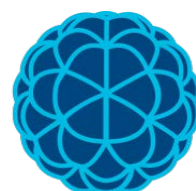




QUARTERLY REPORT

FOR THE QUARTER ENDED
31 MARCH 2017

(ASX : CNX)



carbonenergy

(SUBJECT TO DEED OF COMPANY ARRANGEMENT)

CARBON ENERGY LIMITED

(SUBJECT TO DEED OF COMPANY ARRANGEMENT)

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 31 MARCH 2017

KEY EVENTS FOR THE QUARTER

- The Administrators received a number of expressions of interest, with three parties shortlisted with their expressions of interest all focussed around a recapitalisation of the Group and re-listing on the ASX;
- The Administrators proposed a recapitalisation of the Company by way of Deed of Company Arrangement (DOCA) and Creditors Trust with Kam Lung Investment Development Co Ltd (“Kam Lung”) to provide a new convertible note subscription facility and to take a substantial and controlling interest in Carbon Energy;
- The agreement with Kam Lung is valued at approximately \$14 million for Carbon Energy Limited and subsidiaries to be recapitalised and for the Company to be re-listed subject to the necessary ASX approvals;
- At the second meeting of creditors held on 9 March 2017, creditors approved the Company and two subsidiary companies entering into a Deed of Company Arrangement (“DOCA”). The DOCA was executed on 9 March 2017 and control of the company (and the two subsidiary companies) reverted to the Directors. The transactions contemplated by the DOCA are subject to regulator and shareholder approvals among other things. The shareholder meeting is expected to be held in June 2017. and
- Mr George Su was appointed Non-Executive Director immediately prior to execution of the DOCA. Dr Chris Rawlings stood down as Chairman and Non-Executive Director upon execution of the DOCA. Mr Peter Hogan was subsequently appointed Chairman. On 13 March 2017 Dr Helen Garnett resigned as Director with Mr Kerry Parker announcing his resignation as Managing Director and Chief Executive Officer, effective 31 May 2017 and Ms Catherine Costello resigning as Chief Financial Officer and Company Secretary, effective 1 May 2017.

SUBSEQUENT TO QUARTER END

- Mr Kerry Parker stood down as Managing Director on 5 April 2017 however continues in a part-time capacity as Chief Executive Officer until 31 May 2017.
- Ms Catherine Costello has agreed to continue as Company Secretary beyond 1 May 2017 on a casual basis.

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

With the DOCA executed on 9 March 2017 the Company's number one priority remains to establish keyseam as a commercial technology to be licensed in China and to take the Company forward to support its current and future projects.

CHINA

JinHong Joint Venture (JV)

During the quarter the JV advanced some of the critical milestones toward developing a commercial demonstration project. The JV has selected an appropriate coal field and engaged the in-country engineering, procurement and construction management ("EPCM") contractor to work with it on developing the required materials to lodge for the numerous required permit applications for the project.

Both Carbon Energy and the JV have acknowledged that there have been delays in commencing the demonstration project and both parties are committed to setting a new timeline to progress the demonstration project as quickly as possible, once the Administration process is concluded.

A number of potential additional third party projects have been assessed by Carbon Energy during the quarter that have the potential to be operated through the JV.

China UCG Research Centre (CUMT or Centre)

During the quarter Carbon Energy staff continued to assist in establishing the plans and research program for CUMT. The research program has been approved by the CUMT Board, and CUMT has allocated the physical location of laboratories, offices and accommodation on campus to the Centre, which will be refurbished to Centre requirements. A CUMT Research and Development Fund, to be managed by the Centre, has been established with submissions for grants currently open.

The Centre continues to review potential projects suitable for initial trials and once additional funding has been secured will be in the position to select the trial site.

The Centre was established in 2016 to encourage the development of UCG technology by industry and government groups alike throughout the whole of China, as the preferred environmentally acceptable utilisation method for coal gasification. The Centre will seek to simplify the regulatory process by establishing national and international standards of operation for UCG and formally seek recognition by government. The China National Administration for Coal Geology has agreed to join the Centre as a Founding Member.

The establishment of the Centre is an important step forward in the advancement of Carbon Energy's expansion plans in China.

INDONESIA

Ascot Energy

As previously reported, the Company has entered into a Term Sheet agreement with Ascot Energy Limited to licence the Company's keyseam technology for a proposed 30MW power generation project in Indonesia.

Subject to the parties entering into legally binding licensing and servicing agreements, Carbon Energy will receive the following revenue and royalties as set out in the Term Sheet:

- Ascot Energy to pay a licence fee for each project of US\$10 million in two tranches:
 - US\$4 million when funding is secured for the project; and
 - US\$6 million on performance criteria being met in accordance with the licence and services agreements;
- A royalty payment of production of US\$0.30 per MMBTU of syngas; and
- Pre-project services fees.

The project timeline estimates up to 18 months to secure permits and a further 18 months from then to achieve ignition of the first panel.

Further updates will be provided in the coming months.

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. As verified by independent experts accredited by the Queensland Government, 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.

During the current year, the Director General of Department of Natural Resources and Mines visited the Bloodwood Creek site at the request of the Petroleum and Gas Inspector, who identified Carbon Energy's rehabilitation activities as world class.

The Administrators engaged an independent environment consultant to undertake a review of the Bloodwood Creek site, the Company's compliance with its environmental authorities and the adequacy of the proposed rehabilitation plans and financial commitment. No significant deficiencies or areas for improvement were identified.

CORPORATE

VOLUNTARY ADMINISTRATION and DEED OF COMPANY ARRANGEMENT

On 22 November 2016, the Company announced it had voluntarily appointed administrators pursuant to Section 436A of the Corporations Act 2001 (Cth).

Following receipt of a number of proposals, the Administrators recommended a proposed recapitalisation of the Company and its subsidiaries by way of a Deed of Company Arrangement (DOCA) and Creditors Trust.

At the second meeting of creditors held on 9 March 2017, it was resolved that the Company (and the two related companies) execute a DOCA. The transactions contemplated under the DOCA are

subject to, among other things, ASX and ASIC approval, and shareholder approval at the AGM expected to be held in June 2017.

The Administrators entered into a \$14 million agreement with Kam Lung for Carbon Energy and its subsidiaries to be recapitalised and for the Company to be relisted subject to the necessary ASX approvals.

The key terms of the recapitalisation by way of DOCA and Creditors' Trust provide for the following:

- Carbon and its subsidiaries to continue operations as a going concern;
- Pacific Road has agreed to accept \$9 million from Carbon (funded by a secured loan from Kam Lung) in full and final settlement of all monies and obligations owing to them in relation to the Company's Convertible Note, including the transfer of all shares held by them to Kam Lung. Kam Lung will be paid \$150,000 refinancing fee by Pacific Road from the these proceeds;
- Kam Lung will provide \$3.85 million in new equity capital in return for the issue of new shares, such that its resulting shareholding, inclusive of the Pacific Road shares, will be 80%;
- \$300,000 of the new capital will be utilised to create a Creditors Trust for the settlement of amounts owing to unsecured creditors by way of a dividend;
- All current staff and key contractors will continue to be engaged by Carbon or its subsidiaries (as applicable);
- Signing of the DOCA occurred very shortly after the meeting of creditors, at which point control of the Company and its subsidiaries returned to the Board of Directors;
- Will Colwell and Tim Michael to become Administrators of the DOCA and will have a monitoring and assistance role only and will also be appointed Trustees of the Creditors Trust to administer the Creditors' Trust fund and make distributions to the creditor beneficiaries;
- A further \$1.3 million will be provided by Kam Lung by way of a short term loan, for Carbon's working capital requirements from March 2017 until the shareholders' meeting, with \$200,000 of these funds being directed to Ferrier Hodgson in part payment of their Administrator fees;
- Mr George Su to be appointed to the Board as a Non-executive director by the Administrators prior to execution of the Deed of Company Arrangement; and
- Carbon will relist on the ASX, subject to necessary ASX approvals.

CASH MANAGEMENT

At the end of the quarter the Company had cash of \$53,000.

At the date of this report, the Administrator, Ferrier Hodgson has been paid fees of \$343,000, with unpaid fees of approximately \$371,000 still outstanding.

The Company continued to manage cash resources prudently during this period of reduced activity pending the outcome of the Administration process, this included employees and contractors working reduced hours during the administration period.

CARBON ENERGY ANNUAL GENERAL MEETING

On 25 November 2016, the Australian Securities and Investments Commission granted approval to extend the timeframe for the Company to hold its 2016 Annual General Meeting (AGM), to 22 July 2017.

The AGM is expected to be held in Brisbane in June 2017.

CARBON ENERGY HALF-YEAR FINANCIAL REPORT

The due date for submission of the Company's Half-Year Financial Report for the period ending 31 December 2016 has been deferred to 22 May 2017 as the Company is relying on the deferral mechanism provided for in ASIC Corporations (Externally-Administered Bodies) Instrument 2015/251.

Kerry Parker
Chief Executive Officer

Friday 28 April 2017

TENEMENT STATUS AT 31 MARCH 2017

MDL 374	Granted	28.68
MLA 50253	Application Pending*	13.43
PFL 6	Renewal Pending**	0.03

* Application awaiting Environmental Impact Assessment prior to finalisation and assessment

** Renewal submitted March 2015

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

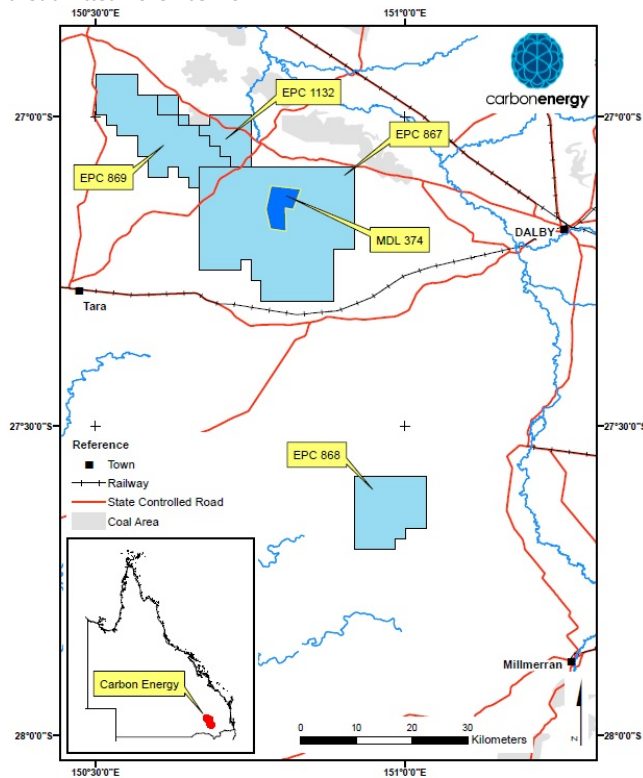


Figure 1 Carbon Energy Coal Tenure Surat Basin

ISSUED CAPITAL AND SECURITIES ON ISSUE

At the date of issue of this quarterly report, Carbon Energy had the following securities on issue:

Listed Ordinary Shares	1,813,428,879
Unlisted current CNX management options and performance rights	72,862,821
Unlisted former CNX management options	7,878,495

SHAREHOLDERS

At the date of issue of this quarterly report:

- Carbon Energy has 5,238 shareholders;
- There were 3,178 shareholders who held an un-marketable parcel of shares (based on a share price at the end of the quarter of 0.013 cents per share); and
- The "Top 20" shareholders held approximately 59.27% of the listed shares on issue.

MAJOR SHAREHOLDERS

SHAREHOLDER	% HOLDING
1. Kam Lung Investment Development Company Limited	28.39%
2. Pacific Road Capital	9.29%
3. Incitec Pivot Limited	4.17%
4. Citicorp Nominees Pty Limited	3.05%
5. BNP Paribas Noms Pty Ltd	1.84%
6. CSIRO	1.56%

BOARD OF DIRECTORS & MANAGEMENT

BOARD OF DIRECTORS

Mr Peter Hogan	Chairman (from 9 March 2017) and Non-Executive Director
Mr Kerry Parker	Managing Director (until 5 April 2017) & Chief Executive Officer. Has advised the Board of his resignation as Chief Executive Officer with effect from 31 May 2017
Mr George Su	Alternative Director to Mr Zhuang (to 9 March 2017) Non-Executive Director (from 9 March 2017)
Mr Huihai Zhuang	Non-Executive Director
Dr Chris Rawlings	Chairman and Non-Executive Director (retired 9 March 2017)
Dr Helen Garnett	Non-Executive Director (resigned 13 March 2017)

EXECUTIVE MANAGEMENT

Mr Kerry Parker	Managing Director (until 5 April 2017) & Chief Executive Officer has advised the Board of his resignation as Chief Executive Officer with effect from 31 May 2017
Ms Catherine Costello	Chief Financial Officer & Company Secretary has announced resignation effective 1 May 2017 and has subsequently agreed to continue as Company Secretary beyond 1 May 2017 on a casual basis.
Dr Cliff Mallett	Technical Director
Mr Terry Moore	General Manager Operations

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 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(125)	(689)
(b) development	-	-
(c) production	-	-
(d) staff costs	(463)	(1,726)
(e) administration and corporate costs	(338)	(1,625)
1.3 Dividends received (see note 3)	-	
1.4 Interest received	7	30
1.5 Interest and other costs of finance paid	-	(4)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	1,384
1.8 Other (sublease income)	77	146
Other (Administrator costs)	(172)	(183)
Other (Administrator fees)	(343)	(343)
1.9 Net cash from / (used in) operating activities	(1,357)	(3,010)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	(59)
(b) tenements (see item 10)	-	-

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
	(c) investments	-	-
	(d) other non-current assets	-	(14)
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	-	(73)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	400
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	(21)
3.5	Proceeds from borrowings	650	650
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	(99)	(134)
3.8	Dividends paid	-	-
3.9	Other (credit card bond)	33	33
3.10	Net cash from / (used in) financing activities	584	928
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	826	2,208
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,357)	(3,010)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(73)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	584	928
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	53	53

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	53	826
5.2 Call deposits	-	-
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)	53	826

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	-
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	

No fees were paid to Directors during the period of Administration.

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	

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	10,000	10,000
8.2 Credit standby arrangements	312	203
8.3 Other (please specify)	-	-
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 \$10 million Convertible Note Facility ("Facility") with the Pacific Road Group. The Facility is secured by a mortgage over the UCG technology and software transferred from CSIRO to Carbon Energy and 100% of the shares in Carbon Energy (Operations) Pty Limited, the subsidiary that owns the UCG technology and software transferred from the CSIRO. This entity also has the rights and obligations regarding the JinHong JV. The interest rate on the Facility is 5% per annum, payable in equity, 3 months in arrears. The Facility was due to be repaid on 18 January 2017, As at the date of signing the Quarterly Report. A Deed of Company Arrangement (DOCA) has been approved by creditors and is subject to, among other things, ASX and ASIC approval (received subsequent to the end of the quarter) and shareholder approval to be considered at the Company's Annual General Meeting scheduled for X June 2017. Under the DOCA Pacific Road will accept \$9 million for full and final settlement of the Facility, including Pacific Road's 9.29% equity interest in the Company.

The Company has a \$109k credit card facility with National Australia Bank which remains undrawn.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	95
9.2 Development	-
9.3 Production	-
9.4 Staff costs	463
9.5 Administration and corporate costs	316
9.6 Other (Administrators costs)	53
Other (Administrators fees)	371
Other (Refinancing costs)	39
9.7 Total estimated cash outflows	1,337

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	-	-	-	-
10.2 Interests in mining tenements and petroleum tenements acquired or increased	-	-	-	-

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: 28 April 2017

Print name: Catherine Costello

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.