HALF YEARLY REPORT

FOR THE PERIOD ENDED
31 DECEMBER 2016

carbonenergy

CONTENTS

DIRECTORS' REPORT

Carbon Energy is currently Subject to Deed of Company Arrangement.

BOARD INFORMATION

The Directors present their report together with the consolidated financial statements of the Company and its controlled entities (Consolidated Group), for the half-year ended 31 December 2016, made in accordance with a resolution of the Board.

In order to comply with the provisions of the *Corporations Act 2001*, the Directors' Report as follows:

DIRECTORS

The names of Directors of the Company who held office during and since the end of the half-year are:

Mr Peter Hogan	Chairman and Non-Executive Director (from 9 March 2017) and Non-Executive Director (to 9 March 2017)
Dr Chris Rawlings	Chairman and Non-Executive Director (retired 9 March 2017)
Mr Kerry Parker	Managing Director & Chief Executive Officer (appointed 1 September 2016, resigned 5 April 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 Helen Garnett	Non-Executive Director (resigned 13 March 2017)
Mr Morné Engelbrecht	Managing Director & Chief Executive Officer (resigned 12 August 2016)
Mr Louis Rozman	Non-Executive Director (resigned 10 October 2016)

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Group during the period were:

- To successfully prove its proprietary underground coal gasification (UCG) technology, keyseam;
- To establish keyseam as the UCG technology of choice for UCG projects worldwide;
- To successfully progress the JinHong Joint Venture in China (CNX 30%, with Kam Lung Investment Development Corporation); and
- To prove *keyseam's* environmental credentials as part of responding to the findings of the Independent Scientific Panel (ISP) in its report on UCG issued by the Queensland Government.

There were no significant changes in those activities during the period.

CONSOLIDATED RESULT

The loss after tax of the Consolidated Group for the half-year ended 31 December 2016 was $36,932,631 (2015: loss $2,319,489).

REVIEW OF OPERATIONS

The following review is to assist readers to better understand the financial performance of the consolidated group's operations which are based around its current demonstration site, technical services and business development opportunities.

OVERVIEW

During the half year:

- the Consolidated Group made important progress towards achieving its strategic objectives as outlined in the 2016 Annual Report, specifically setting up the foundation for further international licencing opportunities and projects in China, through the establishment of the JinHong Joint Venture; and
- the Consolidated Group made progress towards the re-financing of its Convertible Note Facility Agreement with the Pacific Road Group. Unfortunately the re-financing was not able to proceed towards execution of final agreements, due to irregularities identified during the documentation process. As a result of this, and given the Consolidated Group's cash and liability position, the Directors appointed Ferrier Hodgson as Administrators to Carbon Energy Limited and a number of subsidiary companies on 22 November 2016.

KEY ACTIVITIES

The key activities during the period were:

- In July 2016 the Company placed $400,000 of its remaining shortfall from the March 2016 rights issue;
- On 25 July 2016, the Queensland Chief Scientist confirmed Carbon Energy had successfully completed the Independent Scientific Panel Process and that its keyseam technology met the key recommendations of the government appointed Independent Scientific Panel (ISP) into underground coal gasification, stating *"it is clear that Carbon Energy has contributed to the collective understanding of UCG and the conditions under which the operation is likely to be both safe and successful."*;
- The Company received a $1.4 million Research and Development Tax incentive cash rebate (as expected) on 16 August 2016;
- The JinHong Joint Venture in China was capitalised in late September 2016 after receiving the initial required $10 million milestone payment under the JV agreement;
- The Company released 123,845,128 shares from escrow, pursuant to a voluntary escrow deed entered into between the Company and Kam Lung Investment Development Company (Kam Lung), Carbon Energy's cornerstone investor. These shares were issued as part of a private placement to Kam Lung that was completed in September 2015;
- A Terms Sheet agreement was signed with Ascot Energy Limited to license keyseam for a proposed 30MW power generation project in Indonesia, subject to completion of a number of conditions around project selection and financing (by Ascot Energy);
- Kerry Parker was appointed as the Company's Managing Director and Chief Executive Officer and he commenced on 1 September 2016;
- Other Board changes over the period included Chairman, Dr Chris Rawlings retiring from the Board (as announced on 27 October 2016) and Non-Executive Director, Louis Rozman resigning from the Board 10 October 2016;
- On 25 October 2016, the Company announced the key terms of the refinancing of its $10 million convertible note facility and recapitalisation through an underwritten rights issue of $5 million, both with the support of its major shareholder, Kam Lung Investment Development Corporation. Unfortunately, during the process of the finalisation of required documents to effect the refinancing, efforts as between the parties came to a standstill regarding legal considerations and the transactions as contemplated were unable to be finalised;

- As a result of the legal considerations referred to in the preceding paragraph, on 22 November 2016, the Board of Directors of Carbon Energy Limited resolved to place the Company and two of its subsidiaries into Voluntary Administration, appointing Tim Michael and Will Colwell from Ferrier Hodgson as Administrators;
- On 25 November 2016 ASIC granted approval to extend the timeframe for the Company to hold its 2016 Annual General Meeting to 22 July 2017;
- The Administrators held the first meeting of creditors on 2 December 2016. A Committee of Creditors was formed for each of the group companies that had been placed into Voluntary Administration; and
- The Company was relying on ASIC Corporations (Externally-Administered Bodies) Instrument 2015/251 giving it until 22 May 2017 to lodge its half-year financial report for the period ended 31 December 2016. The Company applied for and received an extension to this date to 31 October 2017 for lodgement.

SUBSEQUENT TO HALF YEAR END

- Dr Chris Rawlings retired and Mr Kerry Parker and Dr Helen Garnett resigned as Director's with Ms Catherine Costello resigning as Chief Financial Officer and Company Secretary.
- The Company's 2016 Annual General Meeting (AGM) will be held in Brisbane on 18 July 2017 following confirmation from ASIC of an extension to 22 July 2017.

Voluntary Administration update

- The Administrators received a number of expressions of interest, with three parties shortlisted with their expressions of interest all centred on a recapitalisation of the Group and re-listing on the ASX. At the second meeting of creditors held on 9 March 2017, it was resolved that the Company (and the two related companies) execute a Deed of Company Arrangement ("DOCA"). The DOCA was executed on 9 March 2017 and control of the company (and the two related companies) reverted to the Directors.
- Subsequent to execution of the DOCA the Company, Kam Lung Investment Development Co. Ltd ("Kam Lung") and the Pacific Road Group ("Pacific Road") worked on satisfying the conditions precedent, finalising the financing documentation and preparing the Notice of Meeting to shareholders.
- The DOCA contained a number of conditions precedent including requiring that the employment or other contracts of the key employees and key contractors (as named) continued on terms satisfactory to Kam Lung. A mutually acceptable agreement was not reached. Kam Lung and Pacific Road subsequently entered discussions to seek an alternative path forward to find a mechanism to waive the key employee condition precedent, resulting in an amendment to the DOCA. The amended DOCA was approved by creditors at a meeting held on 23 May 2017.
- The transactions contemplated under the DOCA are subject to approval by shareholders at the Annual General Meeting (AGM). The Company's 2016 AGM will be held in Brisbane on 18 July 2017 following confirmation from ASIC of an extension to hold the meeting on or before 22 July 2017.

BOARD AND MANAGEMENT CHANGES

During the course of the half year the following changes to the Company's Board and Management occurred:

- Mr Kerry Parker was appointed as the Company's Managing Director and Chief Executive Officer and commenced on 1 September 2016, replacing Morné Engelbrecht, who resigned effective 12 August 2016; and

- Mr Louis Rozman resigned from the Board on 10 October 2016.

Subsequent to the end of the half year, the Company announced the following changes to the Board and Management:

- Mr Peter Hogan who has been a member of the Board since 2008 has been appointed Non Executive Chairman, replacing Dr Chris Rawlings who retired on 9 March 2017;

- Mr George Su has been appointed Non-Executive Director from 9 March 2017, having previously been Alternative Director to Mr Huihai Zhuang;

- Dr Helen Garnett, a non-executive director of the Company, resigned on 13 March 2017;

- Mr Kerry Parker, Managing Director & Chief Executive Officer resigned as Managing Director on 5 April 2017 and has tendered his resignation as Chief Executive Officer to take effect from 31 May 2017. Kerry will be employed on a part-time basis from 9 March 2017 through to this date and subsequently agreed to stay to the earlier of DOCA completion or 31 July 2017 engaged as a consultant on a casual basis; and

- Ms Catherine Costello, Chief Financial Officer and Company Secretary resigned effective 1 May 2017 and has agreed to continue in these roles on a casual basis, as required until the earlier of DOCA completion or 31 July 2017.

The Board thanks all its members during this financial year for their contributions to the Company over the years.

The Board will be seeking new leaders with appropriate skills to take the Company forward to support the Company's current and future projects.

FINANCIAL REVIEW

The net operating loss of $36,932,631 (2015: loss $2,319,489) included income for the year from government grants of $1,384,419 (2015: $2,490,344) for the research and development (R&D) tax incentive from the Australian Tax Office. The grant received relates to eligible R&D activities incurred in the prior year.

The Company's focus during the half year was on the refinancing of the Company's $10 million convertible note, due for repayment on 18 January 2017. The refinancing encompassed a further recapitalisation of the Company in order that the company could continue as a going concern. The Company, its financier and its major shareholder have entered into a Deed of Company Arrangement (DOCA) which has been approved by creditors on 23 May 2017 and subject to approval by regulators will be tabled at a meeting of shareholders to be convened by 22 July 2017. Shareholders are required to approve the transactions contemplated by the DOCA for the Company to continue as a going concern.

At the Consolidated Group's trial site, activities included environmental monitoring & reporting and general care & maintenance while the Consolidated Group awaits a response from the Queensland Government in relation to its proposed Rehabilitation Plan, lodged with the government in October 2014. The Company continues to utilise data from the site to further enhance its ongoing investment in developing its technology assets.

CAPITAL STRUCTURE

The Consolidated Group had $812,115 in cash and cash equivalents as at 31 December 2016, a net decrease of $1,395,956 from the prior period. Operating cash outflows were $1,700,026 (2015: $388,901) with receipts from government grants $1,384,419 (2015: $2,490,344) largely funding operating expenses.

The Consolidated Group secured an additional $400,000 before costs through an allocation under its Rights Issue Shortfall from the renounceable rights issue on 4 April 2016.

COMPANY UPDATE

HEALTH, SAFETY, ENVIRONMENT & COMMUNITY

There were no health, safety, environmental or community related matters or incidents recorded during the half year, or subsequent to the end of the half year up to the date of issue of this report.

VOLUNTARY ADMINISTRATION

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

Subsequent to the Half Year end and following receipt of a number of proposals the Administrators announced on 27 February 2017 a proposed recapitalisation of the Company and its subsidiaries by way of 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 Deed of Company Arrangement ("DOCA"). The DOCA was subject to ASX and ASIC approval and shareholder approval.

During this intervening period the Company, Kam Lung Investment Development Co. Ltd ("Kam Lung") and the Pacific Road Group ("Pacific Road") had been working on satisfying the conditions precedent, finalising the financing documentation and preparing the Notice of Meeting to shareholders.

The DOCA contained a number of conditions precedent including requiring that the employment or other contracts of the key employees and key contractors (as named) continued on terms satisfactory to Kam Lung. A mutually acceptable agreement was not able to be reached. Kam Lung and Pacific Road subsequently held discussions to seek an alternative path forward to find a mechanism to waive the key employee condition precedent, resulting in an amendment to the DOCA. The amended DOCA was announced on 15 May 2017 and approved by creditors at a third meeting of creditors held on 23 May 2017.

The amended DOCA is now subject to ASX and ASIC approval and shareholder approval at the AGM to be held on 18 July 2017.

BUSINESS DEVELOPMENT

With the DOCA executed on 9 March 2017 the Company's number one strategic priority remains to establish *keyseam* as a commercial technology to be licensed in China which will then open up further licencing opportunities internationaly. Progress on these areas includes:

CHINA

JinHong Joint Venture (JV)

During the half year the JV advanced some of the critical milestones toward developing a commercial demonstration project. The JV has identified a number of prospective coal fields which are currently undergoing technical review. An in-country engineering, procurement and construction management ("EPCM") contractor to work with it on developing the material to lodge for the numerous required permit applications for the project has been engaged.

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 DOCA process is concluded.

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

China UCG Research Centre

During the half year Carbon Energy staff continued to assist in establishing the plans and research program for China University for Mining and Technology's ("CUMT"), International Research Centre for UCG. The research program has been approved by the Centre 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 half 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.

MOU for a large-scale solar energy plant and storage facility at Bloodwood Creek

The MOU with Photon Energy expired in late December 2016 as the Administrators were not prepared to commit to extending the MOU until the future of the Company was ascertained. The Company will seek to renew the MOU with Photon Energy in the near future.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under section 307C of the Corporation Act 2001 is included on page 10 of the half-year report.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors:

Peter Hogan
Chairman

Brisbane, Queensland
16 June 2017

AUDITOR'S INDEPENDENCE DECLARATION

Grant Thornton

Level 18
King George Central
145 Ann Street
Brisbane QLD 4000
Correspondence to:
GPO Box 1008
Brisbane QLD 4001

T + 61 7 3222 0200
F + 61 7 3222 0444
E info.qld@au.gt.com
W www.grantthornton.com.au

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF CARBON ENERGY LIMITED

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Carbon Energy Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Cameron Smith

Cameron Smith
Partner - Audit & Assurance

Brisbane, 16 June 2017

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

		CONSOLIDATED GROUP	
		Half-year ended	
	Notes	Dec'16 $	Dec'15 $
Revenue and other income			
Technology service fee revenue		-	47,618
Other income	3	1,463,275	2,529,824
Total revenue and other income		**1,463,275**	**2,577,442**
Employee benefits expense	4	(1,370,438)	(1,511,974)
Administration, legal and corporate costs		(620,456)	(1,037,887)
Consultancy costs		(95,477)	(225,088)
Operating expenditure		(158,525)	(146,918)
Share-based payments		-	(130,480)
Depreciation expense		(72,728)	(75,371)
Finance costs	4	(1,567,091)	(913,145)
Movement in fair value of derivatives		-	9,020
Impairment expense	4	(34,511,191)	(860,326)
Loss before income tax expense		**(36,932,631)**	**(2,314,727)**
Income tax expense		-	(4,762)
Loss for the period		**(36,932,631)**	**(2,319,489)**
Other comprehensive income for the period (net of tax)			
Items that will not be reclassified subsequently to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss		-	-
Other comprehensive income for the period (net of tax)		**-**	**-**
Total Loss and comprehensive income for the period		**(36,932,631)**	**(2,319,489)**
Loss attributable to Owners of the Parent		**(36,932,631)**	**(2,319,489)**
Total Loss and comprehensive income attributable to Owners of the Parent		**(36,932,631)**	**(2,319,489)**
Earnings per share from continuing operations			
Basic loss per share (cents per share)		(2.05)	(0.16)
Diluted loss per share (cents per share)		(2.05)	(0.16)

The above consolidated statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

		CONSOLIDATED GROUP	
	Notes	Dec'16 $	Jun'16 $
Assets			
Current Assets			
Cash and cash equivalents		812,115	2,208,071
Trade and other receivables		178,167	177,821
Other current assets		56,308	78,027
Total Current Assets		**1,046,590**	**2,463,919**
Non-Current Assets			
Trade and other receivables		268,052	267,553
Construction work in progress		-	-
UCG panel assets		-	-
Property, plant & equipment		679,423	692,707
Other non-current asset		-	-
Deferred exploration and evaluation costs		-	-
Intangible assets	4	13,500,000	47,968,814
Total Non-Current Assets		**14,447,476**	**48,929,074**
Total Assets		**15,494,066**	**51,392,993**
Liabilities			
Current Liabilities			
Trade and other payables		608,120	643,270
Loans and borrowings		-	-
Financial liabilities	5	9,929,608	9,210,047
Provisions		1,280,479	864,031
Total Current Liabilities		**11,818,207**	**10,717,348**
Non Current Liabilities			
Provisions		2,325,810	2,898,203
Total Non Current Liabilities		**2,325,810**	**2,898,203**
Total Liabilities		**14,144,017**	**13,615,551**
Net Assets		**1,350,049**	**37,777,442**
Equity			
Issued capital	6	244,731,404	244,226,148
Reserves		20,003,591	20,003,609
Accumulated losses		(263,384,946)	(226,452,315)
Total Equity		**1,350,049**	**37,777,442**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Issued Capital	Options Reserve	Share-Based Payments Reserve	Other Reserve	Accumulated Losses	Total
	$	$	$	$	$	$
Balance at 1 Jul 2015	238,614,976	1,650,406	16,176,025	2,101,590	(125,907,011)	132,635,986
Shares issued during the period	2,176,137	-	-	-	-	2,176,137
Transaction Costs	(11,010)	-	-	-	-	(11,010)
Movement in share option reserve on recognition of share based payments	-	-	130,480	-	-	130,480
Losses attributable to member of parent entity	-	-	-	-	(2,319,489)	(2,319,489)
Balance at 31 Dec 2015	**240,780,103**	**1,650,406**	**16,306,505**	**2,101,590**	**(128,226,500)**	**132,612,104**
Balance at 1 Jul 2016	244,226,148	1,650,406	16,251,613	2,101,590	(226,452,315)	37,777,442
Shares issued during the period	526,339	-	-	-	-	526,339
Transaction Costs	(21,083)	-	-	-	-	(21,083)
Exercise of options	-	(18)	-	-	-	(18)
Movement in share option reserve on recognition of share based payments	-	-	-	-	-	-
Losses attributable to member of parent entity	-	-	-	-	(36,932,631)	(36,932,631)
Balance at 31 Dec 2016	**244,731,404**	**1,650,388**	**16,251,613**	**2,101,590**	**(263,384,946)**	**1,350,049**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

		CONSOLIDATED GROUP Half-year ended	
	Notes	Dec'16 $	Dec'15 $
Cash flows from Operating activities			
Receipts from customers		-	40,746
Payments to suppliers and employees		(3,344,591)	(3,054,171)
Receipt of government grants	3	1,384,419	2,490,344
Interest received		35,228	32,203
Taxes and duties paid		-	(9,069)
GST receipts from Australian Taxation Office		182,765	105,714
Other receipts		42,153	5,332
Net cash flows used in Operating activities		**(1,700,026)**	**(388,901)**
Cash flows from Investing activities			
Payments for property, plant and equipment		(59,444)	(5,814)
Proceeds from disposal of property, plant and equipment		-	3,818
Payments for exploration & evaluation costs		-	(52,458)
Payments for intangible assets		(14,994)	(45,925)
Payments for environmental bonds		(500)	-
Net cash flows used in Investing activities		**(74,938)**	**(100,379)**
Cash flows from Financing activities			
Proceeds from issues of shares		400,000	1,924,081
Proceeds from short term loan facility		-	-
Repayment of short term loan facility		-	(1,165,937)
Loan facility costs		-	(16,493)
Capital raising and financing costs		(21,084)	(11,010)
Net cash flows provided by Financing activities		**378,916**	**730,640**
Net increase in cash and cash equivalents held		**(1,396,048)**	**241,360**
Cash and cash equivalents at the beginning of the period		2,208,071	1,688,736
Effects of exchange rates changes on cash and cash equivalents		92	572
Cash and cash equivalents at the end of the period		**812,115**	**1,930,668**

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The interim financial report covers the consolidated group of Carbon Energy Limited and its controlled entities (the Consolidated Group). Carbon Energy Limited is a listed public company, incorporated and domiciled in Australia.

1.1 Statement of Compliance

The interim financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB134, *Interim Financial Reporting*. Compliance with AASB134 ensures compliance with International Financial Reporting Standard IAS34, *Interim Financial Reporting*. The interim report does not include notes of the type normally included in an annual financial report.

It is recommended that this interim financial report be read in conjunction with the most recent annual financial report and any public announcements made by Carbon Energy Limited during the half-year in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001*.

The interim financial report was authorised for issue by the Directors on

16 June 2017.

1.2 Basis of Preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated.

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the Company's 2016 annual financial report for the year ended 30 June 2016, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

1.3 Amendments to AASBs and the new Interpretation that are mandatorily effective for the current reporting period

The Consolidated Group has adopted all new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current half-year. The adoption of these new and revised Standards and Interpretations did not have any material financial impact on the amounts recognised in the financial statements of the Group.

1.4 Going Concern

The half-year financial report has been prepared on a going concern basis, which assumes the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

In concluding that the going concern basis is appropriate, a cash flow forecast for twelve months from the signing of the financial report was considered. An amended Deed of Company Arrangement (DOCA) was announced on 15 May 2017 and was approved by creditors on 23 May 2017. The DOCA provides for a the recapitalisation of the Company including a $3.85 million equity injection (New Equity), a $8.3 million five year Convertible Note (New Facility) and a $1 million unsecured loan from the Pacific Road Group (PR Loan). $7 million of the funds from the Convertible Note will be used to repay the current Convertible Note with the Pacific Road group as full and final settlement of all monies and obligations owing to them. $150k of the $7 million will be paid to Kam Lung as a refinancing fee. The $1 million PR Loan will be repaid when successful ignition is achieved (as defined in the DOCA), by the JinHong JV in China at its first demonstration facility. The remaining proceeds from the New Facility will be used to repay Kam Lung Investment Development Co Ltd (Kam Lung), for a short-term facility agreement of $1.3 million advanced to the Company under the DOCA arrangement, the balance of the short term facility agreement of $640k will be repaid from working capital following completion of the DOCA.

The ability of the Consolidated Group to continue as a going concern and fund the development and commercialisation of its keyseam UCG technology is dependent upon shareholder approval of the transactions contemplated under the DOCA at a meeting of shareholders to be held on 18 July 2017. In addition to approval of the DOCA transactions and receipt of the $3.85 million New Equity capital and the $1 million PR Loan, the ability to continue as a going concern is also dependent on securing additional funds in the coming months from amongst a range of sources/opportunities including:

- receipt of the R&D cash incentive to be lodged with the ATO in or around September 2017;
- the receipt of fees for services provided to the JinHong Joint Venture in China;
- the further licensing and services relating to the Company's keyseam UCG technology;

Factors which can influence these opportunities include, but are not limited to, progress of current development and licensing activities and general market sentiment.

Notwithstanding this, as a technology development and exploration company with start-up projects and a dependency upon continuing support from current shareholders and financiers and on securing additional sources of funds, should the Consolidated Group not receive the forecast cash inflows and additional funding referred to above there are material uncertainties as to whether the Consolidated Group will be able to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the half-year financial report.

The half-year financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Consolidated Group not continue as a going concern.

NOTE 2 – SEGMENT INFORMATION

The Consolidated Group operates in one segment, being provision of technical services to the clean energy and chemical feedstock industries through the extraction of UCG syngas and reports to the chief operating decision-maker on this basis. As such one reportable segment has been identified and this basis is consistent with the current reporting structure.

NOTE 3 – REVENUE AND OTHER INCOME

	CONSOLIDATED GROUP	
	Dec'16 $	Dec'15 $
Other Income		
Government grants	1,384,419	2,490,344
Interest received	22,269	29,530
Other income	56,587	9,950
	1,463,275	**2,529,824**

The Consolidated Group receives a research and development tax incentive (R&D) from the Australian Taxation Office and an export market development grant (EMDG) from Austrade. The R&D tax incentive is equivalent to 45% of eligible research and development expenditure while the EMDG scheme reimburses up to 50% of eligible export promotion expenses. As the Consolidated Group recognises rebates upon receipt, this income relates to expenditure incurred in the prior financial year.

NOTE 4 – EXPENSES

	CONSOLIDATED GROUP	
	Dec'16 $	Dec'15 $
Impairment expense		
UCG Intangible asset [1]	34,511,191	-
Chile project asset	-	860,326
	34,511,191	**860,326**

[1] BDO was appointed Independent expert to opine on the proposed transaction under the Deed of Company Arrangement approved by creditors on 9 March 2017. BDO valued the Group's UCG Intangible asset at between $10m and $17m, accordingly the directors have written down the UCG Intangible asset to the mid-point of this valuation, resulting in a $34.5m impairment expense.

Impairment Test for Indefinite Life Intangible Assets

The recoverable amount of the UCG intangible asset has been determined based on a value in use calculation using a pre-tax discount rate of 17.5% (2016: 20.0%). The value in use cash flows have been estimated by management based on the technology, licence and service contractual arrangements entered into to date or contemplated and the estimated cash inflows expected to be generated over the life of such agreements. The underlying projects currently reflect an estimated project life of 25 years which is consistent with the expected scale of commercial projects of this nature. Growth in the cash flows assumes a number of international licensing projects progress to commercial scale. In addition, for China opportunities, it has been assumed that the JinHong joint venture (JinHong JV) will complete a demonstration project and obtain the exclusive right to license keyseam in China. The cash flow models assume the JinHong JV licenses one project before exclusivity is obtained and another three projects once exclusivity is achieved. Under the terms of the JinHong JV agreement, the Company receives 90% of licence fees during the non-exclusive period and has a 30% interest once the JinHong JV has the exclusive rights. The Company receives 100% of the technical service fees from all China projects. Projects have been allocated probability weightings ranging from 5% to 100%. The recoverable value is sensitive to significant changes in these probability weightings, the amount of capital required to complete the demonstration projects and the upside for value ascribed to de-risking future projects as a result of successful completing the first demonstration project. Similarly the NPV is sensitive to the number of projects and the timeframe for completing these projects. Both a low case and high case have been calculated based around these sensitivities and the Company has ascribed an equal weighting to both scenarios. As a consequence of the reduction in projects assumed, both in China and Internationally, the recoverable amount of the UCG intangible asset was less than its carrying amount and consequently the UCG intangible asset's has been impaired.

Employment expenses		
Remuneration and on-costs	1,268,417	1,408,393
Superannuation expenses	102,021	103,581
	1,443,839	**1,511,974**

NOTE 4 – EXPENSES (continued)

Finance costs		
Interest expense	253,800	267,688
Finance facility fees	-	4,893
Pacific Road Convertible Note accretion expense	719,561	593,411
Rehabilitation provision accretion expense	27,286	44,149
Refinancing expenses	567,475	-
Other	(1,031)	3,004
	1,567,091	**913,145**
Operating lease rental expense	**206,375**	**194,878**

NOTE 5 – FINANCIAL LIABILITIES

	CONSOLIDATED GROUP	
	Dec '16 $	**Jun '16 $**
Current		
Convertible note facility (secured)	9,929,608	9,210,047
TOTAL FINANCIAL LIABILITIES	**9,929,608**	**9,210,047**

	Dec '16 $	**Jun '16 $**
Opening balance	9,210,047	8,029,675
Accretion	719,561	1,180,372
Closing facility balance	**9,929,608**	**9,210,047**

The total secured Pacific Road Capital "Pacific Road" convertible note outstanding at 31 December 2016 is $10,000,000. A reconciliation of the financial liability to the convertible note is as follows:

	2016 $
Financial liability as at 31 December 2016	9,929,608
Fair value discount to unwind in future periods	70,392
Convertible note outstanding as at 31 December 2016	10,000,000
Future interest payments at 5% [1]	26,027

[1] a Deed of Company Arrangement approved by creditors on 9 March 2017 proposes to waive all outstanding and future interest on the Facility

The Equity component of $2,101,590 has been credited to equity (Other Reserve). 35,000,000 options were issued with a strike price at a 25% premium over the term of the Facility Agreement. These expired subsequent to the half year end on 18 January 2017 and 25 February 2017.

Pacific Road may convert all or part of the Facility amount to shares in the Company at any time during the term at a conversion price of $0.14. If the share price exceeds $0.40 for continuous 60 day VWAP period the Company can request the conversion of the Facility in full. The Facility repayment date is 18 January 2017 and any part of the Facility amount not converted into shares on that date is repayable in cash by the Company on that date. The Pacific Road Convertible Note 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.

NOTE 5 – FINANCIAL LIABILITIES (continued)

The fair value of the financial liability approximates its carrying value. Interest on the convertible note facility is paid through the issue of shares.

As noted, the Facility was to be repaid by 18 January 2017. During the half year the Company worked with Pacific Road to refinance the Facility. On 22 November 2016 the Company and Pacific Road were unable to reach agreement on the refinancing and the Directors appointed Tim Michael and Will Colwell as Administrators. The Administrators sought tenders for either the recapitalisation of the Company and/or an asset sale.

An amended Deed of Company Arrangement (DOCA) was announced on 15 May 2017 and was approved by creditors on 23 May 2017. The DOCA provides for a $3.85 million recapitalisation and a the establishment of a new $8.3 million Convertible Note Facility. Proceeds from the New Convertible Note will be used to repay Pacific Road a negotiated $7 million, less $150k refinancing costs, in full and final settlement of the Facility. $1 million of the consideration will be payable upon successful ignition of the JinHong JV's first demonstration project (as defined in the DOCA).

The new financier is the Company's major shareholder, Kam Lung Investment Development Co. Ltd (Kam Lung). Due to the related party nature of the proposed transaction, the DOCA transaction is subject to approval of shareholders at the Annual General Meeting, scheduled to be held before 22 July 2017. This note should be read in conjunction with Note 1.4 *Going Concern*.

NOTE 6 – ISSUES OF EQUITY INSTRUMENTS

Ordinary shares

Issued capital as at 31 December 2016 amounted to $244,731,404 representing 1,813,428,879 fully paid ordinary shares (30 June 2016: $244,226,148 representing 1,775,730,120 fully paid ordinary shares).

On 4 July 2016 the Company issued 30,769,232 ordinary fully paid shares at a price of $0.013 each for additional shares placed as part of the Rights Issue Shortfall from the 4 April 2016 Renounceable Rights, raising $400,000 before costs.

A further 4,945 shares were issued from the exercise of the Company's Listed $0.0594 options, prior to expiry on 31 July 2016.

The Company has a secured convertible note with Pacific Road Capital Management Pty Ltd (Pacific Road), refer to Note 5. Under the terms of the Pacific Road Convertible Note Facility Agreement (Facility) interest is paid through the issue of shares, 3 months in arrears. During the half-year 6,924,582 ordinary shares were issued representing $126,027 of interest. As a result of the Company being under Administration, no shares were able to be issued for the 3 months ending 28 November 2016 or subsequently. As part of the terms of an amended Deed of Company Arrangement (DOCA) approved by creditors on 23 May 2017, all outstanding and future interest owing under the Facility is proposed to be waived with no further shares being issued.

Total costs associated with all share issues during the half year were $21,083. There were no further movements in the ordinary share capital of the Company.

Listed Options

During the half year 4,945 listed options exercisable at $0.0594 were exercised. During the half year the remaining 443,691,459 listed options expired on 31 July 2016 without being exercised.

NOTE 6 – ISSUES OF EQUITY INSTRUMENTS (continued)

Unlisted Options and Performance Rights

As at 31 December 2016 the Company has on issue 51,576,818 unlisted options and 114,858,621 performance rights proposed to be issued. All the unlisted options have vested and are exercisable. Exercise prices for unlisted options range from $0.026 to $0.1678. The performance rights have a nil exercise price.

On 23 May 2017, creditors approved an amended Deed of Company Arrangement (DOCA). Under the proposed DOCA all unlisted options and performance rights will be cancelled for nil consideration. The transactions contemplated under the DOCA are subject to shareholder approval at the annual general meeting, to be held before 22 July 2017.

NOTE 7 – KEY MANAGEMENT PERSONNEL

During the half year, Kerry Parker was appointed as the Company's Managing Director and Chief Executive Officer commencing on 1 September 2016, replacing Morné Engelbrecht, who resigned effective 12 August 2016. Dr Chris Rawlings acted in the role of Executive Chairman during the intervening period (12 August 2016 to 1 September 2016).

Louis Rozman resigned as Non-Executive Director from the Board effective 10 October 2016.

Subsequent to the end of the half year Peter Hogan who has been a member of the Board since 2008 has been appointed Chairman, replacing Dr Chris Rawlings who retired on 9 March 2017.

Additionally George Su has been appointed Non-Executive Director, having previously been Alternative Director to Mr Huihai Zhuang. His new board appointment is also effective from 9 March 2017.

Dr Helen Garnett, a Non-Executive director, resigned on 13 March 2017.

Kerry Parker, Managing Director & Chief Executive Officer resigned as Managing Director on 5 April 2017 and has tendered his resignation as Chief Executive Officer to take effect from 31 May 2017. Kerry will be employed on a part-time basis from 9 March 2017 through to this date. Kerry has agreed to consult to the Company on a casual basis from 31 May 2017 through to the earlier of DOCA completion or 31 July 2017.

Catherine Costello Chief Financial Officer and Company Secretary, tendered her resignation effective 1 May 2017. Catherine has agreed to continue in these roles on a casual basis through to the earlier of DOCA completion or 31 July 2017.

NOTE 8 – COMMITMENTS, CLAIMS, GUARANTEES, CONTINGENT ASSET, CONTINGENT LIABILITIES & CREDIT FACILITIES

(a) Exploration Commitments

The Consolidated Group is required to perform ongoing exploration expenditure and has certain statutory obligations to perform minimum exploration work on its tenements. No provision has been made in the financial statements for these amounts as the amounts are expected to be fulfilled in the normal course of the operations of the Consolidated Group.

Applications have been lodged with the Department of Natural Resources & Mines (DNRM) for extensions to a number of tenements and consequently the statutory exploration commitments for these tenements are deferred and awaiting decision. The Statutory expenditure requirements may be renegotiated with the State's Mineral and Energy Departments and expenditure commitments

NOTE 8 – COMMITMENTS, CLAIMS, GUARANTEES, CONTINGENT ASSET, CONTINGENT LIABILITIES & CREDIT FACILITIES (continued)

(a) Exploration Commitments (continued)

may be varied between tenements, reduced subject to exploration area or relinquished for non-prospective tenements.

	CONSOLIDATED GROUP	
	Dec '16 $	**Jun '16 $**
These obligations which are not provided for in the financial statements and are payable:		
• not later than one year	90,807	79,926
• later than one year but not later than five years	567,085	575,200
TOTAL EXPLORATION COMMITMENTS	**657,892**	**655,126**

(b) Operating Lease Commitment

	CONSOLIDATED GROUP	
	Dec '16 $	**Jun '16 $**
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
• not later than one year	423,975	418,616
• later than one year but not later than five years	474,269	686,003
TOTAL OPERATING LEASE COMMITMENTS	**898,244**	**1,104,619**
FUTURE MINIMUM SUBLEASE PAYMENTS EXPECTED TO BE RECEIVED	**300,663**	**-**

The Consolidated Group leases assets for operations including equipment and office premises. The leases have a life of between 5 months and 2.5 years.

The lease for the Brisbane office commenced on 1 February 2013 for a term of 6 years and expires on 31 January 2019 with a further 5 year option. Rent increases are set at a 4% increase per annum.

During the half year the Company entered into a lease agreement to sublet part of its Brisbane office lease. The lease commenced on 1 August 2016 and expires on 30 January 2019. Rent increases are set at a 4% increase per annum.

(c) Claims of Native Title and Cultural Heritage

Mineral exploration

The Company is aware of native title claims made in accordance with the Native Title Act 1993 (NTA) that was enacted to accommodate the decision of the High Court in Mabo v Queensland (No2) (1992) 175 CLR 1, which recognised the rights and interests of the Aboriginal and Torres Strait Islanders as a form of common law native title.

NOTE 8 – COMMITMENTS, CLAIMS, GUARANTEES, CONTINGENT ASSET, CONTINGENT LIABILITIES & CREDIT FACILITIES (continued)

(c) Claims of Native Title and Cultural Heritage (continued)

The main objectives of the NTA are to:

- provide for the recognition and protection of native title;
- establish ways in which future dealings affecting native title may proceed and to set standards for those dealings; and
- establish a mechanism for determining claims to native title; and provide for, or permit, the validation of past acts invalidated because of the existence of native title.

Exploration and UCG

A Cultural Heritage Management Plan (CHMP) has been developed in partnership with the Aboriginal traditional owners of the lands the subject of the UCG demonstration trial. The CHMP is registered under the provisions of the Aboriginal Cultural Heritage Act and ensures that there is minimal impact or damage caused to Aboriginal cultural heritage items, materials or values during the exploration and UCG activities on mining and petroleum tenements owned by Carbon Energy.

(d) Bank Guarantees

	CONSOLIDATED GROUP	
	Dec '16 $	**Jun '16 $**
Standby arrangements with banks to provide funds and support facilities for bank guarantees relating to rehabilitation bonds.		
These facilities are secured by fixed term cash deposits		
Bank Credit Facility – Deposit [1]	-	32,500
Amount Utilised	-	(32,500)
Unused Bank Credit Facility	**-**	**-**
Interest rates on these credit facilities are variable and subject to adjustment.		
Bank Guarantee in relation to Environmental bonds	53,640	53,140
Bank Guarantee in relation to the entity's share of guarantee for Lease of office premises	181,913	181,913

[1] During the period the Administrators cancelled the Bank Credit Card facility and the Deposit was refunded to the Company

(e) Contingent Liabilities

Summa Resources Holdings LLC (Summa)

As announced to the market on 25 November 2015, the Company was served with proceedings filed by Summa Resource Holdings LLC (Summa) against it in the United States District Court for the Northern District of California (the Complaint). On 6 May 2016 the Court dismissed the Complaint without the need for a hearing. The Court found that the Company had sufficiently demonstrated that permitting the action to proceed in the Northern District of California would be unnecessarily burdensome and that the factors considered by the Court weighed in favour of the matter being dismissed on the basis of forum non conveniens. Accordingly, the Court did not need to consider the merits of the Company's motions to dismiss and strike Summa's claim.

When the Company entered Voluntary Administration on 22 November 2016, Summa submitted a proof of debt to the Administrators totalling US$9 million in relation to a claim pursuant to a share sale agreement dated February 2011 between Summa and the Company.

NOTE 8 – COMMITMENTS, CLAIMS, GUARANTEES, CONTINGENT ASSET, CONTINGENT LIABILITIES & CREDIT FACILITIES (continued)

(e) Contingent Liabilities (continued)

As reported by the Administrators in their Section 411 Report to Creditors, the proof of debt received from Summa did not contain sufficient information for the Administrators to assess the validity of its claim. The Administrators wrote to Summa requesting further particulars, including an explanation as to why Summa believes its entitlement to receive the tranche 4 and 5 shares has converted to a monetary claim of US$9 million.

Summa provided further particulars of its claim on 1 February 2017 that justified an arguable claim against the Company for breach of contract for US$9 million. However, on the information provided by Summa, the claim is a “subordinate claim” against the Company within the meaning of Section 563A of the Act. A subordinate claim is defined to be either:

- a claim for a debt owed by the company to a person in the person’s capacity as a member of the company (whether by way of dividends, profits or otherwise); or
- any other claim that arises from buying, holding, selling or otherwise dealing in shares in the company.

In the Administrators’ opinion, the claim articulated by Summa falls within both limbs of this definition.

In general terms, creditors who have subordinate claims are postponed until all other debts payable by, and claims against, the Company have been satisfied. That is, subordinate creditors are placed last on the priority ladder. The proposed DOCA terms has insufficient consideration available to fully repay unsecured creditors and accordingly insufficient funds to make any payment to subordinate creditors.

Further, if the proposed DOCA is approved, it will release all unsecured claims against the Company which existed as at the date of appointment of the administrators in return for a right to participate in the trust fund established under the DOCA. This will include any claim that Summa asserts against the Company.

(f) Other Credit Facilities

	CONSOLIDATED GROUP	
	Dec ‘16 $	**Jun ’16 $**
Pacific Road Convertible note Facility[1]	10,000,000	10,000,000
TOTAL	**10,000,000**	**10,000,000**
Unused Credit Facility	-	-

[1] The Pacific Road Convertible Note Facility is secured by a first ranking registered fixed and floating charge over the initial technology transferred from CSIRO to Carbon Energy and 100% of the shares in Carbon Energy (Operations) Pty Limited. The Facility is due to be repaid on/before 18 January 2017. Refer to Note 1.4 *Going Concern* and Note 4 *Financial Liabilities* for additional information.

NOTE 9 – EVENTS SUBSEQUENT TO THE REPORTING DATE

Voluntary Administration update

The Administrators received a number of expressions of interest, with three parties shortlisted with their expressions of interest all centred on a recapitalisation of the Group and re-listing on the ASX. At the second meeting of creditors held on 9 March 2017, it was resolved that the Company (and the two related companies) execute a Deed of Company Arrangement (“DOCA”). The DOCA was executed on 9 March 2017 and control of the company (and the two related companies) reverted to the Directors.

Subsequent to execution of the DOCA the Company, Kam Lung Investment Development Co. Ltd (“Kam Lung”) and the Pacific Road Group (“Pacific Road”) worked on satisfying the conditions precedent, finalising the financing documentation and preparing the Notice of Meeting to shareholders.

The DOCA contained a number of conditions precedent including requiring that the employment or other contracts of the key employees and key contractors (as named) continued on terms satisfactory to Kam Lung. A mutually acceptable agreement was not reached. Kam Lung and Pacific Road subsequently entered discussions to seek an alternative path forward to find a mechanism to waive the key employee condition precedent, resulting in an amendment to the DOCA. The amended DOCA was approved by creditors at a meeting held on 23 May 2017.

The transactions contemplated under the DOCA are subject to approval by shareholders at the Annual General Meeting (AGM). The Company’s 2016 AGM will be held in Brisbane on 18 July 2017 following confirmation from ASIC of an extension to hold the meeting on or before 22 July 2017.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

a) in the Directors' opinion, the financial statements and notes, as set out on pages 11 to 24, are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the Consolidated Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

b) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors

Peter Hogan
Chairman

Brisbane, Queensland
16 June 2017

INDEPENDENT AUDITORS' REPORT

Grant Thornton

Level 18
King George Central
145 Ann Street
Brisbane QLD 4000
Correspondence to:
GPO Box 1008
Brisbane QLD 4001

T + 61 7 3222 0200
F + 61 7 3222 0444
E info.qld@au.gt.com
W www.grantthornton.com.au

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF CARBON ENERGY LIMITED

We have reviewed the accompanying half-year financial report of Carbon Energy Limited (the Company), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the accompanying notes for the half-year ended on that date, , other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-year Financial Report

The Directors of Carbon Energy Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such controls as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Carbon Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Grant Thornton

Independence

In conducting our review, we complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Carbon Energy Limited is not in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw attention to Note 1.4 to the financial statements, which outlines the matters that the Directors consider to be relevant to their assessment of the Company's ability to continue as a going concern. These matters include the satisfaction of conditions precedent and approval by shareholders of the Deed of Company Arrangement dated 23 May 2017, which would enable the recapitalisation of the company and the extension of lending facilities. Other matters also include the receipt of an R&D Incentive claim, and the receipt of fees for licencing and consulting for the use of the Group's Underground Coal Gasification technology.

In the event that these matters are not resolved favourably, or are not resolved within the timeframes outlined in Note 1.4, the Company and the Consolidated Group may be unable to realise their assets and discharge their liabilities in the normal course of business, and at the amounts stated in the financial report. As a consequence there exists a material uncertainty that the company may be unable to continue as a going concern. Our opinion is not modified in relation to this matter.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Cameron Smith

Cameron Smith
Partner - Audit & Assurance

Brisbane, 16 June 2017

Corporate Directory

Directors

Peter Hogan
Non-Executive Chairman

Mr George Su
Non-Executive Director

Mr Huihai Zhuang
Non-Executive Director

Executive Management Team

Kerry Parker
Chief Executive Officer

Catherine Costello
Chief Financial Officer & Company Secretary

Stuart MacKenzie
General Counsel

Dr Cliff Mallett
Technical Director

Terry Moore
General Manager Operations

Carbon Energy Limited

ABN 56 057 552 137

ASX Code: CNX

Registered & Principal Office

Level 9, 301 Coronation Drive
MILTON QLD 4064
Telephone: + 617 3156 7777
Facsimile: +617 3156 7776
Email: askus@carbonenergy.com.au

Postal Address:
PO Box 2118
TOOWONG DC QLD 4066

Share Registry

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000
Telephone: +612 8280 7001

Auditors

Grant Thornton
Level 18
King George Central
145 Ann Street
BRISBANE QLD 4000
Telephone: +617 3222 0200

www.carbonenergy.com.au