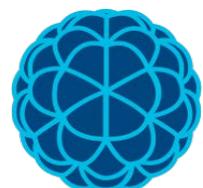




QUARTERLY REPORT

FOR THE PERIOD ENDED
31 MARCH 2015



carbon**energy**

CARBON ENERGY LIMITED

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 MARCH 2015

ABN 56 057 552 137

ASX Code: CNX OTCQX Code: CNXAY

KEY EVENTS

- During the quarter, a State election was held in Queensland and a minority Labor Government appointed a new Cabinet. Carbon Energy commenced discussions with the new Ministerial staff from the Department of Environment and Heritage Protection (DEHP), the Department of Natural Resources and Mines (DNRM) and the governing Ministerial Offices. The Company is now engaged with the new Ministers, and is strongly encouraging progression of its plans to commence the Environmental Impact Study (EIS) for the proposed Blue Gum Gas Project.
- Carbon Energy was actively engaged with a number of Asian and European based parties and agencies during the quarter, in order to progress licensing and joint venture opportunities.
- Carbon Energy secured a \$1.2 million R&D tax offset financing facility with Macquarie Bank Limited which provides the Company with working capital funding prior to receipt of the FY2015 ATO R&D Rebate.
- Voluntary reductions in Executive salaries and Directors fees were taken together with the reduction in staff costs generally through redundancies, limited use of external contractors, and the continued enforcement of a cost conscious culture. These cost reduction strategies continue on into the next quarter.

SUBSEQUENT TO THE END OF THE QUARTER

- DEHP advised Carbon Energy the review of the Company's Decommissioning Report and Rehabilitation Plan had been finalised by the Department and recommendations had been sent to DNRM as the lead agency.
- Max Cozjin retired as a Director on 21 April 2015 following 23 years of service to the Company.

COMPANY UPDATE

QUEENSLAND

Following the appointment of the new State Government during the quarter, Carbon Energy met with representatives from both DEHP and DNRM. These discussions were a continuation of engagement discussions with the bureaucracy but also the beginning of the engagement process with the newly appointed minority Labor Government. The focus of communications with the new government to date has been around briefings on Carbon Energy's keyseam technology, its environmental credentials and the proposed Blue Gum Gas Project, expected to generate more than 1000 new jobs during construction and provide 25PJ of gas annually to Queenslanders.

Subsequent to the quarter's end, DEHP finalised its recommendations on the Company's 2014 submissions, the Decommissioning Report and Rehabilitation Plan, and submitted those recommendations to DNRM, the lead agency in the process.

The Company is currently awaiting advice from DNRM as to its recommendations and whether it can commence the EIS for the Blue Gum Gas Project. The Company has prepared an Initial Advice Statement (IAS) in preparation for the next steps in commercialising the Blue Gum Gas Project.

The Company understands that all conditions and questions arising from the Independent Scientific Panel report have been addressed and the findings positively reviewed by independent experts.

Blue Gum Gas Project

Subject to a favourable decision from government, the Company is working to establish partnerships for its first commercial scale gas development, the Blue Gum Gas Project. The project is planned for development on MDL374 and freehold land owned by the Company in the Surat Basin. The Blue Gum Gas Project is intended to deliver 25PJ per annum of pipeline quality gas. It is anticipated that first gas could be supplied to local industry three years from commencement of the EIS process, assuming suitable investment partners are secured.

INTERNATIONAL

Over the last quarter the Company has been implementing its international business development plan which focuses on new opportunities arising from the results of the Company's Queensland UCG trial. Underground coal gasification is gaining increasing momentum in Asia and Europe, and the Company continued to market the environmental credentials of its keyseam technology in that region. Active discussions with various parties regarding further business opportunities in these regions took place during the quarter and are continuing.

With respect to existing international projects, no further payments have been received for the Inner Mongolia UCG Project during the quarter. The Company is committed to finding a suitable resolution to enable the project to move forward.

During the quarter, BHD Capital continued discussions with potential investors in relation to the proposed Mulpun UCG Project in Chile, South America on behalf of the Company.

CASH MANAGEMENT

The Company secured a \$1.2 million loan facility with Macquarie Bank Limited during the quarter and drew down on the facility. The facility provides the Company with working capital funding requirements prior to receipt of the FY2015 ATO R&D Rebate.

Following the result of the Queensland Government election held at the end of January 2015, the Company implemented its strategy to mitigate the impact of the delay in the Queensland Government review process on our cash reserves anticipated following the change in Government. This cash management strategy included a voluntary reduction in Executive salary costs and Directors fees (whilst key management remains in place), reduction in staff costs generally through redundancies, limited use of external contractors, and the continued enforcement of a cost conscious culture. These cost reduction strategies continue on into the next quarter.

With much of the preparation work for the Blue Gum Gas Project IAS already complete, we continue to remain focused primarily on international business development and pursuit of project investment and off-take partners for the Blue Gum Gas Project while we await the Queensland government.

At the end of the quarter the Company has access to approximately \$3.0 million of cash.

CONTRACTUAL MATTERS - SUMMA SHARE SALE AGREEMENT

Carbon Energy maintains its position announced on 30 May 2013 that project financial milestones under the Agreement with Summa were not able to be achieved.¹ Carbon Energy maintains it is not obliged to issue further tranches of shares to Summa 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.

For and on behalf of the Board



Morné Engelbrecht
Chief Executive Officer & Managing Director
27 April 2015

¹ See ASX Announcement 23 February 2011.

CARBON ENERGY GAS RESERVES & RESOURCES

Area	Reserve and Resource Classification	Gross (100%) Syngas Energy (PJ)	Gross (100%) SNG Energy (PJ)
MDL 374	1P Reserves	11.0	7.1
	2P Reserves	1,737.9	1,128.5
	3P Reserves	2,512.4	1,631.5
EPC 867	3P Reserves	5,650.0	3,668.9
	2C Contingent Res	7,734.3	5,022.3
EPC 869	2C Contingent Res	4,150.3	2,695.0
EPC 1132	2C Contingent Res	1,220.1	792.3

Notes to the above table:

- 1P Reserves = Proved
- 2P Reserves = Proved + Probable
- 3P Reserves = Proved + Probable + Possible

All Reserve and Resource estimates (Estimates) in this document are reported in accordance with the requirements of ASX Listing Rules 5.25 to 5.28. It is noted in particular that:

- (a) This document refers to Estimates reported on 19 September 2014 and released to the market on 22 September 2014 (Updated Reserves Statement);
- (b) All Estimates are based on the deterministic method for estimation of petroleum resources at the field and project levels and are attributable to the gross (100 percent) ownership interest of Carbon Energy in certain coal properties located in MDL 374, EPC 867, EPC 869 and EPC 1132 located in the Surat Basin of Queensland, Australia;
- (c) All Estimates are reported using the following conversion factors as relevant:
 - (i) UCG Energy conversion factor is 16.73 GJ of syngas per tonne of coal gasified;
 - (ii) UCG syngas to Synthetic Natural Gas (SNG) conversion factor is 38.5 to 25;
 - (iii) 1,055 Petajoule (PJ) = 1 Trillion cubic feet (Tcf); and
 - (iv) 1 barrel of oil equivalent (boe) = 6,000 cubic feet.

Further, for the purposes of ASX Listing Rule 5.43, Carbon Energy confirms that it is not aware of any new information or data that materially affects the information included in the 22 September 2014 Updated Reserves Statement and that all material assumptions and technical parameters underpinning the estimates in the Updated Reserves Statement continue to apply and have not materially changed.

TENEMENT STATUS AT 31 MARCH 2015

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

* Renewal submitted June 2012. Discussions with DNRM are ongoing. Updated work program submitted to DNRM December 2014

** Renewal submitted March 2015

Tenement	Status	As at 30 June 2014 Sub-Blocks	Area km ²
EPC 867	Renewal Pending [#]	167 ¹	509.56
EPC 868	Renewal Pending [#]	96 ²	291.57
EPC 869	Granted	63	192.53
EPC 1132	Granted	23	70.28
Total Eastern Surat Basin Tenements		349	1,063.94

Renewal Submitted November 2014

¹ Relinquishment of 33 sub-blocks from EPC 868 in lieu of relinquishment requirements for EPC 867 was filed with the QLD Department of Natural Resources and Mines on 17 February 2015. As at the end of the quarter relinquishments had not been recorded by the Department.

² Relinquishment of 19 sub-blocks was filed with the QLD Department of Natural Resources and Mines on 17 February 2015. As at the end of the quarter relinquishments had not been recorded by the Department.

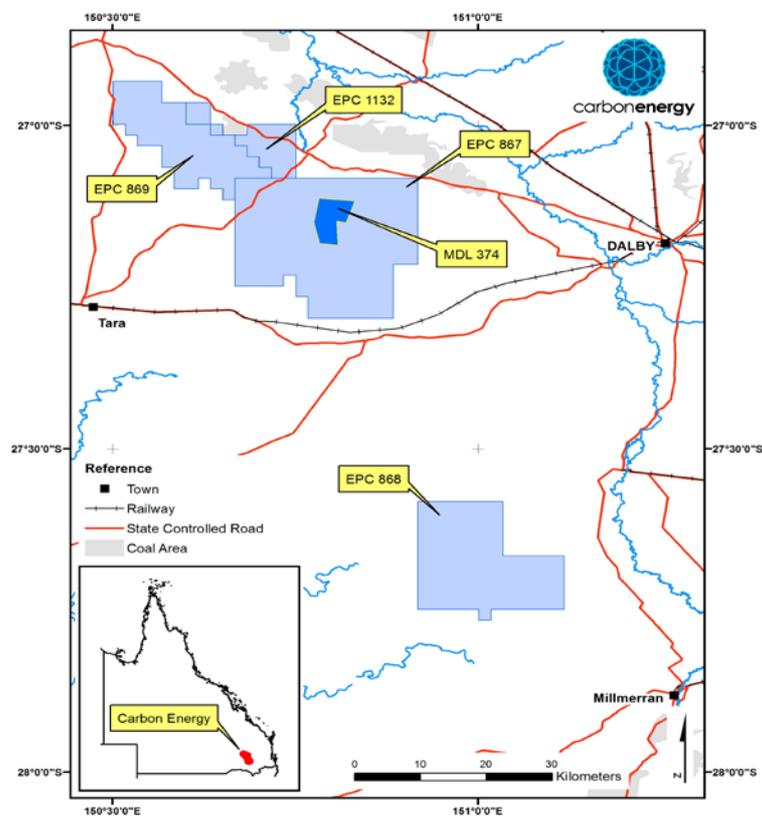


Figure 1 Carbon Energy Coal Tenure Surat Basin

ISSUED CAPITAL

As at 31 March 2015

ORDINARY SHARES

1,340,806,885 shares

OPTIONS - LISTED

443,696,404 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

86,327,484 Unlisted current CNX management options

SHAREHOLDERS

As at 31 March 2015

ORDINARY SHARES:

5,668 Shareholders

Top 20 Shareholders hold 48.58% of listed shares

Major Shareholders (more than 5% holding):

1.	Kam Lung Investment Development Company Limited	12.81%
2.	Pacific Road Capital	8.83%
3.	CitiCorp Nominees Pty Ltd	6.14%
4.	Incitec Pivot Ltd	5.64%

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

1,261 Listed Option Holders

Top 20 Listed Option Holders hold 68.95% of listed options

Top 5 Listed Option Holders:

1.	Kam Lung Investment Development Company Limited	38.72%
2.	Citicorp Nominees Pty Limited	11.34%
3.	Archfield Holdings Pty Ltd	3.06 %
4.	JP Morgan Nominees Australia Ltd	2.00%
5.	Mr Alexander Gontmakher	1.56%

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 (retired on 21 April 2015)
Dr Helen Garnett	Non-Executive Director
Mr Peter Hogan	Non-Executive Director
Mr Louis Rozman	Non-Executive Director

EXECUTIVE MANAGEMENT

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

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 2015

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	-	-
1.2 Payments for		
(a) Exploration & Evaluation	(105)	(276)
(b) BWC Site Operating & Maintenance Costs & Technical Services & Rehabilitation Drilling	(714)	(3,354)
(c) Production	-	-
(d) Corporate, Commercial, New Business & Administration	(771)	(2,593)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	9	55
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	3,720
Government grants: Research & Development rebate &		
Net Operating Cash Flows	(1,581)	(2,448)

	Cash flows related to investing activities		
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(2)	(9)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	(53)	(279)
	Exploration & evaluation costs, trademarks		
	Net investing cash flows	(55)	(288)
1.13	Total operating and investing cash flows	(1,636)	(2,736)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares and options	-	2,566
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from short term loan facility	1,166	2,666
1.17	Repayment of short term loan facility	-	(1,500)
1.18	Term facility costs	(77)	(180)
1.19	Capital raising costs	(2)	(241)
	Net financing cash flows	1,087	3,311
	Net (decrease) / increase in cash held	(549)	575
1.20	Cash at beginning of quarter/year to date	3,511	2,387
1.21	Exchange rate adjustments to item 1.20		-
1.22	Cash at end of quarter	2,962	3,962

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	141
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	Costs included in item 1.23 above relate to Directors' 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 4,272,115 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, Macquarie R&D facility)	11,200	11,166
3.2	Credit standby arrangements	344	266

ESTIMATED CASH OUTFLOWS FOR NEXT QUARTER

		\$A'000
4.1	Exploration and evaluation	3
4.2	BWC Site Operating & Maintenance Costs & Technical Services & Rehabilitation Drilling	641
4.3	Production	-
4.4	Corporate, Commercial, New Business & Administration (including financing costs)	825
Total		1,469

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	12	77
5.2	Deposits at call	2,950	3,434
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)		2,962	3,511

CHANGES IN INTERESTS IN MINING TENEMENTS

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

ISSUED AND QUOTED SECURITIES AT END OF CURRENT QUARTER

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

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference *securities <i>(description)</i>	-	-	-	-
7.2 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 *Ordinary securities	1,340,806,885	1,340,806,885	Various	Fully paid
7.4 Changes during quarter				
(a) Increases through issues: Interest on Convertible Note	4,272,115	4,272,115	\$0.0295	Fully paid
(b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5 *Convertible debt securities <i>(description)</i>	Pacific Road Capital \$10 million Convertible Note Facility issued 5 January 2012 and repayable on 18 January 2017 with 5% interest payable quarterly in arrears in Company shares.			
7.6 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through securities matured, converted	-	-	-	-
7.7 Options			Exercise Price	Expiry Date
Unlisted Options \$0.0610	61,728,395	-	\$0.0610	15/11/2015
Unlisted Options \$0.0610	9,645,845	-	\$0.0610	15/11/2015
Unlisted Options \$0.12	3,084,000	-	\$0.12	31/12/2015
Listed Options \$0.06	443,696,404	443,696,404	\$0.06	31/07/2016
Unlisted Options \$0.026	7,081,738	-	\$0.026	15/10/2016
Unlisted Options \$0.1678	7,000,000	-	\$0.1678	18/01/2017
Unlisted Options \$0.1678	28,000,000	-	\$0.1678	25/02/2017
Unlisted Options \$0.0301	9,495,080	-	\$0.0301	25/08/2017
Unlisted Options \$0.06	33,333,333	-	\$0.06	30/06/2018
Unlisted Options \$0.06	33,333,333	-	\$0.06	30/06/2019
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: 27 April 2015
Name: Catherine Costello
Title: Chief Financial Officer