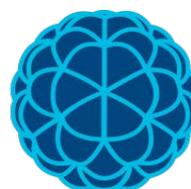




QUARTERLY REPORT

FOR THE QUARTER ENDED
31 DECEMBER 2016

(ASX : CNX; OTCQX Code : CNXAY)



carbon**energy**

(ADMINISTRATORS APPOINTED)

CARBON ENERGY LIMITED

(ADMINISTRATORS APPOINTED)

(ABN 58 057 552 137)

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 31 DECEMBER 2016

KEY EVENTS FOR THE QUARTER

- On 25 October 2016, the Company announced the key terms of the refinancing of its \$10m 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;
- On 22 November 2016, the Board of Directors 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;
- On 6 December 2016, an application to the Supreme Court of Queensland for an extension of the convening period for the second meeting of creditors was heard. Orders were made granting an extension of the convening period up to and including 31 March 2017, such that the second meeting of creditors may be held any time up to, or within 5 business days after 31 March 2017;
- The Company is relying on ASIC Corporations (Externally-Administered Bodies) Instrument 2015/251 and has until 22 May 2017 to lodge its half-year financial report for the period ended 31 December 2016, unless the Administrator applies for and receives an extension to this date.

SUBSEQUENT TO QUARTER END

- From their marketing campaign, the Administrators received ten expressions of interest, with three parties shortlisted for access to the online data room, with their expressions of interest all incorporating a recapitalisation of the Group;
- Two final binding proposals were received by the 9 January 2017 deadline;
- Those proposals remain under consideration by the Administrators.

COMPANY UPDATE

HEALTH, SAFETY, ENVIRONMENT & COMMUNITY

There were no 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

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 material 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 which have the potential to be operated through the JV.

China UCG Research Centre

During the quarter 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 the 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, falling under the Centre, has been established and the first round of submissions for grants is due by end of January 2017.

The Centre has reviewed a number of 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 earlier this year 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

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

During the quarter the Company continued work with Photon Energy to evaluate the development of a large scale solar power generation plant up to 20MW, as well as to investigate the use of the site's existing underground infrastructure to store energy for use during peak energy periods.

Carbon Energy and Photon Energy's focus during the quarter was on progressing the feasibility plans and securing access to land for the project.

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.

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 quarter, 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.

OTHER

Carbon Energy is currently pursuing a number of business development opportunities in Asia, India, South America, and Australia.

CORPORATE

ADMINISTRATORS APPOINTED

On 22 November 2016, the Board of Directors resolved to appoint Mr Tim Michael and Mr Will Colwell from Ferrier Hodgson as Administrators to Carbon Energy Limited and two of its subsidiaries, Carbon Energy (Holdings) Pty Ltd and Carbon Energy (Operations) Pty Ltd.

CONVERTIBLE NOTE REFINANCING

In a strong show of support for seeing the Company's China Joint Venture progress to commercial production, the Company announced on 24 October 2016 that its cornerstone investor, Kam Lung Investment Development Corporation Limited ("Kam Lung") had agreed to purchase the Company's \$10 million Convertible Note Facility ("Convertible Facility") from the Pacific Road Group ("Pacific Road") and underwrite a rights issue capital raising to raise an amount of \$5 million.

The negotiation of terms for the purchase of the Convertible Note had followed an extensive marketing program during the quarter that had been undertaken by PwC Securities and Magma Capital, targeting a large number of potential purchasers in Asia and Europe.

Since the time of that announcement, the Company, Kam Lung and Pacific Road worked diligently on the finalisation of the numerous agreements required to assign the Convertible Facility from Pacific Road to Kam Lung, and to provide the underwriting support to the rights issue capital raising.

However, during the process of finalising the required documents for the transaction, a number of legal related matters arose that were unable to be satisfactorily resolved between the parties. Despite efforts by both the Company and Kam Lung to clarify the potential effect of these irregularities on the Convertible Facility, and determine how the transaction should deal with these unforeseen matters, the Company and Kam Lung were unable to reach agreement with Pacific Road on how to finalise the terms of the transaction, and the required documents to give effect to it, in view of the matters that had arisen.

Given the resulting uncertainty as to whether the transaction could be completed as announced on 25 October 2016 and the expectation that the Company was likely to become insolvent in the future, the Company's directors, and the directors of the Company's Australian subsidiaries, resolved to appoint Mr Michael and Mr Colwell as Voluntary Administrators with immediate effect on 22 November 2016.

ADMINISTRATION PROCESS

Following their appointment, the Administrators ran a marketing campaign seeking urgent expressions of interest in either:

- A recapitalisation of the Company;
- Acquiring the business / assets of the Group on an ongoing concern basis;
- Acquiring the 100% shareholding in Carbon Energy Operations Pty Ltd;
- Submitting a proposal for a Deed of Company Arrangement;
- Acquiring the LEL listed company shell;

Under Administration, the Company has largely traded business as usual.

The Administrators have given notice of a meeting of the Committee of Creditors for each group company on Monday 30 January 2017 to discuss the proposals received and obtain approval of the Administrator's remuneration.

CASH MANAGEMENT

At the end of the quarter the Company had cash of \$0.8 million.

At the date of this report, no fee amounts have as yet been paid to the Administrator, Ferrier Hodgson. As at 31 December 2016, these unpaid fees amounted to approximately \$325,000.

The Company continued to manage cash resources prudently during this period of reduced activity pending the outcome of the Administration process. Prior to the appointment of the Administrator, the Company incurred a number of one off costs associated with the process of refinancing the convertible note.

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 Administrators sought an extension to the date for holding the Annual General Meeting on the basis that the Administrators would not be in a position to update and advise shareholders on the outcome of the administration process given the short time frame between the date of their appointment on 22 November 2016 and the original extended AGM date of 15 December 2016.

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.

A handwritten signature in black ink, appearing to read 'Kerry Parker', with a large, stylized initial 'K'.

Kerry Parker
Managing Director & Chief Executive Officer

Friday 27 January 2017

TENEMENT STATUS AT 31 DECEMBER 2016

Tenement	Status	Area km ²
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

Tenement	Status	Sub-Blocks	Area km ²
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

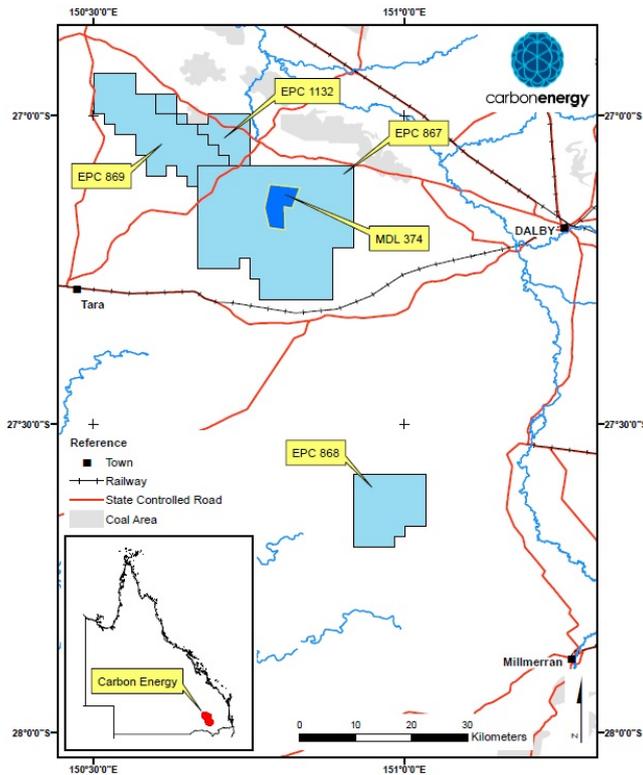


Figure 1 Carbon Energy Coal Tenure Surat Basin

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 current CNX management performance rights. To be ratified by shareholders at the FY16 AGM	43,615,386
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

Dr Chris Rawlings	Chairman and Non-Executive Director
Mr Kerry Parker	Managing Director & Chief Executive Officer
Dr Helen Garnett	Non-Executive Director
Mr Peter Hogan	Non-Executive Director
Mr Huihai Zhuang	Non-Executive Director
Mr George Su	Alternative Director for Mr Huihai Zhuang

EXECUTIVE MANAGEMENT

Mr Kerry Parker	Managing Director & Chief Executive Officer
Ms Catherine Costello	Chief Financial Officer & Company Secretary
Dr Cliff Mallett	Technical Director
Mr Stuart MacKenzie	General Counsel
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 December 2016

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	(144)	(564)
(b) development	-	-
(c) production	-	-
(d) staff costs	(390)	(1,263)
(e) administration and corporate costs	(585)	(1,287)
1.3 Dividends received (see note 3)	-	
1.4 Interest received	6	23
1.5 Interest and other costs of finance paid	(2)	(4)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	1,384
1.8 Other (sublease income)	43	69
Other (Administrator costs)	(11)	(11)
1.9 Net cash from / (used in) operating activities	(1,083)	(1,653)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	10	(59)
(b) tenements (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
	(d) other non-current assets	(1)	(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	9	(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	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	(35)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	344

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,900	2,208
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,083)	(1,653)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	9	(73)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	344
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	826	826

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	826	100
5.2 Call deposits	-	1,800
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)	826	1,900

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

Current quarter \$A'000
-
-

Costs included in item 6.1 above relate to' salaries, annual leave, fees and superannuation.

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

Current quarter \$A'000
-
-

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	344	235
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, the Administrators are still considering the proposals received to recapitalise the Company and deal with the outstanding Facility. The Company has a \$109k credit card facility with National Australia Bank. At the end of the quarter this facility is currently frozen as a result of the Company being in Administrators. The facility is undrawn.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	180
9.2 Development	-
9.3 Production	-
9.4 Staff costs	442
9.5 Administration and corporate costs	243
9.6 Other (Administrators costs) <ul style="list-style-type: none"> • Administrator fees payable TO Ferrier Hodgson are not included in the estimated cash forecast for next quarter. As at 31 December 2016 unpaid fees amounted to approximately \$325,000 (and remain subject to approval by creditors) 	305
9.7 Total estimated cash outflows	1,170

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: 27 January 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.