



# QUARTERLY REPORT

FOR THE PERIOD ENDED  
30 JUNE 2015



carbon**energy**

# CARBON ENERGY LIMITED

## QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 JUNE 2015

ABN 56 057 552 137

ASX Code: CNX OTCQX Code: CNXAY

## KEY EVENTS

- On the 27 April 2015 Carbon Energy received confirmation that the Department of Environment and Heritage Protection (DEHP) had provided its recommendations to the Department of Natural Resources and Mines (DNRM), which marks a significant step towards progressing the Company's plans to commence an EIS for its Blue Gum Gas Project.
- The Company continues discussions with the Queensland government regarding the process to finalise the environmental reports submitted in the last quarter of 2014 and the commencement of an Environmental Impact Statement (EIS), for the planned Blue Gum Gas Project.
- Carbon Energy continued to engage with a number of Asian and European based parties and agencies during the quarter, in order to progress licensing and joint venture opportunities.
- Voluntary reductions in Executive salaries and Directors fees continued with limited use of external contractors and ongoing enforcement of a cost conscious culture through the quarter.
- Max Cozjin retired as a Director on 21 April 2015 following 23 years of service to the Company.

## COMPANY UPDATE

### QUEENSLAND

During the quarter, DEHP finalised its recommendations on the Decommissioning Report and Rehabilitation Plan for the Company's Bloodwood Creek pilot UCG site, which were submitted by the Company in 2014. DEHP has submitted those recommendations to DNRM, the lead agency in the process.

Carbon Energy continued to meet with representatives from both DEHP and DNRM during the quarter, and an introductory meeting with Dr Anthony Lynham, Minister for Natural Resources and Mines, was held. The Company was given an opportunity during this meeting to further inform the Minister on Carbon Energy's keyseam technology, its environmental credentials and the proposed Blue Gum Gas Project, expected to generate more than 1000 new jobs during construction and provide 25PJ of gas annually to Queenslanders.

The Company is currently awaiting advice from DNRM as to its recommendations for commencing an EIS for the Blue Gum Gas Project. The Company has prepared an Initial Advice Statement (IAS) in preparation for the next steps in commercialising the Blue Gum Gas Project.

The Company understands that the overarching recommendations from the Independent Scientific Panel report have been addressed and the findings positively reviewed by DEHP's independent experts. Rehabilitation and monitoring activities are continuing at the Bloodwood Creek site, with outcomes of the rehabilitation process expected during 2015.

### **Blue Gum Gas Project**

Subject to a favourable decision from government and securing funding, the Company is continuing its discussions with potential investment and offtake partners for its first commercial scale gas development, the Blue Gum Gas Project. 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.

### INTERNATIONAL

During the quarter, the Company has sought to capitalise on new opportunities arising from the results of the Company's Queensland UCG trial and the increasing interest in UCG overseas, particularly in Asia. Active discussions with a number of parties in Asia regarding investment and business opportunities in the region continued throughout the quarter.

With respect to existing international projects, no further payments have been received for the Inner Mongolia UCG Project during the quarter and a provision has been made against the recoverability of outstanding receivables. The Company has recently been requested to provide an Environmental Report on the key findings in Queensland so that it can be provided to local government. This is not a contractual requirement and is being provided to assist local government with their understanding of

UCG. The Company is committed to finding a suitable resolution to enable the project to move forward.

During the quarter, BHD Capital continued discussions with potential investors in relation to the proposed Mulpun UCG Project in Chile, South America on behalf of the Company.

## CASH MANAGEMENT

While the Company awaits a decision from the Queensland Government and until further capital investment is secured, the Company continues to implement cost reduction strategies. The voluntary reduction in Executive salary costs and Directors fees initiated in the previous quarter continued into the June quarter (whilst key management remained in place). Use of external contractors has also continued to be limited. Close monitoring of expenditure in all areas has continued throughout the quarter.

With much of the preparation work for the Blue Gum Gas Project IAS already complete, the Company continues to remain focused primarily on international business development and pursuit of project investment and off-take partners for the Blue Gum Gas Project while we await the Queensland government.

At the end of the quarter the Company has access to approximately \$1.7 million of cash, noting that the Company's 2015 Income Tax return has been lodged with an estimated Research & Development (R&D) rebate of approximately \$2.5 million expected to be paid in the subsequent quarter. Receipt of the R&D rebate triggers repayment of the outstanding \$1.2 million Macquarie R&D financing facility.

## 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.<sup>1</sup> Carbon Energy maintains it is not obliged to issue further tranches of shares to Summa nor is it required to reserve those shares. During the quarter Carbon Energy received correspondence from a USA based law firm acting for Summa which contains various allegations of wrongdoing by Carbon Energy and associated persons which are insufficiently particularised and extremely broad-ranging in nature<sup>2</sup>. Carbon Energy is investigating the basis for the various allegations made. No formal proceedings have been commenced. 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

31 July 2015

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<sup>1</sup> See ASX Announcement 23 February 2011.

<sup>2</sup> See ASX Announcement 22 May 2015.



## CARBON ENERGY GAS RESERVES & RESOURCES

| Area            | Reserve and Resource Classification | Gross (100%) Syngas Energy (PJ) | Gross (100%) SNG Energy (PJ) |
|-----------------|-------------------------------------|---------------------------------|------------------------------|
| <b>MDL 374</b>  | 1P Reserves                         | 11.0                            | 7.1                          |
|                 | 2P Reserves                         | 1,737.9                         | 1,128.5                      |
|                 | 3P Reserves                         | 2,512.4                         | 1,631.5                      |
| <b>EPC 867</b>  | 3P Reserves                         | 5,650.0                         | 3,668.9                      |
|                 | 2C Contingent Res                   | 7,734.3                         | 5,022.3                      |
| <b>EPC 869</b>  | 2C Contingent Res                   | 4,150.3                         | 2,695.0                      |
| <b>EPC 1132</b> | 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:

- This document refers to Estimates reported on 19 September 2014 and released to the market on 22 September 2014 (Updated Reserves Statement);
- 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;
- All Estimates are reported using the following conversion factors as relevant:
  - UCG Energy conversion factor is 16.73 GJ of syngas per tonne of coal gasified;
  - UCG syngas to Synthetic Natural Gas (SNG) conversion factor is 38.5 to 25;
  - 1,055 Petajoule (PJ) = 1 Trillion cubic feet (Tcf); and
  - 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 JUNE 2015

| Tenement         | Status                | Area km <sup>2</sup> |
|------------------|-----------------------|----------------------|
| <b>MDL 374</b>   | Renewal Pending*      | 28.68                |
| <b>MLa 50253</b> | Application Pending** | 13.43                |
| <b>PFL 6</b>     | Renewal Pending***    | 0.03                 |

\* Renewal submitted June 2012. Discussions with DNRM are ongoing. Updated work program submitted to DNRM December 2014

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

\*\*\* Renewal submitted March 2015

| Tenement                                   | Status                       | As at 30 June 2014<br>Sub-Blocks | Area km <sup>2</sup> |
|--|------------------------------|----------------------------------|----------------------|
| <b>EPC 867</b>                             | Renewal Pending <sup>#</sup> | 167                              | 509.35               |
| <b>EPC 868</b>                             | Renewal Pending <sup>#</sup> | 44                               | 134.20               |
| <b>EPC 869</b>                             | Granted                      | 63                               | 192.15               |
| <b>EPC 1132</b>                            | Granted                      | 23                               | 70.15                |
| <b>Total Eastern Surat Basin Tenements</b> |                              | <b>297</b>                       | <b>905.85</b>        |

# Renewal Submitted November 2014

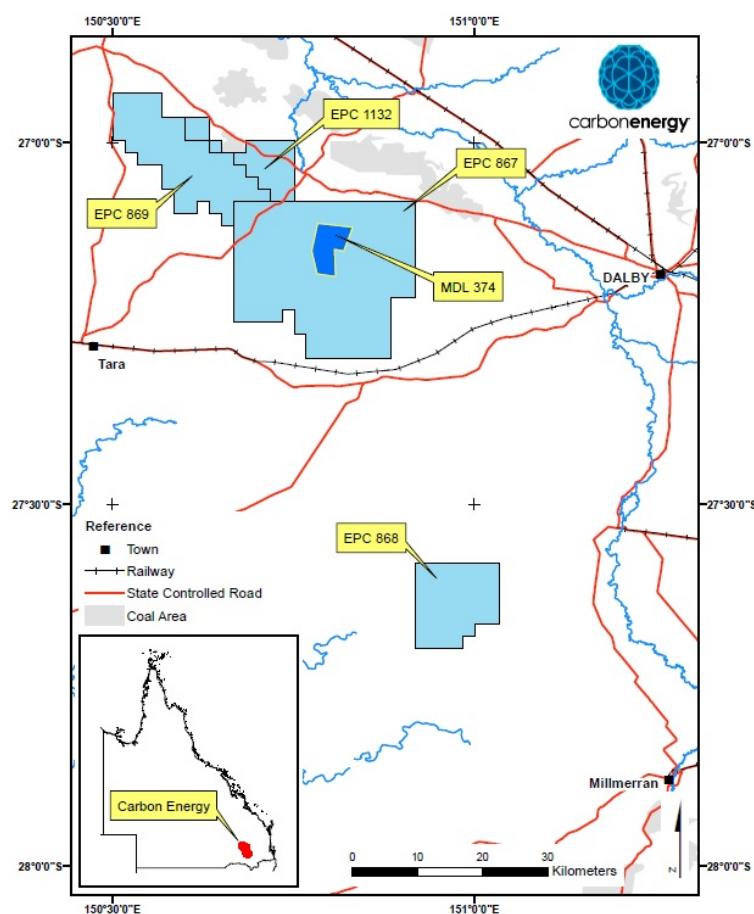


Figure 1 Carbon Energy Coal Tenure Surat Basin

## ISSUED CAPITAL

As at 30 June 2015

### ORDINARY SHARES

1,345,742,829 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

52,994,151 Unlisted current CNX management options

## SHAREHOLDERS

As at 30 June 2015

### ORDINARY SHARES:

5,516 Shareholders

Top 20 Shareholders hold 49.16% of listed shares

Major Shareholders (more than 5% holding):

|    |   |        |
|----|---|--------|
| 1. | Kam Lung Investment Development Company Limited | 12.77% |
| 2. | Pacific Road Capital                            | 9.17%  |
| 3. | CitiCorp Nominees Pty Ltd                       | 6.23%  |
| 4. | Incitec Pivot Ltd                               | 5.61%  |

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

1,242 Listed Option Holders

Top 20 Listed Option Holders hold 67.98% 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                | 1.99%  |
| 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       |
| Mr Max Cozijn        | Non-Executive Director (retired on 21 April 2015) |
| Dr Helen Garnett     | Non-Executive Director                            |
| Mr Peter Hogan       | Non-Executive Director                            |
| Mr Louis Rozman      | Non-Executive Director                            |

### EXECUTIVE 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

Quarter ended ("current quarter")

56 057 552 137

30 June 2015

## CONSOLIDATED STATEMENT OF CASH FLOWS

| Cash flows related to operating activities |   | Current Quarter<br>\$A'000 | Year to date<br>\$A'000 |
|--|---|----------------------------|-------------------------|
| 1.1  | Receipts from product sales and related debtors   | 172                        | 172                     |
| 1.2  | Payments for  |                            |                         |
|  | (a) Exploration & Evaluation  | 7                          | (269)                   |
|  | (b) BWC Site Operating & Maintenance Costs & Technical Services & Rehabilitation Drilling | (624)                      | (3,979)                 |
|  | (c) Production  | -                          | -                       |
|  | (d) Corporate, Commercial, New Business & Administration                                  | (892)                      | (3,485)                 |
| 1.3  | Dividends received  | -                          | -                       |
| 1.4  | Interest and other items of a similar nature received                                     | 36                         | 92                      |
| 1.5  | Interest and other costs of finance paid  | -                          | -                       |
| 1.6  | Income taxes paid   | -                          | -                       |
| 1.7  | Other (provide details if material)   | 90                         | 3,810                   |
|  | Government grants: Research & Development rebate &  |                            |                         |
|  | <b>Net Operating Cash Flows</b>   | <b>(1,211)</b>             | <b>(3,659)</b>          |

|      |   |                |              |
|------|---|----------------|--------------|
|      | <b>Cash flows related to investing activities</b> |                |              |
| 1.8  | Payment for purchases of:                         |                |              |
|      | (a) prospects                                     | -              | -            |
|      | (b) equity investments                            | -              | -            |
|      | (c) other fixed assets                            | (10)           | (20)         |
| 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)               | (7)            | (286)        |
|      | Exploration & evaluation costs, trademarks        |                |              |
|      | <b>Net investing cash flows</b>                   | <b>(17)</b>    | <b>(306)</b> |
| 1.13 | Total operating and investing cash flows          | (1,228)        | (3,965)      |
|      | <b>Cash flows related to financing activities</b> |                |              |
| 1.14 | Proceeds from issues of shares and options        | -              | 2,566        |
| 1.15 | Proceeds from sale of forfeited shares            | -              | -            |
| 1.16 | Proceeds from short term loan facility            | -              | 2,666        |
| 1.17 | Repayment of short term loan facility             | -              | (1,500)      |
| 1.18 | Term facility costs                               | (39)           | (219)        |
| 1.19 | Capital raising costs                             | (6)            | (246)        |
|      | <b>Net financing cash flows</b>                   | <b>(45)</b>    | <b>3,267</b> |
|      | <b>Net (decrease) / increase in cash held</b>     | <b>(1,273)</b> | <b>(698)</b> |
| 1.20 | Cash at beginning of quarter/year to date         | 2,962          | 2,387        |
| 1.21 | Exchange rate adjustments to item 1.20            |                | -            |
| 1.22 | <b>Cash at end of quarter</b>                     | <b>1,689</b>   | <b>1,689</b> |

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

|      |   | Current quarter<br>\$A'000 |
|------|---|----------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2                | 162                        |
| 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 4,935,944 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<br>\$A'000  | Amount used<br>\$A'000 |
|-----|--|------------------------|
| 3.1 | Loan facilities (Pac Road Convertible Note Facility, Macquarie R&D facility) | 11,166                 |
| 3.2 | Credit standby arrangements  | 244                    |

## ESTIMATED CASH OUTFLOWS FOR NEXT QUARTER

|   |   | \$A'000      |
|---|---|--------------|
| 4.1   | Exploration and evaluation  | 41           |
| 4.2   | BWC Site Operating & Maintenance Costs & Technical Services & Rehabilitation Drilling | 516          |
| 4.3   | Production  | -            |
| 4.4   | Corporate, Commercial, New Business & Administration (including financing costs)      | 994          |
| <b>Total</b>  |   | <b>1,551</b> |
| In addition to the cash outflows, the Company is forecast to receive approximately \$2.5 million for the FY15 R&D rebate during the next quarter, before repayment of the \$1.2 million Macquarie R&D financing facility. |   |              |

## 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<br>\$A'000 | Previous Quarter<br>\$A'000 |
|---|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank                        | 24                         | 12                          |
| 5.2 Deposits at call                                | 1,665                      | 2,950                       |
| 5.3 Bank overdraft                                  | -                          | -                           |
| 5.4 Other (provide details)                         | -                          | -                           |
| <b>Total: cash at end of quarter</b><br>(item 1.22) | <b>1,689</b>               | <b>2,962</b>                |

## CHANGES IN INTERESTS IN MINING TENEMENTS

|     | Tenement reference  | Nature of interest<br>(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 | <b>Preference</b>  | -   | -             | -   | -  |
|     | <b>*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>                                      | 1,345,742,829   | 1,345,742,829 | Various                                       | Fully paid                                       |
| 7.4 | Changes during quarter   |   |               |   |  |
|     | (a) Increases through issues: Interest on Convertible Note       | 4,935,944   | 4,935,944     | \$0.0247                                      | 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 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 | <b>Options</b>   |   |               | 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 | <b>Debentures</b><br>(totals only)   | - | - |   |   |
| 7.12 | <b>Unsecured notes</b> (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: 31 July 2015  
Name: Catherine Costello  
Title: Chief Financial Officer