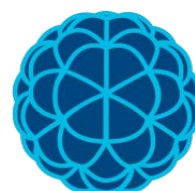




# QUARTERLY REPORT

FOR THE QUARTER ENDED  
31 MARCH 2018

(ASX : CNX)



carbonenergy

# CARBON ENERGY LIMITED

(ABN 58 057 552 137)

## QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 31 MARCH 2018 KEY EVENTS FOR THE QUARTER AND SUBSEQUENT TO QUARTER END

- On 28 February 2018, Carbon Energy Limited ('Carbon Energy' or 'Company') released its Half Yearly Report for the period ended 31 December 2017.
- In January 2018, the 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 welcomed the appointment of Bryan O'Donnell as Chief Executive Officer and Managing Director, effective as of 2 January 2018 and 8 January 2018 respectively.

## 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 continues to prioritise the establishment of keyseam® as a commercial technology to be licensed internationally and as the underground coal gasification (UCG) technology of choice for UCG projects worldwide. The Company is now working towards partnering with several companies to develop UCG projects in several countries worldwide.

## CHINA

### JinHong Joint Venture

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') remains key for Carbon Energy's strategy for growth into China.

The initial geotechnical modelling for the Mori UCG Project (at Mori (Mulei) County, Changji, Xinjiang, China) and UCG process model were completed in December 2017. This quarter has seen the focus on optimising the UCG panel design. Options have been developed to optimise the economics and the coal recovery from the very thick coal seam in Kulen coal deposit in Mori (Mulei) County. These options include different gasification chamber dimensions and extraction sequences to maximise coal recovery and the Mori UCG Project economics while maintaining stable geomechanical conditions for the integrity of the UCG gasification chambers.

The Company has finalised the development of the optimal UCG coal recovery plan for very thick coal seam at the Kulen coal deposit in Mori (Mulei) County that will be able to be applied to the Mori UCG Project to maximise the project economics. The Company is also continuing to work towards satisfying the concerns of project stakeholders and the local regulators in order to successfully progress the Mori UCG Project.

# CARBON ENERGY LIMITED

(ABN 58 057 552 137)

## QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 31 MARCH 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.

## CORPORATE

### CASH MANAGEMENT

As at 31 March 2018, the Company and its controlled entities held total cash of \$2.0 million. The Company continues to manage cash resources prudently and to ensure costs are minimised.

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

	\$'000s
Bloodwood Creek site and rehabilitation costs	35
Tenements rent	34
Consultants and other costs	<u>103</u>
<b>Total</b>	<b>172</b>



**Bryan O'Donnell**

**CEO and Managing Director**

**18 April 2018**

# CARBON ENERGY LIMITED

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 31 MARCH 2018

## TENEMENT STATUS AT 31 MARCH 2018

<b>MDL 374</b>	Renewal Pending*	28.68
<b>PFL 6</b>	Renewal Pending*	0.03

\* PFL6 Renewal submitted March 2015

\* MDL374 Renewal submitted January 2018

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

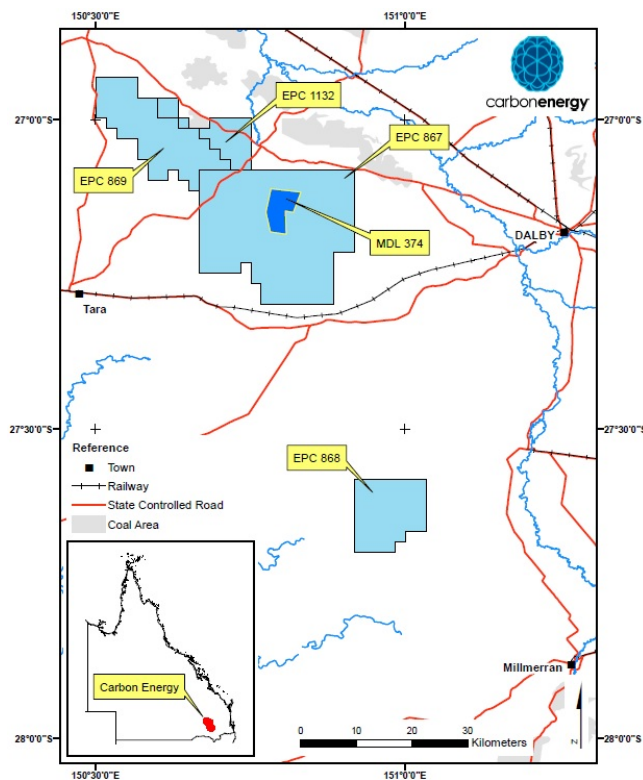


Figure 1 Carbon Energy Coal Tenure Surat Basin

# CARBON ENERGY LIMITED

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 31 MARCH 2018

## ISSUED CAPITAL AND SECURITIES ON ISSUE

As at 3 April 2018, Carbon Energy has the following securities on issue:

Listed Ordinary Shares <sup>1</sup>	64,933,515
\$1,000 Convertible Notes	9,200

<sup>1</sup> Includes 46,799,113 ordinary shares subject to voluntary escrow.

## SHAREHOLDERS

As at 3 April 2018:

- Carbon Energy has 4,728 shareholders; and
- The "Top 20" shareholders held approximately 87.26% of the listed shares on issue.

## MAJOR SHAREHOLDERS

As at 3 April 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 March 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(172)	(325)
(b) development	-	-
(c) production	-	-
(d) staff costs	(308)	(1,310)
(e) administration and corporate costs	(157)	(1,367)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	22	42
1.5 Interest and other costs of finance paid	-	(12)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	998	998
1.8 Other (sublease and other income)	36	157
Other (administrator and legal fees and costs)	-	(499)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>419</b>	<b>(2,316)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(48)	(48)
(b) tenements (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(d) other non-current assets	(9)	(40)
<b>2.2</b> Proceeds from the disposal of:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
<b>2.3</b> Cash flows from loans to other entities	-	-
<b>2.4</b> Dividends received (see note 3)	-	-
<b>2.5</b> Other (provide details if material)	-	-
<b>2.6</b> <b>Net cash from / (used in) investing activities</b>	<b>(57)</b>	<b>(88)</b>

<b>3.</b> <b>Cash flows from financing activities</b>		
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)	-	-
<b>3.10</b> <b>Net cash from / (used in) financing activities</b>	<b>-</b>	<b>4,329</b>

<b>4.</b> <b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	1,642	79
4.2 Net cash from / (used in) operating activities (item 1.9 above)	419	(2,316)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(57)	(88)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	4,329

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>2,004</b>	<b>2,004</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	703	842
5.2	Call deposits	1,301	800
5.3	Bank overdrafts		-
5.4	Other (provide details)		-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>2,004</b>	<b>1,642</b>

**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

<b>Current quarter \$A'000</b>
(41)
-

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

<b>Current quarter \$A'000</b>
-
-



<b>8. Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1 Loan facilities	10,200	10,200
8.2 Credit standby arrangements	5,000	-
8.3 Other (company credit cards)	10	2
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). Interest on the Convertible Note Facility accrues at 8% p.a. and is settled in cash or, subject to election, be capitalised to the outstanding principal or converted into shares or a combination of both. 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 accrues at 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.

<b>9. Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1 Exploration and evaluation	(159)
9.2 Development	-
9.3 Production	-
9.4 Staff costs	(571)
9.5 Administration and corporate costs	(291)
9.6 Other	(211)
<b>9.7 Total estimated cash outflows</b>	<b>(1,232) **.</b>

\*\* 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. The estimated cash outflow for the next quarter also includes a component which is discretionary at the date of this report. 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	EPC 867, EPC 868, EPC 869, EPC 1132	Ownership of exploration permit – coal (surrendering permit)  Refer further information under the Quarterly Activities Report for the Quarter Ended 31 March 2018 – Tenements Status at 31 March 2018.	100%	100%
10.2	Interests in mining tenements and petroleum tenements acquired or increased	MDL 374  PFL 6	Ownership of mineral development tenement (renewal pending)  Ownership of petroleum facility licence (renewal pending)  Refer further information under the Quarterly Activities Report for the Quarter Ended 31 March 2018 – Tenements Status at 31 March 2018.	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: 18 April 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.