CARBON ENERGY LTD
QUARTERLY REPORT
JUNE 2013

carbonenergy

CARBON ENERGY LIMITED

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 JUNE 2013

ABN 56 057 552 137

ASX CODE: CNX   OTCQX CODE: CNXAY

KEY EVENTS OF THE QUARTER

CARBON ENERGY:

- Signed a Memorandum of Understanding (MOU) and then subsequently executed the Master Technology License and a Definitive Technology Services Agreement with Zhengzhou Coal Industry Group Co Ltd for a UCG project in Inner Mongolia, China.
- Announced that a site characterisation study assessing the geology, hydrogeology and geotechnical information of the Haoqin Coalfield in Inner Mongolia had confirmed favourable conditions for keyseam UCG and identified three possible project areas.
- Announced a 48% increase in its JORC Inferred Coal Resource to 2.0 Billion tonnes within the Company's wholly-owned Surat Basin tenements.
- Announced the conclusion of the Conceptual Study identifying attractive, commercial scale opportunities for the Company's wholly owned syngas assets at Bloodwood Creek in the Surat Basin, South East Queensland.
- Completed an independent geophysical survey reinforcing the Company's technically advanced UCG technology through confirming remotely the location and size of the UCG reactor.
- Received the Advanced Clean Coal Technology Award for the Company's proprietary keyseam technology.
- Appointed Mr Morné Engelbrecht to the position of Chief Executive Officer.
- Announced the Company's Technical Director Dr Cliff Mallett has been appointed Chairman of the International Association for Underground Coal Gasification (UCGA).
- Advised that Summa Resource Holdings LLC (Summa) advised that it is proceeding to formal dispute resolution under the Share Sale agreement with the Company.

EVENTS SUBSEQUENT TO QUARTER END

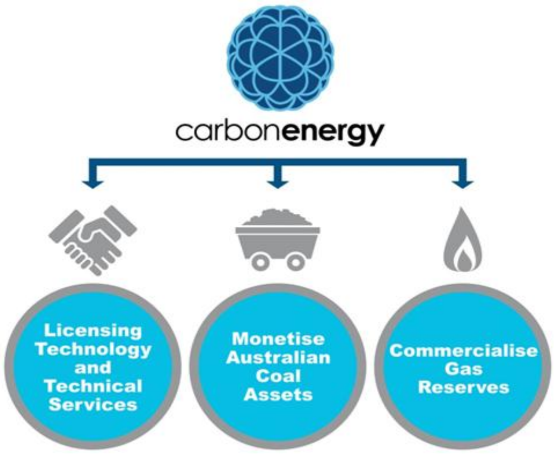
CARBON ENERGY:

- Announced a non-renounceable pro rata rights issue to Eligible Shareholders.
- Secured $1 million from Holder East Capital (HEC) as a new investor subject to the rights issue raising $2 million. Both parties have also agreed that HEC will become Carbon Energy's UCG business development agent for the Chinese market (excluding Shanxi Province).
- Signed a Memorandum of Understanding (MOU) to become the exclusive UCG technology partner to the Delmo Group for an Argentinean UCG Project.
- Welcomed the announcement from the Queensland Government releasing the final report and findings of the Independent Scientific Panel (ISP) including the acceptance of the overarching recommendations by the ISP. The Company also welcomed the pathway to commercialisation being set for the UCG industry in Queensland.
- Agreed a variation to the terms of the existing Credit Suisse facility which reduces the amount the Company must repay to Credit Suisse from the proceeds of the rights issue in the event an amount of less than $5 million is raised.
- Sold the Company's investment in Energia Minerals Limited for total cash sale proceeds of $449,999.
- Settled the outstanding legal matter with the Department of Environment and Heritage Protection (DEHP).
- Appointed Mr Morné Engelbrecht to the position of Managing Director.
- Announced the Company elected not to enter into any further contractual commitments in relation to projects in Wyoming (USA) and North Dakota/Montana (USA), thereby relinquishing the contractual rights to explore or lease those tenements.

BUSINESS MODEL & GROWTH STRATEGIES

During the quarter Carbon Energy has made progress on its strategic objective of generating long-term cash flows by:

- Further developing its core business of providing UCG technology licensing and services worldwide by entering into two further licensing deals in China and Argentina;
- Progressing the development of the Bloodwood Creek site;
- Advancing its proprietary keyseam technology; and
- Adding further value to the extensive coal tenements in the Surat Basin which the Company is marketing for sale.



LICENSING TECHNOLOGY & TECHNICAL SERVICES

CHINA

Inner Mongolia:

On June 17 2013, Carbon Energy announced it had signed a Master Technology Licence Agreement (TLA) with Zhengzhou Coal Industry Group Co Ltd (Zhengzhou Group) to be the exclusive UCG technology partner for a project in Inner Mongolia, China.

The TLA is a significant milestone for Carbon Energy as it will provide consistent revenue flow from technology license fees, the provision of technical services and ongoing royalties. It will also advance the promotion and establishment of Carbon Energy's keyseam technology as the UCG technology of choice in China and ultimately, globally.

The agreement follows the 8 May 2013 announcement of the signing of the Memorandum of Understanding and Technology Services Agreement between the two companies.

The project will deliver to Carbon Energy:

- A Technology Fee of $10 million, payable on achieving certain milestones;
- The payment for technical and engineering services to implement Carbon Energy's UCG keyseam technology; and
- An ongoing royalty stream once revenue is generated from the commercial project.

The three stages of the project are:

- Stage 1 – Construct and operate one Process Characterisation Panel (PCP) of which the results will be used to confirm the site characterisation before finalisation of the commercial scale under- and aboveground designs;
- Stage 2 – Construct and operate two additional panels to confirm the results from the PCP; and
- Stage 3 – Construct and operate a commercial scale production facility producing at least 30 PJ per annum.

On 20 June 2013, Carbon Energy announced a site characterisation study assessing the geology, hydrogeology and geotechnical information of the Haoqin Coalfield in Inner Mongolia had confirmed favourable conditions for keyseam UCG and three possible project areas.

The release of the study results followed a preliminary two month study commenced prior to completion of the Master Technology Licence Agreement (TLA) outlined above.

Haoqin Mining provided a large amount of geological, hydrogeological, drilling and geotechnical data, reports and plans from which this evaluation was made. The data was noted to be of very high quality and comprehensively covered the requirements for Carbon Energy to make an informed initial assessment.

A review of the data has indicated the presence of three areas potentially suitable for keyseam UCG with additional tonnages available in extension areas. The three identified areas appear to contain coal with suitable quality, thickness and structure and within a suitable groundwater regime for keyseam UCG operations.

The study also estimates sufficient resources to support the potential to power a 1,000MW power station or produce 50 PJ/annum SNG plant for over 30 years.

Carbon Energy has identified an area suited to conduct a Process Characterisation Panel (PCP) in the southern section of the UCG1 area, within Haoqin Coalfield Block II (see Map 1). A PCP is required at each potential UCG site to confirm the modelled process variables prior to the design and construction of the commercial UCG facility.

Map 1 Identified UCG Sites

Zhengzhou Group is preparing to undertake site specific characterisation drilling and analysis at the preferred PCP site.

Carbon Energy's technical team travelled to Inner Mongolia and met with Zhengzhou Group's project team to commence the project. Initial works will include the development of a project plan and agreement on project timings, scope of work and design implementation.

Shanxi Coal:

Meanwhile, Carbon Energy remains committed to its relationship with Shanxi Coal Transportation and Sales Group (Shanxi Coal) and to becoming its UCG technology partner of choice in the Shanxi Province. Carbon Energy executed a licensing agreement with Shanxi Coal in October 2012 with similar terms to the Zhengzhou Coal agreement. Due to a number of governmental changes in China immediately following the signing of the agreement, the project was unfortunately delayed. Shanxi Coal continues to engage with the Provincial and Local governments. Approval is needed from these government departments for payment of the contracted technology licence fee to the Company before any work is commenced by Carbon Energy.

ARGENTINA

Subsequent to the quarter, Carbon Energy expanded its international interests on 23 July 2013 by signing an MOU with Delmo Group Pty Limited (Delmo Group) to become the exclusive UCG technology partner for a commercial scale UCG project in the Claromeco Coal Basin in Argentina, South America. Carbon Energy will earn US$10 million technology licence fee with US$7.5 million paid on completion of the Bankable Feasibility Study and US$2.5 million on successful ignition of the initial Process Characterisation Panel. The Company will also receive technology services fees and ongoing royalty once first revenue is generated from the project. It is proposed that the commercial scale project will initially generate 300MW of electricity with further expansion planned.

CHILE

Commercial discussions with Antofagasta Minerals (AMSA) regarding the future of the Mulpun Energy project in Chile continued during the quarter.

UNITED STATES OF AMERICA

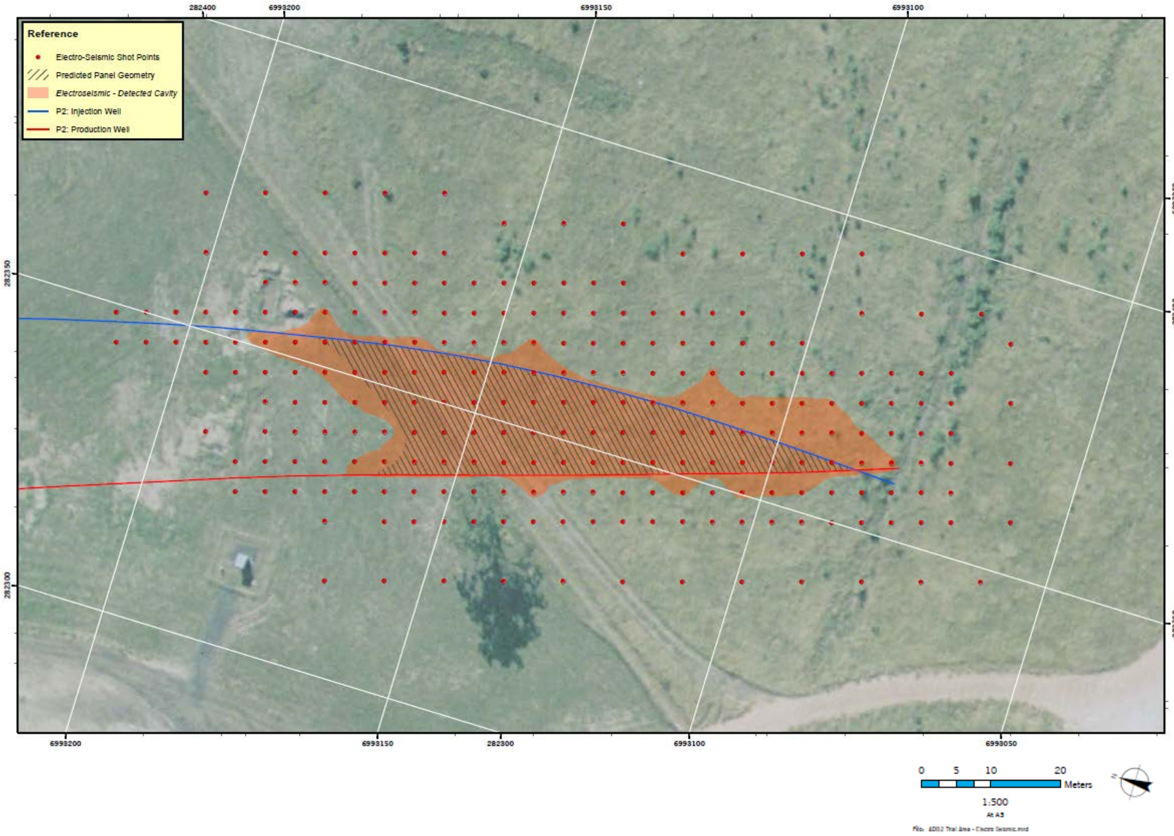
Subsequent to quarter end on 5 July 2013, Carbon Energy announced the Company elected not to enter into any further contractual commitments in relation to projects in Wyoming (USA) and North Dakota/Montana (USA). The total remaining value of the assets has been written off.

INDEPENDENT CAVITY SURVEY REINFORCES CARBON ENERGY'S TECHNICALLY ADVANCED UCG TECHNOLOGY

On 29 April 2013, Carbon Energy released the results of a survey which confirms the size and nature of the UCG cavity following trials of the Company's proprietary keyseam UCG technology.

The independent electro-seismic survey was conducted by Aquatronic Solutions, developers of this innovative technique. Aquatronic Solutions produced an image of Carbon Energy's UCG cavity following the decommissioning of the Company's Panel 2 at the site. The image was created by detecting the heated rock in the roof of the cavity (see Diagram 1 below).

Diagram 1 Electro-Seismic Grid, Carbon Energy Panel 2



The location of the reactor cavity is clearly shown in the survey and confirms:

- Containment and control of the gasification process, evidenced by the limited gasification impact outside the defined panel;
- Predictability and therefore validation of the Company's gasification prediction models. The image highlights that as the gasification process proceeded, it followed very closely to the path predicted from the modelling;
- Cavity size and location is in line with expectations; and
- Confirmation that the Company's patented, automated CRIP system operates effectively.

ENVIRONMENTAL AWARD

Carbon Energy has been awarded the Advanced Clean Coal Technology Award for its proprietary keyseam UCG technology. The award was announced at the 10th Clean Coal Forum in Beijing, China on 13 June 2013, at which Carbon Energy presented.

COMMERCIALISE SURAT BASIN COAL RESOURCE

48% INCREASE IN COAL RESOURCE TO 2.0 BILLION TONNES

Carbon Energy owns significant coal assets in South East Queensland's world-class Surat Basin coal precinct. On 2 April 2013, Carbon Energy announced a 48% increase in its JORC Inferred Coal Resource to 2.0 Billion tonnes within its wholly-owned Surat Basin tenements. (see Company ASX/Media Announcement, 2 April 2013 for Executive Summary and Competent Person Statement).

This statement continues the modelling of existing Carbon Energy tenements in the Surat Basin from public file drill-hole information and has been developed by an independent, third party geological services company GeoConsult.

The newly defined resource relates to tonnage increases at EPC 867 (excluding MDL 374), EPC 869, and EPC 1132 in the Macalister Seam. There is significant potential for further definition of resources in other Walloon Coal Measure seams in these same leases, subject to obtaining further coal quality data within these seams.

Carbon Energy previously announced on 22 November 2012 the finalisation of a Conceptual Study on conventional coal mining at its Surat Basin tenements that identified at least three longwall mining areas each with the potential of mining 5 million product tonnes per annum of export thermal coal.

Coal quality within Carbon Energy's resources is expected to be consistent with the published coal qualities of the Macalister Seam at the Wilkie Creek and Kogan operating coal mines. These mines produce a thermal coal product of around 11% ash, 9% moisture and Gross Calorific Value of 6,200 kCal/kg for export and domestic markets.

In accordance with JORC guidelines, the reported Inferred Coal Resources in the Company's Surat Basin tenures are[1]:

Resource Category	Seam	Thickness (m)	Depth (m)	Raw Ash (%ad)	IM (%ad)	Area (km2)	Volume (km3)	Tonnage (Mt)
Inferred Resource	MAU	3.3 (2.0-5.9)	187 (142-242)	29.7 (24.4-35.1)	7.1 (6.4-8.9)	20.7	63.7	98.2
Inferred Resource	MAM	3.8 (2.0-6.2)	205 (150-247)	27.4 (25.2-46.2)	5.9 (5.4-8.4)	26.4	93.5	145
MDL374 Total								**243**
Inferred Resource	MAU	3.9 (2.0-6.6)	234 (145-385)	29.0 (9.1-36.5)	8.6 (6.4-9.6)	77.2	281	448
Inferred Resource	MAM	3.9 (2.0-9.4)	301 (148-450)	29.2 (11.3-47.9)	7.5 (5.4-9.4)	178.7	637	1,000
EPC867 Total								**1,448**
Inferred Resource	MAM	6.4 (2.0-14.5)	337 (229-417)	25.9 (20.2-34.4)	4.9 (3.4-6.8)	52.7	298	449
EPC869 Total								**449**
Inferred Resource	MAM	5.6 (4.1-7.0)	271 (206-363)	26.1 (24.7-27.6)	7.5 (7.1-7.9)	6.7	35.9	58.8
Inferred Resource	MAM	4.4 (2.4-6.4)	259 (230-296)	25.4 (24.7-26.3)	5.3 (4.6-6.3)	6.8	27.0	42.2
Inferred Resource	MAM	7.0 (4.7-8.0)	259 (238-285)	24.7 (24.2-25.1)	3.8 (3.6-4.1)	3.0	20.7	31.6
EPC1132 Total								**132**
Project Total								**2,272**

Table – Coal Resource Estimation

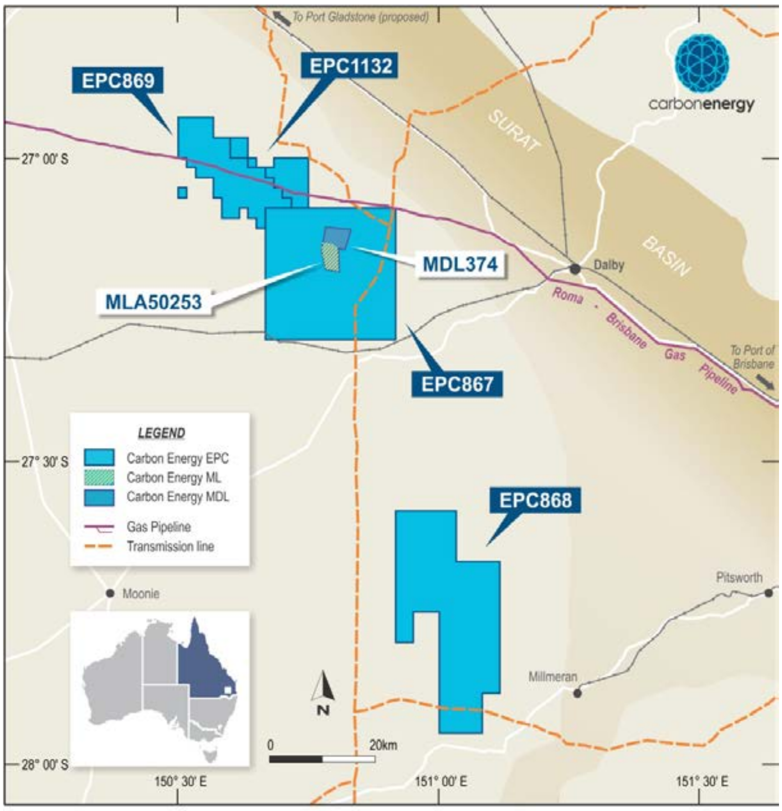
Nb. Inferred Resources are conceptual in nature.
Constraints on the Inferred Resources are as follows:

- Points of observation less than 4km apart and not exceeding 1km past the last data point.
- Minimum seam thickness of 2m (in aggregate of plys)
- Maximum stone parting thickness of 0.5m
- Maximum raw ash of 50%
- Drill holes classed as valid points of observations were defined as holes where;
    - The entire coal seam was cored or the drillhole contained slimline geophysics,
    - Drillhole seam intersection has reasonable stratigraphic correlation.

1. See CNX ASX/Media Announcement 2 April 2013. CNX is not aware of any new information that would materially affect the Resources stated.

Carbon Energy intends to appoint a corporate adviser to assist the Company to identify parties interested in the purchase of, or investment in, the Surat Basin thermal coal assets. Proceeds from monetising the coal assets will be utilised to further develop the Company's core business of licensing its keyseam UCG technology and providing associated technical services.

CARBON ENERGY COAL TENURE SURAT BASIN



Carbon Energy Coal Tenure Surat Basin

TENEMENT STATUS AT 30 JUNE 2013

Tenement	Status	As at 30 June 2013	Area km^2
MLA 50253	Application	1,343 ha	13
MDL 374	Renewal Pending	2,868 ha	29

Tenement[1]	Status	As at 30 June 2013 sub-blocks	Area km^2
EPC 867	Granted	195[2]	595.7
EPC 868	Granted	177	538.0
EPC 869	Granted	64[2]	195.8
EPC 1132	Granted	23[2]	70.4
Total Eastern Surat Basin EPC's		**459**	**1,399.9**

[1] Relinquishment EPC1109 filed on 22 May 2013. To date relinquishments have not been recorded by the QLD Department of Natural Resources & Mines.

[2] Relinquishment of 3 subblocks from EPC867 and 1 subblock from EPC869 undertaken in lieu of mandatory relinquishment of 4 subblocks from EPC1132. Relinquishments filed with QLD Department of Natural Resources & Mines on 21 June 2013. To date, relinquishments have not been recorded by the Department.

UCG SYNGAS AT BLOODWOOD CREEK

STUDY REVEALS ATTRACTIVE COMMERCIAL OPPORTUNITIES

The third pillar to Carbon Energy's business growth strategy is to commercialise the Company's syngas interest at Bloodwood Creek, Queensland by securing a joint venture development partner.

On 14 June 2013, Carbon Energy announced the conclusion of the Conceptual Study in identifying attractive, commercial scale opportunities at Bloodwood Creek.

Based on data gathered from more than five years of in-field UCG trials, the Conceptual Study confirms the commercial viability of producing both Ammonia and SNG from Bloodwood Creek. Bloodwood Creek is sufficient to support the production of approximately 2,200 tonnes of ammonia per day or 25PJ of SNG per annum continuously for 25 years, with the potential to provide long term returns for the Company and its shareholders

The Conceptual Study is the third phase in a process which follows 10 years of scientific development and research conducted by Australia's leading scientific agency CSIRO and 5 years of in-field trials. It identified and assessed the commercial viability of a suite of downstream products to determine the most attractive commercialisation option(s).

The site is well placed for full commercialisation with nearby infrastructure including major power lines, the Roma-Brisbane Gas Pipeline, industrial-grade water supply, roads and rail as well as skilled labour.

Following this positive Conceptual Study, Carbon Energy is in a position to move to the next stage of development which will involve the completion of a Pre-Feasibility Study (pending securing a Joint Venture partner), which will rigorously assess the economics of Ammonia and SNG production to a greater level of accuracy.

REHABILITATION PLAN UPDATE

Carbon Energy completed decommissioning of its panels with cessation of air injection into its second trial Panel in October 2012, and has made progress on the UCG cavity rehabilitation plan.

A rehabilitation strategy has been developed and remediation experts have been engaged to assist in design of the rehabilitation process. A sampling program has been designed to enable biogeochemical characterisation and assessment of the extent and methodology for any further remediation required, and work is underway on well design for sampling and for monitoring the progress of the rehabilitation. Carbon Energy has also commenced engagement with DEHP on the acceptance criteria which will be applied to determine that there are no harmful levels of UCG by-products remaining in the UCG cavity or its surrounds which may be released to the groundwater surrounding the trial site.

QUEENSLAND GOVERNMENT UCG POLICY

The Queensland Government's UCG Policy, announced in February 2009, provided for a trial period to assess the technical, environmental and commercial performance of UCG, after which the Government would set essential policy decisions about this technology.

On 8 July 2013, the Department of Natural Resources and Mines (DNRM) issued the Independent Scientific Panel (ISP) Report. The Report outlines a commercial pathway for a UCG industry in Queensland and confirmed that Queensland is a world leader in the development of UCG technology, and there is no reason, in principle, that a UCG project cannot be safely developed and operated to produce more gas for Queensland. The Report recognised Carbon Energy's parallel CRIP UCG technology as current, state of the art technology significantly advanced from alternative UCG technologies. The report stated that until decommissioning can be demonstrated, no commercial UCG facility should be commenced.

Carbon Energy has ceased all gasification at the Bloodwood Creek trial site. The Company has also engaged with the Department of Environment and Heritage Protection (DEHP) on the draft framework for decommissioning produced by the Department and continues to work constructively with the Government to progress Carbon Energy's rehabilitation plans.

CORPORATE

CASH MANAGEMENT

The consolidated group had $1.772 million in cash at bank as at 30 June 2013.

Further cash management strategies (apart from the proposed rights issue and HEC private placement announced on 25 July 2103) include:

- The Company has introduced cost reduction measures which are aimed at reducing ongoing expenditure and minimising cash outflows to preserve capital and secure the long term success of the Company while still progressing with the overall strategic objectives of the Company;
- The Company aims to finalise the scope of works for the Inner Mongolia Project, agree on the final fee structure for UCG technology services and commencement of those services soon thereafter;
- The drafting and lodgement of an application for the 2012/2013 ATO Research and Development (R&D) cash rebate amounting to an estimated $3.8 million;
- The marketing and monetisation of the Company's 2 billion tonne thermal coal JORC Inferred Resource in the Surat Basin for the purposes of monetisation of the asset with the formal appointment of an exclusive selling agent; and
- The continuation of the Australian and international business development (Technology Licensing and Technical Services) of Carbon Energy's keyseam underground coal gasification (UCG) technology.

HEC PRIVATE PLACEMENT

Carbon Energy executed a share subscription agreement with Holder East Capital Limited (HEC) on 23 July 2013, pursuant to which HEC will subscribe for $1 million worth of shares in the Company on terms equivalent to the terms of the rights issue. HEC has a significant shareholding in the Haoqin joint venture responsible for delivering the Inner Mongolia Project. This investment demonstrates the commitment of HEC to making the Inner Mongolia Project a success and to securing further licensing opportunities for Carbon Energy in China. The private placement is dependent upon the Company raising at least $2 million from the rights issue (including the placement of any Shortfall) by 31 August 2013 and the participation of the Directors and Senior Management in the Offer for a specified minimum amount. The $1 million consideration has been remitted by HEC and received by the escrow agent and will be held in escrow until these conditions are satisfied.

CREDIT SUISSE VARIATION

The Company executed a Syndicated Facility Agreement with Credit Suisse on 15 November 2012, pursuant to which the Company borrowed $10 million of which $7 million has since been repaid. Under the previous terms, any raising of additional capital from the rights issue and/or the HEC private placement would have triggered a mandatory repayment provision whereby Carbon Energy could have been required to repay the $3 million outstanding balance in full, irrespective of the amount raised from the rights issue and/or the private placement. Credit Suisse has agreed to vary the facility terms such that if the Company raise $2 million by 31 August 2013 it is to repay only $1,200,000 by that date. Credit Suisse has further agreed that it will not request full repayment unless the Company raises in excess of $5 million from both the proposed rights issue and/or the HEC private placement.

SALES OF ENERGIA MINERALS LIMITED SHARES

Subsequent to the quarter, Carbon Energy accepted an offer for the purchase of its 29,000,005 shares in Energia Minerals Limited. The Company realised total cash proceeds of $449,999 before costs.

LEGAL MATTERS

DEHP update:

On 22 July 2013, the Company announced that a settlement has been reached with the Department of Environment and Heritage Protection (DEHP) over nine summary charges, of which three charges were withdrawn, associated with the transportation and disposal of waste water in June 2011. The breaches were unintentional and there was no environmental harm, which was accepted by the DEHP and occurred as a result of reliance on coding information provided to the Company from a waste disposal transport company. The fines and costs totalling $114,000 were accepted by the Company and the Company has 90 days within which to pay. No conviction was recorded.

Carbon Energy Limited and Carbon Energy (Operations) Pty Ltd v Alexware Consulting Pty Ltd trading as Pangea Partners International and Laura Eugenie Jael Fett and John Martin Wedgwood Update:

This was a claim for damages initiated by Carbon Energy for breach of contract, breach of fiduciary duty and the knowing assistance in the breach of fiduciary duties. The matter is still in progress and the pleadings have closed. Attempts to resolve the matter have been attempted through settlement and mediation. The matter therefore is likely to proceed to trial and the outcome of this matter is unknown at this stage.

Summa Share Sale Agreement Update:

Carbon Energy advised that further to the market release of 25 March 2013, Summa Resource Holdings LLC (Summa) advised it was proceeding to formal dispute resolution under the agreement. Carbon Energy maintains its position that it has no obligation to issue the claimed shares and will advise of the outcome of the dispute resolution in due course.

Subsequent to quarter's end, Carbon Energy announced the Company had elected not to enter into any further contractual commitments in relation to the projects pursuant to the Share Sale Agreement with Summa and thereby relinquished all rights to explore or lease the project tenements.

RIGHTS ISSUE

On 25 July 2013, Carbon Energy announced a non-renounceable pro rata rights issue to eligible shareholders of 1 new share for every 2 shares held at an issue price of $0.02 per new share which if fully subscribed would raise up to approximately $7,868,897 (before offer costs), with 1 new option for every 1 new share allotted. Each new option is exercisable at $0.06 per share and expires on 31 July 2016. Under the offer, eligible shareholders are entitled to subscribe for the number of new Securities (Entitlement) set out in the personalised entitlement and acceptance form sent with the Prospectus. Eligible shareholders should refer to the announcement made on 25 July 2013 for the timetable and further details.

APPOINTMENTS

CEO & Managing Director:

On 18 June 2013, the Board of Carbon Energy announced the appointment of Mr Morné Engelbrecht to the position of Chief Executive Officer and confirmed to the position of Managing Director on 24 July 2013.

Chairman of UCGA:

Carbon Energy announced on 24 June 2013, the Company's Technical Director Dr Cliff Mallett had been appointed Chairman of the International Association for Underground Coal Gasification (UCGA). Dr Mallett has served as Trustee on the UCGA for the past four years and is an internationally recognised and awarded expert on underground coal gasification.

For and behalf of the Board

Morné Engelbrecht

Chief Executive Officer & Managing Director

31 July 2013

ISSUED CAPITAL AS AT 30 JUNE 2013

ORDINARY SHARES:

786,889,705 shares

OPTIONS – UNLISTED:

7,459,000 Unlisted current CNX management and employee options

27,500,000 Unlisted ex CNX management and employee options

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

61,728,395 Unlisted Credit Suisse options

SHAREHOLDERS

5,466 Shareholders

Top 20 Shareholders hold 49.61 % of listed shares

Major Shareholders (more than 5% holding):

- Pacific Road 9.88%
- Incitec Pivot Ltd 9.60%
- Lujeta Pty Limited 5.14%

BOARD OF DIRECTORS & MANAGEMENT

Dr Chris Rawlings	– Non-Executive Chairman
Mr Morné Engelbrecht	– Chief Executive Officer & 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
Dr Cliff Mallett	– Technical Director
Mr Justin Haines	– General Manager Technical Services
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

Name of entity

CARBON ENERGY LIMITED

ABN	Quarter ended ("current quarter")
56 057 552 137	30 June 2013

CONSOLIDATED STATEMENT OF CASH FLOWS

	Cash flows related to operating activities	Current Quarter $A'000	Year to date $A'000
1.1	Receipts from product sales and related debtors	64	391
1.2	Payments for (a) Exploration & Evaluation	(119)	(482)
	(b) BWC Site Operating & Maintenance Costs	(689)	(4,225)
	(c) Technical Services	(732)	(2,497)
	(d) Corporate & Administration	(286)	(5,281)
	(e) Commercial & Other Business Development	(134)	(500)
	(f) Other Projects	(201)	(387)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	42	188
1.5	Interest and other costs of finance paid	(1)	(4)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material) Receipt of R&D Rebate	-	7,002
	Net Operating cash outflows	**(2,056)**	**(5,795)**

	Cash flows related to investing activities		
1.8	Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	 - - (773)	 - - (1,051)
1.9	Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	 - - 1	 - - 565
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	(36)	(198)
	Project Chile, net payment for Premises Bond and payment for Intangible asset costs		
	Net investing cash outflows	**(808)**	**(684)**
1.13	**Total operating and investing cash flows (carried forward)**	**(2,864)**	**(6,479)**
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from Credit Suisse Term Facility	-	10,000
1.17	Repayment of borrowings	-	(7,003)
1.18	Term facility fees paid	-	(1,010)
1.19	Other (provide details if material) – Trade Creditors/Debtors	(3)	(6)
	Net financing cash (outflows) and inflows	**(3)**	**1,981**
	Net decrease in cash held	**(2,867)**	**(4,498)**
1.20	Cash at beginning of quarter/financial year	4,639	6,270
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	**Cash at end of quarter**	**1,772**	**1,772**

PAYMENTS TO DIRECTORS OF THE ENTITY AND ASSOCIATES OF THE DIRECTORS

PAYMENTS TO 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	77
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 include Non-Executive Directors' 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 4,205,350 Ordinary Shares to cover the interest costs, payable 3 months in arrears, in relation to Tranche A ($2 million) and Tranche B ($8 million) utilised under the $10 million Pacific Road Convertible Note Facility Agreement. These shares are issued in accordance with ASX Listing Rule 7.1

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 and Credit Suisse Term Facility)	12,997	12,977
3.2	Credit standby arrangements	270	270

ESTIMATED CASH OUTFLOWS FOR NEXT QUARTER

		$A'000
4.1	Exploration and evaluation	128
4.2	BWC Site Operating & Maintenance Costs & Technical Services	988
4.3	Production	-
4.4	Corporate, Commercial, New Business & Administration*	1,043
	Total **Includes the proceeds from the sale of the EMX shares*	**2,159**

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** **$A'000**	**Previous quarter** **$A'000**
5.1	Cash on hand and at bank	1,772	1,539
5.2	Deposits at call	-	3,100
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item1.22)	**1,772**	**4,639**

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	EPC 1109	100% holding of EPC	65 subblocks	Nil[1]
		EPC867	100% holding of EPC	195 subblocks	192[2] subblocks
		EPC869	100% holding of EPC	64 subblocks	63[2] subblocks

		Bridger, Wyoming	Rights to explore Anadarko Land Corporation's leases for UCG	24 sections	Nil
		Bridger, Wyoming	100% holding of Sections	3	Nil
6.2	Interests in mining tenements acquired or increased	-	-	-	-

Notes:

[1] Relinquishment filed 22 May 2013. To date relinquishments have not been recorded by the QLD Department of Natural Resources & Mines.

[2] Relinquishment of 3 subblocks from EPC867 and 1 subblock from EPC869 undertaken in lieu of mandatory relinquishment of 4 subblocks from EPC1132. Relinquishments filed with QLD Department of Natural Resources & Mines on 21 June 2013. To date, relinquishments have not been recorded by the Department.

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**	786,889,705	786,889,705	Various	Fully paid
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	 4,205,350 -	 4,205,350 -	 *2.867c* -	 Fully paid -

7.5	+**Convertible debt securities** *(description)*	The Company completed a $10 million Convertible Note Facility with Pacific Road Capital ("Pacific Road") on 5 January 2012. A drawdown notice for $2 million was issued to Pacific Road on 17 January 2012 and a further drawdown notice issued for the remaining $8 million on 24 February 2012. Pacific Road may convert the Convertible Loan Facility into Shares at any time. The Company is required to pay interest on a quarterly basis at 5% per annum which is payable by way of the issue of Shares at the 5 day VWAP for the Shares traded on the ASX prior to the day a payment is due. The Company also completed a $10 million bridging loan facility with Credit Suisse on 16 November 2012. This facility is not a convertible security but has options attached and therefore also disclosed within this section. The terms of the loan are a 12 month secured term loan facility at an interest rate of 8% per annum with 61,728,395 million Options issued at a strike price of $0.081. Repayments of $7,002,767 were also made on 7 December 2012 leaving an outstanding balance of $2,997,233 on the Facility.				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	-	-	-	-
7.7	**Options**			*Exercise price*	*Expiry date*
	Unlisted Options 25c	5,000,000	-	25c	*10/12/2013*
	Unlisted Options 35c	1,400,000	-	35c	*10/12/2013*
	Unlisted Options 70c	5,600,000	-	70c	*10/12/2013*
	Unlisted Options 80c	7,250,000	-	80c	*10/12/2013*
	Unlisted Options $1.00	10,000,000	-	$1.00	*10/12/2014*
	Unlisted Options $1.20	875,000	-	$1.20	*10/12/2013*
	Unlisted Options $1.60	1,750,000	-	$1.60	*10/12/2013*
	Unlisted Options $0.1875	7,000,000	-	$0.1875	*18/01/2017*
	Unlisted Options $0.1875	28,000,000	-	$0.1875	*25/02/2017*
	Unlisted Options $0.0810	61,728,395	-	$0.081	*15/11/2014*
	Unlisted Options $0.0810	9,645,845	-	$0.081	*15/11/2014*
	Unlisted Options $0.12	3,084,000	-	$0.120	*31/12/2015*
7.8	Issued during quarter	-	-	-	-
7.9	Exercised during quarter	-	-	-	-
7.10	Expired during quarter	-	-	-	-
7.11	**Debentures** *(totals only)*	-	-		
7.12	**Unsecured notes** *(totals only)*	-	-		

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: 31 July 2013

Print name: Morné Engelbrecht

Title: Chief Executive Officer