Carbon Polymers Limited
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24 October 2012

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

Dear Stephanie,

RE: RESPONSE TO FINANCIAL CONDITION QUERY

In response to your financial condition query set out in your letter dated 18 October 2012, I advise as follows:

1. The company has taken steps to obtain an unqualified audit report for the current and future financial periods including compliance with listing rule 19.11A, based on the following:

   a) The value of the plant and equipment in the Group's accounts, excluding the equipment acquired from Reclaim Industries Ltd, is at cost less depreciation. The Plant and Equipment held by the company as a result of an acquisition of assets (Reclaim Assets) from Reclaim Industries Ltd has an adopted value of $2.393 million. $81,156.32 of these Reclaim Assets was acquired at cost through auctioneers and was not re-valued. The directly acquired assets of $925,000 were identified from the financial report of Reclaim Industries Ltd for the period ended 30 June 2010. These assets were held on the Reclaim Industries Ltd balance sheet with a closing value of $2,493,062 for Plant & Equipment and $219,494 for vehicles. The total depreciation for both asset groups was $355,499 for the period 30 June 2010 to 30 June 2011 which was 40 days longer than the acquisition date. This would deliver a minimum book value of $2,357,057. This including the $81,156.32 has a total value of $2,438,213.32 which is a higher value than the adopted amount of $2.393 million. The valuations held on Reclaim Industries Ltd balance sheet were in full compliance with Australian accounting standards and ASX listing rules and were accompanied by an audit report in compliance with listing rule 19.11A.

      The company is currently obtaining a valuation on this plant and equipment, acquired from Reclaim Industries, by a licenced valuer in accordance with Australian accounting standards to support the value adopted by the company. The directors are of the belief that the values recorded in the company's accounts are conservative. This valuation will be supplied to the auditors to review and reissue an audit report for the 30 June 2012. The delay in this valuation had occurred due to a misinterpretation on the timing of a valuation by the company.

   b) Procedures previously implemented ensured that we performed a formal stocktake for the end of the financial year. We have since prepared detailed pricing information to be provided to the auditors on the carrying value of our stock to be reconciled with the stock levels formally recorded and reported in the stocktake. This will give sufficient evidence of the carrying values of the inventories and remove any uncertainty.

c) The intangible assets represent Goodwill on Consolidation, arising from the difference between the value paid for the remaining interest in the acquisition of Oakturn and the fair value of the assets (and liabilities) acquired in October 2010. This acquisition was approved by shareholders in October 2010. The company has provided the Auditors with a cashflow forecast for the next 12 months. The company has also provided the auditor with an Independent experts report on the value of these intangible assets dated September 2010. The company has completed an impairment analysis of the intangible assets and that analysis revealed that the assets were fairly valued and that the company does not see a need to revalue those assets based on that analysis

   These measures demonstrate that the value of the intangible assets currently held by the company is fair and reasonable and that value is not impaired. As the forward looking cashflows support the value held for the intangible assets, the company believes that these assets have retained their current value and the company does not see a need to revalue those assets.

d) The investment amount recorded in subsidiaries reflects the acquisition cost of Oakturn Pty Ltd as detailed in point c) above. This investment amount was valued in the Independent experts report and supported by the reasons given above.

e) The trade and other payables comprise three main components being statutory, trade creditors and related party loans. The company has a sufficient level of cover of current assets over current liabilities to facilitate payment of trade creditors. The growth of the company's operations has seen the trade and other payables increase from previous levels with a higher corresponding growth in receivables delivering a surplus of current assets over current liabilities.

f) The borrowings of the company have comprised convertible notes, related party loans and finance arrangements. The company has provided the auditors with documentation in its possession in respect of the documented loans. Some of the related party loans were undocumented, but were noted in minutes. The level of borrowings for the company is conservative and as the company's debt ratio and debt to capital ratio are both under 25%, this implies that most of the company's assets are financed through equity and the company is not highly geared compared to its peers. The average term to maturity of the company's non-current borrowings is over 2 years and the company has a significant ability to utilise its balance sheet position to fund future growth.

2. The company does not believe that there is significant uncertainty regarding continuation as a going concern. The company has provided the auditors with additional information, post 30 June 2012. The market will be informed of the additional information when the transactions are completed. This information should remove any uncertainty the auditors hold in respect

of the company's financial position and bring the auditors view in line with the view held by the board of the company.

a) The company has a surplus of current assets over current liabilities. This combined with the increase in sales can adequately meet the financial commitments of the company and will relieve the auditor of any uncertainty they may have and remove the need for an adverse audit report.

b) The company's ability to remain as a going concern has been addressed from the response to the ASX in March 2012 through a rights issue raising $2.9 million. The current position of the company with the growth in sales and level of receivables makes the directors believe that this will remove any inherent uncertainty regarding the company's ability to continue as a going concern, thus meeting the requirements of Listing Rules 12.1, 12.2 and 12.5.

3. To fund working capital and capital expenditure for plant and equipment, the company recently completed a rights issue. The rights issue originally sought to raise $2 million, however through an increase in the level of the rights issue and over participation of directors the company raised $2.9 million. This capital raising has delivered a surplus of current assets over current liabilities and provided the company with the requisite working capital requirement.

   To utilise the company's asset base more efficiently the company is negotiating a debt facility for future expansion and will report to shareholders once these negotiations have been concluded consistent with listing rule 3.1 and the exemptions contained in 3.1A.

4. Both Contracts for the Sale of Land at Smithfield and Fairfield have been rescinded. The owner of the Smithfield property is a company held by three major shareholders of Carbon Polymers. A subsidiary of the company is a tenant of the Smithfield property and continues to occupy the Smithfield premises as a tenant. The company has relocated the plant and equipment located at the Fairfield property to Smithfield. This relocation has not resulted in materially altering the production of the company.

5. The company is of the view that its financial condition is sufficient to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2.

6. The company has formed the conclusion on its financial position based on its current capital raising and the increase in sales and production for the current financial period compared to the previous reported period. The company will raise additional capital, if required, to fund the company's operations. The company's directors and major shareholders have also offered further funding to the company, if required.

7. Not applicable.

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

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

Yours faithfully,

Andrew Howard
Managing Director

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18 October 2012

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

By email

Dear Andrew

Carbon Polymers Limited (the "Company") – Financial Condition Query

We refer to the following;

1. The Company's letter dated 15 March 2012, in response to ASX's letter dated 12 March 2012, regarding the financial condition of the Company for the half year ended 31 December 2011 (the "Company's Response").

2. The Company's announcement titled 'Shareholders Update', released to ASX on 1 October 2012 (the "Shareholders Update").

3. The Company's financial report for the year ended 30 June 2012, released to ASX on 1 October 2012 (the "Financial Report") which contained an Adverse Opinion in the Auditor's Report and the following information:

   - Evidence, as at 30 June 2012, of the Company's failure to pay debts as and when they fall due. The trade and other payables included $546,996 unpaid for more than 90 days.

   - Negative cash flows generated from operating activities for the year of $1,612,357.

   - The auditors were unable to obtain sufficient appropriate evidence about the carrying amount of the assets as at 30 June 2012 due to:
     - The absence of stock reconciliation including stock valuation information being provided and the absence of a costing system.
     - The valuation of the plant and equipment could not be relied upon as it lacked detail and did not appear to have been prepared by a licensed valuer.

   - The following information remained outstanding as at the date of the Auditor's Report:
     - Impairment analysis of intangible assets for the consolidated entity and carrying value of investment in subsidiaries.
     - Signed agreements and confirmation for all Borrowings.
     - Integrated client account statements reconciliation to trade and other payables.

   - Accordingly, the auditors express no opinion on the carrying values of the following assets, or the completeness and classification of the following liabilities:

Property Plant and Equipment	$5,945,913

Inventories	$629,715
Intangible assets	$11,610,000
Investment in subsidiaries (parent only)	$11,555,616
Trade and other payables	$1,343,327
Borrowings	$3,466,858

- The auditors express no opinion on the value of loss for the period of $6,840,716.

- The Directors' Report states the following:
  - The Company's resources are now focused on the Company's production and achieving planned targeted output.
  - The Company is currently working on a debt facility for $2,000,000 which will be used for further plant expansion.

- Note 1(a) indicates that the Company's existing projections show that further funds will be required to be generated, either by capital raisings, trading or other initiatives, to enable the Company to fund its currently planned activities for at least the next 12 months from the date of the Audit Report.

- The auditor notes that the Company's ability to continue as a going concern is dependent on a material improvement in the Company's operating results as well as the Company's ability to raise additional equity or alternative funding.

Relevant listing rules and guidance

We also refer to the following:

- Listing rule 3.1, which requires an entity, once it becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, to immediately tell ASX that information.

- Listing rule 12.2, which states that an entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.

- Listing rule 19.11A, which requires accounts given to ASX under the requirements of the listing rules, to be prepared to Australian accounting standards and if the entity is a foreign entity, the accounts may be prepared to other standards agreed by ASX.

- Listing rule 3.1A sets out an exception from the requirement to make immediate disclosure, provided that each of the following are satisfied.

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

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

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

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

- *The information is a trade secret.”*

Questions for response

In light of the information contained in the Company’s Response, the Shareholders Update and the Financial Report, and having regard to the listing rules referred to above, please respond to the following questions.

1. Given the Adverse Opinion relates to the Auditor’s inability to obtain sufficient and appropriate audit evidence about the carrying values of each of the assets and the completeness and classification of the liabilities listed on page 2 of the Auditor’s Report, what steps does the Company intend to take to comply with listing rule 19.11A and to obtain an unqualified audit report for future financial periods? In your response, please respond specifically in relation to each of the following:

   a. Property plant and equipment
      (In your response, please also explain why a valuation was not performed by a licensed valuer as intended and previously indicated to ASX in the Company’s Response);
   b. Inventories;
   c. Intangibles assets;
      (In your response, please also explain why the fair value of intangible assets was not tested for impairment in accordance with the Australian accounting standards, in particular paragraph 10(a) of *AASB 136: Impairment of Assets* and the Company’s previous intention indicated to ASX in the Company’s Response.)
   d. Investment in subsidiaries (parent only);
   e. Trade and other payables; and
   f. Borrowings.

2. Given the significant uncertainty regarding continuation as a going concern, what steps does the Company intend to take to

   (a) Avoid the significant uncertainty leading to an adverse or otherwise qualified audit opinion in future periods; and

   (b) Remain a going concern for the next financial period, meeting the requirements of listing rules 12.1, 12.2 and 12.5?

3. Please provide an update on the Company’s attempts to raise funds for working capital purposes.

4. Please provide a detailed update on the acquisition of the Fairfield and Smithfield properties, which were both expected to have a completion date of June 2012 as noted in the Company’s Response.

5. Is the Company of the view that the financial condition of the Company would be sufficient to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2?

6. If the answer to question 6 is “Yes”, please explain the basis on which the Company has formed the conclusion that the financial condition of the Company is sufficient to warrant continued listing on ASX in accordance with the requirements of listing rules 12.2. Specifically, the Company should submit the reasons (including any previous disclosures made to the market) it considers relevant given the matters outlined in the Auditor’s Report resulting in the adverse opinion.

7. If the answer to question 6 is “No”, please explain what steps the Company has taken, or proposes to take, to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2.

8. Please confirm that the Company is in compliance with the listing rules and, in particular, listing rules 3.1 and 12.2.

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

This letter deals with important matters and you may wish to consult your advisers. If you wish to provide submissions, unless the information is required to be released to the market immediately under listing rule 3.1, a response is requested as soon as possible and, in any event by **no later than 9.30 am AEDT on Wednesday, 24 October 2012**.

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

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

Yours sincerely

[Sent electronically without signature]

Stephanie So
Senior Adviser, Listings (Sydney