



CarbonEnergy
Limited
ABN 56 057 552 137

DECEMBER 2008
QUARTERLY REPORT

Registered Office Brisbane

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Directors

Kim Robinson – Chairman
Andrew Dash – Managing Director
Cliff Mallett – Executive Director
Ian Walker – Non Executive Director
Max Cozijn – Non Executive Director
Peter McIntyre – Non Executive Director
Shad Linley – Non Executive Director
Peter Hogan – Non Executive Director

Management

Andrew Dash – MD & CEO
Cliff Mallett – Technical Director
Rusty Mark – GM Business Development
Prem Nair – CFO & Company Secretary
Peter Swaddle – GM Commercial
John Wedgwood – GM – Operations

HIGHLIGHTS FOR THE QUARTER

BLOODWOOD CREEK UCG TRIAL (Carbon Energy 100%)

- *The Bloodwood Creek UCG Trial results exceed expectations.*
- *Energy yields equate to 20 giga joules (GJ) per tonne of coal gasified.*
- *The current gas being produced by oxygen/steam injection represents a world first for UCG production.*
- *Coal resources suitable for UCG extraction have increased to 296.9Mt (at a 2m coal thickness cutoff) with 144.9Mt (at a 5m coal thickness cutoff, which is optimal for UCG processes).*
- *A 517 hectare freehold property has been acquired adjacent to the Bloodwood Creek site providing the ideal location for industrial projects utilising Carbon Energy's coal resources.*
- *The Bloodwood Creek UCG Trial will be completed in March 2009 Quarter.*

URANIUM (Carbon Energy 100%)

- *At **Nyang**, significant Uranium mineralisation has been delineated over a strike length of more than 3km within a palaeochanel extending at least 11km.*

CORPORATE

- *Consistent with its strategy, Carbon Energy has completed its restructure of the Management team and relocation of Registered Office to Brisbane effective January 2009.*

CARBON ENERGY LIMITED

Corporate

Following the change of the Company's name to Carbon Energy Limited (previously Metex Resources Limited), and the ASX code to CNX, the Board and Executive Management completed the Carbon Energy Strategic Plan to guide and assist the Company over the next three years. The Board has approved the Plan that defines the key strategies that will underpin Carbon Energy's ongoing development and success.

Carbon Energy Ltd (CNX) is an emerging energy Company whose purpose is to produce clean energy and chemical feedstock from Underground Coal Gasification (UCG) syngas. It aims to do this by pursuing four key areas of focus:

- Continuous **improvement of UCG technology** and the development of complementary technologies that will ensure Carbon Energy will develop a superior technical capability in the UCG syngas industry that will differentiate the Company from all other energy companies.
- **Identify and develop commercial opportunities** using syngas derived from Carbon Energy's superior UCG technology. for the production of power, chemicals and gas to liquids (GTL) either in the Company's own right or by way of strategic partnerships.
- **Expand its coal resource inventory** by exploration within its current tenements or through identification of suitable joint venture opportunities leveraged off Carbon Energy's ability to successfully undertake UCG production in Australia and globally.
- **Quality communication with all stakeholders** about the Company's performance and development, including its commitment to environmental best practice.

As a consequence of Carbon Energy's objective to focus on the production of clean energy through the application of its UCG technology the management team has been restructured and the Registered Office moved to **Level 12, 301 Coronation Drive, Milton, Queensland, 4064**.

Effective as from 1 January 2009, Mr Andrew Dash has been appointed Chief Executive Officer and Managing Director, Mr Prem Nair has been appointed Chief Financial Officer and Company Secretary, and Mr Peter Swaddle appointed General Manager – Commercial, with Carbon Energy founders, Dr Cliff Mallett and Mr Rusty Mark continuing as Technical Director UCG and Business Development Manager, respectively

Founding Carbon Energy Limited Shareholders and Directors, Mr Ian Walker and Mr Max Cozijn remain as non-executive directors of the Company, having previously held the roles of Managing Director and Finance Director, respectively.

Continuous Improvement of UCG Technology (Bloodwood Creek UCG Trial)

Carbon Energy has commenced production of commercially viable syngas at its Bloodwood Creek UCG site located in the Surat Basin, 55km west of Dalby in southeast Queensland. A series of tests have confirmed that its standard 1 peta joule (PJ) per year syngas module has achieved the following:

- Flow rates in excess of 1 peta joule (PJ) per annum have been achieved consistently and predictably.
- Average energy yield equals 20 giga joule (GJ) per tonne of coal gasified.
- Coal gasification rate of 150 tonnes per day.
- Average energy value of the raw gas exceeding 12 mega joule /m³.
- Oxygen use efficiency meeting or exceeding targets.
- Hydrogen production meeting targets.
- Methane production exceeding targets.
- Predictable and stable responses to changes in input conditions such as steam/oxygen injection rates, pressure and flow rate changes.

Overall, the Trial has achieved the following:

- **Detailed practical commercial processes and applications (Intellectual Property & Know how).** These include drilling techniques, process modelling, mechanical and software based control systems, gas analysis, waste and water handling techniques and coal resource optimization. In addition, lead-in

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processes have been identified for future work including CO₂ capture and reduced greenhouse gas footprints in the utilization of coal.

- **Detailed environmental monitoring**, including the use of 21 water monitoring wells and 17 surveyed subsidence points are verifying the safe and environmentally sound practices of Carbon Energy's Trial.
- **Established base line operating costs** for the practical implementation of the technology, and is proving the commercial advantage of UCG syngas as a viable fuel of the future.
- **Demonstrated the production of high value oxygen enhanced UCG syngas** suitable for the production of low emission electricity, chemicals and liquid fuels.
- **The conversion of unmineable coal in situ to gas energy** at an average rate of 20 peta joules (PJ) per million tonnes of Surat Basin coals.
- **Validation of Carbon Energy's proprietary design and economic models** which can be applied to any suitable coal seam anywhere in the world.



Figure 1. Ongoing low impact Operations at Bloodwood Creek

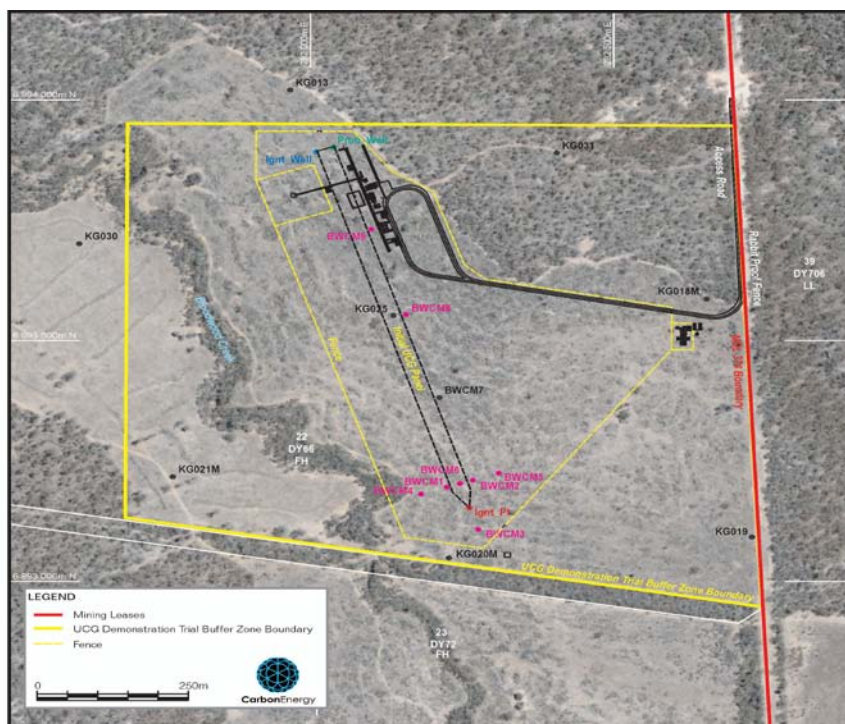


Figure 2. Carbon Energy's 1PJ UCG syngas module at Bloodwood Creek.



Figure 3. Flaring of syngas



Figure 4. Ground water monitoring station

Identify and Develop Commercial Opportunities

The trial results for gas quality and production rate required by way of the Memorandum of Understanding (MOU) between Incitec Pivot Limited (IPL) and Carbon Energy are currently being produced and analysed. Provision exists within the MOU to proceed to potential commercialisation of UCG syngas for ammonia production following the completion of a suitable pre feasibility study, together with appropriate applications to satisfy tenure and environmental requirements (including an Environmental Impact Statement). In the short term, following the completion of the trial, it is intended that syngas will be used as a gas supply for power generation.

In India discussions are continuing with major Indian companies including Singarini, who are major energy and coal resource holders on the Indian subcontinent, and who are actively seeking safe and reliable UCG techniques for the exploitation of coal reserves in India.

Other commercial opportunities with owners of coal assets in Australia and USA are also being pursued.

Expand its Coal Resource Inventory (Bloodwood Creek Resource Drilling)

Coal resources in Carbon Energy’s lease in the Kogan area (EPC867 and EPC869) suitable for UCG syngas extraction have been increased following recent exploration, and the adoption of industry standard Minescape (MINCOM) geological modelling resource calculation methodology.

The resource figures are based on 44 exploration drill holes completed in 2007-08 and 17 monitoring wells drilled for the Bloodwood Creek UCG Trial in 2008.

All resources are within the Macalister Seam of the Juandah Coal Measures, the upper part of the Walloon Coal Measures. Regionally, coal deposits form thick laterally restricted pods which can exceed 500Mt, which are separated by areas of thin split seams. The Bloodwood Creek area contains a significant deposit of this type.

The Bloodwood Creek deposit has a JORC (2004) compliant Indicated and Inferred coal resource to which a 2 metre and 5 metre thickness cutoff has been applied as follows:

Location	Coal Seam thickness (m)	Indicated (Mt)	Inferred (Mt)	TOTAL (Mt)
Bloodwood Creek	2	211.7	85.2	296.9
(MDL 374 & EPC 867)	5	109.7	35.2	144.9

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7,500 metres of drilling for the period of the first quarter of 2009 is continuing with targets of:

- Additional drilling and evaluation of the current resource at Bloodwood Creek to the standard of a JORC (2004) compliant Measured and Indicated resource.
- The extension of the current defined resource within MDL374 and EPC867 at Bloodwood Creek.
- The completion of an initial JORC (2004) compliant inferred resource in the Kogan North area.
- Partial relinquishment of 35 sub-blocks from EPC869 was a permit requirement.
- Dr Cliff Mallett was the company’s designated Competent Person for JORC compliant coal resource statements.

Table 1. Coal tenements

State	Tenement No	Location	Status	Area (Sub-blocks)
Queensland	EPC 867	Dalby	Granted	296
Queensland	EPC 868	Millmerran	Granted	229
Queensland	EPC 869	Kogan	Granted	64
Queensland	EPC 1132	Kogan	Granted	23
Queensland	EPC 1109	Beaudesert	Granted	76
State	Tenement No	Location	Status	Area (Hectares)
Queensland	MDL 374	Kogan	Granted	2,867.9

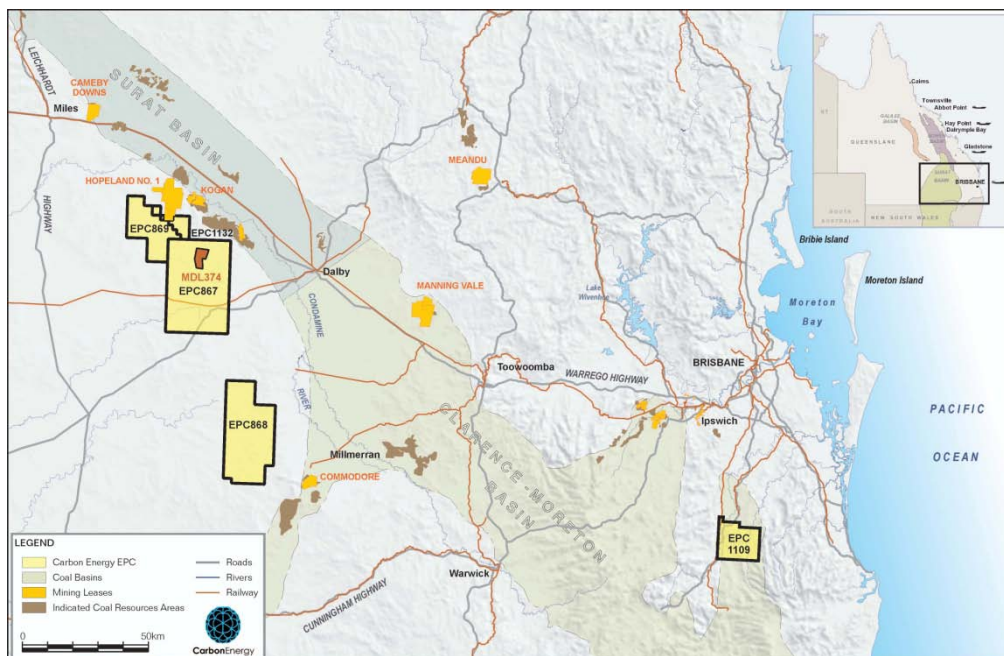


Figure 5. Location of Surat Basin EPC's

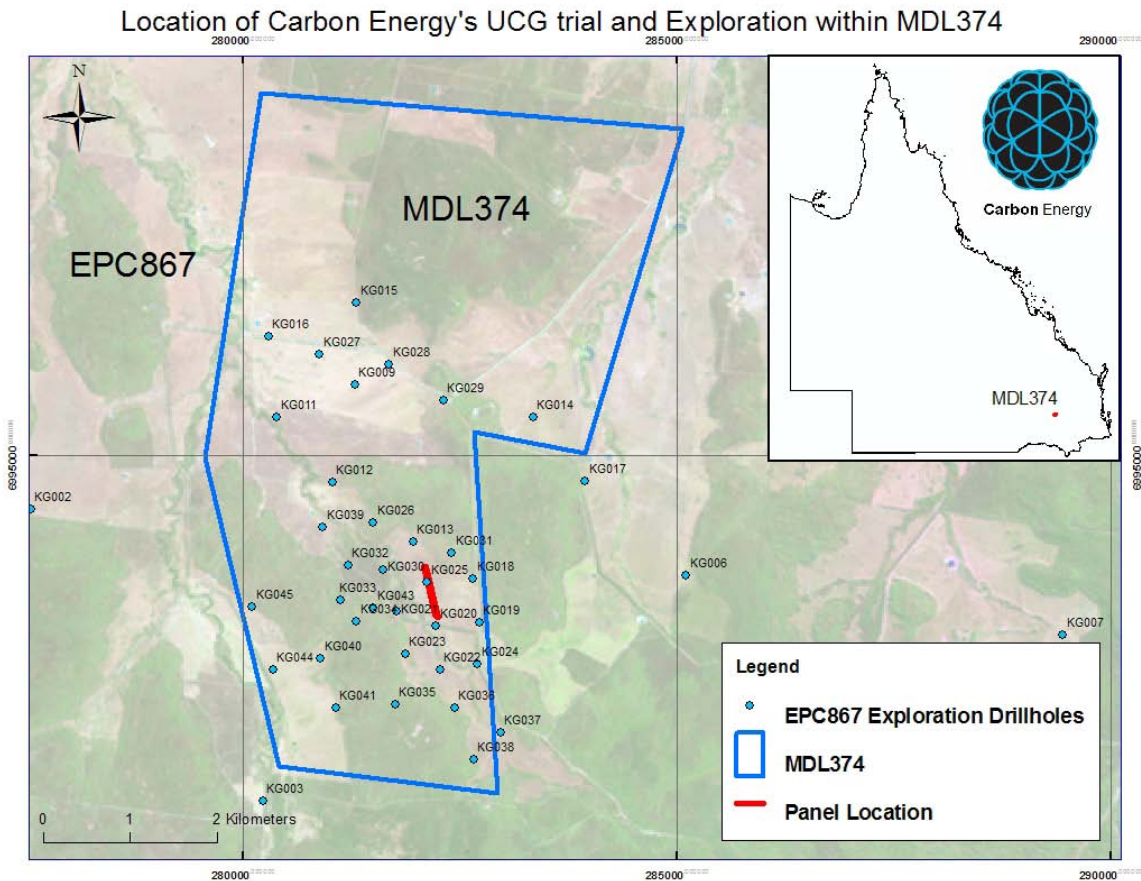


Figure 6. Location of Carbon Energy's UCG trial site within MDL374.

Tenure Discussions

Competing use tenement issues are being addressed through ongoing discussions with the Department of Mines & Energy and overlapping tenement holders, with submissions and consultations ongoing, with a view to reaching a commercial outcome.

URANIUM EXPLORATION (Carbon Energy 100%)

The Company is undertaking uranium exploration in Western Australia, South Australia, Queensland and the Northern Territory (Figure 7).

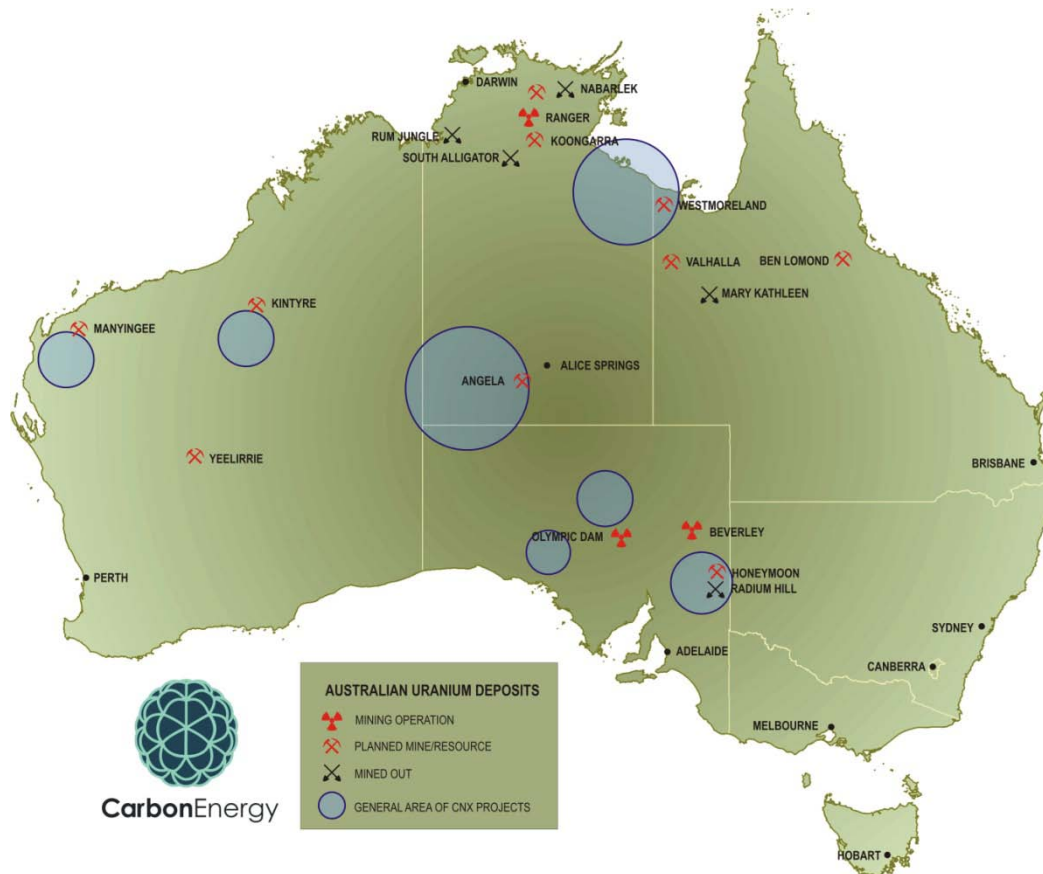


Figure 7. Location of Areas of Specific Uranium Interest – Australia.

Western Australia.

In **Western Australia**, a total of five (5) exploration licences and applications (Table 2) cover an area of 1,968 km², **including three granted (E08/1644-46) within the Nyang project** covering an area of approximately 1,209km² along the eastern margins of the Carnarvon Basin (Figure 8).

Table 2. Western Australia – Tenements under Grant or Application for Uranium Exploration

State	Tenement No	Location	Status	Area (sq.km)
Western Australia	E 08/1644	Yannarie South	Granted	470
	E 08/1645	Pleiades	Granted	475
	E 08/1646	Pleiades South	Granted	264
	E08/1801	Marilla Hill	Application	589
	E45/2886	Table Top	Application	170

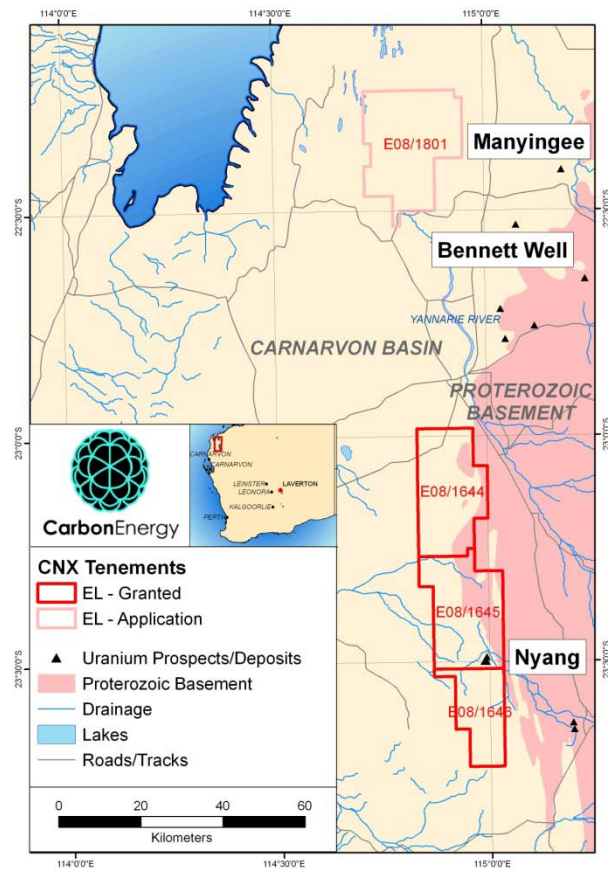


Figure 8. Location of Nyang Project tenements, Carnarvon Basin, Western Australia, showing U prospects and deposits including Manyingee (Palladin Energy Ltd, 24 mlbs U₃O₈) and Bennett Well (Scimitar Resources Limited, 4.8 mlbs U₃O₈).

High grade results ranging up to 8m @ 0.13% U₃O₈ (3.1 lbs/ton) were returned in 2007 drilling from roll-front mineralization in the Nyang Project. A follow-up Aircore drilling program of 64 holes for a total of 5,224m was completed in November 2008. Results returned included **9m @ 635ppm U₃O₈ in LYAC072 and 13m at 278ppm U₃O₈ in LYAC099** (Table 3).

The mineralisation has now been delineated over a strike length exceeding 3km, and remains open along strike to the south and northeast (Figure 9). Detailed ground gravity (reported in the previous quarter) shows that mineralization is associated with a paleochannel of more than 11 km length, all within granted Carbon Energy tenements.

A program involving follow-up drilling is planned in the next quarter to further define this exciting prospect.

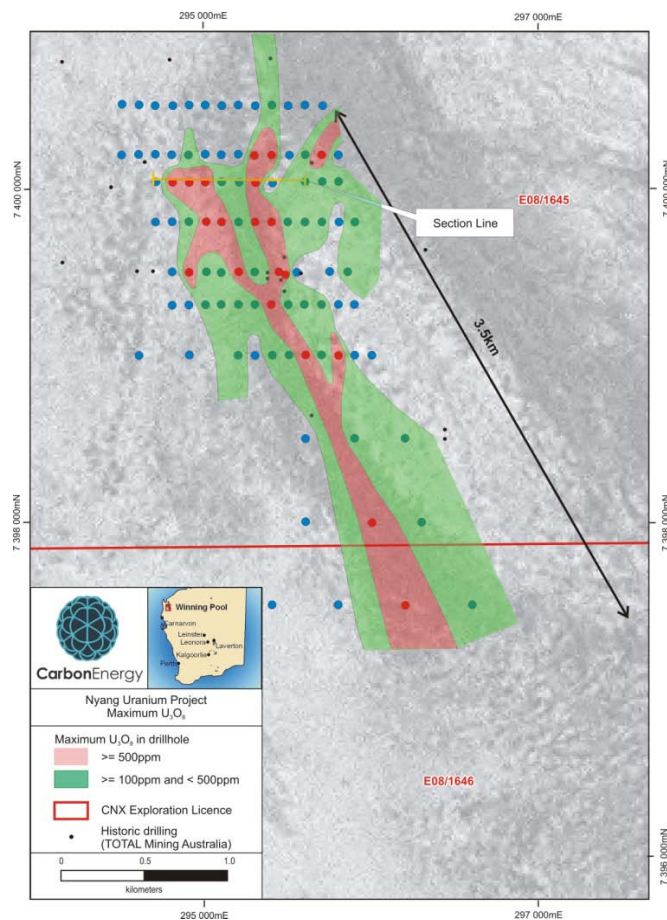


Figure 9. Location of mineralised aircore holes – Nyang Project showing contours of U_3O_8 values returned from geochemical analysis (Note: includes both 2007 and November 2008 drilling).

Table 3. Significant U_3O_8 results – Nyang Uranium Project, November 2008 drilling program only (assays by SGS laboratory, ICP-MS after 4-acid digest, with detection limit 0.05 ppm U)

Hole Number	Northing	Easting	Interval (m)	U_3O_8 (ppm)
LYAC068	7400200	294900	33-34	1m @ 183
LYAC072	7400200	295300	49-58	9m @ 635
			inc.52-54	2m @ 1427
LYAC073	7400200	295400	37-38	1m @ 119
			49-54	5m @ 157
			58-60	2m @ 351
			inc.59-60	1m @ 527
			64-65	1m @ 179
LYAC075	7400200	295600	52-56	4m @ 128
LYAC079	7399800	294900	37-42	5m @ 176
LYAC080	7399800	295000	63-65	2m @ 546
			inc.63-64	1m @ 783
LYAC081	7399800	295100	76-81	5m @ 355
			inc.77-79	2m @ 639
LYAC082	7399800	295200	104-108	4m @ 281
LYAC083	7399800	295300	77-81	4m @ 377
			83-93	10m @ 292
			inc.85-86	1m @ 476
			inc.87-88	1m @ 673
			inc.90-91	1m @ 456

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Table 3 continued:

Hole Number	Northing	Easting	Interval (m)	U ₃ O ₈ (ppm)
LYAC084	7399800	295400	66-70	4m @ 839
			inc. 67-69	2m @ 1432
LYAC085	7399800	295500	59-60	1m @ 191
LYAC086	7399800	295600	64-65	1m @ 100
LYAC087	7399800	295700	52-53	1m @ 315
			63-65	2m @ 142
LYAC089	7399500	294900	35-47	12m @ 185
			inc. 40-41	1m @ 552
LYAC090	7399500	295100	41-42	1m @ 108
			56-60	4m @ 196
			inc.56-57	1m @ 428
LYAC091	7399500	295300	64-65	1m @ 131
			84-89	5m @ 223
			94-97	3m @ 145
			99-100	1m @ 136
LYAC095	7399300	295000	61-62	1m @ 117
LYAC096	7399300	295100	63-65	2m @ 205
LYAC097	7399300	295200	61-66	5m @ 133
LYAC098	7399300	295300	76-81	5m @ 321
LYAC099	7399300	295400	61-74	13m @ 278
			inc.65-67	2m @ 734
LYAC100	7399300	295500	52-54	2m @ 222
			59-60	1m @ 239
LYAC101	7399300	295600	62-64	2m @ 183
LYAC102	7399300	295700	58-59	1m @ 262
LYAC106	7399000	295700	56-57	1m @ 127
			61-65	4m @ 329
			inc. 62-63	1m @ 486
			79-81	2m @ 161
LYAC107	7399000	295800	60-61	1m @ 541
LYAC109	7398500	296200	38-39	1m @ 137
LYAC110	7398500	295900	39-42	3m @ 268
			46-51	5m @ 286
LYAC111	7398000	296300	51-53	2m @ 221
LYAC112	7398000	296000	44-47	3m @ 539
			inc. 44-45	1m @ 960
LYAC114	7400040	295600	54-56	2m @ 147
LYAC115	7400040	295700	56-57	1m @ 332
LYAC116	7400040	295800	47-50	3m @ 170
			54-56	2m @ 130
LYAC117	7400200	295700	52-53	1m @ 1032
			57-58	1m @ 133
LYAC119	7399800	295900	54-56	2m @ 110

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South Australia

In **South Australia** a total of **8 exploration licences have been granted (Table 4) for a total area of 1,937 km²**. The main target is "IOCG" deposits of the Olympic Dam type, but there is also potential for palaeochannel-hosted roll-front deposits in several tenements.

Table 4. South Australia – Tenements granted for Uranium Exploration

State	Tenement No	Location	Status	Area (sq.km)
South Australia	EL3650	Lake Eyre	Granted	324
	EL3651	Coombs Springs	Granted	52
	EL3680	Blyth Creek	Granted	496
	EL3682	Balta Baltana Creek	Granted	348
	EL3683	Hidden Swamp	Granted	145
	EL3957	Curdimurka	Granted	294
	EL3958	Strangeway Springs	Granted	126
	EL4035	Lake Millyera	Granted	152

Evaluation of the detailed ground gravity surveys carried out in the September quarter in four areas has identified three as significant targets. Detailed gravity modelling will be conducted to confirm depths before prioritizing for drill testing. However, from initial appraisal the cover may be much shallower than was inferred from regional data (perhaps as little as 100-200 metres in several cases).

Queensland

At **Westmoreland (in western Queensland)** two applications covering a total area of **480km²** are awaiting grant (Table 5.)

Table 5. Queensland – Tenements under Application for Uranium Exploration

State	Tenement No	Location	Status	Area (sq.km)
Queensland	EPM/15489	Wesmoreland	Application	280
	EPM/15491	Wesmoreland	Application	200

These cover a zone where the prospective Westmoreland Conglomerate extends beneath the sediments of the Carpentaria Basin (Figure 10). Numerous significant uranium occurrences were discovered in the 1970's and early 1980's within the outcropping Westmoreland Conglomerate to the west (e.g. Laramide Resources Ltd – 48.5 million pounds of U₃O₈). Mineralization is related to both lithology and structures. Since the 1980's little or no work has been undertaken to trace these occurrences into the covered areas along strike.

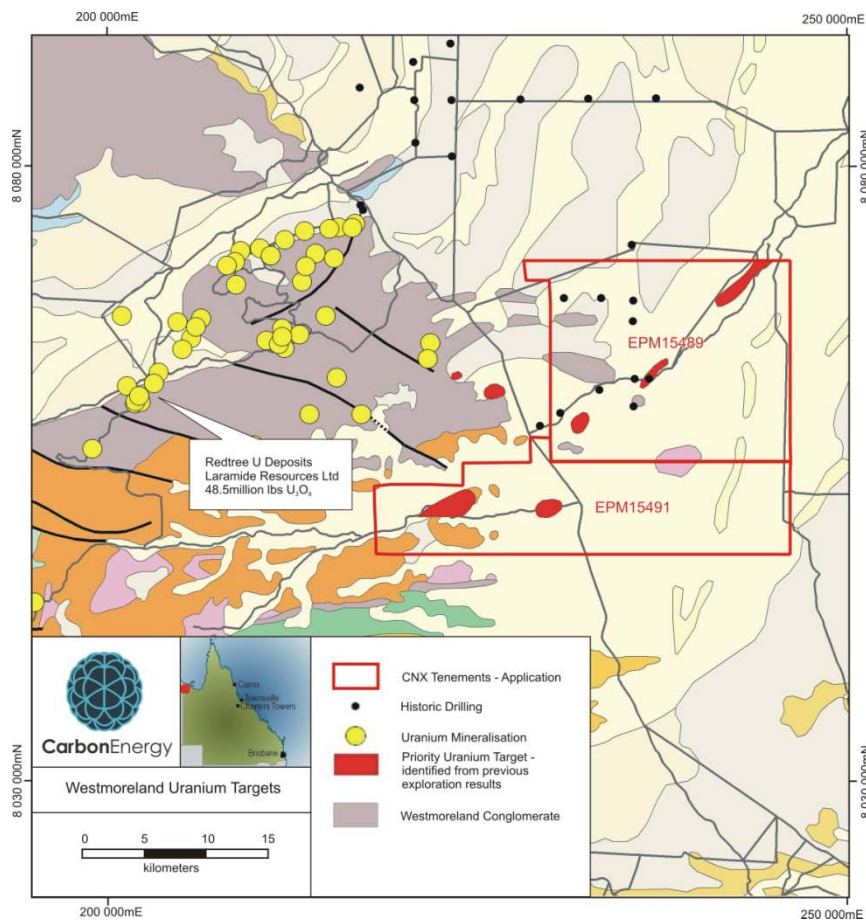


Figure 10. Westmoreland tenement applications showing uranium occurrences and prospects delineated by the Central Electricity Generating Board in 1980's.

Reconnaissance field work will be commenced at Westmoreland on granting and negotiation of access. Some 20 discrete targets have been identified from structural analysis of the airborne magnetic and radiometric survey completed in March 2008. A third tenement (EPM15490) was relinquished on the basis that no priority targets were identified and the prospective host was under significantly deeper cover.

REGIONAL GOLD EXPLORATION – WESTERN AUSTRALIA

Laverton Exploration Joint Venture – Carbon Energy 50%

The Laverton Exploration Joint Venture (LEJV) is a 50:50 joint venture between Carbon Energy and Barrick (GSM) Ltd, a wholly owned subsidiary of Barrick Gold of Australia Limited. Barrick is the owner of the Granny Smith Mine, located approximately 20km south of Laverton. The LEJV is for gold only and covers an area of approximately 370km² in the Laverton Tectonic Zone. Barrick is the operator.

A work program has been agreed with Barrick for the calendar year, including RC/DDH drilling on two prospects. This is scheduled for late 2009.

In addition, Magma Metals Limited has the right under a Concurrent Rights Agreement to earn 100% interest in Ni-Cu-PGM mineralization associated with ultramafic rocks over various LEJV and 100% Carbon Energy Laverton tenements. Magma advises that LANDTEM ground electromagnetic surveys covering some 326 line km have been completed, with a number of targets identified. These will be prioritized for follow-up possibly including drilling later in the field season.

The Company continues to pursue opportunities for the rationalisation of its gold interests, and to realise suitable value for these assets. **A summary of gold resources delineated to date in the Laverton area is attached as Appendix B, whereby Carbon Energy retains 852,350 attributable in-ground ounces of gold.**

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CORPORATE

ISSUED CAPITAL

- ◆ The total issued capital at the end of the Quarter was 491,296,637 fully paid ordinary shares quoted on the Australian Stock Exchange. Additionally, a total of 75,000,000 unlisted options with exercise prices between 15c and \$1.60 (with vesting dates ranging between 31 March 2009 and 10 December 2014, with the majority also subject to meeting of annual key performance indicators (KPIs) and performance hurdles being met) are on issue.
- ◆ A total of 7,407,408 shares remain to be issued to Dr Cliff Mallett and Mr Rusty Mark upon the successful completion of the Bloodwood Creek Trial. In addition, up to 15 million shares are to be issued to Constellation Energy now that the directional drillholes for the UCG panel have been completed.
- ◆ The Company retains cash reserves of \$9.4 million as at 31 December 2008.

LISTED INVESTMENTS

- ◆ Carbon Energy holds 10 million shares in ASX listed nickel-copper-platinum group metals (PGE) explorer **Magma Metals Limited**. Magma is actively exploring in Canada and Western Australia.

For and on behalf of the Board



Andrew Dash
Managing Director

30 January 2009

Competent Person Statement – Coal

The information in this release that relates to resources is based on information compiled by Dr C.W. Mallett, Executive Director Carbon Energy Limited who is a member of the Australian Institute of Mining and Metallurgy. Dr Mallett has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Dr Mallett consents to the inclusion in the release of the matters based on his information in the form and context in which it appears.

Competent Person Statement – Gold and Uranium

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr I.W. Walker, Non-Executive Director of Carbon Energy Limited who is a member of the Australian Institute of Geoscientists. Mr Walker has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Walker consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.

BLOODWOOD CREEK RESOURCE SUMMARY - APPENDIX A

COAL RESOURCE SUMMARY AS AT 31 DECEMBER 2008

Bloodwood Creek (EPC 867/MDL374)

Seam Thickness	INDICATED		INFERRED		TOTAL
	Volume (Mm3)	Mass (Mt)	Volume (Mm3)	Mass (Mt)	Mass (Mt)
+2m	136.6	211.7	55	85.2	296.9
+5m	70.7	109.7	22.7	35.2	144.9

LAVERTON PROJECTS RESOURCE SUMMARY - APPENDIX B

GEOLOGICAL RESOURCE SUMMARY AS AT 31 DECEMBER 2008

	Lower Cut	Upper Cut	MEASURED		INDICATED		INFERRED		TOTAL		
			Tonnes	g/t Au	Tonnes	g/t Au	Tonnes	g/t Au	Tonnes	g/t Au	Ounces
M38/37 - LANCEFIELD RESOURCE² [Carbon Energy 100%]											
DEEPS	4	-			603,000	6.2	120,000	7	723,000	6.3	147,000
NML	4	-			126,000	7.9	440,000	7	566,000	7.2	131,000
SPO	4	-			114,000	6.8	54,000	8	168,000	7.2	39,000
WMC ³	3	-	1,036,000	6.8	158,000	4.7			1,194,000	6.5	250,000
TELEGRAPH ⁴	4	20					91,000	6	91,000	6.0	18,000
TOTAL TONNES			1,036,000	6.8	1,001,000	6.2	705,000	7	2,742,000	6.6	
TOTAL OUNCES			226,000		201,000		157,000				585,000
STH L'FIELD OXIDE	1	15			72,000	4.0	3,000	5	75,000	4.0	10,000
TOTAL M38/37 TONNES			1,036,000	6.8	1,073,000	6.1	708,000	6.9	2,817,000	6.6	
TOTAL M38/37 OUNCES			226,000		210,000		158,000				595,000
LAVERTON EXPLORATION JOINT VENTURE [Carbon Energy 50%]											
VARIOUS OXIDE RESOURCES											
BEASLEY CREEK	1	IDS	420,000	2.4	690,000	2.2	940,000	2	2,050,000	2.1	140,600
INNUENDO	1	IDS			180,000	2.9	380,000	2.3	560,000	2.5	45,100
WHISPER ⁶	1	IDS					1,408,000	2.4	1,408,000	2.4	110,000
RUMOUR	1	IDS			1,590,000	2.1	1,060,000	2.1	2,650,000	2.1	179,300
NTH GLADIATOR ⁵	1	5	10,000	1.7	40,000	1.8	120,000	2	170,000	1.9	10,500
GARDEN WELL ⁵	1	12	90,000	3.3	110,000	2.6	150,000	2	350,000	2.3	29,200
TOTAL OXIDE TONNES			520,000	2.5	2,610,000	2.2	4,058,000	2.2	7,188,000	2.2	
TOTAL OXIDE OUNCES			42,100		184,600		287,200				514,700
OVERALL TONNES			1,556,000	5.4	3,683,000	3.3	4,766,000	2.9	10,005,000	3.4	
OVERALL OUNCES			268,100		394,600		445,200				1,109,700
CARBON ENERGY ATTRIBUTABLE OUNCES											852,350

Notes

- 1 Tonnes, grade and ounces have been rounded to the appropriate levels of precision, and may not balance exactly
- 2 M38/37 only, predominantly sulphide resource, Telegraph free-milling West Lode, WMC includes minor West Lode
- 3 WMC data as per WMC Mineral Resources Report Dec 1994
- 4 Telegraph resource calculated on basis of weighted average grade over minimum downhole width of 1m
- 5 Resources calculated by Micromine OBM as diluted geological resource, all others using IDS methodology. Based on 1g/t model within 0.5g/t out Reference March 99 Pre-feasibility Report.
- 6 Whisper resource recalculated May05.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

CARBON ENERGY LIMITED

ABN

ABN 56 057 552 137

Quarter ended ("current quarter")

31 DECEMBER 2008

Consolidated statement of cash flows

	Current quarter \$A'000	Year to Date (6 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation (net)	(2,032)	(3,139)
(b) development – Bloodwood Creek - UCG	(6,133)	(13,410)
(c) production	-	-
(d) administration (net)	(248)	(646)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	224	639
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes benefit received	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(8,189)	(16,556)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(114)	(115)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	3
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material) - Bonds	(84)	(48)
Net investing cash flows	(198)	(160)
1.13 Total operating and investing cash flows (carried forward)	(8,387)	(16,716)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(8,387)	(16,716)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	25	(16)
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – Trade Creditors/Debtors	302	456
	Net financing cash flows	327	440
	Net increase (decrease) in cash held	(8,060)	(16,276)
1.20	Cash at beginning of quarter/year to date	17,436	25,652
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	9,376	9,376

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current Quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	274
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

1.23 Being Executive Directors salaries prior to over head recovery plus Non-Executive Director's 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

-

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

Barrick Granny Smith Mines is contributing 50% to the LEJV.

+ See chapter 19 for defined terms.

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	-	-
3.2 Credit standby arrangements/bonds	383	383

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,054
4.2 Development	3,068
Total	4,122

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	1,488	1,437
5.2 Deposits at call	7,500	16,000
5.3 Bank overdraft	-	-
5.4 Other (Deposit Bonds)	388	299
Total: cash at end of quarter (item 1.22)	9,376	17,736

Changes in interests in mining tenements

	Tenement reference	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	Refer Covering Quarterly Activity Report attached hereto		
6.2	Interests in mining tenements acquired or increased	Refer Covering Quarterly Activity Report attached hereto		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

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 (cents)	Amount paid up per security (cents)
7.1 Preference +securities <i>(description)</i>	Nil	Nil	-	-
7.2 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	491,296,637	491,296,637	Various	Fully Paid
7.4 Changes during quarter				
(a) Increases Carbon Energy Ltd Employee Performance Shares	250,000	250,000	10c	Fully Paid
(b) Decreases through return of capital, buy-backs	-	-	-	-
7.5 +Convertible debt securities <i>(description)</i>	Nil	Nil	-	-
7.6 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through securities matured, converted	-	-	-	-
7.7 Options			<i>Exercise price</i>	<i>Expiry date</i>
<i>Unlisted Options 15c</i>	6,000,000	-	15c	31/03/2009
<i>Unlisted Options 15c</i>	250,000	-	15c	31/10/2009
<i>Unlisted Options 15c</i>	5,000,000	-	15c	31/12/2009
<i>Unlisted Options 15c</i>	125,000	-	15c	01/01/2010
<i>Unlisted Options 20c</i>	9,000,000	-	20c	31/03/2010
<i>Unlisted Options 20c</i>	250,000	-	20c	31/10/2010
<i>Unlisted Options 20c</i>	125,000	-	20c	01/01/2011
<i>Unlisted Options 30c</i>	500,000	-	30c	30/06/2011
<i>Unlisted Options 60c</i>	2,000,000	-	60c	30/06/2011
<i>Unlisted Options 25c</i>	5,000,000	-	25c	10/12/2013
<i>Unlisted Options 35c</i>	7,000,000	-	35c	10/12/2013
<i>Unlisted Options 70c</i>	8,000,000	-	70c	10/12/2013
<i>Unlisted Options 80c</i>	7,250,000	-	80c	10/12/2013
<i>Unlisted Options \$1.00</i>	10,000,000	-	\$1.00	10/12/2014
<i>Unlisted Options \$1.20</i>	7,250,000	-	\$1.20	10/12/2013
<i>Unlisted Options \$1.60</i>	7,250,000	-	\$1.60	10/12/2013
7.8 Options			<i>Exercise price</i>	<i>Expiry date</i>
<i>Issued during quarter</i>				
<i>Unlisted Options 25c</i>	5,000,000	-	25c	10/12/2013
<i>Unlisted Options 35c</i>	7,000,000	-	35c	10/12/2013
<i>Unlisted Options 70c</i>	8,000,000	-	70c	10/12/2013
<i>Unlisted Options 80c</i>	7,250,000	-	80c	10/12/2013
<i>Unlisted Options \$1.00</i>	10,000,000	-	\$1.00	10/12/2014
<i>Unlisted Options \$1.20</i>	7,250,000	-	\$1.20	10/12/2013
<i>Unlisted Options \$1.60</i>	7,250,000	-	\$1.60	10/12/2013

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

7.9	Exercised during quarter Unlisted Employee Options	250,000	250,000	10c	31/10/2008
7.10	Expired during quarter Unlisted Employee Options	-	-	-	-
7.11	Debentures <i>(totals only)</i>	Nil	Nil		
7.12	Unsecured notes <i>(totals only)</i>	Nil	Nil		

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 January 2009.....



Print name: Prem Nair

Title: **Chief Financial Officer &
Company Secretary**

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