carbonenergy

ANNUAL REPORT 2013

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COMPANY OVERVIEW

CARBON ENERGY IS AN EMERGING GLOBAL ENERGY TECHNOLOGY PROVIDER AND SERVICES COMPANY WITH EXPERTISE IN UNCONVENTIONAL SYNGAS EXTRACTION THROUGH UTILISING ITS PROPRIETARY UNDERGROUND COAL GASIFICATION (UCG) TECHNOLOGY.

The Company's keyseam® UCG technology reached Proof of Concept stage following 10 years of research by Australia's premier scientific research agency, the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and more than five years of in-field trials.

Carbon Energy works with international partners to unlock new energy sources by converting, stranded or otherwise uneconomical coal into a high-value gas, known as syngas, while it is still in-situ underground. Carbon Energy's market advantage lies in its proprietary keyseam UCG technology and its UCG technical and UCG engineering expertise.

keyseam produces a high-quality gas which can be used for many purposes including power generation, fertilisers, petrochemicals and production of pipeline-quality gas. keyseam also maximizes resource efficiency, while minimising surface disturbance and impact on groundwater quality.

Carbon Energy's growth strategies position the Company to take advantage of a rising interest in UCG as a cleaner alternative to satisfy the world's growing energy needs; as well as optimising its Australian assets. The three pillars of the Company's strategy are:

1. To seek global opportunities to license its keyseam technology and related technical services,
2. Monetise its Australian coal assets, and
3. Commercialise its gas assets.

The 2013 financial year has been one of delivery for Carbon Energy, where the Company has been acknowledged internationally for its environmental practices, advanced major international projects, proven up its resources in Australia and further enhanced the viability of its patented keyseam UCG technology.

The Company delivers end- to-end UCG services from initial project assessment through to commercial project development, operations, site decommissioning and rehabilitation. Carbon Energy is developing UCG projects in Australia, China, Chile, and Argentina at this time.

The Company is headquartered in Brisbane, Australia, is listed on the Australian Securities Exchange (ASX) as CNX and is quoted on the OTCQX International Exchange as CNXAY in the United States.

® keyseam is a registered Trademark of Carbon Energy Ltd.

Image: Bloodwood Creek Project Site Queensland

CHAIRMAN'S REPORT

This Report highlights milestone developments for Carbon Energy in an environment which has been unfavourable to the shareholders of small, listed, development companies. Despite a number of challenges, the technology and commercial developments have increased the Company's confidence in the keyseam UCG technology as a basis for a long term business. Carbon Energy has implemented the strategy of licensing the keyseam technology, commercialising UCG services, progressing the Queensland UCG syngas assets, and commercialising our thermal coal assets.

On behalf of the Board of Directors and Management of Carbon Energy, I present to you the Company's Annual Report for the year ended 30 June, 2013.

The path to commercialisation of new technology is never straightforward. The obstacles to be overcome and the time taken are always greater than initially anticipated. Each technology has its own unique pathway to success and the journey is marked with the highs of milestone breakthroughs and the disappointments of technical and commercial setbacks. Carbon Energy has experienced such tumultuous phases of commercialisation, but the Company is now gaining traction in the marketplace.

Since implementing the strategy of licensing the keyseam technology a number of international partnerships have been initiated.

The Company's first signing in China was with state owned coal company, Shanxi Coal. The commercial arrangement was strongly supported by the incumbent regional Government appointees of the time. Unfortunately, with the introduction of the new Chinese five year plan, key Government officials changed and progress stalled. Their former enthusiasm for the introduction of the technology was replaced with caution and a need for more information and consideration. Carbon Energy is maintaining a close relationship with the senior management of Shanxi Coal, while these issues are worked through, but unfortunately Shanxi are still to fulfill the commercial agreement.

Despite this setback, we have found enthusiasm with another company in China, the Zhengzhou Group, who have entered into a Master Technology Licence Agreement whereby the Company will be remunerated as technology advisers and receive a licencing fee on the achievement of technical milestones and royalty on the commercial gas produced.

This is the Company's preferred model for commercial agreements.

A strong relationship foundation is being established with the owners and management of the Zhengzhou Group, who have also agreed to participate in the latest capital raising.

The patented keyseam UCG technology is robust. It has been benchmarked by the market as the UCG method with the most consistent gas quality in production.

There has been interest from companies in other countries who see UCG as a new technology opportunity. A relationship has been established with the Delmo Group for the introduction of UCG syngas in Argentina.

Other new global partnerships are expected to be progressively announced as commercial discussions mature.

The keyseam technology developed by Carbon Energy is now on an upward trajectory to commercialisation. Over the next few years it is anticipated that the Company will progressively be engaged on a number of projects that will clearly identify the worth and use of UCG as an energy source.

Meanwhile, our Bloodwood Creek trial UCG panel near Dalby in Queensland is being decommissioned as part of our trial process. The Company is actively looking at ways to prove that the rehabilitation plan of this site is suitable for the regulatory environment in Queensland.

The 743 PJ of Syngas Reserve at Bloodwood Creek represent a valuable and identified source of energy for Queensland. It deserves to be commercialised at a time when the availability of domestic gas will be constrained as the three LNG plants, currently under construction in Gladstone, go into full demand mode.

Sadly, consideration of UCG by the Queensland Government has been a protracted process, complicated by a change in government. It is anticipated that the present process will give way to a sensible solution that will satisfy Carbon Energy shareholders and protect the environment for the Queensland people.

Governments must recognise that developing technology needs encouragement and support, not intensive complex regulation. The government needs to foster a greater appreciation of the issues relating to developing energy technology rather than looking for ways to make its introduction harder than it needs be.

The Company is working with the Queensland Government on developing a regulatory regime for UCG and remains optimistic that legislators will develop a closer understanding of the technology and the associated opportunities for new businesses in Queensland, and will foster methodologies to enable an appropriate regulatory approach while addressing all necessary issues. The shortage of gas in Queensland will provide a commercial opportunity for Carbon Energy to provide feedstock for domestic industry that wishes to co-locate at or near the Bloodwood Creek site.

This business opportunity should emerge once the Queensland State Government regulation has been clarified.

Carbon Energy also owns significant coal assets in South East Queensland's world-class Surat Coal Basin. It could be said that coal is not the flavour of the month at present however the much maligned fossil fuel has been in this position many times before and recovered strongly. It is a fuel that will continue to be a substantial part of the energy supply mix.

Coal is, however, not a core business for Carbon Energy and the Company will seek to monetise these assets for the benefit of shareholders.

This substantial wholly-owned resource is a valuable asset for Carbon Energy and while monetising under the current climate is challenging, we are very well placed to do so when conditions improve.

One of the most pleasing aspects of 2013 is that the Company has been able to maintain the capability of our very valuable Carbon Energy people. They share the vision for UCG technology, both here and internationally, and the Board is very appreciative of their efforts throughout this process.

We are very honoured to have received an award at the Beijing Coal Conference 2013 and be recognised as the Most Advanced Clean Coal Technology.

This is a significant external recognition of the status of our technology.

Finally, I would like to thank the Board and employees, and also welcome our new Managing Director Morné Engelbrecht to his post.

Dr Chris Rawlings

Chairman

CHIEF EXECUTIVE OFFICER'S MESSAGE

The financial year of 2013 was an exciting period for Carbon Energy where we achieved important breakthroughs as an emerging global energy technology provider and services company, specialising in UCG.

We continued to mature our keyseam UCG technology and reached key milestones in the implementation of our strategic direction aimed at becoming the UCG technology provider of choice around the world.

Significantly, Carbon Energy executed a Master Technology Licence Agreement (TLA) with Zhengzhou Coal Industry Group to become the exclusive UCG technology partner for a Government approved commercial scale project in Inner Mongolia, China. The Company will receive $10m in technology licence fees upon achieving milestones, additional revenue from technology service fees and ongoing royalty payments.

Shortly after signing the TLA we were delighted to announce in June 2013 that a site characterisation study assessing the geology, hydrogeology and geotechnical information of the Haoqin Coalfield confirmed favourable conditions for keyseam UCG and three possible project areas.

Initial assessment of this project indicates sufficient resources to power a 1,000MW power station or produce 50 PJ/annum Synthetic Natural Gas (SNG) for an estimated 30 years.

Now that favourable site conditions and potential project areas have been confirmed, it is anticipated that the project will move to the next stage of development.

The agreement represents the growing demand for UCG services globally as more companies become interested in accessing deep otherwise stranded coal resources to unlock new energy sources. It is a perfect fit for Carbon Energy's partnering strategy for suitable projects as a non-equity partner.

Carbon Energy still remains committed to its relationship with Shanxi Coal Transportation and Sales Group (Shanxi Coal) and becoming its UCG technology partner of choice in the Shanxi Province.

Carbon Energy's growing success in China has given the Company confidence that we can now export our proven proprietary keyseam UCG technology to the world.

We have defined plans for global expansion and will continue to assess the optimisation of assets and financing options needed to best fund the Company's plans for growth which includes positioning Carbon Energy as a significant UCG technology partner.

While advancing our Chinese partnerships and other global projects, Carbon Energy is decommissioning its pilot UCG site at Bloodwood Creek near the Queensland township of Dalby, as part of its demonstration of a complete UCG cycle from start to finish.

The Company is now embarking on developing a rehabilitation plan to be agreed with the Queensland Government for UCG.

We are committed to a successful outcome with rehabilitation, which will add to Carbon Energy's Proof of Concept and further promote UCG as a safe and environmentally sound energy alternative which can be supported by government policy. Carbon Energy is in regular contact with the Department of Natural Resources and Mines as well as the Department of Environment Heritage Protection and is working constructively towards commercialisation of the UCG industry in Queensland.

Another exciting development this financial year has been the findings of an independent electro-seismic survey which reinforced Carbon Energy's technically advanced keyseam UCG technology.

The innovative geophysical technique confirmed the location and size of Carbon Energy's second UCG reactor and validated the modelling and operation parameters of our keyseam UCG technology.

These findings further support our key strategic pillar to pursue global expansion by becoming the partner of choice, nationally and internationally, through delivering the most technically advanced and demonstrated UCG technology.

We are determined to replicate our licensing model globally. The Company is actively pursuing opportunities where enthusiasm and government support for moving UCG technology forward is demonstrated.

While the key focus for Carbon Energy remains on exporting our technology world-wide, we have significant Australian coal assets which continue to be proven in size and confidence.

Our Australian coal resources were further strengthened during the reporting period with the announcement that the Company had identified at least three longwall mining areas each with the potential of mining 5 million product tonnes per annum of thermal export quality coal.

The results of the conceptual mining study across our coal tenements in the Surat Basin confirm that the Company holds significant coal assets with the potential for development into substantial mining operations.

Clearly, in the development of these resources there are several hurdles to negotiate in terms of the delivery of port and rail infrastructure. However Carbon Energy is in discussions with relevant parties for development of these resources.

As previously stated, it is our goal to monetise these coal assets and utilise funds to further develop our core business of providing UCG technology and services.

Obviously global market conditions have been challenging for Carbon Energy this financial year, however there are positive signs that things are improving.

In July 2013, the Company announced a 1 for 2 non-renounceable rights issue to eligible shareholders at 2 cents per share, with an attaching 6 cent option expiring 31 July 2016 which raised $2.6 million (before costs). The Company also secured a new cornerstone investor, Holder East Capital to invest $1 million through a private placement on the same terms of the Rights Issue.

This Company is very fortunate to have built a team of dedicated and talented people who share the UCG vision.

As our knowledge and experience continues to grow we are driving innovation in our specialised field that can deliver long term growth and value for shareholders.

I would like to thank the leadership team and all our staff for their commitment to our Australian activities as well as their efforts in driving our expansion globally.

Morné Engelbrecht

Managing Director and
Chief Executive Officer

Image: Bloodwood Creek Knockout pots

EXECUTIVE MANAGEMENT TEAM

Morné Engelbrecht

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

BCom (Hons), CA(SA)

Mr Engelbrecht was appointed to the role of Chief Executive Officer of Carbon Energy on 18 June 2013 after serving as Acting Chief Executive Officer from 22 December 2012. Mr Engelbrecht was appointed to the Board of Carbon Energy on 23 July 2013. Offering over 13 years Australian and international oil & gas and resources industry experience, Mr Engelbrecht provides leadership across all facets of the business as well as defining the strategic direction and managing the rapid expansion plans of the Company. He is critical in shaping the future direction of Carbon Energy's efforts around the globe, most notably in setting the base for the commercialisation of the technology. Prior to joining Carbon Energy, Mr Engelbrecht held several senior financial and commercial management roles. Mr Engelbrecht is a chartered accountant by profession and member of the South African Institute of Chartered Accountants.

Dr Cliff Mallett

TECHNICAL DIRECTOR

MSC, PhD

Cliff is one of Australia's most highly regarded UCG experts with over 30 years of coal mining research experience including over 15 years dedicated to advancing the development of UCG process technology. He is Chairman of the Board of Trustees of the UCG Association, the international industry group for promotion and education of underground coal gasification. He is responsible for the ongoing development of Carbon Energy's UCG technology.

Additionally, Cliff undertakes assessment of potential coal deposits and their suitability for keyseam and our expanding portfolio of projects both in Australia and around the world. Cliff has degrees in Geology from the University of Queensland and the University of Melbourne.

Terry Moore

GENERAL MANAGER OPERATIONS

Terry is responsible for development and ongoing operations of Carbon Energy's global projects. Terry brings more than 15 years experience as a senior manager in the engineering sector including roles at Ausenco Operations and Downer EDI Mining. His experience includes electrical, mechanical, and civil engineering, design and construction projects from concept to commissioning and operational readiness. Terry's solid track record incorporates management of projects including plant utilisation, cost control and business process. He leads a growing team of project, environment and safety professionals.

Justin Haines

GENERAL MANAGER TECHNICAL SERVICES

B.App.Sc., Grad.Dip.Sc. (Honours), M.Min.Eng, M.AusIMM, M.AIG, RPEQ

Justin has 23 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.

LICENSING KEYSEAM UCG TECHNOLOGY

Carbon Energy achieved Proof of Concept for its UCG technology in 2012. The Company's trial site at Bloodwood Creek in Southern Queensland has produced some of the most consistent and highest quality UCG gas ever reported. Carbon Energy has the flexibility to deploy this technology for the supply of syngas to a range of downstream markets, specific to local requirements.

With Proof of Concept achieved for the Company's proprietary keyseam UCG technology, Carbon Energy has built a strong platform to collaborate with domestic and global energy partners with a view to becoming the preferred provider of UCG technology and associated services to the world.

Carbon Energy's global expansion plans are underpinned by the Company's core strategy of licensing its proprietary keyseam technology along with its expertise in technical and engineering services — including site selection and geological modelling.

The Company's advanced UCG technology produces UCG syngas, a valuable product gas which can be used in the production of high value commodities such as electricity, pipeline quality gas, fertilisers and liquid fuels. UCG offers potential partners a cleaner, safer energy alternative without the need for the huge capital requirements of traditional mining and surface gasification methods.

In June this year, Carbon Energy received international recognition for its environmental approach, winning the Advanced Clean Coal Technology Award for its proprietary UCG technology at the 10th Clean Coal Forum in Beijing.

Carbon Energy's global expansion strategy is making significant headway, particularly in China where a number of major developments have taken place. Most recently the Company has executed a Master Technology Licence Agreement (TLA) with Zhengzhou Coal Industry Group to become the exclusive UCG technology partner for a Government approved commercial-scale project in Inner Mongolia, China.

Very pleasingly, a site characterisation study of the main target coal field has confirmed favourable conditions for keyseam UCG and three target areas were selected. The scope of works comprising a total of eight engineering packages for the design and commissioning of the first UCG panel have been agreed upon with the project partners. Commissioning of the first UCG panel is expected to occur by mid-2014. The project is on track to move quickly to the next stage of development.

Carbon Energy will earn $10 million in technology licensing fees for the project as well as technical service fees, plus ongoing royalties once first production revenues are generated. The Company was selected as the exclusive UCG technology provider after an extensive global search which independently assessed the different UCG technologies on a range of criteria.

Meanwhile, Carbon Energy remains committed to its relationship with Shanxi Coal Transportation and Sales Group (Shanxi Coal) and to becoming its UCG technology partner in the Shanxi Province. Carbon Energy executed a licensing agreement with Shanxi Coal in October 2012. Following a number of governmental changes in China immediately following the signing of the agreement, the project is unfortunately delayed.

The Company expanded its international interests further when, subsequent to year end, on 23 July 2013 it signed an MOU with Delmo Group Pty Limited to become the exclusive UCG technology partner for a commercial scale UCG project in the Claromeco Coal Basin in Argentina, South America. The project will be fully funded by Delmo Group with Carbon Energy receiving $10 million in technology licensing fees (paid in tranches on achievement of milestones), as well as technical services fees plus ongoing royalties once first revenues are generated. It is proposed that the commercial project will initially generate 300MW of electricity with further expansions planned.

Becoming the UCG technology partner for these projects in China and South America demonstrates the momentum behind Carbon Energy and lays the groundwork for further international expansion. The Company will focus on developing these projects to full commercial production and seeks further opportunities to become the preferred provider of UCG technology and associated services in the world.

MONETISE UCG SYNGAS ASSET

A significant part of Carbon Energy's business growth strategy is to commercialise the Company's syngas interest at Bloodwood Creek, Queensland by securing a joint venture development partner. Bloodwood Creek is sufficient to support the production of an estimated 2,200 tonnes of ammonia per day or 25PJ of SNG per annum continuously for 25 years, with the potential to provide long term returns for the Company and its shareholders.

The Company's UCG syngas creates a low-cost, low-emission and low impact pathway for delivering a new generation of commercial-scale energy projects. The production of UCG syngas delivers significant economic and environmental advantages when compared with traditional energy sources.

These include:

- Maximising resource efficiency by extracting up to 20 times more energy from the same resource when compared to coal seam gas (coal bed methane) production.
- Minimising surface disturbance by extracting the energy from coal through a series of boreholes rather than mechanical excavation used in conventional mining methods.
- Protecting groundwater by maintaining the groundwater pressure and preventing escape of by-products.
- Leaving rock and ash, originally mixed with the coal, underground in the coal seam.
- Cutting carbon emissions by producing syngas-fuelled electricity with 10-20% less CO2 emissions than traditional coal-fired power plants.
- UCG does not involve fraccing or dewatering.

Carbon Energy-produced UCG syngas can be an economical feedstock to downstream markets including low-emissions electricity, pipeline quality gas, fertiliser and industrial explosives and liquid fuels.

Bloodwood Creek is well placed for full commercialisation with nearby infrastructure including major power lines, the Roma-Brisbane Gas Pipeline, industrial-grade water supply, roads and rail as well as skilled labour adding to the appeal for future joint venture development partners.

The Independent Scientific Panel (ISP) Report released by the Queensland Government after the reporting period (8 July 2013) provides a pathway for commercialisation of the UCG industry in Queensland. Carbon Energy is working with the government on the next steps for commercialisation and is developing rehabilitation plans for the Company's second trial panel which was decommissioned in October 2012.

Bloodwood Creek, Queensland

MONETISE SURAT BASIN COAL RESOURCE

Carbon Energy owns significant coal assets in South East Queensland's world-class Surat Basin coal precinct. In April 2013 the Company announced a 48% increase in its JORC Inferred Coal Resource to 2 billion tonnes within these wholly owned tenements.

The newly defined resource relates to tonnage increases at EPC 867 (excluding MDL 374),EPC 869, and EPC 1132 in the Macalister Seam. A JORC Inferred Resource of 244 million tonnes within MDL374 has been allocated by the Company for UCG activities and has been excluded from the coal exploration tenement Resources reported.

Carbon Energy has managed to prove up this very large Surat Basin resource at minimum cost by using publically available information in combination with historic company exploration and drilling data. There is significant potential for further definition of resources in other Walloon Coal Measure seams in these same leases, subject to obtaining further coal quality data within these seams.

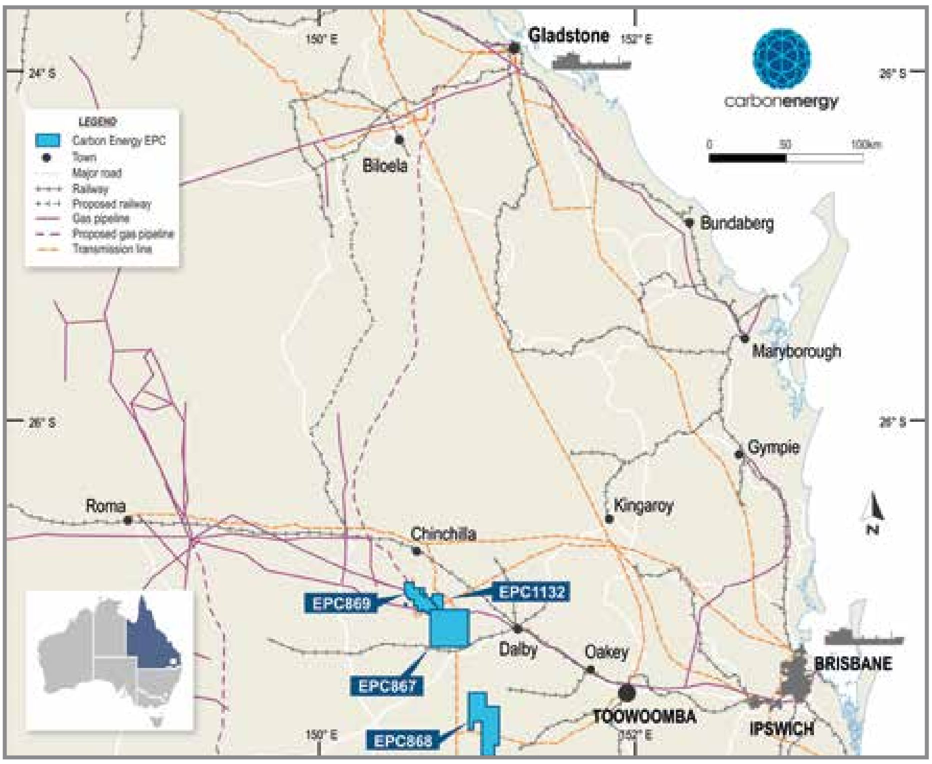
In November 2012, Carbon Energy announced the finalisation of a Conceptual Study on conventional coal mining at its Surat Basin tenements that identified at least three longwall mining areas each with the potential of mining 5 million product tonnes per annum of export quality thermal coal.

Coal quality within Carbon Energy's resources is expected to be consistent with the published coal qualities of the Macalister Seam at the Wilkie Creek and Kogan operating coal mines. These mines produce an export quality thermal coal product of around 11% ash, 9% moisture and Gross Calorific Value of 6,200 kCal/kg.

Carbon Energy is seeking the monetisation of its large 100%-owned thermal coal resource. The Company is actively advancing this strategy and is seeking to secure access to ports and transport infrastructure for expected coal production.

Subsequent to year end, on 6 August 2013, the Company announced the appointment of PCF Capital Group as marketing agents for the sale of the asset. Carbon Energy is seeking a partner to acquire or invest in the Company's thermal coal assets.

Carbon Energy plans to utilise the funds generated from the monetisation of its Surat Basin resource to further develop its core business of licensing its keyseam UCG technology and providing associated technical services.



Carbon Energy Coal Tenure and Regional Infrastructure

DIRECTORS' REPORT
BOARD INFORMATION

YOUR DIRECTORS PRESENT THEIR REPORT ON THE COMPANY AND ITS CONTROLLED ENTITIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013.

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 Andrew Dash
Former Managing Director and Chief Executive Officer (resigned 21 December 2012)

Mr Morné Engelbrecht
Managing Director (appointed 23 July 2013)

Mr Max Cozijn
Non-Executive Director

Dr Helen Garnett
Non-Executive Director

Mr Peter Hogan
Non-Executive Director

Mr Louis Rozman
Non-Executive Director

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

Company Secretary

Mr Morné Engelbrecht was appointed Chief Financial Officer and Company Secretary on 24 October 2011 and subsequently appointed Acting Chief Executive Officer on 21 December 2012 and Chief Executive Officer on 18 June 2013 and Managing Director on 23 July 2013. Details of Mr Engelbrecht'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 (appointed 18 June 2013)

Dr Clifford Mallett
Technical Director

Mr Justin Haines
General Manager Technical Services

Mr Terry Moore
General Manager Operations

Mr Peter Swaddle
Senior Vice President – Strategy and Business Development (resigned 31 July 2012)

DIRECTORS' REPORT
BOARD INFORMATION

Principal Activities

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

- to successfully prove its world leading proprietary UCG technology at its UCG trial site in Queensland, and
- to establish keyseam as the UCG technology of choice for UCG projects worldwide.

Operating Results

The loss of the Consolidated Group after providing for income tax amounted to $35,584,327 (2012: loss $18,562,854).

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 2013 (2012: nil).

Review of Operations

A review of the Consolidated Group's operations during the year and the results of those operations are contained in pages 6 to 12 of this Annual Report.

Financial Position

The net assets of the Consolidated Group have decreased by $34,979,800 to $135,019,647 during the financial year. The net decrease is largely due to the impairment write down of the US coal rights to explore certain leases of $18,254,668 and the finalisation of the $10,000,000 secured loan facility with Credit Suisse which has a balance outstanding of $2,997,233 at 30 June 2013.

Future Developments

Disclosure of further information regarding likely developments in the operations of the Consolidated Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Consolidated Group. Accordingly, this information has not been disclosed in this report.

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, where the Company's focus has moved to establishing a cavity rehabilitation plan upon cessation of gasification in Panel 2 at the end of October 2012.

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

Queensland Government UCG Policy

The Queensland Government's UCG Policy, announced in February 2009, provides for a trial period to assess the technical, environmental and commercial performance of UCG, after which the Government would set essential policy decisions about this technology.

On 8 July 2013, the Department of Natural Resources and Mines (DNRM) issued the Independent Scientific Panel (ISP) Report. The Report outlines a commercial pathway for a UCG industry in Queensland and confirmed that Queensland is a world leader in the development of UCG technology, and there is no reason, in principle, that a UCG project cannot be safely developed and operated to produce more gas for Queensland. The Report recognised Carbon Energy's parallel CRIP UCG technology as current, state of the art technology and significantly advanced from alternative UCG technologies. The Report also stated that until decommissioning can be demonstrated, no commercial UCG facility should be commenced.

Carbon Energy decommissioned its Panel 2 operations and ceased all gasification at the Bloodwood Creek trial site. The Company has also engaged with the Department of Environment and Heritage Protection (DEHP) on the draft framework for decommissioning produced by the Department and continues to work constructively with the Government to progress Carbon Energy's rehabilitation plans.

Bloodwood Creek Syngas Reserve

In June 2013 Carbon Energy announced the results of a comprehensive concept study based on independent data which identified economically viable, commercial scale UCG opportunities at the Company's Bloodwood Creek site. This study was completed to advance commercialisation of the Company's syngas Reserve at Bloodwood Creek which will facilitate discussions in securing a joint venture development partner.

Ammonia and Synthetic Natural Gas (SNG) production were identified as the most economically attractive downstream products. The Company's wholly owned substantial syngas assets in Queensland offers the potential for over 25 years of continuous production of SNG or Ammonia, with the potential to provide long term returns for the Company and its shareholders.

With the Queensland Government's announcement regarding the way ahead for the UCG industry, Carbon Energy is moving forward with the next steps in the pathway to commercialisation and is working constructively with the government to develop rehabilitation plans for the Company's trial site at Bloodwood Creek.

Mineral Exploration

In Queensland, the Company has lodged financial assurance bonds for Environmental Authority Permits and associated security bonds of $55,640.

Coal Exploration

Carbon Energy has embarked upon a process to value-add and monetise its wholly owned Exploration Permits for Coal (EPCs) in the eastern Surat Basin of south-east Queensland for use as a conventional coal resource.

While the key focus for Carbon Energy remains on licensing its keyseam UCG technology world-wide, the Company has significant Australian coal assets which continue to grow in confidence and size.

In April 2013 the Company announced a 48% increase in its JORC Inferred Coal Resource to 2 billion tonnes within its wholly-owned Surat Basin tenements.

The value of Carbon Energy's Australian coal resources were further strengthened during the reporting period with the announcement in November 2012 of the conclusion of a conceptual mining study that the Company had identified at least three longwall mining areas each with the potential of mining 5 million product tonnes per annum of thermal coal.

These results of the conceptual mining study across Carbon Energy's coal tenements along with access to nearby infrastructure including major power lines, the Roma-Brisbane Gas Pipeline, industrial-grade water supply, roads and rail as well as skilled labour, confirms the Company holds significant coal assets with the potential for development into substantial mining operations.

Subsequent to year end, on 6 August 2013, the Company announced the appointment of PCF Capital Group as marketing agents for the sale of the asset. Carbon Energy is seeking a partner to acquire or invest in the Company's thermal coal assets. Carbon Energy plans to utilise the funds generated from the monetisation of its Surat Basin resource to further develop its core business of licensing its keyseam UCG technology and providing associated technical services.

UCG Technology

During the reporting period, Carbon Energy successfully decommissioned its pilot UCG site at Bloodwood Creek near the Queensland township of Dalby.

The Company has now embarked on the next important phase in the UCG process of drafting its rehabilitation plan of the cavities and thus demonstrating to the people and the Government of Queensland its capacity to achieve the full life cycle of the UCG process.

Carbon Energy is committed to the successful development and implementation of a rehabilitation plan, which will add to the Company's Proof of Concept and further promote UCG as a safe and environmentally sound energy source.

Carbon Energy also announced the findings of an independent electro-seismic survey, which reinforced the Company's technically advanced UCG technology. This innovative geophysical technique confirmed the location and size of Carbon Energy's second UCG reactor and validated the modelling and operating parameters of the Company's keyseam UCG technology. These findings reinforced the Company as a world leader in the design and operation of advanced UCG technology.

DIRECTORS' REPORT
BOARD INFORMATION

Licensing the Company's keyseam UCG technology globally and associated services is at the heart of Carbon Energy's strategy. In October 2012 the Company signed its first international technology licence agreement with Shanxi Coal. Due to changes in the Chinese Government immediately following the signing of the agreement, the project has unfortunately been delayed. Approval is needed from these government departments for payment of the contracted technology licence fee to Carbon Energy before any work is commenced by the Company.

In May 2013 the Company signed its second international technology licence agreement and signed a Memorandum of Understanding (MOU) to be the exclusive UCG technology provider to a Government approved UCG project in Inner Mongolia, China. Further milestones were achieved with Carbon Energy executing the Master Technology Licensing Agreement in June 2013 with the project partner Zhengzhou Group. The site of the UCG project has subsequently been noted as being suitable for utilising the Company's UCG keyseam technology.

Subsequent to year end, on 23 July 2013, Carbon Energy announced the signing of a technology licensing MOU which further expands the Company's international projects. The Company signed an MOU with Delmo Group to provide its keyseam UCG technology and related services for a commercial UCG project in Argentina, South America. Carbon Energy will receive $10 million licensing fee (paid in tranches when milestones achieved) plus engineering and technical services fees and ongoing royalties. It is proposed that the commercial project will initially generate 300MW of electricity with further expansions planned.

As the Company develops these projects to full commercial production, it continues to investigate further opportunities to become the preferred provider of UCG technology and associated services in the world.

Impact of Carbon Tax

The Federal Government introduced the Clean Energy Act in November 2011. The Act is intended as an incentive to replace older technologies which have higher emissions with newer and cleaner technologies. As a result of the reduced activities at Carbon Energy's Bloodwood Creek site and given that the Company is not in a production phase, the Company is below the threshold set under the current Act.

Impact of Minerals Resource Rent Tax (MRRT)

The Minerals Resource Rent Tax (MRRT) Act 2012 was enacted on 19 March 2012 and applies from 1 July 2012.

The MRRT seeks to tax the profits from the upstream operations of all new and existing coal and iron ore projects in Australia, which constitute mining project interests (MPIs) for MRRT purposes. Carbon Energy does not hold any MPIs and currently only holds pre-mining project interests (pre-MPIs) being the relevant EPCs and MDL. As Carbon Energy has not derived any pre-mining revenue, it is not liable to pay MRRT in the year ended 30 June 2013. Furthermore, as these pre-MPIs are currently being held for monetisation which may include sale of the assets, management has determined that it is not appropriate to recognise any deferred tax consequences relating to these pre-MPIs as Carbon Energy is unlikely to be liable to pay MRRT in the foreseeable future.

Strategic Review

Carbon Energy has made significant progress on its overall strategic objective of generating long-term cash flows during the financial year. The Company has also made significant advancements of its keyseam UCG technology and has extensive mining tenements in the Surat Basin with potentially large coal deposits which the Company is monetising for sale. The growth strategies of the Company are therefore focused around the following:

- Further developing its core business of licensing the Company's UCG technology and associated services worldwide.
- Moving forward on a path to commercialisation of the Bloodwood Creek site.
- Adding further value to the Company's extensive thermal coal assets in the Surat Basin and taking steps to monetise the asset.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the Parent Entity occurred during the financial year:

- On 9 July 2012 Carbon Energy confirmed a larger-than-expected conventional coal resource of 1.2 billion tonnes (Bt) in its wholly-owned Surat Basin tenements.
- On 10 September 2012 the Company announced a further 15% increase in its JORC Inferred Coal Resource to 1.36 billion tonnes.
- In September 2012, Carbon Energy announced the resignation of Managing Director Andrew Dash, effective by the end of the calendar year.
- Executed the Company's first international commercial scale, technology license agreement with Shanxi Coal on 18 October 2012.
- On 16 November 2012 the Company secured a $10 million bridging loan facility from Credit Suisse.
- On 17 December 2012 Carbon Energy advised it received A$7,002,767 as a research and development (R&D) tax incentive cash rebate for eligible 2011/2012 R&D expenditure in relation to the development of its keyseam UCG technology at Bloodwood Creek.
- Morné Engelbrecht was appointed Acting Chief Executive Officer on 21 December 2012.
- On 14 March 2013, Carbon Energy advised through its release of the half year accounts to December 2012 that the US coal assets were written down by $16.4m following the Company's announcement on 6 March 2013 not to proceed with commercialising the resources due to key milestone events not having been achieved under the Share Sale Agreement with Summa Resource Holdings LLC. Subsequently a further $1.8m has been written off at 30 June 2013.
- Announced a 48% increase in its JORC Inferred Coal Resource to 2 billion tonnes within the Company's wholly-owned Surat Basin tenements on 2 April 2013.
- Completed an independent geophysical survey reinforcing the Company's technically advanced UCG technology on 29 April 2013.
- Carbon Energy became the UCG technology partner for an approved UCG project in Inner Mongolia, China as announced on 8 May 2013.
- Carbon Energy announced on 13 June 2013 the Company had been awarded the Advanced Clean Coal Technology Award for its proprietary keyseam UCG technology.
- On 14 June 2013 Carbon Energy announced that a comprehensive concept study had identified economically viable, commercial scale UCG opportunities at Bloodwood Creek.
- On 17 June 2013 Carbon Energy announced the execution of a Master Technology Licence Agreement with Zhengzhou Coal Industry Group to become the exclusive UCG technology partner for a Government approved commercial scale project in Inner Mongolia, China.
- Morné Engelbrecht was officially appointed to the position of Chief Executive Officer as announced on 18 June 2013.
- On 20 June 2013 the Company announced that a site characterisation study assessing the geology, hydrogeology and geotechnical information of the Haoqin Coalfield in Inner Mongolia confirmed favourable conditions for keyseam UCG and identified three possible project areas.
- Carbon Energy's Dr Cliff Mallett was appointed Chairman of the International Association for UCG as announced on 24 June 2013.

After Balance Date Events

- On 5 July 2013, Carbon Energy announced the Company elected not to enter into any further contractual commitments in relation to projects in Wyoming (USA) and North Dakota/Montana (USA) thereby relinquishing the rights to explore or lease those tenements.
- On 8 July 2013, Carbon Energy welcomed the Queensland Government releasing the final report and findings of the Independent Scientific Panel (ISP) including the acceptance of the overarching recommendations by the ISP. The Company also welcomes the pathway to commercialisation being set for the UCG industry in Queensland.
- On 22 July 2013 an agreed outcome was reached over the outstanding legal matter with the Department of Environment and Heritage Protection (DEHP).
- On 23 July 2013 the Company signed a Memorandum of Understanding (MOU) to become the UCG technology partner to the Delmo Group for a commercial Argentinian UCG Project.
- Mr Morné Engelbrecht was appointed to the position of Managing Director on 23 July 2013.
- On 24 July 2013 the Company sold its investment in Energia Minerals Limited.
- On 25 July 2013 the Company agreed a variation to the terms of the existing Credit Suisse facility which reduces the amount the Company must repay to Credit Suisse from the proceeds of the Rights Issue and the Holder East Capital Ltd (HEC) private placement.
- On 25 July 2013 the Company announced a non-renounceable pro rata Rights Issue to Eligible Shareholders and new cornerstone investor, HEC. HEC are to invest $1 million through private placement on the same terms as the Rights Issue, subject to $2 million being raised from the Rights Issue by 31 August 2013. Both parties also agreed that HEC will become Carbon Energy's UCG business development agent for the Chinese market (excluding Shanxi Province).
- On 6 August 2013 the Company announced the appointment of PCF Capital Group as marketing agents to monetise the Company's coal assets.
- On 26 August 2013, the Company raised $3.64m from the entitlements accepted and additional securities applied for under the Rights Issue Subscription ($2.64m) and private placement ($1m) from HEC.

  On 4 September 2013, Carbon Energy announced that HEC agreed that the 50,000,000 listed options (exercisable at $0.06 each and expiring on 31 July 2016) issued to HEC (and any Shares issued on exercise of those options) will be subject to voluntary escrow from the date of issue of the options to the earlier of:

  a. 10 business days after the Company lodges a prospectus with ASIC for the offer of securities in the same class as the listed options; and

  b. 27 November 2013 (being three months after the date of allotment and issue of the listed options).

Proceedings on behalf of the Company

On 12 July 2011 the Department of Environment and Heritage Protection (DEHP formally DERM) advised Carbon Energy of charges laid against the Company in relation to a release of process water that occurred during 2009.

On 5 December 2012, an agreed outcome was reached with the DEHP in relation to the above proceeding and no conviction was recorded.

On 12 June 2012, the Department of Environment and Heritage Protection (DEHP) advised Carbon Energy of charges laid against the Company in relation to the transportation of process water that occurred during June 2011. On 22 July 2013, an agreed outcome was reached with the DEHP in relation to these proceedings and no conviction was recorded.

The proceedings against Alexware Consulting Pty Ltd trading as Pangea Partners International and Laura Eugenie Jael Fett and John Martin Wedgewood, commenced in August 2010 in the Supreme Court of Queensland, and associated counterclaims against the Company by the defendants are still in progress.

As announced on 30 May 2013, Summa Resource Holdings LLC (Summa) has issued a dispute notice pursuant to the Share Sale Agreement and senior representatives of each party have held discussions on a without prejudice basis as required by the Agreement. The dispute is yet to be resolved.

Without prejudice discussions are on-going, including in relation to the resolution of the dispute.

As key development milestones under the Agreement were not met, Carbon Energy maintains that it is not obliged to issue further tranches of shares to Summa nor is it required to reserve those shares.

DIRECTORS' REPORT

INFORMATION ON DIRECTORS AND COMPANY SECRETARY

Dr Chris Rawlings
Director (Non-Executive) – Chairman

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 Chris 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 over 10 years. His strong industry knowledge backed by a pragmatic, results-driven approach is a great advantage to the Company. Dr Rawlings is a Fellow of the Australasian Institute of Mining and Metallurgy, the Geological Society of Australia and the Institute of Company Directors. Dr Rawlings is also Chairman of Queensland Energy Resources.

During the past three years, Dr Rawlings has held the following other listed company Directorships:

- Northern Energy Corporation Limited (February 2005 to February 2011) Non-Executive Director

Dr Rawlings is also a member of the Remuneration committee.

Mr Morné Engelbrecht
Chief Executive Officer (appointed 18 June 2013) and Managing Director (appointed 23 July 2013)

BCom (Hons), CA(SA)

Mr Engelbrecht was appointed to the role of Chief Executive Officer of Carbon Energy on 18 June 2013 after serving as Acting Chief Executive Officer from 22 December 2012. Mr Engelbrecht was appointed to the Board of Carbon Energy on 23 July 2013. Offering over 13 years Australian and international oil and gas and resources industry experience, Mr Engelbrecht provides leadership across all facets of the business as well as defining the strategic direction and managing the rapid expansion plans of the Company. He is critical in shaping the future direction of Carbon Energy's efforts around the globe, most notably in setting the base for the commercialisation of the technology. Prior to joining Carbon Energy, Mr Engelbrecht held several senior financial and commercial management roles. Mr Engelbrecht is a chartered accountant by profession and member of the South African Institute of Chartered Accountants.

DIRECTORS' REPORT
INFORMATION ON DIRECTORS AND COMPANY SECRETARY

Mr Max Cozijn – Director (Non-Executive)

BCom, CPA, MAICD

Mr Cozijn was appointed to the Board in September 1992.

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 is now a Non-Executive Director. 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) Non-Executive Director
- Magma Metals Ltd (from June 2005) Non-Executive Chairman (resigned 25 June 2012)
- Malagasy Minerals Limited (from September 2006) Non-Executive Chairman (resigned 8 August 2013)

Max Cozijn is also the Chairman of the Remuneration Committee.

Dr Helen Garnett – Director (Non-Executive)

BSc (Hons), PhD, FTSE, FAICD

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

Dr Helen 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) Non-Executive Director

Dr Garnett is also the Chair of the Audit & Risk Committee.

Mr Peter Hogan – Director (Non-Executive)

BBus, ACA

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

Mr Hogan is a Chartered Accountant, and is currently a Strategy and Development Executive with Incitec Pivot Ltd. 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:

- Fabchem China Ltd (Singapore Stock Exchange listed) (from July 2008) Non-Executive Director

Mr Hogan is a member of both the Audit and Remuneration Committees.

Mr Louis Rozman – Director (Non-Executive)

BEng, MGeos, FAusIMM CP (Man), MAICD

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

Mr Rozman holds degrees in mining engineering and mineral economics and has 30 years experience in mining operations, joint ventures and corporate management in Australasia and Africa. He was previously Chief Operating Officer of major gold producer, Aurion Gold and Chief Executive Officer of coal seam gas producer, CH4 Gas Limited.

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

- TSXV listed Timmins Gold Corp; (September 2008 to November 2010) Non-Executive Director;
- ASX listed Pacific Energy Limited; (from May 2009) Non-Executive Director;
- ASX listed Kula Gold Limited; (from November 2010); and
- TSX listed Mawson West Limited; (from February 2011).

Mr Rozman is also a Director of some Pacific Road Capital entities and has held a number of other non-listed Directorships.

DIRECTORS' REPORT

INFORMATION ON DIRECTORS AND COMPANY SECRETARY

Mr Andrew Dash – Chief Executive Officer & Managing Director (resigned 21 December 2012)

BEng (Chem), MCom, MAICD

Mr Dash was appointed to the Board on 30 June 2008 and resigned as Chief Executive Officer and Managing Director on 21 December 2012.

Mr Dash joined Carbon Energy in 2008. In his role, Mr Dash was responsible for the day to day management of all company operations as well as defining the strategic direction and managing the rapid expansion plans of the business. Mr Dash established Carbon Energy as one of the world leading UCG innovators and brought over 20 years experience in large scale operations with a focus on commercial development of gas operations and associated infrastructure. Mr Dash has a degree in Chemical Engineering from the University of Sydney and a Masters Degree in Commerce from University of New South Wales.

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

Directors' Interests

As at 28 August 2013, the interests of the Directors in shares and unlisted options of the Company are:

	No. Shares Held		Listed Options		Unlisted Options	
	Direct	**Indirect (i)**	**Direct (vi)**	**Indirect (vi)**	**Direct**	**Indirect (ii)**
Chris Rawlings	–	6,850,000	–	3,950,000	–	–
Andrew Dash (iii)	200,000	280,000	–	–	22,000,000	–
Morné Engelbrecht (iv)	1,065,278	–	355,093	–	1,614,000	–
Max Cozijn	18,816	1,898,695	6,272	632,899	–	–
Helen Garnett	–	377,101	–	–	–	–
Peter Hogan	–	500,000	–	220,000	–	–
Louis Rozman (v)	–	77,750,238	–	–	–	44,645,845
TOTAL	**1,284,094**	**87,656,034**	**361,365**	**4,802,899**	**23,614,000**	**44,645,845**

(i) Indirect Shares refer to Note 32 and section on shareholder information.
(ii) Indirect Options refer to Note 32 and 36.
(iii) Resigned as Managing Director and Chief Executive on 21 December 2012
(iv) Appointed 23 July 2013
(v) Indirect Holding represents Pacific Road Resources Funds. Louis Rozman is an Employee and Director of some Pacific Road Capital entities.
(vi) Listed options were issued subsequent to year-end pursuant to the share Rights Issue. The listed options were allotted on the 26 August 2013.

DIRECTORS' REPORT
REMUNERATION REPORT (AUDITED)

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Carbon Energy Limited's key management personnel (Directors and Senior Executives) for the financial year ended 30 June 2013.

Remuneration Policy

The Remuneration Policy, which sets the terms and conditions for the Managing Director and other Senior Executives, was developed by the Remuneration Committee after seeking professional advice from independent consultants and was approved by the Board. All Executives 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 Managing 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, stock options 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, options and incentives must be linked to predetermined performance criteria. The Board can exercise its discretion in relation to approving incentives, bonuses and options and can recommend changes to the Remuneration Committee's recommendations. Any changes must be justified by reference to measurable performance criteria.

In relation to the 30 June 2012 Remuneration Report, no questions or comments were raised at the 2012 AGM in relation to the Remuneration Report, and no second strike was recognised in relation to the Remuneration Report. In 2011 a first strike was recognised with more than 25% of shareholders voting against the Remuneration Report.

The Company's Remuneration Committee Charter is set out on the Company's website www.carbonenergy.com.au.

Executive Remuneration

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

1. Total Fixed Remuneration;
2. Short Term Incentive; and
3. Long Term Incentive.

During 2011 an election was provided to Executives employed at that time to forfeit the Options under the Executive Service Agreement and to participate in a Short Term Incentive (STI) and Long Term Incentive (LTI) scheme.

Executives that join Carbon Energy after 30 June 2011 are part of the STI and LTI scheme by default. The STI and LTI components paid to Executives range between 20% and 30% of their fixed remuneration package and are payable in cash, shares and/or options in Carbon Energy Limited.

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, any relevant allowances and Carbon Energy's statutory superannuation guarantee contribution. 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 market surveys, external remuneration consultants, and internal feedback as to market conditions, 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 key management personnel 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 has established a Short Term Incentive (STI) plan 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; and
- Reward and recognise superior performance.

The metrics, weightings and performance measures are regularly reviewed 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. At the end of each financial year, the Executive would be allocated a number of shares equivalent to the cash value of the STI, based on the 90 day VWAP prior to allotment of the shares, which are redeemable immediately.

Long Term Incentive (LTI)

The scheme involves establishing an LTI value for each financial year, subject to satisfactorily meeting Key Performance Indicators. The LTI value and associated number of shares or options are calculated as follows:

- At the end of each financial year the Executive will be allocated a number of shares or options equivalent to the cash value of the LTI, based on the 90 day VWAP prior to allotment of the shares or options which would be redeemable immediately provided the Executive remained employed with the Company at that time; and
- If the Company terminates the Executive's employment, other than for cause, the LTI tranches that have been allocated but not yet redeemed will be issued to the Executive.

Employee Share Option Plan

Executives are also entitled to participate in the employee option arrangement from time to time, as determined by the Board. Key performance indicators are established for each Executive and relate to specific outcomes agreed between the Executive and the Company for the period involved. Furthermore, the Executive needs to be in the employment of the Consolidated Group for the period to successfully meet the performance criterion for the granted options to vest.

The amount of remuneration for all specified Directors and the specified Executives including all monetary and non-monetary components are detailed below. All remuneration paid to Executives is valued at the cost to the Company and expensed. Any options that are issued are valued using the Black-Scholes methodology.

DIRECTORS' REPORT
REMUNERATION REPORT (AUDITED)

Details of Remuneration for Year Ended 30 June 2013

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

PARENT ENTITY DIRECTORS

2013	Salary $	Directors Fee $	Other $	Super Contributions $	Sub-total $	Share-based Payments Expense (i) $	Total Excluding Forfeited Options $	Performance Related %	Forfeited Options $
Chris Rawlings	-	120,000	-	10,800	130,800	-	130,800	-	-
Andrew Dash (ii)	231,284	-	93,298	12,500	337,082	-	337,082	-	-
Max Cozijn	-	40,000	-	3,600	43,600	-	43,600	-	-
Helen Garnett	-	50,000	-	4,500	54,500	-	54,500	-	-
Peter Hogan (iii)	-	40,000	-	-	40,000	-	40,000	-	-
Louis Rozman (iv)	-	40,000	-	-	40,000	-	40,000	-	-
TOTALS	**231,284**	**290,000**	**93,298**	**31,400**	**645,982**	**-**	**645,982**	**-**	**-**

PARENT ENTITY DIRECTORS

2012	Salary $	Directors Fee $	Other $	Super Contributions $	Sub-total $	Share-based Payments Expense (i) $	Total Excluding Forfeited Options $	Performance Related %	Forfeited Options $
Chris Rawlings	-	120,000	-	10,800	130,800	-	130,800	-	-
Andrew Dash (ii)	487,574	-	-	25,000	512,574	381,507	894,081	42.7%	(349,722)
Max Cozijn	-	40,000	-	3,600	43,600	-	43,600	-	-
Helen Garnett	-	50,000	-	4,500	54,500	-	54,500	-	-
Peter Hogan (iii)	-	40,000	-	-	40,000	-	40,000	-	-
Kim Robinson (v)	-	40,000	-	3,600	43,600	-	43,600	-	-
Louis Rozman (iv)	-	40,000	-	-	40,000	-	40,000	-	-
TOTALS	**487,574**	**330,000**	**-**	**47,500**	**865,074**	**381,507**	**1,246,581**	**-**	**(349,722)**

(i) Options have vested but not yet exercised (out of the money).
(ii) Resigned as Managing Director and Chief Executive on 21 December 2012.
(iii) Amounts paid to Incitec Pivot Limited for Mr Hogan's service.
(iv) Amounts paid to Pacific Road Capital Management Holdings Pty Limited for Mr Rozman's services.
(v) Retired 30 June 2012.

DIRECTORS' REPORT
REMUNERATION REPORT (AUDITED)

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

PARENT ENTITY EXECUTIVES

2013	Salary $	Termination Costs $	Other $	Super Contributions $	Sub-total $	Share-based Payments (i) & (ii) $	Total Excluding Forfeited Options $	Performance Related (iii) %	Forfeited Options $
Morné Engelbrecht (iv)	371,690	-	-	21,083	392,773	136,343	529,116	25.77%	-
Justin Haines	263,530	-	-	16,470	280,000	77,208	357,208	21.61%	-
Cliff Mallett	175,000	-	-	15,750	190,750	-	190,750	-	-
Terry Moore	235,780	-	-	21,220	257,000	70,190	327,190	21.45%	-
Peter Swaddle (viii)	19,549	120,393	-	1,759	141,701	-	141,701	-	-
TOTALS	**1,065,549**	**120,393**	**-**	**76,282**	**1,262,224**	**283,741**	**1,545,965**	**-**	**-**

PARENT ENTITY EXECUTIVES

2012	Salary $	Termination Costs $	Other $	Super Contributions $	Sub-total $	Share-based Payments $	Total Excluding Forfeited Options $	Performance Related (iii) %	Forfeited Options $
Morné Engelbrecht (iv)	200,185	-	-	10,517	210,702	30,495	241,197	12.6%	-
Justin Haines	142,308	-	-	6,878	149,186	16,214	165,400	9.8%	-
Cliff Mallett	175,000	-	-	15,750	190,750	28,817 (i)	219,567	13.1%	-
Terry Moore	98,498	-	-	8,865	107,363	11,490	118,853	9.7%	-
John Bidwell (v)	202,822	4,100	-	18,623	225,545	-	225,545	-	-
Julian Hoskin (vi)	107,362	14,119	-	9,663	131,144	-	131,144	-	-
Prem Nair (vii)	68,960	92,597	9,174	7,032	177,763	41,979 (ii)	219,742	19.1%	-
Peter Swaddle (viii)	276,690	-	31,009	17,594	325,293	3,180	328,473	1.0%	-
TOTALS	**1,271,825**	**110,816**	**40,183**	**94,922**	**1,517,746**	**132,175**	**1,649,921**	**-**	**-**

(i) Options have vested/accrued but not yet exercised (out of the money).
(ii) Shares issued/accrued on settlement of STI payments.
(iii) Performance Bonuses were awarded to Executive Directors and Executive Officers on successful achievement of key performance indicators.
(iv) Morné Engelbrecht was appointed Chief Financial Officer and Company Secretary on 24 October 2011, as Acting Chief Executive on 21 December 2012, Chief Executive Officer on 18 June 2013, and Managing Director on 23 July 2013.
(v) John Bidwell resigned as General Manager Project Development on 2 March 2012.
(vi) Julian Hoskin resigned as Chief Operating Officer on 21 November 2011.
(vii) Prem Nair resigned as Chief Financial Officer and Company Secretary on 25 November 2011.
(viii) Peter Swaddle resigned as Senior Vice President Strategy & Business Development on 31 July 2012.

Options Granted as part of Remuneration

Options were provided to Key Management Personnel in 2013.

Shares issued on Exercise of Compensation Options

No options were exercised during the 2013 year (2012: Nil) that were granted as compensation in prior periods to current Key Management Personnel.

Options expensed during the 2013 year that were granted as compensation in current and prior period are as follows:

2013	Options Expensed (i) $	Total Remuneration Represented by Options %	Options Exercised $	Options Forfeited $	Total $
Morné Engelbrecht (ii)	28,386	5.4%	-	-	28,386
Justin Haines	15,125	4.2%	-	-	15,125
Terry Moore	10,728	3.3%	-	-	10,728
TOTALS	54,239	N/A	-	-	54,239

(i) Options have vested but not exercised.
(ii) Appointed Chief Financial Officer and Company Secretary on 24 October 2011, Acting Chief Executive Officer on 21 December 2012, Chief Executive Officer on 18 June 2013, and Managing Director on 23 July 2013.

Options expensed during the 2012 year that were granted as compensation are as follows:

2012	Options Expensed (i) $	Total Remuneration Represented by Options %	Options Exercised $	Options Forfeited $	Total $
Andrew Dash	381,507	42.7%	-	(349,722)	31,785
Cliff Mallett	28,817	13.1%	-	-	28,817
TOTALS	410,324	N/A	-	(349,722)	60,602

(i) Options have vested but not yet been exercised.

DIRECTORS' REPORT
REMUNERATION REPORT (AUDITED)

Service Agreements of Directors and Executives

In line with the Executives Short Term Incentive agreement for the 2013 year, 4,167,270 shares being 80% performance of 20% STI valued at the 90 day VWAP amounting to $120,851 has been accrued.

Executives were issued 3,084,000 new options for the Long Term Incentives for the 2012 financial year.

Executives were also eligible to earn 9,000,000 options upon achievement of 2013 Key Performance Indicators at a strike price of 30% premium to a 5 day VWAP. At 30 June 2013 80% (7,200,000) of these options have been accrued.

Morné Engelbrecht, Chief Financial Officer & Company Secretary was appointed Acting Chief Executive on 21 December 2012. Morné was promoted to Chief Executive Officer on 18 June 2013 and his appointment to the Board as Managing Director became effective on 23 July 2013, and is employed on a permanent basis. Morné's terms and conditions of his appointment was announced by the Company and he is entitled to a maximum STI of 30% on meeting performance targets and LTI options for the next 3 years subject to shareholder approval.

Andrew Dash the former Managing Director and Chief Executive Officer resigned on 21 December 2012.

Cliff Mallett, Technical Director is employed under a three-year ESA with Carbon Energy Ltd which initially commenced on 1 July 2008. This agreement has been extended to 30 June 2016.

Justin Haines, General Manager Technical Services and Terry Moore, General Manager Operations are employed on a permanent basis.

Required notice periods for Executives employed under Executive Service Agreements are three months from either party. A payment for termination benefit on early termination by the employer is payable, other than for gross misconduct, and is equal to base salary and superannuation.

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. On 10 July 2013, the Board resolved to suspend 50% of the fees for the independent Non-Executive Directors and 100% of fees for other Directors pending business improvement.

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 inclusive of superannuation is a maximum of $43,600 per annum to each Non-Executive Director and $130,800 per annum to the Chairman of the Board. The Chair of the Audit & Risk Committee is paid an additional $10,000 per annum plus superannuation. No termination payment provisions are currently in place for Non-Executive Directors.

DIRECTORS' REPORT
REMUNERATION REPORT (AUDITED)

Meetings of Directors during the year ended 2013

Director	Board Meeting		Audit & Risk Committee Meeting		Remuneration Committee Meeting		Nomination Committee Meeting	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Chris Rawlings	11	11	3	3	3	3	1	1
Andrew Dash (i)	7	7	NM	NM	NM	NM	0	0
Max Cozijn	11	11	NM	NM	3	3	1	1
Helen Garnett	11	11	3	3	NM	NM	1	1
Peter Hogan	11	11	3	3	3	3	1	1
Louis Rozman	11	11	NM	NM	NM	NM	1	1

NM – Not a member of the Committee
(i) Resigned as Managing Director and Chief Executive on 21 December 2012.

Share Options

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

No. of Options	Grant Date	Exercise Price	Vesting Date	Expiry Date
5,000,000	13/11/2008	$0.25	30/06/2009	10/12/2013
5,600,000	13/11/2008	$0.70	30/06/2011	10/12/2013
10,000,000	13/11/2008	$1.00	30/06/2012	10/12/2014
1,400,000	13/11/2008	$0.35	30/06/2010	10/12/2013
1,750,000	13/11/2008	$0.80	30/06/2011	10/12/2013
875,000	13/11/2008	$1.20	30/06/2010	10/12/2013
1,750,000	13/11/2008	$1.60	30/06/2011	10/12/2013
2,500,000	16/09/2008	$0.80	30/06/2009	10/12/2013
1,000,000	16/09/2008	$0.80	30/06/2009	10/12/2013
1,000,000	17/10/2008	$0.80	31/10/2009	10/12/2013
1,000,000	17/10/2008	$0.80	31/10/2009	10/12/2013
7,000,000	25/01/2012	$0.1875	25/01/2012	18/01/2017
28,000,000	29/02/2012	$0.1875	29/02/2012	25/02/2017
61,728,395	16/11/2012	$0.081	16/11/2012	15/11/2014
9,645,845	16/11/2012	$0.081	16/11/2012	15/11/2014
3,084,000	02/01/2013	$0.12	02/01/2013	31/12/2015

DIRECTORS' REPORT

Unlisted Options

7,459,000 Options are on issue to Directors and employees of Carbon Energy Limited.

44,645,845 Options have been issued to Pacific Road Capital Management as part of the $10,000,000 Convertible Note Facility (refer note 23).

61,728,395 Options have been issued to Credit Suisse as part of the $10,000,000 bridging loan secured facility (refer note 20).

Non-audit Services

The Board of Directors, in accordance with advice from the Audit & 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 35 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; and
- 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 the external auditors Deloitte Touche Tohmatsu during the year ended 30 June 2013 (refer note 35).

Indemnifying Officers and Auditors

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

In accordance with a confidentiality clause under the insurance policy, the amount of the premium paid to insurers has not been disclosed. This is permitted under s.300 (9) of the *Corporations Act 2001*.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2013 has been received and can be found on page 31 of the Annual Report.

Signed in accordance with a resolution of the Board of Directors made pursuant to s298 (2) of the *Corporations Act 2001*.

On behalf of the Directors

Dr Chris Rawlings
Chairman

Morné Engelbrecht
Managing Director

Brisbane, Queensland
9 September 2013

Deloitte.

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

9 September 2013

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 2013, 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

CORPORATE GOVERNANCE STATEMENT

CARBON ENERGY LIMITED

Approach to Corporate Governance

The Company has adopted systems of control and accountability as the basis for the administration of corporate governance. Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 2nd edition (Principles & Recommendations), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and an explanation for the adoption of its own practice.

The following governance-related documents can be found on the Company's website at www.carbonenergy.com.au, under the "Corporate Governance" section of "About Us".

Charters

- Board
- Audit & Risk Committee
- Nomination Committee
- Remuneration Committee

Policies and Procedures

- Selection and (Re)Appointment of Directors
- Process for Performance Evaluations
- Policy on Assessing the Independence of Directors
- Policy for Trading in Company Securities
- Code of Conduct (summary)
- Policy on ASX Listing Rule Compliance (summary)
- Compliance Procedures (summary)
- Procedure for the Selection, Appointment and Rotation of External Auditor
- Shareholder Communication Policy
- Risk Management Policy (summary)
- Diversity Policy
- Continuous Disclosure Policy (summary)

Set out below are the fundamental corporate governance practices of Carbon Energy. The information in this statement is current at 30 June 2013.

Board

Roles and responsibilities of the Board and Senior Executives

(Recommendations: 1.1, 1.3)

The Company has established the functions reserved to the Board, and those delegated to Senior Executives and has set out these functions in its Board Charter. The Board Charter can be found on the Company's website at www.carbonenergy.com.au, under the "Corporate Governance" section of "About Us".

In carrying out its governance role, the main task of the Board is to oversee the performance of Carbon Energy. The Board is committed to Carbon Energy's compliance with all of its contractual, statutory, ethical and any other legal obligations, including the requirements of any regulatory body. The Board is collectively responsible for promoting the success of the Company through its key functions of overseeing the management of the Company, providing overall corporate governance of the Company, monitoring the financial performance of the Company, engaging appropriate management commensurate with the Company's structure and objectives, involvement in the development of corporate strategy and performance objectives, and reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

The Board has established the following committees to assist it in discharging its functions:

- Audit & Risk Committee
- Remuneration Committee
- Nomination Committee

The Board holds regular scheduled meetings in addition to ad hoc meetings to deal with any urgent matters which may arise between the scheduled meetings. Directors' attendance at Board Meetings this reporting period is set out on page 29.

Each Director is provided with a formal appointment letter setting out the key terms and conditions of their appointment. Any new Directors appointed are also provided with an induction, including key documents and discussions with key persons. It is the role of senior management to manage Carbon Energy in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

Senior Executives are also responsible for supporting the Managing Director and assisting the Managing Director in implementing the running of the general operations and financial business of the Company in accordance with the delegated authority of the Board. Senior Executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Managing Director or, if the matter concerns the Managing Director, directly to the Chairman. All Senior Executives are provided with formal appointment letters, which include expectations of their role, term of appointment, termination entitlements and rights and responsibilities.

Skills, experience, expertise and period of office of each Director (Recommendation: 2.6)

A profile of each Director setting out their skills, experience, expertise and period of office is set out in the Directors' Report.

The Company encourages diversity in the composition of its Board, as a means of ensuring the Company has an appropriate mix of skills and talent to achieve the Company's goals. The Company has established a Diversity Policy which is available on the Company's website at www.carbonenergy.com.au, under the "Corporate Governance" section of "About Us". The Nomination Committee is responsible for ensuring that the Board has the appropriate blend of Directors with the necessary skills, expertise and relevant industry experience. The Nomination Committee has determined that the Directors have the necessary skills and experience, which are as follows: financial expertise; industry knowledge and experience; mining operations and corporate management experience; geological and engineering expertise.

Director independence (Recommendations: 2.1, 2.2, 2.3, 2.6)

The Board is comprised of a total of six Directors (five for the period 1 January to 30 June 2013). There were three independent Directors of the Company during the reporting period, being Chris Rawlings, Helen Garnett and Max Cozijn. These Directors are independent as they are Non-Executive Directors who are not members of management and they are 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 Board did not have a majority of independent Directors in the period 1 July 2012 to 21 December 2012. However, Andrew Dash's (Executive Director) resignation from the Board which became effective on 21 December 2012 resulted in a majority of independent Directors on the Board for the period 1 January to 30 June 2013. Morné Engelbrecht has been appointed to the Board on 23 July 2013. This means that from 23 July 2013, the Board will not have a majority of independent Directors. The Board considers that its current composition and the composition during the year is appropriate for the Company's size and operations, and includes an appropriate mix of skills and expertise relevant to the Company's business.

The Board considers the independence of Directors having regard to the relationships (listed below) of the Principles & Recommendations and the Company's materiality thresholds.

The Board has agreed on the following guidelines, as set out in the Company's Board Charter for assessing the materiality of matters:

- Balance sheet items are material if they have a value of more than 10% of pro-forma net assets.
- Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, could affect the Company's rights to its assets, if accumulated would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items, or will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost which triggers any of the quantitative tests, contain or trigger change of control provisions, are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The Non-Executive Directors for the reporting period that were not independent were Peter Hogan and Louis Rozman.

The independent Chairman of the Board, Chris Rawlings, was appointed on 26 July 2011 as a Non-Executive independent Director. The roles of Chairman and Managing Director are clearly separated.

Independent professional advice (Recommendation: 2.6)

To assist Directors with independent judgement, it is the Board's policy that if a Director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a Director then, provided the Director first obtains approval from the Chairman for incurring such expense, the Company will pay the reasonable expenses associated with obtaining such advice.

Selection and (Re) Appointment of Directors (Recommendation: 2.6)

In determining candidates for the Board, the Nomination Committee (which comprises the full Board) follows a prescribed process whereby it evaluates the range of skills, experience and expertise of the existing Board. In particular, the Nomination Committee is to identify the particular skills that will best increase the Board's effectiveness. Consideration is also given to the balance of independent Directors. Potential candidates are identified and, if relevant, the Nomination Committee recommends an appropriate candidate for appointment to the Board. Any appointment made by the Board is subject to ratification by shareholders at the next general meeting.

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. Each Director other than the Managing Director, must not hold office (without re-election) past the third annual general meeting of the Company following the Director's appointment or three years following that Director's last election or appointment (whichever is the longer). However, a Director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual general meeting of the Company. At each annual general meeting a minimum of one Director or one third of the total number of Directors must resign. A Director who retires at an annual general meeting is eligible for re-election at that meeting. Re-appointment of Directors is not automatic.

Directors are appointed in accordance with the Constitution of the Company and the Corporations Act 2001.

Details of the Directors' skills, experience, expertise and the term of office held by each Director are set out on pages 19 to 22 under 'Information on Directors and Company Secretary'.

Board committees

Nomination Committee (Recommendations: 2.4, 2.6)

The Company has adopted a Nomination Committee Charter which describes the role, composition, functions and responsibilities of the Nomination Committee. This charter is available on the Company's website at www.carbonenergy.com.au, under the "Corporate Governance" section of "About Us".

The Nomination Committee functions are currently performed by the full Board. The Board considers that no efficiencies or other benefits would be gained by establishing a separate Nomination Committee at this present time. Nomination Committee meetings are held separate from Board meetings. When the Board convenes as the Nomination Committee it carries out those functions which are delegated to it in the Company's Nomination Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of the Nomination Committee by ensuring that the Director with conflicting interests is not party to the relevant discussions.

The full Board, in its capacity as the Nomination Committee, held one meeting during the Reporting Period. Details of the Directors' attendance at the Nomination Committee meeting are set out in the following table:

Name	No. eligible to attend	No. of meetings attended
Chris Rawlings (Chair)	1	1
Andrew Dash (resigned on 21 December 2012)	1	0
Max Cozijn	1	1
Helen Garnett	1	1
Peter Hogan	1	1
Louis Rozman	1	1

Audit & Risk Committee (Recommendations: 4.1, 4.2, 4.3, 4.4)

The role of the Audit & Risk Committee is set out in a formal charter approved by the Board. The Audit & Risk Committee Charter describes its role, composition, functions and responsibilities. This charter is available on the Company's website at www.carbonenergy.com.au, under the "Corporate Governance" section of "About Us".

The Audit & Risk Committee is structured in compliance with Recommendation 4.2, with three Non-Executive Directors as members, a majority of independent members and an independent Chair. The members of the Audit & Risk Committee, and details of their attendance at Audit & Risk Committee meetings (a total of three meetings were held during the Reporting Period) are set out in the following table:

Name	No. eligible to attend	No. of meetings attended
Helen Garnett chairs the Audit & Risk Committee (independent Non-Executive)	3	3
Peter Hogan (non-independent Non-Executive)	3	3
Chris Rawlings (independent Non-Executive)	3	3

Details of each of the Director's qualifications are set out in the Directors' Report. All members of the Audit & Risk Committee are financially literate and have the industry knowledge to participate in and contribute to the Audit & Risk Committee.

Further, the Company's Chief Financial Officer during the reporting period, Morné Engelbrecht, attended the Audit & Risk Committee meetings as Company Secretary, and the Audit & Risk Committee has the opportunity to meet with the external auditor, if necessary.

The Company has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the Audit & Risk Committee. Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Audit & Risk Committee and any recommendations are made to the Board.

Remuneration Committee (Recommendations: 8.1, 8.2, 8.3, 8.4)

The role of the Remuneration Committee is set out in a formal charter approved by the Board. The Remuneration Committee Charter describes the role, composition, functions and responsibilities of the Remuneration Committee. This charter is available on the Company's website at www.carbonenergy.com.au, under the "Corporate Governance" section of "About Us".

The Remuneration Committee is structured in accordance with Recommendation 8.2 and ASX Listing Rule 12.8, consisting of three Non-Executive Directors as members, a majority of independent members and an independent Chair.

The three members of the Remuneration Committee, and details of their attendance at Remuneration Committee meetings (three meetings were held during the Reporting Period) are set out in the following table:

Name	No. eligible to attend	No. of meetings attended
Max Cozijn (independent Non-Executive and Chairman)	3	3
Peter Hogan (non-independent Non-Executive)	3	3
Chris Rawlings (independent Non-Executive)	3	3

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' Report. Non-Executive Directors are remunerated at a fixed fee for time, commitment and responsibilities. Fees for Non-Executive Directors are not linked to the performance of the Company. From time to time the Company may grant options to Non-Executive Directors. The granting of options is designed to recognise and reward efforts as well as to provide Non-Executive Directors with additional incentive to continue those efforts for the benefit of the Company. This policy is subject to annual review.

Pay and rewards for Executive Directors and Senior Executives consists of a base salary, superannuation, car parks, performance incentives and retirement benefits. The Remuneration Committee reviews executive packages annually by reference to company performance, executive performance, comparable information from industry sectors and other listed companies and independent advice.

There are no termination or retirement benefits for Non-Executive Directors (other than superannuation).

The Company's Remuneration Committee Charter includes a statement of the Company's policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

Performance evaluation

Senior Executives

(Recommendations: 1.2, 1.3)

The performance of Executives is reviewed annually by the Managing Director and in the case of the Managing Director, by the Remuneration Committee, with revised remuneration packages generally taking effect from 1 July of the new financial year. Executives are also entitled to participate in a Short Term Incentive (STI) and Long Term Incentive (LTI) scheme as determined by the Board. Key performance indicators are established for each Executive and relate to specific outcomes agreed between the Executive and the Company for the period involved. Further, the Executive needs to be in the employment of the consolidated group for the period to successfully meet the performance criterion for the granted options to vest.

During the Reporting Period an evaluation of Senior Executives took place in accordance with the process disclosed.

Board, its committees and individual Directors

(Recommendations: 2.5, 2.6)

The Chair has the overall responsibility for evaluating the Board and, when deemed appropriate, Board committees and individual Directors. The process for evaluating the performance of the Board, individual Directors and any applicable committees is:

- questionnaires are prepared by the Company Secretary and circulated to each Director for completion;
- the Company Secretary then summarises and collates the responses to the questionnaires and reports back to the Board; and
- the Chairman and Directors then review and discuss the report and address any issues as required.

During the Reporting Period an evaluation of the Board, its committees and individual Directors was conducted in accordance with the process disclosed above.

Ethical and responsible decision making

Code of Conduct

(Recommendations: 3.1, 3.5)

Company Code of Conduct

Carbon Energy is committed to operating with honesty, fairness and integrity in all its business dealings, and to observe the rule and spirit of the legal and regulatory environment in which the Company operates. Accordingly, Carbon Energy requires employees to act in Carbon Energy's best interests in a professional, honest and ethical manner, and in full compliance with the law, both within and on behalf of Carbon Energy. Directors, management and employees are required to respect the confidentiality of all information of a confidential nature acquired in the course of the Company's business.

Carbon Energy has an established Code of Conduct, a summary of which is available on the Company's website at www.carbonenergy.com.au, under the "Corporate Governance" section of "About Us". The Code governs all Carbon Energy commercial operations and the conduct of Directors, Senior Executives and employees when they represent Carbon Energy.

Whistleblower and Speak out Policy

Carbon Energy has established a Whistleblower and Speak out Policy which outlines the process for any Director, officer or employee of Carbon Energy who makes or wishes to make a report on a violation or suspected violation of the Company's Code of Conduct. The policy is intended to encourage reporting of violations (or suspected violations) and to provide protection to whistleblowers from victimisation or dismissal by implementing systems for confidentiality and report handling.

Diversity

(Recommendations: 3.2, 3.3, 3.4, 3.5)

The Company has established a Diversity Policy which is available on the Company's website at www.carbonenergy.com.au, under the "Corporate Governance" section of "About Us". The Diversity Policy does not include a requirement for the Board to establish measurable objectives for achieving gender diversity, or for the Board to assess annually both the objectives and progress in achieving them. The Company aims to achieve an appropriate mix of diversity on its Board, in Senior Executive management and throughout the organisation. However, the Board has determined that no specific measurable objectives will be established until the number of employees and level of activities of the Company increases to a level sufficient to enable meaningful and achievable objectives to be developed.

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	11 out of 32 (34.4%)
Senior Executive positions	0 out of 4 (N/A)
Board	1 out of 6 (16.7%)

Continuous Disclosure

(Recommendations: 5.1, 5.2)

The Board has designated the Carbon Energy Company Secretary as the person responsible for overseeing and co-ordinating disclosure of information to the ASX as well as communicating with the ASX.

The Board has established a written policy for ensuring compliance with ASX Listing Rule disclosure requirements, in particular the management of the Company's continuous disclosure obligations. The Carbon Energy policy on ASX Listing Rule Compliance (summary) can be found on the Company's website at www.carbonenergy.com.au, under the "Corporate Governance" section of "About Us".

Shareholder Communication

(Recommendations: 6.1, 6.2)

The Company has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings. The policy describes the methods the Company uses to communicate with its shareholders. The Carbon Energy policy on Shareholder Communication can be found on the Company's website at www.carbonenergy.com.au, under the "Corporate Governance" section of "About Us".

Risk Management

(Recommendations: 7.1, 7.2, 7.3, 7.4)

The Board has adopted a Risk Management Policy, which sets out the Company's risk profile. Under the policy, the Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the Board delegates day-to-day management of risk to the Managing Director, who is responsible for identifying, assessing, monitoring and managing risks. The Managing Director is also responsible for updating the Company's material business risks to reflect any material changes, with the approval of the Board. As part of the Company's risk management system to date, the Managing Director reports regularly to the Board on the management of material business risks and provides assurances to the Board, on behalf of management, that the Company's management of its material business risks are effective.

In fulfilling the duties of risk management, the Managing Director may have unrestricted access to Company employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate, with the prior approval of the Board.

CORPORATE GOVERNANCE STATEMENT

CARBON ENERGY LIMITED

The Board has established a separate Audit & Risk Committee to monitor and review the integrity of financial reporting and the Company's internal financial control systems and risk management systems. The Board is presented with monthly financial reports which include analysis on variances and any explanations. In addition, the following risk management measures have been adopted by the Board to manage the Company's material business risks:

- the Board has established authority limits for management, which, if proposed to be exceeded, requires prior Board approval;
- the Board has adopted a compliance procedure for the purpose of ensuring compliance with the Company's continuous disclosure obligations; and
- the Board has adopted a corporate governance manual which contains other policies to assist the Company to establish and maintain its governance practices.

The Managing Director, who is also currently the Chief Financial Officer, has provided a declaration to the Board in accordance with section 295A of the Corporations Act and has assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

FINANCIAL REPORT

CONSOLIDATED STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	CONSOLIDATED GROUP 2013 $	2012 $
Other income	3	1,867,665	742,578
Employee benefits expense		(5,647,912)	(6,580,495)
Depreciation expense	4(a)	(97,389)	(90,367)
Administration, legal and corporate costs		(3,181,724)	(5,272,650)
Consultancy costs		(1,877,449)	(1,659,067)
Finance costs		(4,561,259)	(346,018)
Loss on disposal of assets	4(a)	(404,360)	(94,040)
Loss on disposal of investment in associate	11	(176,710)	-
Operating expenditure		(1,869,786)	(4,249,438)
Impairment expense	4(b)	(18,790,669)	-
Share-based (payments)/cancellations	4(a)	(280,056)	304,175
Net loss from equity accounted investment in associate	11	(564,678)	(1,317,532)
Loss before income tax expense		**(35,584,327)**	**(18,562,854)**
Income Tax Expense	6	-	-
Loss for the Year	26	**(35,584,327)**	**(18,562,854)**
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			
Exchange differences on translation of foreign operations		3,510	(37,816)
		3,510	**(37,816)**
Total Loss including comprehensive income for the year		**(35,580,817)**	**(18,600,670)**
Loss attributable to Owners of the Parent		(35,580,817)	(18,600,670)
Total Loss and comprehensive income attributable to Owners of the Parent		(35,580,817)	(18,600,670)
OVERALL OPERATIONS			
Basic loss per share (cents per share)	5	(4.56)	(2.50)
Diluted loss per share (cents per share)		(4.56)	(2.50)

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 2013

	Notes	CONSOLIDATED GROUP 2013 $	2012 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	1,772,562	6,270,646
Trade and other receivables	9	109,140	497,953
Other current assets	10	83,552	-
TOTAL CURRENT ASSETS		**1,965,254**	**6,768,599**
NON-CURRENT ASSETS			
Trade and other receivables	9	1,702,893	1,620,356
Investment in associate	11	-	1,727,388
Available for sale financial assets	12	449,999	-
Construction work in progress	13	2,555,334	2,715,768
UCG panel assets	14	1,776,106	1,733,640
Property, plant & equipment	15	1,083,224	1,346,933
Other non-current asset	16	1,722,723	1,607,662
Deferred exploration and evaluation costs	17	90,322,819	108,128,765
Intangible assets	18	47,623,940	54,815,481
TOTAL NON-CURRENT ASSETS		**147,237,038**	**173,695,993**
TOTAL ASSETS		**149,202,292**	**180,464,592**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	19	1,089,873	1,313,321
Loans and borrowings	20	2,997,233	-
Derivative financial liability	21	266,156	-
Provisions	22	1,334,350	768,020
TOTAL CURRENT LIABILITIES		**5,687,612**	**2,081,341**
NON CURRENT LIABILITIES			
Provisions	22	2,315,729	3,008,464
Financial Liabilities	23	6,179,304	5,375,340
TOTAL NON CURRENT LIABILITIES		**8,495,033**	**8,383,804**
TOTAL LIABILITIES		**14,182,645**	**10,465,145**
NET ASSETS		**135,019,647**	**169,999,447**
EQUITY			
Issued capital	24	227,727,927	227,174,129
Reserves	25	17,908,365	17,857,636
Accumulated losses	26	(110,616,645)	(75,032,318)
TOTAL EQUITY		**135,019,647**	**169,999,447**

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 2013

CONSOLIDATED GROUP

	Notes	Issued Capital $	Accumulated Losses $	Share-Based Payments Reserve $	Other Reserve $	Foreign Currency Reserve $	Total $
Balance at 1 July 2011		218,256,942	(56,469,464)	14,149,360	-	-	175,936,838
Shares issued during the year	24	9,054,191	-	-	-	-	9,054,191
Transaction Costs	24	(135,666)	-	-	-	-	(135,666)
Finalisation of Clean Coal Limited (CCL) transaction	24	(1,338)	-	-	-	-	(1,338)
Movement in share option reserve on recognition of share based payments	25	-	-	1,568,870	-	-	1,568,870
Translation of Foreign Operations	25	-	-	-	-	37,816	37,816
Equity adjustment on finalisation of Pacific Road Convertible Note transaction	23	-	-	-	2,101,590	-	2,101,590
Losses attributable to members of parent entity	26	-	(18,562,854)	-	-	-	(18,562,854)
Total comprehensive income/ (expense) for the year		-	-	-	-	-	-
Balance at 30 June 2012		**227,174,129**	**(75,032,318)**	**15,718,230**	**2,101,590**	**37,816**	**169,999,447**
Balance at 1 July 2012		227,174,129	(75,032,318)	15,718,230	2,101,590	37,816	169,999,447
Shares issued during the year	24	559,990	-	-	-	-	559,990
Transaction Costs	24	(6,192)	-	-	-	-	(6,192)
Movement in share option reserve on recognition of share based payments	25	-	-	54,239	-	-	54,239
Translation of Foreign Operations	25	-	-	-	-	(3,510)	(3,510)
Losses attributable to members of parent entity	26	-	(35,584,327)	-	-	-	(35,584,327)
Balance at 30 June 2013		**227,727,927**	**(110,616,645)**	**15,772,469**	**2,101,590**	**34,306**	**135,019,647**

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 2013

		CONSOLIDATED GROUP	
	Notes	2013 $	2012 $
Cash flows from Operating Activities			
Payments to suppliers and employees		(13,376,874)	(19,387,525)
Interest received		187,752	427,712
Receipt of Research & Development rebate		7,002,767	-
Other receipts		606,365	1,750,806
Net cash flows used in operating activities	31	**(5,579,990)**	**(17,209,007)**
Cash flows from Investing Activities			
Payments for property, plant and equipment		(589,511)	(321,242)
Proceeds from disposal of property, plant and equipment		350,000	-
Payments for Exploration & Evaluation costs		(461,913)	(164,578)
Payments for Construction in progress		-	(3,111,840)
Payments for UCG Panel assets		-	(72,380)
Payments for Intangible Assets		(33,023)	(128,574)
Payments for Chile project		(115,061)	(946,477)
Proceeds from Chile recharges		-	296,641
Net Payments for return of security bonds		(49,627)	-
Net cash flows used in investing activities		**(899,135)**	**(4,448,450)**
Cash flows from Financing Activities			
Proceeds from issues of shares		-	8,264,784
Proceeds from short term loan facility		10,000,000	-
Repayment of short term loan facility		(7,002,767)	-
Proceeds from issue of convertible note		-	10,000,000
Term facility costs		(1,010,000)	-
Capital raising costs		(6,192)	(135,666)
Net cash flows provided by financing activities		**1,981,041**	**18,129,118**
Net (decrease)/ increase in cash and cash equivalents held		(4,498,084)	(3,528,339)
Cash and cash equivalents at the beginning of the financial year		6,270,646	9,798,985
Effects of exchange rate changes on the balance of cash held in foreign currencies		-	-
Cash and cash equivalents at the end of the financial year	8	**1,772,562**	**6,270,646**

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

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 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 34.

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 28 August 2013.

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. A Rights Issue to raise capital was announced on 25 July 2013 and closed on 21 August 2013 and raised $2.6 million, which enabled the Company to secure an additional private placement of $1 million from a new cornerstone investor.

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 lodged with the ATO, the placement of additional equity from the Rights Issue shortfall, the receipt of agreed technology and service fees, the further licensing and services relating to the Company's keyseam UCG technology, commercialising its coal resources and/or entering into debt facilities. Any placement of the shortfall from the Rights Issue and/or the ability to raise debt in the future will be influenced by a number of factors including market sentiment and the progress of current development and licensing activities.

Notwithstanding this, as a technology development and exploration company with start-up projects and a dependency upon continuing to secure additional sources of funds, should the Company and the Consolidated Group not secure additional funding, 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.

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 34 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).

Note 1 – Statement of Significant Accounting Policies (continued)

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

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 Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognises the Consolidated Group's share of post acquisition reserves of its associates. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Such investments are tested for impairment in accordance with the policy stated in Note 1.16.

Where the Group loses significant influence upon disposal or dilution via a Rights Issue the retained investment is measured at fair value on its initial recognition as a financial asset in accordance with AASB 139 .The difference between the previous carrying amount and the fair value is treated as the gain or loss. Any gain or loss previously recognised in other comprehensive income is to be reclassified from equity to profit or loss.

1.6 Revenue and Other Income

Interest revenue is recognised on a monthly basis taking into account the interest rates applicable to the financial assets. Gain from sale of investments is recognised on the date of the contract for sale note. All revenue is stated net of the amount of goods and services tax (GST).

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. Initial technology licence fees are recognised as revenue up-front on issue of the customer invoice. Where the approval process in recognising the technology fees is outside the control of the Consolidated Group it is classified as a Contingent Asset.

1.7 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.

1.8 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.

1.9 *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.

1.10 *Government Grants*

Government grants, including non-monetary grants at fair value, are not recognised until there is reasonable assurance that:

(a) the group will comply with the conditions; and

(b) the grants will be received.

The research and development (R&D) tax incentive rebate provides a targeted 45% tax offset on eligible R&D activities which is calculated and claimed annually. The timing of this is forecast to be changed so claims can be made quarterly from 1 January 2014.

1.11 *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 short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits 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.

1.12 *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 fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. 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.

1.12.1 *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 1.24.4.

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.

The policy described above is applied to all equity-settled share-based payments that were granted after 7 November 2003 and vested after 1 January 2006.

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.

1.13 *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.

Note 1 – Statement of Significant Accounting Policies (continued)

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.

1.14 Property, Plant and Equipment

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

1.14.1 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.

The carrying amount of plant and equipment is reviewed bi-annually by Directors 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.

1.14.2 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 assets	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.

1.14.3 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 coal depletion.

1.14.4 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 are amortised 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.

1.15 Intangibles

Underground Coal Gasification (UCG) intangible assets - arising from development expenditure.

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; and
- 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 Company 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 Company'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. Such assets are tested for impairment in accordance with the policy stated in note 1.16.

1.15.1 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.

1.16 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 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. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

1.17 Provision for Restoration and Rehabilitation

1.17.1 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.

1.17.2 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.

1.18 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.

1.18.1 Financial Assets

1.18.1.1 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.

1.18.1.2 Available–for–sale (AFS) financial asset

Listed shares held by the Group that are traded in an active market are classified as AFS and are stated at fair value.

Fair value measurements are derived from quoted prices (unadjusted) in active markets.

Gains or losses arising from change in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve except for impairment losses.

1.18.1.3 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.

1.18.1.4 Impairment of financial instruments

At each reporting date, the Group assesses 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.

AFS assets are assessed for impairment at the end of each reporting period based on market changes of non- recovery through a prolonged decline in fair value below cost.

1.18.1.5 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.

1.18.1.6 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.

1.18.2 Financial Liabilities and Equity Instruments

1.18.2.1 Financial liabilities

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

(b) 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 remeasured 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.

1.18.2.2 Compound instruments

The component parts of compound instruments (convertible bonds) issued by the 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 Company'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.

1.18.2.3 De-recognition of financial liability

The Group derecognises financial liabilities when, and only when the 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.

Note 1 – Statement of Significant Accounting Policies (continued)

1.19 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.

1.20 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.

1.21 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.

1.22 Contributed Equity

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

1.23 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.

1.24 Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Consolidated Group.

1.24.1 Impairment

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

An impairment review is completed annually on carried forward exploration costs resulting from relinquishments, transfers and ongoing exploration prospectivity and commercial value.

1.24.2 Provision for rehabilitation

The provision for rehabilitation is based on the present obligations of the estimates of the future sacrifice of economic benefits required to rehabilitate the Bloodwood Creek site. The Consolidated Group has considered the provision for rehabilitation for its exploration and tenements at Bloodwood Creek based on valuations provided by independent consultants. The Consolidated Group has taken the future value of the estimated rehabilitation liability provided by the external consultants and used an appropriate discount rate to calculate the present value of the provision for rehabilitation.

1.24.3 Estimate of useful lives of assets

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 1.14.2.

1.24.4 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 generally determined by using the Black-Scholes options pricing model.

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 in 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
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2015	30 June 2016
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014

Note 2 – Application of new and revised Accounting Standards (continued)

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in 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
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	1 January 2014	30 June 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle'	1 January 2013	30 June 2014
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'	1 January 2013	30 June 2014
Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' and AASB 2011-12 'Amendments to Australian Accounting Standards arising from Interpretation 20'	1 January 2013	30 June 2014

At the date of authorisation of the financial statements, the impact of the IASB Standards and IFRIC Interpretations in issue but not yet effective, are still being assessed by management.

Note 3 – Other Income

	CONSOLIDATED GROUP	
	2013 $	2012 $
Operating Activities		
Interest received	219,749	625,855
Non-operating activities		
Other Income	596,335	116,723
Movement in fair value of Credit Suisse derivative financial liability	1,051,581	-
TOTAL	1,867,665	742,578

Note 4 – Loss From Ordinary Activities

	CONSOLIDATED GROUP	
	2013 $	2012 $
Loss from ordinary activities before income tax has been determined after:		
(a) Expenses		
Depreciation of Non-current assets		
Motor Vehicles	15,221	19,640
Plant & Equipment (includes Furniture & Fittings)	82,168	70,727
Total Depreciation	**97,389**	**90,367**
Superannuation expense	331,844	371,558
Operating lease expense	133,456	269,380
Loss on disposal of assets	404,360	94,040
Share-based payments (cancellations)	280,056	(304,175)
Loss on disposal of investment in associate	176,710	-
Loss on equity accounted investment in associate	564,678	1,317,532
(b) Significant Transactions		
Impairment The US coal assets were written down by $18,254,668 during the year following the decision not to proceed with commercialising the resource. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired, the recoverable amount (the higher of fair value less costs to sell and value in use) of the asset is estimated in order to determine the extent of the impairment loss.	18,254,668	-
The Available-For-Sale Asset was impaired by $536,001 due to the sustained decline in the share price of the equity instrument.	536,001	-
TOTAL	**18,790,669**	-

Note 5 – Earnings per share (EPS)

	CONSOLIDATED GROUP	
	2013 $	2012 $
Net Loss for the year attributable to members of the parent entity	(35,584,327)	(18,562,854)
Basic loss per share (cents per share)	(4.56)	(2.50)
Diluted loss per share (cents per share)	(4.56)	(2.50)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted EPS	**779,453,295**	**743,615,582**

Options outstanding at 30 June 2013, totalling 141,333,240 are not considered potential ordinary shares as the effect is anti-dilutive due to the nature of vesting conditions.

Note 6 – Income Tax Expense

	CONSOLIDATED GROUP	
	2013 $	2012 $
(a) The components of tax expense comprise		
Current year tax	-	-
Deferred tax	-	-
	-	-
	2013 $	2012 $
(b) The prima facie tax/(benefit) on Profit/(Loss) from ordinary activities is reconciled to the income tax expense as follows:		
Operating income/(loss) Prima facie tax/(benefit) on Profit/(Loss) from ordinary activities before income tax at 30%	(35,584,327)	(18,562,854)
2013:30% (2012: 30%) tax	(10,675,298)	(5,568,856)
Add tax effect of:		
Non-deductible items	8,062,773	163,267
Other deductible items	(146,074)	(266,827)
Revaluation and gain on disposal of investments not subject to income tax	169,403	395,260
Deferred tax assets not brought to account	2,589,196	5,277,157
Income tax attributable to entity	-	-
	2013 $	2012 $
(c) Deferred tax assets		
An income tax Consolidated Group was formed from 1 July 2008		
Balance at the beginning of the year	70,919,471	53,215,510
Adjustment to Prior year carry forward losses for Research & Development (R&D)	(3,367,453)	12,845,231
Temporary differences	(463,192)	(418,427)
Tax losses (after income tax at 30%)	2,589,196	5,277,157
TOTAL DEFERRED TAX ASSETS NOT BROUGHT TO ACCOUNT	**69,678,022**	**70,919,471**

Note 6 – Income Tax Expense (continued)

Impact of Minerals Resource Rent Tax (MRRT)

The Minerals Resource Rent Tax (MRRT) Act 2012 was enacted on 19 March 2012 and applies from 1 July 2012.

The MRRT seeks to tax the profits from the upstream operations of all new and existing coal and iron ore projects in Australia, which constitute mining project interests (MPIs) for MRRT purposes. Carbon Energy does not hold any MPIs and currently only holds pre-mining project interests (pre-MPIs) being the relevant EPCs and MDL. As Carbon Energy has not derived any pre-mining revenue, it is not liable to pay MRRT in the year ended 30 June 2013. Furthermore, as these pre-MPIs are currently being held for sale, management has determined that it is not appropriate to recognise any deferred tax consequences relating to these pre-MPIs as Carbon Energy is unlikely to be liable to pay MRRT in the foreseeable future.

Note 7 – Key Management Personnel Compensation

Names and positions held of the Consolidated and Parent Entity Key Management Personnel in office during the financial year are:

Executive / Non-Executive Directors

Dr Chris Rawlings
Non-Executive Chairman

Mr Max Cozijn
Non-Executive Director

Dr Helen Garnett
Non-Executive Director

Mr Peter Hogan
Non-Executive Director

Mr Louis Rozman
Non-Executive Director

Mr Andrew Dash
Former Managing Director & Chief Executive Officer (resigned 21 December 2012)

Other Key Management Personnel

Mr Morné Engelbrecht
Managing Director (appointed 23 July 2013), Chief Executive Officer (appointed 18 June 2013), Chief Financial Officer and Company Secretary (appointed 24 October 2011).

Dr Clifford Mallett
Technical Director

Mr Justin Haines
General Manager Technical Services

Mr Terry Moore
General Manager Operations

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Note 7 - Key Management Personnel Compensation (continued)

	2013 $	2012 $
(a) Remuneration		
Short-term employee benefits	1,800,524	2,366,112
Post-employment benefits	107,682	124,828
Share-based payments	283,741	513,682
TOTAL	**2,191,947**	**3,004,622**

Detailed remuneration disclosures are provided in the remuneration report.

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

2013 Directors	Balance at 1 Jul 2012	Granted as Remuneration	Options Exercised	Net Change Other	Balance at 30 Jun 13	Total Vested 30 Jun 13	Total Exercisable 30 Jun 13	Total Unexercisable 30 Jun 13
Chris Rawlings	-	-	-	-	-	-	-	-
Andrew Dash (i)	22,000,000	-	-	-	22,000,000	22,000,000	22,000,000	-
Max Cozijn	-	-	-	-	-	-	-	-
Helen Garnett	-	-	-	-	-	-	-	-
Peter Hogan	-	-	-	-	-	-	-	-
Kim Robinson	-	-	-	-	-	-	-	-
Louis Rozman (ii)	35,000,000	-	-	9,645,845	44,645,845	44,645,845	44,645,845	-
TOTAL	**57,000,000**	**-**	**-**	**9,645,845**	**66,645,845**	**66,645,845**	**66,645,845**	**-**

(i) Andrew Dash resigned 21 December 2012.
(ii) Indirect holdings represents Pacific Road Resources funds of which Louis Rozman is an employee and Director of some Pacific Road Capital entities.

2012 Directors	Balance at 1 Jul 2011	Granted as Remuneration	Options Exercised	Net Change Other	Balance at 30 Jun 12	Total Vested 30 Jun 12	Total Exercisable 30 Jun 12	Total Unexercisable 30 Jun 12
Chris Rawlings	-	-	-	-	-	-	-	-
Andrew Dash (i)	24,400,000	-	-	(2,400,000) (iv)	22,000,000	22,000,000	22,000,000	-
Max Cozijn	-	-	-	-	-	-	-	-
Helen Garnett	-	-	-	-	-	-	-	-
Peter Hogan	-	-	-	-	-	-	-	-
Kim Robinson (ii)	-	-	-	-	-	-	-	-
Louis Rozman (iii)	-	-	-	35,000,000	35,000,000	35,000,000	35,000,000	-
TOTAL	**24,400,000**	**-**	**-**	**32,600,000**	**57,000,000**	**57,000,000**	**57,000,000**	**-**

(i) Andrew Dash resigned 21 December 2012.
(ii) Kim Robinson retired on 30 June 2012.
(iii) Indirect holdings represents Pacific Road Resources funds of which Louis Rozman is an employee and Director of some Pacific Road Capital entities.
(iv) These options were forfeited in 2012.

Note 7 - Key Management Personnel Compensation (continued)

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

2013 Executives	Balance at 1 Jul 12	Granted as Performance Incentive (i)	Options Exercised	Net Change Other (ii)	Balance at 30 Jun 13	Total Vested 30 Jun 13	Total Exercisable 30 Jun 13	Total Unexercisable 30 Jun 13
Morné Engelbrecht (iii)	-	1,614,000	-	-	1,614,000	1,614,000	1,614,000	
Cliff Mallett	4,375,000	-	-	-	4,375,000	4,375,000	4,375,000	-
Justin Haines	-	860,000	-	-	860,000	860,000	860,000	-
Terry Moore	-	610,000	-	-	610,000	610,000	610,000	-
Peter Swaddle (iv)	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000	-
TOTAL	**5,375,000**	**3,084,000**	**-**	**-**	**8,459,000**	**8,459,000**	**8,459,000**	**-**

2012 Executives	Balance at 1 Jul 11	Granted as Performance Incentive (i)	Options Exercised	Net Change Other (ii)	Balance at 30 Jun 12	Total Vested 30 Jun 12	Total Exercisable 30 Jun 12	Total Unexercisable 30 Jun 12
Cliff Mallett	4,375,000	-	-	-	4,375,000	4,375,000	4,375,000	-
Peter Swaddle (iv)	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000	-
Andy Mifflin (v)	1,000,000	-	-	(1,000,000)	-	-	-	-
Prem Nair (vi)	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000	-
TOTAL	**7,375,000**	**-**	**-**	**(1,000,000)**	**6,375,000**	**6,375,000**	**6,375,000**	**-**

(i) These options were granted as part of STI/LTI.
(ii) These options were forfeited during the 2011 financial year.
(iii) Morné Engelbrecht appointed as Chief Executive Officer on 18 June 2013.
(iv) Peter Swaddle resigned 31 July 2012.
(v) Andy Mifflin resigned 4 February 2011.
(vi) Prem Nair resigned 25 November 2011.

(c) Share Holdings held directly and indirectly by Key Management Personnel:

2013 Directors	Balance at 1 Jul 12	Options Exercised	Net Change Other	Balance at 30 Jun 13
Parent Entity Directors				
Chris Rawlings	750,000	-	2,150,000	2, 900,000
Andrew Dash (i)	480,000	-	-	480,000
Max Cozijn	2,278,340	-	(1,000,000)	1,278,340
Helen Garnett	27,101	-	350,000	377,101
Peter Hogan	250,000	-	30,000	280,000
Louis Rozman (ii)	62,123,353	-	12,626,885	77,750,238
TOTAL	**68,908,794**	**-**	**14,156,885**	**83,065,679**

(i) Andrew Dash resigned on 21 December 2012.
(ii) Indirect holdings represents Pacific Road Resources funds of which Louis Rozman is an employee and Director of some Pacific Road Capital entities.

Note 7 - Key Management Personnel Compensation (continued)

(c) Share Holdings held directly and indirectly by Key Management Personnel (continued):

2012 Directors	Balance at 1 Jul 11	Options Exercised	Net Change Other	Balance at 30 Jun 12
Parent Entity Directors				
Chris Rawlings	-	-	750,000	750,000
Andrew Dash (i)	-	-	480,000	480,000
Max Cozijn	3,028,340	-	(750,000)	2,278,340
Helen Garnett	27,101	-	-	27,101
Peter Hogan	250,000	-	-	250,000
Kim Robinson (ii)	2,000,000	-	-	2,000,000
Louis Rozman (iii)	48,398,878	-	16,724,475	65,123,353
TOTAL	**53,704,319**	**-**	**17,204,475**	**70,908,794**

(i) Andrew Dash resigned 21 December 2012.
(ii) Kim Robinson retired 30 June 2012.
(iii) Indirect holdings represents Pacific Road Resources Funds of which Louis Rozman is an employee and Director of some Pacific Road Capital entities.

2013 Executives	Balance at 1 Jul 12	Options Exercised	Net Change Other	Balance at 30 Jun 13
Morné Engelbrecht (iv)	-	-	710,185	710,185
Cliff Mallett	11,766,952	-	1,057,561	12,824,513
Justin Haines	-	-	377,592	377,592
Peter Swaddle (v)	-	-	94,924	94,924
Terry Moore	-	-	267,591	267,591
TOTAL	**11,766,952**	**-**	**2,507,853**	**14,274,805**

(iv) Morné Engelbrecht appointed on 18 June 2013.
(v) Peter Swaddle resigned 31 July 2012.

2012 Executives	Balance at 1 Jul 11	Options Exercised	Net Change Other	Balance at 30 Jun 12
Cliff Mallett	11,766,952	-	-	11,766,952
TOTAL	**11,766,952**	**-**	**-**	**11,766,952**

Note 8 – Cash at Bank

	CONSOLIDATED GROUP	
	2013 $	2012 $
Cash at bank	1,772,562	2,270,646
Short term deposits	-	4,000,000
TOTAL CASH AND CASH EQUIVALENTS	1,772,562	6,270,646

Note 9 – Trade and Other Receivables

	CONSOLIDATED GROUP	
	2013 $	2012 $
Current		
Trade & Other receivables	109,140	497,953
TOTAL CURRENT TRADE & OTHER RECEIVABLES	109,140	497,953
Non Current		
Deposits	270,053	221,569
Receivable from Crescent Gold Limited (now known as Focus Minerals Ltd)[1]	1,432,840	1,398,787
TOTAL NON CURRENT TRADE & OTHER RECEIVABLES	1,702,893	1,620,356

[1] On 30 November 2009, Carbon Energy Limited executed an asset sale agreement with Crescent Gold Limited pertaining to the sale of its gold interests in the Laverton area of Western Australia. The total consideration was $2,500,000 in cash and a further payment of $1,500,000 is contingent on gold production exceeding 75,000 ounces. The non-current receivable has been recognised at 30 June 2013 representing the Directors' best estimate of the fair value of the receivable.

Note 10 – Other Current Assets

	CONSOLIDATED GROUP	
	2013 $	2012 $
Current		
Prepayments	83,552	-
TOTAL OTHER CURRENT ASSETS	83,552	-

Note 11 – Investment in Associate

	CONSOLIDATED GROUP	
	2013 $	2012 $
Opening Balance	1,727,388	3,044,920
Share of associate's loss after income tax	(564,678)	(1,317,532)
Closing Balance prior to disposal	1,162,710	1,727,388
Fair Value at date of disposal	986,000	-
Loss on deemed disposal of associate	(176,710)	-
Transfer to Available for Sale Financial Asset	(986,000)	-
Closing Balance	-	1,727,388

On 11 December 2012 Energia Minerals Limited completed a Rights Issue reducing Carbon Energy's % holding from 26.48% to 16.45%. Accordingly Carbon Energy's investment in Energia Minerals Limited was reclassified from an Investment in Associate to an Available for Sale Financial Asset as of 11 December 2012 (refer Note 12). The loss on disposal at 11 December 2012 arising from the difference between the fair value and carrying value at 11 December 2012 amounts to $176,710.

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Note 12 – Available-For-Sale Financial Asset

	CONSOLIDATED GROUP	
	2013 $	2012 $
Listed securities		
Energia Minerals Limited		
Opening Balance	-	-
Transfer from investment in Associate	986,000	-
Impairment Loss (see note 4b)	(536,001)	-
Closing Balance	**449,999**	**-**

On 24 July 2013, the Available-for-Sale asset was disposed of for $449,999

Note 13 – Construction Work-In-Progress

	CONSOLIDATED GROUP	
	2013 $	2012 $
Opening Balance	2,715,768	12,370,001
Additions	-	3,147,411
Transfer to UCG Intangible assets	-	(12,801,644)
Costs written off during the period	(160,434)	-
Closing Balance	**2,555,334**	**2,715,768**

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

Note 14 – UCG Panel Assets

	CONSOLIDATED GROUP	
	2013 $	2012 $
Opening Balance	1,733,640	10,616,055
Additions	-	1,166,204
Adjustment for Rehabilitation Provision	42,466	(22,800)
Transfers to Intangible assets (refer note 18)`	-	(10,025,819)
Closing Balance	**1,776,106**	**1,733,640**

Note 15 - Property, Plant and Equipment

CONSOLIDATED GROUP

(a) Carrying amounts

	Freehold Land $	Motor Vehicles $	Site Infrastructure $	Property, Plant & Equipment $	Water Monitoring Assets $	Bloodwood Creek Trial Plant $	Total $
30 June 2013							
Cost	408,016	87,287	-	1,091,275	-	-	1,586,578
Accumulated Depreciation	-	(61,721)	-	(441,633)	-	-	(503,354)
Net Book Value	**408,016**	**25,566**	**-**	**649,642**	**-**	**-**	**1,083,224**
30 June 2012							
Cost	408,016	87,287	-	1,257,596	-	-	1,752,899
Accumulated Depreciation	-	(46,500)	-	(359,466)	-	-	(405,966)
Net Book Value	**408,016**	**40,787**	**-**	**898,130**	**-**	**-**	**1,346,933**

(b) Movements in carrying amounts

	Freehold Land $	Motor Vehicles $	Site Infrastructure $	Property, Plant & Equipment $	Water Monitoring Assets $	Bloodwood Creek Trial Plant $	Total $
Carrying amount at 1 July 2011	408,016	60,427	764,000	1,008,997	2,714,768	3,800,410	8,756,618
Additions	-	-	-	59,566	267,343	94,398	421,307
Transfers to Intangible asset (refer note 18)	-	-	(764,000)	-	(2,982,111)	(3,894,808)	(7,640,919)
Disposals	-	-	-	(99,706)	-	-	(99,706)
Depreciation expense	-	(19,640)	-	(70,727)	-	-	(90,367)
Carrying amount at 30 June 2012	**408,016**	**40,787**	**-**	**898,130**	**-**	**-**	**1,346,933**
Carrying amount at 1 July 2012	408,016	40,787	-	898,130	-	-	1,346,933
Additions	-	-	-	590,490	-	-	590,490
Disposals	-	-	-	(756,810)	-	-	(756,810)
Depreciation expense	-	(15,221)	-	(82,168)	-	-	(97.389)
Carrying amount at 30 June 2013	**408,016**	**25,566**	**-**	**649,642**	**-**	**-**	**1,083,224**

Note 16 – Other Non-Current Asset (Chile Project)

	CONSOLIDATED GROUP	
	2013 $	2012 $
Opening Balance	1,607,662	1,100,473
Additions	115,061	507,189
Closing Balance	**1,722,723**	**1,607,662**

Carbon Energy executed an agreement with Antofagasta Minerals S.A (AMSA) to jointly assess and develop a coal deposit at Mulpun, Chile using Carbon Energy's Underground Coal Gasification technology.

Carbon Energy is progressing in its commercial discussions in relation to the renegotiation of the AMSA Agreement and the option for Carbon Energy to take-over the Mulpun Energy site and invite new Joint Venture partners to develop the Mulpun Energy asset/project.

Carbon Energy's contribution during phase two remains pending the outcome of the ongoing commercial discussions.

Note 17 – Deferred Exploration and Evaluation Costs

	CONSOLIDATED GROUP	
	2013 $	2012 $
Opening Balance	108,128,765	107,964,187
Additions	454,660	164,578
Impairment write-down (refer note 4b)	(18,254,668)	-
Costs written off	(5,938)	-
Closing Balance	**90,322,819**	**108,128,765**

Note 18 – Intangible Assets

	CONSOLIDATED GROUP	
	2013 $	2012 $
Opening Balance	54,815,481	24,218,525
Additions	33,023	128,574
Transfers from Construction Work-in-Progress (Note 13)	-	12,801,644
Transfers from Property, Plant & Equipment (Note 15)	-	7,640,919
Transfers from UCG Panel Assets (Note 14)	-	10,025,819
Decrease in Rehabilitation provision	(221,797)	-
Carrying value reduction following receipt of R&D rebate	(7,002,767)	-
Closing Balance	**47,623,940**	**54,815,481**

Note 18 – Intangible Assets (continued)

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 $33,023 (2012: $128,574) was added to the 'know how' intangible asset during the 2013 financial year for ongoing patent costs following achievement of 'Proof of Concept' of the Company's keyseam UCG Technology. The amount has been adjusted with the decrease in rehabilitation provision.

The balance in 2012 includes transfers from Construction Work-in-Progress (5MW Power Station costs), UCG Panel Assets and Property, Plant & Equipment.

A reduction of $7,002,767 in the 'know-how' intangible asset occurred in 2013 upon the receipt of the 2011/12 R&D rebate.

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 discount rate of 17.53%. The value in use cash flows have been estimated by management based on the technology, license and service contractual arrangements entered into to date 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 25 years which is consistent with the expected scale of commercial projects of this nature. Growth in the cash flows is represented by the estimation that at least three projects will be progressed to commercial scale. Management also believes that any 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 19 - Trade and Other Payables

	CONSOLIDATED GROUP	
	2013 $	2012 $
Trade payables	66,317	68,374
Sundry creditors and accrued expenses	1,023,556	1,244,947
TOTAL TRADE AND OTHER PAYABLES	**1,089,873**	**1,313,321**

Note 20 – Loans and Borrowings

	CONSOLIDATED GROUP	
	2013 $	2012 $
Current		
Opening Balance	-	-
Term Facility (Secured)	2,997,233	-
Closing Balance	**2,997,233**	**-**

Note 20 – Loans and Borrowings (continued)

The Company entered into a $10,000,000 bridging loan facility with Credit Suisse on 15 November 2012 to assist in funding the Company's short term working capital requirements. The loan is a 12 month secured loan facility at an interest rate of 8% per annum.

As part of finalisation of the Credit Suisse Short Term Facility, Carbon Energy , along with some of its subsidiaries, has entered into a general security agreement which charges all of its assets except for the intellectual property and software relating to the UCG technology acquired from CSIRO and any money deposited with a bank who has pledged support to environmental bonds, guarantees or similar undertakings.

As per the facility agreement, 61,728,395 options have been issued at a strike price of $0.081 to Credit Suisse. Refer to Note 21 below for further disclosure on the options.

	CONSOLIDATED GROUP	
	2013 $	**2012 $**
Loan proceeds	10,000,000	-
Less: Repayment	(7,002,767)	-
Secured Loan Debt outstanding at 30 June 2013	**2,997,233**	**-**
Accounting Adjustments		
Less: transaction costs		
Facility fee, upfront interest, legal fees	(1,080,053)	-
Less: transaction costs		
Options issued	(1,317,737)	-
Financial Liability Unwinding at 30 June 2013	2,397,790	-
Closing Loan Facility Balance*	**2,997,233**	**-**

* $1.2m of the loan is payable from the Rights Issue funds received in August 2013 while $1.8m will become payable upon receipt of the R&D rebate in October 2013 or earlier if the captial raising exceeds $5m.

Note 21 – Derivative Financial Liability

	CONSOLIDATED GROUP	
	2013 $	**2012 $**
Current		
Opening Balance	-	-
Derivative out of Credit Suisse loan facility	1,317,737	-
Movement in Option Liability fair value	(1,051,581)	-
Option Liability fair value	266,156	-
Closing Balance	**266,156**	**-**

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 issue of these options has been treated as an embedded derivative and accordingly the value has been classified as a derivative financial liability.

Note 22 – Provisions

	CONSOLIDATED GROUP	
	2013 $	2012 $
Employee Benefits (details below)	281,785	315,386
Other Provisions (details below)	3,368,294	3,461,098
TOTAL PROVISIONS	**3,650,079**	**3,776,484**
Current	1,334,350	768,020
Non-Current	2,315,729	3,008,464
TOTAL PROVISIONS	**3,650,079**	**3,776,484**
EMPLOYEE BENEFITS		
Provision for Annual Leave (Current)	256,000	293,501
Provision for Long Service Leave (Non-Current)	25,785	21,885
Closing Balance	**281,785**	**315,386**
PROVISION FOR REHABILITATION		
Current	1,078,350	474,519
Non-Current	2,289,944	2,986,579
Closing Balance	**3,368,294**	**3,461,098**

Note 23 – Financial Liabilities

	CONSOLIDATED GROUP	
	2013 $	2012 $
Non-Current		
Opening Balance	5,375,340	-
Proceeds of issue – Convertible Note Facility (Secured)	-	10,000,000
Less Transactional costs	-	(2,592,086)
Equity component	-	(2,101,590)
Financial Liability Unwinding	803,964	69,016
TOTAL FINANCIAL LIABILITIES	**6,179,304**	**5,375,340**

The total secured Pacific Road Capital "Pacific Road" convertible note outstanding at 30 June 2013 is $10,000,000.

The Pacific Convertible Note Facility is secured by a mortgage over the UCG technology and software transferred from CSIRO to Carbon Energy.

The Equity component of $2,101,590 has been credited to equity (option premium on convertible notes). 35,000,000 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 2014. 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.

Note 24 - Issued Capital

	CONSOLIDATED GROUP	
	2013 $	**2012 $**
786,889,705 (2012: 773,999,771) Fully paid ordinary shares	**227,727,927**	**227,174,129**

	2013 No. of Shares	2012 No. of Shares
Ordinary Shares at the beginning of the reporting period	773,999,771	698,517,858
Shares issued during the year:		
• 14 November 2011 Rights Issue placement @ 12 cents per share	-	68,873,204
• 12 December 2011 Short Term Incentive/Long Term Incentive Shares allotted for Executives	-	735,898
• 23 January 2012 placement fee for drawdown of Tranche A (Pacific Road Convertible Note Facility)	-	833,333
• 6 March 2012 part consideration of the facility fee for Tranche B @ 12 cents per share (Pacific Road Convertible Note Facility)	-	3,333,333
• 3 May 2012 interest costs in relation to drawdown of Tranche A (Pacific Road Convertible Note Facility)	-	293,083
• 29 May 2012 interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	-	1,363,013
• 29 June 2012 Issue of 50,049 Executive Shares issued under the Company's Long Term Executive Incentive Plan.	-	50,049
• 29 August 2012 interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	2,306,795	-
• 29 November 2012 interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	2,145,388	-
• 2 January 2013 Issue of Ordinary Shares under the Company's Short and Long Term Executive Incentive Plan	1,355,368	-
• 7 March 2013 interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	2,877,033	-
• 30 April 2013 Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	4,205,350	-
At reporting date	**786,889,705**	**773,999,771**

Note 24 – Issued Capital (continued)

	No. Shares	$
BALANCE AT 1 JULY 2011	698,517,858	218,256,942
14 November 2011 Rights Issue placement @ 12 cents per share	68,873,204	8,264,784
Short Term Incentive/Long Term Incentive Shares allotted for Executives	735,898	145,579
Adjustment arising from finalisation of CCL transaction	-	(1,338)
Placement fee in relation to drawdown of $10 million Pacific Road Convertible Note Facility	4,166,666	500,000
3 May 2012 interest costs in relation to drawdown of Tranche A (Pacific Road Convertible Note Facility)	293,083	24,619
29 May 2012 interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	1,363,013	115,856
29 June 2012 Issue of 50,049 Executive Shares issued under the Company's Long Term Executive Incentive Plan.	50,049	3,353
Share Issue costs	-	(135,666)
BALANCE AT 30 JUNE 2012	**773,999,771**	**227,174,129**

BALANCE AT 1 JULY 2012	**773,999,771**	**227,174,129**
29 August 2012 interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	2,306,795	124,567
29 November 2012 interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	2,145,388	126,578
2 January 2013 Issue of Ordinary Shares under the Company's Short and Long Term Executive Incentive Plan	1,355,368	63,702
7 March 2013 interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	2,877,033	124,576
30 April 2013 Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	4,205,350	120,567
Share issue costs	-	(6,192)
BALANCE AT 30 JUNE 2013	**786,889,705**	**227,727,927**

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.

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 2013 (2012: Nil) and no dividends are expected to be paid in 2014.

Note 24 - Issued Capital (continued)

Stock Exchange Listing

Quotation has been granted for 786,889,705 (2012:773,999,771) 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.

Options

As at the year end the Company has on issue 141,333,240 unlisted options which have vested and are exercisable. Exercise prices for unlisted options range from $0.081 to $1.60.

Note 25 - Reserves

	CONSOLIDATED GROUP	
	2013 $	2012 $
SHARE-BASED PAYMENTS RESERVE		
The Share-Based Payments Reserve records items recognised as expenses on valuation of employee share options together with shares to be issued.		
Balance at beginning of the year	15,718,230	14,149,360
Net movement in share option reserve on recognition of share based payments	54,239	1,568,870
Exercise of options	-	-
BALANCE AT END OF THE YEAR	**15,772,469**	**15,718,230**
OTHER RESERVE		
Balance at beginning of the year	2,101,590	-
Equity adjustment arising from Pacific Road Convertible Note transaction (refer note 23)	-	2,101,590
BALANCE AT END OF THE YEAR	**2,101,590**	**2,101,590**
FOREIGN CURRENCY RESERVE		
Balance at beginning of the year	37,816	-
Translation of Foreign Operations (Clean Coal USA)	(3,510)	37,816
BALANCE AT END OF THE YEAR	34,306	37,816
TOTAL RESERVES	**17,908,365**	**17,857,636**

Note 26 – Accumulated Losses

	CONSOLIDATED GROUP	
	2013 $	2012 $
Balance at beginning of the year	(75,032,318)	(56,469,464)
Loss attributable to the Group	(35,584,327)	(18,562,854)
BALANCE AT END OF THE YEAR	**(110,616,645)**	**(75,032,318)**

Note 27 - Statement of Operations by Segment

The Consolidated Group operates in one segment, i.e. the development and commercialisation of Underground Coal Gasification (UCG) and reports to the Chief Operating decision-maker on this basis. As such only one reportable segment has been identified and this basis is consistent with the current reporting structure.

Note 28 – Parent Entity Disclosures

	2013 $	2012 $
Financial Position		
Assets		
Current assets	1,595,071	6,350,787
Non-current assets	143,340,348	219,638,578
Total assets	**144,935,419**	**225,989,365**
Liabilities		
Current liabilities	473,080	353,093
Non-current liabilities	9,442,692	5,375,340
Total liabilities	**9,915,772**	**5,728,433**
Equity		
Issued capital	227,727,927	227,174,129
Accumulated losses	(110,582,339)	(24,733,017)
Reserves		
Other Reserve	2,101,590	2,101,590
Share based payments reserve	15,772,469	15,718,230
Total equity	**135,019,647**	**220,260,932**

Financial performance	2013 $	2012 $
Loss for the year	(85,849,322)	(3,105,613)
Other Comprehensive Income	-	-
Total comprehensive loss	**(85,849,322)**	**(3,105,613)**

Carbon Energy Limited had nil material contingent liabilities at 30 June 2013 (2012: nil) refer note 30 (f).

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.

As part of finalisation of the Credit Suisse Short Term Facility, Carbon Energy , along with some of its subsidiaries, has entered into a general security agreement which charges all of its assets except for the intellectual property and software relating to the UCG technology acquired from CSIRO and any money deposited with a bank who has pledged support to environmental bonds, guarantees or similar undertakings.

The Inter Company Receivable has been impaired to its recoverable amount. An impairment of $60,530,456 was recognised for the year ended 30 June 2013.

Note 28 – Parent Entity Disclosures (continued)

(a) Operating Lease Commitment

	PARENT ENTITY	
	2013 $	2012 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
• not later than one year	369,253	231,504
• later than one year but not later than five years	1,888,510	-
TOTAL OPERATING LEASE COMMITMENTS	2,257,763	231,504

This relates to the following property lease:

A new lease agreement (level 9. 301 Coronation Drive) was negotiated as the former lease (level 12, 301 Coronation Drive) was to expire. A new lease agreement was signed on 24 October 2012, commencing 1 February 2013 with a lease term of 6 years.

Note 29 - 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; and
- maintain the capacity to fund the consolidated group's growth activities.

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

The 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 24 in the case of capital risk management.

(b) Market Risk

i) Interest Rate Risk

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

These financial assets expose the Consolidated Group to cash flow interest rate risk.

The Pacific Road Convertible Note Facility is a fixed rate debt which exposes the Group to fair value interest rate risk.

The Pacific 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 $10m bridging loan facility with Credit Suisse on 15 November 2012 to assist in funding the Company's short term working capital requirements. The loan is a 12 month secured loan facility at an interest rate of 8% per annum.

Note 29 - Financial Risk Management (continued)

As part of finalisation of the Credit Suisse Short Term Facility, Carbon Energy, along with some of its subsidiaries, has entered into a general security agreement which charges all of its assets except for the intellectual property and software relating to the UCG technology acquired from CSIRO and any money deposited with a bank who has pledged support to environmental bonds, guarantees or similar undertakings.

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.

CONSOLIDATED GROUP

	Weighted Ave		Floating Interest		Fixed Interest Rate		Non-Interest		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	%	%	$	$	$	$	$	$	$	$
FINANCIAL ASSETS										
Cash	3.65	4.00	1,721,809	2,269,896	-	4,000,000	753	750	1,722,562	6,270,646
Receivables	-	5.30	-	-	-	186,569	1,812,033	1,931,740	1,812,033	2,118,309
TOTAL FINANCIAL ASSETS			**1,721,809**	**2,269,896**	**-**	**4,186,569**	**1,812,786**	**1,932,490**	**3,534,595**	**8,388,955**
Trade and other payables	-	-	-	-	-	-	(1,089,873)	(1,313,321)	(1,089,873)	(1,313,321)
Financial liability - Credit Suisse	8.00	-	-	-	(2,997,233)	-	(266,156)	-	(3,263,389)	-
Financial liability - Pacific Road	5.00	5.00	-	-	(6,179,304)	(5,375,340)	-	-	(6,179,304)	(5,375,340)
TOTAL FINANCIAL LIABILITIES			**-**	**-**	**(9,176,537)**	**(5,375,340)**	**(1,356,029)**	**(1,313,321)**	**(10,532,566)**	**(6,688,661)**
NET FINANCIAL ASSETS (LIABILITIES)			**1,721,809**	**2,269,896**	**(9,176,537)**	**(1,188,771)**	**456,757**	**619,169**	**(6,997,971)**	**1,700,294**

Note 29 - Financial Risk Management (continued)

(b) Market Risk (continued)

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 2013		Interest Rate Risk Sensitivity 2012	
	+10% Profit $	-10% Profit $	+10% Profit $	-10% Profit $
FINANCIAL ASSETS				
Cash	6,285	(6,285)	25,066	(25,066)
Receivables	-	-	988	(988)
TOTAL FINANCIAL ASSETS	**6,285**	**(6,285)**	**26,054**	**(26,054)**
FINANCIAL LIABILITIES				
Trade and other payables	-	-	-	-
Financial liability - Credit Suisse	-	-	-	-
Financial liabilitiy - Pacific Road	-	-	-	-
TOTAL FINANCIAL LIABILITIES	-	-	-	-
NET FINANCIAL ASSETS (LIABILITIES)	**6,285**	**(6,285)**	**26,054**	**(26,054)**

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 2013 by approximately 50 basis points. This would represent approximately two RBA interest rate increases/(decreases) which is reasonably possible in the current environment.

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 Group only invests in equity securities approved by the Board of Directors and where the investment provides a strategic advantage to the Group.

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.

(c) Equity Price Sensitivity Analysis

The Available for Sale financial asset was sold at its carrying value subsequent to year-end and therefore a sensitivity analysis has not been performed.

Note 29 - Financial Risk Management (continued)

(d) Liquidity Risk

The liquidity position of the Consolidated Group is managed to ensure sufficient liquid funds are available to meet the 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 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 Group can be required to pay.

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

CONSOLIDATED GROUP

	PAYABLES MATURITY ANALYSIS				
	TOTAL	<1 year	1-2 years	2-3 years	>3 years
CONSOLIDATED 2013					
Trade and other payables	1,089,873	1,089,873	-	-	-
Loans and Borrowings	10,000,000	-	-	-	10,000,000
Credit Suisse	2,997,233	2,997,233	-	-	-
Interest payable	1,912,848	590,656	500,000	500,000	322,192
TOTAL PAYABLES	**15,999,954**	**4,677,762**	**500,000**	**500,000**	**10,322,192**
CONSOLIDATED 2012					
Trade and other payables	1,313,321	1,313,321	-	-	-
Loans and borrowings	10,000,000	-	-	-	10,000,000
Interest payable	2,500,000	500,000	500,000	500,000	1,000,000
TOTAL PAYABLES	**13,813,321**	**1,813,321**	**500,000**	**500,000**	**11,000,000**

(e) 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 2013 are not credit rated by the Company. Their maturities are detailed below:

CONSOLIDATED GROUP

	2013 $	2012 $
Contracted maturities of receivable for year ended 30 June 2013		
RECEIVABLE		
• Less than 6 months	61,066	-
• 6 to 12 months	-	-
• 1 to 5 years	1,432,850	186,569
• Later than 5 years	-	-
TOTAL	**1,493,916**	**186,569**

Note 29 - Financial Risk Management (continued)

(f) Net Fair Values of Financial Instruments Carried at Amortised Cost

The Directors consider that the carrying amounts of the Credit Suisse loan is held at amortised cost.

	CONSOLIDATED GROUP	
	2013 $	2012 $
Financial Liability held at amortised cost		
Credit Suisse loan	10,000,000	-
Less Repayment	(7,002,767)	-
Secured Loan Debt outstanding at 30 June 2013	**2,997,233**	**-**
Accounting Adjustments		
Less: Transaction costs (facility fee, upfront interest, legal fee)	(1,080,053)	-
Less: Transaction costs- Options Issued	(1,317,737)	-
Add Financial Liability Unwinding at 30 June 2013	2,397,790	-
CLOSING LOAN FACILITY BALANCE	**2,997,233**	**-**

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 $.081. The issue of these options has been treated as an embedded derivative and the value has been classified as a derivative financial liability.

Note 30 – 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	
	2013 $	2012 $
These obligations which are not provided for in the financial statements and are payable:		
• not later than one year	870,564	914,087
• 2 to 5 years	400,718	961,090
TOTAL EXPLORATION COMMITMENTS	1,271,282	1,875,177

Note 30 – Commitments, Claims, Guarantees, Contingent Asset, Contingent Liabilities, & Credit Facilities (continued)

(b) Operating Lease Commitment

	2013 $	2012 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
• not later than one year	369,253	231,504
• later than one year but not later than five years	1,888,510	-
TOTAL OPERATING LEASE COMMITMENTS	2,257,763	231,504

These relate to property leases as follows:

Brisbane office lease (change from level 12 to level 9, 301 Coronation Drive) was negotiated and signed on 24 October 2012. The lease commenced on 1 February 2013 for a lease 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; and
- 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.

Note 30 – Commitments, Claims, Guarantees, Contingent Asset, Contingent Liabilities, & Credit Facilities (continued)

(d) Bank Guarantees

	CONSOLIDATED GROUP	
	2013 $	2012 $
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 9)	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	55,640	21,783
Bank Guarantee in relation to the entity's share of guarantee for Lease of office premises	181,913	132,286

(e) Contingent Asset

	2013 $	2012 $
Shanxi Sanyuan Coal First Technology Fee	7,174,018	-

A signed agreement with Shanxi Sanyuan Coal Industry Co. Ltd. provides for Carbon Energy Limited to be the exclusive UCG technology partner for the Shanxi province pending its Government approval. The Directors remain confident that in time the required approval and subsequent fee can be received. However, as the approval process is outside the control of the Consolidated Group, the criteria in the Accounting Standards for the recognition of an asset has not been met. Accordingly, the asset has been classified as a contingent asset and is not recorded on the balance sheet.

(f) Contingent Liabilities

There are a number of legal matters of commercial nature which are in progress,

- Carbon Energy Limited and Carbon Energy (Operations) Pty Ltd v Alexware Consulting Pty Ltd trading as Pangea Partners International and Laura Eugenie Jael Fett and John Martin Wedgewood. This was a claim for damages initiated by Carbon Energy for breach of contract, breach of fiduciary duty and the knowing assistance in the breach of fiduciary duties and breach of contract. The matter is still in progress and the pleadings have closed. Attempts to resolve the matter have been attempted through settlement and mediation. The matter therefore is likely to proceed to trial and the outcome of the matter is unknown at this stage. In late 2011, Alexware filed a counterclaim in the Supreme Court against the company for unpaid project management fees under the contract between Alexware and the Company. In 2012, a further counterclaim was made by Alexware and Mr John Wedgwood for costs associated with "excessive interest" on bank loans for the financing of their respective defences in the action. These defendants assert that the costs arise due to their inability to use two properties owned respectively by Alexware and Mr Wedgwood as security for lower interest bank loans, due to the Company having lodged caveats on those properties in 2010.
- Summa Resources Holdings LLC
  As announced to the market on 30 May 2013, Summa Resource Holdings LLC has advised that it was proceeding to formal dispute resolution under the share sale agreement dated February 2011 in relation to its claim that contractual milestones have been achieved triggering an entitlement to two further tranches of US$4.5 million worth of shares in Carbon Energy, being a total of US$9million (based on a specified 30 day VWAP). The mandatory dispute resolution steps have now been completed and the dispute has not been resolved. However discussions aimed at resolving the matter are ongoing. Carbon Energy maintains that it is not obliged to issue the two further tranches of shares and is defending this claim.

Note 30 – Commitments, Claims, Guarantees, Contingent Asset, Contingent Liabilities, & Credit Facilities (continued)

(f) Contingent Liabilities (continued)

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

(g) Other Credit Facilities

	2013 $	2012 $
Pacific Road Convertible Note Facility *	10,000,000	10,000,000
Credit Suisse Term Facility**	2,997,233	-
TOTAL	**12,997,233**	**10,000,000**
Unused Credit Facility	-	-

* 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.

** As part of finalisation of the Credit Suisse Short Term Facility, Carbon Energy , along with some of its subsidiaries, has entered into a general security agreement which charges all of its assets except for the intellectual property and software relating to the UCG technology acquired from CSIRO and any money deposited with a bank who has pledged support to environmental bonds, guarantees or similar undertakings.

Note 31 - Cashflow Information

	CONSOLIDATED GROUP	
	2013 $	2012 $
(a) Reconciliation of cash flow from operations with loss after income tax		
Loss after income tax	(35,584,327)	(18,562,854)
Non-cash flows in loss		
Depreciation	97,389	90,367
Interest expense*	3,691,077	323,573
Share Options expensed/(cancelled)	280,056	(304,175)
Loss on disposal of asset	404,360	94,040
Translation of foreign operations	-	37,816
Equity accounted loss in associate	564,678	1,317,532
Loss on disposal of investment in associate	176,710	-
Movement in fair value of derivative	(1,051,581)	-
Impairment	18,790,669	-
Changes in assets and liabilities:		
(Increase)/Decrease in trade receivables and other current assets	305,261	(146,052)
R&D rebate received	7,002,767	-
Increase/(Decrease) in trade creditors and accruals	(223,447)	(59,032)
Increase /(Decrease) in provisions	(33,602)	(222)
Cash out flow from operations	**(5,579,990)**	**(17,209,007)**
Non-cash transactions		

* Interest costs payable 3 months in arrears, in relation to Tranche A and Tranche B utilised under the $10 million Pacific Road Convertible Note Facility Agreement.

Note 32 - 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.

	CONSOLIDATED GROUP	
	2013 Shares	2012 Shares
(a) Directors' Share Transactions:		
Directors and Director related entities hold directly, indirectly or beneficially as at the reporting date the following equity interests in the Company.		
Ordinary Shares **	82,585,679	70,908,794
18.75 cent vested unlisted options expiring 18/01/2017***	7,000,000	7,000,000
18.75 cent vested unlisted option expiring 25/02/2017***	28,000,000	28,000,000
8.1 cent vested unlisted options expiring 15/11/2014***	9,645,845	-
25 cent vested unlisted options expiring 10/12/13 *	-	5,000,000
35 cent vested unlisted options expiring 10/12/13 *	-	1,400,000
70 cent vested unlisted options expiring 10/12/13 *	-	5,600,000
$1.00 vested unlisted options expiring 10/12/14 *	-	10,000,000

* Andrew Dash resigned as Managing Director of the Company on 21 December 2012.

** Includes Indirect holdings of 77,750,238 (2012: 65,123,353) shares which represents Pacific Road Resources Funds of which Louis Rozman is an employee and Director of some Pacific Road Capital entities.

*** Indirect holdings which represents unlisted options held by Pacific Road Resources Funds of which Louis Rozman is an employee and Director of some Pacific Road Capital entities.

	2013 $	2012 $
(b) Director – Related Entities:		
Other service fees charged to Carbon Energy Limited of which Peter Hogan was both a Director of Carbon Energy Limited and Incitec Pivot Limited at that time.	40,000	40,000
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.	40,000	40,000

Directors, Louis Rozman and Peter Hogan, hold 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 $40,000 for the year ended 30 June 2013.

Amounts paid to Incitec Pivot Limited for Mr Hogan's services amount to $40,000 for the year ended 30 June 2013.

(c) Parent Entity with significant influence over associated entity where Max Cozijn is a Director:

On 11 December 2012 Energia Minerals Limited completed a Rights Issue reducing Carbon Energy's % holding from 26.48% to 16.45%. Accordingly Carbon Energy's investment in Energia Minerals Limited has been reclassified from an Investment in Associate to an Available for Sale Financial Asset as of 11 December 2012. The loss on disposal at 11 December 2012 is $176,710, arising from the difference between the fair value and carrying value. At 30 June 2013 Carbon Energy Limited has a 16.45% interest in Energia Minerals Limited (2012: 26.48%). Refer to Note 11 for further details. On 24 July 2013 Carbon Energy ceased to be a holder of Energia Shares as they were sold.

Note 32 - Related Party Transactions (continued)

(d) Other Related Party Transactions

On 5 January 2012 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 ASX prior to the day a payment is due. 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-Jan-12	$0.1875	January 18, 2017
28,000,000	29-Feb-12	$0.1875	February 25, 2017
9,645,845	16-Nov-12	$0.0810	November 15, 2014

Further information on this transaction is included under note 23.

Note 33 - Events Subsequent to Balance Date

- On 5 July 2013 Carbon Energy announced the Company elected not to enter into any further contractual commitments in relation to projects in Wyoming (USA) and North Dakota/Montana (USA).
- On 8 July 2013 Carbon Energy welcomed the Queensland Government's announcement of the finalised ISP Report and the next steps in the pathway to commercialisation of the UCG industry in Queensland.
- On 22 July 2013 an agreed outcome was reached over the outstanding legal matter with the Department of Environment and Heritage Protection (DEHP).
- On 23 July 2013 signed a Memorandum of Understanding (MOU) to become the exclusive UCG technology partner to the Delmo Group for an Argentinean UCG Project.
- On 24 July 2013 the Company's investment in Energia Minerals Limited was sold.
- On 25 July 2013 Carbon Energy announced a non-renounceable pro rata Rights Issue to Eligible Shareholders and a new cornerstone investor.
- On 25 July 2013 agreed a variation to the terms of the existing Credit Suisse facility.
- On 6 August 2013 announced the appointment of PCF Capital Group to monetise the Company's coal assets.
- On 26 August 2013, the Company raised $3.64m from the entitlements accepted and additional securities applied for under the Rights Issue Subscription ($2.64m) and private placement ($1m) from HEC, on the same terms as the Rights Issue. On 4 September 2013, Carbon Energy announced that HEC agreed that the 50,000,000 listed options (exercisable at $0.06 each and expiring on 31 July 2016) issued to HEC (and any Shares issued on exercise of those options) will be subject to voluntary escrow from the date of issue of the options to the earlier of:
    a. 10 business days after the Company lodges a prospectus with ASIC for the offer of securities in the same class as the listed options; and
    b. 27 November 2013 (being three months after the date of allotment and issue of the listed options).

Note 34 - Controlled Entities

(a) Controlled entities

	COUNTRY OF INCORPORATION	PRINCIPAL ACTIVITY	PERCENTAGE OWNED	
			2013 %	2012 %
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	Holding company for the investment in Clean Coal Inc.	100	100
Carbon Energy (Galilee) Pty Ltd	Australia	Holding company for the investment in Clean Coal Amasra Limited	100	100
Carbon Energy (Latin America) Pty Ltd	Australia	Holding company for the investment in Mulpun, Chile	100	100
Carbon Energy USA Inc (previously Clean Coal Inc)	USA	Coal exploration Company targeting USA	100	100
Clean Coal Amasra Limited	UK	Coal exploration Company targeting Turkey	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 $43,759,475 (2012: $105,709,223).

Note 35 - Remuneration of auditors

	CONSOLIDATED GROUP	
	2013 $	2012 $
Auditor of the parent entity:		
• auditing or reviewing the financial report	124,750	145,389
• other non audit services – advisory services	56,468	43,143
	181,218	**188,532**

Note 36 - Share-Based Payments

2013 Share-Based Payments Arrangements:

No. of Shares	Description	Issue Date	Deemed Value
2,306,795	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	29/08/2012	$0.054
2,145,388	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	29/11/2012	$0.059
1,355,368	Issue of Ordinary Shares under the Company's Short and Long Term Executive Incentive Plan	02/01/2013	$0.047
2,877,033	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	07/03/2013	$0.043
4,205,350	Interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	30/04/2013	$0.029

No. of Options	Grant Date	Exercise Price	Vesting Date	Expiry Date
61,728,395	16/11/2012	$0.0810	16/11/2012	15/11/2014
9,645,845	16/11/2012	$0.0810	16/11/2012	15/11/2014
3,084,000	02/01/2013	$0.1200	02/01/2013	31/12/2015

The Company entered into a $10,000,000 bridging loan facility with Credit Suisse on 15 November 2012 to assist in funding the Company's short term working capital requirements. The terms of the loan are a 12 month secured term loan facility at an interest rate of 8% per annum with 61,728,395 options issued at a strike price of $0.081. The grant of options granted under this Facility triggers certain rights under the existing Pacific Road Capital (PRC) Convertible Note. Accordingly, on finalisation of the Credit Suisse loan facility there was an obligation to issue PRC 9,645,845 options under the same terms and conditions as the Credit Suisse Secured Funding Facility.

On 2 January 2013, 3,084,000 options were issued to Carbon Energy Executives under the Company's Short and Long Term Executive Incentive Plan.

At 30 June 2013, 7,200,000 of options were accrued for Executives (being 80% of the 9,000,000 eligible options to be earned upon achievement of 2013 Key Performance Indicators at a strike price of 30% premium to the 5 day VWAP) and in line with the Executives short term incentive agreement for the 2013 year, 4,167,270 shares (being 80% performance of 20% STI valued at the 90 day VWAP) valued at $120,851 was also accrued.

Note 36 - Share-Based Payments (continued)

2012 Share-Based Payments Arrangements:

On 5 January 2012 Carbon Energy executed a Convertible Note Facility Agreement with Pacific Road Capital (PRC). 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. Further information on this transaction is included under note 21.

No. of Shares		Issue Date	Deemed Value
833,333	Placement fee for drawdown of $10m PRC Note facility	18/01/2012	$0.1200
3,333,333	Placement fee for drawdown of $10m PRC Note facility	29/02/2012	$0.1200
293,083	Interest cost-issue of ordinary shares under $10m PRC Note facility	26/04/2012	$0.0853
1,363,013	Interest cost-issue of ordinary shares under $10m PRC note facility	29/05/2012	$0.0800

No. of Options	Grant Date	Exercise Price	Vesting Date	Expiry Date
7,000,000	25/01/2012	$0.1875	25/01/2012	18/01/2017
28,000,000	29/02/2012	$0.1875	29/02/2012	25/02/2017

Summary of options exercisable at 30 June 2013:

No. of Options	Grant Date	Exercise Price	Vesting Date	Expiry Date
5,000,000	13/11/2008	$0.25	30/06/2009	10/12/2013
5,600,000	13/11/2008	$0.70	30/06/2011	10/12/2013
10,000,000	13/11/2008	$1.00	30/06/2012	10/12/2014
1,400,000	13/11/2008	$0.35	30/06/2010	10/12/2013
1,750,000	13/11/2008	$0.80	30/06/2011	10/12/2013
875,000	13/11/2008	$1.20	30/06/2010	10/12/2013
1,750,000	13/11/2008	$1.60	30/06/2011	10/12/2013
2,500,000	16/09/2008	$0.80	30/06/2009	10/12/2013
1,000,000	16/09/2008	$0.80	30/06/2009	10/12/2013
1,000,000	17/10/2008	$0.80	31/10/2009	10/12/2013
1,000,000	17/10/2008	$0.80	31/10/2009	10/12/2013
7,000,000	25/01/2012	$0.1875	25/01/2012	18/01/2017
28,000,000	29/02/2012	$0.1875	29/02/2012	25/02/2017
61,728,395	16/11/2012	$0.081	16/11/2012	15/11/2014
9,645,845	16/11/2012	$0.081	16/11/2012	15/11/2014
3,084,000	02/01/2013	$0.12	02/01/2013	31/12/2015

Note 36 - Share-Based Payments (continued)

	CONSOLIDATED GROUP			
	2013		2012	
Summary of Option Movements	No. of Options	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price
Outstanding at the beginning of the year	66,875,000	$0.48	39,955,000	$0.80
Granted - 25 January 2012	-	-	7,000,000	$0.1875
Granted - 28 February 2012	-	-	28,000,000	$0.1875
Granted - 16 November 2012	61,728,395	$0.081	-	-
Granted - 16 November 2012	9,645,845	$0.081	-	-
Granted - 2 January 2013	3,084,000	$0.12	-	-
Exercised	-	-	-	-
Forfeited	-	-	(8,080,000)	-
Outstanding at year end	**141,333,240**	**0.27**	**66,875,000**	**$0.48**
Exercisable at year end	**141,333,240**	**-**	**66,875,000**	**-**

There were nil (2012: nil) options exercised during the year.

The Options outstanding at 30 June 2013 had a weighted average exercise price of $0.27 and a weighted average remaining contractual life of 1.82 years. Exercise prices range from $0.081 to $1.60 in respect of options outstanding at 30 June 2013.

The weighted average fair value of the options granted during the 2013 financial year was $0.08 (2012: $0.1875).

This price was calculated using a Black-Scholes option pricing model applying the following inputs:

Grant Date	16 November 2012	16 November 2012	2 January 2013
Number of Options	61,728,395	9,645,845	3,084,000
Weighted average exercise price	$0.0810	$0.0810	$0.1200
Weighted average life of option	2 years	2 years	3 years
Underlying share price	$0.029	$0.0550	$0.047
Expected share price volatility	90%	90%	90%
Risk free interest rate	2.52%	2.52%	2.75%

FINANCIAL REPORT
DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 39 to 83, 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; and

(d) the directors have been given the declarations required by s.295A 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 for the financial year comply with the Accounting Standards; and

(c) the financial statements and notes for the financial year give a true and fair view.

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	Morné Engelbrecht
Chairman	Managing Director and Chief Executive Officer

Brisbane, Queensland
9 September 2013

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 2013, the statement of 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 39 to 84.

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 2013 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. 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 23 to 29 of the directors' report for the year ended 30 June 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Stavrou
Partner
Chartered Accountants
Brisbane, 09 September 2013

TENEMENT SCHEDULE
AS AT 30 JUNE 2013

Tenement Number	Grant date	Expiry Date	Holder	% of interest held	Sub-blocks as at June 2013
EPC 867	18/02/2005	17/02/2015	Carbon Energy (Operations) Pty Ltd	100%	195
EPC 868	18/02/2005	17/02/2015	Carbon Energy (Operations) Pty Ltd	100%	177
EPC 869	14/10/2004	13/10/2014	Carbon Energy (Operations) Pty Ltd	100%	64
EPC 1132	21/07/2007	20/06/2017	Carbon Energy (Operations) Pty Ltd	100%	19
MLa50253	Application	-	Carbon Energy (Operations) Pty Ltd	100%	1342 ha
MDL374*	01/02/2008	31/01/2013	Carbon Energy (Operations) Pty Ltd	100%	2868 ha

*MDL374 renewal was submitted on time and received by the Department and are in the process of reviewing it.
Note that EPC 1109 was relinquised in May 2013.

In accordance with Society of Petroleum Engineers (SPE) guidelines, the gas assets in these properties are:

Area	Category	Gross Gas Volumes (PJ)
Bloodwood Creek MDL 374	1P Reserve (Proven)	11
	2P Reserve (Proven + Probable)	743.9
	3P Reserve (Proven + Probable + Possible)	1,042.8

The gas assets estimates used in this document were compiled by Mr Timothy Hower of MHA Petroleum Consultants, Colorado, USA, a qualified person under ASX Listing Rule 5.11. Timothy Hower is a qualified engineer (BSc Petroleum Engineering, MSc Petroleum Engineering, PE) and Chief Executive Officer for MHA Petroleum Consultants LLC. He has over 30 years of experience which are relevant to the certification of coal and hydrocarbon reserves and resource volumes and meets the professional qualifications of a reserves estimator and reserves auditor as stipulated by the Society of Petroleum Engineers. Mr Hower has consented to the use of the Reserve information contained within this document in the form and context in which it appears.

TENEMENT SCHEDULE
AS AT 30 JUNE 2013

CONVENTIONAL COAL RESOURCES

In accordance with Joint Ore Reserves Committee (JORC) guidelines, the reported Inferred Coal Resources in the Company held tenures are:

Tenure	Formation	Resource (Mt)[2]
EPC867*	Macalister Seam	1448
EPC868	Not assessed due to insufficient data	
EPC869	Macalister Seam	449
EPC1132	Macalister Seam	132
	Total:	**2,029**

*EPC867 excludes resources contained within MDL374
Note: Inferred Resource are conceptual in nature.
Constraints on the Inferred Resources are as follows:

1. Points of observation less than 4km apart and not exceeding 1km past the last data point
2. Minimum seam thickness of 2m (in aggregate of plys)
3. Maximum stone parting thickness of 0.5m
4. Maximum raw ash of 50%
5. Drill holes classed as valid points of observations were defined as holes where;
   a. The entire coal seam was cored or, the drillhole contained slimline geophysics,
   b. Drillhole seam intersection has reasonable stratigraphic correlation

The information in this statement that relates to in situ coal resources potential is based on information compiled 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 Australian Code for Reporting of Coal Resources. 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 report are on a time and materials basis.

Warwick Smyth and GeoConsult Pty Ltd consent 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.

SHAREHOLDER INFORMATION
AS AT 31 AUGUST 2013

The shareholder information set out below was applicable as at 31 August 2013.

(a) Distribution of Share Holdings as at 31 August 2013.

Size of Share Holdings	Number of Shareholders	Shares	% of issued Capital
1 – 1,000	340	171,089	0.02%
1,001 – 5,000	1,111	3,358,229	0.34%
5,001 – 10,000	856	7,008,459	0.72%
10001 – 50,000	1,740	44,565,485	4.57%
50,001 – 100,000	563	43,374,165	4.45%
100,001 and over	893	876,690,876	89.90%
Total Shareholders	**5,503**	**975,168,303**	**100.00%**

(b) Of the above total, 3,380 Ordinary Shareholders hold less than a marketable parcel.

(c) Shareholders in excess of 5% holding

- Pacific Road Group holds 84,029,591 ordinary shares
- Incitec Pivot Limited holds 75,556,040 ordinary shares
- Holder East Capital Ltd holds 50,000,000 ordinary shares

(d) Distribution of Listed Option Holdings as at 31 August 2013 (expiring 31 July 2016)

Size of Option Holdings	Number of Option holders	Options	% of Option holding
1 - 1,000	69	41,747	0.02%
1,001 - 5,000	257	808,479	0.44%
5,001 - 10,000	169	1,326,815	0.73%
10001 – 50,000	427	12,236,398	6.72%
50,001 - 100,000	158	12,292,408	6.75%
100,001 and over	222	155,293,398	85.33%
Total Option holders	**1,302**	**181,999,245**	**100.00%**

(e) Of the above total 1,103 Option holders hold less than a marketable parcel.

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

- Holder East Capital holds 50,000,000 options. HEC agreed that the 50,000,000 listed options (exercisable at $0.06 each and expiring on 31 July 2016) issued to HEC (and any Shares issued on exercise of those options) will be subject to voluntary escrow from the date of issue of the options to the earlier of:
    a. 10 business days after the Company lodges a prospectus with ASIC for the offer of securities in the same class as the listed options; and
    b. 27 November 2013 (being three months after the date of allotment and issue of the listed 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.

SHAREHOLDER INFORMATION
AS AT 31 AUGUST 2013

1. The name of the Company Secretary is Mr Morné Engelbrecht.
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 15, 324 Queen Street, Brisbane Qld 4000, 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. Quotation has also been granted for all the ordinary shares of the Company on the Berlin and Frankfurt Stock Exchange (Third Market).
6. 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 141.333,240 unlisted options on issue are detailed in Note 36.
   - 8.1 Credit Suisse holds options of 61,728,395 representing 44% of the unlisted options on issue.
   - 8.2 Pacific Road Group holds options of 44,645,845 representing 32% of the unlisted options on issue.
   - 8.3 Mr A.M. Dash (former Managing Director resigned on 21 December 2012) holds options of 22 million representing 16% of the unlisted options on issue.

Twenty Largest Shareholders

Shareholders (Fully Paid Ordinary)	Number of Shares	%
Pacific Road	84,029,591	8.62%
Incitec Pivot Limited	75,556,040	7.75%
Holder East Capital Ltd	50,000,000	5.13%
Lujeta Pty Ltd	40,426,874	4.15%
Citicorp Nominees Pty Limited	34,788,328	3.57%
Commonwealth Sci & In Org	28,346,389	2.91%
Mr Ross Francis Stanley	22,875,000	2.35%
Lomacott Pty Ltd	20,000,000	2.05%
Twynam Agricultural Group Pty Ltd	19,594,023	2.01%
JP Morgan Nominees Australia Limited	13,938,228	1.43%
National Nominees Limited	12,213,464	1.25%
Mr Clifford William Mallett + Mrs Wendy Justine Mallett	11,204,975	1.15%
Summa Resource Holdings LLC	9,765,264	1.00%
Bridgelane Capital Pty Ltd	9,500,000	0.97%
Harmanis Holdings Pty Ltd	9,300,000	0.95%
JP Morgan Nominees Australia Limited	8,973,468	0.92%
Computer Visions Pty Ltd	7,950,000	0.82%
Constellation Energy Pty Ltd	7,760,000	0.80%
Invia Custodian Pty Limited	6,850,000	0.70%
Ceramic Oxide Fabricators	6,150,000	0.63%
Top 20 Shareholders	**479,221,644**	**49.14%**
TOTAL ISSUED SHARES as at 31 August 2013	**975,168,303**	**100.00%**

SHAREHOLDER INFORMATION
AS AT 31 AUGUST 2013

Twenty Largest Listed Option Holders (expiring 31 July 2016)

Option holders (Fully Paid Ordinary)	Number of Options	%
Holder East Capital Ltd	50,000,000 (i)	27.47%
Invia Custodian Pty Limited	3,950,000	2.17%
Mr Ross Francis Stanley	3,750,000	2.06%
JP Morgan Nominees Australia Ltd	3,325,994	1.83%
Mr Clifford William Mallett + Mrs Wendy Justine Mallett	3,175,487	1.74%
ETrade Australia Nominees Pty Ltd	2,875,000	1.58%
Computer Visions Pty Ltd	2,650,000	1.46%
Mr Matthew Burford	2,250,000	1.24%
C & I Smith Pty Ltd	2,200,000	1.21%
MAPT Pty Limited	2,000,000	1.10%
Jurrah Investments Pty Ltd	1,950,000	1.07%
JP Morgan Nominees Australia Ltd	1,919,817	1.05%
Mr Nick Dyki + Mrs Lorraine Elenor Dyki	1,729,438	0.95%
Citicorp Nominees Pty Limited	1,714,991	0.94%
Claymore Investments Pty Ltd	1,600,000	0.88%
Mr Graeme Leonard Bartlett + Mrs Elizabeth Sharmain Bartlett	1,500,000	0.82%
Dantell Pty Ltd	1,500,000	0.82%
Jurrah Investments Pty Ltd	1,399,000	0.77%
Zarzal Pty Ltd	1,300,000	0.71%
Mr Ian Stewart Burton	1,250,000	0.69%
Mrs Kristin Eileen Franco	1,250,000	0.69%
M Chung Pty Ltd	1,250,000	0.69%
J P Pty Limited	1,050,000	0.58%
Top 20 Option holders	**95,589,727**	**52.52%**
TOTAL LISTED OPTIONS as at 31 August 2013	**181,999,245**	**100.00%**

(i) HEC agreed that the 50,000,000 listed options (exercisable at $0.06 each and expiring on 31 July 2016) issued to HEC (and any Shares issued on exercise of those options) will be subject to voluntary escrow from the date of issue of the options to the earlier of:

a. 10 business days after the Company lodges a prospectus with ASIC for the offer of securities in the same class as the listed options; and

b. 27 November 2013 (being three months after the date of allotment and issue of the listed options).

CORPORATE INFORMATION

CARBON ENERGY LIMITED ABN 56 057 552 137 AND CONTROLLED ENTITIES
2013 FINANCIAL STATEMENTS

CURRENT DIRECTORS:
Dr Chris Rawlings BSc (Hons), PhD. FAICD, FAusIMM – Chairman (Non-Executive)
Mr Morné Engelbrecht BCom (Hons), CA(SA) – Chief Executive Officer (Appointed 18 June 2013) and Managing Director (Appointed 23 July 2013)
Mr Max Cozijn BCom, CPA, MAICD Director (Non-Executive)
Dr Helen Garnett BSc (Hons), PhD, FTSE, FAICD - Director (Non-Executive)
Mr Peter Hogan BBus, ACA – Director (Non-Executive)
Mr Louis Rozman BEng, MGeos, FAusIMM CP (Man), MAICD - Director (Non-Executive)

COMPANY SECRETARY:
Mr Morné Engelbrecht BCom (Hons), CA(SA)

MANAGEMENT TEAM:
Mr Morné Engelbrecht – Chief Executive Officer (Appointed 18 June 2013), Managing Director (Appointed 23 July 2013) Chief Financial Officer & Company Secretary
Dr Cliff Mallett – Technical Director
Mr Justin Haines – General Manager Technical Services
Mr Terry Moore – General Manager Operations

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 15, 324 Queen Street
Brisbane Qld 4000

ANNUAL GENERAL MEETING
The Annual General Meeting
of Carbon Energy Limited will be held
at Brisbane Convention & Exhibition Centre
Merivale Street
Southbank Qld 4101
at 9:30am on Thursday, 21st November 2013

carbonenergy

www.carbonenergy.com.au