



QUARTERLY REPORT

FOR THE QUARTER ENDED
30 SEPTEMBER 2017

(ASX : CNX)



carbonenergy

CARBON ENERGY LIMITED

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2017

KEY EVENTS FOR THE QUARTER AND SUBSEQUENT TO QUARTER END

- Carbon Energy Limited (Carbon Energy or Company) held its 2016 Annual General Meeting, on 18 July 2017, whereby shareholders passed all resolutions, including the approval of the recapitalisation transactions contemplated under the Amended Deed of Company Arrangement (DOCA) and the consolidation of share capital. All conditions precedent provided for under the DOCA was subsequently satisfied and the DOCA completion was achieved. The Company completed its 1:100 share consolidation on 24 July 2017.
- On commencement of trading on 26 July 2017, the suspension of trading in the Company's securities was lifted by the ASX in accordance following re-compliance with Chapter 12 of the ASX Listing Rules.
- The Beijing JinHong New Energy Co. Ltd joint venture (JinHong Joint Venture) between the Carbon Energy group and its partner Beijing JinHong Investment Co. Ltd has advanced some of the critical milestones toward developing a commercial demonstration project. Three coal deposits have been assessed as suitable for continued activity to develop UCG by Carbon Energy and the JinHong Joint Venture and third parties are working to obtain the permits to commence site characterisations required to develop the initial UCG panels.
- The Company was pleased to make a number of appointments during the period:
 - Mr George Su has been appointed in an interim executive role of the Company effective 19 July 2017, as the Board continues with its search for a permanent Chief Executive Officer and Managing Director.
 - Mr Ian Morgan joined as Company Secretary from 31 July 2017.
 - Ms Ye-Fei Guo joined as Chief Financial Officer during the period and was appointed Company Secretary jointly with Mr Ian Morgan from 5 October 2017.

COMPANY UPDATE

HEALTH, SAFETY, ENVIRONMENT & COMMUNITY

There were no reportable health, safety, environmental or community related matters or incidents recorded during the quarter, or subsequent to the end of the quarter up to the date of issue of this report.

BUSINESS DEVELOPMENT

The Company's number one priority remains to establish keyseam as a commercial technology to be licensed in China and to take the Company forward to support its current and future projects. The JinHong joint venture remains as the foundation for Carbon Energy's strategy for growth into China.

CHINA

JinHong Joint Venture

As noted, three coal deposits have been assessed as suitable for continued activity to develop UCG by Carbon Energy and the JinHong Joint Venture and third parties are working to obtain the permits

CARBON ENERGY LIMITED

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2017

and identify contractors to commence site characterisations required to develop the initial UCG panels.

China UCG Research Centre

Carbon Energy staff continued to assist in establishing the plans and research program for China University for Mining and Technology's ("CUMT") International Research Centre for UCG. The research program has been approved by the Centre Board, and CUMT has allocated resources of staff and funding for projects. The Centre continues to review potential projects suitable for field research trials and several groups are progressing permitting and funding arrangements

QUEENSLAND

Bloodwood Creek Rehabilitation

The Company continues to fulfil its environmental obligations in progressing rehabilitation requirements and on-going monitoring at its Bloodwood Creek Site following the recommendations of the independent experts accredited by the Queensland Government that the Bloodwood Creek site requires no active remediation. However continued environmental monitoring provides the Company with further assurance and confidence in our successful keyseam technology.

The Company will continue to assess relevant commercial opportunities for use of the Bloodwood Creek Site for alternative purposes, and in seeking to maximize value from the assets held at Bloodwood Creek.

CORPORATE

COMPLETION OF AMENDED DEED OF COMPANY ARRANGEMENT

As noted, the Company held its 2016 Annual General Meeting on 18 July 2017, whereby shareholders passed all resolutions, including the approval of the recapitalisation transactions contemplated under the DOCA. All conditions precedent provided for under the DOCA was subsequently satisfied and DOCA completion was achieved.

The DOCA provided for:

- entry into a convertible note facility agreement for the advance of \$9.2 million;
- advance of a \$1 million unsecured loan facility from the Pacific Road group; and
- the receipt of \$3.85 million consideration from Kam Lung Investment Development Co Ltd (Kam Lung) for the issue of 4,679,911,281 ordinary fully paid shares.

The proceeds were used to:

- repay Pacific Road \$6.85 million (net of \$150,000 cost contribution from Pacific Road);
- repay Kam Lung \$1.94 million for the short-term interim funding and the Administrators Indemnity Amount (as defined in the DOCA);
- pay \$300,000 into a creditors' trust for the benefit of eligible creditors of the Deed Companies (as defined in the DOCA) whose claims will be released by the DOCA;
- pay Kam Lung agreed legal fees and costs of \$900,000;
- pay \$336,716 to the Administrators of the Deed Companies for outstanding fees and costs;
- pay \$82,500 to the Deed Administrators for outstanding fees and costs during the DOCA period; and

CARBON ENERGY LIMITED

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2017

- pay other fees totalling \$37,480.

The remaining \$3.5 million has been retained by the Company for general working capital.

CASH MANAGEMENT

As at 30 September 2017, the Company and its controlled entities had total cash of \$2.6 million. The Company continues to manage cash resources prudently and to ensure that all costs are minimised.

Cash payments for exploration and evaluation activities comprises of the following:

	\$'000s
Bloodwood Creek site and rehabilitation costs	31
Technology and other costs	<u>22</u>
Total	53



George Su

Interim Executive Director

27 October 2017

CARBON ENERGY LIMITED

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2017

TENEMENT STATUS AT 30 SEPTEMBER 2017

MDL 374	Granted	28.68
MLA 50253	Application Pending*	13.43
PFL 6	Renewal Pending**	0.03

* Application awaiting Environmental Impact Assessment prior to finalisation and assessment

** Renewal submitted March 2015

EPC 867	Renewal Pending [#]	167	509.35
EPC 868	Renewal Pending [#]	44	134.20
EPC 869	Granted	63	192.15
EPC 1132	Granted	23	70.15
Total Eastern Surat Basin Tenements		297	905.85

Renewal Submitted November 2014

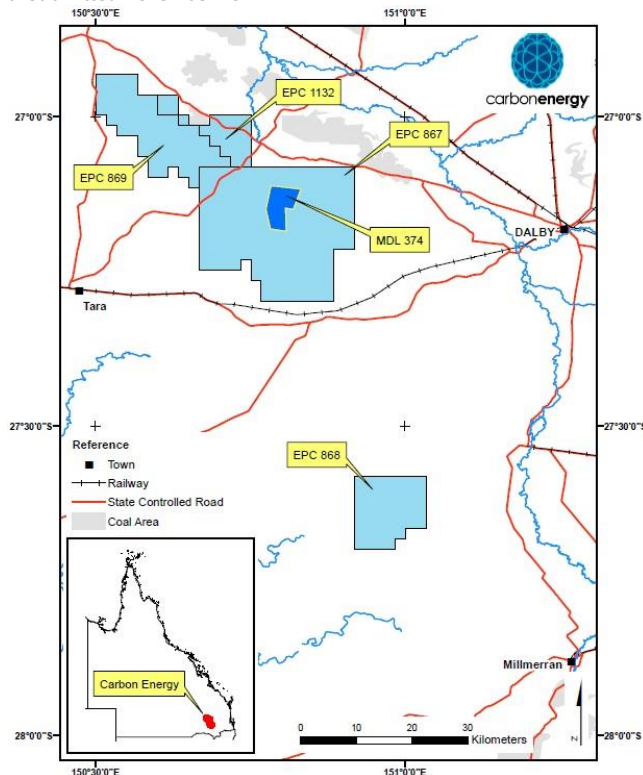


Figure 1 Carbon Energy Coal Tenure Surat Basin

CARBON ENERGY LIMITED

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2017

ISSUED CAPITAL AND SECURITIES ON ISSUE

As at 20 October 2017, Carbon Energy had the following securities on issue:

Listed Ordinary Shares ¹	64,933,515
\$1,000 Convertible Notes	9,200

¹ Includes 46,799,113 ordinary shares subject to escrow.

SHAREHOLDERS

As at 20 October 2017:

- Carbon Energy has 4,863 shareholders; and
- The “Top 20” shareholders held approximately 88.41% of the listed shares on issue.

MAJOR SHAREHOLDERS

As at 20 October 2017, the major shareholders include:

SHAREHOLDER	% HOLDING
1. Kam Lung Investment Development Company Limited	80.00%
2. Pacific Road Holdings S.A.R.L.	1.96%
3. Incitec Pivot Limited	1.16%

BOARD OF DIRECTORS

Mr Peter Hogan	Chairman (from 9 March 2017) and Non-Executive Director
Mr George Su	Non-Executive Director (interim Executive Director from 19 July 2017)
Mr Huihai Zhuang	Non-Executive Director

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

Carbon Energy Limited

ABN

56 057 552 137

Quarter ended ("current quarter")

30 September 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(53)	(53)
(b) development	-	-
(c) production	-	-
(d) staff costs	(545)	(545)
(e) administration and corporate costs	(736)	(736)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	4
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (sublease and other income)	53	53
Other (administrator and legal fees and costs)	(499)	(499)
1.9 Net cash from / (used in) operating activities	(1,776)	(1,776)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
	(d) other non-current assets	(18)	(18)
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(18)	(18)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	3,850	3,850
3.2	Proceeds from issue of convertible notes	8,300	8,300
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(111)	(111)
3.5	Proceeds from borrowings	1,230	1,230
3.6	Repayment of borrowings	(8,940)	(8,940)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other	-	-
3.10	Net cash from / (used in) financing activities	4,329	4,329
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	79	79
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,776)	(1,776)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(18)	(18)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,329	4,329
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,614	2,614

Mining exploration entity and oil and gas exploration entity quarterly report

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	314	79
5.2 Call deposits	2,300	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,614	79

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	(51)
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Includes Directors' fees and reimbursement of expenses

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	10,200	10,200
8.2 Credit standby arrangements	5,000	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

The Company has a \$9.2 million secured convertible note facility with Kam Lung Investment Development Co Ltd (Convertible Note Facility), which is fully drawn at the date of this report. Interest on the Convertible Note Facility is at 8% p.a. and maybe capitalised to the outstanding principal or converted into ordinary shares or a combination of both.

The Company has a \$5 million secured uncommitted cash advance facility with Kam Lung Investment Development Co Ltd (Cash Advance Facility) which remains undrawn at the date of this report. Interest on the Cash Advance Facility is 8% p.a. or if the parties so agree, the aggregate of BBSY in relation to the interest period for that advance and the 5.5% p.a. margin. Interest maybe capitalised.

The Company has a \$1 million interest free unsecured loan facility with the Pacific Road Capital A Pty Limited, Pacific Road Capital B Pty Ltd and Pacific Road Capital Management G.P. Limited (Pacific Road Group). The facility is guaranteed by Kam Lung Investment Development Co Ltd.

The Company is awaiting a \$10 thousand secured credit card facility with National Australia Bank as at the date of this report.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	(108)
9.2 Development	-
9.3 Production	-
9.4 Staff costs	(416)
9.5 Administration and corporate costs	(507)
9.6 Other	(5)
9.7 Total estimated cash outflows	(1,036)

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	-	-	-	-
10.2 Interests in mining tenements and petroleum tenements acquired or increased	-	-	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here: (Company Secretary)

Date: 27 October 2017

Print name: Ye-Fei Guo

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.