Carbon Energy Limited

Half Yearly Report

December 2013

CORPORATE DETAILS

CARBON ENERGY LIMITED ABN 56 057 552 137 AND CONTROLLED ENTITIES

Incorporated under the Corporations Act 2001 in the State of Western Australia on 29 September 1992.

Half-Year Financial Report for the period ended 31 December 2013

Current Directors

Dr Chris Rawlings BSc (Hons), PhD, FAICD, FAusIMM – Chairman (Non-Executive)
Mr Morné Engelbrecht BCom (Hons), CA(SA), MAICD – Chief Executive Officer and Managing Director (appointed Managing Director 23 July 2013)
Mr Max Cozijn BCom, CPA, MAICD – Director (Non-Executive)
Dr Helen Garnett BSc (Hons), PhD, FTSE, FAICD – Director (Non-Executive)
Mr Peter Hogan BBus, ACA – Director (Non-Executive)
Mr Louis Rozman BEng, MGeos, FAusIMM CP (Man), MAICD – Director (Non-Executive)

Company Secretary

Mr Morné Engelbrecht BCom (Hons), CA(SA), MAICD (resigned 15 October 2013)
Mrs Tracy Bragg LLB (Hons), BA, GDLP, AGIA (appointed 15 October 2013)

Executive Management

Mr Morné Engelbrecht – Chief Executive Officer
Dr Cliff Mallett – Technical Director
Mr Justin Haines – General Manager Technical Services
Mr Terry Moore – General Manager Operations
Mrs Tracy Bragg – General Counsel & Company Secretary

Registered & Principal Office
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Solicitors
HopgoodGanim Lawyers
Level 8, Waterfront Place,
1 Eagle Street
Brisbane QLD 4000

Auditors
Deloitte Touche Tohmatsu
Level 25 & 26, Riverside Centre
123 Eagle Street
Brisbane QLD 4000

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DIRECTORS' REPORT

Your Directors submit the financial report of the Consolidated Group for the half-year ended 31 December 2013, made in accordance with a resolution of the Board.

Directors

The names of Directors who held office during the half-year:

Dr Chris Rawlings (Chairman)

Mr Morné Engelbrecht (appointed Managing Director 23 July 2013)

Mr Max Cozijn

Dr Helen Garnett

Mr Peter Hogan

Mr Louis Rozman

REVIEW OF OPERATIONS

The Consolidated Group incurred a loss from ordinary activities after income tax for the half-year of $4,174,602 (2012: $27,040,276) after receiving a government research and development rebate of $3,775,330 and incurring a non-cash impairment charge of $2,020,899.

KEY EVENTS FOR THE PERIOD

- The Queensland Government released the final report and findings of the Independent Scientific Panel (ISP) including the acceptance of the overarching recommendations by the ISP. Carbon Energy welcomed the pathway to commercialisation being set for the underground coal gasification (UCG) industry in Queensland.
- The Company received a cash injection totalling $12.6 million raised from a fully subscribed Rights Issue totalling $7.8 million, a private placement of $1 million with Holder East Capital Limited, and receipt of a $3.78 million research and development (R&D) tax incentive rebate from the Australian Taxation Office relating to eligible FY13 R&D expenditure.
- The Company repaid in full the outstanding balance of $3 million on the debt facility with Credit Suisse.
- MHA Petroleum Consultants independently certified an 83% increase in Carbon Energy's 2P UCG syngas Reserve to 1,362PJ[1], reinforcing the potential for the Company to become a major gas provider in the Queensland market.
- Carbon Energy signed a Memorandum of Understanding (MOU) to become the UCG technology partner to the Delmo Group for a commercial scale Argentinean UCG Project, intended to supply electricity via an offtake agreement to the Argentinean Government for which negotiations are underway.

[1] See ASX Announcement 7 November 2013.

- Carbon Energy achieved a first for the Company by receiving the first instalment payment for the Inner Mongolia UCG Project. This major milestone represents the first ever commercialisation of Carbon Energy's keyseam® UCG technology.
- The Company began engineering design services with a view to successfully commissioning the Process Characterisation Panel (PCP) for the Inner Mongolia UCG Project.
- PCF Capital Group was appointed as marketing agents to monetise Carbon Energy's coal assets in the Surat Basin, Queensland.
- Carbon Energy signed an MOU to potentially acquire 100% of the Mulpun UCG Project in Chile subject to securing a joint venture funding partner and the acceptance of the commercial terms of the acquisition by project partner, Antofagasta Minerals S.A.
- Carbon Energy relinquished its rights to explore tenements in Wyoming and North Dakota/Montana (USA).
- The Company agreed to the discharge of the mortgage in relation to mining tenements in the Laverton area in return for a payment of $600,000 to the Company from Focus Minerals Limited (formerly Crescent Gold Limited).

KEY EVENTS SUBSEQUENT TO HALF YEAR

- The Company commenced its cavity rehabilitation activities at its Bloodwood Creek site to collect a range of samples and data to confirm the condition of the Panel 2 cavity and to assist with the development of the Decommissioning Plan for the site[2].
- Carbon Energy formally closed out the arrangements with Shanxi Coal. New licensing opportunities can now be pursued in the Shanxi Province.
- Carbon Energy completed the first two packages of works for the Inner Mongolia UCG Project and received a further technology services payment instalment of $1.1 million (before withholding taxes) from its project partners. A further $1.4 million (before withholding taxes) in technology services fees remains due and payable but is as yet unpaid.

OPERATING HIGHLIGHTS

In the first half of FY14, the Company received the first instalment of the revenue stream for its first commercial UCG project, progressed steps towards commercialising the Company's UCG operations in Queensland, announced a significant increase in its UCG syngas Reserve and built a platform for future growth by strengthening the Company's balance sheet.

® keyseam is a registered trademark of Carbon Energy Limited.
[2] See ASX Announcement 16 January 2014.

LICENSING TECHNOLOGY AND SERVICES

INTERNATIONAL PROJECTS UPDATE

CHINA

Inner Mongolia

During the first half of the year, Carbon Energy progressed the Company's first commercial UCG project located in the Haoqin Coalfield in Inner Mongolia, China.

Carbon Energy received the first milestone payment for the project totalling $725,000 signalling commencement of the engineering works for stage 1 of the project. The project's core delivery team was established with the appointment of additional engineering and project management resources. The first work packages have now been completed.

Location of Inner Mongolia UCG Project

Prior to 31 December 2013, Carbon Energy invoiced project partner Xiwuqi Haoqin Tiancheng Mining Co. Ltd (Haoqin Mining) for a further $2.2 million[3] in service fees for the completion of the first two work packages including the advance payments for the subsequent engineering packages.

The Company will receive a further $2.3 million[3] in engineering fees when the remaining work packages have been completed plus $3 million[3] in technology licensing fees when the Process Characterisation Panel (PCP) is commissioned. An additional $7 million[3] in licensing fees plus further payment from ongoing engineering support (to be determined) will be generated in subsequent stages. Carbon Energy will also receive ongoing royalties once first revenue from the sale of syngas from the project is generated. The commercial scale production facility will produce at least an estimated 30 PJ syngas per annum.

The project team is now focused on delivering the remaining work packages for stage 1.

[3] Amount before deduction of withholding tax.

Technical experts visit Haoqin Coal Field

Haoqin Coal Field PCP location

Shanxi

During the period the Company received confirmation that Shanxi Coal would be unable to complete its contractual obligations which resulted in an opportunity to close out the arrangements with Shanxi Coal.

LATIN AMERICA

Demand for electricity in Latin America is increasing due to high population and economic growth in the region. Many Latin American countries are currently managing a tight supply-demand balance with the prospect of further tightening as economic conditions continue to improve in much of the region. Governments and industry are looking for alternative, economical energy supplies to meet this growing demand and to future-proof their economies.

These conditions provide a key opportunity to commercialise Carbon Energy's keyseam UCG technology. Many of the Latin American countries are abundant in coal resources which can be developed through the Company's UCG technology. Throughout the first half of the year, Carbon Energy progressed a number of projects that are designed to take advantage of these opportunities.

Chile

Carbon Energy entered into an agreement with project partners Antofagasta Minerals S.A. (AMSA) in October 2013[4] to potentially acquire all rights to the Mulpun UCG Project in Chile. The proposed project in Mulpun will have the potential to supply syngas to a minimum 250MW power station to provide the country with its own domestic supply of energy.

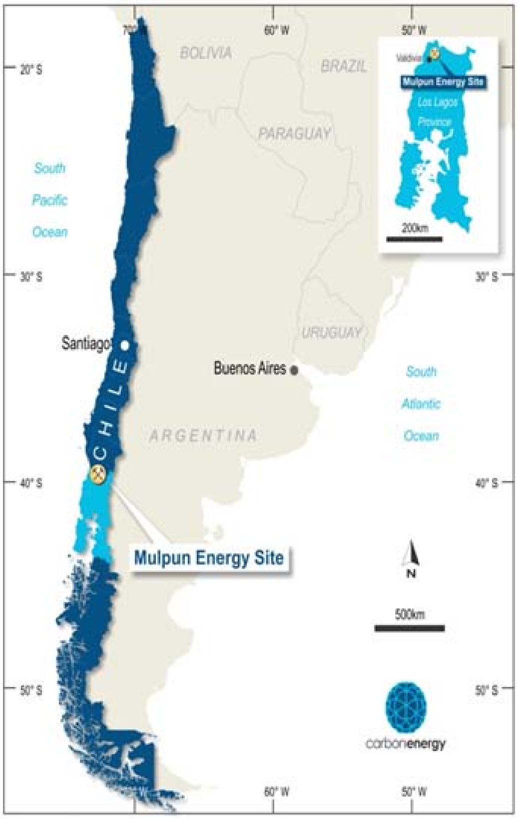
A condition of the agreement is for Carbon Energy to secure debt funding and equity partners for the project. During the first half of the year, Carbon Energy has been in discussions with several large debt providers, energy companies and private investors as potential debt and equity partners for the project. Although the MOU with AMSA officially expired on 28 February 2014, the Company is continuing its dialogue with AMSA and potential funding and project partners. At this stage the Company aims to be a technology partner to the project once project partners have been identified and funding is secured.

The Company anticipates that when the required conditions are met and partners are secured, Carbon Energy will be in a position to re-start the project immediately.

[4] See ASX Announcement 9 October 2013.

Site Established - Entrance

Monitoring Well Drilling on Vertical Drilling Pad



Mulpun Energy Site Location

Argentina

In the first half of the year, Carbon Energy pursued other opportunities in Latin America and signed an MOU with Delmo Group Pty Limited (Delmo) in July 2013 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.

Delmo has been in discussions with various parties including Argentina's Department of Energy who is undertaking a review, audit, and recommendation process in relation to a proposed off-take agreement with the Argentinean Government.

SURAT BASIN COAL RESOURCE

MONETISATION OF SURAT BASIN COAL ASSETS

Carbon Energy owns extensive thermal coal assets equalling 2 Billion tonnes[5] of JORC Inferred Coal Resource within the Company's 1385km^2 tenure in the Surat Basin in Queensland. Within those tenements, a concept study[6] identified at least three areas suitable for longwall mining operations, with each area having the potential to produce 5 million product tonnes of export quality thermal coal per annum.

[5] Refer to ASX Announcement 2 April 2013. Carbon Energy is not aware of any new information or data that materially affects the included information. All material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed.

[6] See ASX Announcement 22 November 2012.

Carbon Energy is looking to monetise this asset. In the first half of this financial year, Carbon Energy appointed PCF Capital Group as the marketing agent to monetise the thermal coal assets.

Parties have indicated an interest in acquiring the assets although indicative offers tabled to date do not reflect the Company's view of the long term value of these assets. Until such time as the true value of the asset is achieved, Carbon Energy will retain ownership of the coal assets.

CONVENTIONAL COAL RESOURCES

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 resources contained within MDL374 (which is reported on under the 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.

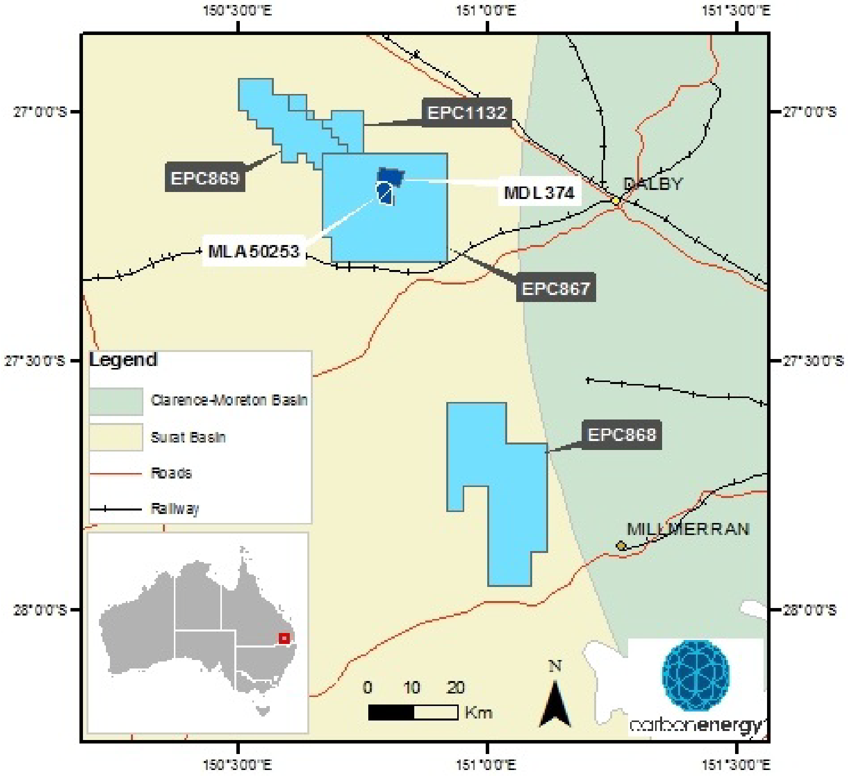
Warwick Smyth and GeoConsult Pty Ltd consent to the use of this statement and references to it and extracts from it, in the form and context in which they are included. Apart from the above, neither the whole nor any part of the statement document, nor references thereto, may be included in, or with, 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 DECEMBER 2013

Tenement	Status	As at 31 December 2013	Area km^2
MDL 374	Renewal Pending	2,868 ha	28.68
ML a50253	Application Pending	1,343 ha	13.43
PFL 6	Granted	3 ha	0.03

Tenement	Status	As at 31 December 2013 sub-blocks	Area km^2
EPC 867	Granted	192[1]	585.78
EPC 868	Granted	177[1]	537.21
EPC 869	Granted	63	192.53
EPC 1132	Granted	23	70.28
Total Eastern Surat Basin EPCs		**455**	**1,385.77**

[1] Relinquishment of 25 sub-blocks from EPC 867 and 6 sub-blocks from EPC 868 undertaken in lieu of mandatory relinquishment of 31 sub-blocks from EPC 869. Relinquishments filed with QLD Department of Natural Resources and Mines on 21 December 2013. To date, relinquishments have not been recorded by the Department.



Carbon Energy Coal Tenure Surat Basin

UCG SYNGAS RESERVE

UCG is an untapped opportunity for the state of Queensland in both economic and social terms. Queensland and the entire Australian Eastern seaboard are facing an emerging gas supply shortfall and the likelihood of rapidly rising gas prices. These predictions are derived from existing gas supply and demand levels and do not take in to account the vast, untapped syngas resource available to the state through UCG.

The Queensland Government appointed an Independent Scientific Panel (ISP) to examine the future of a UCG industry in Queensland, to contribute towards the government making an informed, science-based decision on the potential for a commercial UCG industry in Queensland. The ISP stated in its Report that Queensland has a great deal of coal that is economically inaccessible to mining and could potentially be a source of syngas. The ISP went on to recognise the undoubted future importance of UCG as a viable energy source of global significance[7].

As leaders in UCG, Carbon Energy has the potential to become a major gas provider in the Queensland market to meet the potential gas supply-demand deficit through the production of UCG syngas. This is evidenced through the following:

- The Company owns proprietary keyseam UCG technology developed by the CSIRO which has been proven over five years of in-field trials. The ISP recognises that Carbon Energy's technology is state of the art UCG technology and a significant advancement on alternatives; and
- In the first half of this financial year, Carbon Energy confirmed a sizeable increase in the Company's wholly owned 2P UCG syngas Reserve to 1,362PJ[8] at its tenements in the Surat Basin, Queensland. In accordance with the Society of Petroleum Engineers' guidelines, Carbon Energy's UCG syngas Reserves are:

Area	Category	Gross Gas Volumes (PJ)
Bloodwood Creek MDL 374*	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.
*MDL374 renewal was submitted and received by the Department and the renewal process is underway.

During the reporting period, significant steps were made towards commercialising the Company's operations in Queensland with the objective of developing this vast UCG syngas Reserve to maximise the value for shareholders. The ISP released its Report outlining the recommendations on the prospects and future management of UCG in Queensland. The Queensland Government endorsed the Report which recommended that UCG trials continue and that Carbon Energy develops a decommissioning plan, in conjunction with the Government, as a prerequisite to commercialisation in Queensland.

During the period, Carbon Energy engaged with the Department of Environment and Heritage Protection (DEHP) on the development of the Decommissioning Plan. The Company received

[7] Independent Scientific Panel Report on Underground Coal Gasification Pilot Trial, June 2013.
[8] See ASX Announcement 7 November 2013.

documentation from DEHP outlining the draft criteria which specifies the outcomes required for successful decommissioning of the UCG cavity and any required groundwater remediation. A detailed response was submitted to the Government subsequent to half year end and further discussions will be held with DEHP to finalise the criteria.

The Company also completed the detailed planning for access to the decommissioned Panel 2 cavity during the period.

Drilling commenced at Bloodwood Creek site for sampling collection

CORPORATE

CASH MANAGEMENT

The Consolidated Group had $7.3 million in cash and cash equivalents as at 31 December 2013.

During the reporting period, management initiated a number of measures to build a stronger balance sheet to position the Company to take advantage of the growing global opportunities for UCG. The Company:

- Raised $449,999 (before costs) from the sale of its holding in Energia Minerals Limited;
- Successfully completed a fully subscribed $7.8 million Rights Issue of which $3.4 million in shares were subscribed for by new cornerstone investor Kam Lung Investment Development Company Limited from the Rights Issue shortfall;
- Secured a private placement of $1 million to cornerstone investor Holder East Capital Limited;
- Received $3.78 million R&D tax incentive from the ATO;
- Received an instalment payment of $725,000 from the Company's first commercial UCG project;
- Fully extinguished the Credit Suisse debt; and
- Received $600,000 from Focus Minerals for the residual consideration relating to the sale of the Laverton gold tenements.

Rights Issue

The Company announced a 1 for 2 non-renounceable Rights Issue to eligible shareholders on 25 July 2013 at $0.02 per share with an attaching $0.06 option expiring 31 July 2016. The Rights Issue was fully subscribed with total proceeds of $7.8 million received. Proceeds received were made up of $2.64 million from the initial acceptances of entitlements, $3.4 million investment by cornerstone investor Kam Lung and $1.8 million from a further shortfall placement.

Carbon Energy is applying the proceeds from the capital raising for business development initiatives, extinguishing debt, demonstrating rehabilitation at the Company's Bloodwood Creek UCG operations, marketing for the monetisation of coal assets, and general working capital including the working capital necessary to deliver the Inner Mongolia UCG Project.

HEC Private Placement

During the period, Carbon Energy secured Holder East Capital Limited (HEC) as a new cornerstone investor. HEC subscribed to $1 million worth of shares on terms equivalent to those of the Rights Issue. The subscription was dependent on Carbon Energy successfully raising at least $2 million from the Rights Issue, which was duly met. Under the terms, HEC was allotted 50 million attaching listed options exercisable at $0.06 expiring 31 July 2016, which were released from voluntary escrow on 27 November 2013.

HEC is a significant shareholder in the Haoqin joint venture, the project partners with Carbon Energy on the Inner Mongolia UCG project.

Kam Lung Private Placement

Carbon Energy successfully secured Kam Lung Investment Development Company Limited (Kam Lung) as a second cornerstone investor during the period. Kam Lung invested $3.4 million in the Company, conducted through a Rights Issue shortfall placement. Kam Lung received 171,818,615 shares, subject to a 3 month voluntary escrow period, which ended on 15 January 2014. Kam Lung received one attaching listed option for each share, exercisable at $0.06 expiring 31 July 2016. These options were released from voluntary escrow on 27 November 2013.

Kam Lung is a Hong Kong based private investment company and is 100% owned by Mr Zhuang. Mr Zhuang's business interests are primarily real estate and technology investment.

Research & Development Tax Incentive

On 4 October 2013, Carbon Energy received $3.78 million as an R&D tax incentive cash rebate for eligible FY13 R&D expenditure in relation to the development of the Company's keyseam UCG technology at Bloodwood Creek. Carbon Energy has continued R&D activities at Bloodwood Creek in FY14 including the collection of samples and measurements to enable the finalisation of a decommissioning plan.

Credit Suisse Loan Facility

The $3 million balance of the Credit Suisse debt facility was fully repaid during the period.

Energia Minerals Limited Shares

Carbon Energy accepted an offer to sell the Company's 29,000,005 shares in Energia Minerals Limited and realised total cash proceeds of $449,999 before costs.

LEGAL AND CONTRACTUAL MATTERS

During the period the following matters were resolved:

- Department Of Environment and Heritage Protection (DEHP) – A settlement was reached with DEHP over nine summary charges, of which three charges were withdrawn, associated with the transportation and disposal of waste water in June 2011. DEHP accepted the breaches were unintentional and there was no environmental harm 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. 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 – The parties reached a commercial settlement for this matter during the period and the Court proceedings were discontinued as the matter is resolved.

- Focus Minerals - Carbon Energy executed an Asset Sale Agreement with Crescent Gold Limited on 30 November 2009 pertaining to the sale of all of the Company's gold interests in the Laverton area of Western Australia. Carbon Energy received $2.5 million consideration at that time, with a further $1.5 million consideration payable only upon Focus producing 75,000 ounces from the tenements. Following a decision by Focus to cease its Laverton gold operations, during the period all outstanding matters with respect to the Asset Sale Agreement with Crescent Gold Limited (now know as Focus Minerals Ltd) were concluded. Under the final settlement agreement Carbon Energy received a further payment of $600,000 in consideration for the release of the mortgage securing the payment of the contingent consideration under the Asset Sale Agreement.

Other matters:

- Summa Share Sale Agreement Update - Carbon Energy maintains its position that project financial milestones under the Agreement with Summa were not able to be achieved[9]. Carbon Energy maintains it is not obliged to issue further tranches of shares to Summa nor is it

[9] See ASX Announcement 23 February 2011.

required to reserve those shares. Without prejudice discussions between representatives from both parties have to date failed to bring the matter to a close.

APPOINTMENTS

During the period, the Company's CEO Mr Morné Engelbrecht was appointed Managing Director and Mrs Tracy Bragg was appointed to the position of General Counsel & Company Secretary.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under section 307C of the Corporation Act 2001 is set out on page 17 for the half-year ended 31 December 2013.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s306(3) of the Corporations Act 2001.

On behalf of the Directors:

Dr Chris Rawlings
Chairman
Brisbane, 14 March 2014

Mr Morné Engelbrecht
Managing Director
Brisbane, 14 March 2014

ISSUED CAPITAL

As at 31 December 2013

Ordinary Shares

1,250,097,524 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 and employee options

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

SHAREHOLDERS

As at 31 December 2013

Ordinary Shares:

5,532 Shareholders

Top 20 Shareholders hold 52.23% of listed shares

Major Shareholders (more than 5% holding):

- Kam Lung Investment Development Company Limited 13.74%
- Pacific Road 7.19%
- Incitec Pivot Ltd 6.04%

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

1,314 Listed Option Holders

Top 20 Listed Option Holders hold 69.54% of listed options

Top 5 Listed Option Holders:

- Kam Lung Investment Development Company Limited 38.72%
- Holder East Capital Limited 11.27%
- Stockwork 2.25%
- J Stojanovski & C Retzos & S Retzos 1.92%
- JP Morgan Nominees Australia Ltd 1.34%

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The Board of Directors
Carbon Energy Limited
Level 12, 301 Coronation Drive
Milton QLD 4064

12 March 2014

Dear Board Members,

Independence Declaration

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

As lead audit partner for the review of the financial statements of Carbon Energy Limited for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Stavrou
Partner
Chartered Accountants

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

		Consolidated Group	
	Notes	Dec '13 $	Dec '12 $
Revenue and other income			
Technology service fee revenue		369,901	-
Interest revenue		85,972	115,757
Other income		20,409	33,921
Government research and development rebate income		3,775,330	-
TOTAL Revenue and other income		**4,251,612**	**149,678**
Administration, legal & corporate costs		(1,999,512)	(2,247,472)
Consultancy costs		(127,607)	(551,486)
Depreciation expense		(66,722)	(34,362)
Employee benefits expense		(2,643,723)	(2,989,734)
Finance costs		(949,063)	(2,674,788)
Impairment expense	4	(2,020,899)	(16,433,682)
Loss on disposal of assets		-	(115,080)
Loss recognised on disposal of interest in former associate		-	(176,710)
Movement in fair value of derivatives		131,318	(699)
Operating costs		(510,278)	(1,401,263)
Share of loss from equity accounted investment in former associate		-	(564,678)
Share based payments	4	(239,728)	-
TOTAL Expenditure		**(8, 426,214)**	**(27,189,954)**
Loss before income tax expense		**(4,174,602)**	**(27,040,276)**
Income tax expense		-	-
Loss for the period		**(4,174,602)**	**(27,040,276)**
Other comprehensive loss for the period (net of tax)		(5,922)	(661)
TOTAL comprehensive loss for the period		**(4, 180,524)**	**(27,039,615)**
Loss attributable to owners of the parent		(4,180,524)	(27,039,615)
TOTAL comprehensive loss attributable to owners of the parent		**(4,180,524)**	**(27,039,615)**
Overall operations:			
Basic loss per share (cents per share)		(0.46)	(3.48)
Diluted loss per share (cents per share)		(0.46)	(3.48)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

		Consolidated Group	
	Notes	Dec '13 $	Jun '13 $
Assets			
Current Assets			
Cash and cash equivalents		7,326,876	1,772,562
Trade and other receivables	6	1,192,414	109,140
Other current assets		75,208	83,552
Total Current Assets		**8,594,498**	**1,965,254**
Non-Current Assets			
Trade and other receivables	6	267,553	1,702,893
Available for sale financial assets	7	-	449,999
Construction work in progress		2,555,334	2,555,334
UCG panel assets		1,758,272	1,776,106
Property, plant and equipment	8	1,037,860	1,083,224
Other non-current assets	9	860,327	1,722,723
Deferred exploration and evaluation costs	10	90,052,222	90,322,819
Intangible assets	11	47,571,435	47,623,940
Total Non-Current Assets		**144,103,003**	**147,237,038**
Total Assets		**152,697,501**	**149,202,292**
Liabilities			
Current Liabilities			
Trade and other payables		637,402	1,089,873
Deferred revenue	12	1,440,917	-
Loans and borrowings	13	-	2,997,233
Derivative financial liability	14	134,838	266,156
Provisions		1,414,669	1,334,350
Total Current Liabilities		**3,627,826**	**5,687,612**
Non-Current Liabilities			
Provisions		2,270,738	2,315,729
Financial liabilities	15	6,579,132	6,179,304
Total Non-Current Liabilities		**8,849,870**	**8,495,033**
Total Liabilities		**12,477,696**	**14,182,645**
Net Assets		**140,219,805**	**135,019,647**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2013

		Consolidated Group	
	Notes	Dec '13 $	Jun '13 $
Equity			
Issued capital	16	235,360,723	227,727,927
Reserves		19,650,329	17,908,365
Accumulated losses		(114,791,247)	(110,616,645)
Total Equity		**140,219,805**	**135,019,647**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Consolidated Group

	Issued Capital $	Share-Based Payments Reserve $	FX Reserve $	Other Reserve $	Accumulated Losses $	TOTAL $
Balance at 1 Jul 2012	227,174,129	15,718,230	37,816	2,101,590	(75,032,318)	**169,999,447**
Shares issued during the period	251,145	-	-	-	-	**251,145**
Transaction costs	(3,105)	-	-	-	-	**(3,105)**
Losses attributable to members of the parent entity	-	-	-	-	(27,040,276)	**(27,040,276)**
Total comprehensive income / (expense) for the period	-	-	(661)	-	-	**(661)**
Balance at 31 Dec 2012	**227,422,169**	**15,718,230**	**37,155**	**2,101,590**	**(102,072,594)**	**143,206,550**

	Issued Capital $	Share-Based Payments Reserve $	FX Reserve $	Other Reserve $	Accumulated Losses $	TOTAL $
Balance at 1 Jul 2013	227,727,927	15,772,469	34,306	2,101,590	(110,616,645)	**135,019,647**
Shares issued during the period	7,678,750	-	-	-	-	**7,678,750**
Transaction costs	(45,954)	-	-	-	-	**(45,954)**
Movement in share option reserve	-	1,747,886	-	-	-	**1,747,886**
Losses attributable to members of the parent entity	-	-	-	-	(4,174,602)	**(4,174,602)**
Total comprehensive income / (expense) for the period	-	-	(5,922)	-	-	**(5,922)**
Balance at 31 Dec 2013	**235,360,723**	**17,520,355**	**28,384**	**2,101,590**	**(114,791,247)**	**140,219,805**

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

	Consolidated Group	
	Dec '13 $	Dec '12 $
Cash Flows from Operating Activities:		
Receipts from customers	725,169	-
Payments to suppliers and employees	(5,212,427)	(7,664,887)
Receipt of research & development rebate	3,775,330	7,002,767
Interest received	55,626	72,550
Net cash used in operating activities	**(656,302)**	**(589,570)**
Cash Flows from Investing Activities:		
Payments for property, plant and equipment	(21,359)	(42,430)
Proceeds from disposal of property, plant and equipment	-	565,000
Proceeds on disposal of available for sale asset	449,999	-
Payments for exploration costs	(42,968)	(250,191)
Payments for intangible assets	(6,037)	(15,001)
Net payments for premises security bonds	-	(48,484)
Net payments for Chile project	-	(48,746)
Net cash flows from Investing Activities	**379,635**	**160,148**
Cash Flows from Financing Activities:		
Proceeds from issues of shares	8,874,168	-
Proceeds from short term loan facility	-	10,000,000
Repayments of loan facility	(2,997,233)	(7,002,767)
Term facility costs	-	(1,010,000)
Capital raising costs	(45,954)	(3,105)
Net cash flows provided by Financing Activities	**5,830,981**	**1,984,128**
Net increase in cash and cash equivalents held	5,554,314	1,554,706
Cash and cash equivalents at 1 July	1,772,562	6,270,646
Cash and cash equivalents at 31 December	**7,326,876**	**7,825,352**

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 1 – BASIS OF PREPARATION

The half-year consolidated financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2013 and any public announcements made by Carbon Energy Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half-year financial report does not include full disclosures of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing activities of the Consolidated Group as the full financial report.

Reporting Basis and Conventions
The half-year report has been prepared on an accruals basis and is based on historical costs modified, by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Carbon Energy Limited annual report for the financial year ended 30 June 2013. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year.

The Group has adopted the following new and amended accounting standards, which are applicable for the period ended 31 December 2013:

AASB 10	Consolidated Financial Statements
AASB 11	Joint Arrangements
AASB 12	Disclosure of Interests in Other Entities
AASB 13	Fair Value Measurements
AASB 119 (2011)	Employee Benefits
AASB 134	Interim Financial Reporting
AASB 2012 – 5	Amendments arising from Annual Improvements 2009-2011 Cycle
AASB 2012 – 6	Amendments – Mandatory Effective Date of ASB 9 and Transitional Disclosures
AASB 2012 – 9	Amendments to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039
AASB 2011 - 4	Amendments to Australian Accounting Standards to remove Individual Key Management Personnel Disclosure Requirements

The adoption of all the new and revised Standards and Interpretations has not resulted in any material changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior half-years. AASB13 Fair Value Measurements has resulted in additional disclosure to the half year accounts.

NOTE 2 – ACCOUNTING POLICIES

The same accounting policies, presentation and methods of computation are followed in preparing the half year information as were applied in preparation of the Group's financial statements for the year ended 30 June 2013 (considering the previously mentioned statements).

A technology services revenue stream commenced during the period resulting in adoption of a comprehensive revenue accounting policy which follows.

Revenue
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied stated net of discounts, returns and GST.
The Group's transactions may comprise multiple deliverables over a period of time and in these instances revenue recognition criteria are applied to each separately identifiable component in order to reflect the substance. The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities, as described below.

a) Technology licence fees

Technology license revenue is generated from granting third parties the right to use Keyseam UCG technology in accordance with the terms of the relevant agreement. Technology licence fees are recognised as revenue as contractual milestones are fulfilled.

b) Technology service fees

The Group provides technology services to customers on a fixed price basis. For the delivery of services the related revenue is recognised in the accounting period in which the services are rendered, by reference to the stage of completion and assessed on the basis of the actual service provided as a proportion of the total services to be provided unless the outcome of the contract cannot be reliably estimated. Where it is probable that a loss will arise from a contract, the excess of total costs over revenue is recognised as an expense immediately.

c) Royalty revenue

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreements.

d) Interest and other revenue

Interest revenue is recognised using the effective interest rate method. Gains from the sale of investments or other assets are recognised when the risks and rewards have been transferred to the purchaser which is on the date of the contract for sale or delivery.

NOTE 3 – GOING CONCERN

The half year report has been prepared on a going concern basis, which assumes the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

In concluding that the going concern basis is appropriate, a cash flow forecast for twelve months from the signing of the half year report was considered.

The ability of the Consolidated Group to continue as a going concern and fund the development and commercialisation of its UCG technology is dependent upon the receipt of agreed technology and service fees and the ability to source additional funds from a range of opportunities. These opportunities include the further licensing and services relating to the Company's keyseam UCG technology, the receipt of R&D cash incentives lodged with the ATO, commercialising its coal resources, issuing new equity and/or entering into debt facilities.

Notwithstanding this, as a technology development and exploration Company with start-up projects and a dependency on continued support from current shareholders and financiers and on securing additional sources of funds, should the Consolidated Group neither receive the contracted technology fees and services fees nor secure additional funding there are material uncertainties as to whether the Consolidated Group will be able to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the half year report.

The half year report does not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and re-classification of liabilities that might be necessary should the Consolidated Group not continue as a going concern.

NOTE 4 – LOSS FOR THE PERIOD

The following significant transactions are relevant in explaining the financial performance:

	Dec '13 $	Dec '12 $
Impairment expense [1]	**(2,020,899)**	**(16,433,682)**
Share based payments [2]	**(489,728)**	**(251,145)**

[1] The impairment expense comprises the impairment of US coal assets by $313,563 and the Chile Project by $860,327. On 21 December 2013 a Deed of Termination and Release was entered into which released Focus Minerals Limited from its contingent consideration obligation to Carbon Energy Ltd and secured the release/discharge of the Mortgage for a cash settlement of $600,000 which resulted in a write down of the receivable by $847,009.
[2] The share based payments arise on payment of short and long term executive incentives of $239,728 and interest of $250,000.

NOTE 5 – SEGMENT INFORMATION

The Consolidated Group operates in one segment, being development of clean energy and chemical feedstock from UCG syngas and reports to the chief operating decision-maker on this basis. As such one reportable segment has been identified and this basis is consistent with the current reporting structure. The Group accounted for revenue of $369,901, deferred revenue of $1,440,917 and at the period end $1,085,648 is included in current trade receivables, all amounts relating to technology services performed in Australia and delivered to a Chinese project.

NOTE 6 – TRADE AND OTHER RECEIVABLES

	Dec '13 $	Jun '13 $
Current		
Trade and other receivables	1,192,414	109,140
TOTAL CURRENT TRADE & OTHER RECEIVABLES	**1,192,414**	**109,140**
Non Current		
Deposits	267,553	270,053
Receivable from Focus Minerals Limited [1]	-	1,432,840
TOTAL NON CURRENT TRADE & OTHER RECEIVABLES	**267,553**	**1,702,893**

[1] On 30 November 2009, Carbon Energy Limited executed an asset sale agreement with Focus Minerals Limited (formerly Crescent Gold Limited) pertaining to the sale of its gold interests in the Laverton area of Western Australia. The total consideration was $2,500,000 in cash and a further payment of $1,500,000 was contingent on gold production exceeding 75,000 ounces. The non-current receivable was recognised at 31 December 2012 representing the Directors' best estimate of the fair value of the contingent receivable. On 21 December 2013 a Deed of Termination and Release was entered into which released Focus Minerals Limited from its contingent consideration obligation and secured the release/discharge of the Mortgage for a cash settlement of $600,000 which was received on 30 December 2013.

NOTE 7 – AVAILABLE FOR SALE FINANCIAL ASSETS

	Dec '13 $	Jun '13 $
Listed securities		
Equity securities	-	449,999
TOTAL AVAILABLE FOR SALE FINANCIAL ASSETS	**-**	**449,999**

On 24 July 2013, the Company sold its investment in Energia Minerals Limited (29,000,005 shares) for $449,999.

NOTE 8 – PROPERTY, PLANT & EQUIPMENT

	Dec '13 $	Jun '13 $
Opening Balance	1,083,224	1,346,933
Additions	21,358	590,490
Disposals	-	(756,810)
Depreciation expense	(66,722)	(97,389)
Closing Balance	**1,037,860**	**1,083,224**

NOTE 9 – OTHER NON-CURRENT ASSET (CHILE PROJECT)

	Dec '13 $	Jun '13 $
Opening Balance	1,722,723	1,607,662
Additions	(2,069)	115,061
Impairment write-down	(860,327)	-
Closing Balance	**860,327**	**1,722,723**

NOTE 10 – DEFERRED EXPLORATION AND EVALUATION COSTS

	Dec '13 $	Jun '13 $
Opening Balance	90,322,819	108,128,765
Additions	42,968	454,660
Impairment write-down	(313,565)	(18,254,668)
Costs written down	-	(5,938)
Closing Balance	**90,052,222**	**90,322,819**

NOTE 11 – INTANGIBLE ASSETS

	Dec '13 $	Jun '13 $
Opening Balance	**47,623,940**	54,815,481
Additions	6,037	33,023
Decrease in rehabilitation provision	(58,542)	(221,797)
Carrying value reduction following receipt of R&D rebate	-	(7,002,767)
Closing Balance	**47,571,435**	**47,623,940**

NOTE 12 – DEFERRED REVENUE

	Dec '13 $	Jun '13 $
Opening Balance	-	-
Additions	1,440,917	-
Closing Balance	**1,440,917**	**-**

Deferral of technical services revenue arises due to invoicing for services in advance of service delivery on the Inner Mongolia project.

NOTE 13 – LOANS AND BORROWINGS

	Dec '13 $	Jun '13 $
Current		
Term facility (secured)	-	2,997,233
Closing Balance	**-**	**2,997,233**

The Company entered into a $10,000,000 bridging loan facility with Credit Suisse on 15 November 2012 to assist in funding the Company's short term working capital requirements. The loan is a 12 month secured loan facility at an interest rate of 8% per annum. The Company repaid the loan in full during the current period.

As per the facility agreement, 61,728,395 share options have been issued at a strike price of $0.081 to Credit Suisse. Refer to note 14 below for further disclosure on the share options.

	Dec '13 $	Jun '13 $
Opening balance	2,997,233	-
Loan proceeds	-	10,000,000
Less: repayment	(2,997,233)	(7,002,767)
Secured loan debt outstanding	**-**	**2,997,233**
Accounting Adjustments		
Less: transaction costs Facility fee, upfront interest, legal fees	-	(1,080,053)
Less: transaction costs Options issued	-	(1,317,737)
Financial liability unwinding	-	2,397,790
Closing loan facility balance	**-**	**2,997,233**

NOTE 14 – DERIVATIVE FINANCIAL LIABILITY

	Dec '13 $	Jun '13 $
Current		
Option liability	134,838	266,156
Closing Balance	**134,838**	266,156

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

The derivative financial liability is measured at fair value at the period end. The following table gives information about how the fair value of this financial liability is determined.

Financial liability	**Fair value as at**		**Fair value hierarchy**	**Valuation technique and key input**	**Significant unobservable input**	**Relationship of unobservable input to fair value**
	31 Dec '13	**31 Dec '12**				
Derivative financial instrument	$134,838	$1,318,437	Level 3	The Black-Scholes model. Option volatility	Volatility	The higher the volatility the greater the fair value

The fair value of the financial liability approximates the carrying value.

The reconciliation of the derivative financial liability follows:

	$
31 December 2012	1,318,437
Fair value loss to the profit and loss	(1,052,281)
30 June 2013	**266,156**
Fair value loss to the profit and loss	(131,318)
31 December 2013	**134,838**

NOTE 15 – FINANCIAL LIABILITIES

	Dec '13 $	Jun '13 $
Non-Current		
Convertible note facility (secured)	6,579,132	6,179,304
TOTAL FINANCIAL LIABILITIES	**6,579,132**	**6,179,304**

	Dec '13 $	Jun '13 $
Opening balance	6,179,304	5,375,340
Less equity component	-	-
Financial liability unwinding	399,828	803,964
Closing loan facility balance	**6,579,132**	**6,179,304**

The total secured Pacific Road convertible note outstanding at 31 December 2013 is $10,000,000.

NOTE 16 – EQUITY SECURITIES ISSUED

2013	Half-Year '13 No.	Half -Year '13 $
Balance 30 June 2013	**786,889,705**	**227,727,927**
26 August 2013 Rights issue placement at 2 cents per share	131,999,245	2,123,588
27 August 2013 Private share placement to Holder East Capital Ltd at 2 cents per share	50,000,000	804,624
30 August 2013 interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	6,279,353	125,587
15 October 2013 Rights issue shortfall share placement to Kam Lung Investment Development Co. at 2 cents per share	171,818,615	2,815,913
31 October 2013 Issue of Executive Shares under the Company's Short and Long Term Executive Incentive Plan	3,944,370	114,896
20 November 2013 Rights issue shortfall share placement at 2 cents per share	89,890,544	1,479,591
6 December 2013 interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	5,834,861	128,360
6 December 2013 Issue of Executive Shares under the Company's Short and Long Term Executive Incentive Plan	3,440,831	86,191
Issue costs	-	(45,954)
Balance 31 December 2013	**1,250,097,524**	**235,360,723**

NOTE 16 – EQUITY SECURITIES ISSUED (continued)

2012	Half-Year '12 No.	Half -Year '12 $
Balance 30 June 2012	**773,999,771**	**227,174,129**
29 August 2012 interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road convertible note facility)	2,306,795	124,567
29 November 2012 interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road convertible note facility)	2,145,388	126,578
Issue costs	-	(3,105)
Balance 31 December 2012	**778,451,954**	**227,422,169**

NOTE 17 – CONTINGENT ASSETS

	Dec '13 $	Jun '13 $
Shanxi Sanyuan Coal technology fee	-	7,174,018
TOTAL	**-**	**7,174,018**

At the 30 June 2013 the Consolidated Group was awaiting the receipt of the technology fee of $7,174,018 from Shanxi Sanyuan Coal Industry Co. Ltd pursuant to the signed Definitive Agreement which provides for Carbon Energy Limited to be the exclusive UCG technology partner for the Shanxi Province pending Government approvals. The Directors were confident that the required approval and subsequent fee would be received. As the approval process was outside the control of the Consolidated Group, the criteria in the Accounting Standards for the recognition of an asset were not met. Accordingly, the asset was classified as contingent and was not recorded on the balance sheet. At 31 December 2013 the amount has no longer been disclosed as a contingent asset.

NOTE 18 – CONTINGENT LIABILITIES & COMMITMENTS

(a) Exploration commitments

Ongoing annual exploration expenditure is required to maintain title to the Consolidated Group's mineral exploration tenements and to earn an interest in various joint venture mining prospects. No provision has been made in the financial statements for these amounts as the amounts are expected to be fulfilled in the normal course of the operations of the Consolidated Group. The Consolidated Group has certain statutory obligations to perform minimum exploration work on its tenements.

	Dec '13 $	Jun '13 $
These obligations which are not provided for in the financial statements and are payable:		
• Within 12 months	903,454	870,564
• 2 to 5 years	33,082	400,718
TOTAL EXPLORATION COMMITMENTS	**936,536**	**1,271,282**

NOTE 18 – CONTINGENT LIABILITIES & COMMITMENTS (continued)

The consolidated group is required to perform ongoing exploration expenditure and has certain statutory obligations to perform minimum exploration work on its tenements. No provision has been made in the financial statements for these amounts as the amounts are expected to be fulfilled in the normal course of operations. The statutory exploration commitments are deferred and awaiting decision from the Department of Natural Resources & Mines. The statutory expenditure requirement may be renegotiated with the relevant state department of Minerals and Energy, and expenditure commitments may be varied between tenements, or reduced subject to reduction of exploration area and/or relinquishment of non-prospective tenements.

(b) Operating Lease Commitments

	Dec '13 $	Jun '13 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements and are payable:		
• Within 12 months	376,517	369,253
• 2 to 5 years	1,699,646	1,888,510
TOTAL OPERATING LEASE COMMITMENTS	**2,076,163**	**2,257,763**

These relate to property leases as follows:
A lease agreement for the Brisbane office (level 9, 301 Coronation Drive) was signed on 24 October 2012 and commenced on 1 February 2013 with a lease term of 6 years and expires on 31 January 2019 with a further 5 year option. Rent increases are set at 4% increase per annum.

(c) Claims of Native Title and Cultural Heritage

Mineral exploration
The Company is aware of native title claims made in accordance with the Native Title Act 1993 (NTA) that was enacted to accommodate the decision of the High Court in Mabo v Queensland (No2) (1992) 175 CLR 1, which recognised the rights and interests of the Aboriginal and Torres Strait Islanders as a form of common law native title.
The main objectives of the NTA are to:

- provide for the recognition and protection of native title;
- establish ways in which future dealings affecting native title may proceed and to set standards for those dealings; and
- establish a mechanism for determining claims to native title; and provide for, or permit, the validation of past acts invalidated because of the existence of native title.

Coal exploration and UCG
A Cultural Heritage Management Plan (CHMP) has been developed in partnership with the Aboriginal traditional owners of the lands that are the subject of the UCG demonstration trial. The CHMP is registered under the provisions of the Aboriginal Cultural Heritage Act and ensures that there is minimal impact or damage caused to Aboriginal cultural heritage items, materials or values during the exploration and UCG activities on mining and petroleum tenements owned by Carbon Energy.

NOTE 18 – CONTINGENT LIABILITIES & COMMITMENTS (continued)

(d) Credit facilities

	Dec '13 $	Jun '13 $
Credit Suisse term facility	-	2,997,233
Pacific Road convertible note facility	10,000,000	10,000,000
Credit facility – deposit	32,500	32,500
TOTAL	**10,032,500**	**13,029,733**
Amount utilised	10,032,500	13,029,733
Unused credit facility	**-**	**-**

On 16 November 2012 the Company secured a short term bridging loan facility with Credit Suisse for $10 million to assist in funding the Carbon Energy's short term working capital requirements. Repayments amounting to $7,002,767 were made during the prior period leaving an outstanding balance of $2,997,233 on the Facility at 30 June 2013. Payments of $2,997,233 were made during the current period settling the Facility in full.

The interest rate on the Pacific Road Convertible Note Facility is 5% per annum, payable on the three month anniversary of the utilisation date of an advance. The Company will issue Shares to the Financier on the interest payment date to satisfy its obligations to pay interest.

Interest rates on the credit facilities other than the Credit Suisse Term Facility and Pacific Road Convertible Note Facility are variable and subject to adjustment.

	Dec '13 $	Jun '13 $
Bank guarantee in relation to Environmental bonds	53,140	55,640
Bank guarantee in relation to the entity's share of guarantee for Lease of office premises	181,913	181,913

(e) Contingent liabilities

Summa Resources Holdings LLC

As announced to the market on 30 May 2013 and disclosed in the 2013 Annual Report, Summa Resource Holdings LLC advised that it was proceeding to formal dispute resolution under the share sale agreement dated February 2011 in relation to its claim that contractual milestones have been achieved triggering an entitlement to two further tranches of US$4.5 million worth of shares in Carbon Energy, being a total of US$9million (based on a specified 30 day VWAP ending 23 February 2013). The mandatory dispute resolution steps have now been completed and the dispute has not been resolved. Carbon Energy maintains its position that project financial milestones under the Agreement with Summa were not able to be achieved. Carbon Energy maintains it is not obliged to issue further tranches of shares to Summa Resource Holdings LLC nor is it required to reserve those shares. Without prejudice discussions between representatives from both parties have to date failed to bring the matter to a close.

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

NOTE 19 – EVENTS SUBSEQUENT TO REPORTING DATE

The Company commenced its cavity rehabilitation activities at its Bloodwood Creek site to collect a range of samples and data to confirm the condition of the Panel 2 cavity and to assist with the development of the Decommissioning Plan for the site.

Carbon Energy formally closed out the arrangements with Shanxi Coal. New licensing opportunities can now be pursued in the Shanxi Province.

Carbon Energy completed the first two packages of works for the Inner Mongolia UCG Project and received a further technology services payment instalment of $1.1million (before withholding taxes) from its project partners. A further $1.4million (before withholding taxes) in technology services fees remains due and payable but is as yet unpaid.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

a) The financial statements and notes, as set out on pages 18 to 34 comply with the Corporations Act 2001, including compliance with accounting standards and give a true and fair view of the Consolidated Group's financial position as at 31 December 2013 and of its performance for the half-year ended on that date.

b) In the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s303(5) of the Corporations Act 2001.

On behalf of the Directors

Dr Chris Rawlings
Chairman
Brisbane, 14 March 2014

Mr Morné Engelbrecht
Managing Director
Brisbane, 14 March 2014

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Independent Auditor's Review Report to the Members of Carbon Energy Limited

We have reviewed the accompanying half-year financial report of Carbon Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit and loss and other comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 18 to 35.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Carbon Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte.

Auditor's Independence Declaration

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Carbon Energy Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

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

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 3 in the half-year report which indicates that the ability of the Consolidated Group to continue as a going concern is dependent upon the receipt of contracted technology and services fees and securing additional funds.

The matters set out in Note 3 indicate the existence of a material uncertainty that may cast significant doubt about the Consolidated Group's ability to continue as a going concern and therefore, the Consolidated Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Stavrou
Partner
Chartered Accountants
Brisbane, 14 March 2014