CARBON ENERGY LIMITED ANNUAL REPORT 2009

09

CarbonEnergy

contents

CarbonEnergy

highlights timeline

HIGHLIGHTS OF THE YEAR ENDED 30 JUNE 2009

July 08 Directional drilling for Underground Coal Gasification (UCG) commences.

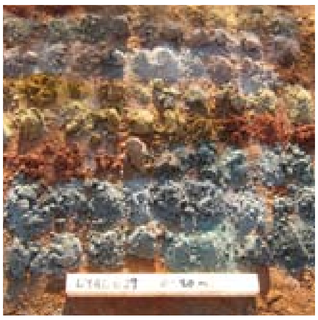
Aug 08 UCG trial directional drilling at Bloodwood Creek completed on schedule and under budget.

Sept 08 Carbon Energy (CNX) included in S&P/ASX300 Index.

Oct 08 Construction completed and first gasification achieved.

Nov 08 Generation of first commercial-scale production volumes of UCG syngas achieved – 100-day, multi-million dollar trial commences.

Dec 08 UCG 100-day trial gasifies more than 70 tonnes of coal per day on air only.



"Our proprietary technology, combined with a clearly defined commercialisation strategy plus a team of people with a burning desire to deliver, is the key to our competitive advantage and sets us apart from others in the UCG market."

Andrew Dash – Managing Director, Carbon Energy Ltd

Coal resources at Bloodwood Creek increase from 100 million to 297 million tonnes (inferred) resource. Jan 09

100-day trial successfully completed, validating Carbon Energy's design and economic models. Queensland Government announces new policy concerning overlapping tenements between UCG and CSG, giving Carbon Energy security of tenure over Surat Basin coal resource. Feb 09

Analysis of drilling data from Bloodwood Creek and Kogan confirms increase in Carbon Energy's total coal resource from 297 million tonnes to 668 million tonnes (indicated and inferred)*. Mar 09

Carbon Energy executes Heads of Agreement to explore Western Australian coal tenements. April 09

Development of international strategy, focusing on India, North and South America. May 09

Capital Raising – successful placement of approximately 74.4 million shares at $0.43 per share to raise $32 million. June 09

* for additional coal details and tonnage please refer to the Tenement Schedule in the latter part of this document.

CarbonEnergy

chairman's message

Kim Robinson
Chairman

Dear Shareholder

The successful production of syngas through our Underground Coal Gasification (UCG) process, the formation of strategic business alliances and a clear path to market are the keys to Carbon Energy's continued growth, profitability and ability to deliver superior returns to shareholders over time.

We believe UCG syngas has the potential to become a key contributor to Australia's energy mix and the preferred source of energy for producing low emission coal generated power. Additional applications lie in the production of synthetic natural gas and agribusiness products such as fertiliser, together with a range of other chemical and fuel products.

To achieve our business goals Carbon Energy is employing a growth strategy with three key elements. Firstly, we are building a portfolio of local and international coal resource assets suitable for the production of UCG syngas. Secondly, we continue to develop and enhance the competitive advantage delivered by our superior technology, which was developed in conjunction with the CSIRO. Finally, we are actively identifying key markets and commercial partners as close as possible to resource centres and key infrastructure.

Having made the decision in 2008 to shift the Company's focus to the development of its UCG technology, we have undertaken a review of our historical minerals assets to assess their capacity to generate appropriate returns for shareholders. This review resulted in the recent announcement of the sale of our gold assets and the prospective spin out of the Company's uranium interests to release their embedded value, including a priority entitlement for Carbon Energy shareholders.

The 2009 Financial Year was a period of significant operational achievement by Carbon Energy as the Company established its position as a leading participant in Australia's vibrant and growing clean energy sector.

In October 2008, construction of Carbon Energy's Bloodwood Creek plant, near Kogan in regional Queensland, was completed on time and under budget. A 100-day trial in early 2009 successfully demonstrated, on a commercial scale, the Company's UCG oxygen injection based process.

The trial reinforced Carbon Energy's potential as a major contributor to Queensland's energy industry and a significant new entrant in the developing low emission power generation industry and domestic gas industries.

Importantly, early in 2009, we received assurance regarding certainty of tenure; the result of a landmark policy decision by the Queensland Government. The policy gave clarification regarding the issue of priority access in relation to overlapping tenements between the UCG and Coal Seam Gas industries.

Additionally at the start of this calendar year, Carbon Energy continued its drilling program yielding results that confirmed the Company's total resources have risen from 297 million tonnes to 668 million tonnes (218 indicated 450 tonnes inferred), for coal seams greater than 2m thick.

As we go forward you will see the Company continue to develop its world leading technology and over the next 12 -18 months our plans include constructing additional panels at our Queensland Bloodwood Creek site to support Carbon Energy's two planned power generation projects.

"The successful production of syngas through our UCG process, the formation of strategic business alliances and a clear path to market are the keys to Carbon Energy's business growth."

Board Changes

During the year there were several changes to the composition of the Board, including the appointment of Mr Andrew Dash as Managing Director. Mr Ian Walker and Mr Max Cozijn transitioned from Executive Director positions with the Company to Non-Executive Directors.

In August 2008, we welcomed the appointment of Mr Peter Hogan as a Non-Executive Director and the nominee of Incitec Pivot Ltd.

In May 2009, Dr Shad Linley, a Non-Executive-Director of Carbon Energy since July 2008, resigned due to other business commitments and we thank Shad for his contribution to the development of the Company.

Thanks to Employees and Shareholders

I would like thank shareholders for their continuing support as we build Carbon Energy into a world leader in the production of clean energy and chemicals from UCG syngas.

I would also like to thank all of our dedicated employees for their excellent efforts in achieving the operational objectives set twelve months ago.

Kim Robinson
Chairman

28 September 2009

CarbonEnergy

managing director's report

Andrew Dash
Managing Director

The past year was one of significant change and development for Carbon Energy and a number of important milestones were passed on the Company's road to commercialisation.

2009 Financial Year Milestones

The construction of the Bloodwood Creek facility and the initiation of our first UCG gasification was a seminal event in the history of Carbon Energy, marking the validation of our UCG technology as it transitioned from the research concepts into physical gas (syngas) production. The outstanding success of the 100-day trial of our 1PJ panel design for UCG, demonstrated beyond doubt the validity, not only of our proprietary design, but also the modelling techniques developed in conjunction with the CSIRO.

Over the course of the trial, Carbon Energy demonstrated the technology's ability to generate sustainable volumes of UCG syngas of a consistent quality to meet commercial requirements for gas. The Company's capability to convert *in situ* coal into significant quantities and volume of UCG syngas is now assured.

Early in 2009, Carbon Energy was pleased to receive assurance of certainty of tenure resulting from the Queensland Government's clarification of the issue of priority access in relation to overlapping tenements between UCG coal leases and Coal Seam Gas. This landmark policy decision provided clarity for all parties and has given Carbon Energy exclusive rights to, initially, approximately 297 million tonnes of coal contained within our Mineral Development Licence (MDL374) identified as suitable for UCG syngas production.

Carbon Energy's drilling programs during the year yielded continuing encouraging results and the Company's total resources have risen from 297 million tonnes to 668 million tonnes (218 indicated 450 tonnes inferred), of which 364 million tonnes of this resource is in coal seams greater than 5m thick, which are the optimal target for Underground Coal Gasification. The magnitude of our energy resource gives Carbon Energy the potential to become a major contributor to Australia's East Coast energy supply. To put Carbon Energy's resources in perspective, the energy we could recover from coal seams of greater than 5m is equivalent to 50 percent of Queensland's current electricity demand for over 15 years.

In June, the Company completed pre-feasibility studies for power generation, synthetic natural gas and chemicals and in July, signed our first commercial contract with Queensland Government-owned Ergon Energy, worth approximately $2 million per annum. The contract is for electricity that will be produced at our Bloodwood Creek 5MW facility power plant, which is now under construction. Power from this plant, to supply electricity to 4000 homes, is expected to flow into the grid by the end of 2009.

The commencement of power supply to Ergon Energy will be another significant milestone for Carbon Energy as it will represent the Company's first commercial return from UCG syngas.

Strategic Alliances

As noted above, the development of a number of strategic alliances with UCG syngas resources and off-take partners will be critical to Carbon Energy's future success. In recent months several important agreements have been executed, testifying to the confidence of our industry partners in our ability to deliver on business undertakings.

Key strategic alliances include:

- A Heads of Agreement with Eneabba Gas Ltd to potentially acquire a substantial coal resource in Western Australia and a potential Gas Sale Agreement (April 09)
- A commercial off-take agreement with Queensland Government-owned Ergon Energy (July 09)
- An agreement with Queensland's ZeroGen that will combine Carbon Energy's UCG syngas technology with ZeroGen's techniques for CO^2 injection involving carbon capture and storage (July 09)
- A Heads of Agreement for a Joint Venture with Liberty Resources Ltd to develop Liberty's 338 million tonne thermal coal inferred resource in Queensland's Galilee Basin and for Carbon Energy to acquire an 80 percent interest (July 09)

Our network of resource, industry and off-take agreements and alliances will expand further in the next year.

"The construction of the Bloodwood Creek facility and the initiation of our first gasification was a seminal event in the history of Carbon Energy"

Capital Management

The Board authorised a share placement of 74.4 million new shares in June 2009. The placement, which was oversubscribed, generated strong interest from domestic and international institutional and sophisticated investors; raising $32 million at an offer price of $0.43 per share. The funds raised will be applied to the further development of the Bloodwood Creek UCG syngas facility and the wider commercial advancement of Carbon Energy's UCG technology.

Looking Ahead

By mid-2010, Carbon Energy plan to increase our coal inventory, with a target of one billion tonnes in Australia, followed by international expansion. We will continue to develop our unique technology as a key competitive advantage that sets us apart from other players in the industry and establishes Carbon Energy as `Best in Class'. Over the next 12-18 months, additional panels will be constructed at Bloodwood Creek to support Carbon Energy's two power generation projects.

In addition to the 5MW plant currently under construction, Carbon Energy has commenced planning and design for the development of a 20-25MW low emission power plant which will include plans for carbon capture and storage. We expect planning for this project to be finalised at the end of 2009, with generation likely to commence in the first half of 2011.

Carbon Energy will focus on the further development of our pipeline of commercial projects. These will be concentrated in two key areas:

- The recruitment of additional business partners for the development of our Queensland resource in the areas of low emission power generation, synthetic natural gas production and liquid fuels.
- The establishment of a portfolio of coal resources throughout Australia and internationally using our unique leadership position in UCG technology as leverage.

There is significant interest internationally in our technology and advanced discussions continue with a number of major global players in the mining and energy sectors.

Employees

The development and progress of our business is nowhere more apparent than in the growth of our employee numbers. In June 2008 there were only 11 employees, seven of whom were Queensland based. As I write, we have now increased our Queensland employee base to 26, half of whom are based in Brisbane, with the balance operating our project at Bloodwood Creek.

The successful development of the UCG syngas technology to date, particularly the successful completion of the Bloodwood Creek project, confirms the calibre, motivation and dedication of the Company's staff. Our UCG founders, Dr Cliff Mallet and Rusty Mark have made a tremendous contribution to the success of our trial and are now leading the identification of new coal resource opportunities for the business and the ongoing development of our UCG technology.

Many of our operational employees have had the experience of working with UCG during the trial and will now oversee the transition from trial phase to long-term suitable operation. Our operational team is able to draw on this experience, providing valuable input to Carbon Energy's scientific team as they continue to enhance our designs and further develop and refine the technology.

John Wedgwood, General Manager Operations, having successfully constructed, commissioned and supervised our 100-day trial is now managing the construction of our 5MW generation plant and is in the planning phase for our 20MW facility. We added two important executive positions during the year, with Prem Nair joining the organisation as Chief Financial Officer and Company Secretary, and Peter Swaddle as General Manager Commercial. Both Prem and Peter have made significant contributions to the business in their time with us.

Looking forward, we will continue to build staff capability and numbers and we are currently recruiting additional key technical and commercial roles. The 2010 Financial Year promises to be a period of accelerated development and growth for Carbon Energy as we move steadily towards the full commercialisation of UCG syngas.

Andrew Dash
Managing Director

28 September 2009

2009 corporate overview

Carbon Energy commenced the 2009 financial year with total issued capital of 490 million shares – all its funding required to complete the Bloodwood Creek UCG trial – and a new name that better reflects its purpose as a producer of clean energy and feedstock from Underground Coal Gasification (UCG) syngas.

In September 2008, Carbon Energy was admitted to the S&P/ASX 300 Index, acknowledging its new status as an emerging energy company as well as recognising the increased market capitalisation and liquidity of the stock over the previous six months.

In April 2009, Carbon Energy executed a Heads of Agreement with Eneabba Gas Limited to potentially acquire a substantial coal exploration area in Western Australia, including at least 300 million tonnes JORC of inferred resources, as well as a long term Gas Sale Agreement for 5.5-16.5PJ per annum of UCG syngas. The transaction is subject to the completion of acquisition due diligence and the identification of a UCG-suitable coal resource of at least 300 million tonnes, which at balance date is ongoing.

If conditions are satisfied, Carbon Energy will issue 30 million fully paid ordinary shares to Eneabba Gas Limited in exchange for the Sargon Group of coal tenements.

On 5 June 2009, a share placement of 74.4 million ordinary shares at $0.43 was completed, raising $32 million from both domestic and overseas institutional and sophisticated investors. The funds raised will support installation of a 5MW power generation unit and associated facilities, with operations to commence in late 2009. This is intended to be followed by front end engineering and design for the development of a 20MW power station to be completed by late 2009, with commissioning 12 months later.

At the close of the 2009 financial year, Carbon Energy had 547,296,637 fully paid ordinary shares on issue and cash reserves of $22.1 million. Following approval by shareholders in July 2009 of the second tranche of the June placement and the issue of shares to vendors in addition to the exercise of unlisted share options, issued capital increased by 33.8 million shares to 581,122,650 fully paid ordinary shares (at the date of this report) and cash reserves increased to $32.6 million. Major shareholder Incitec Pivot Limited participated in the placement maintaining their shareholding in excess of 10.5 percent.

corporate summary

ISSUED CAPITAL

Following the placement of shares with new institutional shareholders on 5 June 2009, the total issued capital at 30 June 2009 was 547,296,637 fully paid ordinary shares. The second tranche of the share placement and residual shares for acquisition of CEOPL was approved by shareholders at a General Meeting on 20 July 2009 and with the additional exercise of unlisted options, increased the Company's issued capital to 581,122,650.

In addition, up to 15 million shares remain to be issued to Constellation Energy for drilling services, subject to completion of documentation.

During the year 6,250,000 shares were issued through the exercise of options. At 30 June 2009, there was a total of 69,451,000 unlisted options on issue with exercise prices between 15 cents and $1.60 (with vesting dates ranging from 1-4 years and expiry dates ranging between 31 October 2009 and 10 December 2014).

BOARD & MANAGEMENT

The corporate head office of Carbon Energy moved from Perth to Brisbane during the year and a number of changes and new appointments were made to the executive management team. Mr Andrew Dash, the Company's Chief Operating Officer, was appointed Chief Executive Officer and Managing Director on 1 January 2009. In addition, the role of Chief Financial Officer and Company Secretary was filled by Mr Prem Nair (November 2008) and General Manager Commercial, by Mr Peter Swaddle (October 2008).

As a consequence of these changes, Mr Ian Walker and Mr Max Cozijn transitioned from their positions as Managing Director and Finance Director respectively but continue their association with the Company as Non-Executive Directors.

INVESTMENTS

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

As at 30 June 2009, Magma's share price was $0.46 valuing the shareholding at $4.6 million.

operations review

2009 Overview

2009 marked Carbon Energy's inaugural year as a Company with a strategy committed to the production of clean energy and chemical feedstock from Underground Coal Gasification (UCG) syngas. On 16 July 2008, it formally changed its name from Metex Resources to Carbon Energy and commenced trading on the Australian Securities Exchange under the code CNX.

The milestone event for the year was, without doubt, the successful commissioning of the world's first commercial scale, oxygen-injected Underground Coal Gasification (UCG) syngas trial at Bloodwood Creek in South East Queensland. Directional drilling commenced at the end of July 2008 as the first step in constructing the 1PJ production module.

By the end of September, with drilling and construction of surface facilities completed, the UCG panel was commissioned and on 8 October, Carbon Energy commenced production of syngas. Over the following weeks, production was gradually ramped-up to full capacity leading to commercial scale volume of syngas being produced from 5th November 2008 trial.

Over the course of the trial, Carbon Energy demonstrated the sustainability and consistency of its commercial-scale UCG module in producing commercially viable volumes of syngas. It successfully demonstrated sustained production of air-injected syngas suitable for low cost generation of power; then steam injection and finally a combination of oxygen and steam. The latter is used to produce a hydrogen-rich syngas suitable for production of low emission electricity, liquid fuels and chemicals (such as ammonia).

On completion of the trial on 3 February 2009, the Company was able to confirm that its proprietary design and economic models had been validated and could be applied to any suitable coal seam anywhere in the world.

In mid February, another hurdle was passed with the announcement by the Queensland Government of a new policy in relation to overlapping tenements between UCG and Coal Seam Gas (CSG) producers. This ended months of speculation as to which of the two parties would have priority access to a contested coal resource. For Carbon Energy the key outcome was the provision of priority and certainty of tenure for the resource contained within its existing MDL 374 area.

In March, Carbon Energy's drilling programme resulted in a significant increase in coal resource in its Queensland tenements from 297 million tonnes to 668 million tonnes, an increase of 125 percent. The combination of this, together with the successful 100-day trial and clarification of the overlapping tenement issue between CSG and UCG producers, has provided significant impetus for the development of commercial projects. By mid 2009, Carbon Energy had committed to the construction of a 5MW power station based on the gas produced from the 1PJ panel at Bloodwood Creek. The electricity produced will be fed into the local distribution grid.

The Company undertook gold exploration through a Joint Venture with Barrick Ltd, a wholly owned subsidiary of Barrick Gold of Australia Limited. The Joint Venture covers an area of approximately 370km^2 in the Laverton Tectonic Zone and Carbon Energy retains approximately 850,000 ounces attributable in-ground ounces of gold. During the latter half of the year, various options were assessed as part of an ongoing commitment to realise value from these interests. On 14 August 2009, the Company announced its intention to sell its gold interests to Crescent Gold Limited.

At the same time, it also announced its intention to proceed with an IPO listing of its uranium assets. The Company is undertaking uranium exploration in Western Australia, South Australia, Queensland and the Northern Territory. Carbon Energy operates within 18 granted tenements that have a total area of 5,555km^2. Over the past year exploration efforts have been focused on resource delineation within the prospective Carnarvon Basin in Western Australia.

"2009 marked Carbon Energy's inaugural year as a Company with a strategy committed to the production of clean energy and chemical feedstock from Underground Coal Gasification (UCG) syngas."

operations review

Underground Coal Gasification

Carbon Energy is an emerging energy company whose purpose is to produce clean energy (power and synthetic natural gas) and chemical feedstock from Underground Coal Gasification (UCG) syngas.

UCG is a clean coal mining technology that converts underground coal into syngas through the injection of oxygen, steam or air down a borehole into a gasification chamber in the coal. UCG syngas is then extracted through another borehole and cleaned on the surface.

Carbon Energy has a well defined pathway for achieving its strategic goals which is focused on three key activities, namely:

- Continuous improvement of its UCG technology
- Expansion of its coal resource inventory
- Identification and development of commercial opportunities.

Continuous Improvement of UCG Technology – Bloodwood Creek UCG Trial

During the year Carbon Energy passed a critical milestone in the development of its UCG technology with the commissioning and successful completion of a commercial-scale, oxygen-injected UCG trial at Bloodwood Creek near Kogan in South East Queensland.

This was the first time in Australia that this process had been successfully undertaken, and was the first project of its type in the world to demonstrate, on a commercial scale, an oxygen injected UCG trial based on a standard 1 petajoule (PJ) per year UCG syngas module. Each 1PJ module provides enough syngas to produce 10-15MW of electricity.

Carbon Energy generated the first commercial scale production volumes of UCG syngas on 5 November 2008. It then commenced a 100-day, multi-million dollar trial to demonstrate both the sustainability of production at commercial volumes as well as its capacity to minimise the cost of gas produced through controlled variation in the feed of air, oxygen and steam.

It is the use of oxygen and steam in the gasification process, together with Carbon Energy's unique panel design developed by the CSIRO, that differentiates the company from other UCG projects currently being undertaken in Australia.

On completion of the trial, Carbon Energy had demonstrated:

- Sustained production of air-injected syngas suitable for low cost generation of power
- Production of high value oxygen-injected syngas suitable for the production of low emission electricity, chemicals and liquid fuels
- Capacity to convert coal *in situ* to gas energy at an average rate of 20PJ per million tonnes of coal resource in the Surat Basin
- Carbon Energy's proprietary design and economic models which can be applied to any suitable coal seam anywhere in the world.

Bloodwood Creek is strategically located at the hub of energy infrastructure in South East Queensland. The site is within a coal resource of more than 668 million tonnes of high quality coal, with some 7,750PJ being potentially recoverable as syngas utilising Carbon Energy's extraction technology.

Expansion of Coal Resource Inventory

Exploring within Carbon Energy's current tenements or through identifying suitable Joint Venture opportunities is central to the Company's goal of expanding its inventory of coal. The coal resource must be suitable for the production of power, chemicals and gas to liquids (GTL) using Carbon Energy's UCG technology, either in its own right or by way of strategic partnerships. Of equal importance is attaining certainty and security of tenure for the coal resource contained within its existing Mineral Development Licence (MDL) 374.

> "The energy that can be supplied from Carbon Energy's coal seams greater than 5m is equivalent to Brisbane's entire current natural gas demand for over 60 years or 50 percent of Queensland's current electricity demand over 15 years."

QUEENSLAND

In June 2009 Carbon Energy had four granted exploration permits (EPC) along the eastern edge of the Surat Basin and one in the Moreton Basin (EPC1109) south of Beaudesert, between Brisbane and the Gold Coast. Carbon Energy has also been granted a Mineral Development Licence between Dalby and Chinchilla (Bloodwood Creek) and has an application for a portion of that to be transferred to a Mining Lease (MLA 50253).

During the year Carbon Energy's drilling programme at Bloodwood Creek and Kogan resulted in a significant increase in the total coal resource in its Queensland tenements from 100 million tonnes to a JORC (2004) compliant indicated and inferred resource of 668 million tonnes. Within this resource, 364 million tonnes were in coal seams greater than 5m thick, which are an optimal target for underground coal gasification. This exceeded target resource expectations of 500 million tonnes that had been set the previous year.

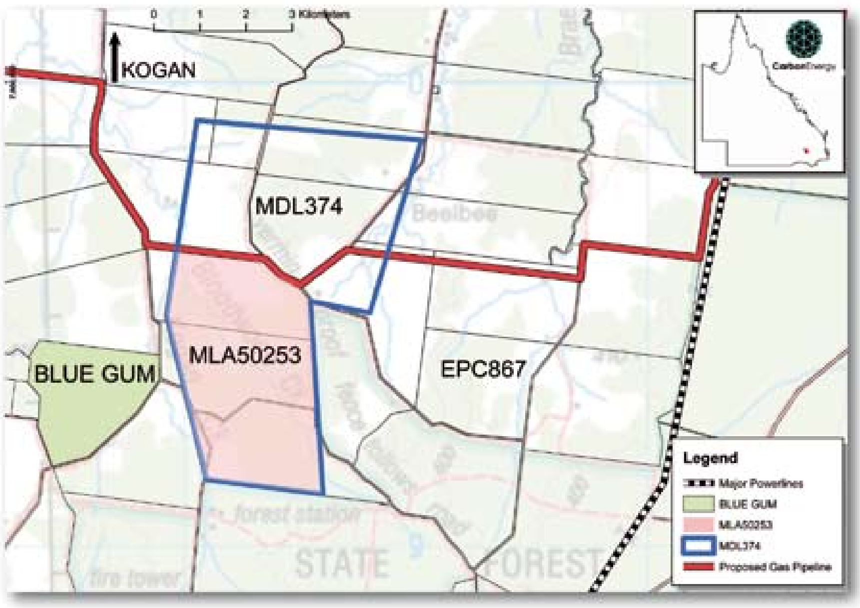
It is estimated that this resource (364 million tonnes) is equivalent to 7,320PJ of *in situ* energy, from which in excess of 4,245PJ of energy could be recovered as syngas using Carbon Energy's UCG technology. Approximately 68 percent of this would be in the form of the key components of synthetic natural gas (methane and ethane). The additional resource contained in seams from 2m to 5m (an additional 304 million tonnes) has the potential to add significantly to the energy recovery potential.

The magnitude of Carbon Energy's Queensland coal resource gives it the potential to be a major contributor to Australia's East Coast energy supply. The energy that can be supplied from Carbon Energy's coal seams greater than 5m is equivalent to Brisbane's entire current natural gas demand for over 60 years or 50 percent of Queensland's current electricity demand over 15 years.

TENURE QUEENSLAND

In February 2009 the Queensland Government announced a new policy in relation to overlapping tenements between UCG and Coal Seam Gas (CSG) producers.

The key outcome for Carbon Energy is that the policy provides priority and certainty of tenure for Carbon Energy for the resource contained within its existing Mineral Development Licence area (MDL 374). Full commercial developments will be subject to Carbon Energy obtaining a Mining Lease and associated approvals from the Queensland Government including a satisfactory outcome from the technical and environmental review of UCG as outlined in the Queensland Government's announced UCG Policy. Carbon Energy has submitted its Mining Lease application (MLA 50253) and is actively working with the relevant government departments to progress the approvals and review process. It is anticipated

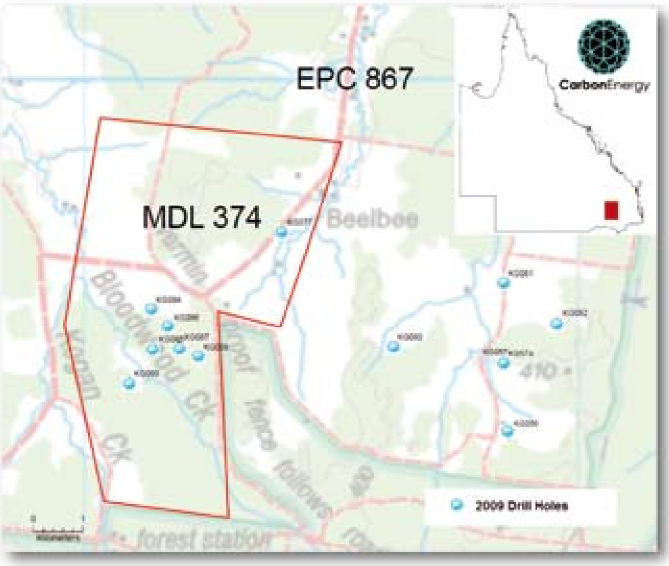


Carbon Energy Mining Lease and Infrastructure March 2009 that these processes will be completed no earlier than December 2010, at which time Carbon Energy will be in the final stages of completing its financial assessment for the construction of major energy production facilities (power stations and syngas plants) in conjunction with our commercial partners. The Company has also acquired a 517Ha block of land ("Blue Gum") immediately adjacent to MDL374 which will provide an ideal location for future industrial processing facilities.

WESTERN AUSTRALIA

In April 2009, Carbon Energy signed a Heads of Agreement (HoA) with Eneabba Gas Limited to acquire Eneabba's Sargon Group coal tenements near Dongara in Western Australia. The completion of this transaction is subject to the identification of at least 300 million tonnes JORC inferred coal resource suitable for UCG. Drilling is underway and technical assessments for UCG suitability is expected to be finalised in the fourth quarter 2009.

This is consistent with Carbon Energy's strategy to build a national resource availability to support the development of commercial energy projects based on its UCG technology.



2009 1st Quarter Drilling EPC867 and MDL374

Identify and Develop Commercial Opportunities

The results of the 100-day trial, in particular the potential to produce significant quantities of synthetic natural gas, has expanded the commercial opportunities for Carbon Energy. These results, combined with the Company's increasing resources in both Queensland and Western Australia, provide significant potential for the development of commercial projects. An independent study conducted by Uhde Shedden identified a wide range of opportunities that could use syngas as a fuel of first choice in commercial applications with the added advantage of being a fuel suitable for a carbon constrained future.

These included:

- Combined cycle power generation
- Combined cycle power generation with CO^2 removal
- Manufacture of hydrogen
- Manufacture of ammonia in a world scale plant
- Manufacture of synthetic natural gas (SNG)

Carbon Energy's current plans for commercial development are as follows:

Queensland

- Construction of a 5MW power station, based on the gas produced from the existing panel at Bloodwood Creek, to provide electricity into the local grid. Construction has commenced with first generation to be achieved prior to the end of 2009.
- Construction of an additional 20MW of power generation to include Carbon Capture and Storage technologies. To facilitate the carbon storage, Carbon Energy has signed an agreement with Queensland company Zerogen to conduct an injection test of CO^2 in their North Denison Trough geo-sequestration facility. Project commitment is targeted for the end of 2009, with first generation approximately 12 months later.
- Upon obtaining the required government approvals (Mining Lease), Carbon Energy will develop a UCG syngas supply for a large scale power station (approximately 300MW) and a synthetic natural gas production facility to be located at "Blue Gum", Carbon Energy's property adjacent to MDL 374. Discussions are currently underway with prospective partners for this development.
- Ongoing analysis into the development of major chemical facilities (eg. ammonia) at Blue Gum with existing commercial partner Incitec Pivot Limited.

Western Australia

- In April 2009 Carbon Energy executed a Heads of Agreement with Eneabba Gas Limited (ENB) to provide UCG syngas to Eneabba's planned 168 MW Centauri 1 power station at Dongara in Western Australia. The transaction is subject to ENB undertaking exploration drilling to identify a coal resource that is suitable for UCG.

International

- Other commercial opportunities are being pursued with international energy, resource and chemical companies with regard to joint ventures across a range of commercial applications, with a particular focus on North and South America.

CarbonEnergy

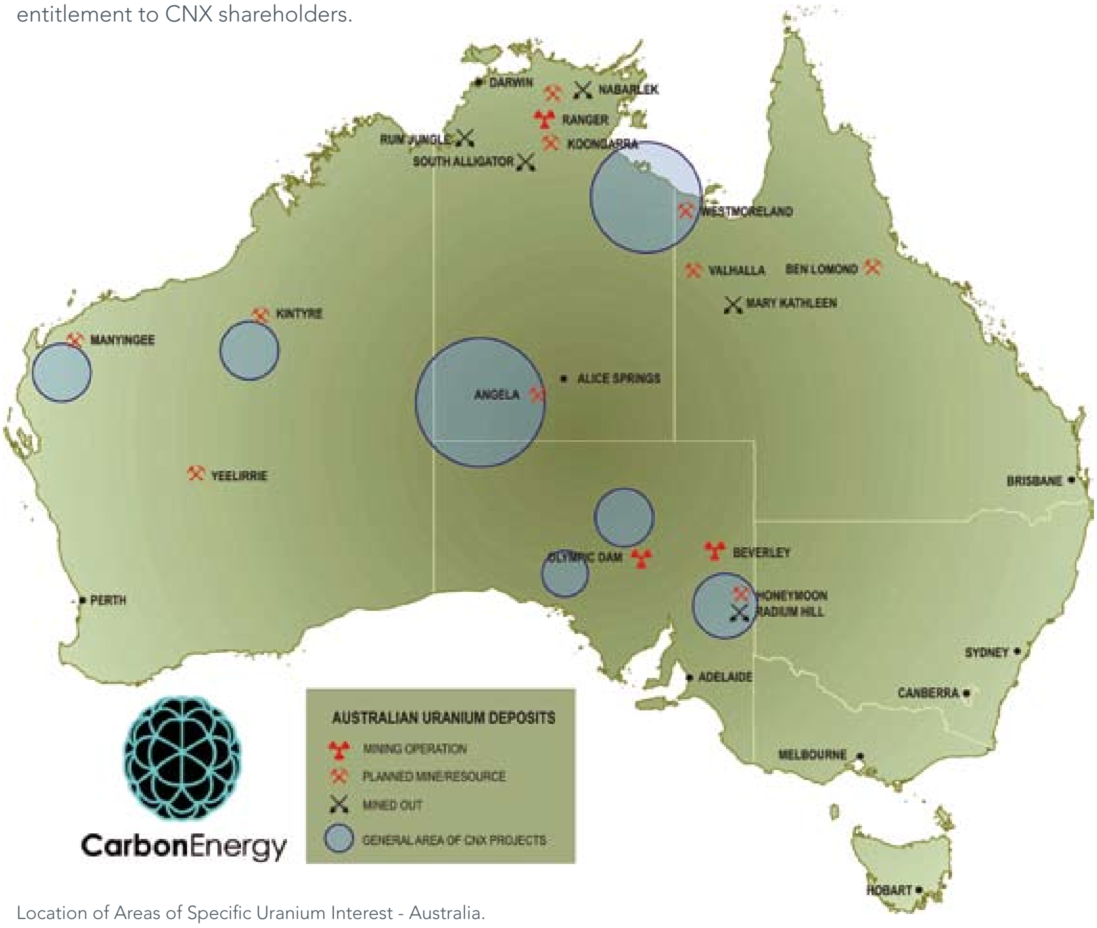
operations review

Other Minerals

Carbon Energy has significant mineral projects in both uranium and gold, the latter held partly in Joint Venture. During the second half of the year, various options were assessed as part of an ongoing commitment to realise value from these assets for shareholders. On 14 August 2009, it was announced to the market that Carbon Energy had sold its gold interests in the Laverton area of Western Australia to Crescent Gold Limited. At the same time the Company also announced its intention to proceed with an IPO listing of its uranium assets, which will incorporate a priority entitlement to CNX shareholders.

Uranium Exploration (Carbon Energy 100%)

Carbon Energy has undertaken uranium exploration in Western Australia, South Australia, Queensland and the Northern Territory. The Company operates within eighteen granted tenements that have a total area of 5,555km^2. Over the past year exploration efforts have been focused on resource delineation within the prospective Carnarvon Basin in Western Australia.



Location of Areas of Specific Uranium Interest - Australia.

"On 14 August 2009 it was announced to the market that the Company had sold its gold interests in the Laverton area of Western Australia to Crescent Gold Limited. At the same time it also announced its intention to proceed with an IPO listing of its uranium assets."

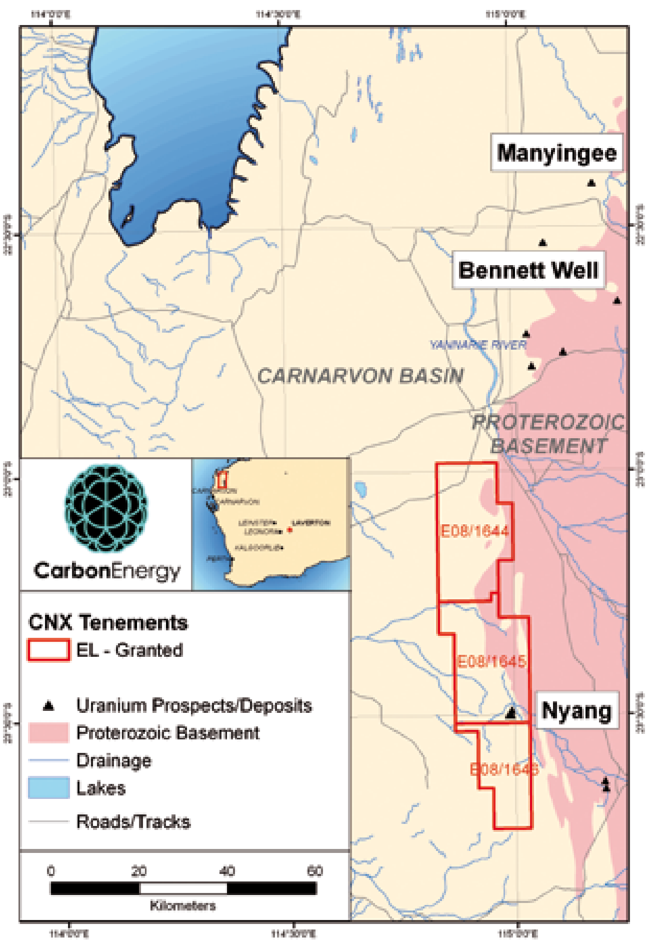
WESTERN AUSTRALIA

Carbon Energy has a total area of 1379km^2 covered by four exploration licences, including three granted exploration licences within the Nyang Project along the eastern margins of the Carnarvon Basin.

At the Nyang Project, mineralisation has been delineated over a strike length exceeding 3km with high grade results ranging up to 8m @ 0.13% U^3O^8 (3.1 lbs/ton). A detailed gravity survey has also established that this mineralisation is associated with a palaeochannel of more than 11km length, all within granted Carbon Energy tenements. An Aircore drilling programme of 64 holes for a total of 5,224m was completed in November 2008 returning results which included 9m @ 635ppm U^3O^8 and 13m @ 278ppm U^3O^8. Follow up drilling was conducted during the first quarter of 2009.

State	Tenement	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
	E 45/2886	Table Top	Application	170

Western Australia – Tenements under Grant or Application for Uranium Exploration



Location of Nyang Project tenements, Carnarvon Basin, Western Australia, showing uranium prospects and deposits including Manyingee (Palladin Energy Ltd, 24mlbs U^30^8) and Bennett Well (Cauldron Energy Limited 4.8 mlbs U308).

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SOUTH AUSTRALIA

Eight exploration licences have been granted for a total area of 1809km^2. The main target of exploration activity is "IOCG" deposits which are similar to those found at Olympic Dam however, there is also potential in several tenements for palaeochannel-hosted roll-front deposits (as found at the Nyang Project in the Carnarvon Basin). During the year detailed ground gravity surveys identified three significant targets which have been the subject of follow up geophysical modelling to confirm depths before prioritising for drill testing. To date, several potential IOCG targets at drill-accessible depths have been identified at Blyth Creek and Curdimurka.

State	Tenement	Location	Status	Area (sq km)
South Australia	EL 3650	Lake Eyre	Granted	324
	EL 3651	Coombs Springs	Granted	52
	EL 3680	Blyth Creek	Granted	368
	EL 3682	Balta Baltana Creek	Granted	348
	EL 3683	Hidden Swamp	Granted	145
	EL 3957	Curdimurka	Granted	294
	EL 3958	Strangeway Springs	Granted	126
	EL 4035	Lake Millyera	Granted	152

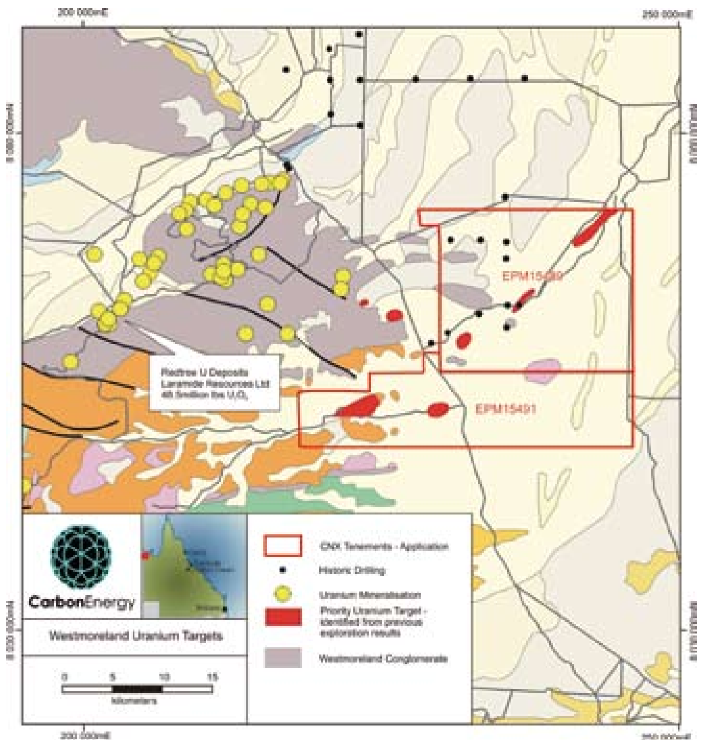
South Australia – Tenements granted for Uranium Exploration

QUEENSLAND

Two applications at Westmoreland (in North West Queensland) covering a total area of 480km^2 are awaiting grant. An additional tenement (EPM15490) was relinquished on the basis that no priority targets were identified.

The two applications cover a zone where the prospective Westmoreland Conglomerate extends beneath the sediments of the Carpentaria Basin. Numerous significant uranium occurrences were discovered in the 1970s and early 1980s within the Westmoreland Conglomerate to the west, but little or no work has been done since to trace these occurrences below the cover of the Carpentaria Basin that overlaps the Conglomerate.

It is intended that once application has been granted and access negotiated, reconnaissance field work will commence on twenty discrete targets identified from structural analysis of earlier airborne magnetic and radiometric surveys.



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

"Following the restructure of the business in June 2008 and accompanying shift in strategy towards the development of Underground Coal Gasification, the decision was taken to pursue opportunities for the rationalisation of its gold interests."

NORTHERN TERRITORY

Three exploration licences have been granted for a total area of 1,421km^2 in the Ngalia and Amadeus Basins. The types of uranium deposits sought are roll-front sandstone with tenements being particularly prospective for these types of uranium occurrences.

State	Tenement	Location	Status	Area (sq km)
Northern Territory	EL25264	Ngalia South	Application	269
	EL25267	Lake Amadeus South	Application	243
	EL25269	Westmoreland West	Application	372
	EL25272	McArthur River West	Application	537

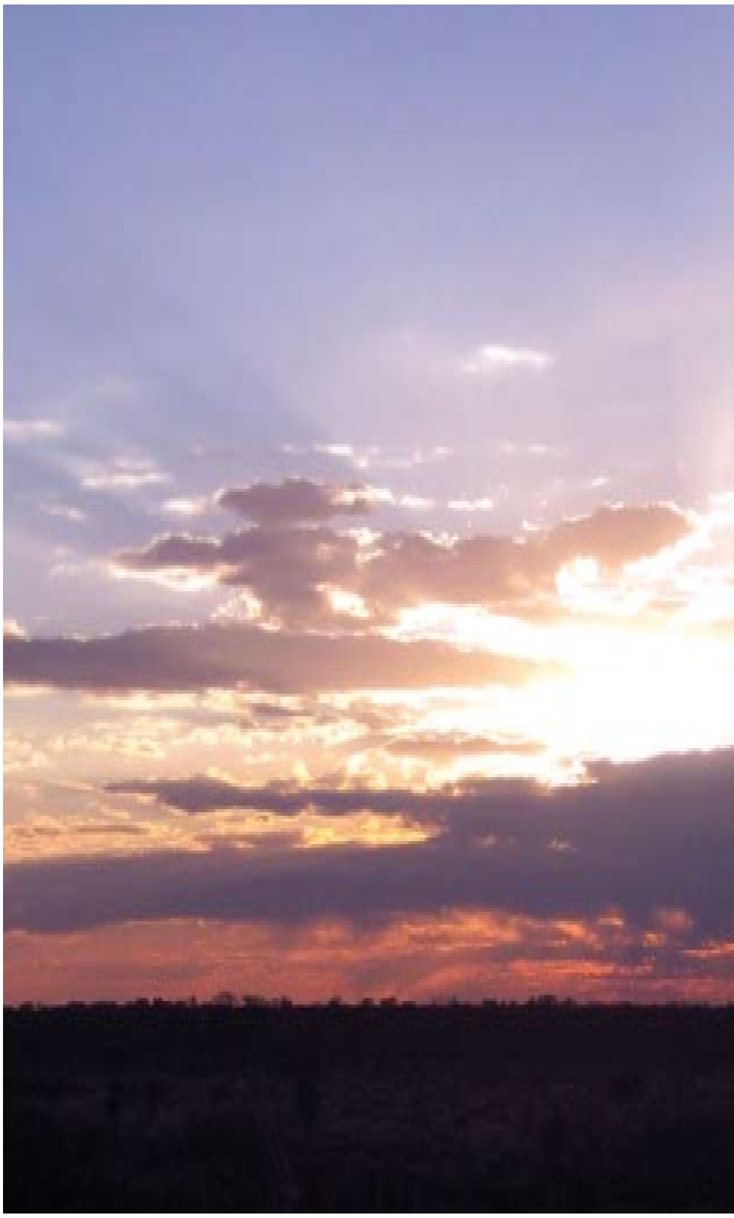
Northern Territory – Tenements under application for Uranium Exploration

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 joint venture is for gold only and covers an area of approximately 370km^2 in the Laverton Tectonic Zone. Carbon Energy retained approximately 850,000 attributable in ground ounces of gold.

Following the restructure of the business in June 2008 and accompanying shift in strategy towards the development of Underground Coal Gasification, the decision was taken to pursue opportunities for the rationalisation of its gold interests. In August 2009, Carbon Energy announced it had reached an agreement with Crescent Gold Limited to sell all its gold interests for $2.5 million in cash together with $1.5 million deferred consideration following the production of 75,000 ounces of gold from the divested tenements.



directors' report

Board Information

Your Directors present their report on the Company and its controlled entities for the financial year ended 30 June 2009.

Directors

The names of Directors in office at any time during or since the end of the year are:

K. Robinson

A.M. Dash

C.W. Mallett

M.D.J. Cozijn

P.N. Hogan (appointed 29 August 2008)

P.T. McIntyre

I.W. Walker

J.G. Linley
(appointed 15 July 2008 & retired 21 May 2009)

R.G. Bunning (retired 15 July 2008)

Directors have been in office since the start of the financial year to the date of this Annual Report unless otherwise stated.

Company Secretary

Mr P Nair was appointed the Company Secretary on 1 January 2009 and prior to this period Mr G Scott held the position. Details of Mr Nair's experience and qualifications are set out in the information on Directors and Company Secretary in the Directors' Report.

Principal Activities

The principal activities of the economic entity during the financial year were:

- To successfully construct and commission its Underground Coal Gasification (UCG) project in Queensland, applying its world leading UCG technology to complete a 100-day trial.
- To build a portfolio of coal resource assets and commence mineral divestment activities.

Operating Results

The consolidated loss of the economic entity after providing for income tax amounted to $15,385,427 (2008: loss $2,012,046).

Dividends Paid or Recommended

No dividend was paid or declared during the year and the Directors do not recommend the payment of a dividend.

Review of Operations

A review of the consolidated group's operations during the year and the results of those operations are contained on pages 6 to 19 of this Annual Report.

Financial Position

The net assets of the consolidated group have increased by $10,246,143 to $147,122,193 during the financial year. The net increase is largely a result of the net proceeds from Share issues raising $20,425,000 (Tranche 1 Share Placement).

The Directors believe the group is in a strong and stable financial position to progress its objectives and strategy.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the Parent entity occurred during the financial year:

(i) On 15 June 2009, 50,000,000 shares were allotted at 43 cents per share pursuant to Tranche 1 of a placement managed by Southern Cross Equities on behalf of Carbon Energy.

(ii) During the year 6,250,000 Employee and Director options were exercised (6 million at 15 cents each and 250,000 at 10 cents each).

> "The net assets of the consolidated group have increased by $10,246,143 to $147,122,193 during the financial year. The net increase is largely a result of the net proceeds from Share issues raising $20,425000."

After Balance Date Events

On 23 July 2009, the Company completed Tranche 2 of the Placement, issuing 24,418,605 fully paid shares at 43 cents. The first and second tranches of the Placement raised gross proceeds of $32 million.

Pursuant to Shareholder approval, granted at the general meeting on 20 July 2009, the Company allotted 7,407,408 fully paid shares as the final consideration for the acquisition of Carbon Energy (Operations) to Dr Mallett's nominee 4,629,630 fully paid shares and Mr Mark's nominee 2,777,778 fully paid shares.

On 14 August 2009, the Company announced that it would sell its gold interests in the Laverton area of Western Australia to Crescent Gold Limited for $2.5 million in cash plus $1.5 million deferred consideration. The Company also announced its intention to proceed with an IPO listing of its uranium interests.

No other matters of circumstances have arisen since the end of the financial year, which significantly affected or may significantly affect the operations of the economic entity, the results of those operations and the state of affairs of the economic entity in subsequent financial years.

Future Developments

Likely future developments in the operations of the economic entity are referred to in the Managing Director's Report on page 7 of this Annual Report. Further information as to likely developments in the operations of the economic entity and likely results of those operations would, in the opinion of the Directors, be speculative and not in the best interests of the economic entity.

Environmental Issues

The consolidated group's operations are subject to significant environmental regulation under the Laws of the Commonwealth and State.

Mineral Exploration

Presently, rehabilitation bonds for a value of $251,000 have been lodged over certain exploration and mining tenements held by the company in the Laverton region of Western Australia, while various securities have been granted to the Department of Mines and Petroleum over tenements in WA ranging up to $5,000 per tenement. It is anticipated that these bonds and securities will not be called on as the company maintains a strict policy of appropriate rehabilitation over its exploration sites. Apart from existing dormant mine sites acquired from WMC Resources Ltd (now BHP Billiton) at Lancefield (M38/37), the majority of the economic entity's activities involve low level disturbance associated with its exploration drilling programmes, as it is not presently involved in any mining activities. Subsequent to 30 June 2009, the majority of these tenements are subject to a proposed sale agreement with Crescent Gold Limited. As part of this sale agreement, Crescent Gold will assume responsibility for any ongoing statutory environmental and rehabilitation obligations with respect to these tenements.

In Queensland, the Company has lodged financial assurance bonds totalling $5,000.

Coal Exploration and UCG

There have been no environmental incidents, infringements or breaches during the year. The Carbon Energy underground coal gasification project at Bloodwood Creek has complied with the conditions of the Environmental Authority Number MIN200647007 which was issued by the EPA on 14 December 2007. The Environmental Authority regulates the environmental aspects of all UCG activities authorised to be conducted on Mineral Development Licence 374.

The environmental management of the exploration drilling program is governed by the requirements of the Code of Environmental Compliance for Exploration and Mineral Development Projects, published by the Department of Environment and Natural Resources. All exploration activities over the past year have complied with the Code.

Carbon Energy has obtained all regulatory approvals, including environmental approvals, to allow the UCG demonstration trial and associated activities to be conducted on MDL 374, based on the submission and approval of the Environmental Management Plan. The government agencies involved in permitting the demonstration trial have included the Department of Employment, Economic Development and Innovation, the Department of Environment and Natural Resources and the Department of Infrastructure and Planning.

> directors' report

Information on Directors and Company Secretary

Mr Kim Robinson

CHAIRMAN (NON-EXECUTIVE) B.SC. (GEOLOGY)

Mr Robinson graduated from the University of Western Australia in 1973 with a Degree in Geology. Mr Robinson has subsequently amassed over 36 years involvement in the mineral exploration and mining industries, including 10 years as the Executive Chairman of Forrestania Gold NL. Mr Robinson is a Director of the Company, and is the Chairman of both the Audit and Remuneration Committees.

During the past three years Mr Robinson has held the following other listed company Directorships

- Kagara Limited* (from September 1981)
- Apex Minerals NL* (from April 2006)

* Denotes current directorship

Mr Andrew Macdonald Dash

MANAGING DIRECTOR BE(CHEM), MCOM

Mr Dash was appointed to the Board on 30 June 2008.

Mr Dash was initially appointed to the position of Chief Operating Officer, The Board appointed Andrew in January 2009 to his current role as Chief Executive Officer and Managing Director. Andrew has a Degree in Chemical Engineering from the University of Sydney and a Masters Degree in Commerce from the University of New South Wales. He has extensive experience in the energy sector, with particular experience in the commercial development of gas operations and associated infrastructure on a national scale. He had previously held executive management roles with the leading energy transmission business APA Group.

During the past three years Mr Dash has held no other listed company Directorships.

Mr Cliff William Mallett

TECHNICAL DIRECTOR UCG (EXECUTIVE) MSC, PHD, FAIE

Dr Cliff Mallett was appointed to the Board on 14 February 2008. Dr Mallett has been associated for more than 10 years in advancing the development of the Underground Coal Gas ("UCG") process technology. He has received degrees in Geology from the Universities of Queensland and Melbourne and held academic appointments at the Universities of Newcastle and Melbourne from 1966 to 1978.

He has almost 30 years experience in mining research at CSIRO, culminating in acting as Chief of CSIRO Exploration and Mining Division, Interim Director of the Centre for Low Emission Technology, and Executive Manager, Queensland Centre of Advanced Technologies.

During the past three years Dr Mallett has held no other listed company Directorships.

Mr Ian William Walker

DIRECTOR (NON EXECUTIVE) B.SC. HONS. (GEOLOGY)

Mr Walker is a geologist with over 35 years experience in multi-commodity exploration within Australia and overseas, having graduated from the University of Western Australia in 1974 with an Honours Degree in Geology.

Mr Walker is a Member of the Australian Institute of Geoscientists.

Mr Walker was Managing Director of the Company between 1993 and 2008 and remains as a Non-Executive Director. He is also a Director of subsidiary companies Metex Resources NL, and Nickelex Pty Ltd.

During the past three years Mr Walker has held no other listed company Directorships.

Mr Max Dirk Jan Cozijn

DIRECTOR (NON-EXECUTIVE) B.COM. ASA. MAICD.

Mr Cozijn has a Bachelor of Commerce Degree from the University of Western Australia, having graduated in 1972, and is an Associate of the Australian Society of Certified Practising Accountants. He has over 30 years experience in the administration of listed mining and industrial companies, as well as various private operating companies, including ten years as a Non-Executive Director of Forrestania Gold NL and 20 years as a Non-Executive Director of Kagara Ltd.

Mr Cozijn was the Company's Finance Director between 1993 and 2008, and is now a Non-Executive Director. He is a Director of subsidiary companies Carbon Energy (Operations) Pty Ltd, Metex Resources NL, Nickelex Pty Ltd and Carbon Energy (Holdings) Pty Ltd.

During the past three years Mr Cozijn has held the following other listed company Directorships:

- Oilex Ltd* (from September 1997)
- Magma Metals Ltd* (from June 2005)
- Malagasy Minerals Limited* (from September 2006)
- Elkedra Diamonds NL (from April 2000 to November 2007)

* Denotes current directorship

Mr Peter Thomas McIntyre

DIRECTOR (NON-EXECUTIVE) BSC., MBA, FIEAUST

Mr McIntyre has been in the mining industry for nearly 30 years, including 15 years with WMC Ltd where he was involved in the development of major projects including St Ives Gold and Mt Keith Nickel, as well as Central Norseman Gold Operations. Since that time, Mr McIntyre has been involved at a corporate level having established and steered various companies through their early stage developments.

Mr McIntyre was the Managing Director of listed company, Extract Resources Limited, a uranium company with a major project in Namibia, a founding director of Kalahari Minerals (AIM-listed) and is currently a non-executive director of Atticus Resources Ltd. Mr McIntyre is a chartered Civil Engineer and a Fellow of the Institution of Engineers, Australia. He also completed an MBA program at the Massachusetts Institute of Technology in Boston.

During the past three years Mr McIntyre has held the following other listed Company Directorships:

- Atticus Resources Ltd* (from 2007)
- Extract Resources Ltd (from December 2003 to 15 September 2009)
- Kalalari Minerals Plc (from May 2006 to May 2008)

* Denotes current Directorship

Mr Peter Neville Hogan

DIRECTOR (NON-EXECUTIVE) B.BUS, ACA

Appointed to the Board on 29 August 2008, Mr Hogan is a Chartered Accountant, and is currently a Strategy and Development Executive with Incitec Pivot Ltd. Prior to joining Incitec Pivot in early 2008, Mr Hogan worked with PriceWaterhouseCoopers for 23 years, including 17 years as Partner. He has extensive experience in providing business advisory services to Australian and overseas listed public companies and large private companies. He has particular experience with companies in the consumer and industrial product sectors and the mining sector.

During the past three years Mr Hogan has held the following other listed company Directorships:

- Fabchem China Ltd (Singapore Stock Exchange listed)* (from July 2008)

* Denotes current Directorship

Mr Prem Nair

CFO & COMPANY SECRETARY
B BUS (ACCTG), MBA, FCA, FCIS, FTIA, MAICD

Mr Nair has over ten years experience with Australian professional accounting firms in various areas including business assurance and tax services and has over 20 years experience in start up companies, resource and constructing industries, holding senior executive finance roles with both publicly listed and unlisted entities.
Mr Nair joined the Company on 1 November 2008 as Chief Financial Officer, and was appointed Company Secretary on 1 January 2009.

DIRECTORS' INTERESTS

As at the date of this report, the interests of the Directors in shares and unlisted options of the Company are:

	NO. OF SHARES HELD		UNLISTED OPTIONS	
	Direct	Indirect	Direct	Indirect
K. Robinson	-	-	2,000,000	-
I.W. Walker	941,649	5,134,974	3,000,000	3,000,000
A.M. Dash	-	-	30,000,000	-
M.D.J. Cozjin	12,544	2,115,796	-	3,000,000
P.T. McIntyre	-	50,000	-	1,000,000
C.W. Mallett	-	11,766,952	5,250,000	-
P.N. Hogan	100,000	-	-	-
TOTAL	**1,054,193**	**19,067,722**	**40,250,000**	**7,000,000**

> directors' report

Corporate Governance Statement

Statement

Carbon Energy Limited ("Company") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("Principles & Recommendations"), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for the adoption of its own practice, in compliance with the "if not, why not" regime.

Disclosure of Corporate Governance Practices

SUMMARY STATEMENT

	ASX P & R[1]	If not, why not[2]		ASX P & R[1]	If not, why not[2]
Recommendation 1.1	✓		Recommendation 4.3	✓	
Recommendation 1.2	✓		Recommendation 4.4[3]	n/a	n/a
Recommendation 1.3[3]	n/a	n/a	Recommendation 5.1	✓	
Recommendation 2.1		✓	Recommendation 5.2[3]	n/a	n/a
Recommendation 2.2	✓		Recommendation 6.1	✓	
Recommendation 2.3	✓		Recommendation 6.2[3]	n/a	n/a
Recommendation 2.4		✓	Recommendation 7.1	✓	
Recommendation 2.5	✓		Recommendation 7.2	✓	
Recommendation 2.6[3]	n/a	n/a	Recommendation 7.3	✓	
Recommendation 3.1	✓		Recommendation 7.4[3]	n/a	n/a
Recommendation 3.2	✓		Recommendation 8.1	✓	
Recommendation 3.3[3]	n/a	n/a	Recommendation 8.2	✓	
Recommendation 4.1	✓		Recommendation 8.3[3]	n/a	n/a
Recommendation 4.2	✓				

1 Indicates where the Company has followed the Principles & Recommendations.
2 Indicates where the Company has provided "if not, why not" disclosure.
3 Indicates an information based recommendation. Information based recommendations are not adopted or reported against using "if not, why not" disclosure – information required is either provided or it is not.

Website Disclosures

Further information about the Company's charters, policies and procedures may be found at the Company's website www.carbonenergy.com.au, under the marked Corporate Governance section. A list of the charters, policies and procedures referred to in this Corporate Governance Statement, together with the Recommendations to which they relate, are set out below.

Charters	Recommendation(s)
Board	1.3
Audit Committee	4.4
Nomination Committee	2.6
Remuneration Committee	8.3

Policies and Procedures	Recommendation(s)
Policy and Procedure for Selection and (Re)Appointment of Directors	2.6
Process for Performance Evaluation	1.2, 2.5
Policy on Assessing the Independence of Directors	2.6
Policy for Trading in Company Securities (summary)	3.2, 3.3
Code of Conduct (summary)	3.1, 3.3
Policy on ASX Listing Rule Compliance (summary) and Compliance Procedures (summary)	5.1, 5.2
Procedure for Selection, Appointment and Rotation of External Auditor	4.4
Shareholder Communication Policy	6.1, 6.2
Risk Management Policy (summary)	7.1, 7.4

Disclosure – Principles & Recommendations

The Company reports below on how it has followed (or otherwise departed from) each of the Principles and Recommendations during the 2008/2009 financial year ("Reporting Period").

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1:

Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

Disclosure:

The Company has established the functions reserved to the Board and has set out these functions in its Board Charter. The Board is collectively responsible for promoting the success of the Company through its key functions of overseeing the management of the Company, providing overall corporate governance of the Company, monitoring the financial performance of the Company, engaging appropriate management commensurate with the Company's structure and objectives, involvement in the development of corporate strategy and performance objectives and reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

The Company has established the functions delegated to senior executives and has set out these functions in its Board Charter. Senior executives are responsible for supporting the Managing Director and to assist the Managing Director in implementing the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

Senior executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Managing Director or, if the matter concerns the Managing Director, then directly to the Chair or the lead independent director, as appropriate.

Recommendation 1.2:

Companies should disclose the process for evaluating the performance of senior executives.

Disclosure:

The Managing Director is responsible for evaluating the senior executives. The performance of senior executives are reviewed individually and compared to key performance indicators which have been set by the Board.

Principle 2 – Structure the board to add value

Recommendation 2.1:

A majority of the Board should be independence directors.

Disclosure:

The independent Directors of the Board are Kim Robinson and Peter McIntyre. Former Directors, John Linley and Bob Bunning (who retired from the Company during the Reporting Period) were also independent Directors. The non-independent Directors of the Board are Andrew Dash, Cliff Mallett, Max Cozijn, Peter Hogan and Ian Walker.

Notification of Departure:

The Board was not comprised of a majority of independent Directors.

Explanation for Departure:

The Board has considered its corporate structure with reference to the Company's future direction. The Board continues to consider that the current composition of the Board is the most appropriate for the Company's circumstances. The Board structure and composition will be reviewed and given further consideration should the Company's circumstances change during the forthcoming reporting period.

Recommendation 2.2:

The Chair should be an independent Director.

Disclosure:

The independent Chair of the Board is Kim Robinson.

Recommendation 2.3:

The roles of the Chair and Chief Executive Officer should not be exercised by the same individual.

Disclosure:

The Chief Executive Officer, Andrew Dash, is not Chair of the Board.

Recommendation 2.4:

The Board should establish a Nomination Committee.

Notification of Departure:

The Company has not established a separate Nomination Committee.

Explanation for Departure:

The full Board considers those matters and issues that would usually fall to a Nomination Committee. The Board considers that no efficiencies or other benefits would be gained by establishing a separate Nomination Committee at this present time. Accordingly, the Board performs the role of Nomination Committee. Items that are usually required to be discussed by a Nomination Committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the Nomination Committee, it carries out those functions delegated in the Company's Nomination Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of Nomination Committee by ensuring that any director with conflicting interests is not party to the relevant discussions.

Recommendation 2.5:

Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.

Disclosure:

The Chair is responsible for evaluation of the Board and, when deemed appropriate, Board committees and individual Directors. The Nomination Committee is responsible for evaluating the Managing Director.

The performance of Executive Directors is reviewed individually and compared to key performance indicators set by the Board. Performance Evaluation of the remaining Non-Executive Directors is undertaken in an open forum among the Board.

Recommendation 2.6:

Companies should provide the information indicated in the Guide to reporting on Principle 2.

Disclosure:

Skills, Experience, Expertise and Term of Office of each Director.

A profile of each Director containing their skills, experience, expertise and term of office is set out in the Directors' Report.

Identification of Independent Directors:

The independent Directors of the Company are Kim Robinson and Peter McIntyre. Former Directors, John Linley and Bob Bunning (who retired from the Company during the Reporting Period) were also independent Directors. These Directors are independent as they are Non-Executive Directors that are not members of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment.

Independence is measured with regard to the relationships listed in Box 2.1 of the Principles and Recommendations and the Company's materiality thresholds. The materiality thresholds are set out opposite.

Company's Materiality Thresholds

The Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the Company's Board Charter:

- Balance sheet items are material if they have a value of more than 10 percent of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 10 percent or more.
- Items are also material if: they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, if they could affect the Company's rights to its assets, if accumulated they would trigger the quantitative tests, if they involve a contingent liability that would have a probable effect of 10 percent or more on balance sheet or profit and loss items, or they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10 percent.
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

Statement concerning availability of Independent Professional Advice

To assist Directors with independent judgement, it is the Board's policy that if a Director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a Director, provided the director first obtains approval for incurring such expense from the Chair, the Company will pay the reasonable expenses associated with obtaining such advice.

Nomination Matters

The full Board carries out the role of the Nomination Committee. The full Board did not officially convene as a Nomination Committee during the Reporting Period, however, the Board discussed nomination related matters from time to time during the year, as required. To assist the Board to fulfil its function as the Nomination Committee, it has adopted a Nomination Committee Charter.

The explanation for departure set out under Recommendation 2.4 above explains how the functions of the Nomination Committee are performed.

Performance Evaluation

During the Reporting Period an evaluation of the performance of the Board, its committees and Non-Executive Directors was not carried out. However, evaluation of the Executive Directors, Dr Cliff Mallett and Mr Andrew Dash were carried out. Evaluation of the Executive Directors occurred in accordance with the process disclosed in Recommendation 12.5 as the Board performed the evaluation. As a result of the restructure of the Company, moving head office to Brisbane, from Perth, and the change of Executive Directors with two becoming Non-Executive Directors, the Board decided not to undertake a performance evaluation of itself and its Committees during the year but intends to undertake one in the next reporting period.

Selection and (Re) Appointment of Directors

In determining candidates for the Board, the Nomination Committee (or equivalent) follows a prescribed procedure whereby it considers the balance of independent Directors on the Board as well as the skills and qualifications of potential candidates that will best enhance the Board's effectiveness.

The Board recognises that renewal is critical to performance and the impact of Board tenure on succession planning. The Company's constitution states that at the AGM one-third of the Directors shall retire, if the number is not three or a multiple of three, the number nearest to, but not exceeding one-third retire from office but no Director may retain office for more than three years without submitting for re-election. Under Clause 6.7, the Managing Director is not subject to retirement.

Principle 3 – Promote ethical and responsible decision-making

Recommendation 3.1:

Companies should establish a Code of Conduct and disclose the Code or a summary of the Code as to the practices necessary to maintain confidence in the company's integrity, the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Disclosure:

The Company has established a Code of Conduct as to the practices necessary to maintain confidence in the Company's integrity, practices necessary to take into account their legal obligations and the expectations of their stakeholders and responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Recommendation 3.2:

Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

Disclosure:

The Company has established a policy concerning trading in the Company's securities by directors, senior executives and employees.

Recommendation 3.3:

Companies should provide the information indicated in the Guide to reporting on Principle 3.

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 4 – Safeguard integrity in financial reporting

Recommendation 4.1:

The Board should establish an Audit Committee.

Disclosure:

The Company has established an Audit Committee.

Recommendation 4.2:

The Audit Committee should be structured so that it:

- consists only of Non-Executive Directors
- consists of a majority of independent Directors
- is chaired by an independent Chair, who is not Chair of the Board
- has at least three members.

Disclosure:

The Audit Committee comprised 3 directors, Kim Robinson, Peter McIntyre and John Linley. Following John Linley's retirement from the Company during the Reporting Period, Peter Hogan was appointed to the Audit Committee in his place.

Kim Robinson and Peter McIntyre are independent Directors. Former Director, John Linley was also an independent Director. Peter Hogan is not an independent Director.

Recommendation 4.3:

The Audit Committee should have a formal charter.

Disclosure:

The Company has adopted an Audit Committee Charter.

Recommendation 4.4:

Companies should provide the information indicated in the Guide to reporting on Principle 4.

Disclosure:

The Audit Committee held two meetings during the Reporting Period. The following table identifies those directors who are members of the Audit Committee and shows their attendance at Committee meetings:

Name	No. of meetings attended
Kim Robinson	2 out of 2
Peter Hogan	1 out of 1
John Linley[1]	2 out of 2
Peter McIntyre[2]	1 out of 1

Notes:

1 On 21 May 2009, Mr Linley resigned from the Audit Committee.

2 On 21 May 2009, Mr Peter McIntyre was appointed to the Audit Committee.

A majority of the Audit Committee members are independent and consider themselves to be financially literate. Details of each of the director's qualifications are set out in the Directors' Report. Mr McIntyre has a Masters of Business Administration, Mr Hogan is a Chartered Accountant who was a partner of PriceWaterhouseCoopers for 17 years. Both Messrs McIntyre and Hogan, through their qualifications, bring financial expertise to the Audit Committee. Furthermore the Company's CFO, Prem Nair, is available to attend Committee meetings by invitation and the Audit Committee has the opportunity to meet with the external auditor, if necessary.

The Company has established procedures for the selection, appointment and rotation of its External Auditor. The Board is responsible for the initial appointment of the External Auditor and the appointment of a new External Auditor when any vacancy arises, as recommended by the Audit Committee (or its equivalent). Candidates for the position of External Auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an External Auditor based on criteria relevant to the Company's business and circumstances. The performance of the External Auditor is reviewed on an annual basis by the Audit Committee (or its equivalent) and any recommendations are made to the Board.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1:

Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Disclosure:

The Company has established written policies designed to ensure compliance with ASX Listing Rule disclosure and accountability at a senior executive level for that compliance.

Recommendation 5.2:

Companies should provide the information indicated in the Guide to reporting on Principle 5.

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 6 – Respect the rights of shareholders

Recommendation 6.1:

Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

Disclosure:

The Company has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings.

Recommendation 6.2:

Companies should provide the information indicated in the Guide to reporting on Principle 6.

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 7 – Recognise and manage risk

Recommendation 7.1:

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

Disclosure:

The Board has adopted a Risk Management Policy, which sets out the Company's risk profile. Under the Policy, the Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the Policy, the Board delegates day-to-day management of risk to the Managing Director, who is responsible for identifying, assessing, monitoring and managing risks. The Managing Director is also responsible for updating the Company's material business risks to reflect any material changes, with the approval of the Board. As part of the Company's risk management system, the Managing Director reports regularly to the Board on the management of material business risks and provides assurance to the Board, on behalf of management, that the Company's management of its material business risks are effective.

In fulfilling the duties of risk management, the Managing Director may have unrestricted access to Company employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate, with the prior approval of the Board.

The Board has established a separate Audit Committee to monitor and review the integrity of financial reporting and the Company's internal financial control systems and risk management systems. The Board is presented with monthly financial reports with analysis on variances and explanations are provided.

In addition, the following risk management measures have been adopted by the Board to manage the Company's material business risks:

- the Board has established authority limits for management which, if exceeded, will require prior Board approval.
- the Board has adopted a compliance procedure for the purpose of ensuring compliance with the Company's continuous disclosure obligations.
- the Board has adopted a corporate governance manual which contains other policies to assist the Company to establish and maintain its governance practices.

In June 2009, the Board implemented a risk management system. The system comprises a detailed risk matrix showing the Company's business risks and their materiality based on scales of likelihood and consequences to the Company should they eventuate. The matrix also details controls put in place by the Company to manage material business risks. The material business risks of the Company are reviewed at each fortnightly management meeting. Management prepares a monthly report on risk management which is then tabled at each Board meeting. Risk management is a standing Board meeting agenda item.

The categories of risk reported on include: Operations, Environmental, Human Capital, Technology, Commercial, Political and Financial Reporting, Legal and Compliance.

Recommendation 7.2:

The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to the Board on whether those risks are being managed effectively. The Board should disclose that management has made its report to it as to the effectiveness of the Company's management of its material business risks.

Disclosure:

The Board has required management to design, implement and maintain risk management and internal control systems to manage the Company's materials business risks. The Board also requires management to report to it confirming that those risks are being managed effectively. Further, the Board has received a report from management as to the effectiveness of the Company's management of its material business risks.

Recommendation 7.3:

The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent), that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Disclosure:

The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) have provided a declaration to the Board in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risk.

Recommendation 7.4:

Companies should provide the information indicated in the Guide to reporting on Principle 7.

Disclosure:

The Board has received the report from management under Recommendation 7.2.

The Board has received the assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) under Recommendation 7.3.

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1:

The Board should establish a Remuneration Committee.

Disclosure:

The Company has established a Remuneration Committee.

Recommendation 8.2:

Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and Senior Executives.

Disclosure:

Non-Executive Directors are remunerated at market rates for time, commitment and responsibilities. Remuneration for Non-Executive Directors is not linked to individual performance.

Pay and rewards for Executive Directors and Senior Executives consists of a base salary, superannuation, fringe benefits, retirement benefits and performance incentives. Long term performance incentives may include options granted at the discretion of the Board and subject to obtaining the relevant approvals. Executives are offered a competitive level of base pay at market rates and are reviewed annually to ensure market competitiveness.

Recommendation 8.3:

Companies should provide the information indicated in the Guide to reporting on Principle 8.

Disclosure:

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms of part of the Directors' Report.

The Remuneration Committee held four meetings during the Reporting Period. The following table identifies those Directors who are members of the Remuneration Committee and shows their attendance at Committee meetings:

Name	No. of meetings attended
Kim Robinson	3 out of 4
Peter Hogan	4 out of 4
John Linley	3 out of 3
Peter McIntyre	4 out of 4

The Company does not have a specific termination or retirement benefits scheme for Non-Executive Directors. The Board may make discretionary awards if considered appropriate.

The Company's Remuneration Committee Charter includes a statement of the Company's policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

> directors' report

Remuneration Report

This report details the nature and amount of remuneration for each Director of Carbon Energy Limited and for the Executives receiving the highest remuneration.

Remuneration Policy

The remuneration policy, which sets the terms and conditions for the Managing Director and other Senior Executives, was developed by the Remuneration Committee after seeking professional advice from independent consultants and was approved by the Board. All Executives receive a base salary, superannuation, fringe benefits and performance incentives. The remuneration committee reviews Executive packages annually by reference to company performance, Executive performance, comparable information from industry sectors and other listed companies and independent advice. The performance of Executives is reviewed bi-annually, in December and June, by the remuneration committee, with revised remuneration packages generally taking effect from the 1st of January of the following Calendar year or 1 July of the new financial year.

Executives are also entitled to participate in the employee option arrangement from time to time, as determined by the Board. The amount of remuneration for all specified Directors and the specified Executives including all monetary and non-monetary components are detailed below. All remuneration paid to Executives is valued at the cost to the company and expensed. Any options that are issued are valued using the Black-Scholes methodology.

The Board expects that the remuneration structure implemented will result in the company being able to attract and retain the best Executives to run the consolidated group. It will also provide Executives with the necessary incentives to work to grow long-term shareholder value.

The payment of bonuses, stock options and other incentive payments are reviewed by the remuneration committee annually as part of the review of Executive remuneration and a recommendation is put to the Board for approval. All bonuses, options and incentives must be linked to predetermined performance criteria. The Board can exercise its discretion in relation to approving incentives, bonuses and options and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria.

The company's Remuneration Committee Charter is set out on the company's website www.carbonenergy.com.au.

Details of Remuneration for Year Ended 30 June 2009

The remuneration for each Director of the consolidated entity during the year is noted as follows:

PARENT ENTITY DIRECTORS

2009	Salary $	Directors Fee $	Redundancies/ Retirement Costs $	Super Contributions $	Performance Bonus $	Sub-total $	Options (iii) $	Total $	Performance related %
Mr K. Robinson		50,000		4,500		54,500		54,500	
Mr A.M. Dash	295,399	-	-	32,854	-	328,253	2,126,659	2,454,912	86.6%
Dr C.W. Mallett	90,750	-	-	100,000	-	190,750	349,156	539,906	64.7%
Mr I.W. Walker (ii)	94,762	20,000	669,064	21,612	-	805,438	-	805,438	-
Mr M.D.J Cozjin	11,752	20,000	305,262	37,800	-	374,814	-	374,814	-
Mr P.T. McIntyre	-	40,000	-	3,600	-	43,600	-	43,600	-
Mr J.G Linley (appointed 15 Jul '08) & retired 21 May '09)	-	33,938	-	3,054	-	36,992	-	36,992	-
Mr P.N. Hogan (i) (appointed 29 Aug '08)		33,333	-	-	-	33,333	-	33,333	-
Mr R.G. Bunning (retired 15 Jul '08)		-	43,600	-	-	43,600	-	43,600	-
TOTALS	492,663	197,271	1,017,926	203,420	-	1,911,280	2,475,815	4,387,095	-

(i) Amounts paid to Incitec Pivot Limited for Mr Hogan's service.
(ii) Messrs Walker and Cozijn were made redundant from their executive roles on 1 January 2009 as part of the restructure of the Company.
(iii) Options are calculated using the Black Scholes Methodology and calculated at the date of grant.

PARENT ENTITY DIRECTORS

2008	Salary $	Directors Fee $	Other Benefits $	Super Contributions $	Performance Bonus $	Options (iii) $	Total $	Performance related %
Mr I.W. Walker	143,875	-	19,514	70,375	90,000	4,619	328,383	27.4%
Mr M.D.J. Cozjin	14,193	-	32,740	67,258	90,000	2,311	206,502	43.6%
Mr M.A. Blakeman (retired 14 Feb '08)	-	15,000	-	44,950	-	-	59,950	-
Mr K. Robinson	-	30,000	-	2,700	-	-	32,700	-
Mr R.G. Bunning	-	30,000	-	2,700	-	-	32,700	-
Mr P.T. McIntyre	-	30,000	-	2,700	-	-	32,700	-
Dr C.W. Mallett* (appointed 14 Feb '08)	23,245	-	-	37,500	-	-	60,745	-
Mr A.M. Dash (appointed 30 Jun '08)	-	-	-	-	-	-	-	-
TOTALS	**181,313**	**105,000**	**52,254**	**228,183**	**180,000**	**6,930**	**753,680**	

* Dr C.W. Mallett's remuneration represents his salary from his appointment as a director of Carbon Energy Ltd. This remuneration was paid by Carbon Energy (Operations) Pty Ltd. During the finanical year Dr Mallett received no fees from Carbon Energy Limited.

The remuneration for each Executive Office of the consolidated entity during the year is noted as follows:

PARENT ENTITY EXECUTIVES

2009	Salary $	Directors Fee $	Redundancies/ Retirement Costs $	Super Contributions $	Performance Bonus $	Sub-total $	Options (iii) $	Total $	Performance related %
Mr R Mark	230,000			20,700		250,700	801,419	1,052,119	76.2%
Mr P Nair (appointed 1 Nov '08)	129,333			16,000		145,333	145,129	290,462	50.0%
Mr P Swaddle (appointed 27 Oct '08)	127,165			22,345		149,510	145,129	294,639	49.3%
Mr J Wedgwood	191,333	-		30,000	92,500 (ii)	313,833	505,787	819,620	62.0%
Mr G Scott (retired 1 Jan '09)	58,333	-	152,691	9,792		220,816	268	221,084	0.1%
TOTALS	**736,164**	**-**	**152,691**	**98,837**	**92,500**	**1,080,192**	**1,597,732**	**2,677,924**	**-**

(i) Options are calculated using the Black Scholes Methodology and calculated at the date of grant
(ii) Mr Wedgwood received 250,000 CNX shares valued at 37 cents each as a performance bonus

Performance Bonus were awarded to Executive Directors and Executive Officers on successful achievement of key performance indicators.

2008	Salary $	Directors Fee $	Other Benefits $	Super Contributions $	Performance Bonus $	Options (iii) $	Total $	Performance related %
Mr G. Scott	100,000	-	-	30,625	15,000	44,351	189,976	7.9%
Mr E.J. Turner (retired 11 Feb '08)	115,956	-	-	10,643	-	-	126,599	-
TOTALS	**215,956**	**-**	**-**	**41,268**	**15,000**	**44,351**	**316,575**	**-**

Options Granted as part of Remuneration:

KEY MANAGEMENT PERSONNEL

	Vested No.	Granted No.	Grant Date	Value per option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date
Mr A Dash	5,000,000	5,000,000	13/11/08	$0.32	$0.25	30/06/09	10/12/13
		7,000,000	13/11/08	$0.32	$0.35	30/06/10	10/12/13
		8,000,000	13/11/08	$0.32	$0.70	30/06/11	10/12/13
		10,000,000	13/11/08	$0.32	$1.00	30/06/12	10/12/14
Dr Cliff Mallett	1,750,000	1,750,000	13/11/08	$0.32	$0.80	30/06/09	10/12/13
		1,750,000	13/11/08	$0.32	$1.20	30/06/10	10/12/13
		1,750,000	13/11/08	$0.32	$1.60	30/06/11	10/12/13
Mr R Mark	2,500,000	2,500,000	16/09/08	$0.57	$0.80	30/06/09	10/12/13
		2,500,000	16/09/08	$0.57	$1.20	30/06/10	10/12/13
		2,500,000	16/09/08	$0.57	$1.60	30/06/11	10/12/13
Mr P Nair (appointed 1 Nov '08)		1,000,000	17/10/08	$0.31	$0.80	31/10/09	10/12/13
		1,000,000	17/10/08	$0.31	$1.20	31/10/10	10/12/13
		1,000,000	17/10/08	$0.31	$1.60	31/10/11	10/12/13
Mr P Swaddle (appointed 27 Oct '08)		1,000,000	17/10/08	$0.31	$0.80	31/10/09	10/12/13
		1,000,000	17/10/08	$0.31	$1.20	31/10/10	10/12/13
		1,000,000	17/10/08	$0.31	$1.60	31/10/11	10/12/13
Mr J Wedgwood	1,000,000	1,000,000	16/09/08	$0.57	$0.80	30/06/09	10/12/13
		1,000,000	16/09/08	$0.57	$1.20	30/06/10	10/12/13
		1,000,000	16/09/08	$0.57	$1.60	30/06/11	10/12/13

In 2009, all options issued to Executive Directors and Executive Officers were as part of their at risk remuneration and all options are all performance based. Options were granted for nil consideration.

Shares issued on Exercise of Compensation Options

Options exercised during the 2009 year that were granted as compensation in prior periods are as follows:

KEY MANAGEMENT PERSONNEL

2009	No. of ordinary shares issued	Amount paid per share	Amount unpaid per share
Mr I.W. Walker	4,000,000	$0.15	Nil
Mr M.D.J. Cozjin	2,000,000	$0.15	Nil
Mr G. Scott	250,000	$0.10	Nil
TOTALS	6,250,000		

Options expensed during the 2009 year that were granted as compensation in current and prior periods are as follows:

2009	Options Granted $	Total Remuneration Represented by Options %	Options Exercised $	Options Lapsed ($)	Total $
Mr A.M. Dash	2,126,659	86.6%			**2,126,659**
Dr C.W. Mallett	349,156	64.7%			**349,156**
Mr R Mark	801,419	76.2%	-	-	**801,419**
Mr P Nair	145,129	50.0%	-	-	**145,129**
Mr P Swaddle	145,129	49.3%	-	-	**145,129**
Mr J Wedgwood	505,787	61.7%	-	-	**505,787**
Mr G Scott	268	0.1%	-	-	**268**
TOTALS	4,073,547*		-	-	4,073,547

* Options are calculated using the Black Scholes Methodology and calculated at the date of grant.

Service Agreements of Directors and Executives

The employment conditions with executive Directors, Mr Walker and Mr Cozijn were terminated on 1 January 2009 as part of the Restructure of the Company and the move of the head office to Brisbane. Redundancy payments were made as part of these terminations. Mr Dash is employed under a four-year ESA contract which commenced on 30 June 2008 and expires on 30 June 2012. The following options were issued to Mr Dash on 13 November 2008 as a result of shareholder approval.

No. of options	Exercise Price	Terms
5,000,000	$0.25	Vest after 12 Months service and achievement of KPI's, expire 10/12/2013
7,000,000	$0.35	Vest after 24 Months service and achievement of KPI's, expire 10/12/2013
8,000,000	$0.70	Vest after 36 months service and achievement of KPI's, expire 10/12/2013
10,000,000	$1.00	Vest after 48 months service and achievement of KPI's, expire 10/12/2014
30,000,000		

Dr Mallett is currently employed under a three-year ESA with Carbon Energy Ltd which commenced on 1 July 2008 and expires on 30 June 2011. The following options were issued to Dr Mallett on 13 November 2008 as a result of shareholder approval:

No. of options	Exercise Price	Terms
1,750,000	$0.80	Vest after 12 Months service and achievement of KPI's, expire 10/12/2013
1,750,000	$1.20	Vest after 24 Months service and achievement of KPI's, expire 10/12/2013
1,750,000	$1.60	Vest after 36 months service and achievement of KPI's, expire 10/12/2013
5,250,000		

Executives

Mr Mark was employed under a three-year EST with Carbon Energy Ltd which commenced on 1 July 2008 and expires on 30 June 2011. The following options were issued to Mr Mark on 16 September 2008:

No. of options	Exercise Price	Terms
2,500,000	$0.80	Vest after 12 Months service and achievement of KPI's, expire 10/12/2013
2,500,000	$1.20	Vest after 24 Months service and achievement of KPI's, expire 10/12/2013
2.500,000	$1.60	Vest after 36 months service and achievement of KPI's, expire 10/12/2013
7,500,000		

Mr Nair is currently employed under a three-year EST with Carbon Energy Ltd which commenced on 1 November 2008 and expires on 31 October 2011. The following options were issued to Mr Nair on 17 October 2008:

No. of options	Exercise Price	Terms
1,000,000	$0.80	Vest after 12 Months service and achievement of KPI's, expire 10/12/2013
1,000,000	$1.20	Vest after 24 Months service and achievement of KPI's, expire 10/12/2013
1,000,000	$1.60	Vest after 36 months service and achievement of KPI's, expire 10/12/2013
3,000,000		

Mr Swaddle is currently employed under a three-year EST with Carbon Energy Ltd which commenced on 27 October 2008 and expires on 31 October 2011. The following options were issued to Mr Swaddle on 17 October 2008:

No. of options	Exercise Price	Terms
1,000,000	$0.80	Vest after 12 Months service and achievement of KPI's, expire 10/12/2013
1,000,000	$1.20	Vest after 24 Months service and achievement of KPI's, expire 10/12/2013
1,000,000	$1.60	Vest after 36 months service and achievement of KPI's, expire 10/12/2013
3,000,000		

Mr Wedgwood is currently employed under a three-year EST with Carbon Energy Ltd which commenced on 1 November 2008 and expires on 31 October 2011. The following options were issued to Mr Wedgwood on 16 September 2008:

No. of options	Exercise Price	Terms
1,000,000	$0.80	Vest after 12 Months service and achievement of KPI's, expire 10/12/2013
1,000,000	$1.20	Vest after 24 Months service and achievement of KPI's, expire 10/12/2013
1,000,000	$1.60	Vest after 36 months service and achievement of KPI's, expire 10/12/2013
3,000,000		

Required notice periods for executives employed under Executive Service Agreements is three months from either party. A payment of termination benefit on early termination by the employer, other than for gross misconduct equal to base salary and superannuation for 12 months.

The remuneration and terms of employment for the Non-Executive Directors (Messrs Robinson, Walker, Cozijn, Hogan and McIntyre) are subject to annual review with no fixed term, with one third of the Director's being subject to re-election at each Annual General Meeting of Shareholders.

The aggregate amount of remuneration payable to all non-executive Directors was set by shareholders at $500,000 per annum. The total amount currently paid inclusive of superannuation is $43,600 per annum to each Non Executive Director and $65,400 per annum to the Chair of the Board. No termination payment provisions are currently in place. On Mr Bunning's retirement from office, the Company made a discretionary termination payment of $43,600 (inclusive of superannuation) in recognition of his services to the company over his 15 years of directorship.

MEETINGS OF DIRECTORS

Director	Number eligible to Attend	Number Attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
K. Robinson	17	16	2	2	4	3
A. Dash	17	17	NM	-	NM	-
C.W. Mallett	17	16	NM	-	NM	-
I.W. Walker	17	17	NM	-	NM	-
M.D.J. Cozijn	17	17	NM	-	NM	-
P.T. McIntyre	17	16	1	1	4	4
P.N. Hogan (appointed 29 Aug '08)	16	16	1	1	4	4
J.G. Linley (appointed 15 July '08 & retired 21 May 09)	15	14	1	1	4	4
R.G. Bunning (retired 15 July '08)	1	1	M	-	M	-

NM – Not a member of the Committee M – No meetings held while a member

Share Options

At the date of this report, the unissued ordinary shares of Carbon Energy Limited under option are as follows:

UNLISTED

Grant Date	Vesting Date	Date of Expiry	Exercise Price	Number Under Option
23/12/2005	17/10/2007	31/10/2009	$0.15	250,000
22/12/2006	1/01/2008	1/01/2010	$0.15	125,000
28/11/2006	28/11/2006	31/12/2009	$0.15	4,000,000
14/12/2005	31/03/2008	31/03/2010	$0.20	9,000,000
23/12/2005	17/10/2008	31/10/2010	$0.20	250,000
22/12/2006	1/01/2009	1/01/2011	$0.20	125,000
22/06/2007	30/06/2008	30/06/2011	$0.30	500,000
15/05/2008	03/07/2008	30/06/2011	$0.60	1,000,000
16/09/2008	30/06/2009	10/12/2013	$0.80	3,500,000
16/09/2008	30/06/2010	10/12/2013	$1.20	3,500,000
16/09/2008	30/06/2011	10/12/2013	$1.60	3,500,000
17/10/2008	31/10/2009	10/12/2013	$0.80	2,000,000
17/10/2008	31/10/2010	10/12/2013	$1.20	2,000,000
17/10/2008	31/10/2011	10/12/2013	$1.60	2,000,000
13/11/2008	30/06/2009	10/12/2013	$0.25	5,000,000
13/11/2008	30/06/2010	10/12/2013	$0.35	7,000,000
13/11/2008	30/06/2011	10/12/2013	$0.70	8,000,000
13/11/2008	30/06/2012	10/12/2014	$1.00	10,000,000
13/11/2008	30/06/2009	10/12/2013	$0.80	1,750,000
13/11/2008	30/06/2010	10/12/2013	$1.20	1,750,000
13/11/2008	30/06/2011	10/12/2013	$1.60	1,750,000
31/03/2009	30/06/2010	01/04/2012	$0.25	100,000
31/03/2009	30/06/2010	01/04/2012	$0.40	351,000
				67,451,000

directors' report

Unlisted

67,451,000 of these Options are on issue to Directors and employees of Carbon Energy Limited.

Non-audit Services

The board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the Executive Directors prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

No fees for non-audit services were paid to the external auditors WHK Horwath during the year ended 30 June 2009.

Indemnifying Officers and Auditors

The Company has continued an insurance policy insuring Directors and officers of the Company against any liability arising from a claim brought by a third party against the Company or its Directors and Officers, and against liabilities for costs and expenses incurred by them in defending any legal proceedings arising from their conduct while acting in their capacity as a Director or Officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

In accordance with a confidentiality clause under the insurance policy, the amount of the premium paid to insurers has not been disclosed. This is permitted under S300(9) of the Corporations Act 2001.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2009 has been received and can be found on page 39 of the Annual Report.

Signed in accordance with a resolution of the Board of Directors.

K. Robinson
Chairman

A.M. Dash
Managing Director

Brisbane, Queensland
28 September 2009

WHK Horwath

> auditor's independence declaration

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Carbon Energy Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

WHK HORWATH PERTH AUDIT PARTNERSHIP

Cyrus Patell
Principal

Perth, WA
Dated this 28th day of September 2009

financial report

Income Statement

FOR THE YEAR ENDED 30 JUNE 2009

		CONSOLIDATED GROUP		PARENT ENTITY	
	Notes	2009 $	2008 $	2009 $	2008 $
Revenue	2	793,077	1,968,886	750,283	1,968,886
Employee benefits expense		(2,052,973)	(682,888)	(285,128)	(682,888)
Depreciation expense	3 (a)	(66,593)	(23,646)	(23,513)	(23,646)
Administration costs		(3,744,251)	(1,257,206)	(1,224,832)	(1,256,966)
Consultancy costs		(401,386)	(288,434)	(291,997)	(288,434)
Exploration expenditure		(1,142,276)	(851,113)	(449,864)	(851,113)
Tenement holding costs		(261,959)	(223,061)	(124,957)	(223,061)
Share based payments		(4,322,570)	-	(4,322,570)	-
Restructuring		(1,048,350)	-	(1,048,350)	-
Other expenses		(530,513)	(654,584)	(237,203)	(296,392)
Impairment of gold assets		(2,607,633)	-	(2,607,633)	-
Loss before income tax expense		(15,385,427)	(2,012,046)	(9,865,764)	(1,653,614)
Income tax benefit	5	-	-	-	-
Net loss attributable to members of the parent entity		(15,385,427)	(2,012,046)	(9,865,764)	(1,653,614)
OVERALL OPERATIONS					
Basic loss per share ▪ cents per share	4	(3.11)	(0.75)		
Diluted loss per share ▪ cents per share		(3.11)	(0.75)		

The accompanying notes form part of these financial statements.

> financial report

Balance Sheet

AS AT 30 JUNE 2009

		CONSOLIDATED GROUP		PARENT ENTITY	
	Notes	2009 $	2008 $	2009 $	2008 $
ASSETS					
Current Assets					
Cash and cash equivalents	7	21,747,232	25,651,820	21,586,143	25,590,750
Trade and other receivables	8	129,501	629,581	3,170	88,132
Exploration interest held for sale	10 (a)	4,000,000	-	4,000,000	-
Financial assets	10 (b)	4,508,000	5,685,535	4,508,000	5,685,535
TOTAL CURRENT ASSETS		30,384,733	31,966,936	30,097,313	31,364,417
NON-CURRENT ASSETS					
Trade and other receivables	8	440,774	382,477	31,275,898	8,187,477
Financial assets	10 (c)	-	-	92,415,337	92,415,197
Property, plant & equipment	11	10,506,605	7,933,309	80,885	102,359
Mine development	14	3,621,463	-	-	-
Deferred exploration and evaluation costs	13	101,451,222	95,222,555	1,053,254	6,607,632
Intangible assets	12	2,499,999	2,499,999	-	-
Total Non-Current Assets		118,520,063	106,038,340	124,825,374	107,312,665
TOTAL ASSETS		148,904,796	138,005,276	154,922,687	138,677,082
LIABILITIES					
Current Liabilities					
Trade and other payables	15	1,688,795	879,852	1,269,594	579,738
Short-term provisions	16	93,808	249,374	-	210,057
Total Current Liabilities		1,782,603	1,129,226	1,269,594	789,795
TOTAL LIABILITIES		1,782,603	1,129,226	1,269,594	789,795
NET ASSETS		147,122,193	136,876,050	153,653,093	137,887,287
EQUITY					
Issued capital	17	172,265,745	151,126,952	172,265,745	151,126,952
Reserves		4,664,569	171,792	4,664,569	171,792
Accumulated losses		(29,808,121)	(14,422,694)	(23,277,221)	(13,411,457)
TOTAL EQUITY		147,122,193	136,876,050	153,653,093	137,887,287

The accompanying notes form part of these financial statements.

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Statement of Changes in Equity
FOR THE YEAR ENDED 30 JUNE 2009

CONSOLIDATED GROUP

	Notes	Ordinary Issued Capital $	Accumulated Losses $	Option Reserve $	Total $
BALANCE AT 30 JUNE 2007		26,113,727	(12,410,648)	137,646	13,840,725
Shares issued during the year		120,645,584	-		120,645,584
Transaction costs		(1,461,673)			(1,461,673)
Deferred consideration on acquisition					
▪ Shares to be issued		5,814,815	-	-	5,814,815
Movement in share option reserve on recognition of share based payments		-	-	48,645	48,645
Exercise of options		14,499	-	(14,499)	-
Loss attributable to members of parent entity		-	(2,012,046)	-	(2,012,046)
BALANCE AT 30 JUNE 2008		151,126,952	(14,422,694)	171,792	136,876,050
Shares issued during the year		22,647,000			22,647,000
Transaction costs		(1,524,342)			(1,524,342)
Movement in share option reserve on recognition of share based payments				4,508,912	4,508,912
Exercise of options		16,135	-	(16,135)	-
Loss attributable to members of parent entity			(15,385,427)		(15,385,427)
BALANCE AT 30 JUNE 2009		172,265,745	(29,808,121)	4,664,569	147,122,193

PARENT ENTITY

	Notes	Ordinary Issued Capital $	Accumulated Losses $	Option Reserve $	Total $
BALANCE AT 30 JUNE 2007		26,113,727	(11,757,843)	137,646	14,493,530
Shares issued during the year		120,645,584	-		120,645,584
Transaction costs		(1,461,673)			(1,461,673)
Deferred consideration on acquisition					
▪ Shares to be issued		5,814,815	-	-	5,814,815
Movement in share option reserve on recognition of share based payments		-	-	48,645	48,645
Exercise of options		14,499	-	(14,499)	-
Loss attributable to members of parent entity		-	(1,653,614)	-	(1,653,614)
BALANCE AT 30 JUNE 2008		151,126,952	(13,411,457)	171,792	137,887,287
Shares issued during the year		22,647,000			22,647,000
Transaction costs		(1,524,342)			(1,524,342)
Movement in share option reserve on recognition of share based payments				4,508,912	4,508,912
Exercise of options		16,135	-	(16,135)	-
Loss attributable to members of parent entity			(9,865,764)		(9,865,764)
BALANCE AT 30 JUNE 2009		172,265,745	(23,277,221)	4,664,569	153,653,093

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Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	CONSOLIDATED GROUP 2009 $	CONSOLIDATED GROUP 2008 $	PARENT ENTITY 2009 $	PARENT ENTITY 2008 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(6,602,703)	(2,804,975)	(2,486,769)	(2,804,736)
Payments for exploration expenditure		(1,326,058)	(685,144)	(511,310)	(685,144)
Interest received		730,416	170,380	716,940	170,380
Administration services		24,215	101,978	24,215	101,978
Other receipts		48,042	101,438	18,724	101,438
R&D tax concession refunds received		-	36,907	-	36,907
NET CASH (USED IN) OPERATING ACTIVITIES	23(a)	(7,126,088)	(3,079,416)	(2,238,200)	(3,079,177)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(594,037)	(17,276)	(6,484)	(17,276)
Proceeds from sale of property, plant and equipment		7,892	700	7,892	700
BWC Trial Plant		(16,518,339)	-		
Payment for Exploration & Evaluation Expenditure		(936,465)	-		
Uranium initiative capitalised		(1,053,254)		(1,053,254)	
Investments in public companies		-	-	(140)	-
Payment for investments in unlisted companies			(500,000)		(500,000)
Payment for subsidiary, net of cash acquired	23(c)	-	(2,528,102)		(2,589,030)
Investment in term deposits – performance bonds		(68,297)	(76,500)	(35,157)	(76,500)
Proceeds from sale of investments		-	17,172	-	17,172
NET CASH (USED IN) INVESTING ACTIVITIES		(19,162,500)	(3,104,006)	(1,087,143)	(3,164,934)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of shares		22,425,000	39,350,000	22,425,000	39,350,000
Capital raising costs		(41,000)	(1,461,673)	(41,000)	(1,461,673)
Payments from/(advances to) subsidiaries and other companies			(7,850,000)	(23,063,264)	(7,850,000)
Net cash flows provided by financing activities		22,384,000	30,038,327	(679,264)	30,038,327
Net increase/(decrease) in cash held		(3,904,588)	23,854,905	(4,004,607)	23,794,216
Cash at the beginning of the financial year		25,651,820	1,796,915	25,590,750	1,796,534
CASH AT THE END OF THE FINANCIAL YEAR	7	21,747,232	25,651,820	21,586,143	25,590,750

The accompanying notes form part of these financial statements.

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Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

Note 1 - Statement of Significant Accounting Policies

The financial report covers the Consolidated Group of Carbon Energy Limited and controlled entities, and Carbon Energy Limited as an individual Parent entity. Carbon Energy Limited is a listed public company, incorporated and domiciled in Australia.

Basis of Preparation

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Principles of Consolidation

A controlled entity is any entity over which Carbon Energy Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 27 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated
financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the group, are shown separately within the Equity section of the consolidated Balance Sheet and in the consolidated Income Statement.

Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method. The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

(b) Income Tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future tax profits will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductability imposed by the law.

(c) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including capitalised lease assets, but excluding computers, is depreciated on a reducing balance commencing from the time the asset is held ready for use. Computers are depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset and Depreciation Rate

Motor Vehicles 22.5%
Plant and Equipment 7.5-50%
Laverton Project Property, Plant and Equipment 10-40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(d) Exploration and Evaluation Expenditure

Exploration, evaluation and development expenditure incurred is either written off as incurred or accumulated in respect of each identifiable area of interest. Costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area, sale of the respective areas of interest or where activities in the area have not yet reached a stage, which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure.

(e) Mine Development Costs

Mine development costs represent development expenditure in respect of areas of interest in which mining for UCG has commenced or likely to commence shortly. It is only carried forward when future economic benefits can be established.

The net carrying value of the area of interest is reviewed regularly and will be amortized on a product basis and/or when value exceeds its recoverable amount.

(f) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(g) Financial Instruments

Recognition and Initial measurement

Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments, incorporating financial assets and liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Financial instruments incorporation financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

Classification and subsequent measurement

(i) Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

(iv) Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(v) Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arms length transactions, reference to similar instruments and option pricing models.

(vi) Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement.

(h) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the assets, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and tangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(i) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognises the group's share of post acquisition reserves of its associates.

(j) Interest in Joint Ventures

The consolidated group's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements.

The consolidated group's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements.

The parent entity's interests in joint venture entities are brought to account using the cost method.

(k) Intangibles

Intellectual Property

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project and to commence amortisation upon commercial production.

(l) Employee Benefits

Provision is made for the entity's liability for employee benefits arising from services rendered by employees to the balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

Equity settled compensation

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(m) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(n) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(o) Revenue and Other Income

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

Revenue from sale of investments is recognised on the date of the contract for sale note.

All revenue is stated net of the amount of goods and services tax (GST).

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Balance Sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(q) Comparative Figures

Where required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(r) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(s) Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates – Impairment

The group assess impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

During the year an impairment review has been carried out on carried forward exploration costs resulting from relinquishments, transfers and ongoing exploration prospectivity and commercial value. Impairment has been identified and amount to $2,607,633 in relation to the gold interests. The ultimate recoupment of value is dependent on the successful development and commercial exploitation or sale of the respective areas. Subsequent to Balance Date, the Company has received a binding offer from Crescent Gold totalling $4.0 million for the gold interests.

(t) New Accounting Standards for Application in Future Periods

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Group will be unable to be determined.

The following changes to accounting requirements are included:

- acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;
- contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;
- a gain or loss of control will require the previous ownership interests to be re-measured to their fair value;
- there shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group's policy;
- dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;
- impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee; and;
- where there is, in substance, no change to Group interests, parent entities inserted above existing Groups shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

The Group will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent entity's share of net assets acquired or change its policy so goodwill recognised also reflects that of the non-controlling interest.

AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's Board for the purposes of decision making.

While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe impairment will result however.

AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

AASB 2008-1: Amendments to Australian Accounting Standard — Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.

AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

AASB 2008-13: Amendments to Australian Accounting Standards arising from AASB Interpretation 17 — Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110] (applicable for annual reporting periods commencing from 1 July 2009). This amendment requires that non-current assets held for distribution to owners be measured at the lower of carrying value and fair value less costs to distribute.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

Note 2 - Revenue

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
OPERATING ACTIVITIES				
▪ unrealised gain on current investments	-	1,567,999	-	1,567,999
▪ administration services	11,172	88,468	11,172	88,468
▪ interest received – other persons	730,416	168,574	716,940	168,574
▪ R & D tax concession	-	36,907	-	36,907
	741,588	1,861,948	728,112	1,861,948
NON-OPERATING ACTIVITIES				
▪ other revenue	48,041	106,938	18,723	106,938
Gain on disposal of assets	3,448	-	3,448	-
TOTAL REVENUE	793,077	1,968,886	750,283	1,968,886

Note 3 - Loss From Ordinary Activities

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX HAS BEEN DETERMINED AFTER:				
(a) Expenses				
Depreciation of Non-current assets				
▪ Motor Vehicles	807	1,513	807	1,513
▪ Plant & Equipment	59,780	14,754	16,700	14,754
▪ Laverton project property, plant and equipment	6,006	7,379	6,006	7,379
TOTAL DEPRECIATION	66,593	23,646	23,513	23,646
Rental expenses on operating leases				
▪ minimum lease payments	169,448	85,146	61,634	85,146
(b) Revenue and Net Gains				
Net gain on disposal of current assets				
▪ investments	-	-	-	-
Unrealised gain on revaluation of current assets				
▪ investments	-	1,567,999	-	1,567,999

Note 3 - Loss from ordinary activities (continued)

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
(c) Significant Revenues and Expenses				
The following significant revenue and expense items are relevant in explaining the financial performance:				
Unrealised gain on revaluation of current investments				
▪ Revaluation of investments	-	5,685,535	-	5,685,535
▪ Opening carrying value of investments	-	(4,117,536)	-	(4,117,536)
▪ New investments at cost	-	-	-	-
TOTAL	-	1,567,999	-	1,567,999
Unrealised loss of revaluation of investments				
▪ Revaluation of investments	4,508,000	-	4,508,000	-
▪ Opening carrying value of investments	(5,685,535)	-	(5,685,535)	-
▪ New investments at cost	-	-	-	-
TOTAL	(1,177,535)	-	(1,177,535)	-
Loss on disposal of investments				
▪ Consideration on disposal of investments	-	17,171	-	17,171
▪ Carrying amount of investments sold	-	(21,248)	-	(21,248)
TOTAL	-	(4,077)	-	(4,077)

Note 4 - Earnings per share

	CONSOLIDATED GROUP	
	2009 $	2008 $
Earnings used in per share calculating earnings		
For basic and diluted earnings per share		
Net Loss for the year attributable to members of the parent entity	(15,385,427)	(2,012,046)
Basic loss per share ▪ cents per share	(3.11)	(0.75)
Diluted loss per share ▪ cents per share	(3.11)	(0.75)
(a) Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted EPS	494,757,596	267,954,266

Options outstanding at 30 June 2009, totalling are not considered potential ordinary shares as the effect is anti-dilutive.

Note 5 - Income Tax Expense

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
(a) The components of tax expense comprise				
Current year tax	-	-	-	-
Deferred tax	-	-	-	-
Recoupment of prior years tax losses	-	-	-	-
R&D tax concession	-	-	-	-
	-	-	-	-
(b) The prima facie tax/(benefit) on Profit/(Loss) from ordinary activities is reconciled to the income tax expense as follows:				
Prima facie tax/(benefit) on Profit/(Loss) from ordinary activities before income tax at 30% (2008: 30%)	(4,615,628)	(603,614)	(2,959,729)	(496,084)
Add tax effect of:				
Non-deductible items	2,080,851	137,868	2,079,334	1,550
Other deductible items	(169,119)	(118,143)	(169,119)	(118,143)
Revaluation and again on disposals of investments not subject to income tax	352,800	(470,400)	352,800	(470,400)
Share options expensed during the year	-	14,540	-	14,540
Deferred tax assets not brought to account	2,351,096	1,039,749	696,714	1,068,537
Income tax attributable to entity	-	-	-	-
(c) Deferred tax assets				
Deferred tax assets not brought to account, the benefits of which will only be realized if the conditions for deductibility set out in Note 1(b) occur				
Temporary differences	(599,511)	(17,651)	(316,759)	(17,651)
Tax losses	9,742,459	6,780,890	6,780,265	6,661,598
TOTAL DEFERRED TAX ASSETS NOT BROUGHT TO ACCOUNT	9,142,948	6,763,239	6,463,506	6,643,947

Note 6 - Key Management Personnel Compensation

(a) Names and positions held of the consolidated and parent entity key management personnel in office at a during the financial year are:

Key Management Personnel

Mr K. Robinson
Non-Executive Chairman

Mr A.M. Dash
Managing Director (Executive Director)

Dr C.W. Mallet
Technical Director

Mr M.D.J. Cozijn
Non-Executive Director
(retired 1 January 2009 as Finance Director)

Mr P.N. Hogan
Non-Executive Director
(appointed 29 August 2008)

Mr P.T. McIntyre
Non-Executive Director

Mr I.W. Walker
Non-Executive Director
(retired 1 January 2009 as Managing Director)

Mr R.G. Bunning
Non-Executive Director
(retired 15 July 2008)

Dr J.G. Linley
Non-Executive Director
(appointed 15 July 2008 retired 21 May 2009)

Mr R Mark
General Manager Business Development

Mr P Nair - CFO & Company Secretary
(appointed 1 November 2008)

Mr P Swaddle - General Manager Commercial
(appointed 27 October 2008)

Mr J Wedgwood - General Manager Operations

Mr G Scott - Company Secretary and Group Accountant
(retired January 2009)

Key management personnel remuneration has been included in the Remuneration Report section of the Directors report.

(b) Option Holdings held directly and indirectly by key management personnel:

Directors	Balance at 01 Jul 08	Granted as Remuneration	Options Exercised	Net Change Other	Balance at 30 Jun 09	Total Vested 30 Jun 09	Total Exercisable 30 Jun 09	Total Unexercisable 30 Jun 09
Mr K. Robinson	2,000,000	-	-	-	2,000,000	2,000,000	2,000,000	-
Mr R.G. Bunning (Retired 15 Jul 08)	1,000,000	-	-	(1,000,000)	-	-	-	-
Mr I.W. Walker	10,000,000	-	(4,000,000)	-	6,000,000	6,000,000	6,000,000	-
Mr M.D.J. Cozijn	5,000,000	-	(2,000,000)	-	3,000,000	3,000,000	3,000,000	-
Mr P.T. McIntyre	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000	-
Dr C.W. Mallett	-	5,250,000	-	-	5,250,000	1,750,000	1,750,000	3,500,000
Mr A.M. Dash	-	30,000,000	-	-	30,000,000	5,000,000	5,000,000	25,000,000
Mr P.N. Hogan	-	-	-	-	-	-	-	-
Dr J.G. Linley	-	-	-	-	-	-	-	-
TOTAL	19,000,000	35,250,000	(6,000,000)	(1,000,000)	47,250,000	18,750,000	18,750,000	28,500,000

Note 6 - Key Management Personnel Compensation (continued)

Executives	Balance at 01 Jul 08	Granted as Remuneration	Options Expensed	Net Change Other (i)	Balance at 30 Jun 09	Total Vested 30 Jun 09	Total Exercisable 30 Jun 09	Total Unexercisable 30 Jun 09
Mr R Mark	-	7,500,000	-	-	7,500,000	2,500,000	2,500,000	5,000,000
Mr J Wedgwood	-	3,000,000	-	-	3,000,000	1,000,000	1,000,000	2,000,000
Mr P Nair	-	3,000,000	-	-	3,000,000	-	-	3,000,000
Mr P Swaddle	-	3,000,000	-	-	3,000,000	-	-	3,000,000
Mr G. Scott	1,250,000	-	-	-	1,250,000	1,250,000	1,250,000	-
TOTAL	1,250,000	16,500,000	-	-	17,750,000	4,750,000	4,750,000	13,000,000

(i) These options lapsed prior to vesting on cessation of employment.

(c) Share Holdings held directly and indirectly by key management personnel:

Key Management Personnel	Balance at 01 Jul 08	Options Exercised	Net change Other	**Balance at 30 Jun 09**
PARENT ENTITY DIRECTORS				
Mr K. Robinson	4,840,280	-	(4,840,280) (i)	-
Mr R.G. Bunning (retired 15 July 2008)	4,465,389	-	(4,465,389) (ii)	-
Mr I.W. Walker	5,326,603	4,000,000	(3,000,000) (i)	**6,326,603**
Mr P.N. Hogan (appointed 29 Aug 2008)	-	-	100,000	**100,000**
Mr M.D.J. Cozijn	1,328,340	2,000,000	(1,200,000) (i)	**2,128,340**
Mr P.T. McIntyre	-	-	50,000	**50,000**
Dr C.W. Mallett	9,437,322	-	-	**9,437,322**
Mr A.M. Dash	-	-	-	-
Mr J.G. Linley (appointed 15 July 2008) (retired 21 May 2009)	-	-	(ii)	-
TOTAL	25,397,934	6,000,000	(13,355,669)	**18,042,265**
EXECUTIVES				
Mr R. Mark	2,777,778	-	(525,000)	**2,252,778**
Mr J. Wedgwood	-	-	(iii)	-
Mr P. Nair	-	-	-	-
Mr P. Swaddle	-	-	-	-
Mr G. Scott	-	250,000	(250,000) (ii)	-
TOTAL	2,777,778	250,000	(775,000)	**2,252,778**

(i) Directors disposed of 9,040,280 ordinary shares during the course of the year.
(ii) No longer a Director or employee.
(iii) Was provided with 250,000 fully paid CNX shares valued at 37 cents in August 2008 as performance bonus and these shares were sold during the year.

Note 7 - Cash and Cash Equivalents

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
CASH ON HAND	1,001	697	400	300
Cash at bank	406,231	5,651,123	245,743	5,590,450
Deposits at call	21,340,000	20,000,000	21,340,000	20,000,000
TOTAL CASH AND CASH EQUIVALENTS	21,747,232	25,651,820	21,586,143	25,590,750

The effective interest rate on deposits at call was 7.56% (2008 – 6.28%) these deposits have an average maturity of 30 days.

Note 8 - Trade & Other Receivables

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
CURRENT				
Trade Receivables	38,511	65,914	37,180	13,043
Other Receivables	90,990	563,667	(34,010)	75,089
TOTAL CURRENT TRADE & OTHER RECEIVABLES	129,501	629,581	3,170	88,132
NON CURRENT				
Performance bonds (*)	410,774	342,477	357,634	322,477
Environmental bonds	30,000	40,000	5,000	15,000
AMOUNTS RECEIVABLE FROM:				
▪ Wholly owned subsidiaries		-	30,966,316	7,903,052
▪ Provision for impairment of receivables		-	(53,052)	(53,052)
TOTAL NON CURRENT TRADE & OTHER RECEIVABLES	440,774	382,477	31,275,898	8,187,477

(*) Performance bonds represent term cash deposits held as security for bank guarantees given in connection with the company's rehabilitation bonds and premises lease commitments (Refer Note 22e).

Note 9 - Investments Accounts for using the Equity Method

Interest in Joint Venture Entities

On 30 June 2008 Carbon (Holdings) Pty Ltd acquired the remaining issued share capital of Carbon Energy (Operations) Pty Ltd and as such becomes a wholly owned subsidiary and is consolidated in the financial statements from that date.

	CONSOLIDATED GROUP	
	2009 $	2008 $
(a) Carrying amount of investment in joint venture entity:		
Balance at the beginning of the financial year	-	1,377,396
Investments made during the period		500,000
Share of joint venture's loss after income tax		(420,301)
Adjustment to reflect share of net asset position		62,109
De-recognition of equity accounted investment on obtaining control	-	1,519,204
BALANCE AT 30 JUNE 2009	-	-
(b) Share of joint venture entity's results and financial position:		
Revenues	-	113,446
Expenses	-	(533,747)
LOSS AFTER INCOME TAX	-	(420,301)

Note 10 - Financial Assets

		CONSOLIDATED GROUP		PARENT ENTITY	
	Notes	2009 $	2008 $	2009 $	2008 $
CURRENT					
(a) Exploration Interest Laverton gold tenements held for sale					
This asset was previously disclosed as deferred exploration costs and following an acceptance of an offer disclosed in note 26, it has been disclosed as held for sale		4,000,000	-	4,000,000	-
(b) Held for trading financial assets comprise:					
Listed investments, at fair value					
▪ Shares in Listed corporations		4,508,000	5,685,535	4,508,000	5,685,535
NON-CURRENT					
(c) Available-for-sale financial assets comprise:					
Unlisted investments, at cost					
▪ Shares in controlled entities		-	-	101	101
▪ Investment in controlled entities		-	-	92,415,236	92,415,096
		-	-	92,415,337	92,415,197

Available-for-sale financial assets comprise investments in the ordinary issued capital of subsidiary entities and other corporations. There are no fixed returns or fixed maturity dates attached to these investments.

Note 11 - Property, Plant and Equipment

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
Freehold Land	408,016	-	-	-
Motor Vehicles – cost	76,470	135,328	76,470	135,328
Less accumulated depreciation	(74,956)	(130,116)	(74,956)	(130,116)
	1,514	5,212	1,514	5,212
Plant and equipment – cost	486,033	301,074	246,610	241,188
Less accumulated depreciation	(261,499)	(202,098)	(208,398)	(192,077)
	224,534	98,976	38,212	49,111
Laverton Project Property, Plant and Equipment - cost	355,441	382,876	355,441	382,876
Less accumulated depreciation	(314,282)	(334,840)	(314,282)	(334,840)
	41,159	48,036	41,159	48,036
Bloodwood Creek UCG Trial Construction – cost	9,831,382	7,781,085	-	-
Less accumulated depreciation	-	-	-	-
	9,831,382	7,781,085	-	-
TOTAL PROPERTY, PLANT & EQUIPMENT	10,506,605	7,933,309	80,885	102,359

(a) Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

CONSOLIDATED GROUP

	Motor Vehicles $	Property, Plant & Equipment $	Laverton Project Property Plant & Equipment $	Bloodwood Creek Trial Plant $	Total $
CARRYING AMOUNT AT 1 JULY 2007	6,725	52,079	55,415	-	114,219
Additions	-	17,275	-	-	17,275
Acquired on Acquisition	-	49,865	-	7,781,085	7,830,950
Disposals	-	(5,489)	-	-	(5,489)
Depreciation expense	(1,513)	(14,754)	(7,379)	-	(23,646)
Transfer to Mine Development					
Deferred Exploration & Evaluation					
CARRYING AMOUNT AT 30 JUNE 2008	5,212	98,976	48,036	7,781,085	7,933,309
CARRYING AMOUNT AT 1 JULY 2008	5,212	98,976	48,036	7,781,085	7,933,309
Additions	-	593,354	682	16,518,340	17,112,376
Acquired on Acquisition	-	-	-	-	-
Disposals	(2,891)		(1,553)	-	(4,444)
Depreciation expense	(807)	(59,780)	(6,006)	-	(66,593)
Transfer to Mine Development				(3,621,463)	(3,621,463)
Deferred Exploration & Evaluation				(10,846,580)	(10,846,580)
CARRYING AMOUNT AT 30 JUNE 2009	1,514	632,550	41,159	9,831,382	10,506,605

Note 11 - Property, Plant, Equipment (continued)

PARENT ENTITY

	Motor Vehicles $	Property, Plant & Equipment $	Laverton Project Property Plant & Equipment $	Total $
CARRYING AMOUNT AT 1 JULY 2007	6,725	52,079	55,415	114,219
Additions	-	17,275	-	17,275
Disposals	-	(5,489)	-	(5,489)
Depreciation expense	(1,513)	(14,754)	(7,379)	(23,646)
CARRYING AMOUNT AT 30 JUNE 2008	**5,212**	**49,111**	**48,036**	**102,359**
CARRYING AMOUNT AT 1 JULY 2008	5,212	49,111	48,036	102,359
Additions	-	5,801	682	6,483
Disposals	(2,891)	-	(1,553)	(4,444)
Depreciation expense	(807)	(16,700)	(6,006)	(23,513)
CARRYING AMOUNT AT 30 JUNE 2009	**1,514**	**38,212**	**41,159**	**80,885**

Note 12 - Intangible Assets

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
Acquired on acquisition Licences and Intellectual property	2,499,999	2,499,999	-	-

The licence relates to the use of COSFLOW, modelling system which predicts the geotechnical hydrological effects and impacts on subsidence gas and water flows of large scale coal removal. Intellectual property relates to modelling tools developed for site selection characterisation and gasifier design and gas production prediction specific to the application of UCG. Intangible assets have finite useful lives. Amortisation charges for intangible assets will be included under depreciation and amortisation expense in the income statement.

To date no impairment or amortisation has been charged against intangible assets. Amortisation will commence following commencement of a commercial UCG operation over the life of the operation.

Note 13 - Deferred Exploration and Evaluation Costs

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
EXPLORATION EXPENDITURE				
Costs carried forward in respect of areas of interest in exploration and evaluation phases (a)	97,212,274	95,222,555	7,660,886	6,607,632
Transfer from BWC	10,846,580			
Provision for impairment in value of tenements	(2,607,632)	-	(2,607,632)	-
Transferred to financial assets held for sale	(4,000,000)	-	(4,000,000)	-
TOTAL CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE	101,451,222	95,222,555	1,053,254	6,607,632

(a) Reconciled as follows:

	CONSOLIDATED GROUP 2009 $	CONSOLIDATED GROUP 2008 $	PARENT ENTITY 2009 $	PARENT ENTITY 2008 $
Opening Balance	95,222,555	6,607,632	6,607,632	6,607,632
Acquired on acquisition	-	88,614,923	-	-
Transfer from BWC	10,846,580			
Transfer to financial assets held for sale	(4,000,000)	-	(4,000,000)	-
Expenditure capitalised during year	1,989,719	-	1,053,254	-
Expenditure written off during year	(2,607,632)	-	(2,607,632)	-
Cost carried forward in respect of areas of Interest in Exploration and Evaluation phases	101,451,122	95,222,555	1,053,254	6,607,632

Note 14 - Mine Development Costs

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
Opening balance	-	-	-	-
Transfer costs from Bloodwood Creek trial plant	3,621,463	-	-	-
TOTAL MINE DEVELOPMENT COSTS	3,621,463	-	-	-

Note 15 - Trade And Other Payables

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
Trade payables	388,724	297,159	38,877	160,583
Sundry creditors and accrued expenses	1,184,331	397,508	1,114,977	233,970
Deferred consideration – acquisition of Carbon Energy (Operations) Pty Ltd	115,740	185,185	115,740	185,185
TOTAL TRADE AND OTHER PAYABLES	1,688,795	879,852	1,269,594	579,738

Note 16 - Short-Term Provisions

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
PROVISION FOR ANNUAL LEAVE				
Opening balance	139,165	76,682	99,848	76,682
Increase in provisions		25,133		25,133
Acquired on acquisition		39,317		-
Benefits paid	(45,357)	(1,967)	(99,848)	(1,967)
BALANCE AT 30 JUNE 2009	93,808	139,165	-	99,848
PROVISION FOR LONG SERVICE LEAVE				
Opening balance	110,209	78,548	110,209	78,548
Increase in provisions	-	31,661	-	31,661
Benefits paid	(110,209)	-	(110,209)	-
BALANCE AT 30 JUNE 2009	-	110,209	-	110,209
TOTAL EMPLOYEE ENTITLEMENTS AT 30 JUNE 2009	93,808	249,374	-	210,057

A provision has been recognised for employee entitlements relating to annual leave and long service leave entitlements accrued at the balance date. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

	No.	No.	No.	No.
(a) Number of Employees at year end	22	15	-	7

Note 17 - Issued Capital

	CONSOLIDATED GROUP 2009 $	CONSOLIDATED GROUP 2008 $	PARENT ENTITY 2009 $	PARENT ENTITY 2008 $
547,296,637 (2008: 490,446,637) Fully paid ordinary shares	**166,450,930**	145,312,137	**166,450,930**	145,312,137
7,407,408 Fully paid ordinary shares to be issued for deferred consideration on acquisition of Carbon Energy (Operations) Pty Ltd	**5,814,815**	5,814,815	**5,814,815**	5,814,815
554,704,045 Fully paid ordinary shares	**172,265,745**	151,126,952	**172,265,745**	151,126,952

	No.	No.	No.	No.
Ordinary Shares at the beginning of the reporting period	**490,446,637**	253,385,383	**490,446,637**	253,385,383
Shares issued during the year				
▪ 14 August 2008 issue of performance based shares	**600,000**		**600,000**	
▪ 27 October 2008 exercise of unlisted employee options @ 10c per share	**250,000**		**250,000**	
▪ 25 March 2009 exercise of unlisted employee options @ 15c per share	**4,000,000**		**4,000,000**	
▪ 31 March 2009 exercise of unlisted employee options	**2,000,000**		**2,000,000**	
▪ 15 June 2008 placement @ 43c per share	**50,000,000**		**50,000,000**	
▪ 30 November 2007 placement @ 30c per share		20,000,000		20,000,000
▪ 9 January 2008 exercise of unlisted employee options @ 10c per share		150,000		150,000
▪ 18 January 2008 exercise of unlisted employee options @ 10c per share		150,000		150,000
▪ 18 February 2008 exercise of unlisted employee options @ 10c per share		100,000		100,000
▪ 31 March 2008 exercise of unlisted employee options @ 10c per share		3,000,000		3,000,000
▪ 28 May 2008 exercise of unlisted employee options @ 10c per share		100,000		100,000
▪ 28 May 2008 placement @ 40c per share		15,000,000		15,000,000
▪ 30 June 2008 placement @ 40c per share		40,000,000		40,000,000
▪ 30 June 2008 placement @ 20c per Share		55,000,000		55,000,000
▪ 30 June 2008 issued on acquisition of Carbon Energy (Operations) Pty Ltd		103,561,254		103,561,254
At reporting date	**547,296,637**	490,446,637	**547,296,637**	490,446,637
▪ 30 June 2009 Deferred consideration on acquisition of Carbon Energy (Operations) Pty Ltd – future issues	**7,407,408**	7,407,408	**7,407,408**	7,407,408
Ordinary shares on issue including deferred consideration on acquisition of Carbon Energy (Operations) Pty Ltd	**554,704,045**	497,854,045	**554,704,045**	497,854,045

The company has no maximum authorised share capital. Ordinary shares are of no par value.

Note 17 - Issued Capital (continued)

(a) Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

(b) At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Capital Risk Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

In order to maintain or adjust the capital structure, the entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, enter into joint ventures or sell assets.

The entity does not have a defined share buy-back plan.

No dividends were paid in 2009 and no dividends are expected to be paid in 2010.

Stock Exchange Listing

Quotation has been granted for 547,296,637 of the Company's ordinary shares on all Member exchanges of the Australian Stock Exchange Limited ("ASX"). 7,407,408 shares remain to be issued as part of the deferred consideration on the acquisition of Carbon Energy (Operations) Pty Ltd (refer Note 26). In addition as part of the Capital Raising 24,418,605 (Tranche 2) were approved by Shareholders and issued 23 July 2009.

Quotation of the Company's ordinary shares on the Berlin Stock Exchange commenced in July 1997.

Options

As at the year end the Company has on issue 69,451,000 unlisted options of which 27,500,000 have vested and are exercisable. Exercise prices for unlisted options range from $0.15 to $1.60.

For information relating to share options issued to key management personnel during the financial year refer to Note 29, Share based payments.

Note 18 - Reserves

Option Reserve

The Option reserve records items recognised as expenses on valuation of employee share options.

Note 19 - Interests in Joint Ventures

The consolidated group has various interests in joint ventures where it has earned an equity interest, and also where other parties are earning an equity interest. The percentage interests of the parties may vary depending on the terms of the Joint Venture Agreement and the level of expenditure undertaken. The table below details the level of equity that may be earned in various tenements should the venturers complete their total earning rights.

State	Venture	Partner	Activity	Possible Equity	Total Capitalised Exploration Expenditure $
WESTERN AUSTRALIA	Spinifex Well	Anvil Mining Ltd	Mineral Exploration	Carbon Energy has earned 80% (Anvil diluting)	-
	Laverton Exploration J/V (1)	Barrick (Granny Smith) Pty Ltd	Gold Exploration & Development	Contributing J/V Carbon Energy 50%	4,000,000
	Beasley Creek J/V (1)	Barrick (Granny Smith) Pty Ltd	Gold Exploration & Development	Contributing J/V Carbon Energy 50%	
	Jenkinson Well (2)	Avoca Resources Ltd	Mineral Exploration	LEJV has earned 70% (Carbon Energy 35%) (Avoca diluting)	-
	Ida/Barnicoat	Barrick (Granny Smith) Pty Ltd	Mineral Exploration	Carbon Energy has earned 50%	-
	Shepherds Well/ Hawks Nest (3)	Perseverance Corporation (PC) (previously Mining Project Investors Pty Ltd)	Mineral Exploration	LEJV holds 100% (Carbon Energy 50%) PC retains 1.5% royalty	-
	Mt Crawford (4)	OZ Minerals Ltd (OZ) (previously Oxiana Limited)	Mineral Exploration	OZ retains 1.5% royalty	-
	Various (5)	Magma Metals Limited	Mineral Exploration	Magma to earn 100% of Ni-Cu-PGE interests	-
VICTORIA	Western Victoria (6)	Perseverance Corporation (previously MPI Gold Pty Ltd)	Mineral Exploration	Royalty	-

Note:

1. Once a decision to mine is made, Carbon Energy's share of mine capital costs can be carried by Barrick (Granny Smith) until commencement of production, and repaid from Carbon Energy's share of production.
2. Barrick (Granny Smith) Pty Limited participating in J/V as part of LEJV for 50% of 70%.
3. Barrick (Granny Smith) Pty Limited participating in J/V as part of LEJV for 50%. MPI retain a 1.5% royalty interest.
4. Barrick (Granny Smith) Pty Limited participating in JV as part of LEJV for 50%. Oxiana Limited retains 1.5% royalty interest.
5. Magma Metals Ltd can earn 100% interest for an expenditure of $2 million within 4 year period in all tenements held by Carbon Energy as of 17 November 2005.
6. Previous Carbon Energy/Forrestania Gold JV 25% equity interest converted to a 2% NSR (Net Smelter Royalty). Carbon Energy's interest will be 40% of this NSR.

There are no assets employed in, or liabilities incurred by the joint ventures other than as disclosed elsewhere in the financial statements. The commitments and contingent liabilities in respect to these joint ventures are referred to in Note 22.

Note 20 - Statement of Operations by Segment

The economic entity operates predominantly in one business and geographical segment, being mineral resource exploration in Australia.

Note 21 - Financial Risk Management

The consolidated entity's principal financial instruments comprise cash, short-term deposits and held for trading investments. The main purpose of these financial instruments is to finance the consolidated entity's operations. The consolidated entity has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the consolidated entity's financial instruments are cash flow interest rate risk and equity price risk. Other minor risks are either summarised below or disclosed at Note 16 in the case of capital risk management. The Managing Director and Finance Director review and agree policies for managing each of these risks.

(a) Cash flow interest rate risk

The consolidated entity's exposure to the risks of changes in market interest rates relates primarily to the consolidated entity's cash deposits with a floating interest rate and its short term deposits and bonds with Fixed interest rates (these are predominantly 30 day revolving term deposits). These financial assets expose the consolidated entity to cash flow interest rate risk. All other financial assets and liabilities in the form of receivables and payables are non-interest bearing. The consolidated entity does not engage in any hedging or derivative transactions to manage interest rate risk. The following tables set out the carrying amount by maturity of the parent entity and consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of these financial instruments. Also included is the effect on profit and equity after tax if interest rates at that date had been 10% higher or lower with all other variables held constant as a sensitivity analysis. The consolidated entity has not entered into any hedging activities to cover interest rate risk. In regard to its interest rate risk, the consolidated entity continuously analyses its exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative investments and the mix of fixed and variable interest rates.

CONSOLIDATED

	Weighted Ave		Floating Interest		Fixed Interest Rate		Non-interest		Total	
	2009 %	2008 %	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $
FINANCIAL ASSETS										
Cash	4.13	7.57	406,231	5,648,550	21,340,000	20,000,000	1,001	3,270	21,747,232	25,651,820
Receivables	3.80	3.02	-	-	410,774	342,477	159,501	669,581	570,275	1,012,058
Investments	-	-	-	-	-	-	4,508,000	5,685,535	4,508,000	5,685,535
TOTAL FINANCIAL ASSETS			406,231	5,648,550	21,750,774	20,342,777	4,668,502	6,358,386	26,825,507	32,349,413
FINANCIAL LIABILITIES										
Payables	-	-	-	-	-	-	(1,688,795)	(879,852)	(1,688,795)	(879,852)
TOTAL FINANCIAL LIABILITIES		-	-	-	-	-	(1,688,696)	(879,852)	(1,688,696)	(879,852)
NET FINANCIAL ASSETS (LIABILITIES)			406,231	5,648,550	21,750,774	20,342,477	2,979,707	5,478,534	25,136,712	31,469,561

CONSOLIDATED

	Interest Rate Risk Sensitivity 2009			
	-10% Profit $	Equity $	+10% Profit $	Equity $
FINANCIAL ASSETS				
Cash	(89,812)	(89,812)	89,812	89,812
Receivables	(1,561)	(1,561)	1,561	1,561
Investments	-	-	-	-
TOTAL FINANCIAL ASSETS	(91,373)	(91,373)	91,373	91,373
FINANCIAL LIABILITIES		-	-	-
Payables	-	-	-	-
TOTAL FINANCIAL LIABILITIES	-	-	-	-
NET FINANCIAL ASSETS (LIABILITIES)	(91,373)	(91,373)	91,373	91,373

Note 21 - Financial Risk Management (continued)

PARENT ENTITY

	Weighted Ave 2009 %	Weighted Ave 2008 %	Floating Interest 2009 $	Floating Interest 2008 %	Fixed Interest Rate 2009 $	Fixed Interest Rate 2008 $	Non-interest 2009 $	Non-interest 2008 $	Total 2009 $	Total 2008 $
FINANCIAL ASSETS										
Cash	**4.16**	7.56	**245,743**	5,590,450	**21,340,000**	20,000,000	**400**	300	**21,586,143**	25,590,750
Receivables	**3.80**	5.53	-	-	**357,634**	322,477	**30,921,434**	7,953,132	**31,279,068**	8,275,609
Investments		0	-	-	-	-	**4,508,000**	5,685,535	**4,508,000**	5,685,535
TOTAL FINANCIAL ASSETS			**245,743**	5,590,450	**21,697,634**	20,322,477	**35,429,834**	13,638,967	**57,373,211**	39,551,894
FINANCIAL LIABILITIES										
Payables			-	-	-	-	**(1,269,594)**	(579,738)	**(1,269,594)**	(579,738)
TOTAL FINANCIAL LIABILITIES			-	-	-	-	**(1,269,594)**	(579,738)	**(1,269,594)**	(579,738)
NET FINANCIAL ASSETS (LIABILITIES)			**245,743**	5,590,450	**21,697,634**	20,322,477	**34,160,240**	13,059,229	**56,103,617**	38,972,156

PARENT ENTITY

			Interest Rate Risk Sensitivity 2009	
	-10% Profit $	Equity $	+10% Profit $	Equity $
FINANCIAL ASSETS				
Cash	(89,797)	(89,797)	89,797	89,797
Receivables	(1,359)	(1,359)	1,359	1,359
Investments	-	-	-	-
TOTAL FINANCIAL ASSETS	(91,156)	(91,156)	91,156	91,156
FINANCIAL LIABILITIES				
Payables	-	-	-	-
TOTAL FINANCIAL LIABILITIES	-	-	-	-
NET FINANCIAL ASSETS (LIABILITIES)	(91,156)	(91,156)	91,156	91,156

A sensitivity of 10% has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. A 10% sensitivity would move short term interest rates at 30 June 2009 from around 4.25% to 3.80% representing a 45 basis points shift. This would represent approximately three decreases which is reasonably possible in the current environment particularly due to the volatile markets caused by Global Financial Crisis.

Based on the sensitivity analysis only interest revenue from cash deposits, short term, term deposits and bank and cash balances are impacted resulting in a decrease or increase in overall income.

(b) Price Risk

The consolidated entity is exposed to equity securities price risk. This arises from investments held and classified on the balance sheet as held for trading. The investments are tradeable on the ASX.

The Company holds 10 million Shares in Magma Metals Ltd (MMB). During the year the Shares traded between $0.21 and $0.57 per share. The following table sets out the carrying amount of the consolidated and parent entity's exposure to equity securities price risk on held for trading investments. Also included is the effect on profit and equity after tax if these prices at that date had been 25% higher or lower with all other variables held constant as a sensitivity analysis:

	Carrying Amount 2009 $	Carrying Amount 2008 $	Price Risk Sensitivity 2009 -25% Profit $	-25% Equity $	+25% Profit $	+25% Equity $
Financial Assets: Held for trading	4,508,000	5,685,535	(1,127,000)	(1,127,000)	1,127,000	1,127,000

A sensitivity of 25% has been selected as this is considered reasonable given the current and recent trending and volatilities of both Australian and international stock markets.

Note 21 - Financial Risk Management (continued)

(c) Credit Risk

The maximum exposure to credit risk at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

The credit risk for counterparties in trade and other receivables at 30 June 2009 are not credit rated by the company. Their maturities are detailed below:

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
Contracted maturities of receivable year ended 30 June 2009				
RECEIVABLE				
▪ Less than 6 months	129,501	429,581	3,170	88,132
▪ 6 to 12 months	-	200,000	-	-
▪ 1 to 5 years	440,774	-	362,634	-
▪ Later than 5 years	-	382,477	30,913,264	8,187,477
TOTAL	570,275	1,012,058	31,279,068	8,275,609

(d) Liquidity risk

The consolidated entity manages liquidity risk by maintaining sufficient cash reserves and marketable securities, and through the continuous monitoring of budgeted and actual cash flows.

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
Contracted maturities of payables year ended 30 June 2009				
PAYABLE				
▪ Less than 6 months	1,688,795	694,667	1,269,594	394,553
▪ 6 to 12 months	-	185,185	-	185,185
▪ 1 to 5 years	-	-	-	-
▪ Later than 5 years	-	-	-	-
TOTAL	1,688,795	879,582	1,269,594	579,738

(e) Commodity Price Risk

The consolidated group is exposed to commodity price risk. This risk arises from its activities directed at exploration and development of mineral commodities. If commodity prices fall, the market for companies exploring for these commodities is affected. The consolidated entity does not hedge its exposures.

(f) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The consolidated entity's foreign transactions are immaterial and it is not exposed to foreign currency risk.

(g) Net fair values

For financial assets and liabilities, the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form, other than listed investments. The consolidated entity has no financial assets where carrying amount exceeds net fair values at balance date.

The consolidated group's payables at balance date are detailed in note 15 and comprise trade payables, sundry creditors and accrued expenses.

The consolidated group's receivables at balance date are detailed in Note 8 and comprise GST input tax credits refundable by the ATO. The balance of receivables comprises sundry other debtors amounts receivable from related parties for services provided.

The credit risk on financial assets of the consolidated group which have been recognised on the Balance Sheet is generally the carrying amount.

Note 22 – Contingent Liabilities And 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.

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
These obligations which are not provided for in the financial statements and are payable:				
▪ not later than one year	**3,060,000**	3,575,407	**2,380,000**	3,049,060

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.

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
(b) Operating Lease Commitment				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
▪ not later than one year	**197,460**	80,065	**197,460**	74,778
▪ later than one year but not later than five years	**512,817**	31,158	**512,817**	31,158
TOTAL OPERATING LEASE COMMITMENTS	**710,277**	111,223	**710,277**	105,936

These relate to property leases as follows:

Perth office - 4 years commencing from 1 November 2005, which has one 4 year option to renew. The remaining period of the existing lease as at 30 June 2009 was 5 months. Rent increases are set at a 4% increase per annum.

Brisbane office lease commenced 1 November 2008 and expires 25 April 2013 with 5 year option. Rent increases are set at a 4% increase per annum.

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
(c) Capital Expenditure Commitments				
Capital expenditure commitments contracted for:				
PAYABLE:				
Not later than 12 months				
Bloodwood Creek Trial Construction	-	14,535,000	-	14,535,000

Note 22 - Contingent Liabilities and Commitments (continued)

The Bloodwood Creek Plant was completed at the end of January 2009.

On 30 June 2008 Carbon Energy Limited, Carbon Energy (Operations) Pty Ltd and Thomas & Coffey Limited entered into the construction contact for the underground coal gasification trial plant at Bloodwood Creek.

As part of the trial plant construction, Carbon Energy Limited may issue up to 15 million fully paid shares for a total of $3 million in drilling services to Constellation Energy Pty Ltd subject to final agreement of costs incurred in the drilling operation and completion of associated documentation by both parties. As a result, this has not been brought to account in the financial statements as at 30 June 2009 however it is expected to be completed in the December 2009 quarter.

(d) 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 recognized 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:

1. provide for the recognition and protection of native title;
2. establish ways in which future dealings affecting native title may proceed and to set standards for those dealings;
3. 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.

In Western Australia if an application for an exploration tenement is made, and the State considers that the grant of the title is not likely to:

- Interfere directly with the carrying out of community or social activities of the native title claimants or holders;
- Interfere with areas or sites of particular significance in accordance with the traditions of the native title claimants or holders; and
- Involve major disturbance to any land or waters or create rights that are likely to involve major disturbance to any land or waters concerned;

Then the Department of Industry and Resources (DoIR) can apply for the expedited procedure statement of the NTA. It does this only after it is satisfied that the Company has agreed to address Aboriginal heritage concerns within the tenement application. This has been done by the establishment of heritage protocol between the State, Native Title Representative Bodies (NTRB's) and industry groups that enable exploration and prospecting applications to proceed under the NTA expedited procedure.

As a result the Company has entered into a number of Regional Standard Heritage Agreements (RSHA's) with the various NTRB's, and consequently any new exploration or prospecting application proceeds to grant by way of the expedited process.

Coal Exploration and UCG

A Cultural Heritage Management Plan has been developed in partnership with the Aboriginal traditional owners of the lands 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 no 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.

(e) Bank Guarantees

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
Standby arrangements with banks to provide funds and support facilities for bank guarantees relating to rehabilitation bonds.				
These facilities are secured by fixed term cash deposits of (2008: $342,477)				
Credit Facility - Deposit (Note 8)	410,774	342,477	357,634	322,477
Amount Utilised	(410,774)	(342,477)	(357,634)	(322,477)
Unused Credit Facility	-	-	-	-
Interest rates on these credit facilities are variable and subject to adjustment.				
Bank Guarantee in relation to the entity's share of guarantee for Lease of office premises	105,491	16,834	105,491	16,834

Note 23 - Cashflow Information

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
(a) Reconciliation of cash flow from operations with loss after income tax				
Loss after income tax	**(15,385,428)**	(2,012,046)	**(9,865,764)**	(1,653,614)
Non-cash flows in loss				
Depreciation	**66,593**	23,646	**23,513**	23,646
Unrealised gain on investments		(1,567,999)		(1,567,999)
Unrealised loss on investments	**1,177,535**	-	**1,177,535**	-
Share Options expensed	**4,322,570**	48,645	**4,322,570**	48,645
Net loss /(gain) on disposal of investments		4,077		4,077
Loss (Gain) on disposal of Plant & Equipment	**(3,448)**	4,789	**(3,448)**	4,789
Share of Joint Venture entities net loss after income tax and dividends		358,192		-
Capitalised exploration expenditure ▪ written off	**2,607,633**		**2,607,633**	
Changes in assets and liabilities				
(Increase)/Decrease in sundry debtors	**510,080**	(55,461)	**94,963**	(55,462)
Increase/(Decrease) in trade creditors and accruals	**(266,057)**	61,914	**(385,145)**	61,914
Increase/(Decrease) in provisions	**(155,566)**	54,827	**(210,057)**	54,827
Cash flow (used in) operations	**(7,126,088)**	(3,079,416)	**(2,238,200)**	(3,079,177)
(b) Non-cash Financing and Investing Activities				
Share Issue				
103,561,254 fully paid shares were issued as part consideration for the purchase of Carbon Energy (Operations) Pty Ltd in 2008. The value of the shares on completion date for the acquisition was $0.785 per share.				
(c) Acquisition of Entities				
Cash consideration	-	2,589,030	-	2,589,030
Cash acquired on acquisition	-	(60,928)	-	-
Payment for Subsidiary net of cash acquired	-	2,528,102	-	2,589,030

Note 24 - Related Party Transactions

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $

Transactions between related parties are on usual commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

(a) Directors' Share Transactions:

Directors and Director related entities hold directly, indirectly or beneficially as at the reporting date the following equity interests in the Company.

	2009 $	2008 $	2009 $	2008 $
Ordinary Shares	17,892,265	25,397,934	17,892,265	25,397,934
15 cent vested unlisted options expiring 31/3/09	-	6,000,000	-	6,000,000
15 cent vested unlisted options expiring 31/12/09	5,000,000	5,000,000	5,000,000	5,000,000
20 cent vested unlisted options expiring 31/3/10	9,000,000	9,000,000	9,000,000	9,000,000
25 cent vested unlisted options expiring 10/12/13	5,000,000	-	5,000,000	-
80 cent vested unlisted options expiring 10/12/13	1,750,000	-	1,750,000	-

Directors and their related entities reduced their share holdings by a net 7,505,669 (2008: net increase of 1,496,110) ordinary shares through the exercise of employee share options, market transfers during the course of the year. The reduction also affected by retirement of Directors. Dr Mallett has an interest in 4,629,630 ordinary shares to be issued as part of the deferred consideration on acquisition of Carbon Energy (Operations) Pty Ltd following completion of the successful UCG Trial at Bloodwood Creek.

(b) Director – Related Entities:

	2009 $	2008 $	2009 $	2008 $
Exploration Accommodation, Finance and Administration fees charged to Magma Metals Ltd of which Mr M.D.J. Cozijn is a Director amounted to:	13,485	29,450	13,485	29,450
Accounting services charged by Magma Metals Ltd of which Mr M.D.J. Cozijn is a Director amounted to:	27,188	-	27,188	-
Administration fees charged to Malagasy Minerals Ltd of which Mr M.D.J. Cozijn is a Director amounted to:	4,298	4,357	4,298	4,357
Administration fees charged to Oilex Ltd of which Mr M.D.J. Cozijn is a Director amounted to:	5,000	10,000	5,000	10,000
Management fees charged to Carbon Energy (Operations) Pty Ltd* of which Mr M.D.J. Cozijn and Mr I.W. Walker are Directors amounted to:	-	60,000	-	60,000

During 2008 a number of tenements were transferred to Magma Metals Ltd under the provisions of the Concurrent Rights Agreement between Carbon Energy and Magma Metals Ltd.

* Remaining share capital acquired by Carbon Energy on 30 June 2008 and is now a wholly owned subsidiary.

Note 25 - Superannuation Commitments

The consolidated group participates in an employer sponsored superannuation scheme under which contributions of various percentages of employee's gross income are contributed to this fund, which is externally managed and independently operated.

The consolidated group's contributions are legally enforceable to the extent of the superannuation guarantee legislation. All employees have a choice of participating in the consolidated group's sponsored fund or having contributions made to their own fund.

Note 26 - Events Subsequent to Balance Date

No matters of circumstances have arisen since the end of the financial year, which significantly affected or may significantly effect the operations of the economic entity, the results of those operations and the state of affairs of the economic entity in subsequent financial years, other than:

Subsequent to the year end on going stock market volatility has affected the market value of Carbon Energy's equity investment in Magma Metals Limited (MMB). Valued at the closing price for MMB shares of $0.66 per share on 16 September 2009 would result in a reduction in the carrying value at 30 June 2009 of $2,000,000. This reduction in current market value has not been brought to account in the financial statements as at 30 June 2009.

On 23 July 2009, the Company completed Tranche 2 of the Placement, issuing 24,418,605 fully paid shares at 43 cents.

The first and second tranches of the Placement raised gross proceeds of $32 million.

Pursuant to Shareholder approval granted at the general meeting on 20 July 2009, the Company allotted 7,407,408 fully paid shares as the final consideration for the acquisition of Carbon Energy (Operations) to Dr Mallett's nominee 4,629,630 fully paid shares and Mr Mark's nominee 2,777,778 fully paid shares.

On 14 August 2009, the Company announced that it would sell its gold interests in the Laverton area of Western Australia to Crescent Gold Limited for $2.5 million in cash plus $1.5 million deferred consideration. The Company also announced that it intends to proceed with an IPO listing of its uranium interests.

Note 27 - Controlled Entities

(a) Controlled entities

	COUNTRY OF INCORPORATION	PERCENTAGE OWNED	
		2009 %	2008 %
Parent Entity: Carbon Energy Ltd (formerly named Metex Resources Ltd)	Australia	-	-
Subsidiaries of Carbon Energy Ltd: Metex Resources NL (formerly names Windarra Minerals NL)	Australia	100	100
Nickelex Pty Ltd	Australia	100	100
Carbon Energy (Holdings) Pty Ltd (CEH)	Australia	100	100
Carbon Energy (Operations) Pty Ltd (formerly named Carbon Energy Pty Ltd (CEOPL)	Australia	100	100

The change of names as noted were effected on 9 July 2008.

The subsidiaries noted above are all controlled entities and are in the early stage of establishment and are dependent on the parent entity for financial support. At year end, total loans to these subsidiaries amount to $31,275,898 (2008: $7,903,052).

Acquisition of Carbon Energy (Operations) Pty Ltd (as at 30 June 2008) prior to this, Carbon Energy (Operations) Pty Ltd (CEOPL) was incorporated as a joint venture company, formed by Carbon Energy Limited (formerly Metex Resources Ltd) and the CSIRO to develop Underground Coal Gasification (UCG) technology.

Note 28 - Auditors Remuneration

	CONSOLIDATED GROUP		PARENT ENTITY	
	2009 $	2008 $	2009 $	2008 $
Remuneration for the auditor of the parent entity for:				
▪ auditing or reviewing the financial report	44,710	38,303	44,710	38,303
▪ corporate advisory services	1,500	1,500	1,500	1,500
	46,210	39,803	46,210	39,803

Note 29 - Share - Based Payments

The following Share-based payment arrangements were issued during the year.

No. of Options	Grant Date	Exercise Price	Vesting Date	Expiry Date
5,000,000	13/11/2008	$0.25	30/06/2009	10/12/2013
7,000,000	13/11/2008	$0.35	30/06/2010	10/12/2013
8,000,000	13/11/2008	$0.70	30/06/2011	10/12/2013
10,000,000	13/11/2008	$1.00	30/06/2012	10/12/2014
1,750,000	13/11/2008	$0.80	30/06/2009	10/12/2013
1,750,000	13/11/2008	$1.20	30/06/2010	10/12/2013
1,750,000	13/11/2008	$1.60	30/06/2011	10/12/2013
2,500,000	16/09/2008	$0.80	30/06/2009	10/12/2013
2,500,000	16/09/2008	$1.20	30/06/2010	10/12/2013
2,500,000	16/09/2008	$1.60	30/06/2011	10/12/2013
1,000,000	16/09/2008	$0.80	30/06/2009	10/12/2013
1,000,000	16/09/2008	$1.20	30/06/2010	10/12/2013
1,000,000	16/09/2008	$1.60	30/06/2011	10/12/2013
1,000,000	17/10/2008	$0.80	31/10/2009	10/12/2013
1,000,000	17/10/2008	$1.20	31/10/2010	10/12/2013
1,000,000	17/10/2008	$1.60	31/10/2011	10/12/2013
1,000,000	17/10/2008	$0.80	31/10/2009	10/12/2013
1,000,000	17/10/2008	$1.20	31/10/2010	10/12/2013
1,000,000	17/10/2008	$1.60	31/10/2011	10/12/2013
2,000,000	15/05/2008	$0.60	03/07/2008	30/06/2001
351,000	31/03/2009	$0.40	30/06/2008	01/04/2012
100,000	31/03/2009	$0.25	30/06/2008	01/04/2012

All Options granted to Key Management personnel and employees are ordinary shares in Carbon Energy Limited, which confer a right of one ordinary share for every Option held.

None of the Options hold voting or dividend rights. If the Option holder ceases to be in the employment of the Company prior to vesting, the Options will lapse.

Note 29 - Share-Based Payments (continued)

	CONSOLIDATED GROUP				PARENT ENTITY			
	2009 $		2008 $		2009 $		2008 $	
	No. of Options	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price
Outstanding at the beginning of the year	21,500,000	$0.17	27,000,000	$0.16	21,500,000	$0.16	27,000,000	$0.16
GRANTED								
15 May 2008	2,000,000	$0.60	-	-	2,000,000	$0.60		
16 September 2008	10,500,00	$1.20	-	-	10,500,000	$1.20	-	
17 October 2008	6,000,000	$1.20	-	-	6,000,000	$1.20	-	
13 November 2008	35,250,000	$0.73	-	-	35,250,000	$0.73	-	
31 March 2009	451,000	$0.37	-	-	451,000	$0.37	-	
22 June 2007	-	-	500,000	$0.30	-	-	500,000	$0.30
Exercised	(6,250,000)	$0.15	(3,500,000)	$0.10	(6,250,000)	$0.15	(3,500,000)	$0.10
Cancelled	-	-	(1,000,000)	$0.15	-	-	(1,000,000)	$0.15
	-	-	(1,500,000)	$0.20	-	-	(1,500,000)	$0.20
Outstanding at year end	69,451,000	$0.71	21,500,000	$0.17	69,451,000	$0.71	21,500,000	$0.17
Exercisable at year end	27,500,000	$0.32	21,125,000	$0.17	27,500,000	$0.32	21,125,000	$0.10

There were 6,250,000 (2008: 3,500,000) options exercised during the year. These Options had a weighed average share price of $0.46 (2008: $0.254) at exercise date.

The Options outstanding at 30 June 2009 had a weighted average exercise price of $0.71 and a weighted average remaining contractual life of 1.43 years. Exercise prices range from $0.15 to $1.60 in respect of options outstanding at 30 June 2009.

The weighted average fair value of the options granted during the year was $0.178 (2008: $0.086).

This price was calculated using a Black Sholes option pricing model applying the following inputs:

Weighted average exercise price	$0.87
Weighted average life of option	4.93 years
Underlying share price	$0.88
Expected share price volatility	70%
Risk free interest rate	6.25%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future trend, which may not eventuate. Included under employee benefits expense in the income statement is $4,322,570 (2008: $48,645) and relates, in full, to equity-settle share - based payment transactions.

Note 30 - Company Details

The registered office of the company is:

Carbon Energy Limited
Level 12, 301 Coronation Drive
Milton, QLD 4064

> financial report

Director's Declaration

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 40 to 74, are in accordance with the Corporations Act 2001 and:
   (a) comply with Accounting Standards and the Corporations Regulations 2001; and
   (b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company and consolidated group;

2. the Managing Director and Finance Director have each declared that:
   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
   (c) the financial statements and notes for the financial year give a true and fair view.

3. in the Director's opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

K. Robinson
Chairman

A.M. Dash
Managing Director

Brisbane, Queensland
28 September 2009

financial report

Independent Audit Report to the Members of Carbon Energy Limited and its Controlled Entities

FOR THE YEAR ENDED 30 JUNE 2009

We have audited the accompanying financial report of Carbon Energy Limited (the company) and Carbon Energy Limited and its Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2009 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion, the financial report of Carbon Energy Limited and Carbon Energy Limited and its Controlled Entities is in accordance with the Corporations Act 2001 including:

(a) (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 32 to 36 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Carbon Energy Limited for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

WHK HORWATH PERTH AUDIT PARTNERSHIP

Cyrus Patell
Principal

Perth, WA
Dated this 28th day of September 2009

Horwath

Total Financial Solutions

MEMBER HORWATH INTERNATIONAL

WHK Horwath Perth Audit Partnership ABN 96 844 819 235
Level 6, 256 St Georges Terrace Perth WA 6000 Australia
GPO Box P1213 Perth WA 6844 Australia
Telephone +61 8 9481 1448 Facsimile +61 8 9481 0152
Email perth@whkhorwath.com.au www.whkhorwath.com.au

A WHK Group firm

tenement schedule

AS AT 30 JUNE 2009

Coal Tenements

Tenement Number	Grant date	Expiry Date	Holder	% of interest held	Number of Sub-blocks
EPC 867	18/02/2005	17/02/2010	Carbon Energy (Operations Pty Ltd)	100%	300
EPC 868	18/02/2005	17/02/2010	Carbon Energy (Operations Pty Ltd)	100%	229
EPC 869	14/10/2004	13/10/2009	Carbon Energy (Operations Pty Ltd)	100%	99
EPC 1109	14/02/2007	13/02/2012	Carbon Energy (Operations Pty Ltd)	100%	76
EPC 1132	21/06/2007	20/06/2012	Carbon Energy (Operations Pty Ltd)	100%	23
MLA50253	Application	-	Carbon Energy (Operations Pty Ltd)	100%	1342 ha
MDL374	01/02/08	31/01/2013	Carbon Energy (Operations Pty Ltd)	100%	2687 ha

Gold Prospective Tenements

WESTERN AUSTRALIA

Note	Project	Tenement	Register Holder	Nature of Interest	Interest at 30 June
	Beasley / Gladiator	E38 / 1896	Carbon Energy	Owned	100
1, 6	Beasley / Gladiator	M38 / 358	Carbon Energy/Barrick	Owned	50
1, 6	Beasley / Gladiator	M38 / 40	Carbon Energy/Barrick	Owned	50
1, 6	Beasley / Gladiator	M38 / 49	Carbon Energy/Barrick	Owned	50
1, 6	Beasley / Gladiator	M38 / 52	Carbon Energy/Barrick	Owned	50
1, 6	Beasley / Gladiator	P38 / 3495	Carbon Energy/Barrick	Owned	50
	Beasley/Gladiator	P38/3324	Carbon Energy	Owned	100
1,6	Beasley/Gladiator	P38/3489	Carbon Energy/Barrick	Owned	50
1,6	Beasley/Gladiator	P38/3490	Carbon Energy/Barrick	Owned	50
1,6	Beasley/Gladiator	P38/3491	Carbon Energy/Barrick	Owned	50
1,6	Beasley/Gladiator	P38/3492	Carbon Energy/Barrick	Owned	50
6	Burtville West	E38/1642	Carbon Energy	Owned	100
6	Burtville West	E38/1725	Carbon Energy	Owned	100
6	Burtville West	P38/3122	Carbon Energy	Owned	100
6	Burtville West	P38/3188	Carbon Energy	Owned	100
6	Burtville West	P38/3190	Carbon Energy	Owned	100
6	Burtville West	P38/3237	Carbon Energy	Owned	100
6	Childe Harold	E38/1652	Carbon Energy	Owned	100

Gold Prospective Tenements (continued)

WESTERN AUSTRALIA

Note	Project	Tenement	Register Holder	Nature of Interest	Interest at 30 June
1,6	Danny Bore	P38/3717	Carbon Energy/Barrick	Owned	50
1,6	Danny Bore	P38/3718	Carbon Energy/Barrick	Owned	50
1,6	Danny Bore	M38/46	Carbon Energy/Barrick	Owned	50
6	Euro	E38/2027	Carbon Energy	Owned	100
6	Euro	P38/3653	Carbon Energy	Owned	100
1,6	Garden Well	M38/101	Carbon Energy/Barrick	Owned	50
1,6	Garden Well	P38/3719	Carbon Energy/Barrick	Owned	50
1,6	Garden Well	M38/48	Carbon Energy/Barrick	Owned	50
1,6	Garden Well	M38/535	Carbon Energy/Barrick	Owned	50
1,6	Gladiator	M38/342	Carbon Energy/Barrick	Owned	50
1,6	Gladiator	M38/363	Carbon Energy/Barrick	Owned	50
1,6	Gladiator	M38/364	Carbon Energy/Barrick	Owned	50
1,6	Hawks Nest	P38/3721	Carbon Energy	Owned	100
1,6	Hawks Nest	P38/3720	Carbon Energy	Owned	100
1,6	Hawks Nest	E38/1930	Carbon Energy/Barrick	Owned	50
6	Ida/Barnicoat	E38/1494	Carbon Energy	Owned	100
	Ida-Barnicoat	E38/1878	Carbon Energy	Owned	100
4,6	Mt Ida JV	P38/3726	Delta	Owned	100
4,6	Mt Ida JV	P38/3727	Delta	Owned	100
4,6	Mt Ida JV	P38/3728	Delta	Owned	100
4,6	Mt Ida JV	P38/3729	Delta	Owned	100
4,6	Mt Ida JV	P38/3730	Carbon Energy/Delta	Owned	50
4,6	Mt Ida JV	P38/3731	Carbon Energy/Delta	Owned	50
4,6	Mt Ida JV	P38/3732	Carbon Energy/Delta	Owned	50
4,6	Mt Ida JV	P38/3733	Carbon Energy/Delta	Owned	50
4,6	Mt Ida JV	P38/3734	Carbon Energy/Delta	Owned	50
4,6	Mt Ida JV	P38/3735	Carbon Energy/Delta	Owned	50
4,6	Mt Ida JV	P38/3736	Carbon Energy/Delta	Owned	50
4,6	Mt Ida JV	P38/3737	Carbon Energy/Delta	Owned	50
4,6	Mt Ida JV	P38/3738	Carbon Energy/Delta	Owned	50
4,6	Mt Ida JV	E38/2033	Carbon Energy/Delta	Owned	50
4,6	Mt Ida JV	E38/2034	Carbon Energy/Delta	Owned	50
6	Lancefield	M38/37	Carbon Energy	Owned	100
1,6	Lancefield	M38/38	Carbon Energy/Barrick	Owned	50
1,6	Lancefield	M38/39	Carbon Energy/Barrick	Owned	50

Gold Prospective Tenements (continued)

WESTERN AUSTRALIA

Note	Project	Tenement	Register Holder	Nature of Interest	Interest at 30 June
1,6	Lancefield	P38/3488	Carbon Energy/Barrick	Owned	50
1,6	Lancefield Nth	M38/159	Carbon Energy/Barrick	Owned	50
1,6	Lancefield Nth	M38/255	Carbon Energy/Barrick	Owned	50
	Mt Morgans	P39/4783	Carbon Energy	Owned	100
	Mt Morgans	P39/4784	Carbon Energy	Owned	100
	Mt Morgans	P39/4785	Carbon Energy	Owned	100
	Mt Morgans	P39/4786	Carbon Energy	Owned	100
	Mt Morgans	P39/4787	Carbon Energy	Owned	100
	Mt Morgans	P39/4788	Carbon Energy	Owned	100
5,6	Mt. Crawford	P38/3500	Carbon Energy	Owned	50
5,6	Mt. Crawford	P38/3501	Carbon Energy	Owned	50
1,6	Red Flag	M38/372	Carbon Energy/Barrick	Owned	50
1,6	Red Flag	P38/3499	Carbon Energy/Barrick	Owned	100
1,6	Red Flag	P38/3493	Carbon Energy/Barrick	Owned	50
1,6	Red Flag	P38/3494	Carbon Energy/Barrick	Owned	50
1,6	Red Flag	M38/693	Carbon Energy/Barrick	Owned	50
1,6	Red Flag	M38/694	Carbon Energy/Barrick	Owned	50
1,6	Red Flag	P38/3502	Carbon Energy/Barrick	Owned	100
1,6	Red Flag	P38/3503	Carbon Energy/Barrick	Owned	100
6	Roe	E28/1416	Carbon Energy	Owned	100
6	Shepherds Well	P39/4648	Carbon Energy	Owned	100
6	Shepherds Well	P39/4782	Carbon Energy	Owned	100
2,6	Shepherds Well	E39/1296	Carbon Energy	Owned	100
3,6	Spinifex Well	P38/3655	Carbon Energy/Anvil	Owned	80
1,6	Sunshine	P38/3314	Carbon Energy/Barrick	Owned	50
1,6	Sunshine	P38/3315	Carbon Energy/Barrick	Owned	50
1,6	Sunshine	P38/3316	Carbon Energy/Barrick	Owned	50
1,6	Sunshine	P38/3317	Carbon Energy/Barrick	Owned	50
1,6	Sunshine	P38/3318	Carbon Energy/Barrick	Owned	50
1,6	Sunshine	E38/1886	Carbon Energy/Barrick	Owned	50
	Sunshine	P38/3327	Carbon Energy/Barrick	Owned	50
1,6	Windarra East	P38/3496	Carbon Energy/Barrick	Owned	50
1,6	Windarra East	M38/967	Carbon Energy/Barrick	Application	50
1,6	Windarra East	P38/3497	Carbon Energy/Barrick	Application	50
1,6	Windarra Sth	P38/3498	Carbon Energy/Barrick	Owned	50

Uranium Prospective Tenements

WESTERN AUSTRALIA

Note	Project	Tenement	Register Holder	Nature of Interest	Interest at 30 June
	Nyang	E08/1644	Carbon Energy	Owned	100
	Nyang	E08/1645	Carbon Energy	Owned	100
	Nyang	E08/1646	Carbon Energy	Owned	100
	Table Top	E45/2886	Carbon Energy	Application	100

NORTHERN TERRITORY

Note	Project	Tenement	Register Holder	Nature of Interest	Interest at 30 June
	Alice Springs	EL25264	Carbon Energy	Application	100
	Alice Springs	EL25267	Carbon Energy	Application	100
	Westmoreland	EL25269	Carbon Energy	Application	100
	Westmoreland	EL25272	Carbon Energy	Application	100

QUEENSLAND

Note	Project	Tenement	Register Holder	Nature of Interest	Interest at 30 June
	Westmoreland	EPM/15489	Carbon Energy	Application	100
	Westmoreland	EPM/15491	Carbon Energy	Application	100

SOUTH AUSTRALIA

Note	Project	Tenement	Register Holder	Nature of Interest	Interest at 30 June
	Curnamona Province	EL3651	Carbon Energy	Owned	100
	Curnamona Province	EL4035	Carbon Energy	Owned	100
	Gawler Craton	EL3680	Carbon Energy	Owned	100
	Gawler Craton	EL3682	Carbon Energy	Owned	100
	Gawler Craton	EL3650	Carbon Energy	Owned	100
	Gawler Craton	EL3683	Carbon Energy	Owned	100
	Gawler Craton	EL3957	Carbon Energy	Owned	100
	Gawler Craton	EL3958	Carbon Energy	Owned	100

Uranium And Base Metal Prospective Tenements

ITALY

Note	Project	Tenement	Register Holder	Nature of Interest	Interest at 30 June
Lombardy Region	Novazza	Metex Resources Limited	Application	100	
Lombardy Region	Val Vedello	Metex Resources Limited	Application	100	
Lombardy Region	Gorno NW	Metex Resources Limited	Owned	100	
Lombardy Region	Gorno NE	Metex Resources Limited	Owned	100	
Lombardy Region	Zambla	Metex Resources Limited	Owned	100	
Lombardy Region	Monte Golla	Metex Resources Limited	Owned	100	
Lombardy Region	Vedra	Metex Resources Limited	Owned	100	
Lombardy Region	Punta Covolo	Metex Resources Limited	Owned	100	
Lombardy Region	Monte Pora	Metex Resources Limited	Owned	100	

Abbreviations:
M (Mining Lease), P (Prospecting Licence), E (Exploration Licence), EL (Exploration Licence - SA / NT),
EPM (Exploration Permit for Minerals - QLD)

Notes:
1 Laverton Exploration JV. Barrick (Granny Smith) Pty Ltd (Barrick) have earned 50% interest
2 Mining Project Investors Pty Ltd retain a 1.5% royalty
3 Joint venture with Anvil Mining Ltd. Carbon Energy has earned 80% interest. Anvil diluting
4 Joint venture with Barrick. Carbon Energy has earned 50% interest
5 Joint venture with Barrick. Oxiana Limited retains 1.5% royalty interest
6 Magma Metals Limited Concurrent Rights Agreement. Magma has entitlement to earn 100% of Ni-Cu-PGE interests

Gold Resource Summary - Laverton Projects

GEOLOGICAL RESOURCE SUMMARY AS AT 30 JUNE 20091

			MEASURED		INDICATED		INFERRED				TOTAL
	Lower Cut g/t	Upper Cut g/t	Tonnes	g/t Au	Tonnes	g/t Au	Tonnes	g/t Au	Tonnes	g/t Au	Ounces
M38/37 LANCEFIELD RESOURCES[2] [CEL 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	38,800
WMC[3]	3	-	1,036,000	6.8	158,000	4.7			1,194,000	6.5	250,400
TELEGRAPH[4]	4	20					91,000	6	91,000	6.0	17,600
TOTAL TONNES			1,036,000	6.8	1,001,000	6.2	705,000	7	2,742,000	6.6	
TOTAL OUNCES			226,495		201,000		157,000				585,000
STH L'FIELD OXIDE	1	15			72,000	4.0	3,000	5	75,000	4.0	9,700
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			226,495		210,259		157,957				594,700

Gold Resource Summary - Laverton Projects (continued)

			MEASURED		INDICATED		INFERRED				TOTAL
	Lower Cut g/t	Upper Cut g/t	Tonnes	g/t Au	Tonnes	g/t Au	Tonnes	g/t Au	Tonnes	g/t Au	Ounces
LAVERTON EXPLORATION JOINT VENTURE [CEL 50%] VARIOUS OXIDE RESOURCES											
BEASLEY CREEK (M38/49)	1	IDS	270,000	2.0	527,000	2.1	833,000	2.0	1,630,000	2.0	106,900
BEASLEY CREEK (M38/49)	1	IDS	147,000	3.1	161,000	2.5	111,000	1.7	419,000	2.5	33,700
GLADIATOR NORTH5 (M38/49)	1	5	7,000	1.7	41,000	1.7	123,000	1.6	171,000	1.6	9,000
INNUENDO (M38/101)	1	IDS			180,000	2.9	380,000	2.3	560,000	2.5	44,900
WHISPER[6]	1	IDS					1,408,000	2.4	1,408,000	2.4	108,600
RUMOUR (M38/535)	1	IDS			1,590,000	2.1	1,060,000	2.1	2,650,000	2.1	178,900
GARDEN WELL[5]	1	12	90,000	3.3	110,000	2.6	150,000	2	350,000	2.5	28,400
TOTAL OXIDE TONNES - LEJV			514,000	2.5	2,609,000	2.2	4,065,000	2.2	7,188,000	2.2	
TOTAL OXIDE OUNCES - LEJV			41,692		183,922		284,717				510,400
OVERALL TONNES			1,550,000	5.4	3,682,000	3.3	4,773,000	2.9	10,005,000	3.4	
OVERALL OUNCES			268,188		394,182		442,673				1,105,100
CARBON ENERGY ATTRIBUTABLE OUNCES											849,900

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 outline. Reference March 99 Pre-feasibility Report.
6 Whisper resource recalculated May 05.

Coal Resource Summary

AS AT 30 JUNE 2009

Location	Seam Thickness Cut-off	Indicated (Mt)	Inferred (Mt)	TOTAL (Mt)
Bloodwood Creek	2 5[1]	218 158	280 57	498 215
Kogan	2 5[1]		170 149	170 149
Total Resource	**2** **5[1]**			**668** **364**

Notes:
1. Optimal target for Underground Coal Gasification

CarbonEnergy

Competent Person's Statements

COAL TENEMENTS

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.

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 his information in the form and context in which it appears.

> shareholder information

1. Shareholding

The shareholder information set out below was applicable as at 18 September 2009.

(a) Distribution of Share and Option Holdings as at 18 September 2009.

Size of Holding and Option Holdings	Number of Shareholders	Shares	% of issued Capital
1 - 1,000	339	248,766	0.04
1,001 - 5,000	1,707	5,432,175	0.93
5,001 - 10,000	1,306	11,095,727	1.91
10,001 - 100,000	2,411	81,937,991	14.11
100,001 and over	469	482,407,991	83.01
Total Shareholders	6,232	581,122,650	100.00

(b) Of the above total 98 Ordinary Shareholders hold less than a marketable parcel.

(c) Substantial Shareholders

- Commonwealth Scientific & Industrial Research (CSIRO) holds 87,346,154 ordinary shares representing 15.03% of the Company's equity.
- Incitec Pivot Limited holds 61,976,744 ordinary share representing 10.67% of the Company's equity.

(d) Voting Rights

The voting rights attached to the ordinary shares are governed by the Constitution. On a show of hand every person present who is a Member or representative of a Member shall have one vote and on a poll, every member present in person or by proxy or by attorney or duly authorized representative shall have one vote for each share held. Note of the options have any voting rights.

2. The name of the Company Secretary is Mr Prem Nair.
3. The address of the principal registered office in Australia is Level 12, 301 Coronation Drive, Milton, Brisbane, Queensland 4064, Telephone +61 7 3337 9944.
4. The register of securities is held at; Security Transfer Registrars Pty Ltd, 770 Canning Highway, Applecross WA 6153, Telephone +61 8 9315 2333.
5. Stock Exchange Listing Quotation has been granted for all the ordinary share of the company on all Member Exchanges of the Australian Stock Exchange Limited, and trade under the symbol CNX.

   Quotation has also been granted for all the ordinary shares of the company on the Berlin and Frankfurt Stock Exchange (Third Market).
6. Detailed schedules of exploration and mining tenements held are included in the tenement schedule.
7. Directors' interest in share capital are disclosed in the Directors Report.
8. Unquoted Securities – Details of the 67.451 million unlisted options on issue are detailed in the Directors' report. Mr A.M. Dash (Managing Director) holds options over 30 million ordinary shares representing 44.5% of the unlisted options on issue.

   Mr I. W. Walker (Non Executive Director) holds options over 6 million ordinary shares representing 8.9% of the unlisted options on issue.

   Dr C. W. Mallett (Executive Director) holds options over 5.25 million ordinary shares representing 7.8% of the unlisted options on issue. There is currently no on-market buy-back in place.

Twenty Largest Shareholders

AS AT 18 SEPTEMBER 2009

Shareholders (Fully Paid Ordinary)	Number of Shares	%
Commonwealth Sci & In Org	87,346,154	15.03%
Incitec Pivot Ltd	61,976,744	10.67%
HSBC Custody Nom Aust Ltd	26,348,354	4.53%
Lujeta PL	17,000,000	2.93%
Mallett CW & WJ	11,766,952	2.02%
National Nom Ltd	10,418,353	1.79%
JP Morgan Nom Aust Ltd	9,714,233	1.67%
Darley PL	8,850,000	1.52%
ANZ Nom Ltd	8,124,675	1.40%
Harman Nom PL	8,000,000	1.38%
Oceanview Road PL	8,000,000	1.38%
Cassa Trading PL	7,500,000	1.29%
Equity Ttees Ltd	6,002,671	1.03%
Morcombe Darren	5,000,000	0.86%
UBS Wealth Mgnt Aust Nom	4,963,175	0.85%
Computer Visions PL	4,500,000	0.77%
Aileendonan Inv	4,465,389	0.77%
Zarzal PL	3,900,000	0.67%
Elizabethan Super PL	3,855,224	0.66%
JJ Hldgs Vic PL	3,511,063	0.60%
Top 20 Shareholders	301,241,987	51.82%
TOTAL ISSUED SHARES as at 18 September 2009	**581,122,650**	**100%**

corporate information

CARBON ENERGY LIMITED ABN 56 057 552 137 AND CONTROLLED ENTITIES
SEVENTEENTH ANNUAL REPORT AND 2009 FINANCIAL STATEMENTS
30TH JUNE 2009

DIRECTORS
K. Robinson B.Sc. (Geology)
Chairman

A.M Dash BE(Chem), MCom
Managing Director

C.W. Mallett MSc, PhD, FAIE
Technical Director

M.D.J. Cozijn B. Com. ASA MAICD.
Director

P.N. Hogan B.Bus, ACA.
Director

P.T. McIntrye B.Sc (Eng), MBA, FIEAust
Director

I.W. Walker B.Sc. Hons. (Geology)
Director

SECRETARY
P.K. Nair B Bus (Acctg),
MBA, FCA, FCIS, FTIA, MAICD

MANAGEMENT TEAM
A Dash
Managing Director

C Mallett
Technical Director

P Nair
CFO & Company Secretary

P Swaddle
General Manager - Commercial

J Wedgwood
General Manager - Operations

REGISTERED & PRINCIPAL OFFICE
Level 12, 301 Coronation Drive
MILTON QLD 4064
Tel +617 3337 9944
Fax +617 3337 9945
askus@carboneenergy.com.au
www.carbonenergy.com.au

POSTAL ADDRESS
PO Box 2118
TOOWONG DC QLD 4066

SHARE REGISTRY
Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 615

STOCK EXCHANGE LISTING
Australian Stock Exchange Limited
Berlin and Frankfurt Stock
Exchange (Third Market)

SOLICITORS
Gaden Lawyers
240 Queen Street
BRISBANE QLD 4001

AUDITORS
WHK Horwath
Level 6, 256 St Georges Terrace
PERTH WA 6000

ANNUAL GENERAL MEETING
The Annual General Meeting
of Carbon Energy Limited will be held
at Royal On The Park, Avro Room
Cnr Alice & Albert Streets
Brisbane QLD 4000
at 9:30 am on Friday, 20th November 2009.

CARBON ENERGY LIMITED
(Formerly Metex Resources Limited)
ABN 56 057 552 137 and Controlled Entities

www.carbonenergy.com.au