



19 April 2013

Ms Stephanie So
Adviser, Listings (Sydney)
ASX Compliance Pty Limited
20 Bridge Street
Sydney NSW 2000

Dear Stephanie,

RE: RESPONSE TO FINANCIAL CONDITION QUERY

In response to your financial condition query set out in your letter dated 9 April 2013, I advise as follows:

1. The company has taken steps to obtain an unqualified audit/review report for future financial periods and why the Company believes the carrying values to be appropriate is based on the following:
 - (a.) The value of the plant and equipment in the Group's accounts, excluding the equipment acquired from Reclaim Industries Ltd, is at cost less depreciation. The Plant and Equipment held by the company as a result of an acquisition of assets (Reclaim Assets) from Reclaim Industries Ltd has an adopted value by the directors. The company has obtained a valuation on this plant and equipment, acquired from Reclaim Industries, by a licenced valuer in accordance with Australian accounting standards to support the value adopted by the company. This valuation was in excess of the amount adopted by the director's as a holding value for this plant and equipment. The directors are of the belief that the values recorded in the company's accounts are conservative. The qualification the auditor had in relation to the valuation was the disclaimer from the valuer on the ownership of assets. In their valuation documentation the valuer had a standard industry statement that they are not responsible for the verification that all the assets they valued were actually owned by the Company.

As many of the assets were specifically manufactured for a unique purpose there are no serial numbers or data bases which can be cross referenced as is the case with motor vehicles, boats and other high production volume equipment such as backhoes, excavators and generators.

Even though all the equipment was valued on premises either owned or leased by the Company, it was impossible for the Valuers to be able to determine conclusively that the line of ownership of every piece of equipment from manufacture date through to the present. To remove the impasse between the Auditors position and that of the Valuer, the Valuer agreed to complete a reconciliation of all the equipment items valued with a list of equipment set out in the purchase contract the Company executed with Reclaim.

This reconciliation confirmed that all the equipment purchased from Reclaim was included in the valuation except for one piece of equipment which was left off the contract equipment schedule. The value of this equipment was \$195,000 which falls well within the conservative value taken up by the Directors and the value of the equipment determined by the Valuer.

The Auditors have agreed that, due to the passage of time without incident, the ownership qualification will have been satisfied by the 30 June 2013

- (b.) Trade and other receivables. The Auditors qualification of this category was due to GST reconciliations of amounts payable and receivable with the Tax Office's integrated account statements had not been finalised. Subsequent to the Auditors Review Report the reconciliation system has been completed and the reconciliation finalised. Had the Report been released now this category would not have appeared in the audit report. The Company has implemented the appropriate systems that will ensure this qualification will not occur in the future.
 - (c.) Trade and other payables. The Auditors qualification of this category was due to GST reconciliations of amounts payable and receivable with the Tax Office's integrated account statements had not been finalised. Subsequent to the Auditors Review Report the reconciliation system has been completed and the reconciliation finalised. Had the Report been released now this category would not have appeared in the audit report. The Company has implemented the appropriate systems that will ensure this qualification will not occur in the future.
 - (d.) The borrowings of the company have comprised convertible notes, related party loans and finance arrangements. The company has provided the auditors with documentation in its possession in respect of the documented loans. One of the related party loans was undocumented, but were noted in minutes. The level of borrowings for the company is conservative and as the company's debt ratio is under 35%, this implies that most of the company's assets are financed through equity and the company is not highly geared compared to its peers. The company has a significant ability to utilise its balance sheet position to fund future growth.
2. The intangible assets represent Goodwill on Consolidation, arising from the difference between the value paid for the remaining interest in the acquisition of Oakturn and the fair value of the assets acquired in October 2010. This acquisition was approved by shareholders in October 2010. The company has provided the Auditors with a cashflow forecast for the next 12 months. The company has also provided the auditor with an Independent experts report on the value of these intangible assets dated September 2010. The company has completed an impairment analysis of the intangible assets based on those cashflow forecast.

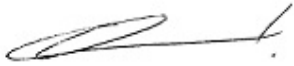
The forecast demonstrated that the underlying revenue need to support the valuation as per the experts report are exceeded by the forecasted cashflows. These measures demonstrate that the value of the intangible assets currently held by the company is fair and reasonable and that value is not impaired. As the forward looking cashflows support the value held for the intangible assets, the company believes that these assets have retained their current value and the company does not see a need to revalue those assets. The auditors would like a more rigorous approach on the impairment analysis to satisfy Australian Accounting Standards and the company is in the process of doing same.

3. The board is not of the opinion that the company has any uncertainty regarding continuation as a going concern. However in relation to the Auditors opinion the company intends to take the following steps to:
 - (a.) Avoid the uncertainty leading to an adverse or otherwise qualified audit opinion in future periods by increasing the focus of the company on current cost cutting measures in relation to its existing business and revenue initiatives that are materialising. These measures and initiatives will remove the need for any qualifications by the auditors in future periods.
 - (b.) Remain a going concern for the next and future financial periods, meeting the requirements of listing rules 12.1, 12.2 and 12.5 by adhering to the measures and initiatives conveyed in 3(a.) and the financial support afforded the company through announced funding measures. Also the company will seek to finalise the acquisition of Bluenergy Group announced to the market which will materially alter the current cashflows of the Company and would remove the need for working capital facilities. The directors believe that this will remove the inherent uncertainty regarding the company's ability to continue as a going concern, thus meeting the requirements of Listing Rules 12.1, 12.2 and 12.5.
4. The company is of the view that its financial condition is sufficient to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2.
5. The company has formed the conclusion on its financial position based on the increase in sales and production for the current financial period compared to the previous reported period. If required, the company will raise additional monies to fund working capital as disclosed to the market and has already signed documentation for additional funding, if required. The company's directors and shareholders have also offered further funding support to the company, if required.
6. Not applicable.

7. The company confirms that it is in compliance with the listing rules and in particular listing rules 3.1 and 12.2.

Should you have any other queries please do not hesitate to contact me on (02) 9756 0960.

Yours faithfully,



Andrew Howard
Managing Director



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NSW 1215

9 April 2013

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Mr Andrew Howard
Chairman
Carbon Polymers Limited
150-166 Woodpark Road
Smithfield NSW 2164

By email

Dear Andrew

Carbon Polymers Limited (the “Company”) – Financial Condition Query

We refer to the following:

1. The Company’s financial report for the half year ended 31 December 2012, released to ASX on 8 April 2013 (the “Financial Report”) which contained a Qualified Conclusion in the Auditor’s Review Report on the basis of the following information:
 - Evidence, as at 31 December 2012, of the Company’s failure to pay debts as and when they fall due. The trade and other payables included \$884,383 unpaid for more than 90 days, \$445,595 owing for payroll deductions and \$211,730 owing for superannuation.
 - Negative cash flows generated from operating activities for the year of \$1,082,509.
 - Deficiency in net current assets of \$1,430,657.
 - The auditors were unable to obtain sufficient appropriate evidence about the carrying amount of the Reclaim assets as at 31 December 2012 due to the independent valuation containing qualifications pertaining to the existence and valuation assertions, in particular the verification of the legal ownership of the assets.
 - The following information remained outstanding as at the date of the Auditor’s Review Report:
 - Impairment analysis of intangible assets for the consolidated entity and carrying value of investment in subsidiaries.
 - Signed copy of a Borrowing Agreement
 - Integrated client account statements and business activity statement reconciliation to trade and other payables and/or trade and other receivables.
 - Accordingly, the auditors express no opinion on the carrying values of the following assets, or the completeness and classification of the following liabilities:

Property Plant and Equipment	\$2,827,579
Trade and other receivables	\$117,047
Intangible assets	\$11,610,000
Investment in subsidiaries (parent only)	\$11,555,616
Trade and other payables	\$1,784,888
Borrowings	\$100,000

- Subsequent to 31 December 2012, the Company had secured a standby Subscription Facility with a fund manager for \$5,000,000.
- The auditor notes that the Company's ability to continue as a going concern is dependent on a material improvement in the Company's operating results as well as the Company's ability to raise additional equity or alternative funding.

Relevant listing rules and guidance

We also refer to the following:

- Listing rule 3.1, which requires an entity, once it becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, to immediately tell ASX that information.
- Listing rule 12.2, which states that an entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.
- Listing rule 19.11A, which requires accounts given to ASX under the requirements of the listing rules, to be prepared to Australian accounting standards and if the entity is a foreign entity, the accounts may be prepared to other standards agreed by ASX.
- Listing rule 3.1A sets out an exception from the requirement to make immediate disclosure, provided that each of the following are satisfied.

“3.1A.1 A reasonable person would not expect the information to be disclosed.

3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential.

3.1A.3 One or more of the following applies.

- *It would be a breach of a law to disclose the information.*
- *The information concerns an incomplete proposal or negotiation.*
- *The information comprises matters of supposition or is insufficiently definite to warrant disclosure.*
- *The information is generated for the internal management purposes of the entity.*
- *The information is a trade secret.”*

Questions for response

In light of the information contained in the Financial Report, and having regard to the listing rules referred to above, please respond to the following questions.

1. Given the Qualified Conclusion relates to the Auditor's inability to obtain sufficient and appropriate audit evidence about the carrying values of each of the assets and the completeness and classification of the liabilities listed in the Auditor's Review Report, what steps does the Company intend to take to obtain an unqualified audit/review report for future financial periods? Also, on what basis does the Company believe the carrying values to be appropriate? In your response, please respond specifically in relation to each of the following:

- a. Property plant and equipment
 - b. Trade and other receivables;
 - c. Trade and other payables; and
 - d. Borrowings.
2. The Auditor's Review Report notes that the impairment analysis of intangible assets and carrying value of investment in subsidiaries is outstanding as at the date of the Auditor's Review Report. Please explain why the intangible assets and investment in subsidiaries were not tested for impairment in accordance with the Australian accounting standards, in particular paragraph 10(a) of *AASB 136: Impairment of Assets*. Please advise when the impairment analysis will be performed and how the Company is satisfied that these assets are not impaired.
3. Given the significant uncertainty regarding continuation as a going concern, what steps does the Company intend to take to
 - (a) Avoid the significant uncertainty leading to an adverse or otherwise qualified audit opinion in future periods; and
 - (b) Remain a going concern for the next financial period, meeting the requirements of listing rules 12.1, 12.2 and 12.5?
4. Is the Company of the view that the financial condition of the Company would be sufficient to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2?
5. If the answer to question 4 is "Yes", please explain the basis on which the Company has formed the conclusion that the financial condition of the Company is sufficient to warrant continued listing on ASX in accordance with the requirements of listing rules 12.2. Specifically, the Company should submit the reasons (including any previous disclosures made to the market) it considers relevant given the matters outlined in the Auditor's Review Report resulting in the Qualified Conclusion.
6. If the answer to question 4 is "No", please explain what steps the Company has taken, or proposes to take, to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2.
7. Please confirm that the Company is in compliance with the listing rules and, in particular, listing rules 3.1 and 12.2.

Your response should be sent to me by return e-mail. It should not be sent to the Market Announcements Office.

This letter deals with important matters and you may wish to consult your advisers. If you wish to provide submissions, unless the information is required to be released to the market immediately under listing rule 3.1, a response is requested as soon as possible and, in any event by **no later than 5.00 pm AEST on Tuesday, 16 April 2013**.

Please note that ASX reserves the right, under listing rule 18.7A, to release this letter and the Company's response to the market. Accordingly, please prepare your response in a form suitable for release to the market.

If you have any queries regarding any of the above, please call me.

Yours sincerely

[Sent electronically without signature]

Stephanie So
Senior Adviser, Listings Compliance (Sydney)