



25 May 2011

Mr. Rohan Abeyewardene
Senior Adviser, Listings (Brisbane)
Australian Stock Exchange
(Sent by email)

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Carbon Energy Limited
ABN 56 057 552 137
Carbon Energy (Operations) Pty Ltd
ABN 61 105 176 967

Dear Rohan

Re Price Query

I refer to your email dated 25 May 2011 regarding the price change and volume of Carbon Energy securities over the past few days, we advise the following:

1. The Company is not aware of any information concerning it that has not been announced and which could be an explanation for the recent trading in securities of the Company.
2. Not Applicable
3. The Company notes that there has been historical confusion between the Coal Seam Gas industry (CSG) and the Underground Coal Gasification industry (UCG). The UCG process is fundamentally different to CSG (see the Company's website for further information). Recent media has focused on a current investigation by the Queensland State Government into operational issues by a CSG Producer located near Dalby in Queensland. In addition to the current investigation a recent moratorium on the approval of new CSG projects in NSW may be having a negative impact on the Company's share price.

Earlier this year, the Queensland State Government concluded an unrelated investigation into the UCG Industry in Queensland from which Carbon Energy was granted amended environmental approvals to continue its operations.

For the purpose of further clarification Carbon Energy's UCG process does not include 'fracking' nor does it involve bringing significant volumes of groundwater to the surface to liberate gas. This has been the focus of current media reports.

As announced by the Company on 4 and 18 April and the 2 May 2011, the Company is progressing through its commission phase of its UCG Panel 2 and its 5MW gas engines.

4. The Company is in compliance with the listing rules and in particular listing rule 3.1.

For and on behalf of the Board



Prem Nair
CFO & Company Secretary





25 May 2011

Mr Prem Nair
Company Secretary
Carbon Energy Ltd
Level 12, 301 Coronation Drive
MILTON QLD 4066

By email: prem@carbonenergy.com.au

Dear Prem

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Carbon Energy Limited (the "Company")

PRICE QUERY

We have noted a decrease in the price of the Company's securities from a close of 29 cents on Friday, 20 May 2011 to an intraday low of 23 cents today at the time of writing. We have also noted an increase in the volume of trading in the securities over this period.

In light of the price change and increase in volume, please respond to each of the following questions.

1. Is the Company aware of any information concerning it that has not been announced which, if known, could be an explanation for recent trading in the securities of the Company?

Please note that as recent trading in the Company's securities could indicate that information has ceased to be confidential, the Company is unable to rely on the exceptions to listing rule 3.1 contained in listing rule 3.1A when answering this question.

2. If the answer to question 1 is yes, can an announcement be made immediately? If not, why not and when is it expected that an announcement will be made?

Please note, if the answer to question 1 is yes and an announcement cannot be made immediately, you need to contact us to discuss this and you need to consider a trading halt (see below).

3. Is there any other explanation that the Company may have for the price change in the securities of the Company?

4. Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1.

Your response should be sent to me by email at rohan.abeyewardene@asx.com.au. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, by **3.00pm EST today**.

Under listing rule 18.7A, a copy of this query and your response **will** be released to the market, so your response should be in a suitable form and separately address each of the questions asked. If you have any queries or concerns, please contact me immediately.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in listing rule 3.1A.

In responding to this letter you should consult listing rule 3.1 and Guidance Note 8 – Continuous Disclosure: listing rule 3.1.

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

Trading halt

If you are unable to respond by the time requested, or if the answer to question 1 is yes and an announcement cannot be made immediately, you should consider a request for a trading halt in the Company's securities. As set out in listing rule 17.1 and Guidance Note 16 – Trading Halts we may grant a trading halt at your request. We may require the request to be in writing. We are not required to act on your request. You must tell us each of the following.

- The reasons for the trading halt.
- How long you want the trading halt to last.
- The event you expect to happen that will end the trading halt.
- That you are not aware of any reason why the trading halt should not be granted.
- Any other information necessary to inform the market about the trading halt, or that we ask for.

The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. If a trading halt is requested and granted and you are still unable to reply to this letter before the commencement of trading, suspension from quotation would normally be imposed by us from the commencement of trading if not previously requested by you. The same applies if you have requested a trading halt because you are unable to release information to the market, and are still unable to do so before the commencement of trading.

If you have any queries regarding any of the above, please let me know.

Yours sincerely

[sent electronically without signature]

Rohan Abeyewardene
Senior Adviser, Listings (Brisbane)