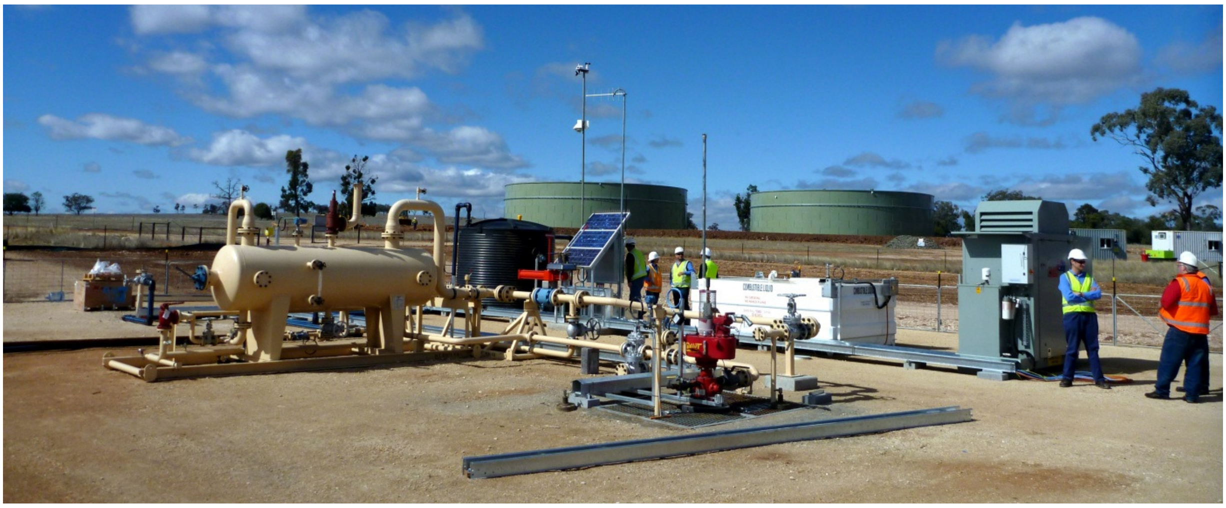
Carbon Minerals Limited

ABN 29 001 836 586

Coal Seam Gas Pioneers of the Gunnedah Basin

www.carbonminerals.com.au

Annual Financial Report for the Year ended 31 December 2012



Santos/ACM Kahlua seam gas pilot – PEL 1 Gunnedah Basin

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A.B.N. 29 001 836 586
Annual financial report for the year ended 31 December 2012

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Directors
Marcus Paul Lincoln Smith B.A., BSc. (Hons.), MSc., PhD. (University of Sydney) Chairman
Wayne Vincent Annis-Brown LL.B., LL.M. (University of Sydney)
Steven John Danielson F.C.A., B.B.S.
Bun Kiem Lee F.C.A., B.Com. (Alternate for S.J. Danielson)

Secretaries
Steven John Danielson F.C.A., B.B.S.
Rachel Lee Thorn

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Technical Advisors
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CHATSWOOD NSW 2067 AUSTRALIA
Website: www.earthres.com.au

Solicitors
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Auditor
PricewaterhouseCoopers
Darling Park Tower 2
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SYDNEY NSW 1171 AUSTRALIA

Bankers
Australia and New Zealand Banking Group Limited
Lower Ground, 450 George Street
SYDNEY NSW 2000 AUSTRALIA

Securities Exchange listing
Carbon Minerals Limited shares are listed on the Australian Securities Exchange under the code CRM.

The Company is limited by shares, incorporated and domiciled in Australia.

Directors' report

Your directors present their report on the consolidated entity consisting of Carbon Minerals Limited and the entities it controlled at the end of, or during, the year ended 31 December 2012.

The following persons were directors of Carbon Minerals Limited during the whole of the year, and up to the date of this report:

M.P. Lincoln Smith
W.V. Annis-Brown
S.J. Danielson
B.K. Lee (alternate director for S.J. Danielson)

P.A. Lincoln Smith was a director from the beginning of the financial year until he passed away on 3 March 2013.

Principal Activities
The principal continuing activities of the Group in the course of the year were the exploration for natural resources in the Commonwealth of Australia.

Operating Results
The consolidated loss of the consolidated entity after providing for income tax amounted to $1,367,248 (2011: profit $10,404,502).

Dividends
The directors report that during the year ended 31 December 2012 no dividends were declared or paid (2011: nil).

Review of Operations

GUNNEDAH BASIN COALBED METHANE PROJECT

PETROLEUM EXPLORATION LICENCES 1 and 12, GUNNEDAH BASIN, NSW

(*These tenements are held by wholly owned subsidiary, Australian Coalbed Methane Pty Ltd (ACM) and are subject to a Joint Venture (JV) with Santos QNT Pty Ltd (Santos), as previously advised. Santos holds a 65% interest in the tenements and is the project Operator. As such Santos is responsible for all exploration and tenement maintenance matters.)*

During 2012 seam gas exploration and development activities by all petroleum tenure holders within NSW were constrained by both social opposition and evolving changes in the administrative regime. As a consequence, field activities across PELs 1 and 12 were halted throughout the year. Much work, however, has been undertaken by the Joint Venture partners in liaising with government, in community consultation and education and in forward planning and furthering geological understanding of the region.

Local production of gas will become increasingly important over the next few years as long-term contracts for supply of pipeline gas to NSW expire. On this basis the state government, in its submission to the federal government's draft white paper on energy (April 2012), warned that gas supplies could begin to run short in NSW as early as 2014. Consequently the Company adheres to its view that, despite the current delays, social opposition and the additional costs of new administrative requirements, development of a significant seam gas industry within NSW must proceed for the good of the State as a whole.

Over the past 12 months there has been considerable conjecture in the media as to the greenhouse gas emissions from gas production including some alarmist claims. A large quantity of evidence, often conflicting, was presented to the NSW Government's Coal Seam Gas Inquiry. The Inquiry concluded that *at worst* the greenhouse gas emissions of energy produced from coal seam gas will be no more than from coal. Until fully renewable power generation is able to supply electricity on demand, economically and whenever needed, gas fired power generation will remain the preferred method for handling of peak power loads. Avoidance of the need for building new coal fired power stations will result in both substantial economic and environmental benefits.

Directors' report (continued)

Review of Operations (continued)

Administrative Changes

Changes in the NSW administrative regime relating to seam gas exploration and development were foreshadowed by the incoming State Government in 2011. Commencing shortly after the election and continuing through the first three quarters of 2012, the Government worked towards formulating new controls on the industry and a number of new requirements are now in force. During this period the Government put a stay on granting and renewing petroleum exploration licences and this included PEL12 held by ACM and Santos.

Many of the new administrative requirements impose greater burdens on the seam gas industry in both regulatory and financial obligations. It is encouraging though that the government has acknowledged the importance to NSW of developing the coal seam gas industry. In announcing new financial levies on Petroleum Exploration Licences (NSW Government media release dated June 12, 2012[1]), Resources Minister Chris Harcher stated that "The NSW Government's commitment to the mining industry recognises the key role mineral and gas exploration will play in rebuilding the NSW economy".

Joint Venture Operator Santos undertook significant consultation with relevant government departments involved with the formulation of the new statutory requirements. Particular emphasis was in working to provide technical input into the formulation of practical and workable outcomes that will enable the industry to develop into the future.

Coal Seam Gas Inquiry

The NSW Legislative Council Inquiry into Coal Seam Gas[2] was established (August 2011) to inquire into and report on the environmental, economic and social impacts of coal seam gas activities within NSW. The Final Report of the Inquiry was released in May 2012. Findings are somewhat inconclusive and recommendations generally relate to more comprehensive regulation of the industry. The media release accompanying the Final Report included the following statement by the Committee Chair, the Hon. Robert Brown MLC:

"A key theme throughout the report is the level of uncertainty surrounding the potential impacts of the coal seam gas industry. More data needs to be gathered to assess potential impacts, and in order to do this, we need to allow the exploration phase to proceed. While exploration and drilling are of great concern to many community members, they are unavoidable if we are to assess whether it is safe for the industry to proceed to production."

The Government Response to the Inquiry was released in November and indicated that many of the recommendations are addressed by the Strategic Regional Land Use Policy, which was released on 11 September 2012.

Strategic Regional Land Use Policy

Release of the **Strategic Regional Land Use Policy** followed a period of public comment on Draft Strategic Land Use Plans released in March 2012. Formal submissions of comment were made by both JV Operator Santos and the Company's technical advisors, Earth Resources Australia Pty Limited. The **Strategic Regional Land Use Policy** is designed to provide a more structured process for responsible development of CSG and other resources within NSW whilst protecting agricultural land, water and the environment. Whilst this will increase the regulatory burden and costs for exploration and development of gas resources in NSW, it will provide greater certainty for the development process.

[1] http://www.resources.nsw.gov.au/__data/assets/pdf_file/0018/434340/120612_budget.pdf

[2] Coal Seam Gas Inquiry website; media release, reports and Government response available for download http://www.parliament.nsw.gov.au/Prod/parlment/committee.nsf/0/318A94F2301A0B2FCA2579F1001419E5

Directors' report (continued)

Review of Operations (continued)

Components of the Policy include:

- A **Gateway Process** for developments affecting **Strategic Agricultural Land**;
- The requirement for an **Agricultural Impact Statement** for exploration proposals;
- An **Aquifer Interference Policy**;
- Appointment of a new **Land and Water Commissioner;**
- New **Codes of Practice** for the CSG industry relating to drilling and hydraulic fracturing ("fraccing" or "fracking"). This replaces the previous moratorium on hydraulic fracturing in NSW;
- Standardised access agreements;
- The requirement for CSG producers to set up **Regional Community Funds** to invest in local communities.

Further details are available from the NSW Department of Planning website http://www.planning.nsw.gov.au/srlup.

Renewal of NSW Petroleum Exploration Licences
Following the release of the Strategic Regional Land Use Policy the government has recommenced the granting and renewal process for petroleum exploration licences and an offer of renewal was received for PEL12 in October 2012. Renewal is for the entire area but includes a number of new conditions for which the Joint Venture partners requested clarification. A revised offer of renewal was received in early December 2012, which was accepted by both ACM and Santos and was formally granted by the Government on 15 February 2013.

New Fees on the Mining and Petroleum Industries
Commencing 1 July 2012 two new fees are being levied by the NSW Government on the mining and petroleum industries. These are an **Administration Levy** and an **Annual Rental Fee** based on the size of each tenement. The charges were introduced as part of the ***State Revenue and Other Legislation Amendment (Budget Measures) Act 2012*** passed by Parliament on 19 June 2012. These fees have been estimated by the Government to raise more than $19.5 million per year to fund government administration and enforcement of the industry and provide for ongoing work in acquisition and provision of geological and geophysical data. Full details are available on the Resources and Energy website at http://www.resources.nsw.gov.au/info/fees.

Petroleum Royalties
One of the recommendations of the Coal Seam Gas Inquiry was the abolition of the "royalty holiday" on petroleum production in NSW. In October this recommendation was realised by the ***Petroleum (Onshore) Amendment (Royalties and Penalties) Act 2012***. The five year royalty holiday was designed to foster petroleum exploration and production within NSW. From 1 January 2013 a 10% royalty now applies to the well-head value of all petroleum, including seam gas, produced within NSW.

Namoi Catchment Water Study
Commencing in 2010, this study of the potential risks to the Namoi catchment's water resources from existing and proposed coal mining and gas developments culminated in release of the independent expert's Final Study Report in July 2012. The study was undertaken on a regional scale and on the basis of combined coal mining (both underground and open cut) and seam gas production. The report acknowledges the lack of reliable data particularly as regards "hard rock" scenarios relevant to seam gas production and that local scale effects cannot be predicted. Each proposed development will therefore require assessment of likely local impacts. To this end JV Operator Santos has undertaken work during 2012 relating to water management strategies and development of groundwater modelling that will be applicable to individual site proposals.

Directors' report (continued)

Review of Operations (continued)

The entire independent expert's report can be downloaded at http://www.namoicatchmentwaterstudy.com.au/site/index.cfm?display=317529.
Comments by Joint Venture partner Santos can be found at http://www.santos.com/exploration-acreage/nsw-csg/ncws.aspx .

Community Engagement and Education
Social opposition to seam gas activity has continued throughout NSW, particularly in areas where exploration is proposed. There is significant confusion within the public community in regard to both the mechanics of seam gas exploration and development and the possible effects from such activity. In order to address this confusion it is vital that an education program founded on clear, fact-based reasoning be implemented in order to demonstrate the industries case that seam gas exploration and development can proceed with little if any impact on other land uses or the environment in general and with significant economic value to the wider community.

During 2012 Joint Venture Operator Santos continued its extensive campaign of public education and engagement with local communities, farmers, special interest groups, the government and media. Activities ranged from media site visits and advertising, holding "Farmers Forums", public meetings and open days at local venues including site tours and representation at community events, publication of Fact Sheets and the Gunnedah Basin Newsletter. Meetings were also held with individual landholders and landholder groups to address specific concerns. A new land access and compensation scheme was formulated to promote coexistence with landowners.
More detailed information can be accessed through the Santos NSW CSG website (http://www.santos.com/exploration-acreage/nsw-csg.aspx).

Technical Work and Forward Planning
Despite a lack of on-the-ground activity during 2012, the Operator has continued with geological studies and planning of exploration well sites and pilot operations including modelling of water production and plans for water management.

Kahlua Pilot – Pumping at the Kahlua Pilot remained suspended throughout 2012. Technical analysis of data indicates that the water and gas production rates achieved during 2011 were substantially lower than expected from drilling data. It is concluded that well-bore damage caused during cementing of the casing has reduced seam permeability. Remediation works involving small diameter horizontal radial drilling through the cement-affected zone is proposed for early 2013 prior to a resumption of testing.

Proposed activity during 2013 – A resumption of field activity is proposed with a program of cored exploration wells, a second pilot and acquisition of additional seismic data.

Geological studies – Drilling and seismic acquisition over the past several years has provided much new data for the PEL 1 and 12 project area. Work is ongoing in integration of all geological data to provide a better understanding of the basic geological controls on sediment deposition, coal development, hydrodynamics and structural interactions. A better understanding of these features should allow more accurate targeting of areas of better coal development and gas potential.

Environmental matters – Investigations of a range of largely groundwater-related aspects are continuing. These include development of groundwater modelling techniques tailored to the Gunnedah area, testing of landholder water bores and development of techniques for management of produced water. Obtaining baseline levels of methane-in-air over parts of the Gunnedah Basin has also recently commenced.

Other Activities
The Group continues to monitor exploration opportunities both in areas of current Group activity and other regions throughout Australia.

Directors' report (continued)

Review of Operations (continued)

Significant Changes in the state of affairs
In the opinion of the directors there were no significant changes in the state of affairs of the Group that occurred during the year under review, not otherwise disclosed in this report or the Group financial statements.

Likely Developments and expected results of operations
The Group proposes to continue its natural resources exploration programmes.

Additional comments on expected results of certain operations of the Group are included in this report under the Review of Operations.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Matters Subsequent to the End of the Financial Year
Since 31 December 2012 the Premier of NSW announced new measures in relation to the regulation of the Coal Seam Gas ("CSG") industry in NSW. The new measures were announced on 19 February 2013 and are briefly summarised below:-

- The independent Environment Protection Authority (EPA) will be the lead regulator of environmental and health impacts of CSG activities in NSW with responsibility for compliance and enforcement;
- All exploration, assessment and production titles and activities will be required to hold an Environment Protection Licence;
- The Chief Scientist and Engineer will conduct an independent review of all CSG activities in NSW, including the potential impact on water catchments;
- A two kilometre exclusion zone will be imposed around residential zones to prevent new CSG exploration, assessment and production activities (both surface and underground);
- Exclusion zones will apply to identified Critical Industry Clusters - viticulture and the equine industry; and
- An Office of CSG Regulation will be established within the Department of Trade and Investment to enforce other regulations

The Board has conducted a preliminary assessment of the consequences of the new measures on the group's operations. However, as there is currently some uncertainty regarding how residential zones are to be defined under the new measures, the Board will continue its assessment of the impact the new measures have on the group's operations and the carrying value of the exploration and evaluation assets of $4.7M, as and when clarification of how residential zones will be defined are released by the NSW Government.

In the opinion of the directors, except for the above, there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature which, in the opinion of the directors, is likely to affect substantially the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years, apart from those events mentioned in the review of operations.

Directors' report (continued)

Environmental regulation
The Group's operations are subject to significant environmental and other regulations. The group has a policy of engaging only suitably experienced contractors and consultants to ensure compliance with environmental regulations in respect of its mineral exploration and primary production activities.

There have been no material breaches of environmental regulations during the financial year and up to the date of this report.

Information on Directors
Paul Aurius Lincoln Smith LL.B. (University of Sydney). (Deceased) *Executive Chairman until 3 March 2013.*
Experience and expertise
Executive Chairman of the Board since 25 January 1980 until he passed away at age 85 on 3 March 2013. Mr. P.A. Lincoln Smith was a successful and respected business man. His fellow directors wish to express their sorrow at his passing and acknowledge his contribution to the development of the group during his term of office.

Other current directorships
None.

Former directorships in last 3 years
None.

Special responsibilities
Chairman of the Board, Chief Executive Officer and Chief Financial Officer until 3 March 2013.

Interests in shares
15,193,372 ordinary shares in Carbon Minerals Limited.

Marcus Paul Lincoln Smith B.A., BSc. (Hons.), MSc., PhD. (University of Sydney). *Executive Chairman from 13 March 2013.* Age 58.
Experience and expertise
Non-executive director from his appointment on 6 December 1996 and then executive director from 1 January 2010. On 13 March 2013 Mr. M.P. Lincoln Smith was elected as Chairman of the Board and appointed as Chief Executive Officer. Environmental scientist for 31 years and has considerable experience in the field of environmental consulting.

Other current directorships
None.

Former directorships in last 3 years
None.

Special responsibilities
Chairman of the Board and Chief Executive Officer from 13 March 2013.

Interests in shares
15,193,372 ordinary shares in Carbon Minerals Limited.

Directors' report (continued)

Information on Directors (continued)

Wayne Vincent Annis-Brown LL.B., LL.M. (University of Sydney). *Non-Executive Director.* Age 62.

Experience and expertise

Executive director from his appointment on 4 August 1988 and then non-executive director from 1 January 2010. Practising solicitor of the Supreme Court of New South Wales for 39 years and has considerable experience in commercial and business law.

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

None.

Interests in shares

41,000 ordinary shares in Carbon Minerals Limited.

Steven John Danielson F.C.A., B.B.S. *Non-Executive Director.* Age 59.

Experience and expertise

Non-executive director since 23 June 1993. Appointed as Chief Financial Officer on 13 March 2013. Chartered Accountant practising for 41 years and has considerable experience in accounting, taxation law and management practices. Mr. Danielson is also a company secretary.

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

Chief Financial Officer from 13 March 2013.

Interests in shares

100 ordinary shares in Carbon Minerals Limited.

Bun Kiem Lee F.C.A., B.Com. (Alternate for S.J. Danielson). *Non-Executive Director.* Age 59.

Experience and expertise

Non-executive director since 5 April 2006. Chartered Accountant practising for 38 years and has considerable experience in accounting, taxation law and management practices.

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

None.

Interests in shares

10,000 ordinary shares in Carbon Minerals Limited.

Directors' report (continued)

Company Secretaries
Steven John Danielson F.C.A., B.B.S.
Mr. Danielson was appointed to the position of company secretary on 20 September 1988. Mr. Danielson is also a non-executive director and Chief Financial Officer of the Company. Details of his qualifications and experience are shown above.

Rachel Lee Thorn
Ms. Thorn was appointed to the position of company secretary on 26 September 1994. Ms. Thorn is experienced in office management and has extensive secretarial skills.

Meeting of Directors
The following table sets out the number of meetings of the Company's directors held during the year ended 31 December 2012, and the number of meetings attended by each director:

	Full meetings of directors		Meetings of non-executive directors	
Director	**A**	**B**	**A**	**B**
P.A. Lincoln Smith	3	3	*	*
M.P. Lincoln Smith	3	3	*	*
W.V. Annis-Brown	0	3	0	0
S.J. Danielson	0	3	0	0
B.K. Lee (Alternate for S.J. Danielson)	0	3	0	0

A = Number of meetings attended
B = Number of meetings held during the time the director held office
* = Not a non-executive director

Remuneration Report
This report details the policy and principles that govern the remuneration of directors and executives of the Company and Group; the link between remuneration policy and principles and the Company's and Group's performance for the year and the remuneration arrangements of directors and executives.

The directors and executives who are responsible for the overall planning, directing and controlling of the activities of the Company and Group during the year are as follows:

Executive Chairman, Chief Executive Officer and Chief Financial Officer
P.A. Lincoln Smith

Executive Director
M.P. Lincoln Smith

Non-Executive Directors
W.V. Annis-Brown
S.J. Danielson
B.K. Lee

Remuneration policy
Objectives and principles of remuneration policy
The objective of the Company's and Group's remuneration policy and its principles is to ensure that reward is competitive and appropriate.

Directors' report (continued)

Remuneration policy (continued)
No element of remuneration is determined in relation to the financial performance of the Company or Group. As there is no link to financial performance there is no further discussion of the matters required by section 300A of the *Corporations Act 2001* and Part 2M of the Regulations. These sections require discussion over the current year and the previous 4 years of the link between reward and:

- earnings
- dividends
- share price movements

During the year ended 31 December 2012, the Company did not have a separate remuneration committee. Instead, the duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the entire Board.

The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- transparency
- capital management.

Remuneration and other terms of employment for directors are formalised within the Constitution / Articles of Association of the Company and Group entities. This outlines that remuneration to directors be limited to $20,000 per annum with alterations to be determined only through notice at a general meeting.

Details of remuneration (audited)
Executive directors' and non-executive directors' remuneration and other terms of employment are reviewed annually by the Board. The current base remuneration was last reviewed with effect from 1 January 2012. The remuneration details of executive and non-executive directors of the Company and Group are set out in the table below:

Name	Year	Cash fee $
Executive directors		
P.A. Lincoln Smith	**2012**	**8,000**
	2011	8,000
M.P. Lincoln Smith	**2012**	**4,000**
	2011	4,000
Non-executive directors		
W.V. Annis-Brown	**2012**	**4,000**
	2011	4,000
S.J. Danielson	**2012**	**-**
	2011	-
B.K. Lee (alternate for S.J. Danielson)	**2012**	**-**
	2011	-
Total	**2012**	**16,000**
	2011	16,000

No bonuses or share options have been paid or issued to directors during the year (2011: nil).

Information on directors' shareholdings is set out in note 18 to the financial statements.

Directors' report (continued)

Auditors
PricewaterhouseCoopers continue in office in accordance with Section 327 of the *Corporations Act 2001*.

Auditors' independence declaration
A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 12.

This report is made in accordance with a resolution of the directors.

M.P. Lincoln Smith
Director

Sydney
25 March 2013

Auditor's Independence Declaration

As lead auditor for the audit of Carbon Minerals Limited for the year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Carbon Minerals Limited and the entities it controlled during the period.

Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
25 March 2013

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Corporate governance statement

The board of directors are responsible to the shareholders for the performance of the Company and the implementation of corporate governance policies. The board has reviewed the Company's corporate governance practices in relation to the recommendations released by the ASX Corporate Governance Council. The board supports the intent of the recommendations and recognises that given the current size and scope of the Company it is not practical to institute all of the recommendations at present.

A description of the Company's main corporate governance practices is set out hereunder. Unless stated otherwise, all of the following practices were in place for the entire year.

	PRINCIPLES AND RECOMMENDATIONS	**COMPLIANCE**	**COMMENT**
1.	**Lay solid foundations for management and oversight**		
1.1	Companies should formalise and disclose the functions reserved to the board and those delegated to management.	Does not comply	This recommendation has not been adopted due to the size of the Company's operations, the number of directors constituting the Board and the fact that the Company has no employees. The Board is responsible for all functions typically delegated to management in addition to its usual board functions. The Board has delegated responsibility for the day to day operations and administration of the Group to the Chairman.
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Complies	The Board undertakes annual assessment of the performance of the Chairman, who also fulfils the role of CEO. The Chairman undertakes an annual assessment of the performance of executive directors as measured against criterion determined by the Chairman. Any deficiency(ies) identified in a director's performance are addressed directly with the relevant director(s).
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Complies	Departures from the Recommendation 1.1 are stated above.
2.	**Structure the Board to add value**		
2.1	A majority of the board should be independent directors.	Does not comply	The Board consists of two executive directors (P.A. Lincoln Smith, until his passing on 3 March 2013 and M.P. Lincoln Smith) and two non-executive directors (S.J. Danielson and W.V. Annis-Brown). B.K.Lee is an alternate director for S.J.Danielson. The company has no independent directors. The Board is of the opinion that the Company is best served by its current board composition of executive and non-executive directors. The existing directors are conversant with the Company's position and objectives, and the Board does not consider that the current stage of establishment of the Group justifies the cost of increasing the number of directors.

	PRINCIPLES AND RECOMMENDATIONS	COMPLIANCE	COMMENT
2.2	The chairperson should be an independent director.	Does not comply	The Chairman is an executive director elected by the full Board. The Chairman is not an independent director because he has a substantial shareholding interest in the Company.
2.3	The roles of chairperson and chief executive officer (CEO) should not be exercised by the same individual.	Does not comply	The Chairman is an executive director and also fulfils the role of CEO. The Board is of the opinion that the Company is best served by the same person performing the role of Chairman and CEO due to the current size, complexity and stage of development of the Group.
2.4	The board should establish a nomination committee.	Does not comply	Given the present size of the Group, the existing Board structure is able to meet the needs of the Group in the examination of selection and appointment practices without the establishment of a nomination committee of the Board. Any board member may make recommendations on board composition and appointments; however appointments are subject to the final approval of the full Board. The Board should comprise a balance of executive and non-executive directors with a range of skills and experience that are appropriate and assist the directors in performing their duties within the scope of the Company's operations. The board should comprise at least three directors, increasing where additional expertise is considered necessary in certain areas to a maximum of nine directors.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Complies	The Board undertakes annual self assessment of its collective performance and the performance of the Chairman. The Chairman undertakes an annual assessment of the performance of individual directors as measured against criterion determined by the Chairman. Any deficiency identified in a director's performance is addressed directly with the relevant director.

	PRINCIPLES AND RECOMMENDATIONS	COMPLIANCE	COMMENT
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Complies	Directors' skills, experience and expertise; and period of office held by each director in office are set out in the Information on Directors section of the Directors' report. Directors have the right, in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, which will not be unreasonably withheld. Explanation of departures from the Recommendations 2.1, 2.2, 2.3 and 2.4 are set out in this section.
3.	**Promote ethical and responsible decision making**		
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Does not comply	The board expects all directors to perform their duties in a manner which is ethical, honest and objective and at all times endeavour to maintain and improve the performance and reputation of the Company. A code of conduct has not been formally established due to the small number of directors constituting the Board and the fact that Board changes are infrequent. The Chairman consistently and continuously ensures that all members of the Board have a clear understanding of their duties, responsibilities and their accountability to the Company and its shareholders for their conduct.
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	Does not comply	The Board considers that it is unnecessary to establish a policy concerning diversity given the current size of operations and stage of development of the Group.
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	Does not comply	See comment on Recommendation 3.2 above.

	PRINCIPLES AND RECOMMENDATIONS	COMPLIANCE	COMMENT
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Does not comply	See comment on Recommendation 3.2 above.
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Does not comply	Explanation of departures from the Recommendations 3.1, 3.2, 3.3 and 3.4 are set out in this section.
4.	**Safeguard integrity in financial reporting**		
4.1	The board should establish an audit committee.	Does not comply	This recommendation has not been adopted. Due to the small number of directors constituting the Board and the fact that the Board bears the ultimate responsibility for the integrity of the Group's financial reporting and the independence of the external auditor, the Board has deemed that the establishment of a separate audit committee is unnecessary. Accordingly, the Board is responsible for all functions typically delegated to an audit committee. Assessment procedures undertaken by the Board include: • Assessment of external reporting to ensure consistency with Board members information and knowledge • Assessment of the management processes supporting external reporting • Assessment of the performance and independence of the external auditors.
4.2	The Audit Committee should be structured so that it: • consists of only non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chairperson of the board • has at least three members.	Does not comply	The Company has only four directors (two non-executive directors and two executive directors). No Company directors are considered independent. Presently the cost of a larger Board size is not justifiable. Also see comment on Recommendation 4.1 above.
4.3	The audit committee should have a formal charter.	Does not comply	The Board considers that it is unnecessary to establish a formal charter for the same reasons as set out above.
4.4	Companies should provide the information indicated in Guide to reporting on Principle 4.	Does not comply	Explanation of departures from Recommendations 4.1, 4.2 and 4.3 are set out in this section.

	PRINCIPLES AND RECOMMENDATIONS	COMPLIANCE	COMMENT
5.	**Make timely and balanced disclosure**		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Does not comply	The Company aims to provide relevant and timely information to its shareholders and the broader investment community in accordance with its continuous disclosure obligations under the Australian Securities Exchange (ASX) Listing Rules. The Board considers that it is unnecessary to establish written policies designed to ensure compliance as it has delegated the function of continuous disclosure as required under the ASX Listing Rule to the Chairman and the Company Secretaries to assess the type of information that needs to be disclosed and to ensure the Group's announcements are made in a timely manner, are factual, do not omit material information and are in compliance with the ASX Listing Rules. Information which is considered to be price sensitive is approved by the Chairman before its release. Mr. S.J. Danielson, company secretary, has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Does not comply	Explanation of departures from Recommendations 5.1 are set out in this section.
6.	**Respect the rights of shareholders**		
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Complies	The Board's policy is for all investors to have equal and timely access to material information concerning the Group, including its financial position, performance, ownership and governance. Presently, communication with Shareholders is principally by post. All shareholders are notified in writing of general meetings. Any relevant information is available to the shareholders on request by email, facsimile or post. A company website has been established and is used to provide information to shareholders.

	PRINCIPLES AND RECOMMENDATIONS	COMPLIANCE	COMMENT
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Complies	There are no departures from Recommendations 6.1.
7.	**Recognise and manage risk**		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Complies	The Company's established policies for the oversight and management of material business risks are summarised below: • Review the reliability and integrity of financial and operating information and the processes used to identify, measure, classify and report such information • Examine and evaluate the adequacy of internal control systems • Ensure compliance with relevant laws, regulations and standards • Formulate and regularly review programmes for exploration and development • Regularly report against established targets • Manage financial risk • Oversee of the conduct of contractors • Assess the probability and potential impact of identified risks • Develop actions to eliminate, diminish or deal with the potential consequences of identified risks
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Complies	The executive directors are responsible for designing and implementing the risk management and internal control system to manage the Company's material business risks. The executive directors monitor and receive advice as required in relation to the Company's material business risks and design and implement appropriate risk management strategies. Specific areas of risk that are identified are regularly considered by the executive directors. The executive directors have reported to the Board as to the effectiveness of the Company's management of its material business risks.

	PRINCIPLES AND RECOMMENDATIONS	COMPLIANCE	COMMENT
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act 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.	Complies	The Board requires the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to provide such a statement at the relevant time. The Board has received assurance from the Chairman, who also fulfils the role of CEO and assurance from the CFO under Recommendation 7.3.
7.4	Companies should provide the information indicated in Guide to reporting on Principle 7.	Complies	There are no departures from Recommendations 7.1, 7.2 and 7.3. The Board has received the report from the executive directors under Recommendation 7.2
8.	**Remunerate fairly and responsibly**		
8.1	The board should establish a remuneration committee.	Does not comply	This recommendation has not been adopted. Due to the small number of directors constituting the Board and the fact that ultimate responsibility for the Company's remuneration policy rests with the full Board, the establishment of a separate remuneration committee is deemed unnecessary. Accordingly, the full Board contemplates the issues that would otherwise be considered by the remuneration committee.
8.2	The Remuneration Committee should be structured so that it: • consists of a majority of independent directors • is chaired by an independent chair • has at least three members.	Does not comply	The Company has only four directors (two non-executive directors and two executive directors). No Company directors are considered independent. Presently the cost of a larger Board size is not justifiable. Also see comment on Recommendation 8.1 above.

	PRINCIPLES AND RECOMMENDATIONS	COMPLIANCE	COMMENT
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Does not comply	There is no distinction between the structure of non-executive directors' remuneration and that of executives. Non-executive directors' remuneration is calculated on the same basis as executive directors' remuneration. The directors consider this method appropriate at this stage of the Company's development. The Company determines by resolution the total remuneration to be paid to the directors, and the directors determine how the total remuneration is divided among them. The total determined directors' remuneration currently stands at $20,000 per annum. The Chairman receives an annual directors' fee of $8,000 and the other directors, excluding S.J. Danielson and B.K. Lee (alternate director for S.J. Danielson) receive annual directors' fees of $4,000 each. Further information on directors' remuneration is set out in the Directors' Report at pages 9-10.
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Does not comply	Explanation of departures from Recommendations 8.1, 8.2 and 8.3 are set out in this section.

Consolidated statement of comprehensive income for the year ended 31 December 2012

	Notes	2012 $	2011 $
Revenue from continuing operations	5	**1,059,920**	334,413
Net gain on sale of interest in petroleum exploration licences		**-**	12,856,111
Write off of irrecoverable deposit		**(6,000)**	-
Raw materials and consumables used		**(3,267)**	(39,740)
Exploration related expenses		**(2,535,705)**	-
Administration expenses	6	**(302,728)**	(192,293)
Other expenses		**(2,038)**	(1,732)
(Loss)/profit before income tax		**(1,789,818)**	12,956,759
Income tax benefit/(expense)	7	**422,570**	(2,552,257)
(Loss)/profit from continuing operations		**(1,367,248)**	10,404,502
(Loss)/profit for the year		**(1,367,248)**	10,404,502
Total comprehensive (loss)/income for the year		**(1,367,248)**	10,404,502
(Loss)/profit is attributable to:			
Owners of Carbon Minerals Limited		**(1,367,248)**	10,404,502
Total comprehensive (loss)/income for the year is attributable to:			
Owners of Carbon Minerals Limited		**(1,367,248)**	10,404,502
(Loss)/earnings per share for (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company:		**Cents**	Cents
Basic and diluted (loss)/earnings per share	23	**(7.27)**	55.33

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

Consolidated statement of financial position as at 31 December 2012

	Notes	2012 $	2011 $
ASSETS			
Current Assets			
Cash and cash equivalents	8	**15,546,433**	15,077,549
Receivables	9	**192,686**	103,289
Term deposits	10	**-**	10,000
Total Current Assets		**15,739,119**	15,190,838
Non-Current Assets			
Term deposits	11	**75,000**	65,000
Property, plant and equipment	12	**736,080**	736,080
Exploration and evaluation expenditure	13	**4,772,054**	1,906,856
Total Non-Current Assets		**5,583,134**	2,707,936
Total Assets		**21,322,253**	17,898,774
LIABILITIES			
Current Liabilities			
Payables	14	**5,396,747**	183,450
Income tax payable		**2,129,687**	2,552,257
Total Current Liabilities		**7,526,434**	2,735,707
Total Liabilities		**7,526,434**	2,735,707
Net Assets		**13,795,819**	15,163,067
EQUITY			
Contributed equity	15	**8,433,899**	8,433,899
Retained earnings	16	**5,361,920**	6,729,168
Parent entity interest		**13,795,819**	15,163,067
Total Equity		**13,795,819**	15,163,067

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

Consolidated statement of changes in equity
for the year ended 31 December 2012

	Attributable to owners of Carbon Minerals Limited		
	Contributed equity $	**Accumulated losses $**	**Total equity $**
Balance at 1 January 2011	**8,433,899**	**(3,675,334)**	**4,758,565**
Profit for the year	-	10,404,502	10,404,502
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	10,404,502	10,404,502
Balance at 31 December 2011	**8,433,899**	**6,729,168**	**15,163,067**
Loss for the year	-	**(1,367,248)**	**(1,367,248)**
Other comprehensive income for the year	-	-	-
Total comprehensive loss for the year	-	**(1,367,248)**	**(1,367,248)**
Balance at 31 December 2012	**8,433,899**	**5,361,920**	**13,795,819**

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

Consolidated statement of cash flows
for the year ended 31 December 2012

	Notes	**2012** **$**	2011 $
Cash flows from operating activities			
Interest received		**681,672**	232,671
Receipts from customers (inclusive of goods and services tax)		**301,224**	63,606
Payments			
- to suppliers and employees (inclusive of goods and services tax)		**(298,661)**	(259,537)
- for exploration expenditure (inclusive of goods and services tax)		**(215,351)**	(157,969)
Net cash inflow (outflow) from operating activities	22	**468,884**	(121,229)
Cash flows from investing activities			
Proceeds from sale of interest in petroleum exploration licences		**-**	15,000,000
Payments for costs in relation to sale of interest in petroleum exploration licences		**-**	(31,568)
Net cash inflow from investing activities		**-**	14,968,432
Net increase in cash and cash equivalents		**468,884**	14,847,203
Cash and cash equivalents at the beginning of the year		**15,077,549**	230,346
Cash and cash equivalents at the end of the year	8	**15,546,433**	15,077,549

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

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Notes to the financial statements
31 December 2012

Note 1: Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Carbon Minerals Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

(i) Compliance with IFRS
The consolidated financial statements of the Carbon Minerals Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the group
The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2012.

- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets*
- AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of underlying Assets*

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(iv) Historical cost convention
These financial statements have been prepared under the historical cost convention.

(v) Critical accounting estimates and judgements
The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) Principles of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Carbon Minerals Limited ("Company" or "parent entity") as at 31 December 2012 and the results of all subsidiaries for the year then ended. Carbon Minerals Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Notes to the financial statements
31 December 2012 (continued)

Note 1: Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(f)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CEO.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Interest income
Interest income is recognised on an accrual basis using the effective interest method.

(ii) Technical and administration fees received

Technical and administration fees received are recognised on an accruals basis.

(iii) Access compensation received
Access compensation received is recognised when received.

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the

Notes to the financial statements
31 December 2012 (continued)

Note 1: Summary of significant accounting policies (continued)

(e) Income tax (continued)

timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Tax consolidation legislation
Carbon Minerals Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Carbon Minerals Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Carbon Minerals Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(f) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

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 acquisition. The discount rate used is the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(g) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Notes to the financial statements
31 December 2012 (continued)

Note 1: Summary of significant accounting policies (continued)

(h) Receivables

Trade receivables are recognised initially at fair value less provision for impairment.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

(i) Inventories

Stores are stated at the lower of cost and net realisable value. Costs comprise direct materials and direct labour. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Investments and other financial assets

The Group classifies its investments in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Loans and receivables
Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (refer to note 9).

(k) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:
- Furniture, fittings and equipment 3-8 years

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 (note 1(o)).

Notes to the financial statements
31 December 2012 (continued)

Note 1: Summary of significant accounting policies (continued)

(k) Property, plant and equipment (continued)

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(l) Direct participating interest in an asset

The Group has determined that its interest in the arrangement with Santos QNT Pty Limited in respect of jointly held petroleum exploration licences represents a direct participation interest in an asset. Accordingly, the Group recognises its share of costs in the arrangement as part of capitalised exploration and evaluation expenditure.

(m) Exploration and evaluation expenditure

Exploration and evaluation expenditure is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

For each area of interest, expenditures incurred in the exploration for and evaluation of mineral resources is expensed as incurred unless:

- the exploration and evaluation expenditures are expected to be recouped through successful development and commercial exploitation of the area of interest, or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas. The directors review the carrying amount for impairment annually.

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Impairment of assets

Goodwill and 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the financial statements
31 December 2012 (continued)

Note 1: Summary of significant accounting policies (continued)

(p) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(q) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(r) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(s) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(t) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Notes to the financial statements
31 December 2012 (continued)

Note 1: Summary of significant accounting policies (continued)

(t) Goods and Services Tax (GST) (continued)

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(u) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2012 reporting periods. The entity's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 10 *Consolidated Financial Statements,* AASB 11 *Joint Arrangements,* AASB 12 *Disclosure of Interests in Other Entities, revised* AASB 127 *Separate Financial Statements and* AASB 128 *Investments in Associates and Joint Ventures and* AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements,* and Interpretation 12 *Consolidation – Special Purpose Entities.* The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. The group does not expect the new standard to have a significant impact on its composition.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept.

Notes to the financial statements
31 December 2012 (continued)

Note 1: Summary of significant accounting policies (continued)

(u) New accounting standards and interpretations (continued)

The group has determined that its joint operating agreement with Santos QNT Pty Limited does not constitute joint control but a share in interest in an asset, therefore AASB 10, AASB 11 and AASB 12 will not have any impact on the amounts recognised in its financial statements.

(iii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)
AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 December 2013.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(v) Parent entity financial information

The financial information for the parent entity, Carbon Minerals Limited, disclosed in note 27 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities
AASB127(43)(c) Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Carbon Minerals Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments. Jointly controlled assets are accounted for at cost.

(ii) Tax consolidation legislation
Carbon Minerals Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Carbon Minerals Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Carbon Minerals Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

(iii) Financial guarantees
Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

Notes to the financial statements
31 December 2012 (continued)

Note 2: Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk, liquidity risk and price risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Board and the financial risks faced by the Group are considered minimal at this stage.

(a) Market risk

The Group's and parent's main interest rate risk arises from cash and cash equivalents and deposits with banks. The Group and parent are not exposed to currency risk.

Group and parent entity sensitivity
At 31 December 2012, if interest rates had changed by -/+ 100 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been $155,464 lower/higher (2011 – change of 100 bps: $150,775 lower/higher), as a result of lower/higher interest income from cash and cash equivalents and deposits with banks.

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures in respect of outstanding receivables and committed transactions.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

(c) Liquidity risk

The Group manages liquidity risk by monitoring actual cash flows and maintaining sufficient cash to fund operations. Surplus funds are generally only invested in short term deposits with Australian Banks.

The Group does not have any borrowing facilities in place at the reporting date.

Maturities of financial liabilities
The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undisclosed cash flows.

At 31 December 2012	**Less than 6 months $**	**6 – 12 months $**	**Between 1 and 2 years $**	**Between 2 and 5 years $**	**Over 5 years $**	**Total contractual cash flows $**	**Carrying amount (assets) / liabilities $**
Non-derivatives							
Non-interest bearing	5,396,747	-	-	-	-	5,396,747	5,396,747
Interest bearing	2,129,687	-	-	-	-	2,129,687	2,129,687
Total non-derivatives	7,526,434	-	-	-	-	7,526,434	7,526,434

Notes to the financial statements
31 December 2012 (continued)

Note 2: Financial risk management (continued)

At 31 December 2011							
Non-derivatives							
Non-interest bearing	183,450	-	-	-	-	183,450	183,450
Interest bearing	-	2,552,257	-	-	-	2,552,257	2,552,257
Total non-derivatives	183,450	2,552,257	-	-	-	2,735,707	2,735,707

(d) Capital risk management

The Group manage their capital to ensure the Group will be able to continue as a going concern while maximising the return to stakeholders. The Group's overall strategy remains unchanged from 2011.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings.

The Group operates through subsidiary companies in Australia. None of the Group's subsidiaries are subject to externally imposed capital requirements.

The Group's cash flows are used for exploration and development of the mineral interests, and to fund corporate costs of the Company.

(e) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

The carrying value less impairment provision of receivables and payables are assumed to approximate their fair values due to their short-term nature.

Note 3: Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below.

Notes to the financial statements
31 December 2012 (continued)

Note 3: Critical accounting estimates and judgements (continued)

Critical accounting estimates and assumptions (continued)

Exploration and evaluation expenditure

On 19 February 2013 the Premier of NSW announced new measures in relation to the regulation of the Coal Seam Gas ("CSG") industry in NSW, an outlined in note 21. The Board has conducted a preliminary assessment of the consequences of the new measures on the group's operations. However, as there is currently some uncertainty regarding how residential zones are to be defined under the new measures the Board will continue its assessment of the impact the new measures have on the group's operations and the carrying value of the exploration and evaluation assets of $4.7M, as and when clarification of how residential zones will be defined are released by the NSW Government. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, we conclude that we are unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement. The Group's accounting policy for exploration and evaluation is set out in Note 1 (m).

Carried forward exploration and evaluation expenditures are disclosed in note 13 and relate primarily to capitalised exploration and evaluation costs from activities in the Gunnedah Basin.

Note 4: Financial reporting by segments

The Group operates as a natural resources explorer and a primary producer in one geographical location, being Australia.

2012	Natural resources exploration $	Primary production $	Total continuing operations $	Consolidated $
Total segment revenue	1,059,920	-	1,059,920	1,059,920
Consolidated revenue			1,059,920	1,059,920
Segment result	(1,785,602)	(4,216)	(1,789,818)	(1,789,818)
Profit before income tax			(1,789,818)	(1,789,818)
Segment assets and liabilities				
Segment assets	20,953,932	368,321	21,322,253	21,322,253
Segment liabilities	7,526,434	-	7,526,434	7,526,434

Notes to the financial statements
31 December 2012 (continued)

Note 4: Financial reporting by segments (continued)

2011	Natural resources exploration $	Primary production $	Total continuing operations $	Consolidated $
Total segment revenue	13,190,524	-	13,190,524	13,190,524
Consolidated revenue			13,190,524	13,190,524
Segment result	12,997,371	(40,612)	12,956,759	12,956,759
Profit before income tax			12,956,759	12,956,759
Segment assets and liabilities				
Segment assets	17,530,452	368,322	17,898,774	17,898,774
Segment liabilities	2,735,707	-	2,735,707	2,735,707

Note 5: Revenue

	2012 **$**	2011 $
From continuing operations		
Technical & administration fees received	**312,000**	78,000
Access compensation received	**-**	3,000
Interest received – non related corporations	**747,920**	253,413
	1,059,920	334,413

Note 6: Expenses

(Loss)/profit before income tax includes the following specific expenses:

	2012	2011
Administration expenses		
Secretarial fees	**89,450**	64,950
Share registry and listing fees	**39,871**	39,985
Audit fees	**44,500**	33,000
Other fees	**116,070**	40,258
Other expenses including bank charges	**12,837**	14,100
	302,728	192,293

Notes to the financial statements
31 December 2012 (continued)

Note 7: Income tax (benefit)/expense

	2012 $	2011 $
(a) Income tax (benefit)/expense	**(422,570)**	2,552,257
Current tax		
Income tax is attributable to:		
Profit from continuing operations	**-**	3,887,028
Recoupment of prior year tax losses	**-**	(1,334,771)
(Over)/under provision of tax from prior year	**(422,570)**	-
	(422,570)	2,552,257

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2012 $	2011 $
(Loss)/profit from operations before income tax expense	**(1,789,818)**	12,956,759
Tax at the Australian tax rate of 30% (2011: 30%)	**(536,945)**	3,887,028
Previously unrecognised tax losses now recouped to reduce current tax exposure	**-**	(1,334,771)
Deferred tax assets not brought to account	**536,945**	-
(Over) provision of tax from prior year	**(422,570)**	-
Income tax (benefit)/expense	**(422,570)**	2,552,257

(c) Tax losses

	2012 $	2011 $
Unused tax losses for which no deferred tax asset has been recognised	**(1,789,818)**	-
Potential tax benefit @ 30%	**536,945**	-

Note 8: Current assets – cash and cash equivalents

	2012 $	2011 $
Cash at bank and on hand	**291,551**	49,634
Deposits at call	**15,254,882**	15,027,915
	15,546,433	15,077,549

(a) Cash at bank and on hand

Cash at bank balances are subject to interest at variable rates and the average rate for the year was 0.17% (2011: 2.13%).

(b) Deposits at call

Deposits at call are subject to interest at fixed rates and the average interest rate for the year was 4.43% (2011: 3.01%). These deposits have a maturity of 30 days.

Notes to the financial statements
31 December 2012 (continued)

Note 9: Current assets – receivables

	2012	2011
	$	$
Security Bond	**-**	6,000
Interest receivable	**88,232**	21,984
Trade Debtors	**85,800**	57,200
Other receivables	**18,373**	17,824
Refundable deposit	**281**	281
	192,686	103,289

(a) Impaired receivables

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

There were no impaired receivables for the Group and there were no receivables past due for the Group.

(b) Interest rate risk

Information about the Group's and the parent entity's exposure to interest rate risk in relation to receivables is provided in note 2.

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair values.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's receivables.

Note 10: Current assets – term deposits

Term deposit held as security for bank guarantee (note 21)	**-**	10,000

Note 11: Non-current assets – term deposits

Term deposits held as security for bank guarantees (note 21)	**75,000**	65,000

Term deposits are subject to interest at fixed rates and the average interest rate for the year was 5.39% (2011: 1.87%).

Notes to the financial statements
31 December 2012 (continued)

Note 12: Non-current assets – property, plant and equipment

	2012 $	2011 $
Freehold Land		
Opening net book amount	**736,080**	736,080
Additions	**-**	-
Disposal	**-**	-
Closing net book amount	**736,080**	736,080
Cost	**736,080**	736,080
Accumulated depreciation	**-**	-
Net book amount	**736,080**	736,080

Note 13: Non-current assets – exploration and evaluation expenditure

	2012 $	2011 $
Cost brought forward	**1,906,856**	3,877,265
Expenditure incurred during the year	**2,865,198**	141,912
Expenditure written off during the year	**-**	-
Disposals	**-**	(2,112,321)
Exploration cost carried forward	**4,772,054**	1,906,856
Provisions for impairment in value of capitalised expenditure	**-**	-
Net exploration and evaluation expenditure carried forward	**4,772,054**	1,906,856

The above amounts represent costs of areas of interest carried forward as an asset and the group's share of costs under the arrangement with Santos QNT Pty Limited in accordance with the accounting policy set out in note 1(m). The ultimate recoupment of deferred exploration and evaluation expenditure in respect of an area of interest carried forward is dependent upon the discovery of commercially viable reserves and the successful development and commercial exploitation of the respective areas or alternatively sale of the underlying areas of interest for at least their carrying value. Amortisation, in respect of the relevant area of interest, is not charged until a mining operation has commenced.

On 19 February 2013 the Premier of NSW announced new measures in relation to the regulation of the Coal Seam Gas ("CSG") industry in NSW including the imposition of a two kilometre exclusion zone around residential zones to prevent new CSG exploration, assessment and production activities (both surface and underground). There is currently uncertainty regarding how residential zones are to be defined under the new measures and what impact the new measures will have on the group's operations. Once these uncertainties are clarified, there may be impact on the successful development and commercial production of the area.

Note 14: Current liabilities – payables

	2012 $	2011 $
Trade payables	**5,223,915**	12,925
Other payables and accruals	**172,832**	170,525
	5,396,747	183,450

Notes to the financial statements
31 December 2012 (continued)

Note 15: Contributed equity

	2012 **$**	2011 $
(a) Share Capital		
5 ordinary shares of $0.50 each, fully paid, issued as subscriber shares	**3**	3
18,803,493 ordinary shares of $0.50 each fully paid	**8,433,896**	8,433,896
	8,433,899	8,433,899

(b) Movements in share capital

Date	Details	Number of Shares	$
1 January 2011	Opening balance	18,803,498	8,433,899
31 December 2012	Balance	18,803,498	8,433,899

(c) Ordinary shares

At 31 December 2012 there were 18,803,498 fully paid ordinary shares.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Note 16: Retained earnings/(accumulated losses)

	2012 **$**	2011 $
Movements in retained earnings / (accumulated losses) were as follows:		
Balance 1 January	**6,729,168**	(3,675,334)
Net (loss)/profit for the year	**(1,367,248)**	10,404,502
Balance 31 December	**5,361,920**	6,729,168

Note 17: Key management personnel disclosures

(a) Directors

The following persons were directors of Carbon Minerals Limited during the financial year:

(i) Chairman – executive

P.A. Lincoln Smith

(ii) Executive director

M.P. Lincoln Smith

(iii) Non- executive directors

W.V. Annis-Brown

S.J. Danielson

B.K. Lee (alternate director for S.J. Danielson)

No other key management personnel have been identified.

Notes to the financial statements
31 December 2012 (continued)

Note 17: Key management personnel disclosures (continued)

(b) Key management personnel of the Group and the Company compensation

2012	Short-term benefits	Post-employment benefits	Share-based payment		
Name	**Directors' Base Fee** $	**Super-annuation** $	**Options** $	**Total** $	**Remuneration consisting of options** %
Executive directors					
P.A. Lincoln Smith Chairman	8,000	-	-	8,000	-
M.P. Lincoln Smith	4,000	-	-	4,000	-
Non-executive directors					
W.V. Annis-Brown	4,000	-	-	4,000	-
S.J. Danielson	-	-	-	-	-
B.K. Lee	-	-	-	-	-
Total	**16,000**	**-**	**-**	**16,000**	**-**
2011					
Executive directors					
P.A. Lincoln Smith Chairman	8,000	-	-	8,000	-
M.P. Lincoln Smith	4,000	-	-	4,000	-
Non-executive directors					
W.V. Annis-Brown	4,000	-	-	4,000	-
S.J. Danielson	-	-	-	-	-
B.K. Lee	-	-	-	-	-
Total	**16,000**	**-**	**-**	**16,000**	**-**

No remuneration was payable to any officers of the Group or the Company other than the amounts disclosed above.

Disclosures relating to key management personnel transactions with the Group and the Company are set out in note 19.

(c) Shareholdings

The numbers of shares in the Company held during the financial year by each director of Carbon Minerals Limited and other key management personnel of the Group, including their personally related entities, are set out below. Where shares are held by the individual director or executive and any entity under the joint or several control of the individual director or executive they are shown as 'beneficially held'. Shares held by those who are defined by AASB 124 *Related Party Disclosures* as close members of the family of the individual director or executive are shown as 'non-beneficially held'.

Notes to the financial statements
31 December 2012 (continued)

Note 17: Key management personnel disclosures (continued)

Name	Type	Balance as at 31 December 2011	Net changes during the year	Balance as at 31 December 2012
Executive directors				
P.A. Lincoln Smith	Beneficially held	15,184,872	-	15,184,872
	Non-beneficially held	8,500	-	8,500
M.P. Lincoln Smith	Beneficially held	1,500	-	1,500
	Non-beneficially held	15,191,872	-	15,191,872
Non-executive directors				
W.V. Annis-Brown	Beneficially held	1,000	-	1,000
	Non-beneficially held	40,000	-	40,000
S.J. Danielson	Beneficially held	100	-	100
	Non-beneficially held	-	-	-
B.K. Lee	Beneficially held	-	-	-
	Non-beneficially held	10,000	-	10,000

(d) Loans to key management personnel

No directors of Carbon Minerals Limited or other key management personnel of the Group, including their personally related parties, held any loans with the Group or the Company during the year.

(e) Other transactions with key management personnel

Refer to note 19 of the financial statements for details of related party transactions with key management personnel.

Note 18: Remuneration of auditors

	2012 $	2011 $
Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:		
Auditors of parent entity		
- Parent entity	**44,500**	33,000
- Controlled entities	**-**	-
Total remuneration for audit services	**44,500**	33,000

Note 19: Related party transactions

(a) Controlling entity

The Company's ultimate controlling entity is Malewi Investments Pty Limited, incorporated in New South Wales, which owns 11.22% of Carbon Minerals Limited directly and a further 69.54% through other investments held.

Notes to the financial statements
31 December 2012 (continued)

Note 19: Related party transactions (continued)

(b) Directors

The names of each person holding the position of director of the Company during the year are P.A. Lincoln Smith, M.P. Lincoln Smith, W.V. Annis-Brown, S.J. Danielson and B.K. Lee. Professional fees of $89,450 (2011: $64,950) were payable to Mitchell & Partners (Chartered Accountants), a firm of which S.J. Danielson and B.K. Lee are principals. Also professional fees of $4,303 (2011: Nil) were payable to Lincoln Smith & Company (Solicitors), a firm of which R.P. Lincoln Smith (son of P.A. Lincoln Smith) is a principal and which employs W.V. Annis-Brown.

(c) Remuneration

Information on remuneration of directors is provided in note 17 and the Remuneration Report.

(d) Terms and conditions

Transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for repayment of loans between related parties. Outstanding balances are unsecured and are repayable in cash.

Note 20: Contingent liabilities

Details and estimates of maximum amounts of contingent liabilities are as follows:

Secured guarantees and security bonds exist in respect of mining tenements with the NSW Department of Trade and Investment. These guarantees and security bonds comprise deposits held with financial institutions on behalf of (notes 9 to 11):

	2012	2011
	$	$
Guarantees		
Australian Coalbed Methane Pty Limited	**75,000**	75,000
Security Bonds		
Australian Coalbed Methane Pty Limited	**-**	6,000

Note 21: Events occurring after the reporting period

On 19 February 2013 the Premier of NSW announced new measures in relation to the regulation of the Coal Seam Gas (“CSG”) industry in NSW. The new measures are briefly summarised below:-

- The independent Environment Protection Authority (EPA) will be the lead regulator of environmental and health impacts of CSG activities in NSW with responsibility for compliance and enforcement;
- All exploration, assessment and production titles and activities will be required to hold an Environment Protection Licence;
- The Chief Scientist and Engineer will conduct an independent review of all CSG activities in NSW, including the potential impact on water catchments;
- A two kilometre exclusion zone will be imposed around residential zones to prevent new CSG exploration, assessment and production activities (both surface and underground);
- Exclusion zones will apply to identified Critical Industry Clusters - viticulture and the equine industry; and
- An Office of CSG Regulation will be established within the Department of Trade and Investment to enforce other regulations.

Notes to the financial statements
31 December 2012 (continued)

Note 21: Events occurring after the reporting period (continued)

The Board has conducted a preliminary assessment of the consequences of the new measures on the group's operations. However, as there is currently some uncertainty regarding how residential zones are to be defined under the new measures. The Board will continue its assessment of the impact the new measures have on the group's operations and the carrying value of the exploration and evaluation assets of $4.7M, as and when clarification of how residential zones will be defined are released by the NSW Government.

Note 22: Reconciliation of (loss)/profit after income tax to net cash inflow/(outflow) from operating activities

	2012 **$**	2011 $
(Loss)/profit after income tax	**(1,367,248)**	10,404,502
Net gain on sale of interest in petroleum exploration licences	**-**	(12,856,111)
Exploration expenditure capitalised	**-**	(141,912)
Change in operating assets and liabilities:		
(Increase) decrease in interest receivable	**(66,248)**	(20,742)
(Increase) decrease in trade receivables	**(28,600)**	(57,200)
(Increase) decrease in other receivables	**(549)**	4,071
(Increase) decrease in refundable deposits	**-**	386
(Increase) decrease in security bond	**6,000**	-
Increase (decrease) in provision for income tax payable	**(422,570)**	2,552,257
Increase (decrease) in trade payables	**2,345,792**	(20,834)
Increase (decrease) in current other payables	**2,307**	102,354
Increase (decrease) in non-current other payables	**-**	(88,000)
Net cash inflow (outflow) from operating activities	**468,884**	(121,229)

Note 23: Earnings per share

Basic earnings per share	**(0.0727)**	0.5533
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**18,803,498**	18,803,498

(a) Reconciliation of earnings used in calculating earnings per share

Profit/(loss) attributable to members of Carbon Minerals Limited	**(1,367,248)**	10,404,502
Profit/(loss) attributable to minority interests	**-**	-
Profit/(loss) attributable to ordinary equity holders of the Company used in calculating basic earnings per share	**(1,367,248)**	10,404,502

Diluted earnings per share are the same as basic earnings per share.

Notes to the financial statements
31 December 2012 (continued)

Note 24: Commitments for expenditure

Exploration Expenditure Commitments

In order to maintain current rights to tenure to exploration tenements PELs 1 and 12, the consolidated entity has minimum exploration expenditure obligations of $1.9M and is required to carry out exploration activities under an agreed work program. These tenements are subject to a joint venture agreement between Australian Coalbed Methane Pty Limited (ACM), a wholly-owned subsidiary of Carbon Minerals Limited, and Santos QNT Pty Limted (Santos). Under the terms of the agreement ACM is required to meet total work program expenditure of $13M. These obligations are not provided for in the financial statements and are payable as follows:

	2012 **$**	2011 $
Within one year	**7,791,934**	13,000,000
Later than one year but not later than 5 years	**1,900,000**	-
	9,691,934	13,000,000

If the consolidated entity decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

Note 25: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	**Country of Incorporation**	**Class of Shares**	**Equity Holding*** **2012** %	2011 %
Linger & Die Gold Pty Limited	Australia	Ordinary	**100**	100
Australian Coalbed Methane Pty Limited	Australia	Ordinary	**100**	100
Websters Find Gold Pty Limited	Australia	Ordinary	**100**	100

* The proportion of ownership interest is equal to the proportion of voting power held.

Notes to the financial statements
31 December 2012 (continued)

Note 26: Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

Balance Sheet		
Current Assets	**15,653,311**	15,127,119
Total Assets	**16,464,399**	15,928,199
Current Liabilities	**2,294,185**	66,525
Total Liabilities	**12,135,192**	12,465,752
Shareholders' equity		
Issued capital	**8,433,899**	8,433,899
Accumulated losses	**(4,104,692)**	(4,971,452)
	4,329,207	3,462,447
Profit or (loss) for the year	**866,760**	(1,296,118)
Total comprehensive income	**866,760**	(1,296,118)

(b) Contingent liabilities of the parent entity

The parent entity has secured guarantees with the Department of Industry & Investment in respect of mining tenements of subsidiaries. These guarantees comprise deposits held with financial institutions as described in note 20.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 21 to 47 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and the chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

M.P. Lincoln Smith
Director

Sydney
25 March 2013

Independent auditor's report to the members of Carbon Minerals Limited

Report on the financial report

We have audited the accompanying financial report of Carbon Minerals Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Carbon Minerals Limited Group (The consolidated entity). The consolidated entity comprises Carbon Minerals Limited and the entities it controlled at the year's end or from time to time during the financial period.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members.

The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

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. These Auditing 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 entity's preparation and fair presentation of the financial report 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 entity'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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Carbon Minerals 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 31 December 2012 and of their performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the remuneration report included in pages 9 to 10 of the directors' report for the year ended 31 December 2012. 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.

Auditor's opinion

In our opinion, the remuneration report of Carbon Minerals Limited for the year ended 31 December 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
25 March 2013

Shareholder information

The shareholder information set out below was applicable as at 8 March 2013.

1. Substantial Shareholders

The names of the substantial shareholders and the number of shares in which they have an interest, as disclosed in substantial holding notices given to the company are as follows:

Paul Aurius Lincoln Smith (deceased): 15,273,172 fully paid ordinary shares, incorporating 11,813,692 shares held by Magnum Resources Pty Limited; 2,109,855 shares held by Malewi Investments Pty Limited; 720,000 shares held by Pali Pty Limited; 540,000 shares held by Pada Pty Limited ATF The L-S Unit Trust; 40,000 shares held by Malewi Investments Pty Limited Staff Superannuation Scheme.

2. Voting Rights

The voting rights attaching to the shares are, on a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

3. On-Market Buy-Back

There is no current on-market buy-back.

4. Distribution of Shareholders

Analysis of numbers of shareholders by size of holding:

Number of Shares	Number of Shareholders
1 - 1,000	372
1,001 - 5,000	120
5,001 - 10,000	30
10,001 - 100,000	50
100,001 and over	8
	580

(ii) There were 328 holders of less than a marketable parcel of shares.

5. Twenty Largest Shareholders

The names of the twenty largest holders of shares are listed below:

Name of Shareholder:		Number Held:	Percentage of Issued Shares:
1.	Magnum Resources Pty Limited	10,756,700	57.21
2.	Malewi Investments Pty Limited	2,109,855	11.22
3.	Pada Pty Limited as trustee for the L S Unit Trust	1,495,000	7.95
4.	Imaj Pty Limited < Super Fund A/C >	1,135,000	6.04
5.	Pali Pty Limited	720,000	3.83
6.	Probex Pty Limited	345,415	1.84
7.	Altex Holdings Pty Limited	156,000	0.83
8.	Platigraf Pty Limited < Platigraf Super Fund A/C >	140,000	0.74
9.	Ms. Jillian Elizabeth Ross	67,500	0.36
10.	Yellow 88 Pty Limited < Barry Super Fund A/C >	65,000	0.35
11.	Bruce William Fleeting & Deidre Rosemary Fleeting	63,775	0.34
12.	Mr. John Joseph Ruddy	58,000	0.31
13.	RCW Constructions Pty Limited < Annis-Brown Super A/C >	51,500	0.27
14.	Nefco Nominees Pty Limited	50,000	0.27
15.	Mr. Paul Lincoln Smith	48,625	0.26
16.	Ina Barry Pty Limited <Ina Barry Super Fund A/C>	45,000	0.24
17.	Mr. Ianaki Semerdziev	43,200	0.23
18.	BT Portfolio Services Limited < Howarth S/F Pension A/C >	40,000	0.21
19.	Mrs. Christine Jessica Blake	37,567	0.20
20.	Chamonix Pty Limited	34,000	0.18
		17,462,137	92.88

6. Schedule of Tenements

Location	Tenement	Holder	Interest	Area	Current to
New South Wales:					
Gunnedah	PEL 1	ACM	35%[1]	72 blocks	10/02/2015
Bando	PEL 12	ACM	35%[1]	31 blocks	26/09/2016

Key to Tenement Types

PEL Petroleum Exploration Licence

Key to Tenement Holders

ACM Australian Coalbed Methane Pty Limited

Notes

1. PELs 1 and 12 are subject to a joint venture with Santos QNT Pty Ltd (Santos). Santos has a 65% interest in the tenements.