as at the date of appointment of the administrators were released in return for a right to participate in the trust fund established under the DOCA. This included any claim that Summa asserts against the Company.

Additional details on Summa's claim are provided in the financial statements for the year ended 30 June 2017.

(e) Bank Guarantees

	2018 \$	2017 \$
Bank credit facility (secured by cash term deposits)	10,000	-
Amount utilised at period	2,288	-
Unused bank credit facility	7,712	-
Bank Guarantee in relation to environmental bonds	20,640	20,640
Bank Guarantee in relation to the entity's share of guarantee for lease of office premises	181,913	181,913

Interest rates on credit facilities are variable and subject to adjustment. The Consolidated Group also has a number of security deposits held by suppliers. These continue to be recorded in the financial statements.

(f) Other Credit Facilities

Refer to Note 5 Financial Assets and Liabilities for further information.

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Notes to the Consolidated Financial Statements

14. EVENTS SUBSEQUENT TO BALANCE DATE

Effective 16 July 2018, there was a change in the nature of Kam Lung's and Beijing Jinhong Investment and Development Co., Ltd's (Beijing Jinhong's) relevant interest as a result of the transfer of 51,946,721 fully paid ordinary shares from Kam Lung to Beijing Jinhong. Kam Lung and Beijing Jinhong are both entities that are, and remain, wholly owned and controlled by the Company's Director, Mr HuiHai Zhuang. 46,799,113 of the Shares ("Escrowed Shares") were subject to the Voluntary Escrow Deed previously detailed in the Company's Notice of Annual General Meeting dated 15 June 2017 (which meeting was held on 18 July 2017) ("AGM Notice") and attached to the Company's Notice of Initial Substantial Holder (ASIC Form 603) dated 20 July 2017. Approval was granted by the Company for Kam Lung to transfer the Escrowed Shares to Beijing Jinhong and Beijing Jinhong agreed to be bound by the terms and conditions of the Voluntary Escrow Deed for the remaining voluntary escrow period, from 16 July 2018 to 19 July 2018. Upon completion of the voluntary escrow period on 19 July 2018, the Escrowed Shares held by Beijing Jinhong were released from Voluntary Escrow.

The Consolidated Group has entered into an offer to lease for a new office premise commencing in 2019.

In August 2018, correspondence was received by the Consolidated Group stating that the administering authority has decided to approve the application for the surrender of EPC 1132.

Apart from the matters noted above, the Directors are not aware of any other matters or circumstances not otherwise dealt with in the report or financial statements that have significantly, or may significantly affect the operations of the Company or the Consolidated Group, the results of the operations of the Company or the Consolidated Group, or the state of affairs of the Company or the Consolidated Group in subsequent financial years.

15. SHARE BASED PAYMENTS

(a) Short Term Executive Incentive (STI)

Refer to the Remuneration Report, contained in the Director's Report for information on the Consolidated Group's Short Term Incentive program.

(b) Long Term Executive Incentive (LTI)

Refer to the Remuneration Report, contained in the Director's Report for information on the Consolidated Group's Long Term Incentive program.

(c) Convertible Note

Refer to Note 5 Financial Assets and Liabilities for information on the Kam Lung Convertible Note Facility in place at current year ended 30 June 2018 and the previous Pacific Road Convertible Note Facility in place at prior year ended 30 June 2017.

(d) Employee Options and Performance Rights

All residual unlisted options on issue at prior year ended 30 June 2017 were cancelled in July 2017 for nil consideration as part of the completion of the DOCA. No new options were issued to key management personnel during the year ended 30 June 2018.

During the current year ended 30 June 2018, LTI's were offered in the form of performance rights and were subject to a number of vesting conditions to be determined at the relevant vesting dates. Refer to the Remuneration Report, contained in the Director's Report for further information.

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Notes to the Consolidated Financial Statements

15. SHARE BASED PAYMENTS (continued)

(e) Employee Options and Performance Rights

The following table summarises movements in options/performance rights for the prior year ended 30 June 2017:

Grant date	Expiry date	Exercise price	Balance at start of year	Granted during the year	Exercised during the year	Expired/Forfeited during the year	Balance at the end of the year	Exercisable at the end of the year
			Number	Number	Number	Number	Number	Number
25/01/2012	18/01/201	\$0.1678	7,000,000	-	-	(7,000,000)	-	-
25/01/2012	25/02/201	\$0.1678	28,000,000	-	-	(28,000,000)	-	-
15/10/2013	15/10/201	\$0.026	3,507,861	-	-	(3,507,861)	-	-
06/12/2013	15/10/201	\$0.026	3,573,877	-	-	(3,573,877)	-	-
26/08/2014	25/08/201	\$0.0301	3,953,516	-	-	-	3,953,516	3,953,516
20/11/2014	25/08/201	\$0.0301	5,541,564	-	-	-	5,541,564	5,541,564
			51,576,818	-	-	(42,081,738)	9,495,080	9,495,080
Weighted average exercise price			\$0.1230	\$0.0000	\$0.0000	\$0.1439	\$0.0301	\$0.0301

Fair Value of Options and Performance Rights Granted

The performance rights offered during the current year ended 30 June 2018 are based on the equivalent of a set percentage of annual base salary (subject to approval by members of the Company) over the term of employment. The fair value of those performance rights have therefore been derived from the same basis, subject to a further probability assessment of expected achievement of vesting conditions attached to the performance rights.

(f) Shares

No shares were issued to any parties under a share based payment arrangement during the 2018 year. The following table summarises the share based payment shares issued during the year ended 30 June 2017.

Issue Date	No. of Shares	Description	Deemed Value
30/8/2016	6,924,852	Interest costs in relation to Pacific Road Convertible Note Facility	\$0.0182

(g) Expenses Arising from Share-based Payment Transactions

Total expenses arising from share based payment transactions recognised during the year as part of the employee benefit expenses were as follows:

	2018 \$	2017 \$
Performance rights granted under the long term incentive scheme	78,862	-
	78,862	-

In the prior year, \$126,027 of share based payment transactions were included in finance costs.

Recognition and Measurement

The Consolidated Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

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Notes to the Consolidated Financial Statements

15. SHARE BASED PAYMENTS (continued)

Share-based Payments Transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Consolidated Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Consolidated Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in Consolidated Statement of Profit or Loss and Other Comprehensive Income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year.

Critical Accounting Estimates

The Consolidated Group measures the cost of equity-settled transactions with employees and non-employees by reference to the fair value of the equity instruments at the date at which they are granted. Fair value is determined by using the Black Scholes options pricing model or Monte Carlo simulation, depending on the conditions attached to the options and performance rights. Where performance rights offered are based on the equivalent of set percentage of annual base salary, the fair value of those performance rights are derived from the same basis, subject to probability assessments of the expected achievement of vesting conditions attached to the performance rights.

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Notes to the Consolidated Financial Statements

16. RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

(a) Parent Entities

The Consolidated Group is controlled by the following entities at year end:

Name	Country of Incorporation	Type	Percentage Owned 2018 %
Carbon Energy Ltd (CEL)	Australia	Immediate and ultimate parent entity of the Consolidated Group	-
Kam Lung Investment Development Co Ltd (Kam Lung)	Hong Kong	Ultimate parent entity and controlling party	80%

(b) Subsidiaries

Interests in subsidiaries are set out in Note 11 Controlled Entities.

(c) Key Management Personnel Compensation

	2018 \$	2017 \$
Short-term employee benefits	820,315	1,204,398
Post-employment benefits	261,655	87,414
Long-term benefits	-	4,150
Share-based payments	78,862	68,472
TOTAL	1,160,832	1,364,434

Detailed remuneration disclosures are provided in the Remuneration Report.

(d) Key Management Personnel Share Transactions

	2018 Shares ¹	2017 Shares ¹
Subscription for new ordinary shares by key management personnel as a result of: Kam Lung	4,679,911,281	-
Pacific Road Convertible Note Facility - Interest costs in relation to drawdown of Tranche A and Tranche B	-	6,924,582

¹ Amounts are prior to the 1:100 Share Consolidation completed on 24 July 2017.

All residual unlisted options on issue at prior year ended 30 June 2017 were cancelled in July 2017 for nil consideration as part of the completion of the DOCA. No new options were issued to key management personnel during the year ended 30 June 2018.

Detailed remuneration disclosures (including long and short term incentives) are provided in the Remuneration Report.

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Notes to the Consolidated Financial Statements

16. RELATED PARTY TRANSACTIONS (continued)

(e) Directors' Interests

Details of Director's remunerations and interests in the Consolidated Group are provided in the Remuneration Report.

Details of other transactions with associated entities of Directors are provided in Note 16(f) Related Party Transactions – Transactions with Other Related Parties.

(f) Transactions with Other Related Parties

As part of the DOCA process, the Company:

- entered into the Kam Lung Convertible Note Facility with Kam Lung;
- entered into the Kam Lung Cash Advance Facility with Kam Lung;
- entered into the Pacific Road Loan Facility with the Pacific Road Group;
- issued 4,679,911,281 ordinary fully paid shares in the Company to Kam Lung;
- settled the release and discharge of the Pacific Road Convertible Note Facility which matured on 18 January 2017; and
- repaid to Kam Lung the short-term interim funding and Administrators Indemnity Amount (as defined in the DOCA) previously made available by Kam Lung to the Company.

As a result, Kam Lung ownership in the Company increased to 80%. Mr Huihai Zhuang (Non-Executive Director of the Company) holds a Directorship and shares in Kam Lung.

Refer to Note 5 Financial Assets and Liabilities and Note 8 Issued Capital for further information on the transactions.

The Consolidated Group has also provided technical services to Beijing JinHong New Energy Co. Ltd, a joint venture between the Consolidated Group and its partner Beijing JinHong Investment Co Ltd.

17. REMUNERATION OF AUDITORS

	2018 \$	2017 \$
(a) Auditor of the parent entity:		
• reviewing the half year financial report	23,800	20,000
• auditing the annual financial report	49,340	47,000
• other non audit services – advisory services	-	-
	73,140	67,000
(b) Network firm of the parent entity auditor:		
• other non audit services – advisory services	-	-
	-	-

Recoverable outlays may be charged by the auditors in addition to the above remunerations.

The Board appointed Grant Thornton Audit Pty Ltd (Grant Thornton) as auditor to complete the 30 June 2016 audit and going forward. Grant Thornton's appointment was approved by shareholders as the 2016 Annual General Meeting held on 18 July 2017.

18. STATEMENT OF OPERATIONS BY SEGMENT

The Consolidated Group operates in one segment, being development of clean energy and chemical feedstock from UCG syngas and reports to the chief operating decision-maker on this basis. As such one reportable segment has been identified and this basis is consistent with the current reporting structure.

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Notes to the Consolidated Financial Statements

19. SUMMARY OF ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Consolidated Group consists of Carbon Energy Limited (Company) and its controlled entities. The Company is a listed, for profit, public company, incorporated and domiciled in Australia

(a) Statement of compliance

The consolidated financial statements of the Consolidated Group are a general purpose financial report which has been prepared in accordance with the Corporations Act, Australian Accounting Standards and Interpretations, International Financial Reporting Standards (IFRS) and complies with other requirements of the law.

The financial statements were authorised for issue by the Directors on 24 September 2018.

(b) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Consolidated Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the subsidiary acquired 'acquiree' and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Consolidated Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in Consolidated Statement of Profit or Loss and Other Comprehensive Income as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange.

(c) Foreign currencies

For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian dollars ('\$'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Consolidated Group's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period, income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

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Notes to the Consolidated Financial Statements

19. SUMMARY OF ACCOUNTING POLICIES (continued)

(d) Good and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(e) New and amended standards adopted by the Consolidated Group

The Consolidated Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations did not have any material financial impact on the amounts recognised in the financial statements of the Consolidated Group.

(f) Accounting standards issued but not effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods and have not been early adopted by the Consolidated Group. The Consolidated Group's assessment of the impact of these new standards and interpretations is set out below.

Financial Report

Notes to the Consolidated Financial Statements

19. SUMMARY OF ACCOUNTING POLICIES (continued)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending	Impact
AASB 9 Financial Instruments (December 2014), AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014),	1 January 2018	30 June 2019	No material impact based on current financial instruments.
AASB 15 Revenue from contracts with customers, AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2018	30 June 2019	No material impact based on current contracts
AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share based Payment Transactions	1 January 2018	30 June 2019	The Consolidated Group continues to assess its impact.
AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments	1 January 2018	30 June 2019	Expected to not be material
AASB 16 Leases	1 January 2019	30 June 2020	The Consolidated Group's office premise lease is due to expire in 2019. Subsequent to current year ended 30 June 2018, the Consolidated Group entered into an offer to lease for a new premise, with the lease contract subject to finalisation. It is expected that the new lease will be subject to AASB 16 requirements.
AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation	1 January 2019	30 June 2020	No material impact based on current financial instruments.
AASB 2018-1 Annual Improvements to IFRS Standards 2015–2017 Cycle	1 January 2019	30 June 2020	Expected to not be material
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 January 2022	30 June 2023	The Consolidated Group continues to assess its impact.

Financial Report

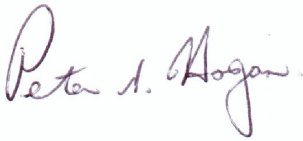
Directors' Declaration

The Directors of the Company declare that:

The financial statements and notes, as set out on pages 24 to 58, are in accordance with the *Corporations Act 2001* and:

- (a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 19(a) to the financial statements;
- (c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Consolidated Group; and
- (d) the Directors have been given the declarations required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



Mr Peter Hogan
Chairman

Brisbane, Queensland
24 September 2018

Independent Auditor's Report to the Members of Carbon Energy Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Carbon Energy Limited (the Company) and its controlled entities (the Group), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Material Uncertainty Related to Going Concern

We draw attention to Note 1(a) in the financial statements, which outlines the Group's position in relation to going concern. The Group incurred a net loss of \$717,098 during the year ended 30 June 2018. As stated in Note 1(a), these events or conditions, along with other matters as set forth in Note 1(a), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment of intangible assets Note 6(a)	
<p>At 30 June 2018 the carrying value of indefinite life intangible assets associated with the capitalised costs of development of the underground coal gasification technology was \$13.5 million.</p> <p>In accordance with AASB 136 <i>Impairment of Assets</i>, management is required to assess on an annual basis whether the carrying value of the intangible assets exceed the recoverable amount. The recoverable amount of these assets is dependent on the Group's ability to implement the gasification technology.</p> <p>Determining the recoverable amount of the intangible assets requires significant management judgement.</p> <p>This area is a key audit matter due to the degree of management judgement required and the impact these judgements have on the annual report.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • obtaining management's estimate of the recoverable amount, being fair value less costs to sell; • reviewing post year end activity for indications the year end judgements may not be valid; • performing sensitivity analysis on key inputs; and • assessing the adequacy of the disclosures relating to these transactions in the financial report.
Provision for rehabilitation Note 6(c)	
<p>At 30 June 2018, the carrying value of the provision for rehabilitation was \$1.8 million. The provision relates to the estimated cost of rehabilitation, decommissioning and restoration of areas disturbed during operation of the Bloodwood Creek site.</p> <p>The provision is based upon current cost estimates and has been determined on a discounted basis with reference to current legal requirements and technology. At each reporting date the rehabilitation liability is reviewed and re-measured in line with changes in observable assumptions, timing and the latest estimates of the costs to be incurred based on area of disturbance at reporting date. This process requires an element of management judgement.</p> <p>This area is a key audit matter due to the degree of management judgement involved.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • obtaining the rehabilitation provision calculation prepared by management and evaluating the calculations against the requirements of AASB 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i>; • assessing the qualifications, experience and the scope of work of the expert used by management; • challenging management's key assumptions, being the discount rate and timing of cash flows, regarding the rehabilitation provision for appropriateness by performing sensitivity analysis and comparison to industry benchmarks; and • reviewing the appropriateness of the related disclosures within the financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>Transactions associated with recapitalisation Note 5</p> <p>Following the approval of the Deed of Company Arrangement (DOCA) at the AGM on 18 July 2017 the following significant events and transactions occurred during the year and were accounted for by management as follows:</p> <ul style="list-style-type: none"> entering into a secured convertible note facility with Kam Lung Investment Development Co Ltd (Kam Lung) whereby convertible notes totalling \$9.2 million were issued. This has been accounted for as a hybrid debt and derivative instrument in accordance with AASB 132 Financial Instruments receiving \$3.85 million consideration from Kam Lung for the issue of 4,679,911,281 ordinary fully paid shares in the Company entering into a secured uncommitted cash advance facility, up to an aggregate limit of \$5.0 million, with Kam Lung entering into a \$1.0 million unsecured loan facility with Pacific Road Capital A Pty Limited, Pacific Road Capital B Pty Ltd and Pacific Road Capital Management G.P. Limited the release and discharge of the Pacific Road Convertible Note Facility \$7 million. The \$3 million of debt forgiven and associated overdue interest has been recognised as income <p>Significant judgement was involved in determining the appropriate accounting treatment for these transactions.</p> <p>This area is a key audit matter due to the complexity of the interlinked transactions and the significant judgements and estimates required in determining the appropriate accounting treatment, including determining the fair values of derivative liabilities.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> obtaining an understanding of the transaction through review of the related contract documents; reviewing and assessing management's accounting entries with reference to the DOCA and associated agreements to ensure compliance with the relevant accounting standards; reviewing the appropriateness management's apportionment of legal and professional fees to debt and equity; evaluating the inputs used in the calculation of the value of the derivative liability, and the mathematical accuracy and appropriateness of the model used; and assessing the adequacy of the disclosures relating to these transactions in the financial report.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 20 of the Directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Carbon Energy Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Grant Thornton Audit Pty Ltd
Chartered Accountants



CDJ Smith
Partner – Audit & Assurance

Brisbane, 24 September 2018

Corporate Directory

Carbon Energy Limited

ABN 56 057 552 137

ASX Code: CNX

Directors

Mr Peter Hogan

Mr George Su

Mr Huihai Zhuang

Mr Bryan O'Donnell

Company Secretary

Ms Ye-Fei Guo

Mr Ian Morgan

Registered & Principal Office

Level 9, 301 Coronation Drive

MILTON QLD 4064

Telephone: +61 7 3156 7777

Facsimile: +61 7 3156 7776

Email: askus@carbonenergy.com.au

Website: www.carbonenergy.com.au

Postal Address:

PO Box 2118

TOOWONG DC QLD 4066

Share Registry

Link Market Services Limited

Level 12, 680 George Street

Sydney NSW 2000

Auditors

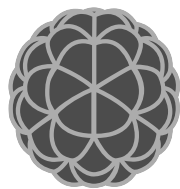
Grant Thornton

Level 18, King George Central

145 Ann Street

BRISBANE QLD 4000

Telephone: +61 7 3222 0200



carbon**energy**

www.carbonenergy.com.au