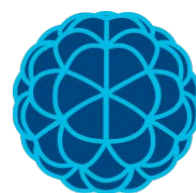




# QUARTERLY REPORT

FOR THE QUARTER ENDED  
30 JUNE 2017

(ASX : CNX)



carbonenergy

# CARBON ENERGY LIMITED

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 30 JUNE 2017

## KEY EVENTS FOR THE QUARTER, AND SUBSEQUENT TO QUARTER END

- On 22 November 2016, the Company announced that it had appointed Tim Michael and Will Colwell of Ferrier Hodgson as joint and several administrators (“Administrators”) of the Company, Carbon Energy Holdings and Carbon Energy (Operations) (together, the “Deed Companies”);
- On 9 March 2017, the Creditors of the Deed Companies approved a Deed of Company Arrangement (as amended, “DOCA”) proposed by the Company’s major Shareholder, Kam Lung, to recapitalise the Deed Companies. Following certain events that prevented the satisfaction of a condition precedent under the DOCA, the parties entered into further negotiations and on 23 May 2017 the Creditors of the Deed Companies approved certain amendments to the DOCA. The DOCA was conditional on, among other things, the approval of Shareholders;
- At the 2016 Annual General Meeting held on 18 July 2017, shareholders resolved to approve the transactions contemplated by the Amended Deed of Company Arrangement (DOCA). The DOCA provided for a number of conditions precedent to be satisfied before DOCA completion was achieved. All conditions precedent have now been satisfied.
- 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.
- 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 July 2017.
- Ms Catherine Costello resigned as Chief Financial Officer effective 1 May 2017, however continues in a part-time capacity as Chief Financial Officer and Company Secretary until 31 July 2017.
- Positive progress continues in identifying the most suitable site for the development of the first commercial demonstration project in China by the Jinhong Joint Venture.

# COMPANY UPDATE

## ACTIVITIES AND OPERATIONS MOVING FORWARD

The activities and actions of the Company during the coming 12 month period will be focussed on :

- Continuing the operations of the Company on a going concern basis, in accordance with the Deed of Company Arrangement, and the resolutions approved by Shareholders at the Annual General Meeting of the Company that was held on 18 July 2017;
- Continuing to ensure that the Company's health, safety, environmental and community related objectives are at the forefront of all decisions made by the Company;
- Finalising the selection of the site for the first commercial demonstration project in China with the Jinhong Joint Venture;
- Following the selection of the site for the first commercial demonstration project in China, completing any required commercial negotiations for access to the site, completion of detailed design and planning works, and the commencement of on-site development activities;
- Continuing to monitor the progress of Ascot Energy in advancing opportunities for project developments in Indonesia;
- Continuing to be aware of all project development opportunities outside of China, that the Company may be able to capitalise on in the future;
- Continue to assess relevant commercial opportunities for use of the Bloodwood Creek Site for alternative purposes, and in seeking to maximize value from the assets held at Bloodwood Creek;
- Continuing all required monitoring and rehabilitation activities at the Bloodwood Creek Site;
- Finalising the recruitment of the executive team, and further building and enhancing the Company's technical team; and
- Ensuring that the Company's expenditure levels are actively monitored and managed, so that all available resources are applied to project development opportunities.

## 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

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.

The significant majority of the Company's efforts will be applied to ensuring the success of the Jinhong Joint Venture.

The Company continues to monitor the progress of Ascot Energy in advancing opportunities for project developments in Indonesia.

The Company continues to assess relevant commercial opportunities for use of the Bloodwood Creek Site for alternative purposes, and in seeking to maximize value from the assets held at Bloodwood Creek.

## 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 continued to review appropriate coal fields in China that will be suitable for the development of the first commercial project in China and has engaged an 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 selected project.

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.

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, now that the Administration process is concluded.

The Company and the JV are actively continuing their efforts in currently reviewing three potential sites currently considered suitable for the development of the first commercial demonstration project in China. These three project areas are:

- Xinjiang- South Bridge – with a 913 km<sup>2</sup> coal lease area, containing approximately 11.4 billion tonne coal deposit
- Yangquan (Shanxi Province) – with a 139 km<sup>2</sup> mining lease area; and
- Inner Mongolia – with a 55 km<sup>2</sup> mining lease area held by Fengfeng Energy Group.

The focus during the coming quarter will be to finalise the selection of the preferred site for the development of the first commercial demonstration project in China, the completion of any required commercial negotiations for site access, and the commencement of detailed design and planning works.

### **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.

The Company will continue to assess relevant commercial opportunities for use of the Bloodwood Creek Site for alternative purposes, and in seeking to maximize value from the assets held at Bloodwood Creek.

## CORPORATE

### **VOLUNTARY ADMINISTRATION and DEED OF COMPANY ARRANGEMENT**

#### **Background Information**

On 22 November 2016, the Company announced that it had appointed Tim Michael and Will Colwell of Ferrier Hodgson as joint and several administrators ("Administrators") of the Company, Carbon Energy Holdings and Carbon Energy (Operations) (together, the "Deed Companies").

On 9 March 2017, the Creditors of the Deed Companies approved a Deed of Company Arrangement (as amended, "DOCA") proposed by the Company's major Shareholder, Kam Lung, to recapitalise the Deed Companies. Following certain events that prevented the satisfaction of a condition precedent under the DOCA, the parties entered into further negotiations and on 23 May 2017 the Creditors of the Deed Companies approved certain amendments to the DOCA. The DOCA was conditional on, among other things, the approval of Shareholders.

In summary, the key terms of the recapitalisation proposal (as amended) provide for the following :

- the Deed Companies to continue operations as going concerns;
- the Company to relist on the ASX, subject to necessary ASX approvals;

- Kam Lung would subscribe for, and the Company would issue to Kam Lung, secured convertible notes issued under a facility agreement between, amongst others, Kam Lung and the Company (“Kam Lung Facility”) with an aggregate principal amount equal to the Subscription Amount (being \$8.3 million (to be advanced by Kam Lung at completion of the DOCA) plus the total of any Kam Lung Expenses at completion that are capitalised by the Company);
- the Company would pay \$6.85 million to the relevant Pacific Road Group entities in consideration of the release and discharge of the debt under the Pacific Road Convertible Facility and the associated securities, being the amount of \$7 million less a costs contribution amount of \$150,000;
- Pacific Road would provide a \$1 million unsecured, interest-free loan (“Pacific Road Loan Facility”) to the Company, which is repayable upon
  - the Company or any Group Company, the JinHong Joint Venture, or (if the Intellectual Property Rights or any material part of the Intellectual Property Rights are acquired by Kam Lung or any affiliate of it) Kam Lung or any affiliate of it, achieving continuous gasification of underground coal for not less than three consecutive days, unless, in the case of gasification by (i) the JinHong Joint Venture (without the involvement of the Company or any Group Company); or (ii) Kam Lung or any affiliate of it, Kam Lung has demonstrated that such gasification was achieved without use of the Intellectual Property Rights any material part of the Intellectual Property Rights or any derivation of the Intellectual Property Rights which would infringe the Intellectual Property Rights if done by a person who is not the owner of the Intellectual Property Rights (“Successful Ignition”), or
  - the date of any sale or other disposal (other than certain excluded disposals) of the Intellectual Property Rights or a material part of the Intellectual Property Rights by the Company or another Group Member or the JinHong Joint Venture (“Disposal of IP Rights”), or
  - the date of any sale or other voluntary disposal by Kam Lung of shares in the Company which results in Kam Lung and its affiliates (taken together) holding less than 50% of the ordinary share capital of the Company (“Kam Lung Disposal of Shares”).

The repayment of this loan is guaranteed by Kam Lung. Pacific Road directed the Company to withhold \$1 million from the \$6.85 million payable to Pacific Road with respect to repayment of the Pacific Road Convertible Facility in satisfaction of Pacific Road’s obligation to advance the principal amount of the Pacific Road Loan Facility at completion;

- Kam Lung would provide \$3.85 million in capital to the Company in exchange for a placement of Shares to Kam Lung which will result in Kam Lung holding 80% of all Shares immediately following completion of the recapitalisation; and
- Kam Lung has also made available to the Company \$1.94 million in interim funding to be used to fund the operating costs of the Deed Companies during the period through to completion of the recapitalisation. \$1.3 million of the interim funding will be repaid to Kam Lung from the proceeds of the Kam Lung Facility, the remaining \$640,000 will be repaid to Kam Lung from the proceeds of the Pacific Road Loan Facility.

### **Shareholder Meeting and Results**

At the 2016 Annual General Meeting held on 18 July 2017, shareholders resolved to approve the transactions contemplated by the Amended Deed of Company Arrangement (DOCA).

The DOCA provided for a number of conditions precedent to be satisfied before DOCA completion was achieved.

All conditions precedent have now been satisfied.

These conditions precedent included:

- entry into a Convertible Note Facility Agreement for the advance of \$9.2 million;

- advance of a \$1 million unsecured loan facility from the Pacific Road group; and
- the receipt of \$3.85 million consideration from Kam Lung Investment Development Corporation (Kam Lung) for the issue of 4,679,911,281 ordinary fully paid shares.

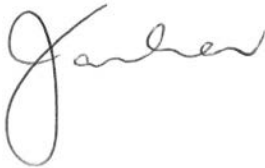
These proceeds have been used to:

- Repay Pacific Road \$6.85 million (net of \$150,000 cost contribution from Pacific Road);
- Repay Kam Lung \$1.94 million for the Short-term Interim Funding and the Administrators Indemnity Amount (as defined in the DOCA);
- Pay \$300,000 into a creditors' trust for the benefit of eligible creditors of the Deed Companies (as defined in the DOCA) whose claims will be released by the DOCA;
- Pay Kam Lung agreed legal fees and costs of \$900,000;
- Pay \$336,716 to the Administrators of the Deed Companies for outstanding fees and costs; and
- Pay \$82,500 to the Deed Administrators for outstanding fees and costs during the DOCA period. The remaining \$3.5 million has been retained by the Company for general working capital.

## CASH MANAGEMENT

At the end of the quarter the Company had cash of \$64,000. Following completion of the DOCA on 19 July 2017 the Company has \$3.5 million cash on hand.

The Company continues to manage cash resources prudently and to ensure that all costs are minimised.



**Kerry Parker**

**Chief Executive Officer**

**Monday 24 July 2017**

# TENEMENT STATUS AT 30 JUNE 2017

<b>MDL 374</b>	Granted	28.68
<b>MLA 50253</b>	Application Pending*	13.43
<b>PFL 6</b>	Renewal Pending**	0.03

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

\*\* Renewal submitted March 2015

<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

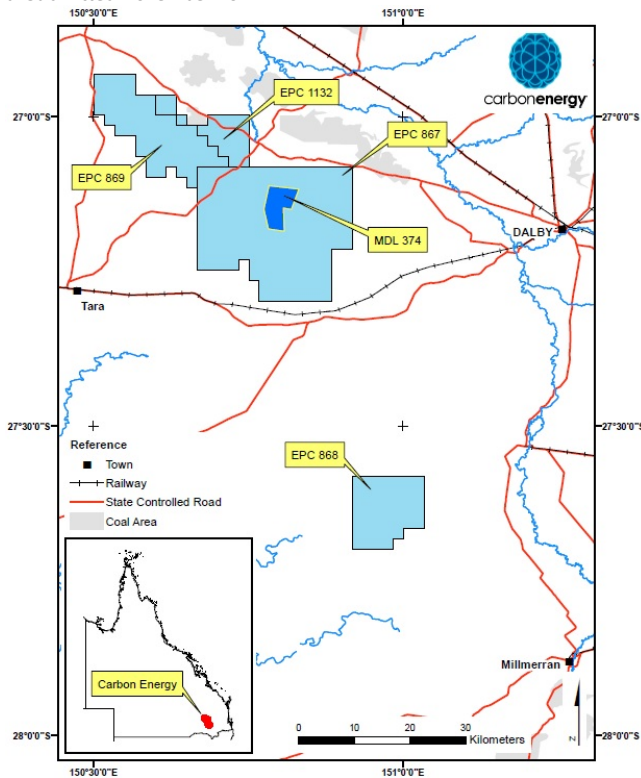


Figure 1 Carbon Energy Coal Tenure Surat Basin



## ISSUED CAPITAL AND SECURITIES ON ISSUE

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

Listed Ordinary Shares	64,933,515
\$1,000 Convertible Notes	9,200

## SHAREHOLDERS

At the date of issue of this quarterly report:

- Carbon Energy has 5,057 shareholders; and
- The “Top 20” shareholders held approximately 88.62% of the listed shares on issue.

## MAJOR SHAREHOLDERS

SHAREHOLDER	% HOLDING
1. Kam Lung Investment Development Company Limited	80.00%
2. Pacific Road Capital	2.60%
3. Incitec Pivot Limited	1.16%

## BOARD OF DIRECTORS & MANAGEMENT

### BOARD OF DIRECTORS

Mr Peter Hogan	Chairman (from 9 March 2017) and Non-Executive Director
Mr George Su	Non-Executive Director
Mr Huihai Zhuang	Non-Executive Director

### EXECUTIVE MANAGEMENT

Mr Kerry Parker	Chief Executive Officer (up to 31 July 2017)
Ms Catherine Costello	Company Secretary (up to 31 July 2017)
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")

30 June 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(76)	(765)
(b) development	-	-
(c) production	-	-
(d) staff costs	(464)	(2,190)
(e) administration and corporate costs	(291)	(1,916)
1.3 Dividends received (see note 3)	-	
1.4 Interest received	1	31
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)	31	146
Other (Administrator costs)	(2)	(185)
Other (Administrator fees)	(236)	(579)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,038)</b>	<b>(4,048)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	(59)
(b) tenements (see item 10)	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(c) investments	-	-
(d) other non-current assets	-	(14)
<b>2.2 Proceeds from the disposal of:</b>		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
<b>2.3 Cash flows from loans to other entities</b>	-	-
<b>2.4 Dividends received (see note 3)</b>	-	-
<b>2.5 Other (provide details if material)</b>	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	-	<b>(73)</b>
<b>3. Cash flows from financing activities</b>		
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	1,060	1,710
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	(2)	(136)
3.8 Dividends paid	-	-
3.9 Other (credit card bond refund)	-	33
Other (electricity bond)	(9)	(9)
<b>3.10 Net cash from / (used in) financing activities</b>	<b>1,049</b>	<b>1,977</b>
<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	53	2,208
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,038)	(4,048)
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)	1,049	1,977

## Mining exploration entity and oil and gas exploration entity quarterly report

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>64</b>	<b>64</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	64	53
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>64</b>	<b>53</b>

**6. Payments to directors of the entity and their associates**

- 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

<b>Current quarter \$A'000</b>
24
-

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

**7. Payments to related entities of the entity and their associates**

- 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

<b>Current quarter \$A'000</b>
-
-

## Mining exploration entity and oil and gas exploration entity quarterly report

<b>8. Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
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. This Facility was settled as part of the completion of the Deed of Company Arrangement (DOCA) on 19 July 2017.

A new Convertible Note Facility of \$9.2 million was put in place to replace this facility and is fully drawn as at the date of this report.

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

<b>9. Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1 Exploration and evaluation	45
9.2 Development	-
9.3 Production	-
9.4 Staff costs	391
9.5 Administration and corporate costs	695
9.6 Other (Administrators costs)	-
Other (Administrators fees)	419
Other (Refinancing costs – includes \$900k capitalised to the Convertible Note Facility)	906
<b>9.7 Total estimated cash outflows</b>	<b>2,456</b>

<b>10. Changes in tenements (items 2.1(b) and 2.2(b) above)</b>	<b>Tenement reference and location</b>	<b>Nature of interest</b>	<b>Interest at beginning of quarter</b>	<b>Interest at end of quarter</b>
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: 24 July 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.