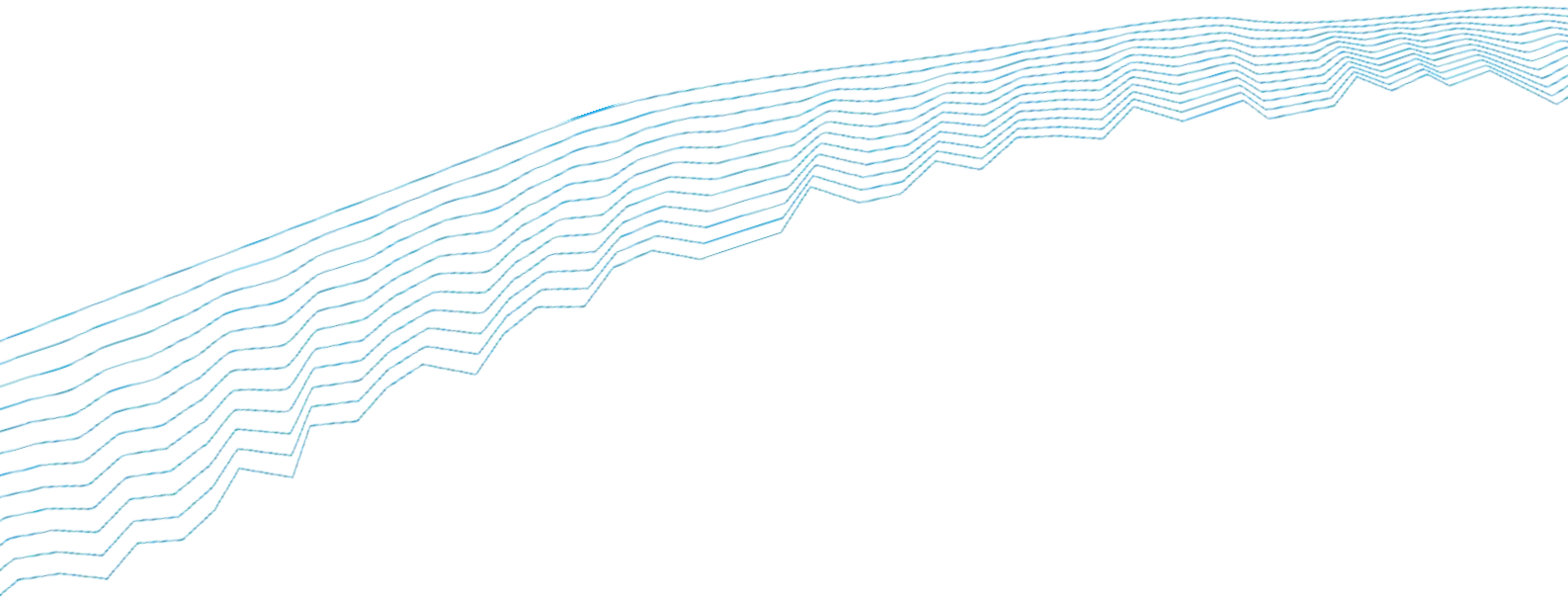


CARBON ENERGY LIMITED
QUARTERLY REPORT
MARCH 2014



carbon**energy**

CARBON ENERGY LIMITED

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 MARCH 2014

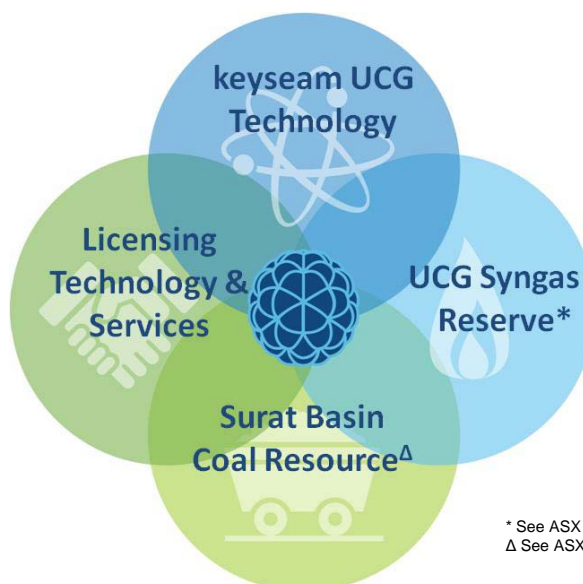
ABN 56 057 552 137

ASX Code: CNX OTCQX Code: CNXAY

KEY EVENTS

- In January 2014, the Company initiated the development of a Rehabilitation Plan for Panel 2 at its Bloodwood Creek (BWC) site, commencing drilling activity on site.
- The Company continued further drilling and the collection of samples, moving the Company closer to commercialising its BWC operations.
- The Company achieved completion of the first three engineering work packages for Stage 1 of the Inner Mongolia UCG Project, and received a further milestone payment of \$1.1 million (before withholding taxes), representing the trigger payment for commencement of a further three engineering work packages for Stage 1 of the Inner Mongolia UCG Project.
- Subsequent to the quarter, Catherine Costello was appointed Chief Financial Officer, on a part-time basis, commencing on 1 April 2014.

BUSINESS MODEL & GROWTH STRATEGIES



During the quarter, the Board and Management of Carbon Energy reviewed its strategic planning priorities and reaffirmed the importance of its defined strategies for growth. Since the start of the quarter, the Company has continued to progress these strategies.

LICENSING TECHNOLOGY & TECHNICAL SERVICES

CHINA

During the quarter, Carbon Energy completed the first three packages of work for the Inner Mongolia UCG Project and received a further \$1.1 million in technology services fees (before withholding taxes) from its project partners. A further \$1.4 million (before withholding taxes) in technology services fees remains due and payable. Of the fees outstanding \$600,000 relates to handover of the first three packages which are complete, a draft of which has been provided to the Haoqin Mining joint venture for review.

The \$800,000 balance, when received, will trigger commencement of the final two packages for Stage 1 of the Project relating to procurement assistance and commissioning of the Process Characterisation Panel. This amount will be received following appointment of the procurement and construction management (PCM) contractor by the project partners.

The 3 Stages of the Project include:

- Stage 1 (underway) – Construct and operate one UCG panel from which the results will be used to confirm the site characterisation before commencing the commercial scale underground and aboveground designs;
- Stage 2 – Construct and operate two additional panels to confirm the results from the first panel; and
- Stage 3 – Construct and operate a commercial scale production facility producing at least 30 PJ of syngas per annum.

In addition to the \$8.25 million to be generated through engineering services and technology licensing fees for Stage 1 of the project, Carbon Energy will receive a further \$7 million (excludes any further engineering services fees) in technology licensing fees payable on achievement of milestones over Stages 2 and 3. The Company will continue to provide engineering services for the life of the commercial project in return for ongoing services fees (amounts to be agreed). Carbon Energy will also receive a project royalty from commencement of a commercial revenue stream from the sale of syngas produced from the project.

CHILE

Carbon Energy continued its focus on securing third party investment for the Mulpun UCG Project in Chile, South America. Carbon Energy signed a Memorandum of Understanding (MOU) to acquire all rights, title and interest in and to the Mulpun UCG Project from the Company's project partner, Antofagasta Minerals S.A. (AMSA). The MOU contemplated a transfer of the project once funding was secured. Whilst the funding arrangements were not finalised by the end of February 2014 as contemplated by the MOU, discussions with potential equity partners and debt providers for the project are continuing with the ongoing support of AMSA. The Company aims to be a technology partner to the project once project partners have been identified and funding is secured.

ARGENTINA

Carbon Energy has an MOU with Delmo Group Pty Limited (Delmo) to become the UCG technology partner for a commercial UCG project in Argentina. The project is proposed to initially generate 300MW of electricity from UCG syngas to help meet the country's rising electricity demands.

During the past quarter, an update on the project was provided by the Chief Executive Officer of Delmo Argentina (accompanied by the Chief Financial Officer of Delmo Australia) at Carbon Energy's Brisbane offices and discussions with the Argentinean Government regarding an MOU for an off-take agreement are understood to be progressing well. It is expected that the signing of the

off-take MOU will trigger the commencement of the feasibility assessment for the project and therefore the commencement of technical services by Carbon Energy.

CONVENTIONAL COAL RESOURCES

RESOURCES STATEMENT

In accordance with Joint Ore Reserves Committee (JORC) guidelines, the reported Inferred Coal Resources in the Company held tenures are:

Tenure	Formation	Resource (Mt) ²
EPC867*	Macalister Seam	1,448
EPC868	Not assessed due to insufficient data	-
EPC869	Macalister Seam	449
EPC1132	Macalister Seam	132
TOTAL		2,029

*EPC867 excludes MDL374 which contains the Company's UCG syngas Reserve.

Note: Inferred Resource 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; and
 - Drillhole seam intersection has reasonable stratigraphic correlation.

The information in this statement that relates to in situ coal resources potential is based on information compiled by GeoConsult Pty Ltd and Adrian Buck and reviewed by Warwick Smyth, who is a member of the Australasian Institute of Mining and Metallurgy (CP) Geology; and the Australian Institute of Geoscientists.

Warwick Smyth is a qualified geologist (BSc Geol, Grad Dip AF&I, MAusImm (CP), MGSA, MAIG), and a Principal Consultant for GeoConsult Pty Ltd and has over 20 years experience which is relevant to the style of mineralisation, the type of deposit under consideration and to the activity which has been undertaken to qualify as a Competent Person as defined by the 2012 edition of the Australian Code for Reporting of Coal Resources. Warwick Smyth of GeoConsult Pty Ltd has no material interest or entitlement, direct or indirect, in the securities of Carbon Energy or the Projects. GeoConsult has been commissioned to provide geological services to Carbon Energy since late 2012. Fees for the preparation of this report are on a time and materials basis.

Warwick Smyth and GeoConsult Pty Ltd consent to the use of this statement and references to it and extracts from it, in the form and context in which they are included. Apart from the above, neither the whole nor any part of the statement document, nor references thereto, may be included in, or with, or attached to any document, circular, resolution, letter or statement without the prior written consent of Warwick Smyth or GeoConsult Pty Ltd.

TENEMENT STATUS AT 31 MARCH 2014

Tenement	Status	As at 31 March 2013	Area km ²
MDL374	Renewal Pending	2,868 ha	28.68
MLa50253	Application Pending	1,343 ha	13.43
PFL 6	Granted	3 ha	0.03

Tenement	Status	As at 31 March 2014 sub-blocks	Area km ²
EPC867	Granted	167	585.78
EPC868	Granted	96	291.14
EPC869	Granted	63	192.53
EPC1132	Granted	23	70.28
Total Eastern Surat Basin EPCs		349	1,063.12

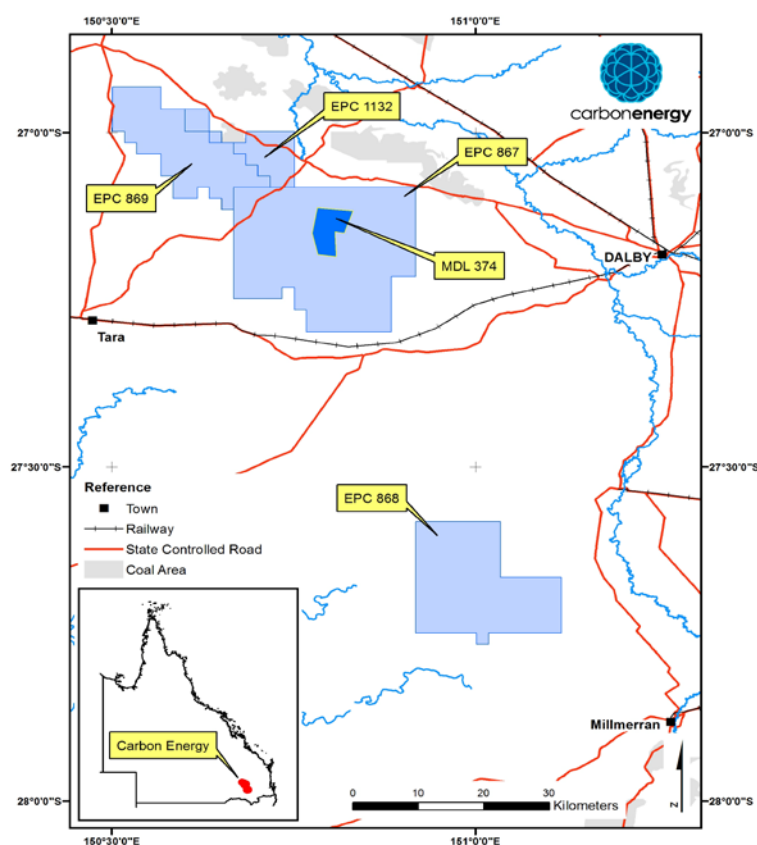


Figure 1 Carbon Energy Coal Tenure Surat Basin

UCG SYNGAS AT BLOODWOOD CREEK

SYNGAS RESERVE STATEMENT

In accordance with the Society of Petroleum Engineers' guidelines, the UCG syngas Reserves are:

Area	Category	Gross Gas Volumes (PJ)
Bloodwood Creek MDL374	1P Reserve (Proven)	11
	2P Reserve (Proven + Probable)	1,362
	3P Reserve (Proven + Probable + Possible)	3,285

The reserve estimates used in this document were compiled by Mr Timothy Hower of MHA Petroleum consultants, Colorado, USA, a qualified person under ASX Listing Rule 5.11. Mr Hower has consented to the use of the reserve information contained within this document in the form and context in which it appears.

The UCG syngas Reserve positioned in MDL374¹ is within the Company's wholly owned 1,063km² of exploration leases at Bloodwood Creek in Queensland's Surat Basin. The Bloodwood Creek site is located near commercial infrastructure including major power lines, the Roma-Brisbane Gas Pipeline, industrial-grade water supply, roads and rail as well as skilled labour. Carbon Energy's 2P UCG syngas Reserve was independently certified by MHA Petroleum Consultants.

UCG COMMERCIALISATION IN QUEENSLAND

Discussions continue with the Department of Environment and Heritage Protection and the Department of Natural Resources and Mines to finalise the criteria for demonstrating the ability for successful rehabilitation and progress towards full commercialisation in Queensland

During the Quarter the Company continued its drilling campaign for the purpose of obtaining core samples from within and around the cavity including the roof and floor and the site boundary which are to be analysed by third party experts. Once the analysis of the core, baseline and cavity samples is complete the criteria for rehabilitation can be agreed.

The Company is also seeking clarification on the overall process to commercialisation from the Queensland Government once the Rehabilitation and Decommissioning Plans have been agreed.

CORPORATE

CASH MANAGEMENT

Carbon Energy received a further \$1.1million in services revenue (before withholding taxes) from the Inner Mongolia UCG Project. The Company's cash balance as at 31 March 2014 was \$5.4 million.

LEGAL MATTERS

Summa Share Sale Agreement Update

Carbon Energy maintains its position announced on 30 May 2013 that project financial milestones under the Agreement with Summa were not able to be achieved². Carbon Energy maintains it is not obliged to issue further tranches of shares to Summa nor is it required to reserve those shares.

¹ MDL374 renewal was submitted and received by the Queensland Department of Natural Resources and Mines and the renewal process is underway.

² see ASX Announcement 23 February 2011

Without prejudice discussions between representatives from both parties have to date failed to bring the matter to a close and discussions are continuing.

APPOINTMENTS

Chief Financial Officer

Ms Catherine Costello was appointed to the position of Chief Financial Officer on a part time basis effective from 1 April 2014. Ms Costello replaces Mr Engelbrecht who held the position prior to his appointment as Chief Executive Officer in 2013.

For and behalf of the Board

A handwritten signature in black ink, appearing to read 'Morné Engelbrecht', with a small dot at the end.

Morné Engelbrecht

Chief Executive Officer & Managing Director

30 April 2014

ISSUED CAPITAL

As at 31 March 2014

Ordinary Shares

1,257,144,983 shares

Options - Listed

443,708,404 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

10,000,000 Unlisted ex CNX management options

111,258,580 Unlisted current CNX management and employee options

SHAREHOLDERS

As at 31 March 2014

Ordinary Shares:

5,526 Shareholders

Top 20 Shareholders hold 52.16% of listed shares

Major Shareholders (more than 5% holding):

- Kam Lung Investment Development Company Limited 13.67%
- Pacific Road Capital 7.71%
- CitiCorp Nominees Pty Ltd 6.43%
- Incitec Pivot Ltd 6.01%

Options – Listed (exercisable at \$0.06 expiring 31 July 2016):

1,298 Listed Option Holders

Top 20 Listed Option Holders hold 69.4% of listed options

Top 5 Listed Option Holders:

- Kam Lung Investment Development Company Limited 38.72%
- Citicorp Nominees Pty Limited 11.43%
- Archfield Holdings Pty Ltd 2.61%
- Stockwork (KAL) Pty Ltd 2.25%
- J Stojanovski & C Retzos & S Retzos 1.92%

BOARD OF DIRECTORS & MANAGEMENT

Board of Directors

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

Management

Dr Cliff Mallett	Technical Director
Ms Catherine Costello	Chief Financial Officer (appointed 1 April 2014)
Mr Justin Haines	General Manager Technical Services
Mr Terry Moore	General Manager Operations
Mrs Tracy Bragg	General Counsel & Company Secretary

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 2014

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	1,086	1,811
1.2 Payments for		
(a) Exploration & Evaluation	(4)	(86)
(b) BWC Site Operating & Maintenance Costs & Technical Services & Rehabilitation Drilling	(1,905)	(4,357)
(c) Production	-	-
(d) Corporate, Commercial, New Business & Administration	(960)	(3,641)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	69	99
1.5 Interest and other costs of finance paid	(3)	(87)
1.6 Income taxes paid	(181)	(181)
1.7 Other (provide details if material)	1	3,787
Net Operating Cash Flows	(1,897)	(2,655)

Appendix 5B
Mining Exploration Entity Quarterly Report

Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(16)	(38)
1.9	Proceeds from sale of:		
	(a) prospects	-	600
	(b) equity investments	-	448
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
	Net investing cash flows	(16)	1,010
1.13	Total operating and investing cash flows	(1,913)	(1,645)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares and options	-	8,873
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of short term loan facility	-	(2,997)
1.18	Term facility costs	-	(203)
1.19	Capital raising costs	-	(387)
	Net financing cash flows	-	5,286
	Net (decrease) / increase in cash held	(1,913)	3,641
1.20	Cash at beginning of quarter/year to date	7,327	1,773
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	5,414	5,414

+ See chapter 19 for defined terms.

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	186
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
<p>Costs included in item 1.23 above relate to Directors' fees and superannuation.</p>		

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 7,047,459 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	245

ESTIMATED CASH OUTFLOWS FOR NEXT QUARTER

		\$A'000
4.1	Exploration and evaluation	4
4.2	BWC Site Operating & Maintenance Costs & Technical Services & Rehabilitation Drilling*	1,117
4.3	Production	-
4.4	Corporate, Commercial, New Business & Administration	1,209
Total		2,330
* Includes technology services fees estimated to be received from Inner Mongolia UCG Project		

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	1,414	1,327
5.2	Deposits at call	4,000	6,000
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)		5,414	7,327

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	EPC868 100% holding of EPC	171 subblocks	96 subblocks
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	1,257,144,983	1,257,144,983	Various	Fully paid
7.4 Changes during quarter				
(a) Increases through issues	7,047,749	7,047,749	\$0.018	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 expiring 5 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
Unlisted Options \$1.00	10,000,000		\$1.00	10/12/2014
Unlisted Options \$0.0810	61,728,395		\$0.0810	15/11/2015
Unlisted Options \$0.0810	9,645,845		\$0.0810	15/11/2015
Unlisted Options \$0.12	3,084,000		\$0.12	31/12/2015
Unlisted Options \$0.026	8,174,581		\$0.026	31/07/2016
Listed Options \$0.06	443,708,404	443,708,404	\$0.06	15/10/2016
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 \$0.06	33,333,333		\$0.06	30/06/2017
Unlisted Options \$0.06	33,333,333		\$0.06	30/06/2018
Unlisted Options \$0.06	33,333,333		\$0.06	30/06/2019

+ See chapter 19 for defined terms.

Appendix 5B
Mining Exploration Entity Quarterly Report

7.8	Issued during quarter				
7.9	Exercised during quarter	-	-	-	-
7.10	Expired during quarter				
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: 30 April 2014
Name: Catherine Costello
Title: Chief Financial Officer