HALF YEARLY REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2014

carbonenergy

CONTENTS

DIRECTORS' REPORT

BOARD INFORMATION

Your Directors submit the financial report of the Company and its controlled entity (Consolidated Group) for the half-year ended 31 December 2014, 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:

Dr Chris Rawlings	Chairman and Non-Executive Director
Mr Morné Engelbrecht	Managing Director
Mr Max Cozijn	Non-Executive Director
Dr Helen Garnett	Non-Executive Director
Mr Peter Hogan	Non-Executive Director
Mr Louis Rozman	Non-Executive Director

REVIEW OF OPERATIONS

OVERVIEW

Carbon Energy is the leader in underground coal gasification technology (UCG). Its vision is to become the UCG provider of choice to supply the growing domestic and overseas markets.

A key competitive advantage for Carbon Energy has been the development of its unique keyseam technology. Originally developed by the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and proven through six years of in-field trials, the technology facilitates the conversion of coal to syngas in-situ. This proven and highly controlled technology enables access to coal seams that were previously considered too deep or uneconomic. keyseam maximises resource efficiency, while minimising surface disturbance and preserving regional groundwater use.

Carbon Energy has now set the global benchmark for UCG environmental credentials, gas quality and efficiency. Carbon Energy provides a valuable alternative to expensive well-established energy processes. Its technology is comparatively nimble, well priced and environmentally responsible.

For today's global energy market Carbon Energy is providing an extremely relevant solution. Its technology has the capacity to maximise resource recovery, minimise surface disturbance and negate the need for underground coal mines.

The Company is committed to providing Australian industrial gas consumers with an affordable and secure source of high quality gas[1]. Subject to government approvals, the Company is preparing to develop its first commercial project, the Blue Gum Gas Project, near Dalby in Queensland. This plant will supply 25PJ of pipeline quality natural gas per annum and is located within easy access to markets, and close to existing infrastructure. It is anticipated that first gas could be supplied to local industry three years from finding suitable investment partners and commencement of the EIS process.

[1] Compared to export LNG netback pricing.

In addition to its local operations, Carbon Energy is working with international partners to unlock new energy resources outside of Queensland. The Company delivers end-to-end services from initial project assessment through to commercial project development, operations, site decommissioning and rehabilitation.

OPERATING RESULTS

The loss of the Consolidated Group after providing for income tax for the half-year amounted to $2,797,236 (2013: loss $4,174,602) after receiving a government research and development rebate of $3,698,596 (2013: $3,775,330).

FINANCIAL POSITION

The net assets of the Consolidated Group increased by $88,673 to $135,694,264 during the financial period.

The Consolidated Group had $3.5 million in cash and cash equivalents as at 31 December 2014, a net increase of $1.1 million from the prior period.

Subsequent to 31 December 2014, the Company secured and fully drew down on a $1.2 million loan facility with Macquarie Bank. The facility will assist in funding working capital requirements prior to the receipt of the 2015 R&D tax incentive rebate. As at the end of January the Company has $4.0 million of cash available.

KEY ACTIVITIES

The key activities during the period were:

- Finalisation of the Decommissioning Report and Rehabilitation Plan for the Bloodwood Creek UCG trial, submitted to the Queensland Government;
- Engagement of MHA Petroleum Consultants to reassess the Company's coal assets as gas assets and review the existing gas reserves and resources. This assessment resulted in an upgrade in the company's gas reserve to 5TJ and gas reserve and resource to 13 TJ[2];
- An independent external valuer was engaged to provide a valuation of the Gas Reserves and Resources. The valuer's fully risk adjusted preferred valuation was $205 million, with a range of between $91 million to $600 million[3];
- Completed a Share Placement Plan raising $2.5 million before costs of $0.2 million;
- Secured and drew down on a $1.5 million loan facility with Macquarie Bank Limited to assist in funding its short term working capital requirements prior to receipt of the 2014 Research and Development (R&D) tax incentive rebate;
- Received $3.7 million R&D rebate from the Australian Taxation Office (ATO); and
- Repaid in full the $1.5 million loan facility with Macquarie Bank Limited upon receipt of the R&D rebate from the ATO. Total financing costs incurred to have the facility available were $0.1 million.

[2] Refer to the section entitled *Gas Reserves and Resources* for relevant disclosures.
[3] Refer to the attached *Basis of Valuation* for relevant disclosures.

STRATEGY

During the period Carbon Energy made important progress towards achieving the Company's strategic objectives that were outlined in the 2014 Annual Report and represent significant steps in delivering your Company's mission to build a gas business and becoming a leading gas player in Australia and around the world.

Locally, the Company has used the data gathered during the decommissioning phase to demonstrate satisfaction of the overarching recommendations of the Independent Scientific Panel (ISP) appointed by the Queensland Government to assess the UCG pilot trials in Queensland.

PRIORITY 1: TRANSITION TO STANDARD PROJECT APPROVAL PROCESS IN QUEENSLAND AND COMMENCE EIS

With the submission of the Decommissioning Report and the Rehabilitation Plan to the Queensland Government, the Company successfully completed the required final steps in the process outlined by the Government appointed ISP. This included detailed further requests for information from DEHP and its technical consultants.

The demonstrated and scientifically assessed Bloodwood Creek trial results provide strong confidence in the Company's technology, through its complete lifecycle from initiation to rehabilitation. The results include demonstrating the safe, effective and controlled operation, and minimising impact on groundwater volumes and quality.

Just prior to the end of the period the Company received advice from DEHP that the Government appointed external consultant had completed its review of our Decommissioning Report and Rehabilitation Plan. The Government now has all information required to enable the Company to transition to the standard Queensland project approval process and for the Company to then commence the Environmental Impact Study (EIS) to progress the development of the Blue Gum Gas Project.

PRIORITY 2: DEVELOPMENT OF BLUE GUM GAS PROJECT

The upgraded Reserve statement released to the market in September 2014 has built further confidence in your Company, confirming a 2P gas Reserve of 1,128PJ[4]. Carbon Energy is now the holder of Queensland's fifth largest 2P gas Reserve, which provides a strong foundation for the development of the Company's first planned commercial scale gas project, the Blue Gum Gas Project.

An independent expert valuation of our Surat Basin gas assets in October 2014 concluded that the assets have a preferred value of $205m[5] on a fully risked basis.

This project will provide a large economic benefit to the community and will allow Carbon Energy to not only become a major gas supplier but also to potentially create over 1,000 jobs during construction. Shareholder value will be maximised from the development of projects and the creation of further business development opportunities from the use of our technology worldwide. The Company is poised in readiness to take advantage of the value that these opportunities will create.

A significant first step in completing an EIS for the project will be the lodgement of the Initial Advice Statement (IAS) which was substantially completed during the period. The Company continues working towards securing off-take and development partners for our Blue Gum Gas Project.

[4] Refer to the section entitled *Gas Reserves and Resources* for relevant disclosures.
[5] Refer to the attached *Basis of Valuation* for relevant disclosures.

PRIORITY 3: FURTHER LICENSING PROJECTS ACROSS AUSTRALIA AND INTERNATIONALLY

Business Development Opportunities

The Company continued to pursue existing licensing opportunities as well as newly identified opportunities which are now being supported by the strong environmental credentials established in meeting the requirements set by the Queensland Government.

Inner Mongolia, China

Carbon Energy has a UCG development project located at Haoqin Coal Field in Xiwuqi in Inner Mongolia, China. The project is to be completed over 3 stages. The Company is currently working on Stage 1, being to construct and operate one process characterisation panel, of which the results will be used to confirm the site characterisation before finalisation of the commercial scale designs.

No further payments have been received from the client (Haoqin Mining) during the period. The Company will only commence further work on receipt of payment for completed packages and the first milestone payment relating to the commencement of the remaining packages. We continue to negotiate options and are hopeful a solution can be achieved in the future.

Mulpun, Chile

Chile provides an attractive opportunity for commercial UCG development due to high energy costs and dependency on imported energy. Carbon Energy's keyseam UCG technology can be applied to the low quality, un-minable domestic coals to increase energy security in Chile.

Carbon Energy continued seeking potential investors in the proposed project in Mulpun, Chile, through its advisors BHD Capital.

RISK MANAGEMENT AND CORPORATE GOVERNANCE

Carbon Energy understands that effective management of risk is critical to the achievement of its business objectives, and undertakes to manage risk in a manner that maximises opportunities, protects against harm and minimises loss events.

As a company reliant on its unique technological advantage, Carbon Energy anticipates and considers risk in everything it does and in every decision made in order to create and protect value for shareholders.

The Consolidated Group's management of financial risk is aimed at ensuring net cash flows are sufficient to meet all its financial targets and maintain the capacity to fund the Consolidated Group's growth activities. Management and the Board continually review the Consolidated Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. During the reporting period the Company secured and subsequently repaid a $1.5 million short term financing facility and completed a $2.5 million capital raising to maintain its liquidity position.

Risks and opportunities are reviewed and monitored regularly by Management and the Board with appropriate actions taken to reduce the residual risk. Risks being managed include delays experienced on the Queensland government decision to progress the approvals for the Blue Gum Gas Project. Following the end of the period, the Company commenced implementation of a strategy to mitigate the impact of any delay on cash reserves. This cash management strategy includes a voluntary reduction in Executive salary costs (whilst the strong management team remains in place), reduction in staff costs generally, limiting use of external contractors, the reinforcement of a cost conscious culture and securing a $1.2 million loan facility with Macquarie Bank.

KEY EVENTS SUBSEQUENT TO HALF YEAR

On 29 January 2015 the Company secured a $1.2 million loan facility with Macquarie Bank. The facility will assist in funding working capital requirements prior to the receipt of the 2015 R&D tax incentive rebate. The loan facility was fully drawn down as at the date of this report.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under section 307C of the Corporation Act 2001 is included on page 8 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:

Dr Chris Rawlings
Chairman

Morné Engelbrecht
Managing Director

Brisbane, Queensland
17 February 2015

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Riverside Centre
Level 25
123 Eagle Street
GPO Box 1463
Brisbane QLD 4001 Australia

DX 115
Tel: +61 (0) 7 3308 7000
Fax: +61 (0) 7 3308 7001
www.deloitte.com.au

The Board of Directors
Carbon Energy Limited
Level 9, 301 Coronation Drive
Milton QLD 4064

17 February 2015

Dear Board Members,

Independence Declaration

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Carbon Energy Limited.

As lead audit partner for the review of the financial statements of Carbon Energy Limited for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Stavrou
Partner
Chartered Accountants

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

		CONSOLIDATED GROUP	
		Half-year ended	
	Notes	Dec'14 $	Dec'13 $
Revenue and other income			
Technology service fee revenue		112,937	369,901
Other income	3(a)	3,774,989	3,881,711
Total revenue and other income		**3,887,926**	**4,251,612**
Employee benefits expense		(2,486,516)	(2,643,723)
Administration, legal and corporate costs		(937,744)	(1,999,512)
Consultancy costs	3(b)	(1,064,930)	(127,607)
Operating expenditure		(137,339)	(510,278)
Share-based payments	3(c)	(186,630)	(239,728)
Depreciation expense		(137,050)	(66,722)
Finance costs		(996,575)	(949,063)
Movement in fair value of derivatives	3(d)	(727,085)	131,318
Impairment expense		-	(2,020,899)
Loss before income tax expense		**(2,785,943)**	**(4,174,602)**
Income Tax Expense		(11,293)	-
Loss for the period		**(2,797,236)**	**(4,174,602)**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		-	(5,922)
Other comprehensive income for the period, net of income tax		-	(5,922)
Total Loss including comprehensive income for the period		**(2,797,236)**	**(4,180,524)**
Loss attributable to Owners of the Parent		(2,797,236)	(4,180,524)
Total Loss including comprehensive income attributable to Owners of the Parent		(2,797,236)	(4,180,524)
Earnings per share from continuing operations			
Basic loss per share (cents per share)		(0.22)	(0.46)
Diluted loss per share (cents per share)		(0.22)	(0.46)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Notes	CONSOLIDATED GROUP	
		Dec'14 $	Jun'14 $
Assets			
Current Assets			
Cash and cash equivalents		3,510,962	2,387,114
Trade and other receivables	4	1,451,664	1,460,432
Other current assets		64,066	39,461
Total Current Assets		**5,026,692**	**3,887,007**
Non-Current Assets			
Trade and other receivables	4	267,553	267,553
Construction work in progress		2,555,334	2,555,334
UCG panel assets		1,781,657	1,774,901
Property, plant & equipment		913,741	1,043,282
Other non-current asset		860,326	860,326
Deferred exploration and evaluation costs		90,378,728	90,180,110
Intangible assets		47,825,280	47,598,834
Total Non-Current Assets		**144,582,619**	**144,280,340**
Total Assets		**149,609,311**	**148,167,347**
Liabilities			
Current Liabilities			
Trade and other payables		967,889	952,372
Deferred revenue		760,169	873,106
Loans and borrowings	5	-	-
Derivative financial liability	6	737,989	10,904
Provisions		306,096	829,337
Total Current Liabilities		**2,772,143**	**2,665,719**
Non Current Liabilities			
Provisions		3,686,962	2,923,595
Financial liabilities	7	7,455,942	6,972,442
Total Non Current Liabilities		**11,142,904**	**9,896,037**
Total Liabilities		**13,915,047**	**12,561,756**
Net Assets		**135,694,264**	**135,605,591**
Equity			
Issued capital	8	238,370,479	235,606,127
Reserves		19,857,267	19,735,710
Accumulated losses		(122,533,482)	(119,736,246)
Total Equity		**135,694,264**	**135,605,591**

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 2014

	Issued Capital	Options Reserve	Share-Based Payments Reserve	Other Reserve	Foreign Currency Reserve	Accumulated Losses	Total
	$	$	$	$	$	$	$
Balance at 1 Jul 2013	227,727,927	-	15,772,469	2,101,590	34,306	(110,616,645)	135,019,647
Shares issued during the period	7,678,750	-	-	-	-	-	7,678,750
Transaction Costs	(45,954)	-	-	-	-	-	(45,954)
Movement in share option reserve on recognition of share based payments	-	-	1,747,886	-	-	-	1,747,886
Translation of Foreign Operations	-	-	-	-	(5,922)	-	(5,922)
Losses attributable to member of parent entity	-	-	-	-	-	(4,174,602)	(4,174,602)
Balance at 31 Dec 2013	**235,360,723**	-	**17,520,355**	**2,101,590**	**28,384**	**(114,791,247)**	**140,219,805**
Balance at 1 Jul 2014	235,606,127	1,650,453	15,983,667	2,101,590	-	(119,736,246)	135,605,591
Shares issued during the period	3,004,619						3,004,619
Transaction Costs	(240,267)						(240,267)
Options exercised during the period		(47)	(14,735)				(14,782)
Movement in share option reserve on recognition of share based payments			136,339				136,339
Translation of Foreign Operations					-		-
Losses attributable to member of parent entity						(2,797,236)	(2,797,236)
Balance at 31 Dec 2014	**238,370,479**	**1,650,406**	**16,105,271**	**2,101,590**	**-**	**(122,533,482)**	**135,694,264**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

		CONSOLIDATED GROUP Half-year ended	
	Notes	Dec'14 $	Dec'13 $
Cash flows from operating activities			
Receipts from customers		-	725,169
Payments to suppliers and employees		(4,633,718)	(5,212,427)
Receipt of Government Grants	3(a)	3,698,596	3,775,330
Interest received		46,168	55,626
Other receipts		21,549	-
Net cash flows used in operating activities		**(867,405)**	**(656,302)**
Cash flows from Investing Activities			
Payments for property, plant and equipment		(7,572)	(21,359)
Proceeds on sale of AFS asset		-	449,999
Payments for Exploration & Evaluation costs		(198,618)	(42,968)
Payments for Intangible Assets		(27,302)	(6,037)
Net cash flows generated/ (used) in investing activities		**(233,492)**	**379,635**
Cash flows from Financing Activities			
Proceeds from issues of shares		2,566,152	8,874,168
Proceeds from short term loan facility	5	1,500,000	-
Repayment of short term loan facility	5	(1,500,000)	(2,997,233)
Loan Facility costs	5	(102,873)	-
Capital raising and financing costs		(238,534)	(45,954)
Net cash flows provided by financing activities		**2,224,745**	**5,830,981**
Net increase/ (decrease) in cash and cash equivalents held		**1,123,848**	**5,554,314**
Cash and cash equivalents at the beginning of the period		2,387,114	1,772,562
Cash and cash equivalents at the end of the period		**3,510,962**	**7,326,876**

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 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 half-year 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 half-year report does not include notes of the type normally included in an annual financial report.

It is recommended that this 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 half-year financial report was authorised for issue by the Directors on 17 February 2015.

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 half-year financial report are consistent with those adopted and disclosed in the Company's 2014 annual financial report for the year ended 30 June 2014, 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.

New and revised Standards and Interpretations effective during the current half-year and the impact of the change include:

Standard	/ Interpretation	Nature	Impact
AASB 1031	Materiality	The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework for the Preparation and Presentation of Financial Statements (issued December 2013) that contain guidance on materiality. The AASB is progressively removing references to AASB 1031 in all Standards and Interpretations, and once all these references have been removed, AASB 1031 will be withdrawn.	No impact
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	The amendments to AASB 132 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and simultaneous realisation and settlement'.	No material impact
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	The amendments to AASB 136 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by AASB 13 'Fair Value Measurements'.	Early adopted 1 July 2013
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting	The amendments to AASB 139 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.	As the Consolidated Group does not have any derivatives subject to novation, the application of these amendments has no impact on the disclosures or on any amounts recognised in the consolidated financial statements.
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments Part B – Materiality	This amending standard makes amendments to particular Australian Accounting Standards to delete references to AASB 1031, at the same time it makes various editorial corrections to Australian Accounting Standards as well.	No impact

Standard	/ Interpretation	Nature	Impact
Interpretation 21	Accounting for Levies	Interpretation 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.	No impact
AASB 2014-1	‘Amendments to Australian Accounting Standards Part A – Annual Improvements 2010–2012 and 2011–2013 Cycles	The Annual Improvements 2010-2012 Cycle include a number of amendments to various AASBs: AASB 2 – Share-based Payment AASB 3 – Business Combinations AASB 8 – Operating Segments AASB 13 – Fair Value Measurement AASB 116 – Property, Plant & Equipment AASB 124 – Related Party Disclosures AASB 138 – Intangible Assets The Annual Improvements 2011-2013 Cycle include a number of amendments to various AASBs: AASB 3 – Business Combinations AASB 13 – Fair Value Measurement AASB 140 – Investment Property	No impact
AASB 2014-1	Amendments to Australian Accounting Standards Part C – Materiality	This amending standard makes amendments to particular Australian Accounting Standards to delete their references to AASB 1031, which historically has been referenced in each Australian Accounting Standard.	No impact

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.

The ability of the Company and the Consolidated Group to continue as going concerns and fund the development and commercialisation of its keyseam UCG technology is dependent upon the receipt of the R&D cash incentive to be lodged with the ATO, receipt of agreed technology and service fees and the ability to secure additional funds from a range of opportunities. These opportunities include the further licensing and services relating to the Company's keyseam UCG technology, progress towards the utilisation of its gas reserves and issuing new equity and/or entering into debt facilities. Factors which can influence these opportunities include, but are not limited to, approval of the utilisation of the Company's keyseam technology in Queensland by the Queensland Government 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 Company and the Consolidated Group not receive the forecast cash inflows and additional funding referred to above there are material uncertainties as to whether the Company and the Consolidated Group will be able to continue as going concerns and therefore, whether they will realise their assets and extinguish their 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 Company and the Consolidated Group not continue as going concerns.

NOTE 2 – SEGMENT INFORMATION

The Consolidated Group operates in one segment, being development of clean energy and chemical feedstock from 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 – RESULTS FOR THE PERIOD

	CONSOLIDATED GROUP Half-year ended	
	Dec'14 $	Dec'13 $
The following significant transactions are relevant in explaining the financial performance:		
(a) Other Income		
- Government Grants	3,698,596	3,775,330
- Interest Received	54,844	85,972
- Other Receipts	21,549	20,409
	3,774,989	3,881,711

The Consolidated Group receives a research and development tax incentive (R&D) rebate from the Australian Taxation Office and an export market development grant (EMDG) from Austrade. The R&D grant 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. On 13 May 2014 the government announced a proposal to reduce the research and development tax incentive to 43.5% for expenditure incurred after 30 June 2014.

(b) Consultancy Costs	(1,064,930)	(127,607)

Consultants were used for the decommissioning and rehabilitation work, Blue Gum Gas project (Advanced Conceptual Study), Reserve & Resource upgrade and gas valuation completed during the period. Prior period projects included the Inner Mongolia project that started in late 2013.

(c) Share-based payments	(186,630)	(239,728)

The share-based payments arise from the provision of shares and options offered to key management personnel under the Company's short-term and long-term incentive plan.

(d) Movement in fair value of derivatives (refer to Note 6)	(727,085)	131,318

As part of the finalisation of the Credit Suisse loan facility, options were issued to Credit Suisse. The issue of these options has been treated as an embedded derivative and accordingly the value has been classified as a derivative financial liability. This liability is measured at fair value at the reporting period.

NOTE 4 – TRADE AND OTHER RECEIVABLES

	CONSOLIDATED GROUP	
	Dec'14 $	Jun'14 $
Current		
Trade receivables[1]	1,394,318	1,394,318
Other receivables	57,346	66,114
TOTAL CURRENT TRADE & OTHER RECEIVABLES	**1,451,664**	**1,460,432**
Non Current		
Deposits	267,553	267,553
TOTAL NON CURRENT TRADE & OTHER RECEIVABLES	**267,553**	**267,553**

[1] Due from Haoqin Mining in relation to the Inner Mongolia project

NOTE 5 – LOANS AND BORROWINGS

	CONSOLIDATED GROUP	
	Dec '14 $	**Jun '14 $**
Current		
Loan Facility (Secured)	-	-
Closing balance	**-**	**-**

	Dec '14 $	**Jun '14 $**
Opening balance	-	-
Loan proceeds	1,500,000	-
Less Repayment	(1,500,000)	-
Secured Loan Debt outstanding at balance date	**-**	**-**

The Company secured a $1.5 million loan facility with Macquarie Bank Limited on 1 July 2014 to assist in funding its short term working capital requirements prior to receipt of the 2014 Research and Development tax incentive rebate.

The facility was drawn down on 7 August 2014 and subsequently repaid in full during September 2014, upon receipt of the Research and Development rebate from the Australian Taxation Office. Total financing costs incurred to have the facility available were $102,873.

NOTE 6 – DERIVATIVE FINANCIAL LIABILITY

	CONSOLIDATED GROUP	
	Dec '14 $	**Jun '14 $**
Current		
Derivative out of Credit Suisse loan facility	737,989	10,904
Closing Balance	**737,989**	**10,904**

As part of the finalisation of the Credit Suisse loan facility, 61,728,395 options were issued to Credit Suisse at a strike price of $0.081. The 2013 rights issue resulted in a recalculation of the strike price which has reduced to $0.061. The Company has the discretion to settle the net gain (per market/share price) either in cash or equity at the time that Credit Suisse exercises the options. The issue of these options has been treated as an embedded derivative and accordingly the value has been classified as a derivative financial liability.

NOTE 6 – DERIVATIVE FINANCIAL LIABILITY (continued)

The reconciliation of the derivative financial liability is as follows:

	CONSOLIDATED GROUP	
	Dec '14 $	**Dec '13 $**
Opening balance, 1 January	134,838	1,318,437
Fair value adjustment recognised in the profit and loss		
- Movement in fair value of derivatives	(123,934)	(1,052,281)
30 June	10,904	266,156
Fair value adjustment recognised in the profit and loss:		
- Movement in fair value of derivatives	727,085	(131,318)
Closing balance, 31 December	**737,989**	**134,838**

The derivative financial liability is measured at fair value at the period end.

Fair Value Technique Utilised

The fair value of the financial liability is determined by unwinding over the loan period the transaction costs including prepaid interest and 61,728,395 options issued to Credit Suisse at a strike price of $0.081. The 2013 rights issue resulted in a recalculation of the strike price which has reduced to $0.061. The issue of these options has been treated as an embedded derivative and the value has been classified as a derivative financial liability.

The derivative financial liability is measured at fair value at the period end. The following table gives information about how the fair value of this financial liability is determined and provides qualitative information about the significant unobservable inputs.

Financial liability	Fair value as at		Fair value hierarchy	Valuation technique and key input	Significant unobservable input	Relationship of unobservable input to fair value
	31 Dec 14	30 Jun 14				
Derivative financial instrument	**$737,989**	$10,904	Level 3	Black-Scholes model. Company share volatility	Company Share volatility = 102% (June 2014: 67%)	The higher the volatility the greater the fair value. A 10% increase in volatility would increase the fair value by $100,000, while a 10% decrease would reduce the liability by $100,000

NOTE 7 – FINANCIAL LIABILITIES

	CONSOLIDATED GROUP	
	Dec '14 $	**Jun '14 $**
Non-Current		
Convertible note facility (secured)	7,455,942	6,972,442
TOTAL FINANCIAL LIABILITIES	**7,455,942**	**6,972,442**

	Dec '14 $	**Jun '14 $**
Opening balance	6,972,442	6,179,304
Accretion	483,500	793,138
Closing facility balance	**7,455,942**	**6,972,442**

The total secured Pacific Road Capital "Pacific Road" convertible note outstanding at 31 December 2014 is $10,000,000. A reconciliation of the financial liability to the convertible note is as follows:

	2014 $
Financial liability as at 31 December 2014	7,455,942
Fair value discount to unwind in future periods	2,544,058
Convertible note outstanding as at 31 December 2014	10,000,000
Future interest payments at 5%	1,026,027

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 which expires on 18 January 2017.

An additional 9,645,845 unlisted options were issued to Pacific Road Capital Management Pty Ltd (Pacific Road) on 16 November 2012 with an exercise price of $0.081 and an expiry date of 15 November 2015. These options were issued in accordance with the non-dilution clause in the Pacific Road Facility Agreement whereby the convertible note has provision to prevent any further capital raising from diluting Pacific Road's share holding in Carbon Energy. This increases Pacific Road's unlisted options from 35,000,000 in 2012 to 44,645,845 in 2013. The 2013 rights issue resulted in a recalculation of the exercise price of these options which has reduced to $0.061.

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.

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

NOTE 8 – ISSUES OF EQUITY INSTRUMENTS

Ordinary shares

Issued capital as at 31 December 2014 amounted to $238,370,479 representing 1,336,534,770 fully paid ordinary shares (30 June 2014: $235,606,127 representing 1,265,979,607 fully paid ordinary shares).

On 23 October 2014 the company closed a Share Placement Plan (SPP) raising $2,457,215 with a further $60,000 raised through private placements resulting in the issue of 50,344,305 ordinary shares at $0.05 per share.

10,033,239 ordinary shares were issued under its executive share plan during the half-year. These shares had a fair value at grant date of $0.0171 per share.

The Company has a secured convertible note with Pacific Road Capital Management Pty Ltd (Pacific Road). Under the terms of the Pacific Road Convertible Note Facility Agreement interest is paid through the issue of shares, 3 months in arrears. During the half-year 8,414,889 ordinary shares were issued representing $252,055 of interest.

During the half-year, the company issued 1,750,730 ordinary shares for $48,216 on the exercise of 1,750,730 unlisted share options issued under its executive share plan. As a result of the share issue, $14,735 was transferred from the share based payment reserve to issued capital.

The company issued 12,000 ordinary shares for $720 on the exercise of 12,000 listed share options with $47 transferred from the Options reserve to issued capital.

Total costs associated with all share issues during the year were $240,267. There were no further movements in the ordinary share capital of the Company.

Listed Options

As at period end the Company has on issue 443,694,404 6c listed options expiring on 21 July 2016.

12,000 listed share options were exercised during the half-year with $47 transferred from the Options reserve to issued capital.

Unlisted Options

As at period end the Company has on issue 192,701,724 unlisted options. 126,035,058 have vested and are exercisable. Exercise prices for unlisted options range from $0.026 to $0.1678.

10,152,967 unlisted options were issued under its executive share plan during the half-year. These shares had a fair value at grant date of $0.009 per share.

During the half-year, 1,750,730 unlisted share options issued were exercised under the Company's executive share plan. As a result of the share issue, $14,735 was transferred from the share based payment reserve to issued capital.

NOTE 9 – KEY MANAGEMENT PERSONNEL

Remuneration arrangements of key management personnel are disclosed in the annual financial report. Key management personnel participate in the Company's short-term and long-term incentive program. During the half-year the Company issued shares and unlisted options to key management personnel following assessment of 2014 performance against key performance measures. Mr M Engelbrecht's short-term incentive was approved by shareholders at the Company's Annual General Meeting held on 20 November 2014. Mr M Engelbrecht elected to take $23,254 of his short-term incentive as cash, with the balance of $50,000 taken in share options.

NOTE 10 – 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 (DNMR) for extensions to tenements and consequently the statutory exploration commitments are deferred and awaiting decision. During the period the DNMR accepted the exploration plan and expenditure commitments and granted a 3 year extension to one of the tenements, EPC 869. The Statutory expenditure requirement may be renegotiated with the State's Mineral and Energy Departments and expenditure commitments may be varied between tenements, reduced subject to exploration area or relinquished for non- prospective tenements.

	CONSOLIDATED GROUP	
	Dec '14 $	**Jun '14 $**
These obligations which are not provided for in the financial statements and are payable:		
• not later than one year	12,181	385,002
• later than one year but not later than five years	934,157	370,448
TOTAL EXPLORATION COMMITMENTS	**946,338**	**755,450**

(b) Operating Lease Commitment

	CONSOLIDATED GROUP	
	Dec '14 $	**Jun '14 $**
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
• not later than one year	395,778	388,223
• later than one year but not later than five years	1,313,442	1,511,978
TOTAL OPERATING LEASE COMMITMENTS	**1,709,220**	**1,900,201**

The Consolidated Group leases assets for operations including equipment and office premises. The leases have a life of between 3 and 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.

(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.

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.

NOTE 10 – COMMITMENTS, CLAIMS, GUARANTEES, CONTINGENT ASSET, CONTINGENT LIABILITIES & CREDIT FACILITIES (continued)

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.

(c) Bank Guarantees

	CONSOLIDATED GROUP	
	Dec '14 $	**Jun '14 $**
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 (Note 4)	32,500	32,500
Amount Utilised	(32,500)	(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	53,140	53,140
Bank Guarantee in relation to the entity's share of guarantee for Lease of office premises	181,913	181,913

(d) Contingent Liabilities

Summa Resources Holdings LLC (Summa)

As announced to the market on 30 May 2013, the Company maintains its position that project milestones under the Agreement with Summa Resources LLC (Summa) were not able to be achieved and that it is not obliged to issue further tranches of shares to Summa nor is it required to reserve those shares. Without prejudice discussions between representatives from both parties have to date failed to bring the matter to a close.

The Consolidated Group is not engaged in any litigation which has or would be likely to have a material adverse effect on either the Consolidated Group or its business.

(e) Other Credit Facilities

	CONSOLIDATED GROUP	
	Dec '14 $	**Jun '14 $**
Pacific Road Convertible note Facility[1]	10,000,000	10,000,000
TOTAL	**10,000,000**	**10,000,000**

[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. Refer to Note 7 for additional information.

NOTE 11 – EVENTS SUBSEQUENT TO THE REPORTING DATE

Subsequent to the end of the period the Company secured and drew down on a $1.2 million loan facility with Macquarie Bank Limited. The facility will assist in funding its working capital requirements prior to receipt of the FY2015 Australian Taxation Office Research & Development Rebate. Macquarie Bank Limited has a first ranking security interest in all the Company assets, excluding: the IP (UCG Technology) pledged to Pacific Road Capital convertible note; and the COSFLOW licence. The security will be discharged upon repayment of the facility.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

a) in the Directors' opinion, the financial statements and notes, as set out on pages 9 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 2014 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

Dr Chris Rawlings
Chairman

Morné Engelbrecht
Managing Director

Brisbane, Queensland
17 February 2015

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Riverside Centre
Level 25
123 Eagle Street
Brisbane QLD 4000
GPO Box 1463
Brisbane QLD 4001 Australia

DX: 115
Tel: +61 (0) 7 3308 7000
Fax: +61 (0) 7 3308 7004
www.deloitte.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, which comprises the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 9 to 25.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company 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 internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with 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 2014 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.

Deloitte.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Carbon Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

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 2014 and of its performance for the half-year ended on that date; and

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

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year report which indicates that the ability of the Consolidated Group to continue as a going concern is dependent upon securing additional funds.

The matters set out in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Consolidated Group's ability to continue as a going concern and therefore, the Consolidated Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Stavrou
Partner
Chartered Accountants
Brisbane, 17 February 2015

TENEMENT SCHEDULE

Tenement Number	Grant date	Expiry Date	Holder	% of interest held	Area (Sub-blocks/Km^2) as at 31 December 2014
EPC 867	18/02/2005	17/02/2015*	Carbon Energy (Operations) Pty Ltd	100%	167
EPC 868	18/02/2005	17/02/2015*	Carbon Energy (Operations) Pty Ltd	100%	96
EPC 869	14/10/2004	13/10/2017	Carbon Energy (Operations) Pty Ltd	100%	63
EPC 1132	21/07/2007	20/06/2019	Carbon Energy (Operations) Pty Ltd	100%	23
MLa50253	Application	-	Carbon Energy (Operations) Pty Ltd	100%	13.4 km^2
MDL374 +	01/02/2008	31/01/2013	Carbon Energy (Operations) Pty Ltd	100%	28.7 km^2
PFL6			Carbon Energy (Operations) Pty Ltd	100%	3 ha

*Renewal applications were submitted on time and remain pending.

+ MDL 374 renewal was submitted on time and has been received by the Department and they are in the process of reviewing it.

GAS RESERVES & RESOURCES

The Company's Syngas/SNG Reserves & Resources, reported in accordance with Society of Petroleum Engineers (SPE) guidelines, are:

Area	Category	Gross (100%) Syngas Energy (PJ)	Gross (100%) SNG Energy (PJ)
MDL 374	1P Reserves	11.0	7.10
	2P Reserves	1,737.9	1,128.5
	3P Reserves	2,512.4	1,631.5
EPC 867	3P Reserves	5,650.0	3,668.9
EPC 867	2C Contingent Resource	7,734.3	5,022.3
EPC 869	2C Contingent Resource	4,150.3	2,695.0
EPC 1132	2C Contingent Resource	1,220.1	792.3

Notes to the above table:

- 1P Reserves = Proved
- 2P Reserves = Proved + Probable
- 3P Reserves = Proved + Probable + Possible

All Reserve and Resource estimates (Estimates) in this document are reported in accordance with the requirements of ASX Listing Rules 5.25 to 5.28. It is noted in particular that:

(a) This document refers to Estimates reported on 19 September 2014 and released to the market on 22 September 2014 (Updated Reserves Statement);

(b) All Estimates are based on the deterministic method for estimation of petroleum resources at the field and project levels and are attributable to the gross (100 percent) ownership interest of Carbon Energy in certain coal properties located in MDL374, EPC867, EPC869 and EPC1132 located in the Surat Basin of Queensland, Australia;

(c) All Estimates are reported using the following conversion factors as relevant:
   (i) UCG Energy conversion factor is 16.73 GJ of syngas per tonne of coal gasified;
   (ii) UCG syngas to Synthetic Natural Gas (SNG) conversion factor is 38.5 to 25;
   (iii) 1,055 Petajoule (PJ) = 1 Trillion cubic feet (Tcf); and
   (iv) 1 barrel of oil equivalent (boe) = 6,000 cubic feet.

Further, for the purposes of ASX Listing Rule 5.43, Carbon Energy confirms that it is not aware of any new information or data that materially affects the information included in the 22 September 2014 Updated Reserves Statement and that all material assumptions and technical parameters underpinning the estimates in the Updated Reserves Statement continue to apply and have not materially changed.

SHARE INFORMATION

ISSUED CAPITAL

As at 2 February 2015

ORDINARY SHARES

1,336,534,770 shares

OPTIONS – LISTED

443,696,404 Listed options exercisable at $0.06 and expiring 31 July 2016

OPTIONS – UNLISTED:

61,728,395 Unlisted Credit Suisse options

44,645,845 Unlisted Pacific Road Capital Convertible Note options

86,327,484 Unlisted current CNX management options

SHAREHOLDERS

As at 2 February 2015

ORDINARY SHARES:

5,732 Shareholders

Top 20 Shareholders hold 48.48% of listed shares

Major Shareholders (more than 5% holding):

1.	Kam Lung Investment Development Company Limited	12.86%
2.	Pacific Road Capital	8.54%
3.	CitiCorp Nominees Pty Ltd	6.18%
4.	Incitec Pivot Ltd	5.65%

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

1,283 Listed Option Holders

Top 20 Listed Option Holders hold 70.11% of listed options

Top 5 Listed Option Holders:

1.	Kam Lung Investment Development Company Limited	38.72%
2.	Citicorp Nominees Pty Limited	11.34%
3.	Archfield Holdings Pty Ltd	2.83%
4.	JP Morgan Nominees Australia Ltd	2.00%
5.	Mr Alexander Gontmakher	1.56%

Corporate Directory

Directors

Dr Chris Rawlings
Non-Executive Chairman
Mr Morné Engelbrecht
Managing Director & Chief Executive Officer
Mr Max Cozijn
Non-Executive Director
Dr Helen Garnett
Non-Executive Director
Mr Peter Hogan
Non-Executive Director
Mr Louis Rozman
Non-Executive Director

Executive Management Team

Mr Morné Engelbrecht
Managing Director & Chief Executive Officer
Catherine Costello
Chief Financial Officer
Dr Cliff Mallett
Technical Director
Tracy Bragg
General Counsel & Company Secretary
Justin Haines
General Manager Technical Services
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

Auditors

Deloitte Touche Tohmatsu
Riverside Centre
Level 25
123 Eagle Street
BRISBANE QLD 4000

www.carbonenergy.com.au

Basis of Valuation

Xstract Mining Consultants Pty Ltd (Xstract) provided the "Eastern Surat Syngas Reserves Independent Valuation" (the Report) to Carbon Energy Ltd on 15 October 2014. Carbon Energy's wholly owned Eastern Surat Syngas Reserves in the Surat Basin, Queensland, form the reserve base underpinning the Blue Gum Gas Project (the Project). This Basis of Valuation provides a summary of the key methodologies used and risks identified in the Report.

The information in the Report is deemed commercially sensitive as the Company has not received the requisite approvals from the Queensland government to commence the Project. This impacts on the negotiations underway to secure off-take agreements and investment funding for the Project.

Valuation methodology

To arrive at the valuation Xstract applied a number of valuation methods outlined in the 2005 edition of the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (VALMIN).

Xstract relied heavily on transaction market multiples and comparable transaction data however had to make adjustments for the Company's Keyseam technology against other extractive technologies. The factors taken into account are listed below:

- Comparable energy recovery to conventional coal mining without the need to transport inert ash;
- Around 50 times greater energy recovery per square kilometre than CSG;
- Produces gas which is raw material for a wide range of saleable products;
- Does not impact on regional water quantity or quality;
- Accesses coal resources otherwise not commercially viable;
- Very small extractive area;
- Utilises off-the-shelf enabling technologies such as gas & water processing;
- Project is near to all required major infrastructure e.g. natural gas pipelines to ready markets, power lines, roads, skilled workforce;
- Negligible remediation costs;
- Queensland Government approvals process for UCG technology is in development;
- Emerging technology may be difficult to fund;
- Emerging technology may be difficult to gain social licence;
- Up-front capital costs;
- Project timeline dependent upon policy and approvals process; and
- Constraints with existing resource holders.

Reserves

Xstract used the Reserves detailed in Carbon Energy's ASX announcement dated 19 September 2014 as the basis for Reserves underpinning the financial assessment presented in the Report.

Permits	Category	Gross (100%) Syngas Energy (PJ)	Gross (100%) SNG Energy (PJ)
MDL374	1P Reserves	11.0	7.1
	2P Reserves	1,737.9	1,128.5
	3P Reserves	2,512.4	1,631.5
EPC867	3P Reserves	5,650.0	3,668.9
	2C Contingent Resources	7,734.3	5,022.3
EPC869	2C Contingent Resources	4,150.3	2,695.0
EPC1132	2C Contingent Resources	1,220.1	792.3

Key risks

The results of the valuation detailed in the Report are forward looking information that is subject to a number of known and unknown risks, uncertainties and other factors that may cause the actual results to differ materially from those presented here. Key risks to the Project are considered by Xstract to be:

- Carbon Energy requires approval from the Queensland Government in order to continue with activities designed to commission the Project site and commence commercial production of syngas for conversion to SNG. Having recently submitted a decommissioning report and rehabilitation plan, Carbon Energy is hopeful that it will receive the requisite approvals in order to commence construction activities in calendar year 2015, targeting first production in 2017. Xstract considers this timeline may be pushed out by up to two years pending support from the Queensland Government.
- Delineating a second area capable of supporting up to 47 panels may prove more difficult that currently expected given the various geological, hydrological and geotechnical requirements for commercial production.
- The classification of the syngas reserve for Carbon Energy's EPCs 867, 869 and 1132 located in the Surat Basin, Queensland (i.e. outside of Carbon Energy's MDL374) may be overstated in terms of confidence.
- Relative to historic transactions, the current market is heavily discounting certain unconventional gas assets, including NSW CSG and Queensland UCG pending greater clarity regarding the development pathway for projects in these sectors. Any change in the current political landscape for unconventional gas may result in a marked re-rating of these sectors.
- The current price outlook for SNG is heavily dependent upon the on-going development of CSG and LNG infrastructure, which is due to come on-line within the next few years. Whilst current prices are comparatively low relative to near to medium term forecasts, gas prices are expected to rise dramatically during the transition from a domestic focussed to export oriented marketplace.

Reporting standard

The Report has been prepared in accordance with the following codes:

- The 2005 edition of the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (VALMIN Code); and
- The 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code).

For the purposes of the Report, value is defined as 'fair market value' (FMV), being the amount for which a mineral asset should change hands between a willing buyer and a willing seller in an arm's length transaction where each party is assumed to have acted knowledgeably, prudently and without compulsion.

The estimates of syngas reserves and contingent resources presented in the Report have been prepared by MHA Petroleum Consultants (MHA) in accordance with the definitions and guidelines set forth in the 2007 Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers (SPE).

Data sources

In developing its assumptions for the Report, Xstract relied upon information provided by Carbon Energy and information available in the public domain including:

- Various papers extracted from technical conference proceedings and Australasian Institute of Mining and Metallurgy (AusIMM) Monographs;
- Press releases, public announcements, media and analyst presentation material and other public filings, including information available on Carbon Energy's website;
- Brokers' reports and recent press articles on Carbon Energy and other comparable companies, as well as the coal and coal gasification industry;
- Share market data and related information on Australian and international listed companies engaged in the coal and gas industries and on acquisitions of companies and businesses in these industries; and
- Information relating to the coal and gas markets including forecasts regarding supply and demand, commodity price, inflation rates and exchange rates.

In the execution of its mandate, Xstract reviewed all relevant pertinent technical and corporate information made available by representatives of Carbon Energy, which has been accepted in good faith as being true, accurate and complete, after having made due enquiry.

Reliance on other Experts

Xstract has not relied on any third party opinion in compiling its value opinion. The technical personnel responsible are based entirely in Xstract's Brisbane office. Xstract has held discussions with Carbon Energy personnel in its Brisbane office to facilitate an understanding of the Project.

For the technical assessment, Xstract sent two representatives (a geologist and mining engineer) to carry out a visit to Carbon Energy's Project site. In addition, Xstract has completed a data review of the available technical data and held discussions with independent parties regarding Carbon Energy's proposed development and exploration assets. Based on these validation steps, Xstract has developed a good in-house understanding of the assets and has no reason to question the validity of the technical information supplied.

Competent Persons and Experts statement

Xstract's consultants involved are Independent Experts as defined by the VALMIN Code. They are also members of either the AusIMM or the Australian Institute of Geoscientists (AIG), for which compliance with the JORC and VALMIN Codes is mandatory. Xstract's Competent Persons involved in the preparation of the Report are members in good standing with one or more of these professional institutions and have the required qualifications and experience as defined in the JORC and VALMIN codes to conduct this technical assessment and valuation.

Xstract's consultants have extensive experience in preparing competent persons, mineral specialist, independent geologist and valuation reports for mineral exploration and production companies. The authors of the Report are qualified to express their professional opinions on the values of the mineral assets described.

Independence, disclaimer and warranty

Xstract is an independent mining consultancy. Xstract confirms its independence for the purpose of the Australian Securities and Investment Commission's Regulatory Guide 112 – Independence of experts (ASIC, 2011). Xstract was commissioned by Carbon Energy on a fee for service basis according to Xstract's standard schedule of rates. Xstract's fee is not contingent on the outcome of its valuation. None of Xstract's consultants or their immediate families involved in the preparation of the Valuation have (or had) a pecuniary or beneficial interest in Carbon Energy prior to or during the preparation of the Valuation.

Xstract has made due enquiries to the Queensland Department of Natural Resources and Mines (DNRM) in order to validate information provided by Carbon Energy. However, Xstract is not qualified to express legal opinion and has not sought any independent legal opinion on the ownership rights and obligations relating to the respective mineral assets under licence or any other fiscal or legal agreements that Carbon Energy may have with any third party in relation to its Queensland assets.

The Valuation may contain or refer to forward-looking information based on current expectations, including, but not limited to timing of mineral resource estimates, future exploration or project development programmes and the impact of these events on Carbon Energy's projects. Forward-looking information is subject to significant risks and uncertainties, as actual results may differ materially from forecasted results. Forward-looking information is provided as of the date hereof and Xstract assumes no responsibility to update or revise them to reflect new events or circumstances.

The valuation is appropriate as at 15 October 2014. The valuation is only appropriate for this date and may change in time in response to variations in economic, market, legal or political factors, in addition to ongoing exploration and development studies. All monetary values outlined in the Report are expressed in AUD unless otherwise stated.

Forward-looking Statements

This announcement contains certain "forward-looking statements". Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors and are subject to significant business, economic and competitive uncertainties and contingencies associated with exploration and/or production, many of which are beyond the control of Carbon Energy, that may cause actual results to differ materially from those predicted or implied by any forward-looking statements. No representation or warranty is made by or on behalf of Carbon Energy, Xstract or their respective directors or officers, employees, advisers or agents that any projection, forecast, calculation, forward-looking statement, assumption or estimate contained in this presentation should or will be achieved or that actual outcomes will not differ materially from any forward-looking statements.