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Carbon Energy Limited
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Carbon Energy (Operations) Pty Ltd
ABN 61 105 176 967

14 February 2011

Ms Frances Finucan
Senior Adviser, Listings (Brisbane)
Australian Stock Exchange
(Sent by email)

Dear Frances

Re Price Query

I refer to your facsimile dated 11 February 2011 regarding the price change and volume of Carbon Energy securities over the past few days, we advise the following:

1. As announced by the Company on 31 January 2011, the Company has been expecting a decision from the Department of Environment and Resources Management (DERM) on the Company's amended Environmental Authorities on 11 February 2011. Late on Friday 11 February (after market close), the Queensland Government confirmed its approval for recommencement of CNX's pilot project subject to three new conditions – see attached announcement from the Minister for Climate Change and Sustainability. CNX is very pleased to have received this approval and is fully supportive of the new conditions.

You have asked specifically about an online thread posted on the "Hot Copper" site by an unidentified source 11 February 2011. This posting includes an extract of comments recorded in the Hansard on February 10 by Senator Bob Brown about the 2008 CNX trial. Carbon Energy has reviewed the Hansard record of Senator Brown's comments and notes his acknowledgment that he was not in a position to draw any conclusions or make any accusations against the Company. CNX will seek to brief Senator Brown as much of the information he has relied on is either incorrect or lacking appropriate context.

2. Not Applicable – However, a release regarding DERM's approval to recommence the UCG Trial at Bloodwood Creek will be lodged before market today. The approval from DERM was received after the close of business on Friday 11th February.





3. For the last corresponding period (i.e. December 2009), the Company had disposed of a number of noncore assets which resulted in one off gains and these were reflected in the December 2009 Financial Statements. This would not be the case in December 2010. The expenditure in the Income Statement for both periods is expected to be consistent with our development plans.
4. No
5. Shareholders may possibly be awaiting advice of the DERM decision which may have had an effect on the price.
6. 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



11 February, 2011

Carbon's UCG trial to recommence with stricter conditions

The Department of Environment and Resource Management (DERM) has today issued amended Environmental Authorities to Carbon Energy allowing them to restart their Underground Coal Gasification (UCG) trial at Kogan.

DERM Director-General John Bradley said Carbon's UCG trial had been suspended since July under an Environmental Protection Order (EPO) while investigations into an unauthorised discharge of process water were underway. DERM also required Carbon to conduct an Environmental Evaluation of the incident, including providing further additional information around their on-site practices.

"While our investigations into the August 2009 incident showed there had been no ongoing damage to the environment and soil sampling has detected no residual contaminants — our assessment of the Environmental Evaluation that Carbon were required to prepare identified the need for improvements to their operational management," he said.

"These additional requirements are now in the new amended Environmental Authorities being issued today providing stronger environmental protections and more rigid processes the company must implement and adhere to before it can recommence the trial.

The new conditions include:

- Improved infrastructure to ensure better storage capacity and management of process water (such as the construction of additional tanks and other storage infrastructure)
- Improved underground monitoring through the installation of additional groundwater monitoring networks
- Improved risk management practices and more stringent notification requirements

"The company has already implemented some of the new conditions, but until all conditions and requirements under the amended authorities are met the company cannot lawfully recommence operations," he said.

"Our officers will conduct another on-site inspection prior to the trial recommencing to ensure they have fulfilled these requirements.

"The formal investigation to determine if any legal action should be taken against the company relating to this incident continues."

Mr Bradley said once the company complies with the new requirements, the department is confident it can operate in a safe and sustainable way.

Climate Change and Sustainability Minister Kate Jones said the government would continue to closely monitor the activities of Carbon Energy, as well as the other company continuing in the UCG trial, Linc Energy.

“We take the protection of our environment very seriously and any company that wants to do business in Queensland must meet their environmental obligations,” Ms Jones said.

“When the contamination incident occurred at Cougar Energy’s Kingaroy site last year we said that if any company couldn’t provide real evidence that it could operate safely then it would not be allowed to continue.

“The decision last month to close down Cougar Energy’s trial at Kingaroy demonstrates that we will not risk the environment or our communities if concerns cannot be addressed by a company.

“DERM is satisfied that Carbon Energy has demonstrated they will be able to operate within environmental requirements, after making changes to their operations and procedures.

“Today’s decision is consistent with an Independent Scientific Panel (ISP) report into Carbon Energy’s operations.”

The Panel recommended Carbon be allowed recommence operations, subject to strengthened arrangements for managing process water and monitoring.

“DERM will be watching very closely to ensure that is the case before they recommence their trial,” she said.

DERM will also continue to work through the recommendations contained in the ISP report with Carbon Energy.

The independent panel will provide its final advice to the Government on the technical viability and environmental sustainability of a large scale UCG industry in Queensland at the end of the trial.

Media Contact: 3239 0818



11 February 2011

Prem Nair
Company Secretary
Carbon Energy Ltd
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By email: prem@carbonenergy.com.au

Dear Mr Nair

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Carbon Energy Ltd (the "Company")

PRICE QUERY

We have noted a decrease in the price of the Company's securities from a close of 35 cents on Friday, 4 February 2011 to an intraday low of 30 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?

In answering this question, please have regard to the recent thread entry made on the media forum, "Hot Copper" at 13.11 with subject title, "*we don't get all the story from the board*".

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 reason to think that there may be a change in the Company's result so that the figure for the half year period ending 31 December 2010 would vary from the previous corresponding period by more than 15%? If so, please provide details as to the extent of the likely variation.
4. Is there any reason to think that the Company may record any material abnormal or extraordinary profit for the half year period ending 31 December 2010? If so, please provide details.
5. Is there any other explanation that the Company may have for the price change in the securities of the Company?
6. 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 Frances Finucan by email at frances.finucan@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, **not later than 9.30am EDST (8:30am Brisbane time) Monday, 14 February 2011**.

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]

Frances Finucan
Senior Adviser, Listings (Brisbane)