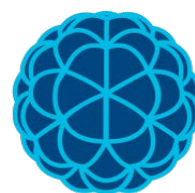




QUARTERLY REPORT

FOR THE QUARTER ENDED
31 DECEMBER 2017

(ASX : CNX)



carbonenergy

CARBON ENERGY LIMITED

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 31 DECEMBER
2017

KEY EVENTS FOR THE QUARTER AND SUBSEQUENT TO QUARTER END

- In January 2018, Carbon Energy Limited ('Carbon Energy' or 'Company') received \$1.0 million as a research and development (R&D) tax incentive rebate (inclusive of interest) from the Australian Taxation Office (ATO) for eligible R&D expenditure incurred in the prior 2017 financial year.
- The Company welcomes the appointment of Bryan O'Donnell as Chief Executive Officer and Managing Director, effective as of 2 January 2018 and 8 January 2018 respectively.
- Carbon Energy announced the achievement of a key milestone by the Beijing JinHong New Energy Co. Ltd joint venture between the Carbon Energy group and its partner Beijing JinHong Investment Co. Ltd ('JinHong Joint Venture'). The Kulen coal deposit located at the Mori (Mulei) County, Changji, Xinjiang, China has been selected for the continued development of a commercial demonstration project using Carbon Energy group's keyseam® technology for underground coal gasification ('Mori UCG Project'). Geotechnical modelling for the Mori UCG Project and UCG process model were completed by the end of 2017 and provided the underlying design criteria for the development of the initial Process Characterisation Panel to verify the predicted syngas quality and develop the configuration of panels to support a commercial UCG project in the coal deposit.
- The Company held its 2017 Annual General Meeting ('AGM') on 29 November 2017, whereby shareholders passed all resolutions.
- Correspondence was received by the Company from Ferrier Hodgson (with reference to the appointment of Will Colwell and Tim Michael as Voluntary Administrators on 22 November 2016, Deed Administrators on 9 March 2017 and Trustees of the Carbon Energy Creditors' Trust on 20 July 2017), advising that the priority dividend to creditors was declared and paid on 13 September 2017 and a first and final dividend to unsecured creditors was declared and paid on 18 September 2017. All matters in respect of the Voluntary Administration, Deed of Company Arrangement and Creditors' Trust are now finalised and the termination of the Creditors' Trust occurred on 23 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.

CARBON ENERGY LIMITED

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 31 DECEMBER 2017

CHINA

JinHong Joint Venture

Three coal deposits were previously assessed as suitable for continued activity to develop UCG by Carbon Energy and the JinHong Joint Venture. During the quarter, it was announced that the Kulen coal deposit located at the Mori (Mulei) County, Changji, Xinjiang, China has been selected for the continued development of a commercial demonstration project using Carbon Energy group's keyseam® technology for underground coal gasification ('Mori UCG Project').

Geotechnical modelling for the Mori UCG Project and UCG process model were completed by the end of 2017 and provided the underlying design criteria for the development of the initial Process Characterisation Panel to verify the predicted syngas quality and develop the configuration of panels to support a commercial UCG project in the coal deposit.

All parties continue to actively work towards satisfying the regulations and requirements in order to progress site characterisation and underground gasifier design, design and construct the Process Characterisation Panel surface facilities, and the commencement of syngas production in 2018.

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.

Tenements

The Exploration Permit for Coal tenements were granted when Carbon Energy's exploration goal was to find and characterise a coal resource suitable for a commercial UCG project in Queensland. On 24 August 2017, the Queensland Parliament passed legislation which places a moratorium on all activities relating to UCG through the Mineral Resources Act 1989. The Company has reached a decision that continued development of the EPC tenements no longer aligns with the Company's strategic direction. The Company has been in contact with relevant Departments of the Queensland Government to commence the 'surrender' process for all EPC tenements. MDL374 tenement will be retained to enable the rehabilitation activities at the Bloodwood Creek site to continue.

CARBON ENERGY LIMITED

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 31 DECEMBER
2017

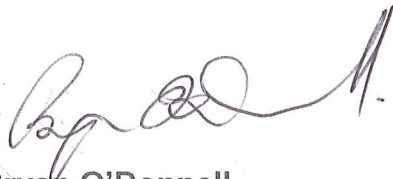
CORPORATE

CASH MANAGEMENT

As at 31 December 2017, the Company and its controlled entities held total cash of \$1.6 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	34
Tenements rent	<u>66</u>
Total	100



Bryan O'Donnell

CEO and Managing Director

29 January 2018

CARBON ENERGY LIMITED

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 31 DECEMBER 2017

TENEMENT STATUS AT 31 DECEMBER 2017

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

* Renewal submitted March 2015

EPC 867	Surrendering permit	167	509.35
EPC 868	Surrendering permit	44	134.20
EPC 869	Surrendering permit	63	192.15
EPC 1132	Surrendering permit	23	70.15
Total Eastern Surat Basin Tenements		297	905.85

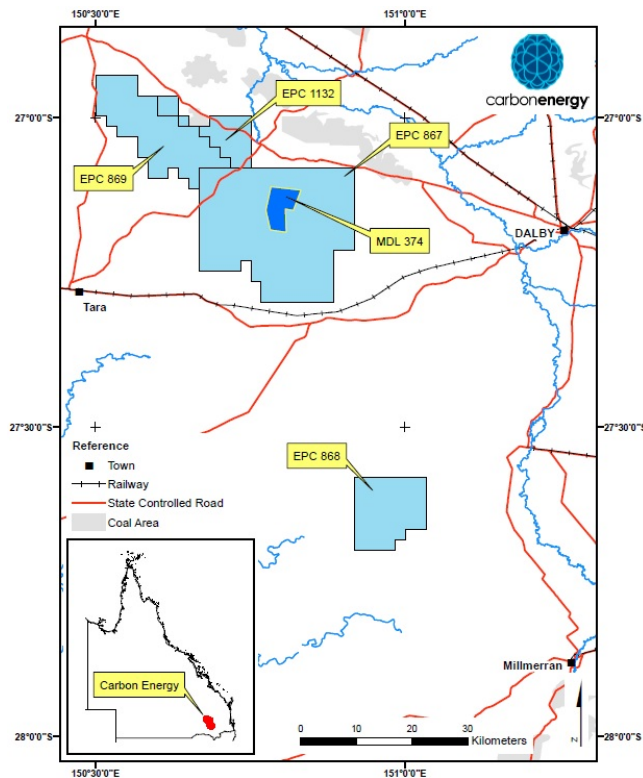


Figure 1 Carbon Energy Coal Tenure Surat Basin

CARBON ENERGY LIMITED

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 31 DECEMBER 2017

ISSUED CAPITAL AND SECURITIES ON ISSUE

As at 9 January 2018, Carbon Energy has 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 voluntary escrow.

SHAREHOLDERS

As at 9 January 2018:

- Carbon Energy has 4,822 shareholders; and
- The “Top 20” shareholders held approximately 87.16% of the listed shares on issue.

MAJOR SHAREHOLDERS

As at 9 January 2018, the major shareholders include:

SHAREHOLDER	% HOLDING
1. Kam Lung Investment Development Company Limited	80.00%
2. Incitec Pivot Limited	1.16%
3. Citicorp Nominees Pty Limited	0.87%

The major shareholders are presented on a non-grouped basis and therefore may not represent the full shareholding by any one beneficiary.

BOARD OF DIRECTORS

Mr Peter Hogan	Chairman and Non-Executive Director
Mr George Su	Non-Executive Director (Interim Executive Director from 19 July 2017)
Mr Huihai Zhuang	Non-Executive Director
Mr Bryan O'Donnell	Chief Executive Officer and Managing Director (appointed effective 2 January 2018 and 8 January 2018 respectively)

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")

31 December 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(100)	(153)
(b) development	-	-
(c) production	-	-
(d) staff costs	(457)	(1,002)
(e) administration and corporate costs	(474)	(1,210)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	16	20
1.5 Interest and other costs of finance paid	(12)	(12)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (sublease and other income)	68	121
Other (administrator and legal fees and costs)	-	(499)
1.9 Net cash from / (used in) operating activities	(959)	(2,735)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(d) other non-current assets	(13)	(31)
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	(13)	(31)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	3,850
3.2 Proceeds from issue of convertible notes	-	8,300
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	(111)
3.5 Proceeds from borrowings	-	1,230
3.6 Repayment of borrowings	-	(8,940)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	-	4,329

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	2,614	79
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(959)	(2,735)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(13)	(31)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	4,329

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	1,642	1,642

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	842	314
5.2	Call deposits	800	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)	1,642	2,614

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 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

Current quarter \$A'000
(44)
-

Includes Directors' fees and reimbursement of expenses

7. Payments to related entities of the entity and their associates

- 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

Current quarter \$A'000
-
-

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 (company credit cards)	10	6
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 may be capitalised to the outstanding principal or converted into ordinary shares or a combination of both. Interest may also be cash settled. The \$9.2 million facility amount presented is exclusive of any accrued or capitalised interest.

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 or cash settled.

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 holds, in total, a \$10 thousand secured credit card facility with National Australia Bank. Interest on cash advances are at the NAB Business Card Indicator Rate.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	(802)
9.2 Development	-
9.3 Production	-
9.4 Staff costs	(601)
9.5 Administration and corporate costs	(365)
9.6 Other	(28)
9.7 Total estimated cash outflows	(1,796) **.

** As the Company focuses on establishing keyseam® as a commercial technology, it is expected that the Company will continue to have negative operating cash flows. In January 2018, the Company received \$1.0 million as a R&D tax incentive rebate (inclusive of interest) from the ATO for eligible R&D expenditure incurred in the prior 2017 financial year. The estimated cash outflow for the next quarter also includes a component which is discretionary at the date of this report. The table below summarises the above position.

	\$A'000
Cash and cash equivalents as at 31 December 2017	1,642
Add: R&D tax incentive rebate (inclusive of interest) received from the ATO in January 2018	1,000
Less: estimated cash outflows for the next (March 2018) quarter	<u>(1,796)</u>
Estimated net cash and cash equivalents	846

The Company expects that further funds will be available in the course of its commercial operations to support future expenditures.

Mining exploration entity and oil and gas exploration entity quarterly report

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	MLA 50253 EPC 867, EPC 868, EPC 869, EPC 1132	Ownership of mining lease application (application withdrawn) Ownership of exploration permit – coal (surrendering permit) Refer further information under the Quarterly Activities Report for the Quarter Ended 31 December 2017 – Tenements Status at 31 December 2017.	100% 100%	100% 100%
10.2	Interests in mining tenements and petroleum tenements acquired or increased	MDL 374 PFL 6	Ownership of mineral development tenement Ownership of petroleum facility licence (renewal pending) Refer further information under the Quarterly Activities Report for the Quarter Ended 31 December 2017 – Tenements Status at 31 December 2017.	100% 100%	100% 100%

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: 29 January 2018

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.