



# QUARTERLY REPORT

FOR THE PERIOD ENDED  
31 MARCH 2016



carbon**energy**

# CARBON ENERGY LIMITED

## QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 MARCH 2016

ABN 56 057 552 137

ASX Code: CNX OTCQX Code: CNXAY

## KEY EVENTS FOR THE QUARTER

- Major shareholder Pacific Road Group provided consent to the JinHong Joint Venture (JV) for the grant of the right to licence the Company's Keyseam technology in China.
- Carbon Energy and its JV partner, Beijing JinHong Investment Co. Ltd (JinHong) made progress on the JV's short-term priorities which included: the setting of the JV's strategic plan, advancing coal field assessments, appointment of key personnel, the JV Chinese registration process and payment terms.
- On 11 March 2016 the Company announced a renounceable rights issue to Eligible Shareholders to raise up to \$5.3 million.

## SUBSEQUENT TO QUARTER END

- The renounceable rights issues closed on 4 April 2016 and the Company raised \$3.48 million before costs.
- On 18 April 2016 the Queensland government introduced a ban on underground coal gasification (UCG) in Queensland.
- The China University for Mining and Technology International Research Centre for UCG (the Centre) was officially opened on 24 April 2016, with Carbon Energy's Dr Cliff Mallett appointed as Director of the Centre. The Centre has been established to develop the highest standards for China's growing UCG industry.

## COMPANY UPDATE

### CHINA

#### JinHong Joint Venture (JV)

Carbon Energy and JV partner, JinHong have made considerable progress in advancing the JV. Key priorities for the short-term include:

- securing a suitable coal field;
- engaging the in-country engineering, procurement and construction management contractor;
- contracting an in-country drilling company; and
- commencing pre-engineering works once the coal field and engineering, procurement and construction contractor is appointed and a suitable coal field secured by the JV.

Progress has been made in the following areas since entering into the JV Agreement:

- CNX Shareholder approval for entering into the JV Agreement;
- Pacific Road consent gained as required under the Convertible Note Facility;
- lodging the JV registration documents in China;
- setting the JV's strategic plan and priorities;

- assessing data of a number of coal field's for potential site suitability;
- setting up an office in Beijing, China for the JV;
- filling key roles in the Joint Venture management team; and
- advancing payment terms.

The JV working party is committed to ensuring the initial project commences as soon as possible.

### China UCG Research Centre

The China University for Mining and Technology International Research Centre for UCG (the Centre) was officially opened on 24 April 2016, with Carbon Energy's Dr Cliff Mallett appointed as Director of the Centre. The Centre has been established to encourage the development of UCG technology by industry and Government groups alike, as the environmentally acceptable utilisation method for coal. 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 establishment of the Centre is an important step forward in the advancement of Carbon Energy's expansion plans in China, where the company has a joint venture with Beijing JinHong Investment Co. Ltd to develop a vertically integrated gas business in China.

## QUEENSLAND

Subsequent to Quarter end, the Queensland Government made an announcement on 18 April 2016 that it was taking the extraordinary step of banning UCG in Queensland, with plans to introduce legislation to give effect to the ban by the end of this calendar year.

This decision was a complete surprise to Carbon Energy and is in complete contradiction to the process laid out by the Queensland Government which the Company has followed at every step. The political decision flies in the face of the "evidence based," approach and assessment process outlined by the State Government.

During the quarter the Company attended a round table discussion with ministerial staff to discuss an outcome on the closure of Independent Scientific Panel (ISP) results and was lead to believe a resolution was imminent.

Carbon Energy completed the overarching requirements of the Queensland Government appointed ISP. In December 2014 the Government appointed advisors indicated that the Company had successfully completed these requirements. Carbon Energy was awaiting formal confirmation and a policy decision on the Company's keyseam technology. Overall, the Company has invested more than \$150 million and eight years' work in a close working relationship with the Queensland Government.

The Board and Management is working to protect the value of the Company's Queensland assets in light of this decision. Meetings with the Premier and responsible Ministers have been requested to seek explanations for the ban which prevents the Company from extracting its Queensland gas resource utilising its proven unique keyseam technology. The Company is also seeking through these meetings formal recognition from the Government that it has completed the requirements of the ISP process. The Company is pleased to have the ongoing support of our shareholders during this time.

Carbon Energy is proud of the achievements it has made in completing the overarching requirement of the ISP. The operational, scientific and environmental results have provided significant confidence that our CSIRO developed keyseam technology is the most environmentally responsible method to maximise the extraction of energy from deep coal deposits.

The Company continues to explore a number of potential commercial opportunities which would utilise the existing infrastructure and assets at Bloodwood Creek.

While the importance of our Bloodwood Creek project to Carbon Energy is clear, our business is now far broader than UCG in Queensland. This is a fact attested to by the valuation attributed by accounting firm PwC of up to US\$40 million to our JinHong JV Technology Licence Agreements for China alone.

## CORPORATE

### CASH MANAGEMENT

After conclusion of the capital raising the Company had access to \$4.0 million. The Company continues to manage its cash resources prudently as it pursues International and Australian business development opportunities while also progressing the work plan for the mineral development licence (MDL374), that include the continuation of the Company's ground water monitoring program which forms part of its Rehabilitation Plan.

### 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.<sup>1</sup>

In December 2015, the Company filed motions to dismiss and to strike out a number of the allegations in Summa's Complaint. After considering arguments made by the parties in briefs filed in court, Judge Thelton Henderson ordered the parties to file supplemental briefs on questions dealing with the application of Queensland law to the dispute. After considering the supplemental briefs, Judge Henderson ordered the parties to file further supplemental briefs and vacated the scheduled hearing. It is anticipated that Judge Henderson will deliver his decision on the motions to dismiss and on matters related to the application of Queensland law without requiring the parties to file any further briefs or having to present oral arguments in court. Judge Henderson has not scheduled a date for his decision.

For and on behalf of the Board

#### **Morné Engelbrecht**

Managing Director & Chief Executive Officer

29 April 2016

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<sup>1</sup> See ASX Announcement 23 February 2011 and 6 March 2013.

## TENEMENT STATUS AT 31 MARCH 2016

Tenement	Status	Area km <sup>2</sup>
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 <sup>2</sup>
EPC 867	Renewal Pending <sup>#</sup>	167	509.35
EPC 868	Renewal Pending <sup>#</sup>	44	134.20
EPC 869	Granted	63	192.15
EPC 1132	Granted	23	70.15
<b>Total Eastern Surat Basin Tenements</b>		<b>297</b>	<b>905.85</b>

# Renewal Submitted November 2014

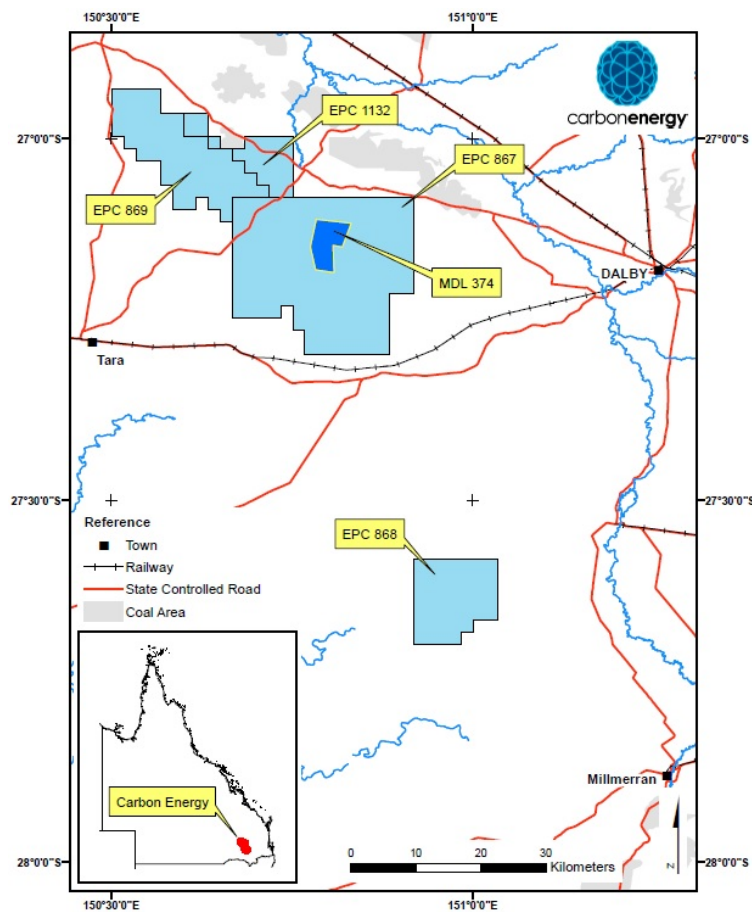


Figure 1 Carbon Energy Coal Tenure Surat Basin

## ISSUED CAPITAL

As at 28 April 2016

### ORDINARY SHARES

1,763,659,050 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

45,724,812 Unlisted current CNX management options and performance rights

4,185,339 Unlisted former CNX management options

## SHAREHOLDERS

As at 28 April 2016

### ORDINARY SHARES:

5,282 Shareholders

Top 20 (26) Shareholders hold 60.79% of listed shares

Major Shareholders (more than 5% holding):

1.	Kam Lung Investment Development Company Limited	29.16%
2.	Pacific Road Capital	8.48%

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

1,201 Listed Option Holders

Top 20 Listed Option Holders hold 70.37% 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	2.22%
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
Mr George Su	Alternative Director for Mr Huihai Zhuang

### 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
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 March 2016

## 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	(1)	(46)
(b) BWC Site Operating & Maintenance Costs & Technical Services & Rehabilitation Drilling	(495)	(1,563)
(c) Production	-	-
(d) Corporate, Commercial, New Business & Administration	(950)	(2,887)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	24	69
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	2,490
Government grants: Export Market Development Grant		
<b>Net Operating Cash Flows</b>	<b>(1,422)</b>	<b>(1,868)</b>



	<b>Cash flows related to investing activities</b>		
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(1)	(3)
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)	(2)	(43)
	Exploration & evaluation costs, trademarks		
	<b>Net investing cash flows</b>	<b>(3)</b>	<b>(47)</b>
1.13	Total operating and investing cash flows	(1,425)	(1,915)
	<b>Cash flows related to financing activities</b>		
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	(22)	(33)
	<b>Net financing cash flows</b>	<b>(22)</b>	<b>709</b>
	<b>Net (decrease) / increase in cash held</b>	<b>(1,447)</b>	<b>(1,206)</b>
1.20	Cash at beginning of quarter/year to date	1,930	1,689
1.21	Exchange rate adjustments to item 1.20		-
1.22	<b>Cash at end of quarter</b>	<b>483</b>	<b>483</b>

Subsequent to the end of the Quarter, the Company received \$3.48m (before expenses) from its renounceable rights issue. Total available cash, including the proceeds from the renounceable rights issue is \$3.96 million.

## 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	182
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 7,815,783 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	238

## ESTIMATED CASH OUTFLOWS FOR NEXT QUARTER

		\$A'000
4.1	Exploration and evaluation	1
4.2	BWC Site Operating & Maintenance Costs & Technical Services & Rehabilitation Drilling	450
4.3	Production	-
4.4	Corporate, Commercial, New Business & Administration (including financing costs)	1,184
<b>Total</b>		<b>1,635</b>

## RECONCILIATION OF CASH

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.		Current Quarter	Previous Quarter
		\$A'000	\$A'000
5.1	Cash on hand and at bank	332	167
5.2	Deposits at call	150	1,763
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
<b>Total: cash at end of quarter (Item 1.22)</b>		<b>482</b>	<b>1,930</b>

## 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	-	-	-	-
6.2	-	-	-	-

## 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 <b>Preference +securities</b> (description)	-	-	-	-
7.2 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 <b>+Ordinary securities</b>	1,495,754,653	1,495,754,653		Fully paid
7.4 Changes during quarter				
(a) Increases through issues: Private Placement Interest on Convertible Note	7,815,783	7,815,783	\$0.0163	Fully paid
(b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5 <b>+Convertible debt securities</b> (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 <b>Options</b>			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				
7.11	<b>Debentures</b> <i>(totals only)</i>	-	-		
7.12	<b>Unsecured notes</b> <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: 29 April 2016  
Name: Catherine Costello  
Title: Chief Financial Officer & Company Secretary