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ABN 56 057 552 137
Carbon Energy (Operations) Pty Ltd
ABN 61 105 176 967

ASX Announcement

31 July 2015

Carbon Energy 2015 Annual Report

Carbon Energy Limited (ASX:CNX) hereby provides the Carbon Energy 2015 Annual Report, together with its 2015 Corporate Governance Statement and Appendix 4G.

Copies of the attached documents are also available on the Carbon Energy website at www.carbonenergy.com.au.

Security holders who have elected to receive a hard copy of the 2015 Annual Report will do so with the Notice of Meeting for the 2015 Annual General Meeting that will be distributed in due course.

For and on behalf of the Board.

Tracy Bragg
General Counsel & Company Secretary

ANNUAL REPORT 2015

carbonenergy

Carbon Energy,
building a
gas business.

Carbon Energy (ASX: CNX) is building a gas business, utilising its unique *keyseam* Underground Coal Gasification (UCG) technology.

The Company is committed to providing industrial gas users with an affordable and secure source of high quality feedstock, as gas prices remain strong, through increased demand across our key markets.

Carbon Energy has completed the only successful, complete lifecycle, commercial scale underground gasification trial having undergone intense, independent environmental scrutiny.

This highly controlled, proven technology enables access to gas resources that were previously considered too deep or uneconomic to reach.

keyseam maximises resource efficiency while minimising surface disturbance and preserving regional groundwater use. Originally developed by Australia's leading research and scientific body, the Commonwealth Scientific and Industrial Research Organisation (CSIRO) it has been operationally proven through six years of field trials.

Alongside its Australian operations, Carbon Energy is working with international partners to unlock new energy resources offshore. The Company can deliver end-to-end services from initial project assessment through to commercial project development, operations, site decommissioning and rehabilitation.

Carbon Energy is headquartered in Brisbane, Australia and is listed on the Australian Securities Exchange (ASX).

Drilling at Bloodwood Creek Trial Site, collecting environmental samples.

CONTENTS

CHAIRMAN and MANAGING DIRECTOR REPORT

In the past year we have proven the environmental credentials of the Company's proprietary *keyseam* Underground Coal Gasification (UCG) technology above any other of its kind. It's our mission to be recognised internationally as the leader in low cost, environmentally responsible underground coal to gas production. We will drive value and performance from the experience gained in Queensland and use these achievements and knowledge as a platform for growth across the globe.

"WE WILL DRIVE VALUE AND PERFORMANCE FROM THE EXPERIENCE GAINED IN QUEENSLAND AND USE THESE ACHIEVEMENTS AND KNOWLEDGE AS A PLATFORM FOR GROWTH ACROSS THE GLOBE."

Dr Chris Rawlings
Chairman

Dear Shareholder

On behalf of the Board we present the Annual Report of Carbon Energy covering the Company's activities for the twelve months to 30 June 2015.

The financial year of 2015 has been one of two halves. The first half saw the submission to the Queensland Government of the Decommissioning Report and Rehabilitation Plan. These documents provide the Company and the Queensland Government with scientific evidence of the keyseam process and its effective environmental credentials for producing synthetic gas by underground coal gasification (UCG). The operating experience at the Bloodwood Creek UCG pilot site has demonstrated the capability of Carbon Energy's technology to produce stable and predictable syngas quality in an environmentally responsible manner.

Carbon Energy has worked closely with the Queensland Government with complete and transparent reporting of the results from the UCG trial. The evaluation process is the first new technology in the energy industry required to demonstrate its full lifecycle to the Queensland Government.

Results of the Decommissioning Report and Rehabilitation Plan have been published widely. The key findings from the Company's Bloodwood Creek pilot project include:

- Operations were safe and effective.
- The process was highly controlled.
- No material impact on regional ground water.

In January 2015 Queensland went to an election which resulted in a Labor victory. The momentum previously built with the State and its relevant departments slowed considerably. Despite this, the requirements laid down by the Independent Scientific Panel to review UCG have been met in full.

In the ensuing months our hard working team increased efforts to market the results achieved in Queensland to a broader international base. Enquiries and interest developed from key areas - China, Europe and South America.

“ WITH THE WORLD’S HUNGER FOR ENERGY GROWING, UNLOCKING NEW ENERGY SOURCES THAT ARE COMMERCIALLY AND ENVIRONMENTALLY SUSTAINABLE AND SRE AMENABLE TO CARBON CAPTURE TECHNIQUES IS A PRIORITY. ”

Morné Engelbrecht
Managing Director

Dr Chris Rawlings, Chairman and Morné Engelbrecht, Managing Director

With the experience gained from previous negotiations, Carbon Energy has established key criteria for suitable partners that have become the guidelines for shortlisting potential partners. These criteria include:

- A proven track record in delivering resources and chemical projects.
- Strong financial ability and proven track record in dealing with Western technologies and engineering firms.
- Strong links to an experienced chemical EPCM company.
- A desire to embrace innovative cleaner coal technologies.
- Good local government connections with already established projects in the specific region.
- Access to suitable coal resources.

While business development plans were being pursued across Asia the Company was also invited to participate in the formation of UCG Research Centre with one of China's leading mining universities, the China University of Mining and Technology.

The Centre's purpose is to cooperatively promote China's UCG market with world leading technologies and establish the highest international standards in this energy area. It is a partnership of the University, another national energy company and with support expected shortly from the National Development and Reform Commission (NDRC), the central planning agency for China.

The development of the Centre has been established in response to the NDRC's strategic five year plan, where UCG has been named a clean energy pillar.

Market Conditions

Global primary energy demand is expected to rise 37% by 2040, according to the International Energy Agency's "World Energy Outlook 2014" More specifically China now consumes approximately 23% of all energy consumed in the world. Even despite the nation's "slow down" to 7% annual growth[1], China's per capita energy consumption is one third of the United States. In short, China's energy demand is set to increase heavily over the next two decades as the country lifts its standards[2] of living.

With the world's hunger for energy growing, unlocking new energy sources that are commercially and environmentally sustainable and are amenable to carbon capture techniques is a priority. Coal is predicted to remain a significant source of energy for the world given its widespread availability and low[3] cost. UCG is a technology that is able to maximise the energy extracted from coal, while ensuring a small environmental impact and footprint.

The inclusion of UCG in the Chinese strategic five year plan is incredibly important. This decision recognises the significance coal continues to play in providing low cost energy and at the same time matches China's strategic imperative to look for cleaner alternatives to traditional coal mining and energy production.

At home here on the east coast of Australia gas customers are still facing pressures from impending domestic gas shortages and rising prices due to matching international market pricing. While the Queensland State Government considers the Company's UCG environmental reports, the State's manufacturers are still looking for new gas sources to keep their operations functioning in this state.

Carbon Energy is well positioned to leverage the energy growth demand both locally (and overseas) once Government approvals for the keyseam process have been granted.

Social Responsibility

Throughout the year our focus has remained on safety. The safety of our employees, contractors and all those involved in our business is of the highest importance. We continuously monitor our sites to ensure compliance with our Safety Policy and all relevant laws and regulations. During the year, Carbon Energy experienced no lost-time injuries or reportable incidents.

We are also committed to the protection of the environment and we adhere strictly to our Environmental Policy, as well as to relevant laws and regulations. We recorded no environmental incidents for the year and no non compliances or improvement notices resulted from audits performed by regulatory bodies.

The significant progress and environmental achievements made in FY2015, through one of the most rigorous industry reviews of its kind, is testament to the quality and dedication of our team, which has worked tirelessly and skilfully to deliver the achievements we have produced during the year.

On behalf of the Board and Management Team, we would like to sincerely thank all our employees and contractors for their hard work.

We would like to take this opportunity to acknowledge Max Cozijn who retired from the Board in April 2015 and worked with distinction on the Board for 23 years.

Finally, the Board and Management team would also like to recognise our shareholders for their ongoing support. As a result, Carbon Energy is striving to realise the value of its gas assets.

Dr Chris Rawlings
Chairman

Morné Engelbrecht
Managing Director &
Chief Executive Officer

1 *International Energy Agency. (2014, 12 November) World energy outlook 2014, press release, www.worldenergyoutlook.org/*
2 *Mearnes, Euan Business Insider, China demand for energy may not increase until 2017 (2015, 22 June) www.businessinsider.com/chinas-energy-demand-may-not-increase-until-2017-2015-6?IR=T*
3 *Clemente, Jude. Forbes.com, A word on China's economic and energy demand growth http://www.forbes.com/sites/judeclemente/2015/03/12/a-word-on-chinas-economic-and-energy-demand-growth/*

Carbon Energy Environmental Officer checking operations at Bloodwood Creek.

Markets for
Carbon Energy Syngas

produces

Syngas — **17**GJ

SNG — **11**GJ

Ammonia — **530** litres or **0.36**t

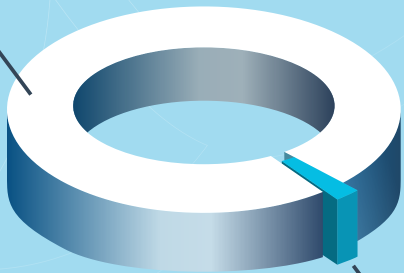
Methanol — **450** litres or **0.36**t

Electricity — **1.86** MWh

1 tonne **BWC** Coal
through keyseam®

BWC = Bloodwood Creek

Energy Recoverable per km^2



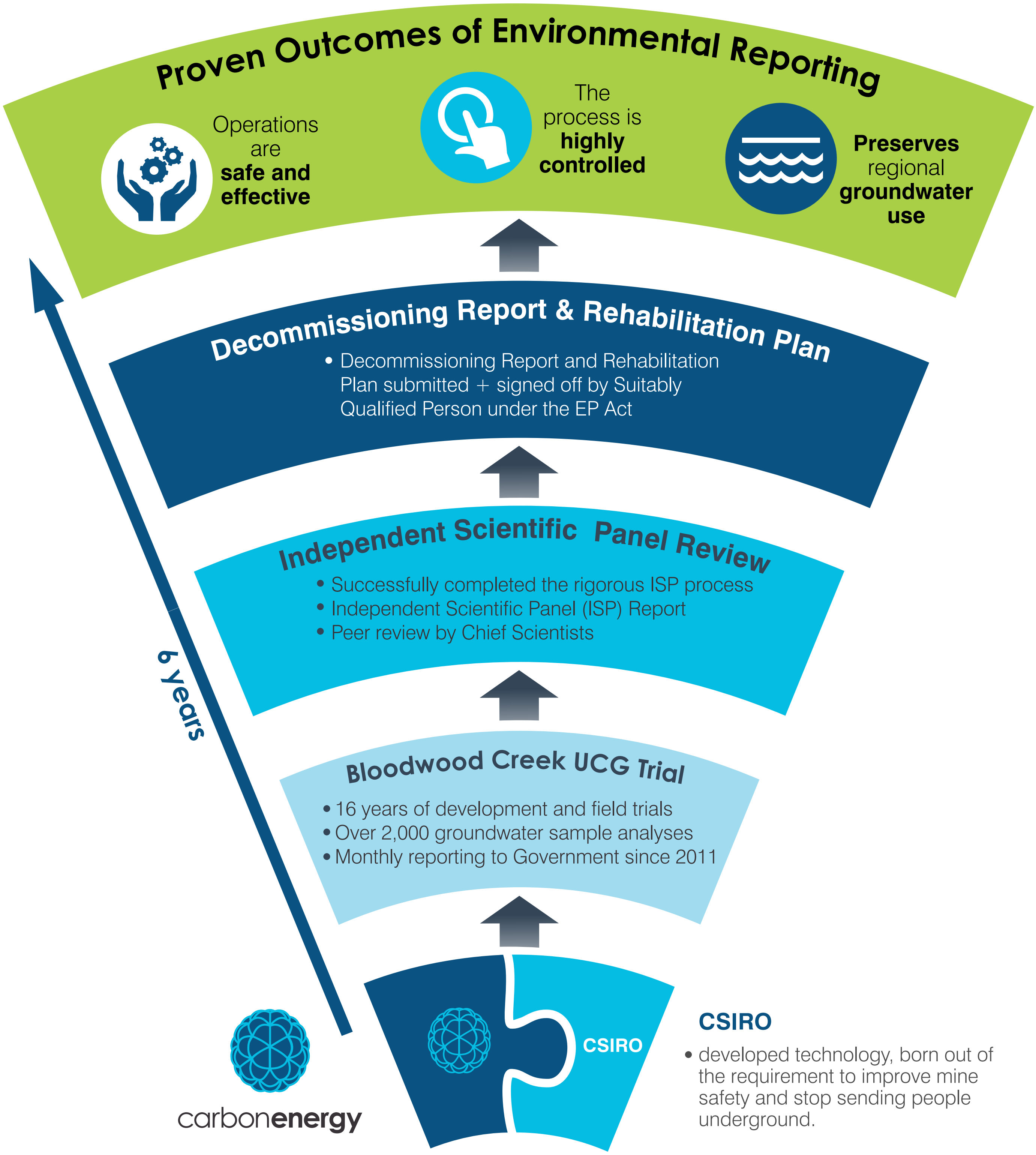
1. Data from http://mines.industry.qld.gov.au/mining/production-reserves-statistics.htm
2. Data from CNX ASX Release 22 September 2014

Strong Scientific Credentials

+

Rigorous Review Process

The strong environmental credentials proven this Financial Year through one of the most rigorous industry reviews of its kind is a testament to the company's intellectual property and the hard work and dedication of our team.



STRATEGIC FOCUS

With the Queensland Government's environmental review completed and the Independent Scientific Panel (ISP) recommendations successfully accomplished Carbon Energy is marketing its achievements on a global stage. The next financial year looks to focus on two key priorities:

Bluegum Gas Project

"Carbon Energy's focus on developing SNG over power or ammonia production has been driven by commercial demand."

In Queensland, Carbon Energy is the only company to have successfully completed the ISP recommendations and provide the Government with complete transparency of its operational and environmental data since commencement of its Bloodwood Creek trial in 2008.

The Company continues to focus on progressing its Blue Gum Gas Project, and is ready to commence an Environmental Impact Statement (EIS) as soon as the Queensland Government has completed the final ISP recommendations by reviewing the extensive operational and environmental results of Carbon Energy's Decommissioning Report and Rehabilitation Plan, submitted in the last quarter of 2014.

The Blue Gum Gas Project site neighbours the existing demonstration site in the Surat Basin, at Bloodwood Creek, about 200km west of Brisbane, Queensland. Once Government approvals are received, Carbon Energy will commence a commercial-scale UCG operation. It is proposed, once third party funding is secured, that the syngas produced will be processed at the Blue Gum project site and will deliver pipeline quality synthetic natural gas (SNG). The plant will produce approximately 25 PJ of natural gas per annum.

The proposed Blue Gum Project has the capability to produce syngas for SNG, ammonia or power generation however Carbon Energy's focus on developing SNG in Queensland, over other energy differentials has been driven by commercial demand. The domestic natural gas market on the east coast of Australia is expecting significant price increases as the commencement of liquid natural gas (LNG) exports lift the local gas price to international market parity. East coast manufacturers remain concerned about securing low-cost natural gas feedstock.

The Blue Gum Gas Project is located near existing infrastructure enabling manufacturing and transport of natural gas to local customers.

China

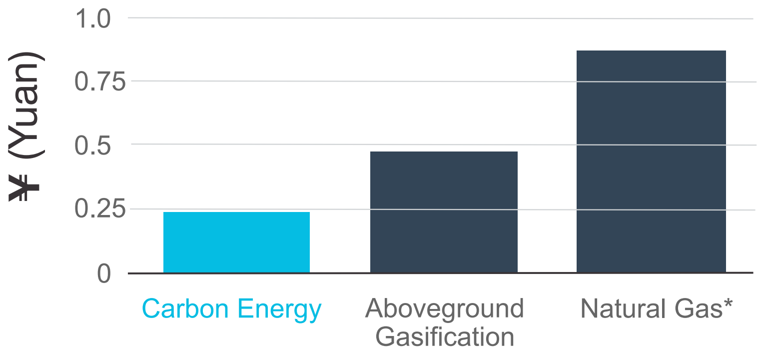
Whilst we have proven our environmental results we are still "crossing the chasm," from an innovative technology towards a mainstream solution. Our experience has shown our future development requires: supportive local governments, dedicated investors, a market demand for low cost energy and strong environment and safety standards.

The economics of coal and its uses in China is a complex mix of factors: future population growth and prosperity, rising standard of living, job creation, competitive energy differentials transport costs, and environmental impacts, just to name a few.

China's limited access to oil and gas sees coal used more broadly and with greater diversity than other nations that have easy access to low cost energy equivalents. China imports over 60% of its oil and 32% of its natural gas needs but only 9% of its annual coal demand.[4] The current five year plan set an aggressive target for the development of many coal derived chemicals used in manufacturing, which underlines the Country's preference to utilise its own resources in a drive to become less energy dependant on imports.

Currently only China uses its coal to produce industrial quantities of olefins. Olefins are a feedstock to the production of many everyday products such as detergents, cosmetics and plastics including PVC and PE synthetic rubber.

"Carbon Energy is well positioned to leverage the market opportunity in China. Whilst we will continue to pursue other opportunities around the world, the focused regulatory environment which has researched and now actively supports UCG is significant."



Natural Gas:
Based on current feedstock pricing as set by the NDRC; using Carbon Energy syngas versus natural gas can save approximately 69%.

Aboveground Gasification:
Carbon Energy syngas is also approximately 48% cheaper than aboveground gasification.

** per equivalent syngas energy*

4 *Hurd, D. Park S. Kan, J. (2014, 2 July) China's Coal to Olefins Industry, Coal, to Syngas, to Methanol, to Olefins, Deutsche Bank Markets Research.*

“Of all the enquires received regarding our technology, more than half have been from China. Much of this enquiry has been due to UCG being included as a key pillar in the Nation’s future plans for cleaner energy production.”

Carbon Energy's own recent operating and capital cost comparisons [5] demonstrate significant cost saving from using keyseam derived syngas versus natural gas or aboveground gasification – up to 69% [6] and 48% [7] cheaper respectively in the Chinese market.

Since the completion of Carbon Energy’s environmental reporting last year, a steady stream of enquires regarding our technology have been received, most of these are from China.

Much of this enquiry has been due to UCG being included as a key pillar in the Nation's future plans for cleaner energy production. China's central planning agency, the National Development and Reform Commission (NDRC), has started to reveal details about the direction of the country's 13th Five-Year Plan (5YP) which covers 2016-2020. The 5YP is the NDRCs blueprint for the long term social and economic policies.

While details of the next 5YP are not complete, drafts of the plan have begun to be circulated and the inclusion of UCG as a pillar for cleaner, more efficient use of coal is significant to Carbon Energy and setting a positive regulatory environment for new projects.

The 5YP sets actionable targets and priorities that are made relevant for all levels of government and industry. These plans have the potential to shape focus and initiatives across China.

In preparation for to the plan's official release in 2016, China's leading mining university, China University of Mining Technology has invited Carbon Energy and a local energy company to be foundation partners in the formation of the International Underground Coal Gasification Research Centre, which is expected to be backed by funding and support of the NDRC.

The invitation to be a foundation and major energy partner with such a prestigious university has been the result of the strong relationship formed through Carbon Energy's ongoing efforts in China, as well as the successful and comprehensive achievements at its Bloodwood Creek trial site. The Centre's purpose is to cooperatively promote China's UCG market with the worlds leading technology and to establish the highest international standards in this field.

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5 *UCG syngas can be produced for 0.24 Yuan (Confidential Chinese EPCM Business Report)*
6 *NDRC, China, July 2015*
7 *Derived from Hurd, D. Park S. Kan, J. (2014, 2 July) China's Coal to Olefins Industry, Coal, to Syngas, to Methanol, to Olefins, Deutsche Bank Markets Research; Figure 69: CTM cost model – Inner Mongolia 'self-owned coal mines” vs E China “purchased coal – Aboveground Gasification costs 0.46RMB/Sm*^{3}

Carbon Energy is well positioned to leverage the market opportunity in China. Whilst we will continue to pursue other opportunities around the world, the focused regulatory environment which has researched and now actively supports UCG is significant.

Infiltrating the Chinese market and pursuing manufacturers who are seeking low cost energy feedstock fits well with the demand and growing Chinese Government support. Additionally the experience gained and relationships built over the past three years coupled with our unsurpassed environmental credentials means we are advantageously placed to better deal with the challenging Chinese market, which currently demonstrates the best opportunity to realise the greatest shareholder value.

China	Carbon Energy UCG
Abundant **deep coal**	**Accesses** stranded **(deep coal)** reserves
Population growth = increased **energy usage**	Unlocks **new energy sources**
Targets for greater **energy independence**	**Utilises** unused **State owned resources**
Focus on increasing **manufacturing**	**Economic costs** compared to natural gas and aboveground gasification
UCG a strategic pillar for the next 5YP	*keyseam's* **technical & environmental credentials**
Water scarcity across N/NW of China	**Minimises use of water** vs other "coal to.." technologies

EXECUTIVE **MANAGEMENT**

Mr Morné Engelbrecht
Managing Director &
Chief Executive Officer
BCom (Hons), CA(SA), MAICD

Morné Engelbrecht was appointed to the role of Chief Executive Officer on 18 June 2013 and to the Board on 23 July 2013. Morné joined Carbon Energy in October 2011 as the Company's Chief Financial Officer and Company Secretary.

Offering over 15 years Australian and international oil & gas, UCG and resources industry experience, Morné provides leadership across all facets of the business as well as defining the strategic direction and managing the international expansion plans of the Company. Prior to joining Carbon Energy, Morné held several senior financial and commercial management roles in various international gas, mining and professional services companies. Morné is a chartered accountant by profession and is a member of the South African Institute of Chartered Accounts and the Australian Institute of Company Directors.

During the past three years Morné has held no other listed company Directorships.

Ms Catherine Costello
Chief Financial Officer
BCom, MSc, CA

Catherine Costello joined Carbon Energy in April 2014 as the Company's Chief Financial Officer. Catherine has more than 18 years of international experience in the mining and engineering sectors. Her experience extends to global listed entities undergoing significant growth and she brings extensive financial and corporate governance skills. Prior to accepting the position with Carbon Energy, Catherine held several senior management roles including senior financial positions in Ausenco, Lihir Gold (now Newcrest Mining) and Placer Dome (now Barrick Gold).

Catherine has a Bachelor of Commerce Degree from the University of Queensland, a Master of Science (Mineral Economics) from Curtin University and is a member of the Australian Institute of Chartered Accountants.

Dr Cliff Mallett
Technical Director
MSc, PhD

Cliff Mallett is responsible for the ongoing development of Carbon Energy's world-leading technology. Additionally, Cliff undertakes assessment of potential coal deposits that may be suitable for the Company's expanding portfolio of Australian and international projects. He is also heavily involved with the evaluation of emerging carbon capture and storage opportunities. Cliff has been associated with advancing the development of UCG process technology for more than 15 years and has degrees in geology from the University of Queensland and the University of Melbourne. He has almost 30 years experience in mining research at CSIRO culminating in him acting as Chief of CSIRO Exploration and Mining Division, interim Director of the Centre for Low Emission Technology, and Executive Manager, Queensland Centre of Advanced Technologies. In June 2013 Cliff was appointed Chairman of the International Association for Underground Coal Gasification (UCGA).

Tracy Bragg commenced with Carbon Energy in January 2013 bringing nearly 15 years experience in contract and commercial law, specialising in the delivery of major projects with long term operations, both in the UK and in Australia. Tracy's experience extends to over 10 years managing the delivery of in-house legal, company secretarial and corporate governance services. Prior to joining Carbon Energy, Tracy also held an executive appointment on the Board of Trility Pty Ltd, the Australian water business of Mitsubishi Corporation.

Tracy has an Honours Degree in the Bachelor of Laws from the University of Adelaide and is an Associate member of the Governance Institute of Australia, having completed the Graduate Diploma in Applied Corporate Governance in 2007.

Ms Tracy Bragg
General Counsel and Company Secretary
LLB (Hons), BA, GDLP, AGIA

Justin Haines has 24 years experience as geologist, project manager, and contract geological services provider for exploration and mining operations. His expertise extends to geological and resource modelling and valuation, geophysics, and mine development, and appraisal. Justin joined Carbon Energy in 2011 as a member of the Carbon Energy management team and is responsible for the implementation of our proprietary technology across our global projects and management of the Technical Services Group within the Company. This group delivers engineering, modelling, geological, hydrogeological, and project management services.

Mr Justin Haines
General Manager Technical Services
B.App.Sc, Grad Dip Sc (Hons), M.Min.Eng., M.AusIMM, M.AIG, RPEQ

Terry Moore is responsible for the development and ongoing operations of Carbon Energy's global projects. Terry has over 35 years engineering experience in both the resources and energy sectors and 20 years experience in senior management roles, including roles with Ausenco Operations and Downer EDI Mining. His experience covers extensive electrical, mechanical, civil and maintenance engineering disciplines, as well as design and construction projects from concept through to commissioning and operational readiness.

Terry's solid track record incorporates optimisation of projects based on best practises including plant utilisation, cost control and business process, as well as managing regulatory compliance. Terry leads a team of environment and safety professionals.

Mr Terry Moore
General Manager Opertions

DIRECTORS' REPORT

BOARD OF **DIRECTORS**
& Company Secretary

Dr Chris Rawlings
Chairman and
Non-Executive Director
BSc (Hons), PhD, FAICD, FAusIMM

Dr Rawlings was appointed to the Board on 1 July 2011 and elected as Chairman on 26 July 2011.

Dr Rawlings graduated from the University of Newcastle in 1976 with a Bachelor of Science (Honours) in Geology; he then went on to complete a PhD in Structural Geology and Rock Mechanics in 1983. Dr Rawlings has extensive experience managing and operating mining operations and mining companies. He has been a Non Executive Director of ASX-listed and non-listed public companies for almost 15 years. His strong industry knowledge backed by a pragmatic, results-driven approach is a great advantage to the Company. In 2014, Dr Rawlings was awarded the prestigious Queensland Resources Council Medal for his contributions to the Resources sector over the past 35 years.

During the past three years Dr Rawlings has held no other listed company Directorships.

Dr Rawlings is also the Chairman of the Nomination Committee and a member of both the Audit & Risk and Remuneration Committees.

Mr Morné Engelbrecht
Managing Director &
Chief Executive Officer
BCom (Hons), CA(SA), MAICD

Mr Engelbrecht was appointed to the role of Chief Executive Officer on 18 June 2013 and to the Board on 23 July 2013. Mr Engelbrecht joined Carbon Energy in October 2011 as the Company's Chief Financial Officer and Company Secretary.

Offering over 15 years Australian and international oil & gas, UCG and resources industry experience, Mr Engelbrecht provides leadership across all facets of the business as well as defining the strategic direction and managing the international expansion plans of the Company. Prior to joining Carbon Energy, Mr Engelbrecht held several senior financial and commercial management roles in various international gas, mining and professional services companies. Mr Engelbrecht is a chartered accountant by profession and is a member of the South African Institute of Chartered Accounts and the Australian Institute of Company Directors.

During the past three years Mr Engelbrecht has held no other listed company Directorships.

Dr Helen Garnett
Non-Executive Director
BSc (Hons), PhD, FTSE, FAICD

Dr Garnett was appointed to the Board on 6 September 2010.

Dr Garnett has 30 years experience in transforming technical innovation into practical commercial outcomes. She has 15 years experience as a Chief Executive and over 20 years as a Non-Executive Director having been closely associated with the resource and energy sectors throughout this time. She is a Fellow of the Australian Institute of Company Directors and the Academy of Technical Sciences and Engineering. Dr Garnett is currently chair of Delta Electricity and a Non-Executive Director of a number of other non-listed entities. During the past three years Dr Garnett has held the following other listed company Directorships:

- Energy Resources of Australia Limited (from January 2005 to June 2015) Non-Executive Director
- ABM Resources Limited (from October 2014) Non-Executive Director.

Dr Garnett is also the Chair of the Audit & Risk Committee and a member of the Nomination Committee.

Mr Hogan was appointed to the Board on 29 August 2008.

Mr Hogan is a Chartered Accountant providing business advisory services to a diverse range of clients. Mr Hogan was previously a Strategy and Development Executive with Incitec Pivot Ltd. Mr Hogan continues to provide some financial and commercial advisory services to Incitec Pivot on an arms length, fee for service basis. Prior to joining Incitec Pivot in early 2008, Mr Hogan worked with PricewaterhouseCoopers for 23 years, including 17 years as Partner. 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 listed company Directorships:

- SGX listed Fabchem China Ltd (from July 2008 to November 2013) Non-Executive Director

Mr Hogan is a member of the Audit and Risk, Remuneration and Nomination Committees.

Mr Peter Hogan
Non-Executive Director
BBus, ACA

Mr Rozman was appointed to the Board on 7 April 2010.

Mr Rozman is a founding partner of Pacific Road Capital, a private equity mining investment fund. He has over 30 years' experience in mining operations, joint ventures and corporate management.

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

- Pacific Energy Limited (from May 2009) Non-Executive Director
- Kula Gold Limited (from November 2010) Non-Executive Director
- ABM Resources Limited (from May 2014 to October 2014) Non-Executive Director
- TSX listed Mawson West Limited (from February 2011 to April 2014) Non-Executive Director

Mr Rozman is a member of the Nomination Committee.

Mr Louis Rozman
Non-Executive Director
BEng, MGeos,
FAusIMM CP (Man), FAICD

Ms Bragg commenced with Carbon Energy in January 2013 bringing nearly 15 years experience in contract and commercial law, specialising in the delivery of major projects with long term operations, both in the UK and in Australia. Ms Bragg's experience extends to over 10 years managing the delivery of in-house legal, company secretarial and corporate governance services. Prior to joining Carbon Energy, Ms Bragg also held an executive appointment on the Board of Trility Pty Ltd, the Australian water business of Mitsubishi Corporation.

Ms Bragg has an Honours Degree in the Bachelor of Laws from the University of Adelaide and is an Associate member of the Governance Institute of Australia, having completed the Graduate Diploma in Applied Corporate Governance in 2007.

Ms Tracy Bragg
General Counsel and Company Secretary
LLB (Hons), BA, GDLP, AGIA

Directors' Report

Board Information

Your Directors present their Report on the Company and its controlled entities for the financial year ended 30 June 2015.

Directors

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

Dr Chris Rawlings - Chairman and Non-Executive Director
Mr Morné Engelbrecht – Managing Director
Dr Helen Garnett - Non-Executive Director
Mr Peter Hogan - Non-Executive Director
Mr Louis Rozman - Non-Executive Director
Mr Max Cozijn - Non-Executive Director (retired 21 April 2015)

Mr Max Cozijn

Mr Cozijn was appointed to the Board in September 1992 and retired from the Board on 21 April 2015.

The Board would like to take this opportunity to acknowledge the contribution Mr Cozijn made to the Company over his 23 years as a Director.

Biography

Mr Cozijn has a Bachelor of Commerce Degree from the University of Western Australia, having graduated in 1972.

Mr Cozijn is an Associate of the Australian Society of Certified Practising Accountants and is a member of the Australian Institute of Company Directors. Mr Cozijn has over 30 years experience in the administration of listed mining and industrial companies, as well as various private operating companies. Mr Cozijn was the Company's Finance Director between 1993 and 2008, and a Non-Executive Director from 2008 to 2015. During the past three years Mr Cozijn has held the following listed company Directorships:

- Oilex Ltd (from September 1997) Non-Executive Chairman
- Energia Minerals Limited (from May 1997) Executive Director
- Jacka Resources Ltd (from May 2014) Non-Executive Chairman
- Malagasy Minerals Limited (from September 2006 to August 2013) Non-Executive Chairman

Mr Cozijn was the Chairman of the Remuneration Committee and a member of the Nomination Committee until his retirement on 21 April 2015.

Directors have been in office since the start of the financial year to the date of this Annual Report unless otherwise stated.

Company Secretary

Ms Bragg has been in office since the start of the financial year to the date of this Annual Report and has been General Counsel and Company Secretary since October 2013. Ms Bragg's experience and qualifications are set out in the information on Directors and Company Secretary in the Directors' Report.

Other Key Management Personnel

Mr Morné Engelbrecht – Chief Executive Officer
Ms Tracy Bragg – General Counsel and Company Secretary
Ms Catherine Costello – Chief Financial Officer
Mr Justin Haines – General Manager, Technical Services
Dr Clifford Mallett – Technical Director
Mr Terry Moore – General Manager, Operations

Corporate Governance Statement

The Company's 2015 Corporate Governance Statement and Appendix 4G can be located on the Company's website: www.carbonenergy.com.au/irm/content/corporate-governance.aspx

Principal Activities

The principal activities of the Consolidated Group during the financial year were:

- To successfully prove its world leading, proprietary underground coal gasification

Directors' Report

(UCG) technology, *keyseam*, at its UCG site in Queensland.

- To establish *keyseam* as the UCG technology of choice for UCG projects worldwide.
- To prove *keyseam*'s environmental credentials as part of responding to the findings of the Independent Scientific Panel (ISP) in its report on UCG issued by the Queensland Government.

Operating Results

The loss of the Consolidated Group after providing for income tax amounted to $6,170,765 (2014: loss $9,119,601).

Dividends Paid or Recommended

No dividend was paid or declared during the year and the Directors do not recommend the payment of a dividend in respect of the year ended 30 June 2015 (2014: nil).

Review of Operations

Carbon Energy's operations are based around its established UCG projects and business development opportunities.

Projects

Bloodwood Creek, Queensland, Australia

The Queensland Government's UCG Policy, announced in February 2009, provided for a trial period to assess the technical, environmental and commercial performance of UCG. An independent scientific panel (ISP) was appointed to report and advise on the trials and assist the Government to develop the policy direction for UCG.

The Company has been working with the Government and providing data and reports since the operations at Bloodwood Creek commenced.

In July 2013 the ISP provided a final, peer reviewed report on the UCG pilot projects including Bloodwood Creek. The Government gave in-principle support to the ISPs conclusions that, "The technology could, in principle, be operated in a manner that is socially acceptable and environmentally safe when compared to a wide range of other existing resource-using activities." However the Government required the technology developers to demonstrate the successful decommissioning prior to any approval being granted.

The Company's main focus for the first half of the year was completing the requirements as set out by the ISP. This culminated in the submission of a Decommissioning Plan to the Government on 29 August 2014, followed by the submission of the Rehabilitation plan on 1 October 2014.

On 22 December 2014 the Company received confirmation from the Department of Environment and Heritage Protection (DEHP) that the Government appointed external consultant had completed its review of both submissions.

A final report from DEHP to the lead agency Department of Natural Resources and Mines was expected to be completed early 2015. On 5 January 2015 a state election for Queensland was called and a new government was appointed on 30 January 2015.

The Company received confirmation on 27 April 2015 that DEHP had provided its findings and recommendations to DNRM.

The Company continues to work constructively with the key departments and ministerial offices to provide necessary briefings on its technology and the Blue Gum Gas Project.

Blue Gum Gas Project, Queensland, Australia

On 22 September 2014 the Company announced a significant increase in its Proved and Probable (2P) Surat Basin gas Reserves to 1,128 petajoule (PJ1) (1 trillion cubic feet (Tcf)) of natural gas equivalent or 188 million barrels of oil equivalent (mmboe), transforming the Company into the fifth largest 2P gas Reserve in Queensland.

The upgrade provides a solid foundation for building a Queensland gas business and supports the Company's plans, subject to securing government approvals and financing, to develop its first commercial scale gas project in Queensland, the Blue Gum Gas Project[1].

The Conceptual Plan for development on MDL374 and land owned by the Company in the Surat Basin is the Blue Gum Gas Project. This Project is planned to deliver 25PJ per annum of pipeline quality natural gas from a plant that converts the UCG syngas to pipeline quality gas. It is anticipated that first gas could be supplied to local industry three years from commencement of the EIS process, subject to finding suitable investment partners and receiving State Government approvals.

Based on current gas prices, the Blue Gum Gas Project could deliver billions in gross revenue to the Company over the project life and could create hundreds of millions of dollars in royalties for the State. It could create in excess of 1000 jobs during the height of the construction phase and approximately 150 sustained direct jobs in the region. The proposed project area is close to existing pipelines and infrastructure which could provide easy access to markets.

Inner Mongolia, China

Carbon Energy has a UCG development project located at Haoqin Coal Field in Xiwuqi in Inner Mongolia, China. The project is to be completed over 3 stages. The Company completed stage 1 and met all its obligations.

Work is currently on hold until outstanding payments are made. The Company has recently been requested to provide a report on the key environmental findings from the Bloodwood Creek pilot project so that it can be provided to the Inner Mongolia Government. This is not a contractual requirement and is being provided to assist local government with their understanding of UCG. The Company is committed to finding a suitable resolution to enable the project to move forward.

Business Development Opportunities

Mulpun, Chile

Carbon Energy and Antofagasta Minerals S.A. (AMSA) have been working to find a way in which UCG could be used for power generation in Chile.

Although no formal arrangements are in place with AMSA, during the year the Company appointed BHD Capital to support it sourcing potential investors for the project. At this stage the Company aims to be a technology partner to AMSA once project funding partners have been identified.

Argentina

Carbon Energy has a Memorandum of Understanding (MOU) with Delmo Group Pty Limited (Delmo) to become the UCG technology partner for a power generation project in Argentina.

Delmo recently signed a formal joint cooperation agreement with the University of La Plata and the Institute of Mineral Resources in Argentina (INREMI). Delmo's efforts are focused on the provincial level government to gain support.

Financial Position

The net assets of the Consolidated Group decreased by $2,969,605 to $132,635,986 during the financial year.

As at 30 June 2015 the Consolidated Group had $1.7 million in cash and cash equivalents. The Company has lodged its 2015 income tax return with the Australian Taxation Office and an estimated $2.5 million rebate is expected to be received in September 2015 in relation to the R&D tax incentive. Receipt of the R&D rebate triggers repayment of the outstanding Macquarie finance facility of $1.2 million, refer to Notes 17 and 26(c)(i) of the Notes to the Financial Statements.

During the reporting period, management initiated a number of measures to build a stronger balance sheet to position the Company to take advantage of the growing global opportunities for UCG. The Company:

- Successfully completed a fully underwritten $2.5 million share purchase plan.

[1] Refer to the Tenement Schedule for relevant disclosures.
2 Refer to the Tenement Schedule for relevant disclosures.

- Secured short term research and development (R&D) financing to cover the 2014 and 2015 R&D expenditure claim periods.
- Received $3.7 million R&D tax incentive rebate from the ATO in relation to 2014 R&D expenditure.

The Financial Statements have been prepared on a going concern basis which is dependent on securing additional funds from a range of opportunities. Refer to Note 1.2.1 of the Notes to the Financial Statements.

Strategic Review and Prospects

The Company's overarching strategy remains to obtain approval to commercialise *keyseam* in Queensland while building on and expanding the Company's interests internationally. The Company has tightly focused its operations in accordance with the strategic direction, making significant achievements during the reporting period. These included:

- Completion and submission of the Decommissioning Report and Rehabilitation Plan.
- DEHP review of those submissions and subsequent recommendations to DNRM.
- The release of an upgraded Reserves Statement for its Queensland assets.
- Further developing its core business of licensing its technology and associated services worldwide.

Impact of Carbon Tax

The Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 received Royal Assent on 17 July 2014. The Bill abolished the carbon tax from 1 July 2014. There is no impact on the Company.

Impact of Minerals Resource Rent Tax (MRRT)

The Minerals Resource Rent Tax Act 2012 (MRRT) was granted Royal Assent on 29 March 2012 and applied from 1 July 2012. On 17 July 2014 the Minerals Resource Rent Tax Repeal and Other Measures Bill 2013 (Bill) containing the repeal of MRRT was approved by the Senate, with amendments. On 18 July 2014 the amended Bill was rejected by the House of Representatives. On 5 September 2014, the repeal of the Minerals Resource Rent Tax (MRRT) received royal assent under the Minerals Resource Rent Tax Repeal and Other Measures Act 2014, with this Act legislating the abolition of the MRRT from 1 October 2014.

Resources that were subject to the MRRT were not also taxable under the Petroleum Resource Rent Tax Assessment Act 1987 (PRRT). The repeal of MRRT means that PRRT now applies to the Consolidated Group if coal is ultimately used to generate where syngas is produced under the relevant production licence and the generation of syngas is not "incidental" to the production of coal. The PRRT is a 40% tax levied on the "upstream" profit attributable the Company's production licences.

In order to qualify for the starting base under PRRT, the Company lodged a PRRT starting base return during 2014, Under PRRT, once in the production phase and making assessable profits, the starting base allowance reduces the 40% tax liability incurred under PRRT, as a tax deduction. This starting base may be carried forward as an allowable deduction against any future PRRT profits that arise in respect of the Company's PRRT production licences.

Environmental Performance & Approvals

The Consolidated Group's operations are subject to significant environmental regulation under the Laws of the Commonwealth and State.

Carbon Energy operates the Bloodwood Creek site under a Level 2 Environmental Authority,

Directors' Report

where the Company's 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.

Carbon Energy continues to provide monthly groundwater quality reports to the Department of Environment and Heritage Protection and no issues relating to water quality have been raised by the Department.

In Queensland, the Company has lodged financial assurance bonds for Environmental Authority Permits and associated security bonds of $20,640 (2014: $20,640).

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the Consolidated Group occurred during the financial year:

- On 1 July 2014 the Company secured a $1.5 million loan facility with Macquarie Bank Limited. The facility provided the Company with the ability to drawdown up to $1.5 million to assist in funding its working capital requirements before receipt of the FY2014 Australian Taxation Office Research & Development (R&D) tax incentive rebate. The facility was drawn down on 6 August 2014 and subsequently repaid during September 2014 upon receipt of the FY2014 R&D tax rebate.
- On 7 July 2014 the Company announced it had reached in-principle agreement with both the Department of Environment and Heritage Protection and the Department of Natural Resources and Mines. The agreement covered a process and timetable for the Company to present the Decommissioning Report by July 2014 and Rehabilitation Plan by September 2014 to facilitate a decision on the commercial future of *keyseam* before the end of the 2014 calendar year.
- On 7 July 2014 Carbon Energy also reached substantial completion on 4 of the 8 work packages for Stage 1 of the Inner Mongolia UCG Project. As a result, the Company transitioned to a different project team with the skill set required to complete the final 4 packages. Work was placed on hold upon completion of package 4 until outstanding payments are made. No further payments have been received from the client (Haoqin Mining) during the year.
- On 29 August 2014 the Company submitted its Decommissioning Report to the Queensland Government.
- On 10 September 2014 the Company received $3.7 million for the R&D tax incentive rebate for R&D expenditure incurred in the 2014 financial year.
- On 22 September 2014 the Company announced a significant increase in its Proved and Probable (2P) Surat Basin gas Reserves to 1,128 petajoule (PJ1) (1 trillion cubic feet (Tcf)) of natural gas equivalent or 188 million barrels of oil equivalent (mmboe), transforming the Company into the fifth largest 2P gas Reserve in Queensland and more than doubling the Company's total gas Reserves.[2]
- On the same day the Company also unveiled conceptual plans for the Blue Gum Gas Project to be developed on MDL374 and land owned by the Company in the Surat Basin, adjacent to its current Bloodwood Creek trial site.
- On 1 October 2015 the Company submitted its Rehabilitation Plan to the Queensland Government.
- On 7 October 2014 the Company announced a share purchase plan (SPP) for existing eligible shareholders to raise capital to further develop the Blue Gum Gas Project.
- On 16 October 2014 the Company announced it had received an independent expert valuation of its Surat Basin gas assets. The valuation was conducted by Xstract Mining Consultants, an internationally recognised resource and asset evaluator who have valued the Company's in situ gas assets between $91m and $600m, with a preferred valuation of $205m[2].[3]

2 Refer to the Tenement Schedule for relevant disclosures.
3 Refer to the Tenement Schedule for the Basis of Valuation.

Directors' Report

- On 22 October 2014 the Company announced the key outcomes from its submissions to the Queensland Government which include: safe effective operations, gasification ceased within 48 hours and no impact on regional use of ground water.
- On 29 October 2014 Company advised that its SPP closed at 5pm Sydney time on 23 October 2014 and received subscription applications totalling $2.5 million, resulting in the issue of approximately 50 million new shares at the issue price of $0.05.
- On 22 December 2014 the Company received confirmation from DEHP that the Government appointed external consultant has completed its review of the Company's Decommissioning Report and Rehabilitation Plan.
- On 29 January 2015 the Company announced that it had secured a $1.2 million loan facility with Macquarie Bank Limited. The facility provided the Company with the ability to drawdown up to $1.2 million to assist in funding its working capital requirements before receipt of the FY2015 Australian Taxation Office R&D rebate. The facility was drawn on 30 January 2015.
- Max Cozijn retired from the Carbon Energy Board effective from 21 April 2015.
- On 27 April 2015 the Company received confirmation DEHP had provided its environmental findings and recommendations on the Company's Decommissioning Report and Rehabilitation Plan to the lead agency in this process, DNRM.
- On 22 May 2015 Carbon Energy announced that it has received correspondence from a US based lawyer acting for Summa Resource Holdings. The correspondence contains various broad ranging, unsubstantiated claims in respect of a Share Sale Agreement entered between the two parties. This matter has been ongoing since 30 May 2013 and the Company denies these claims. No formal proceedings have been commenced.

After Balance Date Events

Since the end of the financial year, 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.

Non-audit Services

The Board of Directors, in accordance with advice from the Audit and Risk Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed in Note 32 did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the Executive Director prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor.
- The nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Fees for non-audit services were paid to a network firm of the external auditors, Deloitte Touche Tohmatsu, during the year ended 30 June 2015.

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.

Directors' Report

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 s.300 (9) of the Corporations Act 2001.

Proceedings on behalf of the Company

The Company has not been involved in any new proceedings during the year and there are no prior outstanding proceedings.

Meeting Attendance

Director	Board Meeting Number eligible to attend	Board Meeting Number attended	Audit and Risk Committee Meeting Number eligible to attend	Audit and Risk Committee Meeting Number attended	Remuneration Committee Meeting Number eligible to attend	Remuneration Committee Meeting Number attended	Nomination Committee Meeting Number eligible to attend	Nomination Committee Meeting Number attended
Chris Rawlings	12	11	3	3	3	3	2	2
Morné Engelbrecht	12	12	NM	NM	NM	NM	2	2
Max Cozijn	10	10	NM	NM	2	2	1	1
Helen Garnett	12	12	3	3	NM	NM	2	2
Peter Hogan	12	11	3	3	3	3	2	2
Louis Rozman	12	12	NM	NM	1	1	2	2

NM – Not a member of the Committee.

Director's Interests

As at 17 July 2015, the interests of the Directors in shares and unlisted options of the Company are:

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	No. Shares Held		Listed Options		Unlisted Options	
	Direct	Indirect (i)	Direct	Indirect	Direct	Indirect (ii)
Chris Rawlings	-	7,150,000	-	3,950,000	-	-
Morné Engelbrecht	4,546,109	-	355,093	-	44,062,774	-
Max Cozijn (i)	-	-	-	-	-	-
Helen Garnett	288,551	377,101	188,151	-	-	-
Peter Hogan	-	600,000	-	220,000	-	-
Louis Rozman (ii)	375,000	123,369,483	75,000	-	-	44,645,845
Total	**5,209,660**	**131,496,584**	**618,644**	**4,170,000**	**44,062,774**	**44,645,845**

(i) Max Cozijn retired as a Director on 21 April 2015, share and option holdings are no longer reportable from this date.
(ii) Indirect share and option holdings represent some Pacific Road Capital entities of which Louis Rozman is an employee and Director.

Directors' Report

Remuneration Report (Audited)

The Directors are pleased to present Carbon Energy Limited's 2015 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 (Cth) (Corporations Act) and forms part of the Directors' report.

Key Management Personnel

Key Management Personnel are divided into three separate groups for ease of reference:

Non-Executive Directors

(refer to pages 16 to 17 for details about each Director):

Chris Rawlings	Chairman and Non-Executive Director
Max Cozijn	Non-Executive Director (to 21 April 2015)
Helen Garnett	Non-Executive Director
Peter Hogan	Non-Executive Director
Louis Rozman	Non-Executive Director

Executive Director

Morné Engelbrecht	Chief Executive Officer and Managing Director

Other Key Management Personnel

Tracy Bragg	General Counsel and Company Secretary
Catherine Costello	Chief Financial Officer
Justin Haines	General Manager, Technical Services
Cliff Mallett	Technical Director
Terry Moore	General Manager, Operations

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.
- 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

Voting and Comments made at the Company's 2014 Annual General Meeting

The Company received more than 97% of "yes" votes on its remuneration report for the 2014 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. The aggregate amount of remuneration payable to all Non-Executive Directors was set by shareholders at $500,000 per annum. The total amount currently paid is a maximum of $40,000 per annum plus statutory superannuation to each

Non-Executive Director and $120,000 per annum plus statutory superannuation to the Chairman of the Board. The Chair of the Audit and Risk Committee is paid an additional $10,000 per annum plus superannuation. On 13 February 2015, the Board resolved to reduce Non-Executive Directors fees by between 20% and 100% for the March 2015 quarter. Fees were reinstated for the June 2015 quarter with the exception of Mr Rozman as Pacific Road Capital Management Holdings Pty Ltd elected to waive his June quarter fee.

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

Executive Remuneration Policy

The remuneration policy, which sets the terms and conditions for the Executive Director and other Executives, was developed by the Remuneration Committee after seeking professional advice from independent consultants and was approved by the Board. All Executives and the Executive 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, comparable information from industry sectors and other listed companies and independent advice. The performance of Executives is reviewed annually by the Executive Director and his performance is reviewed by the Remuneration Committee, with revised remuneration packages generally taking effect from the 1st of July of the new financial year.

The payment of bonuses, shares, options, performance rights, and other 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 bonuses, shares, options, performance rights, and other incentives must be linked to predetermined performance criteria. The Board can exercise its discretion in relation to approving performance incentives and can recommend changes to the Remuneration Committee recommendations. Any changes must be justified by reference to measurable performance criteria.

On 19 January 2015, Executives altered their working arrangements resulting in a reduction in the base salary of Executives including the Executive Director by between 20% and 40% for the month of February 2015. These arrangements were subsequently extended until 30 April 2015. Standard working arrangements were reinstated for the remainder of the year.

Remuneration Consultant

From time to time the Remuneration Committee will engage advisors to assist in the continual evolution and development of the Group's remuneration policies and framework. During the latter part of the 2014 financial year Aon Hewitt McDonald was engaged by the Remuneration Chair on behalf of the Remuneration Committee to provide recommendations on the Company's performance incentive structure. The remuneration consultant recommended changes to the Long Term Incentive structure for Executives and some of these recommendations were subsequently adopted. Fees payable with respect to this engagement totalled $9,500.

Executive Remuneration Framework

There are three general components of remuneration used to reward employees, including Executives, depending on their role and responsibility within the Consolidated Group:

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

The STI and LTI components paid to Executives each range between 15% and 30% of their fixed remuneration package and are payable in shares, performance rights or options in Carbon Energy Limited. The Remuneration Committee has the discretion to approve payment of the STI component as cash in lieu of shares.

Directors' Report

Remuneration Report (Audited)

The Board expects that the remuneration structure implemented will result in the Company being able to attract and retain the best Executives to run the Consolidated Group. It will also provide Executives with the necessary incentives to work to grow long-term shareholder value.

Total Fixed Remuneration

Total Fixed Remuneration comprises base salary and statutory superannuation. Total Fixed Remuneration is set with reference to market data, reflecting the scope of the role and the performance of the employee in the role.

Total Fixed Remuneration also reflects any market premium required for roles that are in short supply or with a unique skill set. Remuneration is reviewed annually using data gathered from multiple sources which may include market surveys, external remuneration consultants, and internal feedback as to market conditions, as considered appropriate to provide analysis and advice to ensure competitive remuneration is set to reflect the market for comparable roles. 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)

Carbon Energy offers an STI to the Executives including the Executive Director to achieve the following objectives:

- Focus Executives on the achievement of key targets as well as individual contribution that the Board believes will lead to sustained and improved business performance.
- Reward and recognise superior performance.

The 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, subject to satisfactorily meeting Key Performance Indicators (KPIs). At the end of each financial year, the Executives (excluding the Executive Director) would be allocated a number of shares equivalent to the cash value of the STI, based on the 90 day VWAP prior to the Remuneration Committee endorsement of the recommended share allocation (subject to the Remuneration Committee's discretion to pay the STI as cash in lieu of shares). The Executive Director's STI is paid in cash, unless the Executive Director elects to receive shares or options and this is approved by the Remuneration Committee and the shareholders. During the year the Executive Director elected to take $50,000 worth of his FY14 STI as options, as approved at the 2014 AGM, with the balance of $23,254 taken as cash.

The Remuneration Committee has assessed that no Executive has met the FY15 KPIs set and determined therefore that no STI will be provided for FY15 performance.

Long Term Incentive (LTI)

On 13 February 2015, the Remuneration Committee approved changes to the LTI arrangements applicable to Executives for the reporting period and subsequent financial years.

The Remuneration Committee approved a 3 year Executive performance rights LTI plan be put in place for the 2017 financial year (applying to all Executives including the Executive Director, noting the LTI for the Executive Director will require shareholder approval). The new LTI plan will incorporate 1, 2 and 3 year performance periods, with 1/3 of the allocated performance rights being tested annually. The performance hurdles will be market based and service based tests, in equal proportions. The inclusion of a service based test is in recognition that significant developments can be progressed during a performance period, however given the Company's stage in its lifecycle, may not be fully reflective in the share price at that point in time. The final quantum of the LTI grants and performance hurdles are yet to be determined however the proportion of Executive remuneration at risk will be reflective of current practice and is expected to be in the range of 15% to 30% of an Executive's total fixed remuneration. Each performance right is a conditional entitlement to one fully paid ordinary share in Carbon Energy Limited.

To align with the Executive Director's current LTI plan, a two year transitional LTI plan has been introduced for the other Executives to cover the 2015 and 2016 financial years. The plan comprises the following:

- 2.5 million share rights with a vesting date of 30 June 2015, with vesting subject to the market price of the shares as at 30 June 2015 being no less than 7.5 cents ($0.075) per share) (these share rights lapsed on 30 June 2015 as the share price performance hurdle was not achieved).
- 2.5 million share rights with a vesting date of 30 June 2016, with vesting subject to the market price of the shares as at 30 June 2016 being no less than 10.5 cents ($0.105) per share.

In each case the share rights will only vest provided the Executive remains employed with the Company on the vesting date.

The Executive Director LTI arrangements as approved at the annual general meeting on 21 November 2013 comprise the following:

- 33,333,333 options with an exercise price of $0.06 each and a vesting date of 30 June 2014 (subject to the market price of the shares as at 30 June 2014 being no less than 4.5 cents ($0.045) per share expiring 30 June 2017 (these options were forfeited on 30 June 2014 as the share price performance hurdle was not achieved).
- 33,333,333 options with an exercise price of $0.06 each and a vesting date of 30 June 2015 (subject to the market price of the shares as at 30 June 2015 being no less than 7.5 cents ($0.075) per share) expiring 30 June 2018 (these options were forfeited on 30 June 2015 as the share price performance hurdle was not achieved).
- 33,333,333, options with an exercise price of $0.06 each and a vesting date of 30 June 2016 (subject to the market price of the shares as at 30 June 2016 being no less than 10.5 cents ($0.105) per share) expiring 30 June 2019.

Relationship between Remuneration and the Company's Performance

Prior to 1 July 2013 the Company did not link key performance indicators to the Company's financial performance. The Company has now linked key performance indicators for the LTI to the Company's share price performance from 1 July 2013 for the Executive Director and 1 July 2014 for other Executives. The performance of the Company's share price is considered the best indicator of value creation for shareholders at the Company's stage of development.

In FY2014 the share price decreased 44% from $0.027 to $0.015. In FY2015 the share price increased 14% from $0.015 to $0.017.

Directors' Report

Remuneration Report (Audited)

Details of Remuneration

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

2015		Cash					Non-cash			
		Short term employee benefits			Post employment benefits		Share-based Payments Expense		Forfeited Options	Performance Related
	Cash Salary	Bonus	Directors Fee (iv)	Other	Super Contributions	Total Cash Payments	Options (v)	Shares		
	$	$	$	$	$	$	$	$	$	%
NON-EXECUTIVE DIRECTOR										
Chris Rawlings	-	-	114,000	-	10,830	**124,830**	-	-	-	-
Max Cozijn	-	-	32,308	-	3,069	**35,377**	-	-	-	-
Helen Garnett	-	-	47,500	-	4,513	**52,013**	-	-	-	-
Peter Hogan(i)	-	-	30,000	-	-	**30,000**	-	-	-	-
Louis Rozman(ii)	-	-	20,000	-	-	**20,000**	-	-	-	-
SUB-TOTAL $	**-**	**-**	**243,808**	**-**	**18,412**	**262,219**	**-**	**-**	**-**	
EXECUTIVE DIRECTOR										
Morné Engelbrecht (iii)	383,291	23,254	-	1,775	29,998	**438,318**	60,975	-	(92,535)	17%
SUB-TOTAL $	**383,291**	**23,254**	**-**	**1,775**	**29,998**	**438,318**	**60,975**	**-**	**(92,535)**	
GRAND TOTALS	**383,291**	**23,254**	**243,808**	**1,775**	**48,409**	**700,537**	**60,975**	**-**	**(92,535)**	

(i) Peter Hogan's fees are paid directly to Incitec Pivot Limited.
(ii) Louis Rozman's fees are paid directly to Pacific Road Capital Management Holdings Pty Limited.
(iii) Morné Engelbrecht's salary was reduced by 20% during the period 1 February 2015 to 30 April 2015 in recognition of the prevailing business performance during that period.
(iv) Non-Executive Director fees were reduced by between 20% and 100% for one quarter in recognition of the prevailing business performance during that period. Pacific Road Capital Management Holdings Pty Limited elected to waive 100% of Mr Rozman's fee for an additional quarter.
(v) Morné Engelbrecht was granted 99,999,999 options with share price performance hurdles. As at 30 June 2015 33,333,333 have not yet vested, 33,333,333 were forfeited as a result of failure to meet the share price performance hurdles for 2014 and 33,333,333 were forfeited as a result of failure to meet the share price performance hurdles for this year.

Directors' Report

Remuneration Report (Audited)

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

2014	Cash					Non-cash			
	Short term employee benefits			Post employment benefits		Share-based Payments Expense		Forfeited Options	Performance Related
	Cash Salary	Directors Fee (v)	Other	Super Contributions	Total Cash Payments	Options (vi)	Shares		
	$	$	$	$	$	$	$	$	%
NON-EXECUTIVE DIRECTOR									
Chris Rawlings	-	105,000	-	9,713	**114,713**	-	-	-	-
Max Cozijn	-	35,000	-	3,238	**38,238**	-	-	-	-
Helen Garnett	-	43,750	-	4,047	**47,797**	-	-	-	-
Peter Hogan(i)	-	30,000	-	-	**30,000**	-	-	-	-
Louis Rozman(ii)	-	30,000	-	-	**30,000**	-	-	-	-
SUB-TOTAL $	**-**	**243,750**	**-**	**16,998**	**260,748**	**-**	**-**	**-**	
EXECUTIVE DIRECTOR									
Morné Engelbrecht (iii)(iv)	360,988	-	3,128	20,509	**384,625**	125,869	105,008	(56,433)	38%
SUB-TOTAL $	**360,988**	**-**	**3,128**	**20,509**	**384,625**	**125,869**	**105,008**	**(56,433)**	
GRAND TOTALS	**360,988**	**243,750**	**3,128**	**37,507**	**645,373**	**125,869**	**105,008**	**(56,433)**	

(i) Peter Hogan's fees were paid directly to Incitec Pivot Limited.
(ii) Louis Rozman's fees were paid directly to Pacific Road Capital Management Holdings Pty Limited.
(iii) Morné Engelbrecht was appointed Chief Executive Officer on 18 June 2013 and Managing Director on 23 July 2013.
(iv) Morné Engelbrecht's salary was reduced by 40% during the period 1 July 2013 to 30 August 2013 in recognition of the prevailing business performance during that period.
(v) Nominee Non-Executive Director fees were reduced by 100% and other Non-Executive director fees were reduced by 50% during the period 1 July 2013 to 30 September 2013 in recognition of the prevailing business performance during that period.
(vi) Morné Engelbrecht was granted 99,999,999 options with share price performance hurdles. As at 30 June 2014 66,666,666 had not yet vested and 33,333,333 were forfeited as a result of failure to meet the share price performance hurdles for the year.

Directors' Report

Remuneration Report (Audited)

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

	Cash				Non-cash				
	Short term employee benefits		Post-employment benefits		Long-term benefits	Share-based Payments			
2015	Cash Salary	Other (i)	Super Contributions	Total	Long Service Leave	Options & Rights (ii) (iii)	Shares (iv)	Forfeited Options & Rights	Performance Related
	$	$	$	$	$	$	$	$	%
Tracy Bragg	190,161	14,047	19,369	223,576	-	3,190	5,584	(1,965)	4%
Catherine Costello	212,199	1,940	20,159	234,298	-	4,503	222	(1,965)	2%
Justin Haines	263,209	2,218	18,783	284,210	-	1,795	1,563	(1,965)	1%
Cliff Mallett	178,232	2,475	16,932	197,640	6,413	314	(6,002)	(1,965)	(3%)
Terry Moore	222,513	2,375	21,139	246,026	-	3,549	7,150	(1,965)	4%
TOTALS	**1,066,314**	**23,054**	**96,382**	**1,185,750**	**6,413**	**13,351**	**8,787**	**(9,825)**	

(i) Car parking and car benefits.

(ii) The value of options and rights is calculated as at the grant date. Options are valued using a Black Scholes option pricing model and rights are valued using a monte carlo pricing. The amounts disclosed as part of remuneration have been determined by allocating the grant date value on a straight-line basis over the period of grant date to vesting date.

(iii) The value of options and shares include the reversal of the prior year accrual for the 2014 option and share grants, not determined until 2015. The final approved grant of 2014 options and shares was lower than the estimated grant resulting in a credit against the value of the 2015 grant and accrual.

(iv) The expense booked relates to the grant of shares for 2014 performance and represents the variance between the estimated expense accrued in 2014 and the actual expense upon final determination of achievement of Executive STI KPIs. No STI shares in relation to 2015 performance were accrued as compensation and expensed during the 2015 year due to failure to meet KPIs.

Directors' Report

Remuneration Report (Audited)

2014	Cash				Non-cash				
	Short term employee benefits		Post-employment benefits		Long-term benefits	Share-based Payments			
	Cash Salary	Other (iii)	Super Contributions	Total	Long Service Leave	Options (iv)	Shares (v)	Forfeited Options	Performance Related
	$	$	$	$	$	$	$	$	%
Tracy Bragg(i)	150,000	3,871	13,875	167,746	-	12,591	37,773	-	23%
Catherine Costello (ii)	43,096	-	3,986	**47,082**	-	2,769	8,309	-	19%
Justin Haines	262,019	2,560	17,775	**282,354**	-	13,707	39,220	-	16%
Cliff Mallett	174,562	2,199	16,147	**192,908**	26,315	21,399	37,800	-	22%
Terry Moore	229,590	2,137	21,237	**252,964**	-	10,674	32,761	-	15%
TOTALS	**859,267**	**10,767**	**73,020**	**943,054**	**26,315**	**61,140**	**155,863**	**-**	

(i) Tracy Bragg was appointed General Counsel and Company Secretary on 15 October 2013.
(ii) Catherine Costello was appointed Chief Financial Officer on 1 April 2014.
(iii) Car parking benefits.
(iv) Options have vested/accrued but not yet exercised (out of the money).
(v) Shares issued/accrued on settlement of STI and LTI payments.

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 agreements. The service agreements specify the components of remuneration, benefits and notice periods. Participation in the STI and LTI arrangements is subject to the Board's discretion. Other major provisions of the agreements relating to remuneration are set out below.

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	Notice Period(ii)	Termination Payments(ii)(iii)(vi)
Morné Engelbrecht (i)	3 years fixed term contract to 18 June 2016	$425,000	6 months	6 months
Catherine Costello	No fixed term (permanent part-time)	$236,520(iv)	3 months	-
Tracy Bragg	No fixed term	$235,000(iv)	3 months	-
Justin Haines	No fixed term	$301,991(v)	3 months	-
Cliff Mallett	3 years fixed term contract to 30 June 2016	$205,432	3 months	12 months
Terry Moore	No fixed term	$270,720(v)	3 months	-

(i) Morné Engelbrecht was promoted to Chief Executive Officer on 18 June 2013 and his appointment to the Board became effective on 23 July 2013. Morné Engelbrecht's term of appointment was announced by the Company on 18 June 2013 and he is entitled to a maximum STI of 30% of base salary on meeting performance targets as well as LTI options for the 3 year period to 30 June 2016 in accordance with shareholder approval given at the 2013 AGM.
(ii) Base salary payable if the Company terminates employment without cause.
(iii) Payable if the Company terminates employment during the term of the agreement.
(iv) In addition to the above, the Executive is entitled to receive 20% base salary (cash or equivalent value in shares, at Board discretion) in the event of a change in control of the group.
(v) In addition to the above, the group is committed to pay 15% Total Fixed Remuneration (cash or equivalent value in shares, at Board discretion) in the event of a change in control of the group.
(vi) Where no termination payment is specified, statutory entitlements on termination apply, based on length of service.

Directors' Report

Remuneration Report (Audited)

Details of Options and Performance Rights

The following options and performance rights were provided to Executives:

	Options & Rights Granted as Remuneration 2015 (i)	Options Granted as Remuneration 2014 (ii)
Morné Engelbrecht	5,541,564	103,573,876
Tracy Bragg	6,172,186	-
Catherine Costello	5,229,190	-
Justin Haines	6,161,745	1,851,408
Cliff Mallett	5,854,363[(iii)]	1,092,843[(iii)]
Terry Moore	6,193,919	1,656,453
TOTALS	**35,152,967**	**108,174,580**

(i) These options and performance rights were granted as part of the LTI for the 2014, 2015 & 2016 financial year. Terms and conditions for the grant are included in the Financial Statements, Note 33, Share Based Payments.
(ii) These options were granted as part of the LTI for the 2013 financial year.
(iii) 657,887 of 2015 grants and all the 2014 grant were exercised during the 2015 year on approval from the Chairman on the basis that the underlying shares received upon the exercise of the options were not being sold but transferred to a related party holding.

Options accrued and expensed during the 2015 year that were granted as compensation are as follows:

2015	Options & Rights Expensed (i) $	Options & Rights Forfeited (ii)	Year Options & Rights Forfeited were granted
Morné Engelbrecht	60,975	33,333,333	2014
Tracy Bragg	3,190	2,500,000	2015
Catherine Costello	4,503	2,500,000	2015
Justin Haines	1,795	2,500,000	2015
Cliff Mallett	314	2,500,000	2015
Terry Moore	3,549	2,500,000	2015
TOTALS	**74,356**	**44,833,333**	

(i) Options have vested and with the exception of 657,887 options vested to Cliff Mallett, (which received Chairman approval on the basis that the underlying shares were not sold but transferred to a related party holding) have not been exercised (out of the money).
(ii) 33,333,333 options and 12,500,000 performance rights were forfeited as a result of failure to meet share price performance hurdle.

Directors' Report

Remuneration Report (Audited)

Options expensed during the 2014 year that were accrued or granted as compensation are as follows:

2014	Options Expensed (i) $	Options & Rights Forfeited (ii)	Year Options & Rights Forfeited were granted
Morné Engelbrecht	125,869	33,333,333	2014
Tracy Bragg	12,591	-	-
Catherine Costello	2,769	-	-
Justin Haines	13,707	-	-
Cliff Mallett	21,399	-	-
Terry Moore	10,674	-	-
TOTALS	**187,009**	**33,333,333**	

(i) Options have vested but not exercised (out of the money).
(ii) Forfeited as a result of failure to meet share price performance hurdles.

1,092,843 options were exercised during the 2015 year at an exercise price of $0.026 that were granted as compensation in prior periods to current Key Management Personnel. A further 657,887 options relating to the 2015 grant were exercised at an exercise price of $0.0301. Each option converts into one ordinary share of Carbon Energy Limited. No options were exercised during the 2014 year.

	Number of Options Exercised	Number of Ordinary Shares issued	Amount Paid $	Amount Unpaid $
Cliff Mallett	1,750,730	1,750,730	48,216	Nil

Directors’ Report

Remuneration Report (Audited)

Equity instruments held by Key Management Personnel

The tables on the following page show the number of:

- Options or performance rights over ordinary shares in the Company.
- Shares in the Company.

that were 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

2015	Balance at 1 Jul 2014	Granted as Remuneration	Options Forfeited	Net Change Other	Balance at 30 Jun 15	Total Vested 30 Jun 15	Total Exercisable 30 Jun 15	Total Unvested 30 Jun 15
Chris Rawlings	3,950,000	-	-	-	3,950,000	3,950,000	3,950,000	-
Morné Engelbrecht	72,209,636	5,541,564	33,333,333	-	44,417,867	11,084,534	11,084,534	33,333,333
Max Cozijn (i)	639,171	-	-	639,171	-	-	-	-
Helen Garnett	188,551	-	-	-	188,551	188,551	188,551	-
Peter Hogan	220,000	-	-	-	220,000	220,000	220,000	-
Louis Rozman (ii)	44,720,845	-	-	-	44,720,845	44,720,845	44,720,845	-
TOTAL	**121,928,203**	**5,541,564**	**33,333,333**	**639,171**	**94,136,434**	**60,803,101**	**60,803,101**	**33,333,333**

(i) Max Cozijn retired as a Director on 21 April 2015, option holdings no longer reportable from this date.
(ii) Indirect Holding (44,645,845) represents Pacific Road Resources Funds; Louis Rozman is an employee and Director of some Pacific Road Capital entities. While Mr Rozman has 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.

2014	Balance at 1 Jul 2013	Granted as Remuneration	Options Forfeited	Net Change Other (i)	Balance at 30 Jun 14	Total Vested 30 Jun 14	Total Exercisable 30 Jun 14	Total Unvested 30 Jun 14
Chris Rawlings	-	-	-	3,950,000	3,950,000	3,950,000	3,950,000	-
Morné Engelbrecht (ii)	1,614,000	103,573,876	33,333,333	355,093	72,209,636	72,209,636	5,542,970	66,666,666
Max Cozijn	-	-	-	639,171	639,171	639,171	639,171	-
Helen Garnett	-	-	-	188,551	188,551	188,551	188,551	-
Peter Hogan	-	-	-	220,000	220,000	220,000	220,000	-
Louis Rozman (iii)	44,645,845	-	-	75,000	44,720,845	44,720,845	44,720,845	-
TOTAL	**46,259,845**	**103,573,876**	**33,333,333**	**5,427,815**	**121,928,203**	**121,928,203**	**55,261,537**	**66,666,666**

(i) Acquired through 2013 rights issue either directly or indirectly through a self managed superannuation fund.
(ii) Morné Engelbrecht was appointed Managing Director on 23 July 2013.
(iii) Indirect Holding (44,645,845) represents Pacific Road Resources Funds; Louis Rozman is an employee and Director of some Pacific Road Capital entities. While Mr Rozman has no power to exercise or control the exercise of these options, they are disclosed as a result of the Pacific Road entities being party to the $10 million Convertible Note with Carbon Energy Limited which gave rise to the issue of options.

Directors' Report

Remuneration Report (Audited)

(b) Option Holdings held directly and indirectly by Other Key Management Personnel

2015	Balance at 1 Jul 2014	Granted as Remuneration (i)	Options Forfeited	Options exercised	Balance at 30 Jun 15	Total Vested 30 Jun 15	Total Exercisable 30 Jun 15	Total Unexercisable 30 Jun 15
Tracy Bragg	-	6,172,186	2,500,000	-	3,672,186	1,172,186	1,172,186	2,500,000
Catherine Costello	-	5,229,190	2,500,000	-	2,729,190	229,190	229,190	2,500,000
Justin Haines	2,711,408	6,161,745	2,500,000	-	6,373,153	3,873,153	3,873,153	2,500,000
Cliff Mallett	4,268,330	5,854,363	2,500,000	1,750,730	5,871,963	3,371,963	3,371,963	2,500,000
Terry Moore	2,425,249	6,193,919	2,500,000	-	6,119,168	3,619,168	3,619,168	2,500,000
TOTAL	**9,404,987**	**29,611,403**	**12,500,000**	**1,750,730**	**24,765,660**	**12,265,660**	**12,265,660**	**12,500,000**

(i) These options were granted as part of the STI and LTI.

2014	Balance at 1 Jul 2013	Granted as Remuneration (i)	Options Forfeited	Net Change Other (ii)	Balance at 30 Jun 14	Total Vested 30 Jun 14	Total Exercisable 30 Jun 14	Total Unexercisable 30 Jun 14
Tracy Bragg	-	-	-	-	-	-	-	-
Catherine Costello	-	-	-	-	-	-	-	-
Justin Haines	860,000	1,851,408	-	-	2,711,408	2,711,408	2,711,408	-
Cliff Mallett	4,375,000	1,092,843	4,375,000	3,175,487	4,268,330	4,268,330	4,268,330	-
Terry Moore	610,000	1,656,453	-	158,796	2,425,249	2,425,249	2,425,249	-
TOTAL	**5,845,000**	**4,600,704**	**4,375,000**	**3,334,283**	**9,404,987**	**9,404,987**	**9,404,987**	**-**

(i) These options were granted as part of the LTI.
(ii) These options were acquired either directly or indirectly through the 2013 Rights issue and some are held by a self managed super fund.

(c) Share Holdings held directly and indirectly by Directors

2015	Balance at 1 Jul 2014	Options Exercised	Granted as remuneration	Net Change Other	Balance at 30 Jun 15
Chris Rawlings	6,850,000	-	-	300,000(i)	7,150,000
Morné Engelbrecht	4,506,109	-	-	40,000(i)	4,546,109
Max Cozijn(ii)	1,917,511	-	-	1,917,511	-
Helen Garnett	565,652	-	-	100,000(i)	665,652
Peter Hogan	500,000	-	-	100,000(i)	600,000
Louis Rozman (iii)	105,821,535	-	-	17,922,948(iv)	123,744,483
TOTAL	**120,160,807**	**-**	**-**	**16,545,437**	**136,706,244**

(i) Acquired through the 2014 share purchase plan.
(ii) Max Cozijn retired as a Director on 21 April 2015, share holdings no longer reportable from this date.
(iii) Includes direct holding of 375,000 shares and indirect holding of123,369,483 shares. The Indirect holding represents Pacific Road Resources Funds; Louis Rozman is an employee and Director of some of Pacific Road Capital entities. While Mr Rozman has no power to exercise or control the disposal of these shares, they are disclosed as a result of the Pacific Road entities being party to the $10 million Convertible Note with Carbon Energy Limited.
(iv) Includes 300,000 shares acquired through the 2014 share purchase plan and 17,622,948 issued under the terms of the $10 million Convertible Note.

2014	Balance at 1 Jul 2013	Options Exercised	Granted as remuneration(i)	Net Change Other	Balance at 30 Jun 14
Chris Rawlings	2,900,000	-	-	3,950,000	6,850,000
Morné Engelbrecht (iii)	710,185	-	3,440,831	355,093	4,506,109
Max Cozijn	1,278,340	-	-	639,171	1,917,511
Helen Garnett	377,101	-	-	188,551	565,652
Peter Hogan	280,000	-	-	220,000	500,000
Louis Rozman (iv)	77,750,238	-	-	28,071,297 (v)	105,821,535
TOTAL	**83,295,864**	**-**	**3,440,831**	**33,424,112**	**120,160,807**

(i) Acquired through 2013 rights issue, held directly or indirectly through a self managed superannuation fund.
(ii) These shares were granted as part of the STI/LTI.
(iii) Morné Engelbrecht was appointed Managing Director 23 July 2013.
(iv) Includes direct holding of 75,000 shares and indirect holding of 105,746,535 shares. The indirect holding represents Pacific Road Resources Funds; Louis Rozman is an employee and Director of some of Pacific Road Capital entities. While Mr Rozman has no power to exercise or control the disposal of these shares, they are disclosed as a result of the Pacific Road entities being party to the $10 million Convertible Note with Carbon Energy Limited.
(v) 75,000 shares were acquired through the 2013 rights issue.

Directors' Report

Remuneration Report (Audited)

(d) Share Holdings held directly and indirectly by Other Key Management Personnel

2015	Balance at 1 Jul 2014	Options Exercised	Granted as remuneration(i)	Net Change Other(ii)	Disposal	Balance at 30 Jun 15
Tracy Bragg	-	-	2,550,378	-	300,000	2,250,378
Catherine Costello	-	-	498,659	200,000	-	698,659
Justin Haines	2,159,042	-	2,527,661	-	4,186,703	500,000
Cliff Mallett (iii)	16,000,000	1,750,730	1,858,877	-	-	19,609,607
Terry Moore	2,070,248	-	2,597,664	300,000	-	4,967,912
TOTAL	**20,229,290**	**1,750,730**	**10,033,239**	**500,000**	**4,486,703**	**28,026,556**

(i) These shares were granted as part of the 2014 STI/LTI.
(ii) Acquired through the 2014 share purchase plan.
(iii) These shares are held indirectly through a self managed superannuation fund.

2014	Balance at 1 Jul 2014	Options Exercised	Granted as remuneration(i)	Net Change Other(ii)	Disposal	Balance at 30 Jun 15
Tracy Bragg	-	-	-	-	-	-
Catherine Costello	-	-	-	-	-	-
Justin Haines	377,592	-	1,781,450	-	-	2,159,042
Cliff Mallett (iii)	12,824,513	-	-	3,175,487	-	16,000,000
Terry Moore	267,591	-	1,668,861	133,796	-	2,070,248
TOTAL	**13,469,696**	**-**	**3,450,311**	**3,309,283**	**-**	**20,229,290**

(i) These shares were granted as part of the 2013 STI/LTI.
(ii) These shares were acquired through the 2013 rights issue.
(iii) These shares are held indirectly through a self managed superannuation fund.

Directors' Report

Remuneration Report (Audited)

Loans to Key Management Personnel

In 2015 and 2014 there were no loans to Key Management Personnel.

Other Transactions with Key Management Personnel

Louis Rozman (Non-Executive Director) holds Directorships in other companies which are shareholders of Carbon Energy Limited. Amounts paid to Pacific Road Capital Management Holdings Pty Limited for Mr Rozman's services as a Director amount to $20,000 for the year ended 30 June 2015.

Other related party transactions:

- On 22 December 2011 Carbon Energy executed a Convertible Note Facility Agreement with Pacific Road Capital Management Pty Ltd.

  The Convertible Note Facility Agreement requires Carbon Energy to pay interest of 5% per annum on the Facility amount. The interest is payable quarterly in arrears and is payable through the issuance of shares in Carbon Energy at the 5 day VWAP for the Shares on the Australian Stock Exchange (ASX) prior to the day a payment is due. Pacific Road may convert all or part of the Facility amount to shares in the Company at any time during the term at a conversion price of $0.14. If the share price exceeds $0.40 for continuous 60 day VWAP period the Company can request the conversion of the Facility in full. The Facility repayment date is 18 January 2017 and any part of the Facility amount not converted into shares on that date is repayable in cash by the Company on that date. A total of 44,645,845 options have vested in connection with the Facility with varying expiry dates as follows:

Options	Grant Date	Price	Expiry Date
7,000,000	25/01/2012	$0.1678	18/01/2017
28,000,000	29/02/2015	$0.1678	25/02/2017
9,645,845	16/11/2012	$0.061	15/11/2015

Shares Under Option

At the date of this report, the unissued ordinary shares of Carbon Energy Limited under option are as follows:

Grant Date	No. of Options	Exercise Price	Vesting Date	Expiry Date
25/01/2012 (i)	7,000,000	$0.1678	25/01/2012	18/01/2017
25/01/2012 (i)	28,000,000	$0.1678	25/01/2012	25/02/2017
16/11/2012 (ii)	61,728,395	$0.061	16/11/2012	15/11/2015
16/11/2012 (i)	9,645,845	$0.061	16/11/2012	15/11/2015
02/01/2013 (iii)	3,084,000	$0.120	02/01/2013	31/12/2015
15/10/2013 (iv)	4,600,704	$0.026	15/10/2013	15/10/2016
06/12/2013 (iv)	3,573,877	$0.026	06/12/2013	15/10/2016
06/12/2013 (iv)	33,333,333	$0.060	30/03/2016	30/06/2019
01/07/2014 (v)	12,500,000	Nil	30/06/2016	30/06/2019
26/08/2014 (iv)	4,611,403	$0.0301	26/08/2015	25/08/2017
26/08/2014 (iv)	5,541,564	$0.0301	26/08/2015	25/08/2017

(i) 44,645,845 Options have been issued to Pacific Road Capital Management as part of the $10,000,000 Convertible Note Facility (refer Note 20).
(ii) 61,728,395 Options have been issued to Credit Suisse as part of the $10,000,000 bridging loan secured facility (refer Note 19).
(iii) Options granted as remuneration to the Key Management Personnel during 2013 financial year.
(iv) Options granted as remuneration to Key Management Personnel. Details of options granted to Key Management Personnel are disclosed on page 36 above.
(v) Performance rights granted as remuneration to Key Management Personnel. Details of performance rights granted to Key Management Personnel are disclosed on pages 36 above.

Directors’ Report

Auditor’s Independence Declaration

The lead auditor’s independence declaration for the year ended 30 June 2015 has been received and can be found on page 45 of the Annual Report.

Deloitte continues in office in accordance with s. 327 of the Corporations Act 2001.

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

On behalf of the Directors

Dr Chris Rawlings
Chairman

Brisbane, Queensland
31July 2015

Morné Engelbrecht
Managing Director

Brisbane, Queensland
31 July 2015

Deloitte.

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Board of Directors
Carbon Energy Limited
Level 9, 301 Coronation Drive
Milton QLD 4064

31 July 2015

Dear Board Members

Independence Declaration

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Carbon Energy Limited.

As lead audit partner for the audit of the financial statements of Carbon Energy Limited for the financial year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit .

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Stavrou
Partner
Chartered Accountants

FINANCIAL REPORT 2015

Financial Report

Consolidated Statement of Profit and Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2015

		CONSOLIDATED GROUP	
	Notes	**2015 $**	**2014 $**
Revenue and other income			
Technology service fee revenue		285,268	2,332,029
Other income	3	3,906,430	4,125,561
Total revenue and other income		**4,191,698**	**6,457,590**
Employee benefits expense		(4,195,896)	(5,702,661)
Administration, legal and corporate costs		(1,759,193)	(2,357,484)
Consultancy costs		(1,327,150)	(1,048,943)
Operating expenditure		(309,537)	(1,624,864)
Share-based payments	33(d)	(83,113)	(478,393)
Depreciation expense	4(a)	(228,713)	(145,253)
Finance costs		(1,878,719)	(2,270,742)
Movement in fair value of derivatives	18	1,884	255,252
Impairment expense	4(b)	(634,148)	(1,970,900)
Loss before income tax expense		**(6,222,887)**	**(8,886,398)**
Income Tax Benefit/(Expense)	6	52,122	(233,203)
Loss for the Year	23	**(6,170,765)**	**(9,119,601)**
Other comprehensive income for the year (net of tax)			
Items that will not be reclassified subsequently to profit or loss		-	-
			-
Items that may be reclassified subsequently to profit or loss		-	-
Total Loss including comprehensive income for the year		**(6,170,765)**	**(9,119,601)**
Loss attributable to Owners of the Parent		(6,170,765)	(9,119,601)
Total Loss and comprehensive income attributable to Owners of the Parent		(6,170,765)	(9,119,601)
Overall Operations			
Basic loss per share (cents per share)	5	(0.47)	(0.81)
Diluted loss per share (cents per share)	5	(0.47)	(0.81)

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

Financial Report

Consolidated Statement of Financial Position

FOR THE YEAR ENDED 30 JUNE 2015

		CONSOLIDATED GROUP	
	Notes	**2015 $**	**2014 $**
Assets			
Current Assets			
Cash and cash equivalents	7	1,688,736	2,387,114
Trade and other receivables	8	51,878	1,460,432
Other current assets	9	65,424	39,461
Total Current Assets		**1,806,038**	**3,887,007**
Non-Current Assets			
Trade and other receivables	8	267,553	267,553
Construction work in progress	10	2,555,334	2,555,334
UCG panel assets	11	1,786,888	1,774,901
Property, plant & equipment	12	834,191	1,043,282
Other non-current asset	13	860,326	860,326
Deferred exploration and evaluation costs	14	90,376,990	90,180,110
Intangible assets	15	47,902,732	47,598,834
Total Non-Current Assets		**144,584,014**	**144,280,340**
Total Assets		**146,390,052**	**148,167,347**
Liabilities			
Current Liabilities			
Trade and other payables	16	435,158	952,372
Deferred revenue		-	873,106
Loans and borrowings	17	1,165,937	-
Derivative financial liability	18	9,020	10,904
Provisions	19	386,699	829,337
Total Current Liabilities		**1,996,814**	**2,665,719**
Non Current Liabilities			
Provisions	19	3,727,577	2,923,595
Financial Liabilities	20	8,029,675	6,972,442
Total Non Current Liabilities		**11,757,252**	**9,896,037**
Total Liabilities		**13,754,066**	**12,561,756**
Net Assets		**132,635,986**	**135,605,591**
Equity			
Issued Capital	21	238,614,976	235,606,127
Reserves	22	19,928,021	19,735,710
Accumulated losses	23	(125,907,011)	(119,736,246)
Total Equity		**132,635,986**	**135,605,591**

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 2015

	Notes	Issued Capital	Options Reserve	Share-Based Payments Reserve	Other Reserve	Foreign Currency Reserve	Accumulated Losses	Total
		$		$	$	$	$	$
Balance at 1 July 2013		227,727,927	-	15,772,469	2,101,590	34,306	(110,616,645)	135,019,647
Shares issued during the year	21	7,927,522	-	-	--	-	-	7,927,522
Transaction Costs	21	(49,322)	-	-	-	-	-	(49,322)
Options issued during the year	22	-	1,650,453	-	-	-	-	1,650,453
Movement in share option reserve on recognition of share passed payments	22	-	-	211,198	-	-	-	211,198
Translation of Foreign Operations	22	-	-	-	-	(34,306)	-	(34,306)
Losses attributable to member of parent entity	23	-	-	-	-	-	(9,119,601)	(9,119,601)
Balance at 30 June 2014		**235,606,127**	**1,650,453**	**15,983,667**	**2,101,590**	**-**	**(119,736,246)**	**135,605,591**
Balance at 1 July 2014		235,606,127	1,650,453	15,983,667	2,101,590	-	(119,736,246)	135,605,591
Shares issued during the year	21	3,252,563	-	-	-	-	-	3,252,563
Transaction Costs	21	(243,714)	-	-	-	-	-	(243,714)
Exercise of options	22	-	(47)	(14,734)	-	-	-	(14,781)
Movement in share option reserve on recognition of share based payments	22	-	-	207,092	-	-	-	207,092
Losses attributable to member of parent entity	23	-	-	-	-	-	(6,170,765)	(6,170,765)
Balance at 30 June 2015		**238,614,976**	**1,650,406**	**16,176,025**	**2,101,590**	**-**	**(125,907,011)**	**132,635,986**

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

Financial Report

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2015

	Notes	CONSOLIDATED GROUP 2015 $	2014 $
Cash flows from Operating activities			
Receipts from customers		172,331	1,810,818
Payments to suppliers and employees		(8,140,077)	(12,425,011)
Receipt of Government Grants		3,787,536	3,865,463
Interest received		91,442	166,946
Taxes paid		-	(181,082)
GST receipts from Australian Taxation Office		412,879	659,401
Other receipts		12,745	91,023
Net cash flows used in Operating activities	28	**(3,663,144)**	**(6,012,442)**
Cash flows from Investing Activities			
Payments for property, plant and equipment		(19,684)	(105,311)
Proceeds on sale of AFS asset		-	449,999
Proceeds from sale of tenements		-	600,000
Payments for Exploration & Evaluation costs		(196,881)	(120,857)
Payments for Intangible Assets		(85,709)	(24,452)
Net cash flows generated/ (used) in investing activities		**(302,274)**	**799,379**
Cash flows from Financing Activities			
Proceeds from issues of shares		2,566,152	8,874,169
Proceeds from short term loan facility		2,665,937	-
Repayment of short term loan facility		(1,500,000)	(2,997,233)
Term facility costs		(219,413)	-
Capital raising and financing costs		(245,636)	(49,321)
Net cash flows provided by financing activities		**3,267,040**	**5,827,615**
Net increase/ (decrease) in cash and cash equivalents held		(698,378)	614,552
Cash and cash equivalents at the beginning of the financial year		2,387,114	1,772,562
Cash and cash equivalents at the end of the financial year	7	**1,688,736**	**2,387,114**

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

Financial Report

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 1 - Statement of Significant Accounting Policies

The financial report covers the Consolidated Group of Carbon Energy Limited and its controlled entities. Carbon Energy Limited is a listed, for profit, public company, incorporated and domiciled in Australia. The addresses of its registered office and principal place of business are disclosed in the introduction to the annual report. The principal activities of the Company and its subsidiaries (the Consolidated Group) are described in Note 31.

1.1 Statement of Compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Consolidated Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 31 July 2015.

Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

1.2 Basis of Preparation

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 explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated.

1.2.1 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.

In concluding that the going concern basis is appropriate, a cash flow forecast for twelve months from the signing of the financial report was considered.

The ability of the Company and the Consolidated Group to continue as going concerns and fund the development and commercialisation of its *keyseam* UCG technology is dependent upon securing additional funds in the coming months from amongst a range of sources/opportunities including the receipt of the R&D cash incentive to be lodged with the ATO, the further licensing and services relating to the Company's *keyseam* UCG technology, issuing new equity, progress towards the utilisation of its gas reserves and/or entering into debt facilities. Factors which can influence these opportunities include, but are not limited to, approval of the utilisation of the Company's *keyseam* technology in Queensland by the Queensland Government and general market sentiment.

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

Financial Report

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 1 - Statement of Significant Accounting Policies (continued)

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 Company and the Consolidated Group not continue as going concerns.

1.3 Principles of Consolidation

A controlled entity is any entity over which Carbon Energy Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 31 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).

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.

1.4 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 profit or loss 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.

1.5 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods 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.

1.5.1 Technology Licence Fees

Technology license revenue is generated from granting third parties the right to use *keyseam* UCG technology in accordance with the terms of the relevant agreement. Technology licence fees are recognised as revenue as contractual milestones are fulfilled.

1.5.2 Technology Service Fees

The Consolidated Group provides technology services to customers on a fixed price basis. For the delivery of services 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.

1.5.3 Royalty Revenue

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreements.

1.5.4 Interest and Other Revenue

Interest revenue is recognised using the effective interest rate method. Gains from the sale of investments or other assets are recognised when the risks and rewards have been transferred to the purchaser which is on the date of the contract for sale or delivery.

1.5.5 Unbilled and Deferred Revenue

Unbilled revenue is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. If there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented as deferred revenue.

1.6 Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses and accounted for on a straight line basis in the periods in which they are incurred.

1.7 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.

1.8 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.

Financial Report

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 1 - Statement of Significant Accounting Policies (continued)

1.9 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. The Consolidated Group recognises grants when the government body has confirmed that a submitted claim is payable.

Where the grants are in recognition of expenses, the grant is presented as other income. Grants related to assets are presented in the balance sheet as a deduction against the assets carrying value.

1.10 Employee Benefits

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

Liabilities recognised in respect of employee benefits expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities recognised in respect of employee benefits not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are measured as the present value of the estimated future cash outflows to be made by the Consolidated 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 government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

1.11 Equity Settled Compensation

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.

1.11.1 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. Details regarding the determination of the fair value of employee equity-settled share-based transactions are set out in note 33.

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 profit or loss 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 profit or loss for the year.

1.12 Income Tax

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 balance sheet date.

Deferred tax is accounted for using the balance sheet 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 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.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

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.

1.13 Tangible Assets

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

1.13.1 Plant and Equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The cost of plant and equipment constructed within the Consolidated Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Note 1 - Statement of Significant Accounting Policies (continued)

The carrying amount of plant and equipment is reviewed for indicators of impairment bi-annually to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Consolidated Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

1.13.2 Depreciation

The cost of all plant and equipment is depreciated on a straight line basis over their useful lives to the Consolidated Group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate (Prime Cost)
Motor Vehicles	22.5%
Plant and Equipment (includes Furniture & Fittings)	7.5-50%
Water Monitoring assets	4%
Site Infrastructure	4%
Bloodwood Creek Trial Plant and Equipment	4%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the profit and loss component of the statement of comprehensive income.

1.13.3 UCG Panel Assets

UCG Panel Assets include costs transferred from construction work-in-progress once technical feasibility and commercial viability for a particular Panel can be demonstrated. When production commences, the accumulated costs for the relevant area of interest (for each Panel) are amortised over the life of the area according to the rate of depletion of the economically recoverable gas assets..

1.13.4 Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is either written off as incurred or accumulated in respect of each identifiable area of interest. Costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area, sale of the respective areas of interest or where activities in the area have not yet reached a stage, which permits reasonable assessment of the existence of economically recoverable gas assets.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest will be transferred to the relevant class of asset and depreciated over the life of the area according to the rate of depletion of the economically recoverable gas assets.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

1.14 Intangible Assets

1.14.1 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 profit or loss 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.

Internally generated UCG intangible assets recognised by the Consolidated Group have an indefinite life and are not amortised. A number of asset categories have been identified as operating assets used in the development of the Consolidated Group's *keyseam* technology and accordingly are amortised into the intangible asset over the life of the respective asset/s or transferred to the intangible asset in their entirety on meeting certain criteria.

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 Company has assessed that the asset is regenerative and knowledge continues to build. Such assets are tested for impairment in accordance with the policy stated in Note 1.15.

1.14.2 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.

1.15 Impairment of Tangible and Intangible Assets other than Goodwill

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).

Note 1 - Statement of Significant Accounting Policies (continued)

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.

1.16 Provision for Restoration and Rehabilitation

1.16.1 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, cavity process water clean-up 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.

Changes in the estimate of the provision for restoration and rehabilitation are treated in the same way, except that 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.

1.16.2 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 cashflows estimated to settle the present obligation, therefore the carrying amount will be the present value of those cashflows. Essentially management will take the present value of the estimated panel rehabilitation costs, calculated over the estimated life of the panel and recognise the rehabilitation expense based on the percentage of coal utilisation for the period.

Financial Report

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

1.17 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 profit or loss immediately. Financial instruments are classified and measured as set out below.

1.17.1 Financial Assets

1.17.1.1 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 comprehensive income in the period in which they arise.

1.17.1.2 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.

1.17.1.3 Impairment of Financial Instruments

At each reporting date, the 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 comprehensive income.

1.17.1.4 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 profit or loss.

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

1.17.1.5 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.1.17.2 Financial Liabilities and Equity Instruments.

1.17.2.1 Financial Liabilities

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

Note 1 - Statement of Significant Accounting Policies (continued)

Short- term liability includes secured loan facility to assist 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.

1.17.2.2 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 remeasured. 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 profit or loss upon conversion or expiration of the conversion option.

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.

1.17.2.3 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 profit and loss.

1.17.2.4 Derivative Financial Instrument

The issue of options for the short-term loan is treated as an embedded derivative, initially recognised at cost using Black Scholes option valuation, the date the contract is entered into and is treated as transaction cost over the loan period and subsequently measured at fair value at the end of the reporting period. The resulting gain or loss is recognised in the profit or loss immediately.

1.18 Goods 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.

1.19 Cash and Cash Equivalents

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.

1.20 Contributed Equity

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.

1.21 Contingent Asset

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate. Where an inflow of economic benefits is probable, the Consolidated Group will disclose a brief description of the nature of the contingent assets at the end of the reporting period, and, where practicable, an estimate of their financial effect.

1.22 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.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Actual results may differ from these estimates under different assumptions and conditions, and quantifying the effect of possible future changes is not practicable.

1.22.1 Estimated Impairment of Assets

The Consolidated Group assess 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.

Deferred exploration and evaluation assets
The deferred exploration and evaluation assets are assessed for impairment indicators using guidance in AASB 6 which are deemed appropriate for the Consolidated Group's stage of development. If an impairment trigger arose the recoverable value would be calculated by modelling the fair value less cost of disposal of the Blue Gum Gas Project. The success of a future gas project is dependent on receiving a positive decision on the commercial future of *keyseam* from the Queensland Government.

UCG intangible asset
An impairment test is completed annually for carried forward indefinite life intangibles.

The value in use cash flows have been estimated based on the technology, licence and service fees and ongoing royalty contractual arrangements

Note 1 - Statement of Significant Accounting Policies (continued)

entered into to date. The growth factor is based on known and potential projects expected to progress to a commercial scale.

Detailed information about each of these estimates and judgements is included in Note 14 and 15 respectively.

1.22.2 Recognition of Revenue

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.

A determination was made that the Inner Mongolia UCG project contained a number of work packages and these have been assessed individually. Stage of completion is assessed by Management on the basis of the actual service provided as a proportion of the total services to be provided. For the purposes of recognising revenue, the stage of completion for individual packages is capped at 90% as the final milestone payment is due on the successful ignition and testing of the process characterisation panel.

1.22.3 Provision for Rehabilitation

The provision for rehabilitation is based on the best estimate of the current obligations to rehabilitate the Bloodwood Creek site.

During the year the Consolidated Group lodged a rehabilitation plan for the site with the Queensland Government and awaits the Queensland Governments response.

Once the decommissioning and rehabilitation has been agreed with the Queensland Government the Consolidated Group will review the current estimate on the basis of the approved rehabilitation plan and update the provision, if required. The current estimate uses valuations provided by external consultants.

To calculate the present value of the provision for rehabilitation, the Consolidated Group has taken the value of the estimated rehabilitation liability provided by the external consultants and inflated the liability to a future value using forecast inflation rates and applied an appropriate discount rate based on the expected timing for the rehabilitation expenditure.

1.22.4 Share-based Payment Transactions

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, depending on the conditions attached to the options and performance rights. Fair valuation inputs are detailed in Note 33.

The fair value is most sensitive to the volatility input. Equity instrument volatilities to match the life of the equity instrument have been provided by independent consultants.

1.22.5 Estimate of the Useful Life of Property, Plant & Equipment

The estimation of the useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Details of the useful lives of property, plant and equipment are set out in Note 1.13.2.

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Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 2 – Application of new and revised Accounting Standards

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were on issue but not yet effective

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 impact based on current financial instruments
AASB 14 Regulatory Deferral Accounts	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016	Not applicable	Not applicable
AASB 15 Revenue from contracts with customers	1 January 2018	30 June 2019	No impact to current contracts
AASB 1056 Superannuation Entities	1 July 2016	Not applicable	Not applicable
AASB 2014-1 'Amendments to Australian Accounting Standards' – Part E: 'Financial Instruments'	1 January 2015	30 June 2016	No impact based on current financial instruments
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions if Interests in Joint Operations'	1 January 2016	Not applicable	Not applicable
AASB 2014-4 'Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation '	1 January 2016	30 June 2018	No impact
AASB 2014-6 'Amendments to Australian Accounting Standards - Agriculture: Bearer Plants'	1 January 2016	Not applicable	Not applicable
AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'	1 January 2016	Not applicable	Not applicable
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	1 January 2016	Not applicable	Not applicable
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2018	Not material
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017	Enhanced disclosure
AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'	1 July 2015	30 June 2016	No impact
AASB 2015-4 ' Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent'	1 July 2015	Not applicable	Not applicable
AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'	1 January 2016	Not applicable	Not applicable
AASB 2015-6 'Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Non-for-Profit Public Sector Entities'	1 July 2016	Not applicable	Not applicable

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Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 3 – Other Income

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Operating Activities		
Government grants[1]	3,787,536	3,865,463
Interest received	106,836	174,708
Non-operating activities		
Other income	12,058	85,390
TOTAL	**3,906,430**	**4,125,561**

[1] The Consolidated Group receives a research and development tax incentive (R&D) rebate from the Australian Taxation Office and an export market development grant (EMDG) from Austrade. The R&D grant is equivalent to 45% of eligible research and development expenditure while the EMDG scheme reimburses up to 50% of eligible export promotion expenses. As the Consolidated Group recognises rebates upon receipt, this income relates to expenditure incurred in the 2014 financial year.

On 13 May 2014 the Government announced a proposal to reduce the research and development tax incentive rate from 45% to 43.5% for expenditure incurred from 1 July 2014. On 12 May 2015, the Australian Government reiterated its intention to change the rates of assistance under the R&D Tax Incentive to 43.5%. Legislation has not yet been re-introduced into parliament to change the rates of assistance.

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FOR THE YEAR ENDED 30 JUNE 2015

Note 4 - Loss From Ordinary Activities

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Loss from ordinary activities before income tax has been determined after:		
(a) Expenses		
Depreciation of Non-current assets		
Motor Vehicles	3,406	5,752
Plant & Equipment (includes Furniture & Fittings)	225,307	139,501
Total Depreciation	**228,713**	**145,253**
Superannuation expense	245,627	235,692
Operating lease expense	390,151	373,453
Interest expense	614,998	563,426
Finance facility fees	157,926	202,828
Pacific Road Convertible note accretion expense	1,057,233	793,138
Rehabilitation provision accretion expense	48,585	84,305
(b) Significant Transactions		
Impairment		
Trade Receivables (refer to Note 8).	634,148	-
US Coal assets (refer to Note 14).	-	263,564
Chile Project asset (refer to Note 13).	-	860,327
On 21 December 2013 a Deed of Termination and Release was entered into which released Focus Minerals Limited from its contingent consideration obligation to Carbon Energy Ltd and secured the release/discharge of the Mortgage for a cash settlement of $600,000 which resulted in a write down of the receivable.	-	847,009
Total Impairment	**634,148**	**1,970,900**

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Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 5 - Earnings per share (EPS)

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Net loss for the year attributable to members of the parent entity	(6,170,765)	(9,119,601)
Basic loss per share (cents per share)	(0.47)	(0.81)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	**1,315,727,953**	**1,132,612,426**
Diluted loss per share (cents per share)	(0.47)	(0.81)
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	**1,315,727,953**	**1,132,612,426**

Options and performance rights outstanding at 30 June 2015, totalling 615,564,795 are not considered to be dilutive potential ordinary shares as the effect is anti-dilutive due to the nature of vesting conditions.

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FOR THE YEAR ENDED 30 JUNE 2015

Note 6 - Income Tax Expense

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
(a) The components of tax expense comprise		
Current year tax	(52,122)	233,203
Deferred tax	-	-
Prior year tax expense	-	
	(52,122)	**233,203**

	2015 $	**2014 $**
(b) The prima facie tax/ (benefit) on Profit/ (Loss) for ordinary activities is reconciled to the income tax expense as follows:		
Operating income/ (loss) before taxation	(6,222,887)	(8,886,398)
2015:30% (2014:30%)	(1,866,866)	(2,665,919)
Add tax effect of:		
Non-deductible items	2,204,738	3,477,228
Other deductible items	(67,657)	(84,534)
Net exempt income	(1,109,578)	(1,132,599)
Other tax credit not recognised (i)	(52,122)	233,203
International tax rate differential	221	-
Deferred tax assets not brought to account	839,142	405,824
Income tax (expense)/benefit attributable to operating loss timing	**(52,122)**	**233,203**

	2015 $	**2014 $**
(c) 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 in Note 1 (b) occur		
An income tax Consolidated Group was formed from 1 July 2008		
Balance at the beginning of the year	69,695,351	69,678,022
Adjustment to Prior year carry forward losses	(57,435)	(351,825)
Temporary differences	(20,380)	(36,670)
Tax losses (after income tax at 30%)	839,142	405,824
TOTAL DEFERRED TAX ASSETS NOT BROUGHT TO ACCOUNT	**70,456,678**	**69,695,351**

(i) Other tax credits not recognised relate to withholding tax paid in China not able to be claimed against Australian Taxable Income.

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Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 6 - Income Tax Expense (continued)

Impact of Minerals Resource Rent Tax (MRRT)

The Minerals Resource Rent Tax Act 2012 (MRRT) was granted Royal Assent on 29 March 2012 and applied from 1 July 2012. On 17 July 2014 the Minerals Resource Rent Tax Repeal and Other Measures Bill 2013 (Bill) containing the repeal of MRRT was approved by the Senate, with amendments. On 18 July 2014 the amended Bill was rejected by the House of Representatives. On 5 September 2014, the repeal of the Minerals Resource Rent Tax (MRRT) received royal assent under the Minerals Resource Rent Tax Repeal and Other Measures Act 2014, with this Act legislating the abolition of the MRRT from 1 October 2014.

Resources that were subject to the MRRT were not also taxable under the Petroleum Resource Rent Tax Assessment Act 1987 (PRRT). The repeal of MRRT means that PRRT now applies to the Consolidated Group if coal is ultimately used to generate where syngas is produced under the relevant production licence and the generation of syngas is not "incidental" to the production of coal. The PRRT is a 40% tax levied on the "upstream" profit attributable the Company's production licences.

In order to qualify for the starting base under PRRT, the Company lodged a PRRT starting base return during 2014, Under PRRT, once in the production phase and making assessable profits, the starting base allowance reduces the 40% tax liability incurred under PRRT, as a tax deduction. This starting base may be carried forward as an allowable deduction against any future PRRT profits that arise in respect of the Company's PRRT production licences.

Note 7 – Cash at Bank

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Cash at Bank	238,736	387,114
Short Term Deposits	1,450,000	2,000,000
TOTAL CASH AND CASH EQUIVALENTS	**1,688,736**	**2,387,114**

Note 8 – Trade and Other Receivables

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Current		
Trade receivables	663,619[1]	1,394,394
Provision for Impairment of trade receivable	(634,148)[1]	-
Other receivables	22,407	66,038
TOTAL CURRENT TRADE & OTHER RECEIVABLES	**51,878**	**1,460,432**
Non Current		
Deposits	267,553	267,553
TOTAL NON CURRENT TRADE & OTHER RECEIVABLES	**267,553**	**267,553**

[1] Advance payments for deferred billings have been applied against the $1,394,317 due from Haoqin Mining in relation to the Inner Mongolia Project. A provision has been made against the Haoqin project due to the continued delay experienced in payment.

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Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 8 – Trade and Other Receivables (continued)

Movements in the provision for impairment of receivables are as follows:

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Opening Balance	-	-
Provision for Impairment recognised during the year	(634,148)	-
Closing Balance	**(634,148)**	**-**

Note 9 – Other Current Assets

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Current		
Prepayments	65,424	39,461
TOTAL OTHER CURRENT ASSETS	**65,424**	**39,461**

Note 10 – Construction Work-In-Progress

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Construction Work-In-Progress	2,555,334	2,555,334
Total Construction Work-In-Progress	**2,555,334**	**2,555,334**

This relates to Panel 3 at Bloodwood Creek, Dalby in Queensland.

Note 11 – UCG Panel Assets

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Opening Balance	**1,774,901**	**1,776,106**
Adjustment for Rehabilitation Provision	11,987	(1,205)
Closing Balance	**1,786,888**	**1,774,901**

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Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 12 - Property, Plant and Equipment

(a) Carrying amounts:

	Freehold Land	Motor Vehicles	Property, Plant & Equipment	Total
	$	$	$	$
30 June 2015				
Cost	408,016	82,246	1,221,067	1,711,329
Accumulated Depreciation	-	(75,920)	(801,218)	(877,138)
Net Book Value	**408,016**	**6,326**	**419,849**	**834,191**
30 June 2014				
Cost	408,016	87,287	1,196,586	1,691,889
Accumulated Depreciation	-	(67,473)	(581,134)	(648,607)
Net Book Value	**408,016**	**19,814**	**615,452**	**1,043,282**

(b) Movements in carrying amount:

	Freehold Land	Motor Vehicles	Property, Plant & Equipment	Total
	$	$	$	$
Carrying amount at 1 July 2013	408,016	25,566	649,642	1,083,224
Additions	-	-	105,311	105,311
Disposals	-	-	-	-
Depreciation expense	-	(5,752)	(139,501)	(145,253)
Carrying Amount at 30 June 2014	**408,016**	**19,814**	**615,452**	**1,043,282**
Carrying amount at 1 July 2014	408,016	19,814	615,452	1,043,282
Transfer between asset classes	-	(10,082)	10,082	-
Additions	-	-	19,684	19,684
Disposals	-	-	(62)	(62)
Depreciation expense	-	(3,406)	(225,307)	(228,713)
Carrying Amount at 30 June 2015	**408,016**	**6,326**	**419,849**	**834,191**

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Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 13 – Other Non-Current Asset

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Opening Balance	**860,326**	**1,722,723**
Adjustments	-	(2,070)
Impairment write-down (Refer Note 4(b))	-	(860,327)
Closing Balance	**860,326**	**860,326**

This asset relates to capitalised costs for a proposed UCG project in Chile. Carbon Energy has been working with Antofagasta Minerals S.A. (AMSA) to develop a UCG project in Chile. The parties have been working together to find a way in which UCG could be used for power generation in Chile.

Carbon Energy has focused its efforts on securing debt funding and equity partners for the project. During the year the Company appointed BHD Capital to support it sourcing potential investors for the project. The Company is continuing its dialogue with AMSA and potential funding and project partners. At this stage the Company aims to be a technology partner to the project once project partners have been identified and funding is secured.

Note 14 – Deferred Exploration and Evaluation Costs

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Opening Balance	90,180,110	90,322,819
Additions	196,880	120,857
Impairment write-down (refer note 4(b))	-	(263,566)
Costs written off		
Closing Balance	**90,376,990**	**90,180,110**

Recoverability of the carrying amount of the exploration and evaluation asset is dependent on successful development and commercial exploitation of the resource. There have been no facts or circumstances to suggest that the carrying amount of the exploration and evaluation asset may exceed its recoverable amount. Renewal applications have been submitted to the Department of Natural Resources and Mines with exploration work programs and are pending assessment. The US coal assets were written down in 2014 following a decision not to proceed with commercialising the resource.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 15 – Intangible Assets

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Opening Balance	47,598,834	47,623,940
Additions	87,225	24,452
Decrease in Rehabilitation provision	-	(49,558)
Increase in Rehabilitation provision	216,673	-
Closing Balance	**47,902,732**	**47,598,834**

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 $87,225 (2014: $24,452) was added to the 'know-how' intangible asset during the 2015 financial year for ongoing patent costs following achievement of 'Proof of Concept' of the Company's *keyseam* UCG Technology. The asset has been adjusted with the increase in rehabilitation provision.

Impairment Test for Indefinite Life Intangible Assets

The recoverable amount of the UCG intangible asset has been determined based on a value in use calculation using a pre-tax discount rate of 20.6% (2014: 19.9%). The value in use cash flows have been estimated by management based on the technology, license and service contractual arrangements entered into to date or contemplated and the estimated cash inflows expected to be generated over the life of such agreements. The expected life of the underlying projects is estimated to be 20-25 years which is consistent with the expected scale of commercial projects of this nature. Growth in the cash flows assumes a number of international licensing projects progress to commercial scale. In addition, for China opportunities, it has been assumed that the next Chinese Government mandated five year plan, due for release in 2016, incorporates UCG as a preferred extraction model for energy sources, in line with its strategy to support clean energy solutions for the country. The cash flows assume the Company partners with Chinese investors to develop UCG projects. Projects have been allocated probability weightings ranging from 5% to 80%. The recoverable value is sensitive to significant changes in these probability weightings. Management also believes that any other reasonably possible change in the key assumptions on which the UCG intangible asset's recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

Note 16 - Trade and Other Payables

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Trade payables	293,944	443,887
Other payables	141,214	508,485
TOTAL TRADE AND OTHER PAYABLES	**435,158**	**952,372**

Note 17 – Loans and Borrowings

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Current		
Loan Facility (Secured)	1,165,937	-
Closing Balance	**1,165,937**	**-**

The Company secured a $1.5 million loan facility with Macquarie Bank Limited on 1 July 2014 to assist in funding its short term working capital requirements prior to receipt of the 2014 Research and Development tax incentive rebate. The facility was drawn down on 7 August 2014 and subsequently repaid in full during September 2014, upon receipt of the Research and Development rebate from the Australian Taxation Office. Total financing costs incurred to have the facility available were $102,873.

On 29 January 2015 the Company secured a new facility with Macquarie bank for $1.2 million to assist in funding its short term working capital requirements prior to receipt of the 2015 Research and Development tax incentive rebate. The facility was drawn down on 30 January 2015. Financing costs for this facility incurred during the financial year are $116,540.

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Opening Balance	**-**	**-**
Loan proceeds	2,665,937	-
Less: Repayment	(1,500,000)	-
Secured Loan Debt Outstanding at Balance Date	**1,165,937**	**-**

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Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 18 – Derivative Financial Liability

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Current		
Derivative out of Credit Suisse loan facility	9,020	10,904
Closing Balance	**9,020**	**10,904**

As part of the finalisation of the Credit Suisse loan facility, 61,728,395 options were issued to Credit Suisse at a strike price of $0.081. The 2013 rights issue resulted in a recalculation of the strike price which has reduced to $0.061. The Company has the discretion to settle the net gain (per market/share price) either in cash or equity at the time that Credit Suisse exercises the options. The issue of these options has been treated as an embedded derivative and accordingly the value has been classified as a derivative financial liability.

The derivative financial liability is measured at fair value at the period end. Refer to Note 26 (e) for further details.

The reconciliation of the derivative financial liability is as follows:

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Opening Balance	10,904	266,156
Additions		-
Fair value adjustment recognised in the profit and loss	(1,884)	(255,252)
Closing Balance	**9,020**	**10,904**

Note 19 – Provisions

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Current		
Employee Benefits	386,699	320,234
Rehabilitation	-	509,103
	386,699	**829,337**
Non-Current		
Employee Benefits	48,496	30,863
Rehabilitation	3,679,080	2,892,732
	3,727,577	**2,923,595**
TOTAL PROVISIONS	**4,114,276**	**3,752,932**

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Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 19 – Provisions (continued)

a) *Information about individual provisions and significant estimates*
Employee provisions
The provision for employee benefits relates to the Consolidated Group's liability for annual leave and long service leave.

Rehabilitation provision
The Consolidated Group recognises that it has an obligation to restore and rehabilitate the area disturbed as a result of its exploration and development activities. A provision has been recognised for the present value of expected expenditure required to rehabilitate the areas in the future. Although the ultimate cost to be incurred is uncertain the Consolidated Group has considered its provisions based on valuations provided by independent consultants. When this liability is recognised, a corresponding asset is also recognised and is amortised on the same basis as the underlying asset. Refer to Note 1.16 for further information in relation to the group's accounting policy relevant to this provision.

b) *Employee benefit amounts not expected to be settled within the next 12 months*
The 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. Based on past experience employees are taking their annual entitlement to leave within 12 months.

The following amounts reflect long service leave that is not expected to be taken or paid in the next 12 months.

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Amounts not expected to be settled within 12 Months	48,496	30,863

c) *Movement in provisions*
Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	CONSOLIDATED GROUP
	2015 $
	Rehabilitation provision
Carrying amount at 1 July 2014	3,401,835
Movements in discount rates	94,019
Unwinding of discount	48,585
Movements in timing of expenditure	134,641
Carrying amount at 30 June 2015	**3,679,080**
Split between:	
Current	-
Non-Current	3,679,080
	3,679,080

Note 20 – Financial Liabilities

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Non-Current		
Convertible note facility (secured)	8,029,675	6,972,442
TOTAL FINANCIAL LIABILITIES	**8,029,675**	**6,972,442**

	2015 $	**2014 $**
Opening Balance	6,972,442	6,179,304
Accretion	1,057,233	793,138
Closing Balance	**8,029,675**	**6,972,442**

The total secured Pacific Road Capital "Pacific Road" convertible note outstanding at 30 June 2015 is $10,000,000. A reconciliation of the financial liability to the convertible note is as follows:

	CONSOLIDATED GROUP
	2015 $
Financial liability as at 30 June 2015	8,029,675
Fair value discount to unwind in future periods	1,970,325
Convertible note outstanding as at 30 June 2015	10,000,000
Future interest payments at 5% (refer to Note 26(c))	778,002

The Equity component of $2,101,590 has been credited to equity (Other Reserve). 35,000,000 unlisted options were issued with a strike price at a 25% premium over the term of the Facility Agreement which expires on 18 January 2017.

An additional 9,645,845 unlisted options were issued to Pacific Road Capital Management Pty Ltd (Pacific Road) on 16 November 2012 with an exercise price of $0.081 and an expiry date of 15 November 2015. These options were issued in accordance with the non-dilution clause in the Pacific Road Facility Agreement whereby the convertible note has provision to prevent any further capital raising from diluting Pacific Road's share holding in Carbon Energy. This increases Pacific Road's unlisted options from 35,000,000 in 2012 to 44,645,845 in 2013. The 2013 rights issue resulted in a recalculation of the exercise price of these options which has reduced to $0.061.

Pacific Road may convert all or part of the Facility amount to shares in the Company at any time during the term at a conversion price of $0.14. If the share price exceeds $0.40 for continuous 60 day VWAP period the Company can request the conversion of the Facility in full. The Facility repayment date is 18 January 2017 and any part of the Facility amount not converted into shares on that date is repayable in cash by the Company on that date. The Pacific Road Convertible Note Facility is secured by a mortgage over the UCG technology and software transferred from CSIRO to Carbon Energy.

The fair value of the financial liability approximates its carrying value. Interest on the convertible note facility is paid through the issue of shares. Refer to Note 21.

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Note 21 - Issued Capital

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
1,345,742,829 Fully Paid Ordinary Shares (2014: 1,265,979,607)	**238,614,976**	**235,606,127**

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

(a) Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

(b) 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.

Ordinary Fully Paid Shares

Movement in Issued Ordinary Shares for the Year:		**No. Shares**	**$**
BALANCE AT 1 JULY 2014		**1,265,979,607**	**235,606,127**
01/09/2014	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	5,576,434	126,027
15/10/2014	Issue of Ordinary Shares under the Company's Short and Long Term Executive Incentive Plan	10,033,239	171,631
16/10/2014	Exercise of options under Executive Short and long term arrangements	1,750,730	62,951
31/10/2014	Exercise of listed options	2,000	128
31/10/2014	Share Purchase Plan	50,344,305	2,517,215
01/12/2014	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	2,838,455	126,027
15/12/2014	Exercise of listed options	10,000	639
02/03/2015	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	4,272,115	126,027
02/06/2015	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	4,935,944	121,918
	Share Issue Costs	-	(243,714)
BALANCE AT 30 JUNE 2015		**1,345,742,829**	**238,614,976**

Note 21 - Issued Capital (continued)

		No. Shares	$
BALANCE AT 1 JULY 2013		**786,889,705**	**227,727,927**
26/8/2013	Non-renounceable rights issue @ $0.02	131,999,245	2,123,588
27/8/2013	Share Subscription Agreement with Holder East Capital @ $0.02 per share	50,000,000	804,624
30/8/2013	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	6,279,353	125,587
15/10/2013	Rights Issue shortfall	171,818,615	2,815,913
31/10/2013	Short Term Incentive/ Long Term Incentive Shares allotted for Executives	3,944,370	114,895
20/11/2013	Rights Issue shortfall	89,626,993	1,475,234
06/12/2013	Rights Issue shortfall to Directors	263,551	4,358
06/12/2013	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	5,834,861	128,360
06/12/2013	Short Term Incentive/ Long Term Incentive Shares allotted for Executives	3,440,831	86,191
11/03/2014	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	7,047,459	126,854
29/05/2014	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	8,834,624	121,918
	Share Issue Costs	-	(49,322)
BALANCE AT 30 JUNE 2014		**1,265,979,607**	**235,606,127**

1,092,843 ordinary fully paid shares were issued at a price of $0.026 each for the exercise of unlisted options during the year, raising $28,415. A further option expense of $8,798 was transferred from the share based payments reserve to recognise the total cost of the shares issued.

657,887 ordinary fully paid shares were issued at a price of $0.0301 each for the exercise of unlisted options during the year, raising $19,802. A further option expense of $5,936 was transferred from the share based payments reserve to recognise the total cost of the shares issued.

12,000 ordinary fully paid shares were issued at a price of $0.06 each for the exercise of listed options during the year, raising $767 before costs. A further option expense of $47 was transferred from the options reserve to recognise the total cost of the shares issued.

Listed Options

As at year end the Company has on issue 443,696,404 $0.06 listed options expiring on 31 July 2016.

Unlisted Options

As at year end the Company has on issue 159,368,391 unlisted options. 126,035,058 unlisted options have vested and are exercisable. Exercise prices for unlisted options range from $0.026 to $0.1678. Information relating to options, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period is set out in Note 33.

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Note 21 - Issued Capital (continued)

Unlisted Performance Rights

As at year end the Company has on issue 12,500,000 unlisted performance rights. None of the unlisted performance rights have vested. Information relating to performance rights issued and forfeited during the year is set out in Note 33.

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 paid in 2015 (2014: Nil) and no dividends are expected to be paid in 2015.

Stock Exchange Listing

Quotation has been granted for 1,345,742,829 (2014: 1,265,979,607) of the Company's ordinary shares on all Member exchanges of the Australian Stock Exchange Limited ("ASX").

Carbon Energy is quoted on the US securities market, the International OTCQX in New York. Merriman Capital is providing Principal American Liaison (PAL) services for the Company's quotation on the OTCQX.

Note 22 – Reserves

		CONSOLIDATED GROUP	
	Note	**2015 $**	**2014 $**
Share based payments reserve	(a)	16,176,025	15,983,667
Options reserve	(b)	1,650,406	1,650,453
Foreign currency translation reserve	(c)	-	-
Other reserve	(d)	2,101,590	2,101,590
TOTAL RESERVES		**19,928,021**	**19,735,710**

(a) 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.
(b) The options reserve records the value of listed options on issue.
(c) The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. During the prior year (2014) the Consolidated Group dissolved Carbon Energy USA Inc and Clean Coal Amasra Limited. Foreign exchange gains and losses accumulated in equity were transferred to the Statement of profit and loss upon disposal.
(d) The Other reserve records the conversion option attached to the Pacific Road Convertible Note Facility. The conversion option remains deferred in the reserve until the conversion option is exercised. Refer to Note 1.17.2.2 for additional information.

Note 22 – Reserves (continued)

	CONSOLIDATED GROUP	
SHARE BASED PAYMENTS RESERVE	**2015 $**	**2014 $**
Balance at beginning of the year	15,983,667	15,772,469
Employee share schemes – value of employee services	207,092	211,198
Exercise of options transferred to Issued Equity	(14,734)	-
Balance at end of the year	**16,176,025**	**15,983,667**

1,092,843 options were exercised during the financial year at an exercise price of $0.026. A further 657,887 options were exercised at an exercise price of $0.0301. Each option converts into one ordinary share of Carbon Energy Limited. The valuation of options held in the share based payments reserve is transferred to issued capital.

OPTIONS RESERVE	**2015 $**	**2014 $**
Balance at beginning of the year	1,650,453	-
Exercise of options transferred to Issued Equity	(47)	1,650,453
Balance at end of the year	**1,650,406**	**1,650,453**

12,000 options were exercised during the financial year at an exercise price of $0.06. Each option converts into one ordinary share of Carbon Energy Limited. The valuation of options held in the options reserve is transferred to issued capital.

FOREIGN CURRENCY RESERVE	**2015 $**	**2014 $**
Balance at beginning of the year	-	34,306
Currency translation differences	-	16,481
Dissolution of foreign controlled entity	-	(50,787)
Balance at end of the year	**-**	**-**

OTHER RESERVE	**2015 $**	**2014 $**
Balance at beginning of the year	2,101,590	2,101,590
Balance at end of the year	**2,101,590**	**2,101,590**

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Note 23 – Accumulated Losses

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Balance at beginning of the year	(119,736,246)	(110,616,645)
Loss attributable to the Consolidated Group	(6,170,765)	(9,119,601)
Balance at end of the year	**(125,907,011)**	**(119,736,246)**

Note 24 - 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.

The Consolidated Group accounted for revenue of $285,268 with all amounts relating to technology services performed in Australia and delivered to Chinese projects.

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Note 25 – Parent Entity Disclosures

	PARENT ENTITY	
	2015 $	**2014 $**
Financial Position		
Assets		
Current assets	1,702,476	2,153,688
Non-current assets	140,466,805	140,968,021
Total Assets	**142,169,281**	**143,121,708**
Liabilities		
Current liabilities	1,503,620	543,675
Non-current liabilities	8,029,675	6,972,442
Total Liabilities	**9,533,295**	**7,516,117**
Equity		
Issued capital	238,614,976	235,606,127
Accumulated losses	(125,907,011)	(119,736,246)
Reserves		
Share based payments reserve	16,176,025	15,983,668
Options reserve	1,650,406	1,650,453
Other reserve	2,101,590	2,101,590
Total Equity	**132,635,986**	**135,605,591**

Financial Performance	**2015 $**	**2014 $**
Loss for the year	6,170,766	9,153,907
Other Comprehensive Income	-	-
Total Comprehensive Loss	**6,170,766**	**9,153,907**

Refer Note 27(e) for Contingent Liabilities.

The Pacific Road Convertible Note Facility is secured by a first ranking registered fixed and floating charge over the initial technology transferred from CSIRO to Carbon Energy.

The Inter Company Receivable has been written down to its recoverable amount. An impairment of $6,242,104 was recognised on other intercompany receivables for the year ended 30 June 2015 (2014: $2,714,430).

Note 25 – Parent Entity Disclosures (continued)

Operating Lease Commitment

	PARENT ENTITY	
	2015 $	**2014 $**
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
• not later than one year	399,384	384,023
• later than one year but not later than five years	1,105,102	1,504,487
TOTAL OPERATING LEASE COMMITMENTS	**1,504,486**	**1,888,510**

The Company has a property lease for the Brisbane office which commenced on 1 February 2013 for a term of 6 years. The lease agreement expires on 31 January 2019 with a further 5 year option. Rent increases are set at a 4% increase per annum.

Note 26 - Financial Risk Management

(a) 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.
- 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 Carbon Energy finance practices and processes.

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

Other minor risks are either summarised below or disclosed at Note 21 in the case of capital risk management.

(b) 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:

Note 26 - Financial Risk Management (continued)

(b) Liquidity Risk (continued)

CONSOLIDATED GROUP

		Payables Maturity Analysis			
2015	**TOTAL**	**<1 year**	**1-2 years**	**2-3 years**	**>3 years**
Trade and other payables	435,158	435,158	-	-	-
Pacific Road Convertible Note	10,000,000	-	10,000,000	-	-
Macquarie Loan Facility	1,165,937	1,165,937	-		
Interest payable	844,490	566,408	278,082	-	-
TOTAL PAYABLES	**12,445,585**	**2,167,503**	**10,278,082**	**-**	**-**
2014					
Trade and other payables	952,372	952,372	-	-	-
Pacific Road Convertible Note	10,000,000	-	-	10,000,000	-
Interest payable	1,278,082	500,000	500,000	278,082	-
TOTAL PAYABLES	**12,230,454**	**1,452,372**	**500,000**	**10,278,082**	**-**

(c) 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.

The Pacific Road Convertible Note Facility is a 5% fixed rate debt which exposes the Consolidated Group to fair value interest rate risk. The Pacific Road Convertible Note Facility is secured by a mortgage over the UCG technology and software transferred from CSIRO to Carbon Energy.

The Consolidated Group entered into a $1.5m loan facility with Macquarie Bank on 1 July 2014 to assist in funding the Company's short term working capital requirements until receipt of the 2014 research and development tax incentive rebate. The loan was drawn down on 7 August 2014 and subsequently repaid in full during September 2014, upon receipt of the 2014 research & development rebate. The loan was secured by a mortgage over all other remaining assets of the Company not subject to the security held under the Pacific Road Convertible Note Facility. The loan had a 14.5% per annum fixed interest rate.

A second loan facility was entered into with Macquarie Bank for $1.2 million on 29 January 2015 to assist in funding the Company's short term working capital requirements until receipt of the 2015 research and development tax incentive rebate. The loan is due to be repaid at the earlier of receipt of the 2015 research & development rebate or 30 November 2015. The loan has a fixed 13.5% interest rate for the drawn component and a 3% interest rate for the remaining undrawn balance. The loan is secured by a mortgage over all other remaining assets of the Company not subject to the security held under the Pacific Road Convertible Note Facility.

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Note 26 - Financial Risk Management (continued)

(c) Market Risk (continued)

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 Parent Entity and Consolidated Group's exposure to interest rate risk and the effective weighted average interest rate for each class of these financial instruments.

	Weighted Ave		Floating Interest		Fixed Interest Rate		Non-Interest		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	%	%	$	$	$	$	$	$	$	$
Cash	2.84	3.03	237,926	385,836	1,450,000	2,000,000	810	1,278	**1,668,736**	2,387,114
Receivables	2.98	3.61	-	-	235,053	267,553	84,378	1,460,432	**319,431**	1,727,985
TOTAL FINANCIAL ASSETS			**237,926**	385,836	**1,685,053**	2,267,553	**85,188**	1,461,710	**2,008,167**	4,115,099
Trade and other payables		-	-	-	-	-	(435,158)	(952,372)	**(435,158)**	(952,372)
Financial liability – Macquarie Bank	13.5	-	-	-	(1,165,937)	-	-	-	(1,165,937)	-
Financial liability – Pacific Road	5.00	5.00	-	-	(8,029,675)	(6,972,442)	-	-	**(8,029,675)**	(6,972,442)
TOTAL FINANCIAL LIABILITIES			**-**	-	**(9,195,612)**	(6,972,442)	**(435,158)**	(952,372)	**(9,630,770)**	(7,924,814)
NET FINANCIAL ASSETS (LIABILITIES)			**237,926**	385,836	**(7,510,560)**	(4,704,889)	**(349,970)**	509,338	**(7,622,603)**	(3,809,715)

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 2015		Interest Rate Risk Sensitivity 2014	
	+10% Profit $	-10% Profit $	+10% Profit $	-10% Profit $
Cash	676	(676)	1,168	(1,168)
Receivables	-	-	-	-
TOTAL FINANCIAL ASSETS	**676**	**(676)**	**1,168**	**(1,168)**
Trade and other payables	-	-	-	-
Financial liability – Macquarie Bank	-	-	-	-
Financial liability – Pacific Road	-	-	-	-
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**-**	**-**
NET FINANCIAL ASSETS (LIABILITIES)	**676**	**(676)**	**1,168**	**(1,168)**

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 2015 by approximately 25 basis points. This would represent approximately one RBA interest rate increases/(decreases) which is reasonably possible in the current environment.

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FOR THE YEAR ENDED 30 JUNE 2015

Note 26 - Financial Risk Management (continued)

(c) Market Risk (continued)

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 going forward to ensure foreign currency risk is managed effectively.

(d) Credit Risk

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

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 1 to the financial statements.

The credit risk for counterparties in trade and other receivables at 30 June 2015 are not credit rated by the Company. Their maturities are detailed below:

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Contracted maturities of receivable for year ended 30 June 2015		
RECEIVABLE		
Less than 6 months	17,972	1,394,394
6 to12 months	-	-
1 to 5 years	-	-
Later than 5 years	-	-
TOTAL	**17,972**	**1,394,394**

Notes to the Financial Statements

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Note 26 - Financial Risk Management (continued)

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

Fair Value Technique Utilised

The fair value of the financial liability is determined by unwinding over the loan period the transaction costs including prepaid interest and 61,728,395 options issued to Credit Suisse at a strike price of $0.081. The 2013 rights issue resulted in a recalculation of the strike price which has reduced to $0.061. The issue of these options has been treated as an embedded derivative and the value has been classified as a derivative financial liability.

The derivative financial liability is measured at fair value at the period end. The following table gives information about how the fair value of this financial liability is determined and provides qualitative information about the significant unobservable inputs.

Financial liability	Fair value as at		Fair value hierarchy	Valuation technique and key input	Significant unobservable input	Relationship of unobservable input to fair value
	30 June 15	30 June 14				
Derivative financial instrument	**$9,020**	$10,904	Level 3	Black Scholes model. Company share volatility	Company Share volatility = 99%	The higher the volatility the greater the fair value. A volatility of 2x would increase the fair value by $156,000

Note 27 – Commitments, Claims, Guarantees, Contingent Asset, Contingent Liabilities & Credit Facilities

(a) Exploration Commitments

The Consolidated Group is required to perform ongoing exploration expenditure and has certain statutory obligations to perform minimum exploration work on its tenements and to earn an interest in joint venture mining prospects. No provision has been made in the financial statements for these amounts as the amounts are expected to be fulfilled in the normal course of the operations of the Consolidated Group.

The statutory exploration commitments are deferred and awaiting decision from the Department of Natural Resources & Mines. The Statutory expenditure requirement may be renegotiated with the State's Mineral and Energy Departments and expenditure commitments may be varied between tenements, reduced subject to exploration area or relinquished for non- prospective tenements.

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
These obligations which are not provided for in the financial statements and are payable:		
• not later than one year	84,839	385,002
• later than one year but not later than five years	908,611	370,448
TOTAL EXPLORATION COMMITMENTS	**993,450**	**755,450**

Note 27 – Commitments, Claims, Guarantees, Contingent Asset, Contingent Liabilities & Credit Facilities (continued)

(b) Operating Lease Commitment

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
• not later than one year	404,284	388,223
• later than one year but not later than five years	1,109.652	1,511,978
TOTAL OPERATING LEASE COMMITMENTS	**1,513,936**	**1,900,201**

The Consolidated Group leases assets for operations including equipment and office premises. The leases have a life of between 3 and 5 years.

The lease for the 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.

(c) Claims of Native Title and Cultural Heritage

Mineral Exploration

The Company is aware of native title claims made in accordance with the Native Title Act 1993 (NTA) that was 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.

The main objectives of the NTA are to:

- Provide for the recognition and protection of native title.
- Establish ways in which future dealings affecting native title may proceed and to set standards for those dealings.
- Establish a mechanism for determining claims to native title; and provide for, or permit, the validation of past acts invalidated because of the existence of native title.

Coal Exploration and UCG

A Cultural Heritage Management Plan (CHMP) has been developed in partnership with the Aboriginal traditional owners of the lands the subject of the UCG demonstration trial. The CHMP is registered under the provisions of the Aboriginal Cultural Heritage Act and ensures that there is 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 Carbon Energy.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 27 – Commitments, Claims, Guarantees, Contingent Asset, Contingent Liabilities & Credit Facilities (continued)

(d) Bank Guarantees

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Standby arrangements with banks to provide funds and support facilities for bank guarantees relating to rehabilitation bonds.		
These facilities are secured by fixed term cash deposits		
Bank Credit Facility – Deposit (Note 8)	32,500	32,500
Amount Utilised	(32,500)	(32,500)
Unused Bank Credit Facility	**-**	**-**
Interest rates on these credit facilities are variable and subject to adjustment.		
Bank Guarantee in relation to Environmental bonds	53,140	53,140
Bank Guarantee in relation to the entity's share of guarantee for Lease of office premises	181,913	181,913

(e) Contingent Liabilities

The following contractual matters are in progress:

Summa Resources Holdings LLC (Summa)

As announced to the market on 30 May 2013, the Company maintains its position that project milestones under the Agreement with Summa Resources LLC (Summa) were not able to be achieved. The Company maintains it is not obliged to issue further tranches of shares to Summa nor is it required to reserve those shares. During May 2015 the Company received correspondence from a USA based law firm acting for Summa which contains various allegations of wrongdoing by Carbon Energy and associated persons which are insufficiently particularised and extremely broad-ranging in nature. The Company is investigating the basis for the various allegations made. No formal proceedings have been commenced. The Company will vigorously defend any claims made in respect of those allegations.

The Company is not engaged in any litigation which has or would be likely to have a material adverse effect on either the Company or its business.

(f) Other Credit Facilities

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Pacific Road Convertible note Facility [1]	10,000,000	10,000,000
Macquarie Bank Finance Facility [2]	1,165,937	-
TOTAL	**11,165,937**	**10,000,000**
Unused Credit Facility	**34,063**	-

[1] The Pacific Road Convertible Note Facility is secured by a first ranking registered fixed and floating charge over the initial technology transferred from CSIRO to Carbon Energy.

[2] The Macquarie Bank Finance Facility is secured by a mortgage over all other remaining assets of the Company not subject to the security held under the Pacific Road Convertible Note Facility.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 28 – Cash Flow Information

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Reconciliation of cash flow from operations with loss after income tax		
Loss after income tax	(6,170,765)	(9,119,601)
Depreciation	228,713	145,253
Interest expense recognised in profit or loss	719,413	500,000
Accretion expense (FV discount)	828,573	837,022
Share Options expensed	378,723	412,285
Translation of foreign operations	-	(34,306)
Movement in fair value of derivative	(1,884)	(255,252)
Impairment	-	1,970,900
Other	468	-
Changes in assets and liabilities:		
Decrease / (Increase) in trade receivables and other current assets	1,382,591	(1,307,201)
(Decrease) / Increase in trade creditors and accruals	(517,214)	137,501
(Decrease) / Increase in deferred revenue	(873,106)	873,106
Increase in provisions	361,344	102,853
Cash out flow from operations	**(3,663,144)**	**(6,012,442)**

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Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 29 - Related Party Transactions

Transactions with related parties

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

(a) Key Management Personnel Compensation

	CONSOLIDATED GROUP	
	2015$	**2014 $**
Short-term employee benefits	1,741.495	1,477,900
Post-employment benefits	144,791	110,527
Long-term benefits	6,413	26,315
Share-based payments (i)	83.113	447,880
TOTAL	**1,975,812**	**2,062,622**

(i) Detailed remuneration disclosures are provided in the remuneration report.

	CONSOLIDATED GROUP	
	2015 Shares	**2014 Shares**
(b) Key Management Personnel Share Transactions:		
Subscription for new ordinary shares and options by key management personnel as a result of:		
Short term incentive grants	10,033,239	-
Share Purchase Plan	1,340,000	-
Rights issue - Ordinary Shares*		120,160,807
Rights issue - 6 cent vested listed options expiring 31/07/16		5,427,815
Pacific Road Convertible Note Facility - Interest costs in relation to drawdown of Tranche A and Tranche B	17,622,948	27,996,297

* Includes Indirect holdings of 105,746,535 shares which represents Pacific Road Resources Funds; Louis Rozman is an employee and Director of some Pacific Road Capital entities.

Note 29 - Related Party Transactions (continued)

(b) Key Management Personnel Share Transactions: (continued)

Options and performance rights granted as remuneration during the period:

	CONSOLIDATED GROUP	
	2015 Options	**2014 Options**
$0.0301 vested unlisted options expiring 25/08/17	10,152,967	-
Performance Rights expiring 30/06/18*	12,500,000	-
Performance Rights expiring 30/06/19	12,500,000	-
$0.026 vested unlisted options expiring 15/10/16	-	3,573,877
$0.06 unvested unlisted options expiring 30/06/17*	-	33,333,333
$0.06 unvested unlisted options expiring 30/06/18*	-	33,333,333
$0.06 unvested unlisted options expiring 30/06/19	-	33,333,333

* Forfeited as a result of failure to meet share price performance hurdles

	2015 $	**2014 $**
(c) Director – Related Entities:		
Other service fees charged to Carbon Energy Limited of which Peter Hogan was both a Director of Carbon Energy Limited and an Incitec Pivot Limited subsidiary at that time.	30,000	30,000
Other service fees charged to Carbon Energy Limited of which Louis Rozman was both a Director of Carbon Energy Limited and Pacific Road Capital Management Holdings Pty Limited at that time.	20,000	30,000

Louis Rozman (Non-Executive Director) holds Directorships in other companies which are shareholders of Carbon Energy Limited.

Amounts paid to Pacific Road Capital Management Holdings Pty Limited for Mr Rozman's services as a Director amount to $30,000 for the year ended 30 June 2014.

(d) Other Related Party Transactions

On 22 December 2011 Carbon Energy executed a Convertible Note Facility Agreement with Pacific Road Capital Management Pty Ltd (Pacific Road).

The Convertible Note Facility Agreement requires Carbon Energy to pay interest of 5% per annum on the Facility amount. The interest is payable quarterly in arrears and is payable through the issuance of shares in Carbon Energy at the 5 day VWAP for the Shares on the ASX prior to the day a payment is due. Pacific Road may convert all or part of the Facility amount to shares in the Company at any time during the term at a conversion price of $0.14. If the share price exceeds $0.40 for continuous 60 day VWAP period the Company can request the conversion of the Facility in full. The Facility repayment date is 18 January 2017 and any part of the Facility amount not converted into shares on that date is repayable in cash by the Company on that date. A total of 44,645,845 options have vested with varying expiry dates as follows:

Options	Grant Date	Price	Expiry Date
7,000,000	25/01/2012	$0.1678	18/01/2017
28,000,000	29/02/2012	$0.1678	25/02/2017
9,645,845	16/11/2012	$0.061	15/11/2015

Further information on this transaction is included under Note 20.

Note 30 - Events Subsequent to Balance Date

Since the end of the financial year, 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.

Note 31 - Controlled Entities

	Country of Incorporation	Principal Activity	Percentage Owned	
			2015 %	2014 %
Carbon Energy Ltd (CEL)	Australia	Parent entity of Carbon Energy group	-	-
Carbon Energy (Holdings) Pty Ltd (CEH)	Australia	Holding company for Carbon Energy Operations	100	100
Carbon Energy (Operations) Pty Ltd (CEOPL)	Australia	Facilitate the construction and commissioning of the Underground Coal Gasification project in Queensland	100	100
Coronation Drive (Energy) Pty Ltd	Australia	Dormant company	100	100
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 in the early stage of establishment and are dependent on the parent entity for financial support. At year end, total loans to these subsidiaries amount to $46,853,170 (2014: $47,633,553).

Note 32 - Remuneration of Auditors

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
(a) Auditor of the parent entity:		
• auditing or reviewing the financial report	100,000	122,000
• other non audit services – advisory services	-	31,650
	100,000	**153,650**

Note 32 - Remuneration of Auditors (continued)

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
(b) Network firm of the parent entity auditor:		
• other non audit services – advisory services	15,789	-
	15,789	**-**

The auditor of Carbon Energy Limited is Deloitte Touche Tohmatsu.

Note 33 - Share-Based Payments

(a) Short Term Executive Incentive (STI)

Carbon Energy offers a Short Term Incentive (STI) to the Executives including the Executive Director to achieve the following objectives:

- Focus Executives on the achievement of key targets as well as individual contribution that the Board believes will lead to sustained and improved business performance.
- Reward and recognise superior performance.

The 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, subject to satisfactorily meeting Key Performance Indicators (KPIs). At the end of each financial year, the Executives (excluding the Executive Director) would be allocated a number of shares equivalent to the cash value of the STI, based on the 90 day VWAP prior to the Remuneration Committee endorsement of the recommended share allocation (subject to the Remuneration Committee's discretion to pay the STI as cash in lieu of shares). The Executive Director's STI is paid in cash, unless the Executive Director elects to receive shares or options and this is approved by the Remuneration Committee and the shareholders. During the year the Executive Director elected to take $50,000 worth of his FY14 STI as options, as approved at the 2014 AGM, with the balance of $23,254 taken as cash.

The Remuneration Committee has assessed that no Executive has met the FY15 KPIs set and determined therefore that no STI will be provided for FY15 performance.

(b) Long Term Executive Incentive (LTI)

On 13 February 2015, the Remuneration Committee approved changes to the LTI arrangements applicable to Executives for the reporting period and subsequent financial years.

The Remuneration Committee approved a 3 year Executive performance rights LTI plan be put in place for the 2017 financial year (applying to all Executives including the Executive Director, noting the LTI offer for the Executive Director will require shareholder approval). The new LTI plan will incorporate 1, 2 and 3 year performance periods, with 1/3 of allocated performance rights being tested annually. The performance hurdles will be market based and service based performance tests, in equal proportions. The inclusion of a service based test is in recognition that significant developments can be progressed during a performance period, however given the Company's stage in its lifecycle, may not be fully reflective in the share price at that point in time. The final quantum of the LTI grants and performance hurdles are yet to be determined however the proportion of Executive remuneration at risk will be reflective of current practice and is expected to be in the range of 15% to 30% of an Executive's total fixed remuneration. Each performance right is an entitlement to one fully paid ordinary share in Carbon Energy Limited.

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Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 33 - Share-Based Payments (continued)

To align with the Executive Director's current LTI plan, a two year transitional LTI plan has been introduced for the other Executives to cover the 2015 and 2016 financial years. The plan comprises the following:

- 2.5 million share rights with a vesting date of 30 June 2015, with vesting subject to the market price of the shares as at 30 June 2015 being no less than 7.5 cents ($0.075) per share (these share rights lapsed on 30 June 2015 as the share price performance hurdle was not achieved).

- 2.5 million share rights with a vesting date of 30 June 2016, with vesting subject to the market price of the shares as at 30 June 2016 being no less than 10.5 cents ($0.105) per share.

In each case the share rights will only vest provided the Executive remains employed with the Company on the vesting date.

The Executive Director LTI arrangements as approved at the annual general meeting on 21 November 2013 comprise the following:

- 33,333,333 options with an exercise price of $0.06 each and a vesting date of 30 June 2014 (subject to the market price of the shares as at 30 June 2014 being no less than 4.5 cents ($0.045) per share expiring 30 June 2017 (these options were forfeited on 30 June 2014 as the share price performance hurdle was not achieved).

- 33,333,333 options with an exercise price of $0.06 each and a vesting date of 30 June 2015 (subject to the market price of the shares as at 30 June 2015 being no less than 7.5 cents ($0.075) per share) expiring 30 June 2018 (these options were forfeited on 30 June 2015 as the share price performance hurdle was not achieved).

- 33,333,333, options with an exercise price of $0.06 each and a vesting date of 30 June 2016 (subject to the market price of the shares as at 30 June 2016 being no less than 10.5 cents ($0.105) per share) expiring 30 June 2019.

(c) Convertible Note

The Pacific Road Convertible Note Facility Agreement requires Carbon Energy to pay interest of 5% per annum on the Facility amount. The interest is payable quarterly in arrears and is payable through the issuance of shares in Carbon Energy at the 5 day VWAP for the shares on the ASX prior to the day a payment is due.

(d) Expenses arising from share-based payment transactions

A total expense arising from the share based payment transactions of $500,000 was recognised during the year and included in finance costs (2014: $500,000).

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

	CONSOLIDATED GROUP	
	2015 $	**2014 $**
Shares issued under the short term incentive scheme	21,641	239,073
Shares issued under the long term incentive scheme	(12,674)	52,310
Options issued under the long term incentive scheme	74,326	187,010
Closing Balance	**83,113**	**478,393**

Note 33 - Share-Based Payments (continued)

(e) Employee Options and Performance Rights

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
2015			Number	Number	Number	Number	Number	Number
13/11/2008	10/12/2014	$1.00	10,000,000	-	-	10,000,000	-	-
25/01/2012	18/01/2017	$0.1678	7,000,000	-	-	-	7,000,000	7,000,000
25/01/2012	25/02/2017	$0.1678	28,000,000	-	-	-	28,000,000	28,000,000
16/11/2012	15/11/2015	$0.061	61,728,395	-	-	-	61,728,395	61,728,395
16/11/2012	15/11/2015	$0.061	9,645,845	-	-	-	9,645,845	9,645,845
02/01/2013	31/12/2015	$0.12	3,084,000	-	-	-	3,084,000	3,084,000
15/10/2013	15/10/2016	$0.026	4,600,407	-	1,092,843	-	3,507,861	3,507,861
06/12/2013	15/10/2016	$0.026	3,573,877	-	-	-	3,573,877	3,573,877
06/12/2013	30/06/2018	$0.06	33,333,333	-	-	33,333,333	-	-
06/12/2013	30/06/2019	$0.06	33,333,333	-	-	-	33,333,333	-
26/08/2014	25/08/2017	$0.0301	-	4,611,403	657,887	-	3,953,516	3,953,516
20/11/2014	25/08/2017	$0.0301	-	5,541,564	-	-	5,541,564	5,641,564
31/03/2015	30/06/2015	-	-	12,500,000	-	12,500,000	-	-
31/03/2015	30/06/2016	-	-	12,500,000	-	-	12,500,000	-
			194,299,487	**35,152,967**	**1,750,730**	**55,833,333**	**171,868,391**	**126,035,058**
Weighted average exercise price			**$0.1277**	**$0.0087**	**$0.0275**	**$0.2149**	**$0.0744**	**$0.0855**

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Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 33 - Share-Based Payments (continued)

(e) Employee Options and Performance Rights (continued)

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
2014			Number	Number	Number	Number	Number	Number
13/11/2008	10/12/2013	$0.25	5,000,000	-	-	5,000,000	-	-
13/11/2008	10/12/2013	$0.70	5,600,000	-	-	5,600,000	-	-
13/11/2008	10/12/2014	$1.00	10,000,000	-	-	-	10,000,000	10,000,000
13/11/2008	10/12/2013	$0.35	1,400,000	-	-	1,400,000	-	-
13/11/2008	10/12/2013	$0.80	1,750,000	-	-	1,750,000	-	-
13/11/2008	10/12/2013	$1.20	875,000	-	-	875,000	-	-
13/11/2008	10/12/2013	$1.60	1,750,000	-	-	1,750,000	-	-
16/09/2008	10/12/2013	$0.80	2,500,000	-	-	2,500,000	-	-
16/09/2008	10/12/2013	$0.80	1,000,000	-	-	1,000,000	-	-
17/10/2008	10/12/2013	$0.80	1,000,000	-	-	1,000,000	-	-
17/10/2008	10/12/2013	$0.80	1,000,000	-	-	1,000,000	-	-
25/01/2012	18/01/2017	$0.1678	7,000,000	-	-	-	7,000,000	7,000,000
25/01/2012	25/02/2017	$0.1678	28,000,000	-	-	-	28,000,000	28,000,000
16/11/2012	15/11/2014	$0.061	61,728,395	-	-	-	61,728,395	61,728,395
16/11/2012	15/11/2014	$0.061	9,645,845	-	-	-	9,645,845	9,645,845
02/01/2013	31/12/2015	$0.12	3,084,000	-	-	-	3,084,000	3,084,000
15/10/2013	15/10/2016	$0.026	-	4,600,704	-	-	4,600,704	4,600,704
06/12/2013	15/10/2016	$0.026	-	3,573,877	-	-	3,573,877	3,573,877
06/12/2013	30/06/2017	$0.06	-	33,333,333	-	33,333,333	-	-
06/12/2013	30/06/2018	$0.06	-	33,333,333	-	-	33,333,333	-
06/12/2013	30/06/2019	$0.06	-	33,333,333	-	-	33,333,333	-
			141,333,240	**108,174,580**	**-**	**55,208,333**	**194,299,487**	**127,632,821**
Weighted average exercise price			**$0.2541**	**$0.0574**	**-**	**$0.3135**	**$0.1277**	**$0.1630**

1,750,730 options were exercised during the 2015 year at a weighted average exercise price of $0.0275 (2014: nil). 1,092,843 options that were granted as compensation to current Executives in prior periods were exercised at an exercise price of $0.026. A further 657,887 options relating to the 2015 Executive grant were exercised at an exercise price of $0.0301.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 33 - Share-Based Payments (continued)

(e) Employee Options and Performance Rights (continued)

The Options outstanding at 30 June 2015 had a weighted average exercise price of $0.0744 (2014: $0.1277) and a weighted average remaining contractual life of 1.74 years (2014: 2.30 years). Exercise prices range from Nil to $0.1678 in respect of options outstanding at 30 June 2015 (2014: $0.026 to $1.00).

Fair Value of Options and Performance Rights Granted

The assessed fair value of the options granted during the year ended 30 June 2015 was $0.51 per option (2014: $0.32). The fair value at grant date is independently determined using a Black Scholes or Monte Carlo option pricing model that takes into account the exercise price, term of the option, the share price at grant date and expected volatility of the underlying share and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2015 included:

2015				
Grant Date	**26 August 2014**	**26 August 2014**	**31 March 2015**	**31 March 2015**
Number of Options/Performance Rights	4,611,403	5,541,564	12,500,000	12,500,000
Valuation methodology	Black Scholes	Black Scholes	Monte Carlo	Monte Carlo
Weighted average exercise price	$0.301	$0.0301	Nil	Nil
Weighted average life of option	3.00 years	3.00 years	0.25 years	1.25 years
Underlying share price	$0.0231	$0.0231	$0.023	$0.023
Expected share price volatility	67.40%	67.40%	110.0%	110.0%
Risk free interest rate	2.71%	2.71%	2.18%	1.92%

2014			
Grant Date	**15 October 2013**	**6 December 2013**	**6 December 2013**
Number of Options	4,600,704	3,573,877	99,999, 999
Valuation methodology	Black Scholes	Black Scholes	Monte Carlo
Weighted average exercise price	$0.0257	$0.0260	$0.06
Weighted average life of option	3.00 years	2.86 years	4.61 years
Underlying share price	$0.0198	$0.02	$0.022
Expected share price volatility	70%	70%	70%
Risk free interest rate	2.75%	2.75%	3.41% - 3.92%

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

Note 33 - Share-Based Payments (continued)

(f) Shares

The Company issues shares to employees as part of the STI plan. The Convertible Note Facility Agreement also requires the Company to pay interest of 5% per annum on the $10,000,000 facility. The Pacific Road interest is payable quarterly in arrears and is payable through the issuance of shares in Carbon Energy at the 5 day VWAP for the shares on the ASX prior to the day a payment is due.

The following table summarises the share based payment shares issued during the year ended 30 June 2015.

Issue Date	No. of Shares	Description	Deemed Value
01/09/2014	5,576,434	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	$0.0226
15/10/2014	10,033,239	Issue of Ordinary Share under the Company's Short and Long Term Executive Incentive Plan for the 2013-2014 financial year	$0.0171
16/10/2014	1,750,730	Exercise of options under Executive Short and Long Term Executive Incentive Plan	$0.0360
01/12/2014	2,838,455	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	$0.0444
02/03/2015	4,272,115	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	$0.0295
02/06/2015	4,935,944	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	$0.0247

The following table summarises the share based payment shares issued during the year ended 30 June 2014.

Issue Date	No. of Shares	Description	Deemed Value
30/08/2013	6,279,353	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	$0.020
15/10/2013	3,944,370	Issue of Ordinary Share under the Company's Short and Long Term Executive Incentive Plan for the 2012-2013 financial year	$0.020
06/12/2013	3,440,831	Issue of Ordinary Share under the Company's Short and Long Term Executive Incentive Plan for the 2012-2013 financial year	$0.020
06/12/2013	5,834,561	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	$0.022
11/03/2014	7,047,459	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	$0.018
29/05/2014	8,834,624	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	$0.0138

Financial report

Directors' Declaration

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 47 to 99, 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 1 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.

    (d) the Directors have been given the declarations required by section295A of the Corporations Act 2001.

2. The Managing Director and Finance Director have each declared that:

    (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001.

    (b) the financial statements and notes referred to in section 295 (3)(b) of the Corporations Act 2001 for the financial year comply with the Accounting Standards.

    (c) the financial statements and notes for the financial year give a true and fair view in accordance with section 297 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:

Dr Chris Rawlings **Chairman**	**Morné Engelbrecht** **Managing Director**

Brisbane, Queensland

31 July 2015

Deloitte.

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

Report on the Financial Report

We have audited the accompanying financial report of Carbon Energy Limited, which comprises the statement of financial position as at 30 June 2015, the statement of profit and loss and other comprehensive income, the cash flow statement and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 46 to 100.

Directors' Responsibility 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Carbon Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Deloitte.

Opinion

In our opinion:

(a) the financial report of Carbon Energy Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without modifying our opinion, we draw attention to Note 1.2.1 in the financial report which indicates that the ability of the Company and the Consolidated Group to be able to continue as going concerns is dependent upon securing additional funds in the coming months. The matters set out in Note 1.2.1 indicate the existence of a material uncertainty that may cast significant doubt about the Company and Consolidated Group's ability to continue as going concerns and therefore, the Company and the Consolidated Group may be unable to realise their assets and discharge their liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 27 to 42 of the directors' report for the year ended 30 June 2015. 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.

Opinion

In our opinion the Remuneration Report of Carbon Energy Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Stavrou
Partner
Chartered Accountants
Brisbane, 31 July 2015

Tenement Schedule

As at 30 June 2015

Tenement Number	Grant date	Expiry Date	Holder	% of interest held	Sub-blocks as at 30 June 2015
EPC 867 [1, 2]	18/02/2005	17/02/2015	Carbon Energy (Operations) Pty Ltd	100%	167
EPC 868 [1]	18/02/2005	17/02/2015	Carbon Energy (Operations) Pty Ltd	100%	44
EPC 869	14/10/2004	13/10/2017	Carbon Energy (Operations) Pty Ltd	100%	63
EPC 1132	21/07/2007	20/06/2019	Carbon Energy (Operations) Pty Ltd	100%	23
MLa50253[3]	Application	-	Carbon Energy (Operations) Pty Ltd	100%	(1,342 ha)
MDL374 [1, 2, 3]	01/02/2008	31/01/2013	Carbon Energy (Operations) Pty Ltd	100%	(2,868 ha)
PFL6 [1]	13/04/2010	12/04/2015	Carbon Energy (Operations) Pty Ltd	100%	(3 ha)

1 MDL 374, PFL 6, EPC 867 and EPC 868 renewals were submitted to the Department of Natural Resources and Mines on time and are currently with the Department for review.
2 MDL 374 is wholly contained within EPC 867.
3 MLa 50253 is wholly contained within MDL 374.

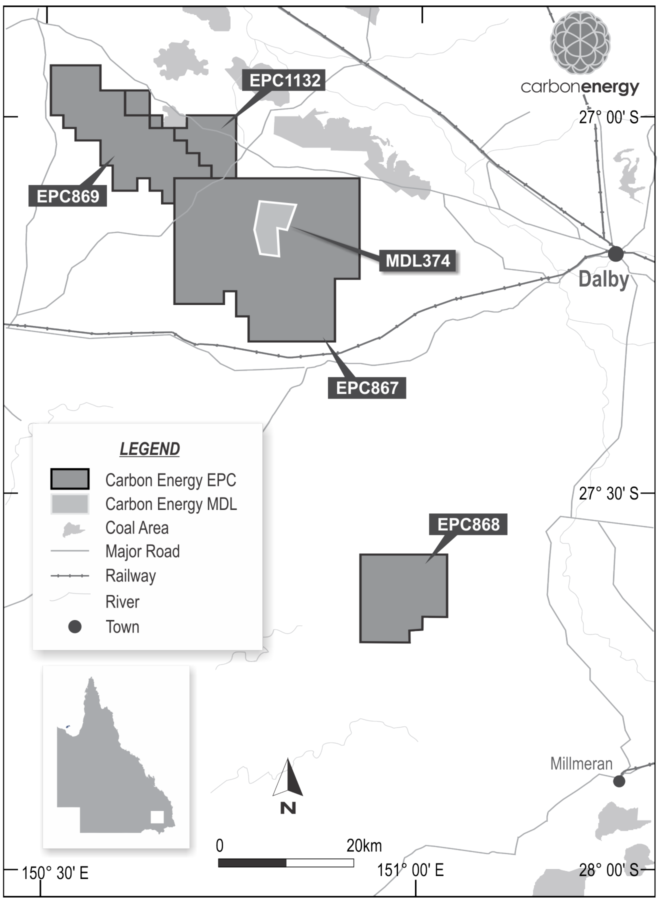


Figure 1 Tenement Location

Tenement Schedule

As at 30 June 2015

Carbon Energy Resources and Reserves Statement

The Company's Inferred Thermal Coal Resources and equivalent Syngas Reserves and Resources as at 30 June 2015, reported in accordance with Joint Ore Reserves Committee (JORC) guidelines and the 2007 Petroleum Resources Management System (PRMS) guidelines (respectively), are:

Tenure	Location	Commodity Classification[1]				
		Coal Resource		Syngas Reserve Equivalent[2]		
		Mineral Resource Category	Thermal Coal Resource (Mt)**	Reserve and Resource Classification	Gross (100%) Syngas Energy (PJ)**	Reserve Notes
MDL374	Kogan, QLD	Inferred	243	1P Reserves	11.0	Undeveloped, unconventional
				2P Reserves	1,737.9	
				3P Reserves	2,512.4	
EPC867*	Kogan, QLD	Inferred	1,448	3P Reserves	5,650.0	
				2C Contingent Resource	7,734.3	
EPC868	Millmeran, QLD	Not assessed due to insufficient data				
EPC869	Kogan, QLD	Inferred	449	2C Contingent Resources	4,150.3	
EPC1132	Kogan, QLD	Inferred	132	2C Contingent Resources	1,220.1	
	Totals:	**Thermal Coal Inferred Resources**	**2,272 Mt**	**2P Syngas Reserve**	**1,737.9 PJ**	

* EPC 867 excludes resources and reserves contained within MDL 374.

** Refer to Mineral Resource and Syngas Reserve Governance and Disclosures for accompanying notes.

Thermal coal can be gasified to produce syngas, so either coal or syngas can be extracted from the Company's tenements. But not both. Syngas is a product of the gasification of coal and is a mixture of methane, hydrogen and carbon monoxide. Accordingly, this table sets out the Company's conventional thermal coal resources as well as the alternative unconventional Syngas Reserves and Resources equivalent. However, it should be noted that the coal asset can only be utilised as either coal or syngas and not both.

During the year, the Company has had further work undertaken to enable it to report on the syngas equivalent to the underlying thermal coal Resources identified in this table. This information sets out the Syngas Reserves and Resources equivalent in the Company's tenements.

Tenement Schedule

As at 30 June 2015

Carbon Energy Coal Resource Comparison 2014 to 2015

Tenure	Mineral Resource Category	2014 Coal Resource (Mt)	2015 Coal Resource (Mt)*	Resource Change (Mt)
MDL 374[1]	Inferred	243	243	-
EPC867[2]	Inferred	1,448	1,448	-
EPC868	Not assessed due to insufficient data	-	-	-
EPC869	Inferred	449	449	-
EPC1132	Inferred	132	132	-
	Totals:	**2,272**	**2,272**	**-**

*Refer to Mineral Resource and Syngas Reserve Governance and Disclosures for accompanying notes.

1 In the Company's 2014 Annual Report the Inferred Thermal Coal Resources within MDL 374 were solely reported on a syngas equivalency basis, but has been included here for consistency with newly reported equivalent Thermal Coal Resources and Syngas Reserves. The MDL 374 Inferred Thermal Coal Resource was previously reported in the updated Resources statement dated 2 April 2013 (**Updated Resources Statement**).

2 EPC 867 excludes resources contained within MDL 374.

The annual review of the Company's Inferred Resources concluded that in the absence of any new drill data, no adjustment to the Inferred Resources was necessary. However, the Company did issue an updated Reserve statement which reports on the Syngas Reserves and Resources equivalent in the Company's tenements on 22 September 2014 (**Updated Reserves Statement**).

Carbon Energy Syngas Reserve Comparison 2014 to 2015

Area	Category	2014 Gross Gas Volumes (PJ)	2015 Gross Gas Volumes (PJ)*	Gross Gas Volume Change (PJ)
MDL374	1P Reserves	11.0	11.0	-
	2P Reserves	1,362.8	1,737.9	375.1
	3P Reserves	3,285.5	2,512.4	(773.1)
EPC 867	3P Reserves	-	5,650.0	5,650.0
	2C Resources	-	7,734.3	7,734.3
EPC 869	2C Resources	-	4,150.3	4,150.3
EPC 1132	2C Resources	-	1,220.1	1,220.1
Totals	**1P Reserves**	**11.0**	**11.0**	**-**
	2P Reserves	**1,362.8**	**1,737.9**	**375.1**
	3P Reserves	**3,285.5**	**8,162.4**	**4,876.9**
	2C Resources	**-**	**13,104.7**	**13,104.7**

*Refer to Mineral Resource and Syngas Reserve Governance and Disclosures for accompanying notes.

The annual review of Syngas Reserves resulted in the Updated Reserves Statement as disclosed in the ASX release on 22 September 2014. This update resulted in a significant increase in reported 2P Reserves and added significant additional lower confidence 3P Reserves and 2C Resources estimates.

Tenement Schedule

As at 30 June 2015

Syngas Reserves Valuation

The Company announced on 16 October 2014 the results of an Independent Valuation of the Company's Syngas Reserves. The valuation was conducted by Xstract Mining Consultants, an internationally recognised resource and asset evaluator, who used the Reserves detailed in Carbon Energy's ASX announcement dated 22 September 2014 as the basis for Reserves underpinning the financial assessment presented in its valuation report.

Syngas Reserves and Resources and Natural Gas Equivalent – Basis of Valuation

Area	Resource or Reserve Classification	Gross (100%) Syngas Energy (PJ)	Gross (100%) SNG Energy (PJ)*
MDL374	1P Reserves	11.0	7.1
	2P Reserves	1,737.9	1,128.5
	3P Reserves	2,512.4	1,631.5
EPC867	3P Reserves	5,650.0	3,668.9
	2C Contingent Res	7,734.3	5,022.3
EPC869	2C Contingent Res	4,150.3	2,695.0
EPC1132	2C Contingent Res	1,220.1	792.3

* Synthetic Natural Gas (SNG) is created from Syngas by a conventional industrial process. The applicable conversion factor is set out in the Resources and Reserves Governance and Disclosures section of this report.

Xstract Mining Consultants valued the Company's SNG equivalent Syngas Reserves at between $91m and $600m, with a preferred valuation of $205m. Disclosures relevant to this valuation are set out in the Basis of Valuation section of this report.

Mineral Resource and Syngas Reserves Governance & Disclosures

Mineral Resources are estimated by suitably qualified competent persons who are consultants to Carbon Energy in accordance with the requirements of the JORC Code, using industry standard techniques and consultants' internal guidelines for the estimation and reporting of Mineral Resources.

Syngas Reserves are estimated by suitably qualified petroleum reserves and resources evaluators who are consultants to Carbon Energy in accordance with the requirements of the 2007 Petroleum Resources Management System (**PRMS**) approved by the Society of Petroleum Engineers, using industry standard techniques and consultants' internal guidelines for the estimation and reporting of Syngas Reserves and Resources. The Company will review the reported Syngas Reserves at the point that any material change occurs in the underlying information (including but not limited to syngas production, coal resource amendment or update, syngas production technology amendment or update, or changes to tenure) and in any event once per annum through the Annual Report resources and reserve reporting.

The Mineral Resource and Syngas Reserve Statements included in the 2015 Annual Report are reviewed by the suitably qualified competent person (in the case of the Mineral Resources) and the qualified petroleum reserves and resources evaluator (in the case of the Syngas Reserves and Resources), as described.

Notes on Coal Resources:

Inferred Resources are conceptual in nature. Constraints on the Inferred Resources are as follows:

(a) Points of observation less than 4km apart and not exceeding 1km past the last data point.
(b) Minimum seam thickness of 2m (in aggregate of plys).
(c) Maximum stone parting thickness of 0.5m.

(d) Maximum raw ash of 50%.
(e) Drill holes classed as valid points of observations were defined as holes where:
  (i) The entire coal seam was cored or, the drillhole contained slimline geophysics.
  (ii) Drillhole seam intersection has reasonable stratigraphic correlation.

For the purposes of ASX Listing Rule 5.23, Carbon Energy confirms that it is not aware of any new information or data that materially affects the information included in the 2 April 2013 Updated Resources Statement and that all material assumptions and technical parameters underpinning the estimates in the Updated Resources Statement continue to apply and have not materially changed.

The information in this statement that relates to in-situ coal resources potential is based on and fairly represents information and supporting documents prepared by GeoConsult Pty Ltd and Adrian Buck and reviewed by Warwick Smyth, who is a member of the Australasian Institute of Mining and Metallurgy (CP) Geology; and the Australian Institute of Geoscientists. Warwick Smyth is a qualified geologist (BSc Geol, Grad Dip AF&I, MAusIMM (CP), MGSA, MAIG), and a Principal Consultant for GeoConsult Pty Ltd and has over 20 years experience which is relevant to the style of mineralisation, the type of deposit under consideration and to the activity which has been undertaken to qualify as a Competent Person as defined by the 2012 edition of the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves (JORC Code). Warwick Smyth of GeoConsult Pty Ltd has no material interest or entitlement, direct or indirect, in the securities of Carbon Energy or the Projects. GeoConsult has been commissioned to provide geological services to Carbon Energy since late 2012. Fees for the preparation of this statement are on a time and materials basis. Warwick Smyth and GeoConsult Pty Ltd have approved the Resources and Reserve Statement as a whole to the extent it relates to mineral resources and ore reserves and consents to the use of this statement and references to it and extracts from it, in the form and context in which they are included. Apart from the above, neither the whole nor any part of the statement document, nor references thereto, may be included in, or with, or attached to any document, circular, resolution, letter or statement without the prior written consent of Warwick Smyth or GeoConsult Pty Ltd.

Notes on Syngas Reserves and Resources:

- 1P Reserves = Proved
- 2P Reserves = Proved + Probable
- 3P Reserves = Proved + Probable + Possible
- 2C Resources = 2C Contingent Resources

All gas Reserve and Resource estimates (**Gas Estimates**) in this statement are reported in accordance with the requirements of ASX Listing Rules 5.25 to 5.28. It is noted in particular that:
(a) This statement refers to Gas Estimates reported on 19 September 2014 and released to the market on 22 September 2014 in the Updated Reserves Statement.
(b) All Gas Estimates are based on the deterministic method for estimation of petroleum resources at the field and project levels and are attributable to the gross (100 percent) ownership interest of Carbon Energy in certain coal properties located in MDL 374, EPC 867, EPC 869 and EPC 1132 located in the Surat Basin of Queensland, Australia.
(c) All Gas Estimates are reported using the following conversion factors as relevant:
  (i) UCG Energy conversion factor is 16.73 GJ of Syngas per tonne of coal gasified;
  (ii) UCG Syngas to Synthetic Natural Gas (SNG) conversion factor is 38.5 to 25.

All Syngas Reserves and Resources stated in this Report are underdeveloped and unconventional Reserves and Resources.

Further, for the purposes of ASX Listing Rule 5.43, Carbon Energy confirms that it is not aware of any new information or data that materially affects the information included in the 22 September 2014 Updated Reserves Statement and that all material assumptions and technical parameters underpinning the estimates in the Updated Reserves Statement continue to apply and have not materially changed.

Tenement Schedule

As at 30 June 2015

The Gas Estimates in this statement are based on, and fairly represent, information and supporting documentation prepared by Timothy Hower of MHA Petroleum Consultants of Denver, USA. Mr Hower is a member of the Society of Petroleum Engineers, is a qualified Petroleum Reserves and Resources Evaluator and is an employee of MHA Petroleum Consultants of Denver, USA. Timothy Hower has approved this statement as a whole to the extent it relates to petroleum reserves and contingent resources and has consented to the use of the statement in relation to syngas reserves and contingent resource estimates and supporting information contained in the statement, in the form and context in which they are included.

Basis of Valuation

Xstract Mining Consultants Pty Ltd (Xstract) provided the "Eastern Surat Syngas Reserves Independent Valuation" (the Report) to Carbon Energy Ltd on 15 October 2014. Carbon Energy's wholly owned Eastern Surat Syngas Reserves in the Surat Basin, Queensland, form the reserve base underpinning the Blue Gum Gas Project (the **Project**). This Basis of Valuation provides a summary of the key methodologies used and risks identified in the Report.

The information in the Report is deemed commercially sensitive as the Company has not received the requisite approvals from the Queensland Government to commence the Project. This impacts on the negotiations underway to secure off-take agreements and investment funding for the Project.

Valuation Methodology

To arrive at the valuation Xstract applied a number of valuation methods outlined in the 2005 edition of the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (VALMIN).

Xstract relied heavily on transaction market multiples and comparable transaction data however had to make adjustments for the Company's *keyseam* technology against other extractive technologies. The factors taken into account are listed below:

- Comparable energy recovery to conventional coal mining without the need to transport inert ash.
- Around 50 times greater energy recovery per square kilometre than CSG.
- Produces gas which is raw material for a wide range of saleable products.
- Does not impact on regional water quantity or quality.
- Accesses coal resources otherwise not commercially viable.
- Very small extractive area.
- Utilises off-the-shelf enabling technologies such as gas & water processing.
- Project is near to all required major infrastructure e.g. natural gas pipelines to ready markets, power lines, roads, skilled workforce.
- Negligible remediation costs.
- Queensland Government approvals process for UCG technology is in development.
- Emerging technology may be difficult to fund.
- Emerging technology may be difficult to gain social licence.
- Up-front capital costs.
- Project timeline dependent upon policy and approvals process.
- Constraints with existing resource holders.

Reserves

Xstract used the Reserves detailed in Updated Reserves Statement as the basis for Reserves underpinning the financial assessment presented in the Report.

Tenement Schedule

As at 30 June 2015

Key Risks

The results of the valuation detailed in the Report are forward looking information that is subject to a number of known and unknown risks, uncertainties and other factors that may cause the actual results to differ materially from those presented here. Key risks to the Project are considered by Xstract to be:

- Carbon Energy requires approval from the Queensland Government in order to continue with activities designed to commission the Project site and commence commercial production of syngas for conversion to SNG. Having recently submitted a decommissioning report and rehabilitation plan, Carbon Energy is hopeful that it will receive the requisite approvals in order to commence construction activities in calendar year 2015, targeting first production in 2017. Xstract considers this timeline may be pushed out by up to two years pending support from the Queensland Government.
- Delineating a second area capable of supporting up to 47 panels may prove more difficult that currently expected given the various geological, hydrological and geotechnical requirements for commercial production.
- The classification of the syngas reserve for Carbon Energy's EPCs 867, 869 and 1132 located in the Surat Basin, Queensland (i.e. outside of Carbon Energy's MDL374) may be overstated in terms of confidence.
- Relative to historic transactions, the current market is heavily discounting certain unconventional gas assets, including NSW CSG and Queensland UCG pending greater clarity regarding the development pathway for projects in these sectors. Any change in the current political landscape for unconventional gas may result in a marked re-rating of these sectors.
- The current price outlook for SNG is heavily dependent upon the on-going development of CSG and LNG infrastructure, which is due to come on-line within the next few years. Whilst current prices are comparatively low relative to near to medium term forecasts, gas prices are expected to rise dramatically during the transition from a domestic focused to export oriented marketplace.

Reporting Standard

The Report has been prepared in accordance with the following codes:

- The 2005 edition of the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (VALMIN Code).
- The 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code).

For the purposes of the Report, value is defined as 'fair market value' (FMV), being the amount for which a mineral asset should change hands between a willing buyer and a willing seller in an arm's length transaction where each party is assumed to have acted knowledgeably, prudently and without compulsion.

Data Sources

In developing its assumptions for the Report, Xstract relied upon information provided by Carbon Energy and information available in the public domain including:

- Various papers extracted from technical conference proceedings and Australasian Institute of Mining and Metallurgy (AusIMM) Monographs.
- Press releases, public announcements, media and analyst presentation material and other public filings, including information available on Carbon Energy's website.
- Brokers' reports and recent press articles on Carbon Energy and other comparable companies, as well as the coal and coal gasification industry.
- Share market data and related information on Australian and international listed companies engaged in the coal and gas industries and on acquisitions of companies and businesses in these industries.
- Information relating to the coal and gas markets including forecasts regarding supply and demand, commodity price, inflation rates and exchange rates.

Tenement Schedule

As at 30 June 2015

In the execution of its mandate, Xstract reviewed all relevant pertinent technical and corporate information made available by representatives of Carbon Energy, which has been accepted in good faith as being true, accurate and complete, after having made due enquiry.

Reliance on Other Experts

Xstract has not relied on any third party opinion in compiling its value opinion. The technical personnel responsible are based entirely in Xstract's Brisbane office. Xstract has held discussions with Carbon Energy personnel in its Brisbane office to facilitate an understanding of the Project.

For the technical assessment, Xstract sent two representatives (a geologist and mining engineer) to carry out a visit to Carbon Energy's Project site. In addition, Xstract has completed a data review of the available technical data and held discussions with independent parties regarding Carbon Energy's proposed development and exploration assets. Based on these validation steps, Xstract has developed a good in-house understanding of the assets and has no reason to question the validity of the technical information supplied.

Competent Persons and Experts Statement

Xstract's consultants involved are Independent Experts as defined by the VALMIN Code. They are also members of either the AusIMM or the Australian Institute of Geoscientists (AIG), for which compliance with the JORC and VALMIN Codes is mandatory. Xstract's Competent Persons involved in the preparation of the Report are members in good standing with one or more of these professional institutions and have the required qualifications and experience as defined in the JORC and VALMIN codes to conduct this technical assessment and valuation.

Xstract's consultants have extensive experience in preparing competent persons, mineral specialist, independent geologist and valuation reports for mineral exploration and production companies. The authors of the Report are qualified to express their professional opinions on the values of the mineral assets described.

Independence, Disclaimer and Warranty

Xstract is an independent mining consultancy. Xstract confirms its independence for the purpose of the Australian Securities and Investment Commission's Regulatory Guide 112 – Independence of experts (ASIC, 2011). Xstract was commissioned by Carbon Energy on a fee for service basis according to Xstract's standard schedule of rates. Xstract's fee is not contingent on the outcome of its valuation. None of Xstract's consultants or their immediate families involved in the preparation of the Valuation have (or had) a pecuniary or beneficial interest in Carbon Energy prior to or during the preparation of the Valuation.

Xstract has made due enquiries to the Queensland Department of Natural Resources and Mines (DNRM) in order to validate information provided by Carbon Energy. However, Xstract is not qualified to express legal opinion and has not sought any independent legal opinion on the ownership rights and obligations relating to the respective mineral assets under licence or any other fiscal or legal agreements that Carbon Energy may have with any third party in relation to its Queensland assets.

The Valuation may contain or refer to forward-looking information based on current expectations, including, but not limited to timing of mineral resource estimates, future exploration or project development programmes and the impact of these events on Carbon Energy's projects. Forward-looking information is subject to significant risks and uncertainties, as actual results may differ materially from forecasted results. Forward-looking information is provided as of the date hereof and Xstract assumes no responsibility to update or revise them to reflect new events or circumstances.

The valuation is appropriate as at 15 October 2014. The valuation is only appropriate for this date and may change in time in response to variations in economic, market, legal or political factors, in addition to ongoing exploration and development studies. All monetary values outlined in the Report are expressed in AUD unless otherwise stated.

Tenement Schedule

As at 30 June 2015

Forward-Looking Statements

This document contains certain "forward-looking statements". Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors and are subject to significant business, economic and competitive uncertainties and contingencies associated with exploration and/or production, many of which are beyond the control of Carbon Energy, that may cause actual results to differ materially from those predicted or implied by any forward-looking statements. No representation or warranty is made by or on behalf of Carbon Energy, Xstract or their respective directors or officers, employees, advisers or agents that any projection, forecast, calculation, forward-looking statement, assumption or estimate contained in this presentation should or will be achieved or that actual outcomes will not differ materially from any forward-looking statements.

Shareholder Information

As at 17 July 2015

The shareholder information set out below was applicable as at 17 July 2015.

(a) Distribution of Share Holdings as at 17 July 2015.

Size of Share Holdings	Number of Shareholders	Shares	% of Issued Capital
1 - 1,000	394	157,891	0.01%
1,001 - 5,000	988	2,957,868	0.22%
5,001 - 10,000	773	6,338,248	0.47%
10,001 – 50,000	1,628	42,501,721	3.16%
50,001 - 100,000	580	44,779,390	3.33%
100,001 and over	1,137	1,249,007,711	92.81%
Total Shareholders	**5,500**	**1,345,742,829**	**100.00%**

(b) Of the above total 3,126 Ordinary Shareholders hold less than a marketable parcel.

(c) Shareholders in excess of 5% holding are:

- Kam Lung Investment Development Company Limited holds 171,818,615 ordinary shares.
- Pacific Road Group holds 123,369,483 ordinary shares.
- Citicorp Nominees Pty Limited holds 83,886,683 ordinary shares.
- Incitec Pivot Limited holds 75,556,040 ordinary shares.

Shareholder Information

As at 17 July 2015

(d) Distribution of Option Holdings as at 17 July 2015. Listed $0.06 options expiring 31 July 2016.

Size of Option Holdings	Number of Option Holders	Options	% of issued Capital
1 - 1,000	66	41,256	0.01%
1,001 - 5,000	245	761,910	0.17%
5,001 - 10,000	158	1,242.765	0.28%
10,001 – 50,000	362	10,195.285	2.30%
50,001 - 100,000	145	11,602,086	2.61%
100,001 and over	263	419,853,102	94.63%
Total Option Holders	**1,239**	**443,696,404**	**100.00%**

(e) Of the above total, 1,002 Option holders hold less than a marketable parcel.

(f) Option holders in excess of 5% holding are:

- Kam Lung Investment Development Company Limited holds 171,818,615 options.
- Citicorp Nominees Pty Limited holds 50,329,788 options.

(g) Voting Rights

The voting rights attached to the ordinary shares are governed by the Constitution. On a show of hand every person present who is a Member or representative of a Member shall have one vote and on a poll, every member present in person or by proxy or by attorney or duly authorized representative shall have one vote for each share held. None of the options have any voting rights.

(h) Other Information

1. The name of the Company Secretary is Ms Tracy Bragg.
2. The address of the principal registered office in Australia is Level 9, 301 Coronation Drive, Milton, Brisbane, Queensland 4064, Telephone +61 7 3156 7777.
3. The register of securities is held at, Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000, Telephone +61 2 8280 7001.
4. Stock Exchange Listing Quotation has been granted for all the ordinary share of the Company on all Member Exchanges of the Australian Stock Exchange Limited, and trade under the symbol CNX.
5. Detailed schedules of exploration and mining tenements held are included in the tenement schedule.
7. Directors' interest in share capital are disclosed in the Directors Report.
8. Unquoted Securities – Details of the 171,868,391unlisted options on issue are detailed in Note 33.
   - 8.1 Credit Suisse holds options of 61,728,395 representing 36% of the unlisted options on issue.
   - 8.2 Pacific Road Group holds options of 44,645,845 representing 26% of the unlisted options on issue.
   - 8.3 Mr Morné Engelbrecht, Managing Director holds options of 44,417,867 representing 26% of unlisted options on issue.

Shareholder Information

As at 17 July 2015

Twenty Largest Shareholders

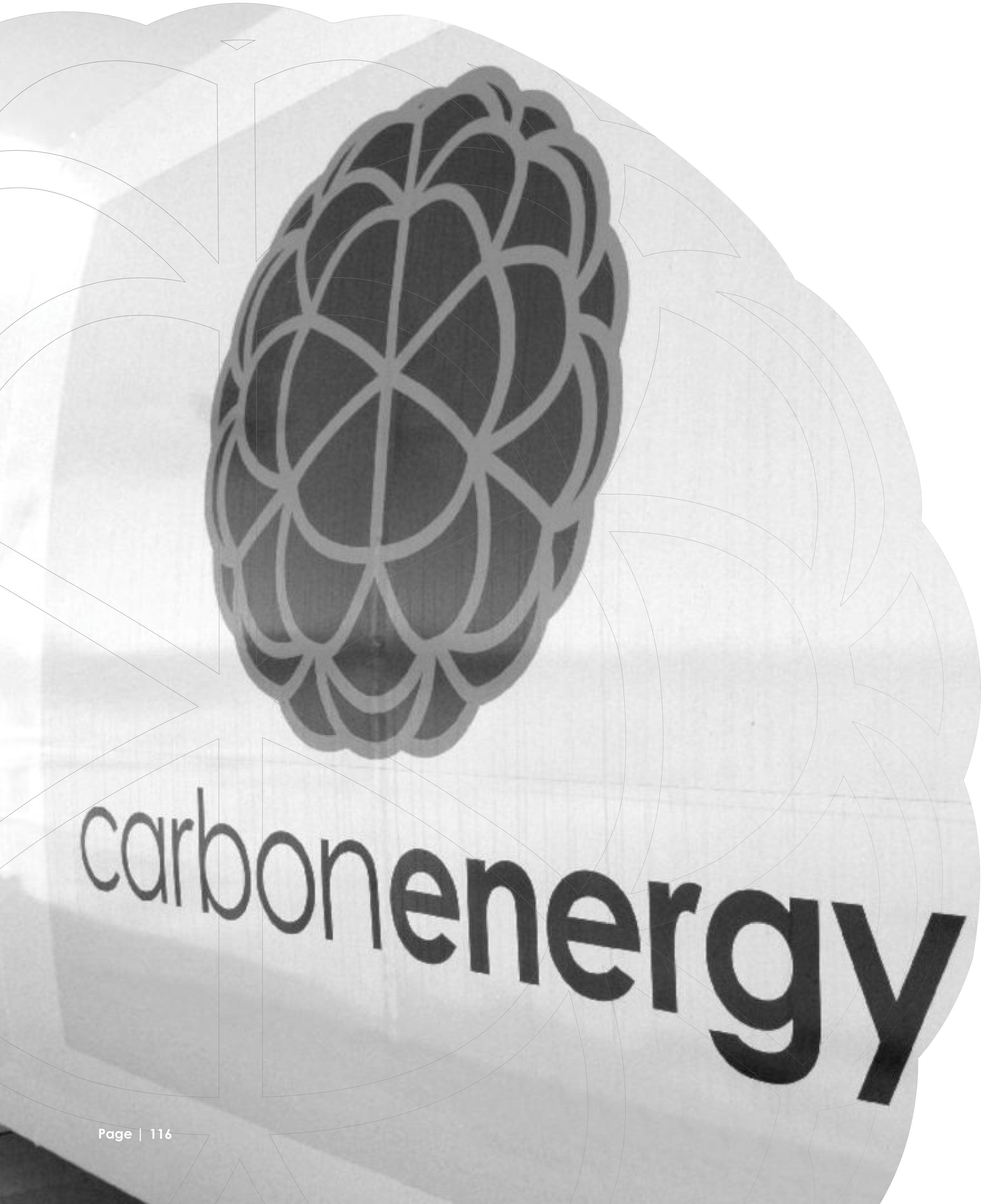
Shareholders (Fully Paid Ordinary)	Number of Shares	%
Kam Lung Investment Development Company Limited	171,818,615	12.77%
Pacific Road	123,369,483	9.17%
Citicorp Nominees Pty Limited	83,886,683	6.23%
Incitec Pivot Limited	75,556,040	5.61%
Lujeta Pty Ltd	40,426,874	3.00%
CSIRO	28,346,389	2.11%
Mr Ross Francis Stanley	22,875,000	1.70%
Mr Clifford William Mallett & Mrs Wendy Justin Mallett	19,609,607	1.46%
Twynam Agricultural Group Pty Ltd	19,594,023	1.46%
Mr Kaushik Biyani	14,220,404	1.06%
Silver Fox Nominees Pty Ltd	11,819,769	0.88%
Bridgelane Capital Pty Ltd	9,500,000	0.71%
JP Morgan Nominees Australia Limited	9,240,350	0.69%
Pebet Pty Limited	9,000,000	0.67%
National Nominees Limited	8,435,240	0.63%
Mitchell Family Investments (QLD) Pty Ltd	7,760,000	0.58%
Mr Neville Graham Moss & Mrs Merline May Moss	7,541,588	0.56%
Computer Visions Pty Ltd	7,150,000	0.53%
Invia Custodian Pty Limited	7,150,000	0.53%
Claymore Investments Pty Ltd	7,000,000	0.52%
Top 20 Shareholders	**684,300,065**	**50.85%**
TOTAL ISSUED SHARES as at 17 July 2015	**1,345,742,829**	**100.00%**

Shareholder Information

As at 17 July 2015

Twenty Largest Listed Option Holders (expiring 31 July 2016)

Option Holders (Fully Paid Ordinary)	Number of Options	%
Kam Lung Investment Development Company Limited	171,818,615	38.72%
Citicorp Nominees Pty Limited	50,329,788	11.34%
Archerfield Holdings	14,000,000	3.16%
J P Morgan Nominees Australia Limited	8,812,813	1.99%
Mr Alexander Gontmakher	7,505,000	1.69%
Mr Fuat Goksen Yurugor	7,020,000	1.58%
RPK Computer Services Pty Ltd	6,000,000	1.35%
Jetosea Pty Ltd	5,194,684	1.17%
Invia Custodian Pty Limited	3,950,000	0.89%
Mr Ross Francis Stanley	3,750,000	0.85%
Mr Clifford William Mallett & Mrs Wendy Justine Mallett	3,175,487	0.72%
Jurrah Investments Pty Ltd	2,999,000	0.68%
Bonos Pty Ltd	2,700,000	0.61%
Computer Visions Pty Ltd	2,650,000	0.60%
McKeon Financial Services Pty Ltd	2,600,000	0.59%
Dimof Investments Pty Ltd	2,500,000	0.56%
Mr Paul Anthony Sharp	2,480,014	0.56%
Mr Mark John Turner	2,333,332	0.53%
Mr Kevin John Benson & Mrs Mary Jean Benson	2,251,609	0.51%
C & I Smith Pty Ltd	2,200,000	0.50%
Top 20 Option Holders	**304,270,342**	**68.58%**
TOTAL LISTED OPTIONS as at 17 July 2015	**443,696,404**	**100.00%**


carbonenergy

CORPORATE DIRECTORY

Directors

Dr Chris Rawlings
Non-Executive Chairman
Mr Morné Engelbrecht
Managing Director & Chief Executive Officer
Dr Helen Garnett
Non-Executive Director
Mr Peter Hogan
Non-Executive Director
Mr Louis Rozman
Non-Executive Director

Executive Management Team

Morné Engelbrecht
Managing Director & Chief Executive Officer
Catherine Costello
Chief Financial Officer
Dr Cliff Mallett
Technical Director
Tracy Bragg
General Counsel & Company Secretary
Justin Haines
General Manager Technical Services
Terry Moore
General Manager Operations

Carbon Energy Limited

ABN 56 057 552 137

ASX Code: CNX

Registered & Principal Office

Level 9, 301 Coronation Drive
MILTON QLD 4064
Telephone: + 617 3156 7777
Facsimile: +617 3156 7776
Email: askus@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

www.carbonenergy.com.au

Annual General Meeting

The Annual General Meeting of Carbon Energy Limited will be held at Queensland Art Gallery, Gallery of Modern Art (GOMA) Cinema B Stanley Place, Southbank, QLD 4101 at 10:00am on Thursday, 12th November 2015

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www.carbonenergy.com.au

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Carbon Energy Limited | ABN 56 057 552 137

Corporate Governance

Carbon Energy Limited

Corporate Governance Statement – 2015

This statement has been approved by the Board. It is current as at 31 July 2015.

The Board and Senior executives of Carbon Energy are committed to acting responsibly, ethically and with high standards of integrity as the Company strives to create shareholder value. Carbon Energy is committed to implementing the highest standards of corporate governance appropriate for a company of its size and operations. This corporate governance statement outlines the corporate governance practices in place or adopted by the Board in the financial year ended 30 June 2015 by reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition) (**the Recommendations**).

The Board considers and applies the Recommendations taking into account the circumstances of the Company. Where the Company's practices depart from a recommendation, this Statement identifies the area of divergence and reasons for it, or the alternative practices adopted by the Company.

The documents that govern the Company's corporate governance framework, including its Constitution, Charters and Policies are set out at the end of this statement, together with links to where those documents can be accessed on the website.

Principle 1: Lay solid foundations for management and oversight

1.1 Disclose the respective roles and responsibilities of board and management and those matters expressly reserved to the board and those delegated to management

The Board and senior executives are committed to acting responsibly, ethically and with high standards of integrity as the Company strives to create shareholder value. The Board is responsible for the strategic direction of the Company with oversight and review of the management and administration of the Company.

It is the role of senior executives to manage the Company in accordance with the direction and delegation of the Board and the responsibility of the Board to provide leadership to, and oversee the activities of Management in carrying out these delegated duties.

The respective roles and responsibilities of the Board, its Committees and senior executives are set out in the Board and Committee Charters. These Charters are available on the Company's website. Details on the number of meetings held throughout the year and attendance at those meetings can be found on page 26 of the 2015 Annual Report.

1.2 **Companies should carry out appropriate checks of board candidates and provide information to shareholders that is material to their candidacy**

The Board has established policies and procedures that apply to the appointment of new Directors, which include checks as to the person's character, experience, education and appropriate background checks. At any AGM the Company provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

1.3 **Companies should have a written agreement with each director and executive setting out the terms of their appointment**

Non-executive Directors are provided a formal letter of appointment which sets out their duties and responsibilities, rights and remuneration entitlements. Senior executives are employed under individual service contracts which set out their terms of employment including details of their duties, responsibilities, rights and remuneration entitlements.

1.4 **The company secretary of a listed entity should be accountable directly to the Chair of the Board for matters relevant to the Board**

The role of Company Secretary is carried out by Tracy Bragg who is the Company's General Counsel and Company Secretary. Ms Bragg reports directly to the CEO and Managing Director in respect of her role as General Counsel. For any matter specific to company secretarial duties or relevant to the Board, the Company Secretary is accountable directly to the Chair of the Board.

1.5 **Companies should have a policy concerning diversity and disclose that policy, together with measurable objectives for achieving gender diversity and its progress towards achieving those objectives**

The Board has adopted a Diversity Policy which sets out the Company's commitment to diversity and inclusion in the workplace. The Diversity Policy does not include a requirement for the Board to establish measurable objectives for achieving gender diversity. The Company aims to achieve an appropriate mix of diversity on its Board, in senior executives and throughout the organisation. Given the small size of the Company workforce, the Board has determined that it is not currently necessary or practicable to establish measurable objectives in this area.

The proportion of women employees in the whole organisation, women in senior executive positions and women on the Board are set out in the following table:

	Proportion of women
Whole Organisation	7 out of 18 (39%)
Senior Executives Positions	2 out of 6 (33%)
Non-Executive Directors	1 out of 4 (25%)

The Diversity Policy is available on the Company's website.

1.6 **Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors**

The performance of the Board, each Board Committee and individual Directors is evaluated under the direction of the Chair. An appropriate questionnaire is completed by all Directors on a bi-annual basis. The results are collated and then discussed by the Board to ensure all points of view are considered and learnings addressed.

An evaluation of the Board, its committees and individual Directors was completed in August 2014 in accordance with the process disclosed above.

1.7 Companies should disclose the process for evaluating the performance of senior executives

Senior executives are subject to annual performance evaluations following the end of each financial year. This involves the assessment of performance against specific measurable criteria, taking into account the Company's strategy and objectives. For the year under review they have been carried out in July 2015. Senior executives are required to prepare their strategic objectives for review and approval by the Board, which assess performance against these objectives, taking into account the person's ongoing suitability for the relevant role.

Details on management performance incentives and remuneration are contained in the Remuneration Report section of the Directors' Report, on pages 27 to 42 of the 2015 Annual Report.

Principle 2: Structure the Board to add value

For the majority of the year, the Board had six Directors comprising one Executive Director and five Non-Executive Directors, three of whom were independent. On 21 April 2015, Max Cozijn (independent non-executive director) resigned. The Directors of Carbon Energy during the financial year are listed with a brief description of their qualifications, appointment date, experience and special responsibilities on pages 18 and 19 of the 2015 Annual Report.

2.1 The Board should establish an appropriately structured nomination committee

The Nomination Committee Charter sets out the Committee's role and responsibilities. These include Board renewal, succession planning, induction and evaluation. Reflecting the current size and composition of the Board and Company, the Board has elected to carry out the functions of the Nomination Committee. Details on the number of meetings held throughout the year and attendance at those meetings can be found on page 26 of the 2015 Annual Report.

The Nomination Committee's Charter is available on the Company's website.

2.2 The Board should establish and disclose a board skills matrix on the skills and diversity for Board membership

The Board considers that there is currently an appropriate mix of skills, diversity and experience on the Board, taking into account the size of the Company, the stage of its development and the nature of its operations. The Company seeks to maintain a Board of Directors with a broad range of financial, industry and other relevant skills, experience and knowledge. The Board has developed a matrix to consider the appropriate mix of skills, experience, expertise and diversity across its current membership and to assist in identifying what may be required of candidates in the event a new director is required.

Skills and Experience of Directors	
Resource and/or Oil & Gas Industry Experience	✓✓✓
CEO Experience	✓✓✓
Legal and/or Commercial	✓✓
Financial	✓✓✓
Stakeholder	✓✓
Board Governance & Diversity	✓✓✓

2.3 The Company should disclose whether its Directors are independent

The independence of Directors was measured during the reporting period having regard to the Company's Assessing the Independence of Directors Policy (**Independence Policy**), which provides that an independent director will be determined by reference to the defining characteristics as set out in Box 2.3 of the Recommendations. The Policy also provides that an independent director is a director who is not a member of management and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

The Independence Policy is available on the Company's website.

The following table sets out the Directors of the Company during the reporting period, including their length of service and non-executive and independent status.

Name	Appointment Date	Current Length of Service	Non-Executive?	Independent?
Chris Rawlings	1 July 2011	4 years	Yes	Yes
Morné Engelbrecht	23 July 2013	1 year 11 months	No	No
Max Cozijn	30 September 1992 Resigned 21 April 2015	22 years 7 months	Yes	Yes
Helen Garnett	6 September 2010	4 years 9 months	Yes	Yes
Peter Hogan	29 August 2008	6 years 10 months	Yes	Yes
Louis Rozman	7 April 2010	5 years 2 months	Yes	No

2.4 The majority of the Board should be comprised of independent Directors

Following an assessment of Director independence, in accordance with the Independence Policy, the Company announced on 26 November 2014 that Peter Hogan has been determined to be independent[1]. Therefore, from that date, the Board has had a majority of independent Directors.

[1] The Board noted that Mr Hogan's association with a substantial shareholder of the Company is limited to the provision of financial and commercial advisory services to that company in Mr Hogan's professional capacity on an arm's length, fee for service basis.

2.5 The Chair should be an independent Director and should not be the same person as the CEO

Dr Chris Rawlings is the independent non-executive Chairman. The roles of the Chairman and Chief Executive Officer and Managing Director are not exercised by the same individual. The Board Charter sets out the distinct responsibilities of each role.

2.6 The Board should establish a program for inducting new directors and provide appropriate professional development opportunities for Directors

New Directors are provided with a formal letter of appointment and induction pack which includes a range of information to allow them to gain an understanding of their rights and responsibilities, the role of the Board, its Committees and senior executives and the Company's financial, strategic, operational and risk management policies and position. The Board Charter provides that the Company Secretary is responsible for arranging an induction program for any new director to enable the Director to gain an understanding of matters including the Company's operations and the industry in which it operates, the Company's culture and values, and its financial, strategic, operational and risk management position. The program may include presentations and meetings with Directors and senior executives and site visits. Directors are encouraged to undertake professional development opportunities as and when required in order to further develop and maintain their skills and knowledge.

Principle 3: Promote ethical and responsible decision making

3.1 Companies should establish a Code of Conduct

The Company has established a Code of Conduct (**the Code**) which applies to all directors, senior executives and staff (**Employees**). The Code promotes practices that aim to foster the Company's key values, which include providing a safe and healthy work environment, encouraging Employees to act with fairness, honesty and integrity, being aware of and abiding by relevant laws and regulations and maintaining high standards of professional behaviour. Employees are expected to be honest and ethical in their dealings with each other and all stakeholders. Employees are responsible for actively reporting any inappropriate behaviour, corrupt practices or any breaches of the law or the Code. In order to do so employees are encouraged to follow the steps outlined in the Whistleblower Policy.

The Code of Conduct and the Whistleblower Policy are available on the Company's website.

Principle 4: Safeguard integrity in corporate reporting

4.1 The Board should establish an appropriately structured audit committee

The Board has established an Audit and Risk Committee. It is comprised of three independent non-executive Directors. The Chair of the Committee, Helen Garnett, is an independent non-executive Director and has significant experience in risk and financial matters. The membership of the Committee, including their qualification and experience, are set out on pages 18 and 19 of the 2015 Annual Report. Details on the number of meetings held throughout the year and attendance at those meetings can be found on page 26 of the 2015 Annual Report.

The Audit & Risk Committee and the Board as a whole discusses directly with the auditors in respect of each half year and full year, all relevant financial aspects of the Company. Information about the selection and appointment of the external auditor and regarding the rotation of external audit engagement partners is set out in the Company's Selection and Appointment of External Auditor Policy.

The Audit and Risk Committee Charter which sets out the Committee's role and responsibilities, composition, structure and membership requirements is available on the Company's website.

4.2 CEO and CFO certification of financial statements

Prior to Board approval of the Company's quarterly, half year and annual financial reports, the Chief Executive Officer and Managing Director and the Chief Financial Officer provide the Board with declarations required under section 295A of the Corporations Act 2001 (Cth) and Recommendation 4.2.

For the periodic financial reports provided during the year, the Chief Executive Officer and Managing Director and the Chief Financial Officer provided the Board with declarations that, in their opinion, the financial records of Company had been properly maintained and that the financial statements complied with the appropriate accounting standards and gave a true and fair view of the financial position and performance of the Company and that those opinions had been formed on the basis of a sound system of risk management and internal control which was operating effectively.

4.3 External auditor availability at AGM

The external auditor attends the Company's Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and preparation and conduct of the Independent Auditor's Report. Shareholders are also given the opportunity to submit written questions prior to the meeting. The Company considers that this is important in promoting and encouraging shareholder participation and reflects and supports the roles of the auditor and the auditor's accountability to shareholders.

Principle 5: Make timely and balanced disclosure

5.1 Companies should establish continuous disclosure policies and ensure compliance with those policies

The Company has adopted a Continuous Disclosure Policy which sets out the policies and procedures relating to:

- the reporting of price sensitive information to the Company Secretary for review;

- the preparation, approval and release of announcements containing price sensitive information or potentially price sensitive information to the market; and

- compliance by the Company with its continuous disclosure obligations under the Corporations Act and ASX Listing Rules, and to ensure accountability at a senior executive level for that compliance.

The Continuous Disclosure Policy is available on the Company's website.

Principle 6: Respect the rights of shareholders

6.1 The Company should provide information about itself and its governance to shareholders on its website

The Company's website www.carbonenergy.com.au provides detailed information about its business and operations.

The Investor Centre section of the website provides helpful information to shareholders and a link to the Share Registrar, Link Market Services. The Investor Centre also provides an investor fact sheet, investor FAQs, analyst reports and webcasts.

The Announcements & Reports section contains ASX and media announcements, industry news, roadshow and investor presentations and Annual and periodic Reports.

Shareholders can find information about the Company's corporate governance practices on the website within the Corporate Governance section under About Us. This includes the Company's Constitution, Board and Committee Charters and the Company's other corporate governance policies.

6.2 The Company should design and implement an investor relations program to facilitate effective two-way communication with shareholders

The Company is committed to engaging with shareholders and using a variety of tools to facilitate effective two-way communication. In doing so it has adopted a Shareholder Communications Policy which outlines the range of media used to communicate with shareholders and the types of information provided. The Company encourages participation by shareholders at the Company's General Meetings, investor presentations and via the contact details provided on the Company's website.

The Shareholder Communications Policy is available on the Company's website.

6.3 The Company should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of shareholders

The Company sees General Meetings as an important forum for reciprocal communication between itself and shareholders. Such meetings allow opportunities for shareholders to hear from and put questions to the Board, senior executives and the external auditor. In order to maximise shareholder participation at General Meetings, and to enable those shareholders who are unable to attend, the Company welcomes questions or comments to be submitted prior to the meeting. Such questions or comments will, where appropriate, be answered or responded to at the General Meeting, either verbally or in writing.

6.4 The Company should provide the option to send and receive communications from the Company and its Share Registry in electronic form

The Company provides shareholders with the option of receiving communications from, and sending communications to, the Company and Share Registry electronically, for reasons of cost, convenience and environmental considerations. The Company provides a printed copy of the Annual Report only to those shareholders who have specifically elected to receive a printed copy. Other shareholders are advised that the Annual Report is available on the Company's website.

Shareholders are encouraged to register on the Company website to receive email alerts of ASX Announcements and Media Releases and other news.

The Company's Share Register is managed and maintained by Link Market Services Limited. Shareholders can access their shareholding details or make enquiries about their shareholding electronically through the Link Market Services Investor Centre or by emailing registrars@linkmarketservices.com.au.

Principle 7: Recognise and manage risk

7.1 The Company should establish an appropriately structured risk management committee for the oversight of material business risks

During the reporting period, the Audit and Risk Committee was responsible for assisting the Board in fulfilling its corporate governance responsibilities in regard to financial risk management, the oversight and management of material business risks and the effectiveness of the Company's management of its material business risks.

7.2 The Board or a Committee of the Board should review the Company's risk framework at least annually to satisfy itself that it continues to be sound

An annual workshop involving Board representative and senior management was held during the reporting period. The Audit and Risk Committee subsequently reviewed the outcomes from the workshop and this process resulted in minor changes to the structure of the risk register in the areas of inherent and residual risk assessment. An assessment and management of opportunities to enhance the achievement of business opportunities was introduced and a scenario analysis tool also incorporated into the risk register to be used as and when appropriate.

7.3 The Company should disclose the structure and role of its internal audit function

The Company does not retain a dedicated internal audit function. The Board considers this is appropriate, taking into account the Company's stage of development, the scale of its operations and the relative simplicity of its finance function. The internal audit function performed by Senior Management comprises:

- regular review and testing of the adequacy of controls for risks identified as in the higher range;

- management confirmation on a periodic basis that the assessment of identified risks and their controls remain appropriate; and

- identification of any new risks or enhanced controls that may be required.

Where considered appropriate, external guidance may be sought on specific risks or controls. The Audit and Risk Committee regularly discusses the appropriateness of controls with the external auditor and if considered necessary would initiate an audit of a particular function.

7.4 The Company should disclose their economic, environmental and social sustainability risks and how those risks are managed

Managing economic sustainability is central to the Company's operation and ongoing viability. The most significant risk currently being managed is cash resources and the Company's ability to secure further licensing and technology services revenue streams as well as additional capital investment. The Company ensures its organisational structure includes appropriate resources to manage these risks. A key focus of senior executives is on securing sustaining financial resources and optimising existing cash resources and, where required, external advisors will be engaged to supplement these skills.

The Company has invested significantly in proving its environmental credentials through its Bloodwood Creek pilot study site. During the year the Company submitted its Decommissioning Report and a Rehabilitation Plan to the Department of Environment and Heritage Protection (DEHP). These reports demonstrated that the Company's gas production technology is safe, effective, highly controlled and minimises impact on groundwater volumes and quality. In relation to the management of ongoing environmental sustainability and the potential associated risks, the Company meets all of its compliance obligations and reports appropriately to designated statutory bodies. Sampling procedures that follow industry best practice have been adopted including samples being sent to two independent laboratories for analysis every month. All data captured through the monitoring process is analysed thoroughly to ensure the Company can respond quickly in the event there is any variance in the data collected.

Community support is considered the most significant social sustainability risk. At its Surat Basin, Queensland site the Company employs local community members and contractors and purchases the majority of its supplies through local suppliers. The Company engages with the broader community through active involvement in local community business groups and forums and is available to answer any concerns raised by the community. A dedicated 1800 number and email contact were set up and promoted during the year to respond to any queries in relation to the proposed Blue Gum Gas Project in the Surat Basin, Queensland.

Principle 8: Remunerate fairly and responsibly

8.1 The Board should establish an appropriately structured remuneration committee

The Board has established a Remuneration Committee. Until 21 April 2015, the Committee comprised three independent non-executive Directors and was chaired by Max Cozijn. On 21 April 2015 Mr Cozijn resigned as a director of the Company and in his place Louis Rozman was appointed Chair of the Remuneration Committee. Mr Rozman is not an independent director but is independent of Management and the Board has taken into account his extensive experience in matters pertaining to remuneration and believe he is the most appropriate appointment at this time. The membership of the Committee throughout the year under review, including their qualifications and experience are set out on pages 18 and 19 of the 2015 Annual Report. Details on the number of meetings held throughout the year and attendance at those meetings can be found on page 26 of the 2015 Annual Report.

The Remuneration Committee Charter which sets out the Committee's role and responsibilities, composition, structure and membership requirements is available on the Company's website.

8.2 The Company should distinguish between non-executive Directors' remuneration and that of executive Directors and senior executives

Non-Executive Directors are paid fees from an aggregate sum approved by shareholders of the Company. Non-Executive Directors are remunerated at a fixed fee for their time and responsibilities and their remuneration is not linked to the operating performance of the Company. There are no termination or retirement benefits for Non-Executive Directors other than superannuation.

Remuneration for the Chief Executive Officer and Managing Director and senior executives consists of a base salary, superannuation, fringe benefits and performance incentives. Performance incentives may include options granted at the discretion of the Board and subject to obtaining relevant approvals.

Details of remuneration, including the Company's policy on remuneration are contained in the Remuneration Report which forms part of the Directors' Report on pages 27 to 42 of the 2015 Annual Report.

8.3 The Company should establish a policy on whether participants in equity based remuneration schemes are able to enter into transactions which limit the economic risk of participating in those schemes

The Company's Securities Trading Policy specifically prohibits Directors and senior executives from entering into transactions which would limit the economic risk of any unvested entitlements under any equity-based remuneration schemes. Further, Directors and senior executives are prohibited from entering into margin loan arrangements or arrangements whereby their securities in the Company may be used as collateral, without prior approval. Breaches of this policy are regarded as serious misconduct.

Governance Documents

Constitution
http://www.carbonenergy.com.au/Constitution

Charters

- **Board**
  http://www.carbonenergy.com.au/BoardCharter
- **Audit & Risk Committee**
  http://www.carbonenergy.com.au/AuditRiskCommittee
- **Nomination Committee**
  http://www.carbonenergy.com.au/NominationCommittee
- **Remuneration Committee**
  http://www.carbonenergy.com.au/RemunerationCommittee

Policies

- **Assessing the Independence of Directors Policy**
  http://www.carbonenergy.com.au/IndependenceDirectors
- **Securities Trading Policy**
  http://www.carbonenergy.com.au/SecuritiesTrading
- **Code of Conduct (Summary)**
  http://www.carbonenergy.com.au/CodeConduct
- **Continuous Disclosure Policy (Summary)**
  http://www.carbonenergy.com.au/ContinuousDisclosure
- **Shareholder Communications Policy**
  http://www.carbonenergy.com.au/ShareholderCommunication
- **Diversity Policy**
  http://www.carbonenergy.com.au/Diversity
- **Whistleblower Policy**
  http://www.carbonenergy.com.au/Whistleblower
- **Remuneration Policy**
  http://www.carbonenergy.com.au/Remuneration
- **Risk Management Policy (Summary)**
  http://www.carbonenergy.com.au/RiskManagement

Rules 4.7.3 and 4.10.3[1]

Appendix 4G

Key to Disclosures
Corporate Governance Council Principles and Recommendations

Name of entity

Carbon Energy Limited

ABN/ARBN	Financial year ended
56 057 552 137	30 June 2015

Our corporate governance statement[2] for the above period above can be found at:[3]

☐ these pages of our annual report: ____

☑ this URL on our website:

http://www.carbonenergy.com.au/corporate-governance

The Corporate Governance Statement is accurate and up to date as at 31 July 2015 and has been approved by the board.

The annexure includes a key to where our corporate governance disclosures can be located.

Date here: 31 July 2015

Sign here:

Print name: Tracy Bragg
Company Secretary

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[1] Under Listing Rule 4.7.3, an entity must lodge with ASX a completed Appendix 4G at the same time as it lodges its annual report with ASX.

Listing Rule 4.10.3 requires an entity that is included in the official list as an ASX Listing to include in its annual report either a corporate governance statement that meets the requirements of that rule or the URL of the page on its website where such a statement is located. The corporate governance statement must disclose the extent to which the entity has followed the recommendations set by the ASX Corporate Governance Council during the reporting period. If the entity has not followed a recommendation for any part of the reporting period, its corporate governance statement must separately identify that recommendation and the period during which it was not followed and state its reasons for not following the recommendation and what (if any) alternative governance practices it adopted in lieu of the recommendation during that period.

Under Listing Rule 4.7.4, if an entity chooses to include its corporate governance statement on its website rather than in its annual report, it must lodge a copy of the corporate governance statement with ASX at the same time as it lodges its annual report with ASX. The corporate governance statement must be current as at the effective date specified in that statement for the purposes of rule 4.10.3.

[2] "Corporate governance statement" is defined in Listing Rule 19.12 to mean the statement referred to in Listing Rule 4.10.3 which discloses the extent to which an entity has followed the recommendations set by the ASX Corporate Governance Council during a particular reporting period.

[3] Mark whichever option is correct and then complete the page number(s) of the annual report, or the URL of the web page, where the entity's corporate governance statement can be found.

ANNEXURE – KEY TO CORPORATE GOVERNANCE DISCLOSURES

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …
PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT			
1.1	A listed entity should disclose: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.	… the fact that we follow this recommendation: ☑ in our Corporate Governance Statement **OR** ☐ at this location: ____________________________ *Insert location here* … and information about the respective roles and responsibilities of our board and management (including those matters expressly reserved to the board and those delegated to management): ☑ at this location: http://www.carbonenergy.com.au/corporate-governance	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	… the fact that we follow this recommendation: ☑ in our Corporate Governance Statement **OR** ☐ at this location: ____________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	… the fact that we follow this recommendation: ☑ in our Corporate Governance Statement **OR** ☐ at this location: ____________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed ...
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	... the fact that we follow this recommendation: ☑ in our Corporate Governance Statement **OR** ☐ at this location: __________________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
1.5	A listed entity should: (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary of it; and (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either: (1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	... the fact that we have a diversity policy that complies with paragraph (a): ☐ in our Corporate Governance Statement **OR** ☐ at this location: __________________________________ *Insert location here* ... and a copy of our diversity policy or a summary of it: ☑ at this location: http://www.carbonenergy.com.au/DiversityPolicy ... the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with our diversity policy and our progress towards achieving them: ☐ in our Corporate Governance Statement **OR** ☐ at this location: __________________________________ *Insert location here* ... and the information referred to in paragraphs (c)(1) or (2): ☑ in our Corporate Governance Statement **OR** ☐ at this location: __________________________________ *Insert location here*	☑ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …
1.6	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	… the evaluation process referred to in paragraph (a): ☑ in our Corporate Governance Statement **OR** ☐ at this location: ______________________________ *Insert location here* … and the information referred to in paragraph (b): ☑ in our Corporate Governance Statement **OR** ☐ at this location: ______________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
1.7	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	… the evaluation process referred to in paragraph (a): ☑ in our Corporate Governance Statement **OR** ☐ at this location: ______________________________ *Insert location here* … and the information referred to in paragraph (b): ☑ in our Corporate Governance Statement **OR** ☐ at this location: ______________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed …
<u>PRINCIPLE 2 - STRUCTURE THE BOARD TO ADD VALUE</u>			
2.1	The board of a listed entity should: (a) have a nomination committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; **<u>OR</u>** (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	[If the entity complies with paragraph (a):] … the fact that we have a nomination committee that complies with paragraphs (1) and (2): ☑ in our Corporate Governance Statement **<u>OR</u>** ☐ at this location: ________________ *Insert location here* … and a copy of the charter of the committee: ☑ at this location: http://www.carbonenergy.com.au/NominationCommittee … and the information referred to in paragraphs (4) and (5): ☐ in our Corporate Governance Statement **<u>OR</u>** ☑ at this location: <u>Carbon Energy 2015 Annual Report</u> [If the entity complies with paragraph (b):] … the fact that we do not have a nomination committee and the processes we employ to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively: ☐ in our Corporate Governance Statement **<u>OR</u>** ☐ at this location: ________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement **<u>OR</u>** ☐ we are an externally managed entity and this recommendation is therefore not applicable

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	… our board skills matrix: ☑ in our Corporate Governance Statement **OR** ☐ at this location: ________________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
2.3	A listed entity should disclose: (a) the names of the directors considered by the board to be independent directors; (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and (c) the length of service of each director.	… the names of the directors considered by the board to be independent directors: ☑ in our Corporate Governance Statement **OR** ☐ at this location: ________________________________ *Insert location here* … where applicable, the information referred to in paragraph (b): ☑ in our Corporate Governance Statement **OR** ☐ at this location: ________________________________ *Insert location here* … the length of service of each director: ☑ in our Corporate Governance Statement **OR** ☐ at this location: ________________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement
2.4	A majority of the board of a listed entity should be independent directors.	… the fact that we follow this recommendation: ☐ in our Corporate Governance Statement **OR** ☐ at this location: ________________________________ *Insert location here*	☑ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed …
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	… the fact that we follow this recommendation: ☑ in our Corporate Governance Statement **<u>OR</u>** ☐ at this location: ______________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement **<u>OR</u>** ☐ we are an externally managed entity and this recommendation is therefore not applicable
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	… the fact that we follow this recommendation: ☑ in our Corporate Governance Statement **<u>OR</u>** ☐ at this location: ______________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement **<u>OR</u>** ☐ we are an externally managed entity and this recommendation is therefore not applicable
<u>PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY</u>			
3.1	A listed entity should: (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it.	… our code of conduct or a summary of it: ☑ in our Corporate Governance Statement **<u>OR</u>** ☐ at this location: ______________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …
PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING			
4.1	The board of a listed entity should: (a) have an audit committee which: (1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board, and disclose: (3) the charter of the committee; (4) the relevant qualifications and experience of the members of the committee; and (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; **OR** (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	[If the entity complies with paragraph (a):] … the fact that we have an audit committee that complies with paragraphs (1) and (2): ☑ in our Corporate Governance Statement **OR** ☐ at this location: ______________________________ *Insert location here* … and a copy of the charter of the committee: ☑ at this location: http://www.carbonenergy.com.au/AuditCommittee … and the information referred to in paragraphs (4) and (5): ☐ in our Corporate Governance Statement **OR** ☑ at this location: Carbon Energy 2015 Annual Report [If the entity complies with paragraph (b):] … the fact that we do not have an audit committee and the processes we employ that independently verify and safeguard the integrity of our corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner: ☐ in our Corporate Governance Statement **OR** ☐ at this location: ______________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed …
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	… the fact that we follow this recommendation: ☑ in our Corporate Governance Statement **<u>OR</u>** ☐ at this location: ______________________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	… the fact that we follow this recommendation: ☑ in our Corporate Governance Statement **<u>OR</u>** ☐ at this location: ______________________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement **<u>OR</u>** ☐ we are an externally managed entity that does not hold an annual general meeting and this recommendation is therefore not applicable
<u>PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE</u>			
5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	… our continuous disclosure compliance policy or a summary of it: ☑ in our Corporate Governance Statement **<u>OR</u>** ☐ at this location: ______________________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement
<u>PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS</u>			
6.1	A listed entity should provide information about itself and its governance to investors via its website.	… information about us and our governance on our website: ☑ at this location: www.carbonenergy.com.au	☐ an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed …
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	… the fact that we follow this recommendation: ☑ in our Corporate Governance Statement **OR** ☐ at this location: ______________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	… our policies and processes for facilitating and encouraging participation at meetings of security holders: ☑ in our Corporate Governance Statement **OR** ☐ at this location: ______________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity that does not hold periodic meetings of security holders and this recommendation is therefore not applicable
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	… the fact that we follow this recommendation: ☑ in our Corporate Governance Statement **OR** ☐ at this location: ______________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …
PRINCIPLE 7 – RECOGNISE AND MANAGE RISK			
7.1	The board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; **OR** (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	[If the entity complies with paragraph (a):] … the fact that we have a committee or committees to oversee risk that comply with paragraphs (1) and (2): ☑ in our Corporate Governance Statement **OR** ☐ at this location: ______________________________ *Insert location here* … and a copy of the charter of the committee: ☑ at this location: http://www.carbonenergy.com.au/AuditCommittee … and the information referred to in paragraphs (4) and (5): ☐ in our Corporate Governance Statement **OR** ☑ at this location: Carbon Energy 2015 Annual Report [If the entity complies with paragraph (b):] … the fact that we do not have a risk committee or committees that satisfy (a) and the processes we employ for overseeing our risk management framework: ☐ in our Corporate Governance Statement **OR** ☐ at this location: ______________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …
7.2	The board or a committee of the board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place.	… the fact that we follow this recommendation: ☑ in our Corporate Governance Statement **OR** ☐ at this location: __________________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement
7.3	A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; **OR** (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	[If the entity complies with paragraph (a):] … how our internal audit function is structured and what role it performs: ☐ in our Corporate Governance Statement **OR** ☐ at this location: __________________________________ *Insert location here* [If the entity complies with paragraph (b):] … the fact that we do not have an internal audit function and the processes we employ for evaluating and continually improving the effectiveness of our risk management and internal control processes: ☑ in our Corporate Governance Statement **OR** ☐ at this location: __________________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	… whether we have any material exposure to economic, environmental and social sustainability risks and, if we do, how we manage or intend to manage those risks: ☑ in our Corporate Governance Statement **OR** ☐ at this location: __________________________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have <u>NOT</u> followed the recommendation in full for the whole of the period above. We have disclosed …
<u>PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY</u>			
8.1	The board of a listed entity should: (a) have a remuneration committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; **<u>OR</u>** (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	[If the entity complies with paragraph (a):] … the fact that we have a remuneration committee that complies with paragraphs (1) and (2): ☐ in our Corporate Governance Statement **<u>OR</u>** ☐ at this location: ________________________________ *Insert location here* … and a copy of the charter of the committee: ☑ at this location: http://www.carbonenergy.com.au/RemunerationCommittee … and the information referred to in paragraphs (4) and (5): ☐ in our Corporate Governance Statement **<u>OR</u>** ☑ at this location: <u>Carbon Energy 2015 Annual Report</u> [If the entity complies with paragraph (b):] … the fact that we do not have a remuneration committee and the processes we employ for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive: ☐ in our Corporate Governance Statement **<u>OR</u>** ☐ at this location: ________________________________ *Insert location here*	☑ an explanation why that is so in our Corporate Governance Statement **<u>OR</u>** ☐ we are an externally managed entity and this recommendation is therefore not applicable

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	… separately our remuneration policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives: ☑ in our Corporate Governance Statement **OR** ☐ at this location: ______________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
8.3	A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it.	… our policy on this issue or a summary of it: ☑ in our Corporate Governance Statement **OR** ☐ at this location: ______________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we do not have an equity-based remuneration scheme and this recommendation is therefore not applicable **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
ADDITIONAL DISCLOSURES APPLICABLE TO EXTERNALLY MANAGED LISTED ENTITIES			
-	*Alternative to Recommendation 1.1 for externally managed listed entities:* The responsible entity of an externally managed listed entity should disclose: (a) the arrangements between the responsible entity and the listed entity for managing the affairs of the listed entity; (b) the role and responsibility of the board of the responsible entity for overseeing those arrangements.	… the information referred to in paragraphs (a) and (b): ☐ in our Corporate Governance Statement **OR** ☐ at this location: ______________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement
-	*Alternative to Recommendations 8.1, 8.2 and 8.3 for externally managed listed entities:* An externally managed listed entity should clearly disclose the terms governing the remuneration of the manager.	… the terms governing our remuneration as manager of the entity: ☐ in our Corporate Governance Statement **OR** ☐ at this location: ______________________ *Insert location here*	☐ an explanation why that is so in our Corporate Governance Statement