QUARTERLY REPORT

FOR THE PERIOD ENDED
30 SEPTEMBER 2015

carbonenergy

CARBON ENERGY LIMITED

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2015

ABN 56 057 552 137

ASX Code: CNX OTCQX Code: CNXAY

KEY EVENTS FOR THE QUARTER

- The Company undertook a transformational step with the signing of a Joint Venture Agreement with Beijing JinHong Investment Co., Ltd (JinHong) to develop the first commercial Demonstration Project of its keyseam technology in China. JinHong is committed to providing US$30 million in capital required for the commissioning of the commercial Demonstration Project in China.
- The Company submitted its first Rehabilitation Status Report for its Bloodwood Creek Pilot Project to the Department of Environment and Heritage Protection (DEHP). The report concluded rehabilitation remains on track.
- The Company received $2 million from Kam Lung Investment Development Company Ltd ("Kam Lung"), the Company's largest shareholder, has increased its interest in the Company to 19.99% with a private placement. Kam Lung will also nominate a representative to join the Carbon Energy Board of Directors.
- The Company received $2.5 million as a research and development (R&D) tax incentive cash rebate from the Australian Taxation Office for R&D expenditure in the 2015 financial year and subsequently repaid the $1.2 million Macquarie Facility.

SUBSEQUENT TO QUARTER END

- The Company allotted 123,845,128 shares to Kam Lung at a price of $0.016 per share representing a 14% premium to the closing price on 25 September 2015, increasing its shareholding to 19.99%. Mr Zhuang, 100% shareholder of Kam Lung, was appointed as Kam Lung's Nominee Non-executive Director on 29 October 2015.
- The date for the Annual General Meeting has been set for Monday 30 November 2015 at 9:30am Brisbane time to be held at HopgoodGanim Lawyers, Level 7, Waterfront Place, 1 Eagle Street, Brisbane. Along with the normal business of the meeting, the Company is also seeking shareholder approval to form a Joint Venture in China (refer to Notice of Meeting (NOM) announcement made on 29 October 2015)
- To assist the Board and shareholders assess the merits of forming the Joint Venture with JinHong and entering into binding Agreements with the Joint Venture, the Company appointed PricewaterhouseCooopers Securities Ltd as an Independent Expert ("PwC Securities"). PwC Securities have concluded that the proposed transaction is **FAIR AND REASONABLE** to all non-associated shareholders. The Independent Expert's Report (IER) is available to read on the website at www.carbonenergy.com.au/ShareholderSupportingMaterial and is included as part of the NOM distributed on 30 October 2015.

COMPANY UPDATE

CHINA

JinHong Joint Venture

During September 2015 Carbon Energy announced that it had entered into binding Agreements with JinHong to form a joint venture in China (JV). The Parties will form a Joint Venture with JinHong for the purpose of establishing a vertically integrated gas business in China. The first goal of the Joint Venture would be the establishment of a commercial Demonstration Project in China.

Formation of the JV is conditional upon approval from Carbon Energy non-associated shareholders (refer to NOM distributed on 30 October 2015) and then the Ministry of Commerce in China which is expected to be granted before the end of the first quarter of 2016, following which the initial capitalisation of the Joint Venture by JinHong of US$10 million is required.

After receiving the above approvals Carbon Energy will then transfer a non-exclusive license to the JV to utilise the *keyseam* technology in China and, only upon successful commissioning of a commercial Demonstration Project will Carbon Energy issue an exclusive license to utilise the *keyseam* technology in China for which Carbon Energy will receive a 30% entitlement to the dividend distributions (the Transaction).

The Joint Venture parties have agreed that Jinhong will capitalise the joint venture to US$30 million (A$40 million[1]) over a 3 year period to achieve its initial goal of developing a demonstration project within 18 months of establishing the Joint Venture. The JinHong investment provides sufficient capital to build a complete showcase of *keyseam's* technical ability on a commercial scale outside of Australia and provides the crucial access to funding in order to construct and operate such a project.

Significantly, the funding for the JV will provide Carbon Energy greater capacity to infiltrate the Chinese market as well as providing a strong local partnership with proven Chinese business knowledge on how to successfully maximise company value in China at a time when China is embracing cleaner energy production technology and has acknowledged UCG as playing a major part.

Advantages to shareholders of supporting the formation of the Joint Venture include:

- provides access to a source of funds for the development and commercialisation of the *keyseam* technology in China which Carbon Energy would otherwise not have access to, particularly given current depressed market conditions for coal and gas assets;
- first commercial mover to market to capitalise on China's supportive political environment which recognises UCG as a source of cleaner energy production;
- it has been structured to enable Carbon Energy to move forward on multiple fronts thereby reducing execution risk and maximising returns. Carbon Energy can license projects before the ignition date of the JV commercial Demonstration Project and retain 90% to 100% of the profits depending on whether it introduces a project to the JV or it licenses a project outside the JV, rather than the 30% of distributions that would otherwise be received from the JV;

[1] Assuming an AUD exchange rate of 75 cents

- through the Technical Services agreements established with the JV, Carbon Energy is contracted to provide technical services to the JV thereby providing a source of revenue and cash flow to the Company;

- offers strong links to China through business and government contacts that JinHong holds. This is expected to enable greater access to China and suitable coal resources thereby enabling Carbon Energy to capitalise on opportunities that would potentially not be possible to access in the Chinese market without a local Chinese partner;

- provides Carbon Energy with non-dilution rights up until a possible IPO of the Joint Venture. This avoids the risk of Carbon Energy being severely diluted through the introduction of additional capital or investors into the IPO, unless Carbon Energy agrees to such dilution.

To assist shareholders assess the merits of forming the Joint Venture with JinHong and entering into binding Agreements with the Joint Venture, the Company appointed PricewaterhouseCooopers Securities Ltd as an Independent Expert ("PwC Securities"). PwC Securities has concluded that the proposed Transaction is **FAIR AND REASONABLE** to the Non-Associated Shareholders.

The further investment in Carbon Energy by Kam Lung through a private placement of $2 million shows strong support from the Company's cornerstone investor.

The Company continues to be active in Asia and has been in discussions with a number of parties developed through established contacts as well as those gained from the International Underground Coal Gasification Research Centre, a partnership the Company has formed with the leading mining university, China University of Mining Technology. The research centre's purpose is to cooperatively promote China's UCG market in China and to establish the highest international standards in this field. It is expected to be backed by funding and support of China's National Development and Reform Commission.

QUEENSLAND

During the quarter the Company continued to meet and communicate with the Queensland Government regarding progress to commence a commercial project near its Bloodwood Creek trial site 30km west of Dalby in south-east Queensland (Blue Gum Gas Project).

Letters from the Honourable Dr Lynham, Minister for Natural Resources and Mines (NRM), acknowledged Carbon Energy's performance during the trial and noted its technology will form part of the Government's decision making process. The Minister was, however,not able to advise when a Government decision on the future of UCG in the State was likely to be made.

Representatives from Carbon Energy also met with other DNRM staff as well as the Department of Environment and Heritage Protection (DEHP) regarding a range of business, including submission of the Company's first Rehabilitation Status Report and soil gas testing. Carbon Energy noted that ongoing rehabilitation status reports will be submitted until the rehabilitation meets or exceeds the criteria in the Rehabilitation Plan submitted to the Government in October 2014. Soil gas testing was undertaken during the quarter with DEHP noting that no further testing is scheduled.

Blue Gum Gas Project

The Company continues to engage with the Queensland Government to move this project forward. The project is planned for development on MDL374 and freehold land owned by the Company in the Surat Basin. The proposed Blue Gum Gas Project is intended to deliver 25PJ per annum of pipeline quality gas. It is anticipated that first gas could be supplied to local industry three years from commencement of the EIS process, assuming suitable investment partners are secured.

The progression of the project is currently delayed while the Company awaits response from DNRM as to its instructions for commencing an EIS for the Blue Gum Gas Project. The Company is also exploring a number of mid-scale commercial opportunities which would utilise the existing infrastructure and assets at Bloodwood Creek.

CASH MANAGEMENT

In August Carbon Energy received $2.5 million as a research and development (R&D) tax incentive cash rebate from the Australian Taxation Office for R&D expenditure in the 2015 financial year.

The Company subsequently repaid the $1.2 million Macquarie Bank Limited loan facility announced on 29 January 2015.

Additionally, $2 million was received from the Company's largest shareholder, Kam Lung on the 30 September 2015. Subsequent to the quarter the Company issued 123,845,128 shares ("Placement Shares") to Kam Lung following receipt of the executed Voluntary Restriction Agreement. The Placement Shares are held in escrow for 12 months from issue date.

At the end of the quarter the Company has access to approximately $3.4 million of cash.

CORPORATE

During the Quarter Ms Tracy Bragg resigned from the position of General Counsel & Company Secretary, effective from 30 September 2015.

Ms Bragg has been with Carbon Energy for nearly three years and assumed the role of Company Secretary in October 2013. The Board thanks Ms Bragg for her valuable contribution and service to the business and wishes Ms Bragg well with her move to the United Kingdom.

Ms Catherine Costello, the Company's Chief Financial Officer, took over the role of Company Secretary in addition to her existing duties, effective from 30 September 2015.

CONTRACTUAL MATTERS - SUMMA SHARE SALE AGREEMENT

Carbon Energy maintains its position announced on 30 May 2013 that project financial milestones under the Agreement with Summa were not able to be achieved.[2] Carbon Energy maintains it is not obliged to issue further tranches of shares to Summa nor is it required to reserve those shares. No formal proceedings have been commenced and no further correspondence has been received from Summa. Carbon Energy will vigorously defend any claims made in respect of those allegations.

For and on behalf of the Board



Morné Engelbrecht
Chief Executive Officer & Managing Director
30 October 2015

[2] See ASX Announcement 23 February 2011.

CARBON ENERGY GAS RESERVES & RESOURCES

Area	Reserve and Resource Classification	Gross (100%) Syngas Energy (PJ)	Gross (100%) SNG Energy (PJ)
MDL 374	1P Reserves	11.0	7.1
	2P Reserves	1,737.9	1,128.5
	3P Reserves	2,512.4	1,631.5
EPC 867	3P Reserves	5,650.0	3,668.9
	2C Contingent Res	7,734,3	5,022.3
EPC 869	2C Contingent Res	4,150.3	2,695.0
EPC 1132	2C Contingent Res	1,220.1	792.3

Notes to the above table:

- 1P Reserves = Proved
- 2P Reserves = Proved + Probable
- 3P Reserves = Proved + Probable + Possible

All Reserve and Resource estimates (Estimates) in this document are reported in accordance with the requirements of ASX Listing Rules 5.25 to 5.28. It is noted in particular that:

(a) This document refers to Estimates reported on 19 September 2014 and released to the market on 22 September 2014 (Updated Reserves Statement);

(b) All Estimates are based on the deterministic method for estimation of petroleum resources at the field and project levels and are attributable to the gross (100 percent) ownership interest of Carbon Energy in certain coal properties located in MDL 374, EPC 867, EPC 869 and EPC 1132 located in the Surat Basin of Queensland, Australia;

(c) All Estimates are reported using the following conversion factors as relevant:
  (i) UCG Energy conversion factor is 16.73 GJ of syngas per tonne of coal gasified;
  (ii) UCG syngas to Synthetic Natural Gas (SNG) conversion factor is 38.5 to 25;
  (iii) 1,055 Petajoule (PJ) = 1 Trillion cubic feet (Tcf); and
  (iv) 1 barrel of oil equivalent (boe) = 6,000 cubic feet.

Further, for the purposes of ASX Listing Rule 5.43, Carbon Energy confirms that it is not aware of any new information or data that materially affects the information included in the 22 September 2014 Updated Reserves Statement and that all material assumptions and technical parameters underpinning the estimates in the Updated Reserves Statement continue to apply and have not materially changed.

TENEMENT STATUS AT 30 SEPTEMBER 2015

Tenement	Status	Area km^2
MDL 374	Renewal Pending*	28.68
MLa 50253	Application Pending**	13.43
PFL 6	Renewal Pending***	0.03

* Renewal submitted June 2012. Discussions with DNRM are ongoing. Updated work program submitted to DNRM December 2014 and then again in September 2015

** Application awaiting Environmental Impact Assessment prior to finalisation and assessment

*** Renewal submitted March 2015

Tenement	Status	Sub-Blocks	Area km^2
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

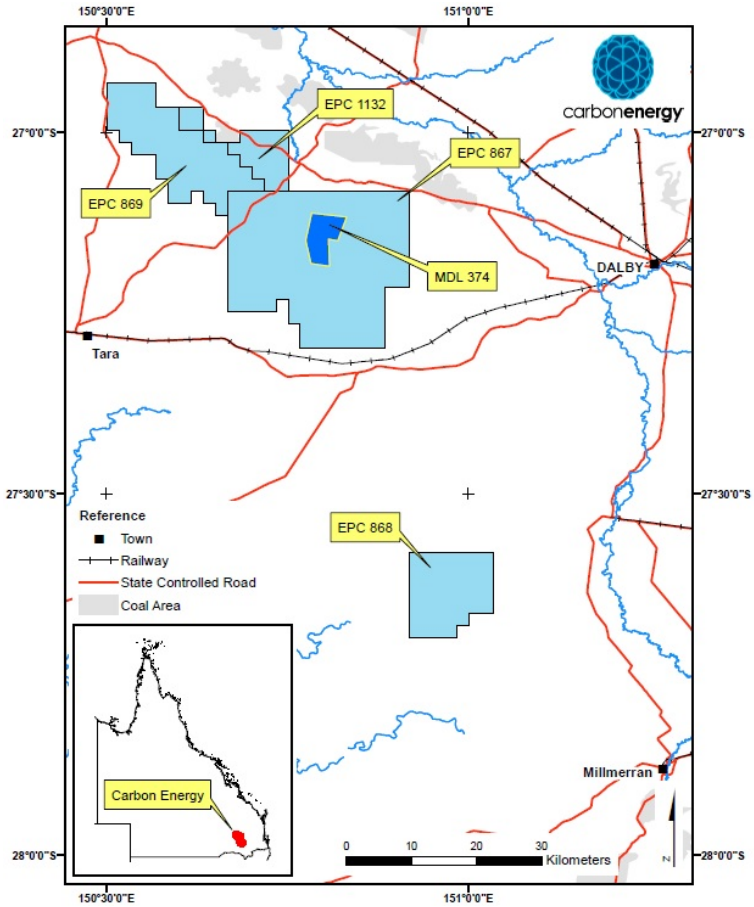


Figure 1 Carbon Energy Coal Tenure Surat Basin

ISSUED CAPITAL

As at 30 September 2015

ORDINARY SHARES

1,355,218,573 shares

OPTIONS - LISTED

443,696,404 Listed options exercisable at $0.06 and expiring 31 July 2016

OPTIONS – UNLISTED:

61,728,395 Unlisted Credit Suisse options

44,645,845 Unlisted Pacific Road Capital Convertible Note options

47,948,812 Unlisted current CNX management options

5,045,339 Unlisted former CNX management options

SHAREHOLDERS

As at 30 September 2015

ORDINARY SHARES:

5,420 Shareholders

Top 20 Shareholders hold 52.81% of listed shares

Major Shareholders (more than 5% holding):

1.	Kam Lung Investment Development Company Limited	12.68%
2.	Pacific Road Capital	9.80%
3.	CitiCorp Nominees Pty Ltd	6.29%
4.	Incitec Pivot Ltd	5.58%

OPTIONS – LISTED (EXERCISABLE AT $0.06 EXPIRING 31 JULY 2016):

1,231 Listed Option Holders

Top 20 Listed Option Holders hold 68.93% of listed options

Top 5 Listed Option Holders:

1.	Kam Lung Investment Development Company Limited	38.72%
2.	Citicorp Nominees Pty Limited	11.34%
3.	Archfield Holdings Pty Ltd	3.16%
4.	JP Morgan Nominees Australia Ltd	2.04%
5.	Mr Alexander Gontmakher	1.69%

BOARD OF DIRECTORS & MANAGEMENT

BOARD OF DIRECTORS

Dr Chris Rawlings	Non-Executive Chairman
Mr Morné Engelbrecht	Chief Executive Officer & Managing Director
Dr Helen Garnett	Non-Executive Director
Mr Peter Hogan	Non-Executive Director
Mr Louis Rozman	Non-Executive Director
Mr Huihai Zhuang	Non-Executive Director (Appointed 29 October 2015)

EXECUTIVE MANAGEMENT

Mr Morné Engelbrecht	Chief Executive Officer & Managing Director
Ms Catherine Costello	Chief Financial Officer & Company Secretary (appointed 30 September 2015 as Company Secretary)
Dr Cliff Mallett	Technical Director
Mr Terry Moore	General Manager Operations
Mrs Tracy Bragg	General Counsel & Company Secretary (resigned 30 September 2015)
Mr Justin Haines	General Manager Technical Services (resigned 14 August 2015)

APPENDIX 5B

MINING 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

Name of entity

CARBON ENERGY LIMITED

ABN	Quarter ended ("current quarter")
56 057 552 137	30 September 2015

CONSOLIDATED STATEMENT OF CASH FLOWS

	Cash flows related to operating activities	Current Quarter $A'000	Year to date $A'000
1.1	Receipts from product sales and related debtors	69	69
1.2	Payments for		
	(a) Exploration & Evaluation	(45)	(45)
	(b) BWC Site Operating & Maintenance Costs & Technical Services & Rehabilitation Drilling	(521)	(521)
	(c) Production	-	-
	(d) Corporate, Commercial, New Business & Administration	(1,055)	(1,055)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	31	31
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	2,456	2,456
	Government grants: Research & Development rebate		
	Net Operating Cash Flows	**935**	**935**

	Cash flows related to investing activities		
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
	Exploration & evaluation costs, trademarks		
	Net investing cash flows	**-**	**-**
1.13	Total operating and investing cash flows	935	935
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares and options	1,924	1,924
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from short term loan facility	-	-
1.17	Repayment of short term loan facility	(1,166)	(1,166)
1.18	Term facility costs	(16)	(16)
1.19	Capital raising costs	(2)	(2)
	Net financing cash flows	**740**	**740**
	Net (decrease) / increase in cash held	**1,675**	**1,675**
1.20	Cash at beginning of quarter/year to date	1,689	1,689
1.21	Exchange rate adjustments to item 1.20		-
1.22	**Cash at end of quarter**	**3,364**	**3,364**

PAYMENTS TO DIRECTORS OF THE ENTITY, ASSOCIATES OF THE DIRECTORS, RELATED ENTITIES OF THE ENTITY AND ASSOCIATES OF THE RELATED ENTITIES

		Current quarter $A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	204
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Costs included in item 1.23 above relate to Directors' salaries, annual leave, fees and superannuation.

NON-CASH FINANCING AND INVESTING ACTIVITIES

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Issue of 9,475,744 Ordinary Shares to cover the interest costs, payable 3 months in arrears, in relation to the Facility utilised under the $10 million Pacific Road Convertible Note Facility Agreement. These shares are issued in accordance with ASX Listing Rule 7.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/a

FINANCING FACILITIES AVAILABLE

Add notes as necessary for an understanding of the position.

		Amount available $A'000	Amount used $A'000
3.1	Loan facilities (Pac Road Convertible Note Facility)	10,000	10,000
3.2	Credit standby arrangements	344	240

ESTIMATED CASH OUTFLOWS FOR NEXT QUARTER

		$A'000
4.1	Exploration and evaluation	10
4.2	BWC Site Operating & Maintenance Costs & Technical Services & Rehabilitation Drilling	439
4.3	Production	-
4.4	Corporate, Commercial, New Business & Administration (including financing costs)	1,075
	Total	**1,524**

RECONCILIATION OF CASH

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current Quarter $A'000	Previous Quarter $A'000
5.1	Cash on hand and at bank	2,097	24
5.2	Deposits at call	1,267	1,665
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (Item1.22)	**3,364**	**1,689**

CHANGES IN INTERESTS IN MINING TENEMENTS

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-	-	-	-
6.2	Interests in mining tenements acquired or increased	-	-	-	-

ISSUED AND QUOTED SECURITIES AT END OF CURRENT QUARTER

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	**Preference +securities** *(description)*	-	-	-	-
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	 - -	 - -	 - -	 - -
7.3	**+Ordinary securities**	1,355,218,573	1,355,218,573	Various	Fully paid
7.4	Changes during quarter (a) Increases through issues: Interest on Convertible Note (b) Decreases through returns of capital, buy-backs	 9,475,744 -	 9,475,744 -	 $0.0133 -	 Fully paid -
7.5	**+Convertible debt securities** (*description)*	Pacific Road Capital $10 million Convertible Note Facility issued 5 January 2012 and repayable on 18 January 2017 with 5% interest payable quarterly in arrears in Company shares.			
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	 - -	 - -	 - -	 - -
7.7	**Options**			Exercise Price	Expiry Date
	Unlisted Options $0.0610	61,728,395	-	$0.0610	15/11/2015
	Unlisted Options $0.0610	9,645,845	-	$0.0610	15/11/2015
	Unlisted Options $0.12	3,084,000	-	$0.12	31/12/2015
	Listed Options $0.06	443,696,404	443,696,404	$0.06	31/07/2016
	Unlisted Options $0.026	7,081,738	-	$0.026	15/10/2016
	Unlisted Options $0.1678	7,000,000	-	$0.1678	18/01/2017
	Unlisted Options $0.1678	28,000,000	-	$0.1678	25/02/2017
	Unlisted Options $0.0301	9,495,080	-	$0.0301	25/08/2017
	Unlisted Options $0.06	33,333,333	-	$0.06	30/06/2019
7.8	Issued during quarter	-	-	-	-

7.9	Exercised during quarter	-	-	-	-
7.10	Expired during quarter	-	-	-	-
7.11	**Debentures** *(totals only)*	-	-		
7.12	**Unsecured notes** *(totals only)*	-	-		

COMPLIANCE STATEMENT

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX.

2 This statement does give a true and fair view of the matters disclosed.

Sign here: 

Date: 30 October 2015

Name: Catherine Costello

Title: Chief Financial Officer