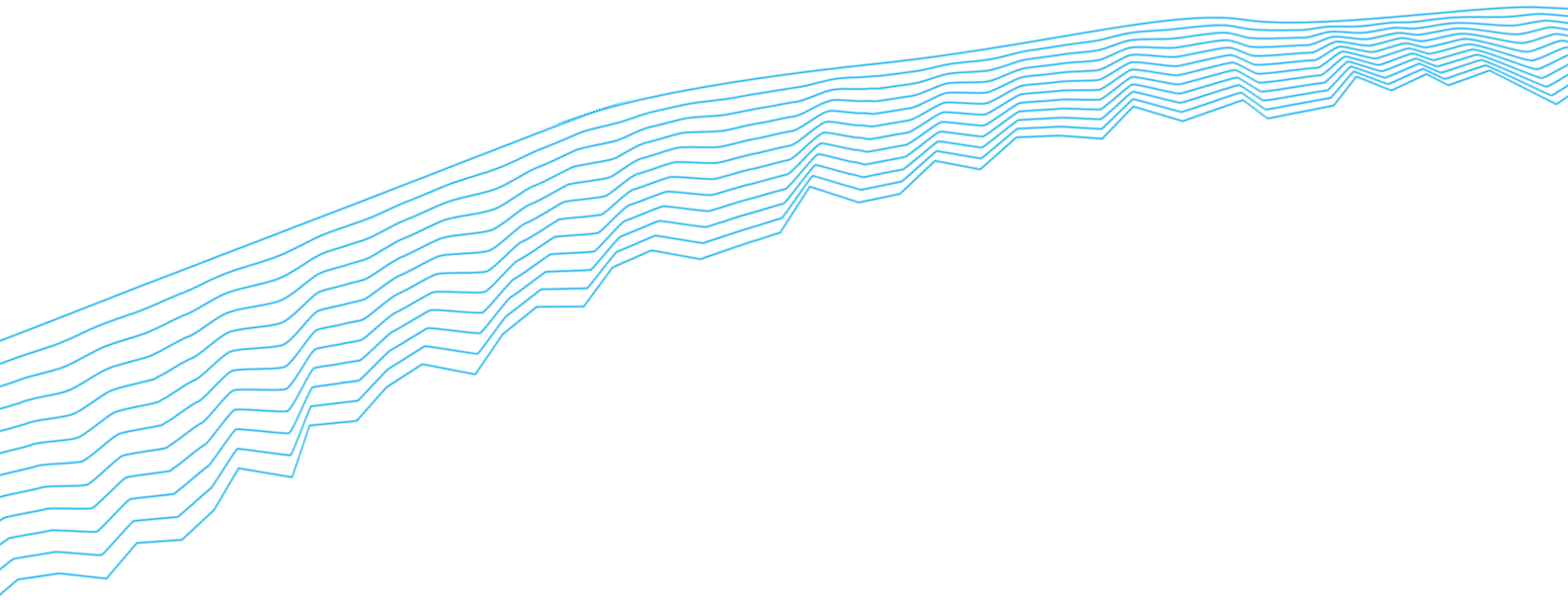


CARBON ENERGY LIMITED  
QUARTERLY REPORT  
JUNE 2014



carbon**energy**

# CARBON ENERGY LIMITED

## QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 JUNE 2014

ABN 56 057 552 137

ASX Code: CNX OTCQX Code: CNXAY

### KEY EVENTS

- Carbon Energy reached substantial completion of 4 of the 8 work packages associated with Stage 1 of the Inner Mongolia UCG project.
- In May 2014 the Company commenced preparation of its Decommissioning Report and Rehabilitation Plan for submission to the Queensland Government following completion of a comprehensive drilling and sampling program at its Bloodwood Creek site.
- Catherine Costello was appointed Chief Financial Officer, on a part-time basis, commencing on 1 April 2014.

### SUBSEQUENT TO THE END OF THE QUARTER

- The Company reached in-principle agreement with the Government to a process and timetable that should facilitate a decision on the commercial future of keyseam® in due course.
- Carbon Energy secured a \$1.5 million financing facility with Macquarie Bank.

## LICENSING TECHNOLOGY & TECHNICAL SERVICES

### CHINA

Carbon Energy reached substantial completion of 4 of the 8 work packages associated with Stage 1 of the Inner Mongolia UCG project. Subsequent to the end of the quarter Carbon Energy began a new phase of the project and is transitioning to a new project team with the skill set to complete the final 4 packages.

No further payments have been received from the client (Haoqin Mining). The Company is in discussions with Haoqin Mining to clarify the timing of appointment of the local procurement and construction management (PCM) company which is critical to final completion and delivery of packages 4 & 5 as well as to obtaining signoff for the first 3 packages already delivered and the associated milestone payment. PCM appointment will also trigger the milestone payment for commencement of the final two work packages.

### CHILE

Carbon Energy continued its focus on securing third party investment for the Mulpun UCG Project in Chile, South America. Discussions with potential equity partners and debt providers for the project are continuing. The Company aims to be a technology partner to the project once project partners have been identified and funding is secured.

### ARGENTINA

Carbon Energy has a memorandum of understanding (MOU) with Delmo Group Pty Limited (Delmo) to become the UCG technology partner for a commercial UCG project in Argentina. The Secretary of Energy recently informed Delmo representatives that the project proposal was still being reviewed by the Department.

# CONVENTIONAL COAL RESOURCES

## RESOURCES STATEMENT

The Inferred Coal Resources in the Company held tenures, reported in accordance with the Joint Ore Reserves Committee (JORC) guidelines, are:

Tenure	Formation	Resource (Mt) <sup>1</sup>
<b>EPC867*</b>	Macalister Seam	1,448
<b>EPC868</b>	Not assessed due to insufficient data	-
<b>EPC869</b>	Macalister Seam	449
<b>EPC1132</b>	Macalister Seam	132
<b>TOTAL</b>		<b>2,029</b>

\*EPC867 excludes MDL374 which contains the Company's UCG syngas Reserve.

Note: Inferred Resources are conceptual in nature.

Constraints on the Inferred Resources are as follows:

- Points of observation less than 4km apart and not exceeding 1km past the last data point;
- Minimum seam thickness of 2m (in aggregate of plies);
- Maximum stone parting thickness of 0.5m;
- Maximum raw ash of 50%;
- Drill holes classed as valid points of observations were defined as holes where:
  - The entire coal seam was cored or, the drillhole contained slimline geophysics; and
  - Drillhole seam intersection has reasonable stratigraphic correlation.

The information in this statement that relates to in situ coal resources potential is based on information compiled by GeoConsult Pty Ltd and Adrian Buck and reviewed by Warwick Smyth, who is a member of the Australasian Institute of Mining and Metallurgy (CP) Geology; and the Australian Institute of Geoscientists.

Warwick Smyth is a qualified geologist (BSc Geol, Grad Dip AF&I, MAusImm (CP), MGSA, MAIG), and a Principal Consultant for GeoConsult Pty Ltd and has over 20 years experience which is relevant to the style of mineralisation, the type of deposit under consideration and to the activity which has been undertaken to qualify as a Competent Person as defined by the 2012 edition of the Australian Code for Reporting of Coal Resources. Warwick Smyth of GeoConsult Pty Ltd has no material interest or entitlement, direct or indirect, in the securities of Carbon Energy or the Projects. GeoConsult has been commissioned to provide geological services to Carbon Energy since late 2012. Fees for the preparation of this report are on a time and materials basis.

Warwick Smyth and GeoConsult Pty Ltd consent to the use of this statement and references to it and extracts from it, in the form and context in which they are included. Apart from the above, neither the whole nor any part of the statement document, nor references thereto, may be included in, or with, or attached to any document, circular, resolution, letter or statement without the prior written consent of Warwick Smyth or GeoConsult Pty Ltd.

<sup>1</sup> See ASX announcement 2 April 2013. The Company is not aware of any new information or data that materially affects the included information and all material assumptions and technical parameters underpinning the estimates have not materially changed.

## TENEMENT STATUS AT 30 JUNE 2014

Tenement	Status	Area km <sup>2</sup>
<b>MDL374</b>	Renewal Pending	28.68
<b>MLa50253</b>	Application Pending	13.43
<b>PFL 6</b>	Granted	0.03

Tenement	Status	As at 30 June 2014 Sub-Blocks	Area km <sup>2</sup>
<b>EPC867</b>	Granted	167	585.78
<b>EPC868</b>	Granted	96	291.14
<b>EPC869</b>	Granted	63	192.53
<b>EPC1132</b>	Granted	23	70.28
<b>Total Eastern Surat Basin Tenements</b>		<b>349</b>	<b>1,063.12</b>

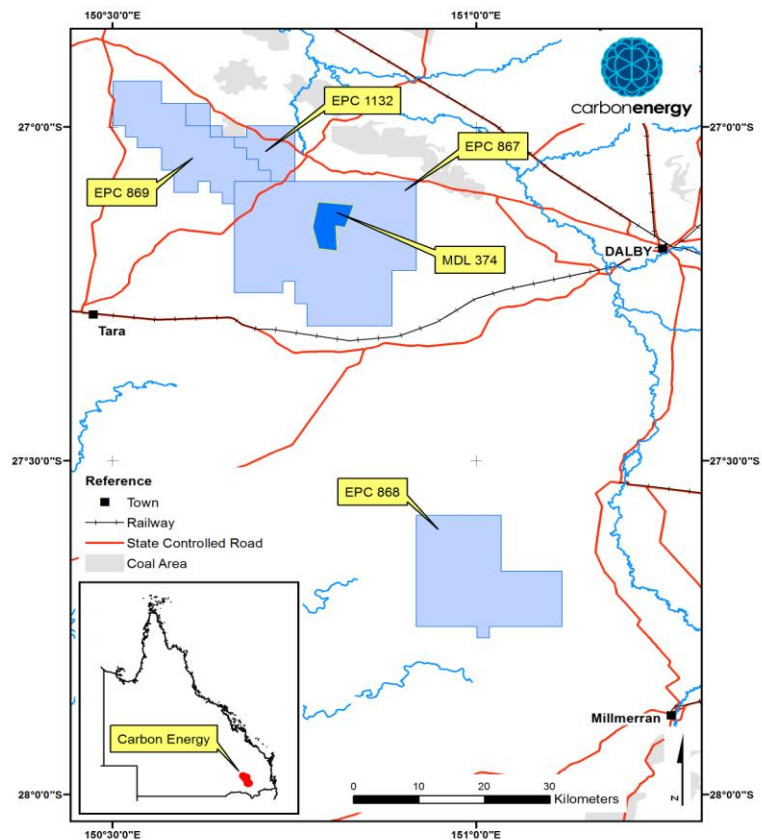


Figure 1 Carbon Energy Coal Tenure Surat Basin

## UCG SYNGAS AT BLOODWOOD CREEK

### SYNGAS RESERVE STATEMENT

The UCG syngas Reserves, reported in accordance with the Society of Petroleum Engineers' guidelines, are:

Area	Category	Gross Gas Volumes (PJ)
Bloodwood Creek MDL374	1P Reserve (Proven)	11
	2P Reserve (Proven + Probable)	1,362
	3P Reserve (Proven + Probable + Possible)	3,285

These estimates are based on, and fairly represent, information and supporting documentation prepared by Timothy Hower of MHA Petroleum Consultants of Denver, USA. Mr Hower is a member of the Society of Petroleum Engineers and has consented to the use of the reserve estimates and supporting information contained herein, in the form and context in which it appears.

Further, Carbon Energy is not aware of any new information or data that materially affects the reserve information and confirms that all material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed since reporting that information to the market on 7 November 2013.

The UCG syngas Reserve positioned in MDL374<sup>2</sup> is within the Company's wholly owned 1,063km<sup>2</sup> of exploration leases at Bloodwood Creek in Queensland's Surat Basin. The Bloodwood Creek site is located near commercial infrastructure including major power lines, the Roma-Brisbane Gas Pipeline, industrial-grade water supply, roads and rail as well as skilled labour.

### UCG COMMERCIALISATION IN QUEENSLAND

During the quarter the Company continued to work towards achieving approval to commence a commercial scale UCG operation in Queensland. In May 2014 the Company completed comprehensive environmental sampling at its Bloodwood Creek site and moved to preparation of a Decommissioning Report for submission to the Queensland Government in early August 2014.

Subsequent to quarter end the Company received confirmation of in-principle agreement from the Department of Environment and Heritage Protection and the Department of Natural Resources and Mines to the proposed process and timetable for achieving a decision with respect to commercial scale gas production from UCG in Queensland.

The process and timetable proposed by Carbon Energy to Government includes submission of the Decommissioning Report in early August 2014 followed by the Rehabilitation Plan by the end of the first quarter of the 2015 financial year. Although it is acknowledged by all parties that the proposed timeline is tight it should facilitate a decision on the commercial future of keyseam in due course.

In parallel, the Company is working to establish partnerships for a commercial-scale gas project producing at least 25PJ of pipeline quality gas, and has commenced work on community engagement and the pre-feasibility study for a project in South East Queensland.

<sup>2</sup> MDL374 renewal was submitted and received by the Queensland Department of Natural Resources and Mines and the renewal process is underway.

## CORPORATE

### CASH MANAGEMENT

Subsequent to the end of the quarter the Company secured a \$1.5 million loan facility with Macquarie Bank Limited. The facility will provide the Company with the ability to drawdown up to \$1.5 million to assist in funding its working capital requirements prior to receipt of the FY2014 ATO R&D Rebate.

The Company is intending to lodge a rebate application for \$3.7 million with the ATO in Q1 of FY2015 following finalisation of its annual financial statements. It is anticipated that a rebate, for R&D expenditure incurred during 2013-14, will be received from the ATO during Q2 of FY2015.

### CONTRACTUAL MATTERS

#### Summa Share Sale Agreement Update

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<sup>3</sup>. Carbon Energy maintains it is not obliged to issue further tranches of shares to Summa nor is it required to reserve those shares. Without prejudice discussions between representatives from both parties continue, but have to date failed to bring the matter to a close.

### APPOINTMENTS

#### Chief Financial Officer

Ms Catherine Costello was appointed to the position of Chief Financial Officer on a part time basis effective from 1 April 2014. Ms Costello replaces Mr Engelbrecht who held the position prior to his appointment as Chief Executive Officer in 2013.

For and behalf of the Board



**Morné Engelbrecht**  
Chief Executive Officer & Managing Director  
29 July 2014

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<sup>3</sup> See ASX Announcement 23 February 2011.

## ISSUED CAPITAL

As at 30 June 2014

### Ordinary Shares

1,265,979,607 shares

### Options - Listed

443,708,404 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

10,000,000 Unlisted ex CNX management options

77,925,247 Unlisted current CNX management and employee options

## SHAREHOLDERS

As at 30 June 2014

### Ordinary Shares:

5,385 Shareholders

Top 20 Shareholders hold 52.17% of listed shares

Major Shareholders (more than 5% holding):

1. Kam Lung Investment Development Company Limited	13.57%
2. Pacific Road Capital	8.35%
3. CitiCorp Nominees Pty Ltd	6.38%
4. Incitec Pivot Ltd	5.97%

### Options – Listed (exercisable at \$0.06 expiring 31 July 2016):

1,291 Listed Option Holders

Top 20 Listed Option Holders hold 71.21% of listed options

Top 5 Listed Option Holders:

1. Kam Lung Investment Development Company Limited	38.72%
2. Citicorp Nominees Pty Limited	11.43%
3. Archfield Holdings Pty Ltd	2.61%
4. Stockwork (KAL) Pty Ltd	2.25%
5. J P Morgan Nominees Australia Limited	2.03%



## BOARD OF DIRECTORS & MANAGEMENT

### Board of Directors

Dr Chris Rawlings	Non-Executive Chairman
Mr Morné Engelbrecht	Chief Executive Officer & Managing Director
Mr Max Cozijn	Non-Executive Director
Dr Helen Garnett	Non-Executive Director
Mr Peter Hogan	Non-Executive Director
Mr Louis Rozman	Non-Executive Director

### Management

Mr Morné Engelbrecht	Chief Executive Officer & Managing Director
Ms Catherine Costello	Chief Financial Officer
Dr Cliff Mallett	Technical Director
Mrs Tracy Bragg	General Counsel & Company Secretary
Mr Justin Haines	General Manager Technical Services
Mr Terry Moore	General Manager Operations

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

56 057 552 137

Quarter ended ("current quarter")

30 June 2014

CONSOLIDATED STATEMENT OF CASH FLOWS

<b>Cash flows related to operating activities</b>	<b>Current Quarter \$A'000</b>	<b>Year to date \$A'000</b>
1.1 Receipts from product sales and related debtors	-	1,811
1.2 Payments for		
(a) Exploration & Evaluation	80	(6)
(b) BWC Site Operating & Maintenance Costs & Technical Services & Rehabilitation Drilling	(1,911)	(6,268)
(c) Production	-	-
(d) Corporate, Commercial, New Business & Administration	(1,246)	(5,486)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	27	167
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	(181)
1.7 Other (provide details if material)	90	3,951
Government grants: Research & Development rebate, Export Market Development Grant		
<b>Net Operating Cash Flows</b>	<b>(2,960)</b>	<b>(6,012)</b>

Appendix 5B  
Mining Exploration Entity Quarterly Report

	<b>Cash flows related to investing activities</b>		
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(67)	(105)
1.9	Proceeds from sale of:		
	(a) prospects	-	600
	(b) equity investments	-	450
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	(146)
	Exploration & evaluation costs, trademarks		
	<b>Net investing cash flows</b>	<b>(67)</b>	<b>799</b>
1.13	Total operating and investing cash flows	(3,027)	(5,213)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares and options	-	8,874
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of short term loan facility	-	(2,997)
1.18	Term facility costs	-	-
1.19	Capital raising costs	-	(49)
	<b>Net financing cash flows</b>	<b>-</b>	<b>5,828</b>
	<b>Net (decrease) / increase in cash held</b>	<b>(3,027)</b>	<b>614</b>
1.20	Cash at beginning of quarter/year to date	5,414	1,773
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>2,387</b>	<b>2,387</b>

+ See chapter 19 for defined terms.

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

		<b>Current quarter \$A'000</b>
1.23	Aggregate amount of payments to the parties included in item 1.2	177
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' 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 8,834,624 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.

		<b>Amount available \$A'000</b>	<b>Amount used \$A'000</b>
3.1	Loan facilities (Pac Road Convertible Note Facility)	10,000	10,000
3.2	Credit standby arrangements	344	235

The Company secured a \$1.5 million financing facility with Macquarie Bank subsequent to the end of the quarter. This facility remains undrawn as at the date of this report.

## ESTIMATED CASH OUTFLOWS FOR NEXT QUARTER

		<b>\$A'000</b>
4.1	Exploration and evaluation	54
4.2	BWC Site Operating & Maintenance Costs & Technical Services & Rehabilitation Drilling	1,330
4.3	Production	-
4.4	Corporate, Commercial, New Business & Administration	1,138
<b>Total</b>		<b>2,522</b>
<p><i>The Company expects to receive a rebate for \$3.7 million from the Australian Taxation Office for research and development expenditure incurred during 2013-14. The Company has secured a \$1.5 million financing facility to fund working capital requirements prior to receipt of the rebate.</i></p>		

## 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.		<b>Current quarter</b>	<b>Previous quarter</b>
		<b>\$A'000</b>	<b>\$A'000</b>
5.1	Cash on hand and at bank	387	1,414
5.2	Deposits at call	2,000	4,000
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>		<b>2,387</b>	<b>5,414</b>

## CHANGES IN INTERESTS IN MINING TENEMENTS

	<b>Tenement reference</b>	<b>Nature of interest (note (2))</b>	<b>Interest at beginning of quarter</b>	<b>Interest at end of quarter</b>
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 <b>Preference +securities</b> (description)	-	-	-	-
7.2 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 <b>+Ordinary securities</b>	1,265,979,607	1,265,979,607	Various	Fully paid
7.4 Changes during quarter				
(a) Increases through issues	8,834,624	8,834,624	\$0.0138	Fully paid
(b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5 <b>+Convertible debt securities</b> (description)	Pacific Road Capital \$10 million Convertible Note Facility issued 5 January 2012 and expiring 5 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 <b>Options</b>			Exercise Price	Expiry Date
Unlisted Options \$1.00	10,000,000		\$1.00	10/12/2014
Unlisted Options \$0.0810	61,728,395		\$0.0810	15/11/2015
Unlisted Options \$0.0810	9,645,845		\$0.0810	15/11/2015
Unlisted Options \$0.12	3,084,000		\$0.12	31/12/2015
Unlisted Options \$0.026	8,174,581		\$0.026	31/07/2016
Listed Options \$0.06	443,708,404	443,708,404	\$0.06	15/10/2016
Unlisted Options \$0.1875	7,000,000		\$0.1875	18/01/2017
Unlisted Options \$0.1875	28,000,000		\$0.1875	25/02/2017
Unlisted Options \$0.06	33,333,333		\$0.06	30/06/2018
Unlisted Options \$0.06	33,333,333		\$0.06	30/06/2019
7.8 Issued during quarter				

+ See chapter 19 for defined terms.

Appendix 5B  
Mining Exploration Entity Quarterly Report

7.9	Exercised during quarter	-	-	-	-
7.10	Expired during quarter Unlisted Options \$0.06	33,333,333	33,333,333	\$0.06	30/06/2014
7.11	<b>Debentures</b> <i>(totals only)</i>	-	-		
7.12	<b>Unsecured notes</b> <i>(totals only)</i>	-	-		

## 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: 29 July 2014  
Name: Catherine Costello  
Title: Chief Financial Officer