



QUARTERLY REPORT

FOR THE QUARTER ENDED
30 JUNE 2018

(ASX : CNX)



carbonenergy

CARBON ENERGY LIMITED

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 30 JUNE 2018

KEY EVENTS FOR THE QUARTER AND SUBSEQUENT TO QUARTER END

- As part of the previous 31 March 2018 Quarterly Report, Carbon Energy Limited ('Carbon Energy' or 'Company') provided updates on its various company and business development matters, including its progress with works in China and Queensland, Australia.
- In May 2018, the Company announced an update on Carbon Energy's commercial strategy to include hydrogen production as a key product along with ammonia and synthetic natural gas. Utilising Carbon Energy's existing keyseam® technology, which has been acknowledged independently as being safe and effective, Carbon Energy is placing focus on pursuing opportunities of hydrogen production as a key use and commercial strategy for its keyseam® syngas production. Carbon Energy's keyseam® technology is ideally suited to hydrogen production as the produced gas output has a high composition of both hydrogen (35-50%) and methane (10-20%). This makes utilising the Carbon Energy group's existing technology for the commercial production of hydrogen or ammonia very attractive to the market.
- In July 2018, the Company announced that on 19 July 2018, being 12 months from the date of share issuance to Kam Lung Investment Development Company Limited (Kam Lung) on 19 July 2017, 46,799,113 shares will be released from Voluntary Escrow pursuant to the Voluntary Escrow Deed as previously detailed as part of the announcement for the Notice of Annual General Meeting of Shareholders held on 18 July 2017 and Notice of Initial Substantial Holder on 20 July 2017.
- Effective 16 July 2018, as detailed in the 'Form 604 – Notice of change of interests of substantial holder' lodged with ASX on 17 July 2018, there was a change in the nature of Kam Lung's and Beijing Jinhong Investment and Development Co., Ltd's (Beijing Jinhong's) relevant interest as a result of the transfer of 51,946,721 fully paid ordinary shares from Kam Lung to Beijing Jinhong. Kam Lung and Beijing Jinhong are both entities that are, and remain, wholly owned and controlled by Mr Zhuang.
- The Carbon Energy group has entered into an offer to lease for a new office premise commencing in 2019.

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 Carbon Energy group 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.

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The Carbon Energy group is now also working towards partnering with several companies to develop keyseam® technology deep coal gasification (DCG) projects in several countries worldwide including a CO₂ free hydrogen production project in the Cooper Basin of South Australia.

SOUTH AUSTRALIA, AUSTRALIA

During the quarter, the Carbon Energy group met with the South Australian Government and a number of operators in the Cooper Basin to identify potential coal tenure for DCG for a CO₂ free hydrogen production project. The Cooper Basin is an ideal location as the project can easily transport liquid CO₂ for enhanced oil production and/or sequestration into depleted oil and gas reservoirs. Suitable tenure has been identified and the Carbon Energy group is negotiating an acquisition of the potential coal tenure for DCG.

In parallel to seeking Cooper Basin tenure, the Carbon Energy group has contracted thyssenkrupp Industrial Solutions (Australia) Pty Ltd to carry out the CO₂ free hydrogen production plant conceptual studies in May 2018. The final report of these concept studies are expected in the September 2018 quarter. The preliminary results of these studies are extremely encouraging and form a compelling case for the Carbon Energy group to seek partners for a CO₂ free Hydrogen Production Project in the Cooper Basin in South Australia.

In the September 2018 quarter the Carbon Energy group will be leading discussions with several companies with interests in hydrogen production, transportation and trading for the Japanese led hydrogen economy. These companies include energy companies and chemical companies.

At the date of this report, the Carbon Energy group, together with its advisors, continues with the conceptual design of the hydrogen production plant and estimations of the keyseam® technology panels for Cooper Basin at particular depths. Upon completion, it is anticipated that the Carbon Energy group will progress towards estimates for the pre-FEED and FEED (Front End Engineering Design) for a hydrogen production plant at the Cooper Basin.

This is an exciting but extremely challenging time for the Carbon Energy group. Currently the Carbon Energy group is seeing potentially a new beginning for the development of keyseam® technology as it is extremely well placed to produce low cost hydrogen. Based on the preliminary results from the conceptual studies, it is anticipated that the ideal depth for keyseam® technology panels for hydrogen, ammonia or methane production is between 600 metres and 1800 metres.

The Carbon Energy group has chosen to describe its keyseam® UCG activities as DCG (Deep Coal Gasification) which differentiates our keyseam® technology from other conventional industries, such as coal seam gas (CSG) or coal mining. It is anticipated that there will be no surface effects or other effects on valuable near surface water aquifers.

The Carbon Energy group intends to continue building its future brand of keyseam® technology and CO₂ free hydrogen production under our 100% wholly owned subsidiary named Hydrogen Production Group Pty Ltd.

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 finalisation of the optimised UCG panel design for best economics and the coal recovery from the very thick coal seam in Kulen coal deposit in Mori (Mulei) County. These options include different gasification

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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.

Carbon Energy group has been informed by the Jinhong Joint Venture that the Mori UCG Project coal partner has indicated that it no longer wishes to continue its involvement in the project and that its preference is for Carbon Energy to purchase the coal deposit. Unfortunately, at the date of this report, mutually acceptable terms for the acquisition of the coal deposit could not be agreed and, consequently, the Jinhong Joint Venture is unable to continue progressing the Mori UCG Project.

The Carbon Energy group is supporting proposed UCG projects at two sites in Shanxi Province where there is an opportunity to provide its keyseam® technology. A number of coal mining and energy companies in Shanxi have been assessing coal deposits and progressing permitting requirements for UCG, as a basis for clean coal initiatives being encouraged by the Chinese central government. These uses include particulate free power generation with gas, synthetic natural gas for the expanding gas pipeline network, and feedstock for chemicals.

QUEENSLAND, AUSTRALIA

Bloodwood Creek Rehabilitation

The Carbon Energy group 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 Carbon Energy group with further assurance and confidence in our successful keyseam® technology.

The Carbon Energy group 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 Carbon Energy group has reached a decision that continued development of the EPC tenements no longer aligns with the Carbon Energy group's strategic direction. The Carbon Energy group 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.

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CORPORATE

CASH MANAGEMENT

As at 30 June 2018, the Company and its controlled entities held total cash of \$1.2 million. The Carbon Energy group continues to manage cash resources prudently and to ensure costs are minimised.

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

	\$'000s
Bloodwood Creek site and rehabilitation costs	22
Consultants and other costs	<u>65</u>
Total	87



Bryan O'Donnell

CEO and Managing Director

18 July 2018

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TENEMENT STATUS AT 30 JUNE 2018

Tenement	Status	Area km ²
MDL 374	Current*	28.68
PFL 6	Renewal Pending**	0.03

* MDL374 expires 1 February 2023

** PFL6 Renewal submitted March 2015

Tenement	Status	Sub-Blocks	Area km ²
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

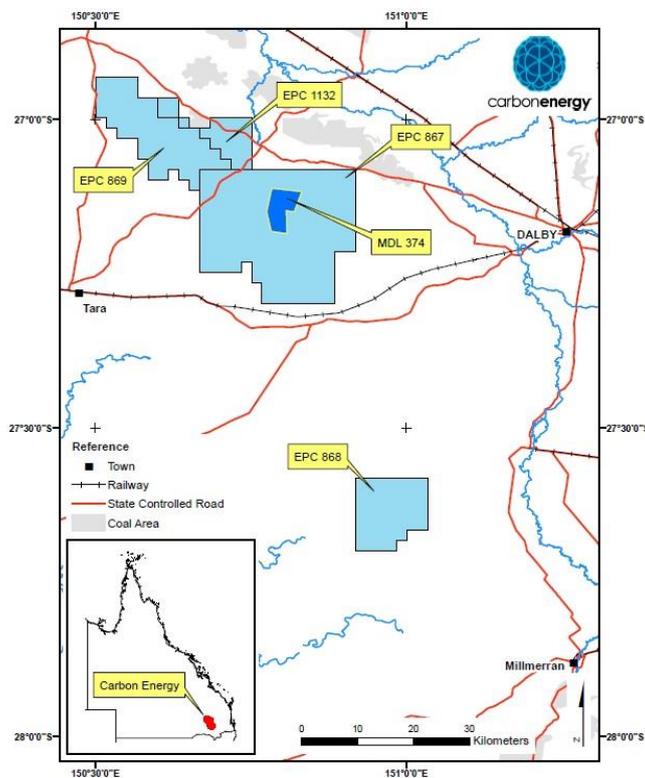


Figure 1 Carbon Energy Coal Tenure Surat Basin

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ISSUED CAPITAL AND SECURITIES ON ISSUE

As at 16 July 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 16 July 2018:

- Carbon Energy has 4,591 shareholders; and
- The "Top 20" shareholders held approximately 87.71% of the listed shares on issue.

MAJOR SHAREHOLDERS

As at 16 July 2018, the major shareholders include:

SHAREHOLDER	% HOLDING
1. Beijing Jinhong Investment and Development Co Ltd	80.00%
2. Incitec Pivot Limited	1.16%
3. Citicorp Nominees Pty Limited	0.88%

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 to 30 May 2018) Non-Executive Director and Consultant (from 30 May 2018)
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")

30 June 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(87)	(412)
(b) development	-	-
(c) production	-	-
(d) staff costs	(621)	(1,931)
(e) administration and corporate costs	(164)	(1,531)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	8	50
1.5 Interest and other costs of finance paid	(2)	(14)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	998
1.8 Other (sublease and other income)	57	214
Other (administrator and legal fees and costs)	-	(499)
1.9 Net cash from / (used in) operating activities	(809)	(3,125)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	(48)
(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 (12 months) \$A'000
	(d) other non-current assets	(13)	(53)
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)	(101)

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	2,004	79
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(809)	(3,125)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(13)	(101)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	4,329

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	1,182	1,182

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	82	703
5.2	Call deposits	1,100	1,301
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)	1,182	2,004

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	(88)
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	

Directors' fees and reimbursement of expenses made to Directors and their associate entities.

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	

Included under section 6 payments to directors of the entity and their associates are director fees paid to a related entity of Carbon Energy Limited.

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	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 may be 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	(277)
9.2 Development	-
9.3 Production	-
9.4 Staff costs	(390)
9.5 Administration and corporate costs	(454)
9.6 Other	(437)
9.7 Total estimated cash outflows	(1,558) **

** 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 components which are discretionary at the date of this report and/or subject to further commercial arrangements. The Company expects that further funds will be available in the course of its commercial operations and to undertake a capital raising 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 30 June 2018 – Tenements Status at 30 June 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 30 June 2018 – Tenements Status at 30 June 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 July 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.