



QUARTERLY REPORT

FOR THE PERIOD ENDED
31 DECEMBER 2015



carbon**energy**

CARBON ENERGY LIMITED

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 DECEMBER 2015

ABN 56 057 552 137

ASX Code: CNX OTCQX Code: CNXAY

KEY EVENTS FOR THE QUARTER

- Shareholders approved the formation of the JinHong Joint Venture (JV) at the Company's Annual General Meeting (AGM) held on 30 November 2015 and has begun progressing approvals for the JV's incorporation in China.
- The Company appointed Mr Huihai Zhuang to the position of Non-Executive Director as nominee for Kam Lung Investment Development Company following the increase in its shareholding to 19.99% at the end of last quarter. Additionally Mr George Su, who is based in Australia, was also appointed Mr Zhuang's alternate Director and translator.
- Carbon Energy has been granted renewal of its Mineral Development License (MDL) by the Department of Natural Resources and Mines (DNRM), until 31 January 2018. The renewal is based off an amended Work Plan provided by the Company to DNRM in October 2015.
- Carbon Energy held its AGM of Shareholders on 30 November 2015 and all Resolutions were passed.
- The Company has been served with proceedings that have been filed by Summa Resource Holdings in the United States District Court of Northern California. The Company is vigorously defending the claims and has filed motions to dismiss and to strike out a number of the allegations.

COMPANY UPDATE

CHINA

JinHong Joint Venture (JV)

During the Quarter Shareholders approved the establishment of the JV at the Company's Annual General Meeting on 30 November 2015. The purpose of the JV is to establish a vertically integrated gas business in China. The formation of the JV is subject to obtaining the Chinese Government approvals and the initial US\$10 million capitalisation of the JV by the Company's JV partner, Beijing JinHong Investment Co., Ltd (JinHong). JinHong will contribute a total of US\$30 million to the JV. The JV Agreement was executed following the increased interest to 19.99% by the Company's cornerstone investor. JinHong and the Company's cornerstone investor are controlled by Mr Zhuang.

Work has begun towards securing the approval and incorporation of the China based JV as required by the Chinese Government. Whilst approval is being obtained the JV has formed a working group which is concurrently progressing the following key actions:

- Prepare and file documentation for JV approval and incorporation;
- Confirm the JV launch strategy, execution plan and budget;
- Secure suitable coal leases;

- Establish an office in Beijing, China; and
- Interview and appoint the JV management team.

JinHong will provide the initial pre-JV formation working capital which will be capitalised once the JV is incorporated.

QUEENSLAND

Blue Gum Gas Project

During the quarter the Company continued to meet and correspond with the Queensland Government regarding progress to commence a commercial project near its Bloodwood Creek trial site 30km west of Dalby in south-east Queensland (Blue Gum Gas Project).

The Company has been granted a renewal of its Mineral Development Licence (MDL) by the Queensland Department of Natural Resources and Mines (DNRM) to 31 January 2018 for the area which contains the Company's 2P Gas Reserve¹ earmarked for the Blue Gum Gas Project - MDL374. The application was lodged by the Company on 17 July 2012 and renewed based on an amended Work Plan submitted in October 2015.

The renewal provides the basis for the Company to continue to progress the activities of the Work Plan for MDL374, which include the continuation of the Company's ground water monitoring program under its Environmental Authority which form part of its comprehensive Rehabilitation Plan. The Work Plan states that no further Panels will be initiated until the Government finalises its policy in relation to Underground Coal Gasification and the necessary approvals are gained to support a commercial project, which is reflected in the renewal documents.

The Company continues to engage with the Queensland Government to move the Blue Gum project forward. The project is planned for development on MDL374 and freehold land owned by the Company in the Surat Basin.

The progression of the project is currently delayed while the Company awaits response from DNRM as to its instructions for commencing an Environmental Impact Statement for the Blue Gum Gas Project. The Company is also exploring a number of mid-scale commercial opportunities which would utilise the existing infrastructure and assets at Bloodwood Creek.

CORPORATE

CASH MANAGEMENT

The Company continues to manage its cash resources prudently and at the end of the quarter the Company had \$1.93 million of cash on hand.

¹ Refer to Carbon Energy Gas Reserves & Resources on page 5

LEGAL MATTERS - SUMMA SHARE SALE AGREEMENT

On 27 November 2015 the Company advised it had been served with proceedings filed by Summa Resource Holdings LLC (Summa) against it in the United States District Court for the Northern District of California (Complaint).

Carbon Energy maintains its position announced on 6 March 2013 that relevant milestones under the Agreement with Summa had not been met, notwithstanding Carbon Energy having taken all required steps and having used its best endeavours. Accordingly, Carbon Energy is not obliged to issue further tranches of shares to Summa.²

In response to Summa's Complaint, Carbon Energy filed motions to dismiss each of the eight claims in the Complaint and to strike out a number of the allegations. Carbon Energy's motions are scheduled to be heard in court in late February 2016. The Company will continue to defend the Complaint and any claims made in respect of the allegations made by Summa.

APPOINTMENTS

Board

Mr Huihai Zhuang was appointed to the position of Non-Executive Director as Nominee for Kam Lung Investment Development Company.

Additionally Mr Zhuang appointed Mr George Su, who is based in Australia, as his alternative Director and translator.

General Counsel

Stuart MacKenzie was appointed to the position of General Counsel on a casual, as required basis effective from 27 November 2015.

Stuart brings to the Company strong resources and legal experience having worked initially as a geologist in Canada before becoming a corporate lawyer working with both Blake Dawson Waldron (now Ashurst) and Stikeman Elliott. From 2001 Stuart served as an internal legal counsel and company secretary for Placer Dome Asia Pacific, Lihir Gold and Pacific Aluminium as well as advising Barrick Gold and is currently general counsel for Chinova Resources.

For and on behalf of the Board



Morné Engelbrecht
Managing Director & Chief Executive Officer
28 January 2016

² See ASX Announcement 23 February 2011 and 6 March 2013.

CARBON ENERGY GAS RESERVES & RESOURCES

Area	Reserve and Resource Classification	Gross (100%) Syngas Energy (PJ)	Gross (100%) SNG Energy (PJ)
MDL 374	1P Reserves	11.0	7.1
	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
	2C Contingent Res	7,734.3	5,022.3
EPC 869	2C Contingent Res	4,150.3	2,695.0
EPC 1132	2C Contingent Res	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 MDL 374, EPC 867, EPC 869 and EPC 1132 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.

TENEMENT STATUS AT 31 DECEMBER 2015

Tenement	Status	Area km ²
MDL 374	Granted*	28.68
MLa 50253	Application Pending**	13.43
PFL 6	Renewal Pending***	0.03

* Renewal granted in December 2015 through to 31 January 2018

** 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

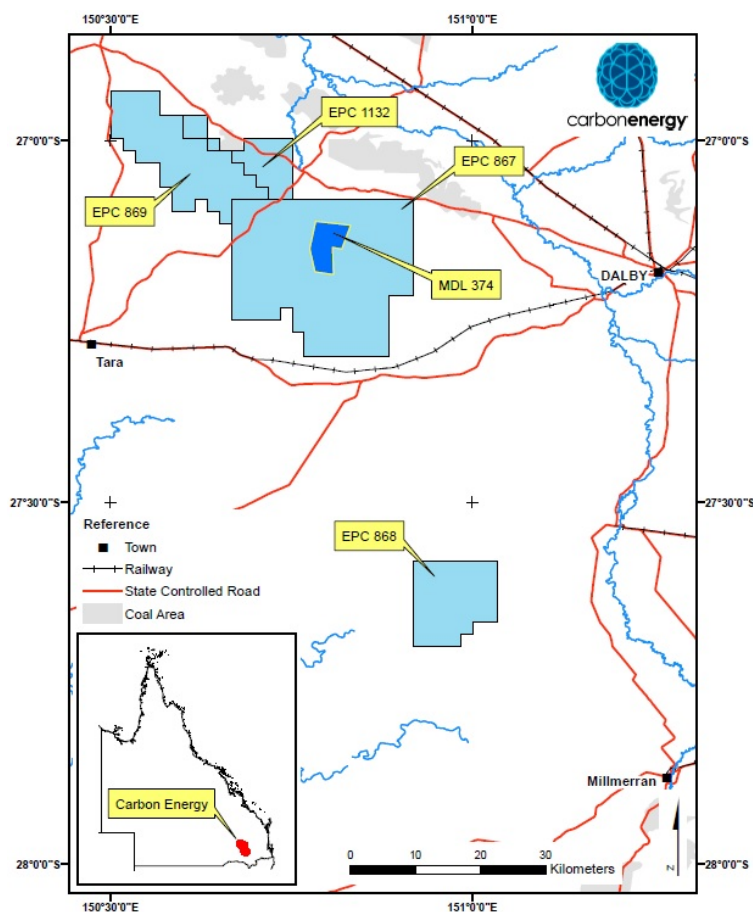


Figure 1 Carbon Energy Coal Tenure Surat Basin

ISSUED CAPITAL

As at 31 December 2015

ORDINARY SHARES

1,487,938,870 shares

OPTIONS - LISTED

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

OPTIONS – UNLISTED

35,000,000 Unlisted Pacific Road Capital Convertible Note options

53,224,812 Unlisted current CNX management options and performance rights

4,185,339 Unlisted former CNX management options

SHAREHOLDERS

As at 31 December 2015

ORDINARY SHARES:

5,383 Shareholders

Top 20 Shareholders hold 56.73% of listed shares

Major Shareholders (more than 5% holding):

1.	Kam Lung Investment Development Company Limited	19.87%
2.	Pacific Road Capital	9.52%
3.	CitiCorp Nominees Pty Ltd	5.48%
4.	Incitec Pivot Ltd	5.08%

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

1,215 Listed Option Holders

Top 20 Listed Option Holders hold 69.47% 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	3.16%
4.	JP Morgan Nominees Australia Ltd	2.07%
5.	Mr Fuat Goksen Yurugor	1.99%

BOARD OF DIRECTORS & MANAGEMENT

BOARD OF DIRECTORS

Dr Chris Rawlings	Chairman and Non-Executive Director
Mr Morné Engelbrecht	Managing Director & Chief Executive Officer
Dr Helen Garnett	Non-Executive Director
Mr Peter Hogan	Non-Executive Director
Mr Louis Rozman	Non-Executive Director
Mr Huihai Zhuang	Non-Executive Director (Appointed 29 October 2015)
Mr George Su	Alternative Director for Mr Huihai Zhuang (Appointed 4 December 2015)

EXECUTIVE MANAGEMENT

Mr Morné Engelbrecht	Managing Director & Chief Executive Officer
Ms Catherine Costello	Chief Financial Officer & Company Secretary
Dr Cliff Mallett	Technical Director
Mr Stuart MacKenzie	General Counsel (appointed 27 November 2015)
Mr Terry Moore	General Manager Operations

APPENDIX 5B

MINING 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

Name of entity

CARBON ENERGY LIMITED

ABN

56 057 552 137

Quarter ended ("current quarter")

31 December 2015

CONSOLIDATED STATEMENT OF CASH FLOWS

Cash flows related to operating activities	Current Quarter	Year to date
	\$A'000	\$A'000
1.1 Receipts from product sales and related debtors	-	69
1.2 Payments for		
(a) Exploration & Evaluation	-	(45)
(b) BWC Site Operating & Maintenance Costs & Technical Services & Rehabilitation Drilling	(549)	(1,070)
(c) Production	-	-
(d) Corporate, Commercial, New Business & Administration	(882)	(1,937)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	15	46
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	34	2,490
Government grants: Export Market Development Grant		
Net Operating Cash Flows	(1,382)	(447)

	Cash flows related to investing activities		
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(2)	(2)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	(41)	(41)
	Exploration & evaluation costs, trademarks		
	Net investing cash flows	(43)	(43)
1.13	Total operating and investing cash flows	(1,425)	(490)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares and options	-	1,924
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from short term loan facility	-	-
1.17	Repayment of short term loan facility	-	(1,166)
1.18	Term facility costs	-	(16)
1.19	Capital raising costs	(9)	(11)
	Net financing cash flows	(9)	731
	Net (decrease) / increase in cash held	(1,434)	241
1.20	Cash at beginning of quarter/year to date	3,364	1,689
1.21	Exchange rate adjustments to item 1.20		-
1.22	Cash at end of quarter	1,930	1,930

PAYMENTS TO DIRECTORS OF THE ENTITY, ASSOCIATES OF THE DIRECTORS, RELATED ENTITIES OF THE ENTITY AND ASSOCIATES OF THE RELATED ENTITIES

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	173
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	Costs included in item 1.23 above relate to Directors' salaries, annual leave, fees and superannuation.	

NON-CASH FINANCING AND INVESTING ACTIVITIES

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Issue of 8,875,169 Ordinary Shares to cover the interest costs, payable 3 months in arrears, in relation to the Facility utilised under the \$10 million Pacific Road Convertible Note Facility Agreement. These shares are issued in accordance with ASX Listing Rule 7.

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/a

FINANCING FACILITIES AVAILABLE

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities (Pac Road Convertible Note Facility)	10,000	10,000
3.2	Credit standby arrangements	344	243

ESTIMATED CASH OUTFLOWS FOR NEXT QUARTER

		\$A'000
4.1	Exploration and evaluation	-
4.2	BWC Site Operating & Maintenance Costs & Technical Services & Rehabilitation Drilling	441
4.3	Production	-
4.4	Corporate, Commercial, New Business & Administration (including financing costs)	1,034
Total		1,475

RECONCILIATION OF CASH

		Current Quarter \$A'000	Previous Quarter \$A'000
Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.			
5.1	Cash on hand and at bank	167	2,097
5.2	Deposits at call	1,763	1,267
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
Total: cash at end of quarter (Item 1.22)		1,930	3,364

CHANGES IN INTERESTS IN MINING TENEMENTS

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-	-	-
6.2	Interests in mining tenements acquired or increased	-	-	-

ISSUED AND QUOTED SECURITIES AT END OF CURRENT QUARTER

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities (description)	-	-	-	-
7.2 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 +Ordinary securities	1,487,938,870	1,487,938,870		Fully paid
7.4 Changes during quarter				
(a) Increases through issues:				
Private Placement	123,845,128	123,845,128	\$0.01554	Fully paid
Interest on Convertible Note	8,875,169	8,875,169	\$0.0142	Fully paid
(b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5 +Convertible debt securities (description)	Pacific Road Capital \$10 million Convertible Note Facility issued 5 January 2012 and repayable on 18 January 2017 with 5% interest payable quarterly in arrears in Company shares.			
7.6 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through securities matured, converted	-	-	-	-
7.7 Options			Exercise Price	Expiry Date
Listed Options \$0.06	443,696,404	443,696,404	\$0.06	31/07/2016
Unlisted Options \$0.026	7,081,738	-	\$0.026	15/10/2016
Unlisted Options \$0.1678	7,000,000	-	\$0.1678	18/01/2017
Unlisted Options \$0.1678	28,000,000	-	\$0.1678	25/02/2017
Unlisted Options \$0.0301	9,495,080	-	\$0.0301	25/08/2017
Unlisted Options \$0.06	33,333,333	-	\$0.06	30/06/2019
Unlisted Performance Rights	7,500,000	-	NIL	30/06/2019
7.8 Issued during quarter	-	-	-	-

7.9	Exercised during quarter	-	-	-	-
7.10	Expired during quarter				
	Unlisted Options \$0.0610	61,728,395	-	\$0.0610	15/11/2015
	Unlisted Options \$0.0610	9,645,845	-	\$0.0610	15/11/2015
	Unlisted Options \$0.12	3,084,000	-	\$0.12	31/12/2015
7.11	Debentures <i>(totals only)</i>	-	-		
7.12	Unsecured notes <i>(totals only)</i>	-	-		

COMPLIANCE STATEMENT

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:

Date: 28 January 2016
Name: Catherine Costello
Title: Chief Financial Officer & Company Secretary