



CarbonEnergy



Quarterly Report

December 2009



CarbonEnergy

Corporate Details

CARBON ENERGY LIMITED | ABN 56 057 552 137 | AND CONTROLLED ENTITIES

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

Quarterly Financial Report For the period ended 31 December 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. McIntyre 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:

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BRISBANE QLD 4001



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Highlights For The Quarter

- On 19th November 2009 the Parliamentary Secretary to the Minister for the Department of Employment, Economic Development and Innovation (DEEDI), Mr Choi, participated in an official launch of the 5MW plant at Bloodwood Creek. Local dignitaries, including the Mayor, Mr Ray Brown, and Ms Deidre Daylight, a representative of the local indigenous community, were also in attendance.
- On 20th November 2009 the Annual General Meeting (AGM) was held in Brisbane.
- On 4th December 2009 Carbon Energy entered into its first international project by executing a Joint Venture & Cooperation Agreement with **Antofagasta Minerals** for a project in Chile. Antofagasta is one of the world's largest mining companies and a top 100 company on London's FTSE exchange.
- On 8th December 2009 Carbon Energy announced its maiden reserves certification under the Society for Petroleum Engineers (SPE) Guidelines, including a **2P reserve of 744 PJ**. This is another world first and enables commercial partners and investors to better understand the useful energy content of UCG resources.
- Carbon Energy completed its divestment programs for non-core assets realising value of approximately \$16 million (in cash and shares) through the following:
 - Sales of Gold interests to Crescent Gold for \$2.5 million (plus \$1.5m deferred)
 - Sale of 10 million shares in Magma Metals for \$6.5 million (gross)
 - Successful IPO of Uranium interest via Energia (ASX: EMX), Carbon Energy retains 41.7% holding in EMX, market value approximately \$5 million (escrowed 24 months)The funds raised will be utilised to assist in funding to fast track the Company's core business of Underground Coal Gasification.
- Retains cash reserves of over \$27 million as at 31 December 2009.

Energy – Underground Coal Gasification

- Carbon Energy Ltd (CEL) 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. It aims to do this by pursuing the following key areas of focus:
 - **Continuous improvement of UCG technology** and the development of complementary technologies that will ensure CNX will develop a superior technical capability in the UCG Syngas industry.
 - **Expand its coal resource** inventory by exploration within its current tenements or through identification of suitable joint venture opportunities and acquisitions, leveraged off CEL's ability to successfully undertake UCG Syngas production in Australia and globally.
 - **Identify and develop commercial opportunities** using Syngas derived from Carbon Energy's superior UCG technology for the production of power, synthetic natural gas, chemicals and gas to liquids (GTL) either in the Company's own right or by way of strategic partnerships.

Progress in each of these key areas is as follows:

1. CONTINUOUS IMPROVEMENT OF UCG TECHNOLOGY (BLOODWOOD CREEK UCG TRIAL)

- Further developments on the Bloodwood Creek site are continuing as follows:
 - Construction of a 5 MW power generation plant was progressed during the quarter.
 - The Front End Engineering & Design (FEED) study for the development of a future 20 MW generation facility commenced in September 2009, with an interim report due early 2010.
 - A submission to the Australian Government to participate in the Global Carbon Capture and Storage Institute (GCCSI) Project Funding and Support Program has been lodged on the basis of pre and post-combustion capture of CO₂ in the utilisation of UCG Syngas in power generation.
 - Ongoing monitoring of local water conditions on the Bloodwood Creek site is continuing with expanded water monitoring capability consisting of additional water monitoring wells being installed to provide further evidence of the low environmental impact of UCG.
 - Close co-ordination with the Queensland Government's working parties associated with the Queensland UCG Policy continues.
 - Design of a second UCG panel at Bloodwood Creek was completed and procurement commenced.

Carbon Energy's 5 MW Power Station – under construction July to December 2009



Foundations being laid



Gas engines being positioned on site

Mid Construction – Site Event at Bloodwood Creek 19th November 2009



L to R: Kim Robinson (Chairman), Michael Choi (Parliamentary Secretary to the Minister for Natural Resources, Mines and Energy), Andrew Dash (Managing Director), Ray Brown (Mayor Western Downs Regional Council)

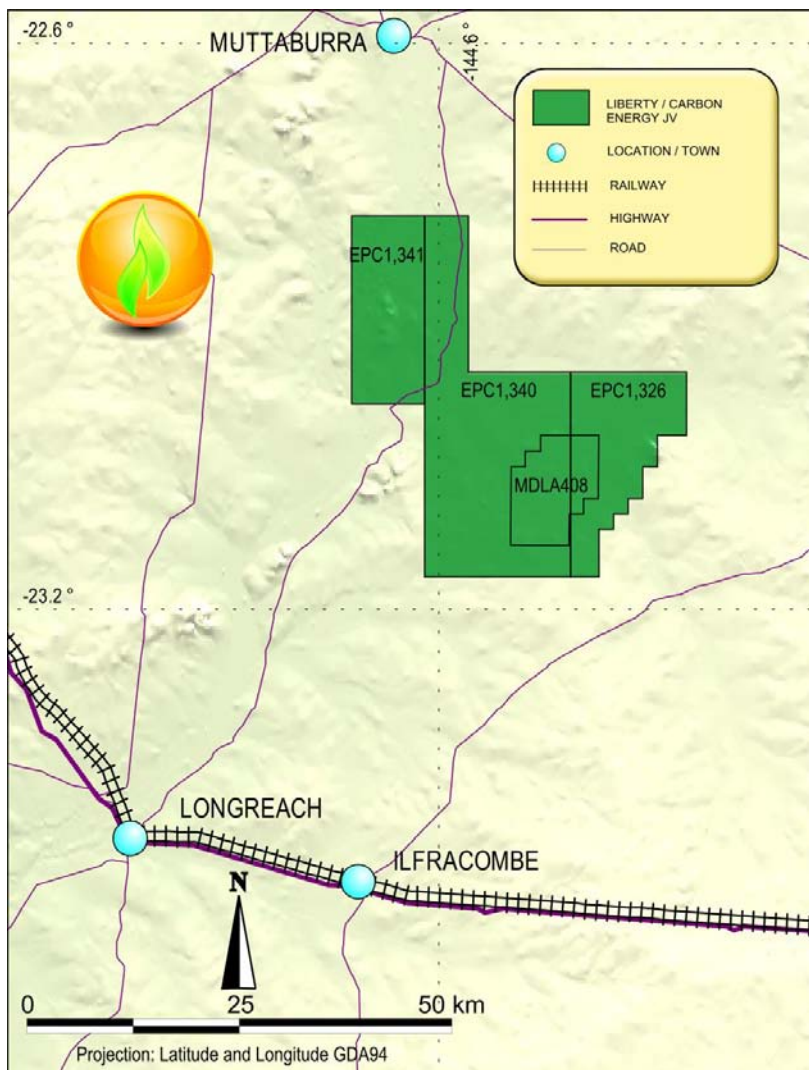
2. EXPAND COAL RESOURCE

- **Reserves Certification**

On 8th December 2009 Carbon Energy announced its maiden reserves certification under the Society for Petroleum Engineers (SPE) Guidelines, including a 2P reserve of 744 PJ. This is another world first and enables commercial partners and investors to better understand the useful energy content of UCG resources. Refer to Appendix A for gas volume reserves.

- **Galilee Basin (QLD)**

Discussions are continuing with Liberty Resources to convert the HOA, announced on 27th July 2009 into formal agreements for Carbon Energy to earn an 80% interest in Liberty's granted EPC's in the Galilee.



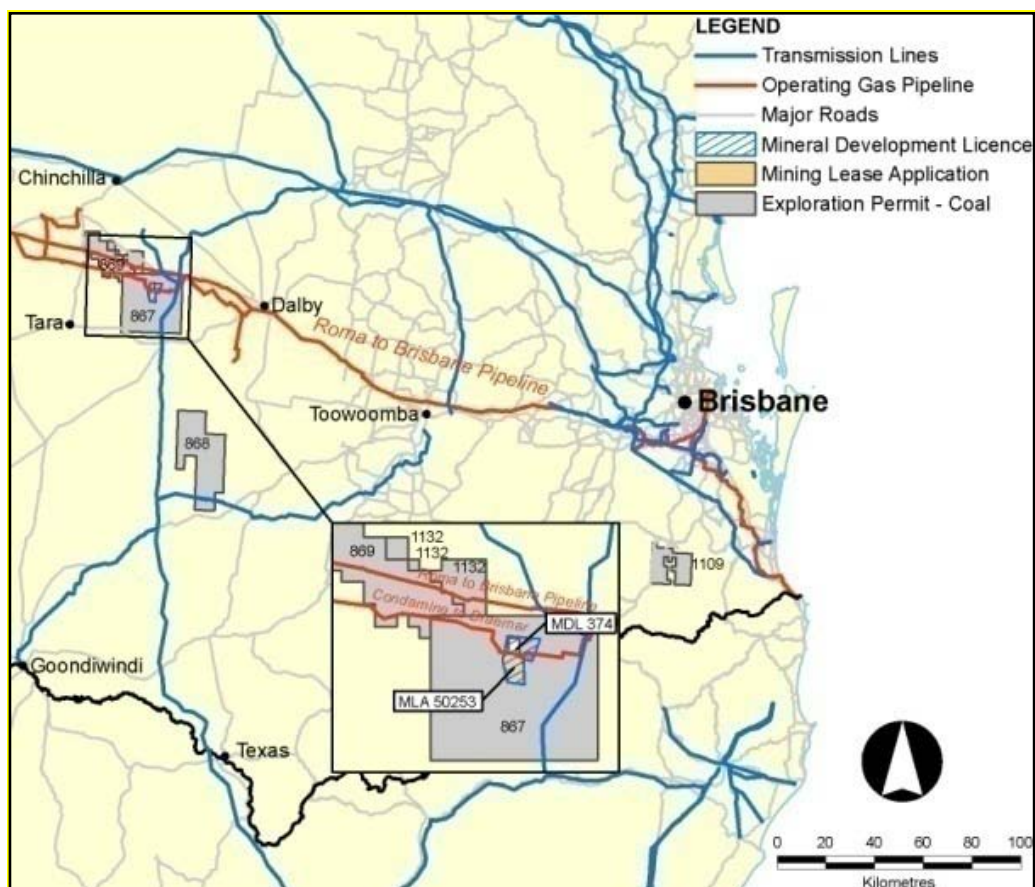
Liberty's tenements (both granted EPCs and MDLA under application)

- **Western Australia**

The Heads of Agreement with Eneabba Gas Limited terminated on 18th December 2009 in accordance with its terms.

- **Coal Exploration and Mining Tenure**

At the end of the December Quarter 2009 Carbon Energy retained its four granted exploration permits along the eastern edge of the Surat Basin and one in the Moreton Basin (EPC 1109) south of Beaudesert between Brisbane and the Gold Coast covering an area of 224 sq km. Carbon Energy has a granted Mineral Development Licence between Dalby and Chinchilla named 'Bloodwood Creek' and has an application for a portion of the same to be transferred into a mining lease, MLA 50253.



Location of Company's Coal tenements in South East Queensland



Tenement	Status	Sub-blocks as at September 2009	Sub-blocks as at December 2009	Area Sq km
MLA 50253	Application	1342 ha	1342 ha	15
MDL 374	Granted	2687 ha	2687 ha	32
867	Granted	191	191	670
869	Granted	64	64	213
868	Granted	177	177	605
1132	Granted	23	23	78
1109	Granted	65	65	224
1741 Kogan West	Application	35	35	119
			TOTAL	1,956

Tenement Status as at the end of December 2009

3. IDENTIFY AND DEVELOP COMMERCIAL OPPORTUNITIES

- On 4th December 2009, a Joint Venture & Co-operation Agreement was executed with Antofagasta in Chile for Carbon Energy to earn a 30% interest in Antofagasta's Mulpun coal deposit. Work has begun on the design and feasibility of a one panel trial.
- Carbon Energy was selected by Antofagasta as their preferred joint venture partner on the strength of its superior technology, following the completion of a two year process by Antofagasta in which the capability of UCG companies from all over the world was rigorously assessed.
- Chile provides an ideal market opportunity for Carbon Energy due to the fact that energy demand is forecast to grow at 6-7 per cent over the next 5-10 years and there is an under supply of domestically sourced energy. Chile is highly exposed to increases in the already high price of imported supplies of diesel, natural gas, LNG and coal.
- The Mulpun site is located in southern central Chile, 840 km south of Santiago and 40 km east of Valdivia, a city with a population of 150,000. Initial drilling and hydrological results provided by Antofagasta have indicated that it is suitable for UCG. As the deposit remains open to the North West, there is scope to find additional coal in this location, as well as within the other similar geological formations in the area.

- Once feasibility studies have been completed and the development plan approved by both parties, Carbon Energy will earn its 30% interest in the coal deposit and the Joint Venture will be established.



Map of North Chile & location of the coal deposit at Mulpun



December 2009 – Visit to Bloodwood Creek by Carbon Energy’s Chilean partners
(L to R: Graham Barclay with Andres Jara and Arturo Albornoz, representatives from Antofagasta Minerals)

Other Minerals

- The Company has divested its non-core mineral assets.
- For the gold projects, formal documentation was executed on 27th November 2009 by way of an Asset Sale and Purchase Agreement with Crescent Gold Limited to sell all Carbon Energy's 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. Of the initial \$2.5 million, \$1 million was received upon signing the formal documentation and the other \$1.5 million will be received when conditions precedent which include Government consents are met.
- The uranium projects were sold to Energia Minerals Limited (formerly Metex Resources NL) by way of an Assets sale and purchased Agreement which was executed on 16th October 2009. Energia was successfully listed on 24th December 2009 with Carbon Energy holding 29 million shares (41.7% of the company) in consideration for the sale of uranium tenements and the injection of seed funds. This investment has a current market value of approximately \$5 million, with 25 million shares escrowed to 24 December 2011.

Corporate

SHAREHOLDER MEETING

- The Company held its Annual General Meeting of Shareholders on 20th November 2009. All resolutions put to Shareholders were approved at the meeting.

ISSUED CAPITAL

- The total issued capital at the end of the Quarter was 585,997,650 fully paid ordinary shares quoted on the Australian Stock Exchange. During the quarter 4,875,000 options were exercised (4.375 million Options at \$0.15 and 0.5 million at \$0.20) raising \$756,000.
- A total of 57,560,000 unlisted options with exercise prices between 20c and \$1.60 (with expiry dates ranging between 31 March 2010 and 10 December 2014), with the majority subject to meeting annual performance measures are on issue.
- In addition, 15 million shares remain to be issued to Constellation Energy, subject to completion of documentation, anticipated to occur in early 2010.

LISTED INVESTMENTS

- Carbon Energy held 29 million shares in ASX listed uranium company, Energia Minerals Limited (ASX Code: EMX) as at 31st December 2009.

CASH FUNDS

- During the Quarter funds were derived from the sale of the Magma Metals shares, sale of gold tenements and through the exercise of options realising gross proceeds of \$8.3 million.
- The Company retains cash reserves of \$27.2 million as at 31st December 2009.

For and on behalf of the Board



A.M. Dash
Managing Director
25 January 2010

Competent Person Statement – Coal

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



Coal Resource Summary – Appendix A

As at 31st December 2009

December 2009 Quarter Resource Statement

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

Notes:

1. Optimal target for Underground Coal Gasification

In accordance with Society of Petroleum Engineers (SPE) guidelines, the reserves in these properties are:

AREA	CATEGORY	GROSS GAS VOLUMES(PJ)
Bloodwood Creek	1P Reserve (Proven)	11.0
	2P Reserve (Proven + Probable)	743.9
EPC 867 (including MDL 374)	3P Reserve (Proven + Probable + Possible)	1,042.8

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

Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

CARBON ENERGY LIMITED

ABN

ABN 56 057 552 137

Quarter ended ("current quarter")

31 DECEMBER 2009

Consolidated statement of cash flows

	Current quarter \$A'000	Year to Date (6 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation (net)	(121)	(233)
(b) development – BWC Operations	(1,923)	(3,264)
(c) production	-	-
(d) administration (net)	(847)	(1,420)
(e) commercial and business devel.	(386)	(648)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	381	420
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes benefit received	-	-
1.7 Other (provide details if material) Fuel tax credits	(28)	96
Net Operating Cash Flows	(2,924)	(5,049)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(69)	(132)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments MMW shares	6,464	6,464
(c) other Gold tenements & fixed assets sales	1,041	1,041
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material) - Development of 5MW, 2 nd UCG Panel	(2,144)	(6,274)
Net investing cash flows	5,292	1,099
1.13 Total operating and investing cash flows (carried forward)	2,368	(3,950)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	2,368	(3,950)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	756	11,011
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – Trade Creditors/Debtors	(831)	(2,000)
Net financing cash flows		(75)	9,011
Net increase (decrease) in cash held		2,293	5,061
1.20	Cash at beginning of quarter/year to date	24,906	22,138
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	27,199	27,199

Payments to directors of the entity and associates of the directors

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

		Current Quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	206
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Costs included in item 1.23 above covers Directors' expenses for any services undertaken outside the scope of directors duties, salaries for the Brisbane based executive Directors plus Non-Executive Director's fees and superannuation.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

-

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Barrick Granny Smith Mines contributed 50% to the LEJV. Formal execution on the sale of LEJV interests occurred on 27 November 2009. Carbon Energy does not have any interest in LEJV at 31 December 2009.

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements/bonds	454	454

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,500
4.2 Development	3,500
Total	5,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	245	2,592
5.2 Deposits at call	26,500	21,903
5.3 Bank overdraft	-	-
5.4 Other (Deposit Bonds)	454	411
Total: cash at end of quarter (item 1.22)	27,199	24,906

Changes in interests in mining tenements

	Tenement reference	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	Gold and Mineral tenements	Owned or Joint Ventured (sale to Crescent Gold Ltd)	Various	Nil
	Uranium tenements	Owned (sale to Energia Minerals Ltd)	100%	Nil
6.2 Interests in mining tenements acquired or increased	Coal	Refer Covering Quarterly Activity Report attached hereto	100%	100%

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
7.1 Preference securities <i>(description)</i>	Nil	Nil	-	-
7.2 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 +Ordinary securities	585,997,650	585,997,650	Various	Fully Paid
7.4 Changes during quarter				
(a) Increases due to exercise of Options	4,875,000	4,875,000	4.375million @15c 05million @20c	Fully paid
7.5 +Convertible debt securities <i>(description)</i>	Nil	Nil	-	-
7.6 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through securities matured, converted	-	-	-	-
7.7 Options			<i>Exercise price</i>	<i>Expiry date</i>
<i>Unlisted Options 20c</i>	8,500,000	-	20c	31/03/2010
<i>Unlisted Options 20c</i>	250,000	-	20c	31/10/2010
<i>Unlisted Options 20c</i>	125,000	-	20c	01/01/2011
<i>Unlisted Options 30c</i>	500,000	-	30c	30/06/2011
<i>Unlisted Options 60c</i>	1,000,000	-	60c	30/06/2011
<i>Unlisted Options 25c</i>	100,000	-	25c	01/04/2012
<i>Unlisted Options 40c</i>	335,000	-	40c	01/04/2012
<i>Unlisted Options 25c</i>	5,000,000	-	25c	10/12/2013
<i>Unlisted Options 35c</i>	7,000,000	-	35c	10/12/2013
<i>Unlisted Options 70c</i>	8,000,000	-	70c	10/12/2013
<i>Unlisted Options 80c</i>	7,250,000	-	80c	10/12/2013
<i>Unlisted Options \$1.00</i>	10,000,000	-	\$1.00	10/12/2014
<i>Unlisted Options \$1.20</i>	4,750,000	-	\$1.20	10/12/2013
<i>Unlisted Options \$1.60</i>	4,750,000	-	\$1.60	10/12/2013
7.8 Options <i>Issued during quarter</i>	Nil		<i>Exercise price</i>	<i>Expiry date</i>
7.9 Exercised during quarter				
Unlisted Employee/Other Options	4,375,000 500,000		15c 20c	
7.10 Expired during quarter				
Unlisted Employee Options – ceased employment	16,000	-	\$0.40	01/04/2012
7.11 Debentures <i>(totals only)</i>	Nil	Nil		
7.12 Unsecured notes <i>(totals only)</i>	Nil	Nil		

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:

Date:25 January 2010.....



Print name: Prem Nair

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

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