CARBON ENERGY LTD
QUARTERLY REPORT

JUNE
2012

CARBON ENERGY LIMITED • ABN 56 057 552 137

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 JUNE 2012

ASX CODE: CNX   OTCQX CODE: CNXAY

ISSUED CAPITAL AS AT 30 JUNE 2012

773,999,771 shares issued

22,000,000 Unlisted Directors' options
4,375,000 Unlisted management and employee options
35,000,000 Unlisted Pacific Road Convertible Note options

5,745 Shareholders

TOP 20 SHAREHOLDERS

Hold 53.14% of listed shares

BOARD OF DIRECTORS & MANAGEMENT

Chris Rawlings – Non-Executive Chairman
Andrew Dash – Chief Executive Officer & Managing Director
Max Cozijn – Non-Executive Director
Helen Garnett – Non-Executive Director
Peter Hogan – Non-Executive Director
Louis Rozman – Non-Executive Director

Morné Engelbrecht – Chief Financial Officer &Company Secretary
Cliff Mallett – Technical Director
Justin Haines – General Manager Technical Services
Terry Moore – General Manager Operations

MAJOR SHAREHOLDERS

Incitec Pivot	9.76%
NV Pacific Road Carbon Energy	8.55%

KEY EVENTS OF THE QUARTER

- Carbon Energy successfully executed the first stages of its strategic plan announced in March 2012 achieving the following:
    - licensing of its proprietary Underground Coal Gasification (UCG) technology in China;
    - preparation of its non-core conventional coal assets for sale; and
    - reduction in operating costs.
- Carbon Energy signed a Heads of Agreement (HOA) and agreed commercial terms to become the exclusive UCG technology partner to Shanxi Coal Transportation and Sales Group (Shanxi Coal) for the Shanxi Province, with a US$10 million Technology Fee and Royalties.
- The Company also announced a conventional coal Exploration Target Resource of between 4 and 8 billion tonnes following an independent assessment of the exploration potential of the Company's wholly owned Surat Basin coal tenements, near Dalby in South East Queensland.
- Cost reductions were implemented at the Bloodwood Creek site with the reduction of 10 roles and reduced operational expenditure. Further cost reductions were implemented with the closure of the US office at the end of June 2012, with US opportunities to be supported from the Brisbane head office.

EVENTS SUBSEQUENT TO QUARTER END

- Carbon Energy's strategy to produce cost-effective Synthetic Natural Gas (SNG) from UCG syngas received a major boost following completion of a study conducted by process engineering specialists LogiCamms Limited (LogiCamms).
- Carbon Energy announced that a larger than expected conventional coal Resource of 1.2 billion tonne has been confirmed in its wholly-owned Surat Basin coal tenements.

COMPANY OVERVIEW

Carbon Energy specialises in underground coal gasification (UCG). Our keyseam® technology is the key to unlocking new energy sources and transforming stranded, deep coal resources into high-value fuels with lower carbon emissions.

Carbon Energy's complete end-to-end UCG services deliver world- class gas projects from initial project assessment through to commercial project development and site decommissioning and rehabilitation.

By successfully proving our keyseam technology, we have earned a reputation for delivering a consistent, high quality product which can be turned into power, fertilisers or pipeline quality gas.

keyseam maximises resource efficiency, extracting up to 20 times more energy from the same resource than coal seam gas (CSG), whilst minimising surface disturbance and preserving groundwater quality.

Carbon Energy achieved proof of concept of its technology following 10 years of research with Australia's premier scientific research agency the CSIRO, four years of in-field trials and over $100 million in product development investment.

The Company is headquartered in Brisbane, Australia listed on the Australian Securities Exchange (ASX) and is quoted on the OTCQX International Exchange in the US. Carbon Energy is developing UCG projects in Australia, China, Chile, Europe and the United States.

Carbon Energy also has two wholly-owned core assets in south-east Queensland's Surat Basin.

- 4 to 8 billion tonnes of conventional coal Exploration Target including;
- 1.2 billion tonnes of conventional coal Inferred Resource; and
- 743PJ of 2P Reserves of syngas.

TECHNOLOGY

CHINA – keyseam® LICENSING

On 14 May 2012, Carbon Energy announced it had signed a Heads of Agreement (HOA) and agreed commercial terms to become the exclusive UCG technology partner to Shanxi Coal for the Shanxi Province.

Shanxi Coal is ranked as the 2nd largest coal company in China, the 72nd largest of China's top 500 enterprises and is a member of the Fortune 500 list. This agreement is the first implementation of Carbon Energy's recently announced strategic direction to license the Company's proprietary UCG Technology worldwide.

The partnership represents a significant milestone as it lays a solid and self funded foundation to add to the Company's growth.

Following the HOA signing, the companies are well progressed to formalise the Technology Licence and Services Agreement. Execution of this agreement is expected in the coming months and will deliver to Carbon Energy:

- a Technology Fee of US$10 million (US$7.5 million payable upon execution of final agreements which is expected in the next couple of months and the balance of US$2.5 million payable upon achievement of project milestones);
- an ongoing royalty based on the number of UCG panels installed and the volume of syngas produced, payable on completion of developed panels prior to syngas production; and
- payment for technical and engineering services based on a commercial schedule of rates.

The project development is divided into two phases. The first phase involves a single panel supplying 0.5 PJ p.a syngas to the local township of Changzhi which will generate over US$13 million in Technology Fees and royalties over the next 12-18 months as project milestones are met.

The second phase is the development of major commercial projects with a minimum production rate of 30 PJ p.a. of syngas. This full scale commercial project has the potential to generate over US$400 million in royalties over a 20 year project life. The first US$200 million is payable on completion of developed panels prior to syngas production and it is expected to be progressively received within the next 3-5 years as project milestones are met.

Under the agreement the parties will work exclusively in Shanxi Province to identify further project opportunities which will have the potential to provide substantial growth in technology royalty payments to Carbon Energy as additional projects are developed.

The Shanxi Coal partnership is an arrangement that Carbon Energy is aiming to replicate around the world. The Company is currently pursuing commercial scale projects with a number of coal owners and energy end-users including electricity, chemicals and liquids manufacturers both in Australia and internationally.

CONVENTIONAL COAL

4 TO 8 BILLION TONNE COAL JORC RESOURCE TARGET

On 17 May 2012, Carbon Energy announced a conventional coal Exploration Target of between 4 to 8 billion tonnes following an independent assessment of the exploration potential of the Company's wholly owned Surat Basin coal tenements, near Dalby in south east Queensland.

The review follows the program of work detailed as part of its strategic review announced on 29 March 2012.

In accordance with Joint Ore Reserves Committee (JORC) guidelines, the Exploration Target ranges in the continuous coal seams in the Company-held tenures are:

	Expected depth ranges	EPC867 (Mt)	EPC868 (Mt)	EPC869 (Mt)	EPC1132 (Mt)	Totals by Seam (Mt)
Westbourne Seams	45 – 180m	100 – 210		100 – 225	25 – 75	**220 – 510**
Springbok Seams	100 – 250	50 – 110		25 – 75		**70 – 180**
Macalister Seams	120 – 500	2,000 – 4,100	340 – 680	500 – 1,010	210 – 435	**3,050 – 6,220**
Wambo Seams	120 – 500	190 – 380	175 – 360	440 – 890	120 – 240	**920 – 1,870**
Totals by Lease		**2,340 – 4,800**	**510 - 1,040**	**1,060 - 2,200**	**350 - 750**	**4,270 - 8,790**

Notes:

- Previously reported JORC Indicated and Inferred Resources in MDL374, EPC867 and EPC869, including the Bloodwood Creek area, are not included in Exploration Target tonnages .
- Tonnages quoted above are conceptual in nature and there has been insufficient exploration to define a coal resource (outside the previously reported Resources). Insufficient data exists to confidently correlate coal seams and generate a grid mesh model, however further exploration is likely to lead to the reporting of a JORC-standard resource.
- A general geological loss between 20-50% was applied to all tonnage calculations to account for seam splitting and stone bands. Additional loss was applied where required, particularly where there was a large spacing between boreholes.
- Regardless of actual coal quality results, coals from all Formations have been given an average wet, insitu density of 1.45 g/cc.
- Total tonnages in situ estimated with non-weathered seams un-intruded and >0.3m. Based on density log coverage seams <50% ash (adb).

The Exploration Target was established following an independent third party review by Moultrie Database & Geology to independently asses the additional coal resources contained in the Company's 100% owned Surat Basin leases.

Considerable use was made of company and open-file exploration data and in particular the combination of high-quality, available, downhole geophysical logs and company-initiated sedimentological and other regional structural studies.

The newly-defined Exploration Target identifies the potential of Carbon Energy's conventional coal assets. This review is part of the strategic direction to commercialise the Company's proprietary UCG technology, based partly on leveraging off its vast undeveloped coal assets over approximately 1,400km² of tenements.

The Company aims to convert its substantial coal tenements into conventional coal resources through a program of exploration drilling, scoping and feasibility studies over the next 12 months.

In addition to this Exploration Target further upside includes:

- Between 1.7 billion tonne and 3.5 billion tonne of Westbourne, Springbok, and Macalister coal seams occur at depths shallower than 250m below ground surface.
- Significant other coal seams were intersected in the Juandah Coal Measures below the Wambo Seam, in the Tangalooma Sandstone, and in the Taroom Coal Measures. These are not included in the current estimates due to the difficulty in correlation between widely spaced drill holes, and the lack of modern geophysical logging responses to aid seam definition.
- These other "Rest of Walloon Coal Seams" have been estimated to have an additional gross insitu tonnage of between 6 billion tonne and 13 billion tonne, but this figure should be treated with low confidence until further drilling is completed.
- Potentially economic coals known in the Orallo Formation, Hutton Sandstone and Evergreen Formation were not estimated in this study due to insufficient data, but intersections of up to 3m thick have been reported in petroleum exploration wells drilled in the 1960s and 1970s.
- Correlation of boreholes available within EPC868 has shown that a full package of Lower Juandah, Tangalooma Sandstone and Taroom seams is available in parts of the lease area.

1.2 BILLION TONNES MAIDEN CONVENTIONAL COAL RESOURCE

Subsequent to Quarter end on 9 July 2012, Carbon Energy announced that a larger-than-expected conventional coal Resource of 1.2 billion tonnes had been confirmed in its wholly-owned Surat Basin tenements.

The result marked the successful completion of the initial review of existing information aimed at assessing the potential of the Company's 1,400 km^2 of conventional coal tenements.

This statement is the first step in converting the Company's 4 to 8 billion tonne JORC Exploration Target announced in May 2012 into a higher confidence level of JORC Resource and follows the modelling of existing Carbon Energy and public file drill hole information by Moultrie Database and Modelling (MDM) using Gemcom's Minex mine planning system.

This Inferred and Exploration Target JORC Resource is in addition to the Company's previously reported 2P syngas Reserves of 743PJ on MDL374 by applying the Company's UCG technology. The table below excludes EPC 868, which has insufficient data available at this time to conduct Resource modelling.

Existing mining operations at Wilkie Creek and Kogan Creek to the North of the Company's EPC's currently extract the Macalister seam at thicknesses greater than 10m to produce an export quality thermal coal. This thick Macalister seam is contiguous with the >10m thick Macalister seam currently being gasified at Bloodwood Creek.

<u>Next Steps</u>

Carbon Energy is currently progressing a scoping study to define projects within the Resource and/or Exploration Target areas. The study includes:

- exploration planning;
- initial mine planning;
- infrastructure assessment including rail and port capacity;
- land access and environmental requirements;
- coal product marketability; and
- commercial assessment by project area.

A targeted exploration program will be conducted following the scoping study and is anticipated to be completed by mid FY13.

CONVENTIONAL COAL RESOURCES

In accordance with Joint Ore Reserves Committee (JORC) guidelines, the reported Inferred Coal Resources in the Company held tenures are:

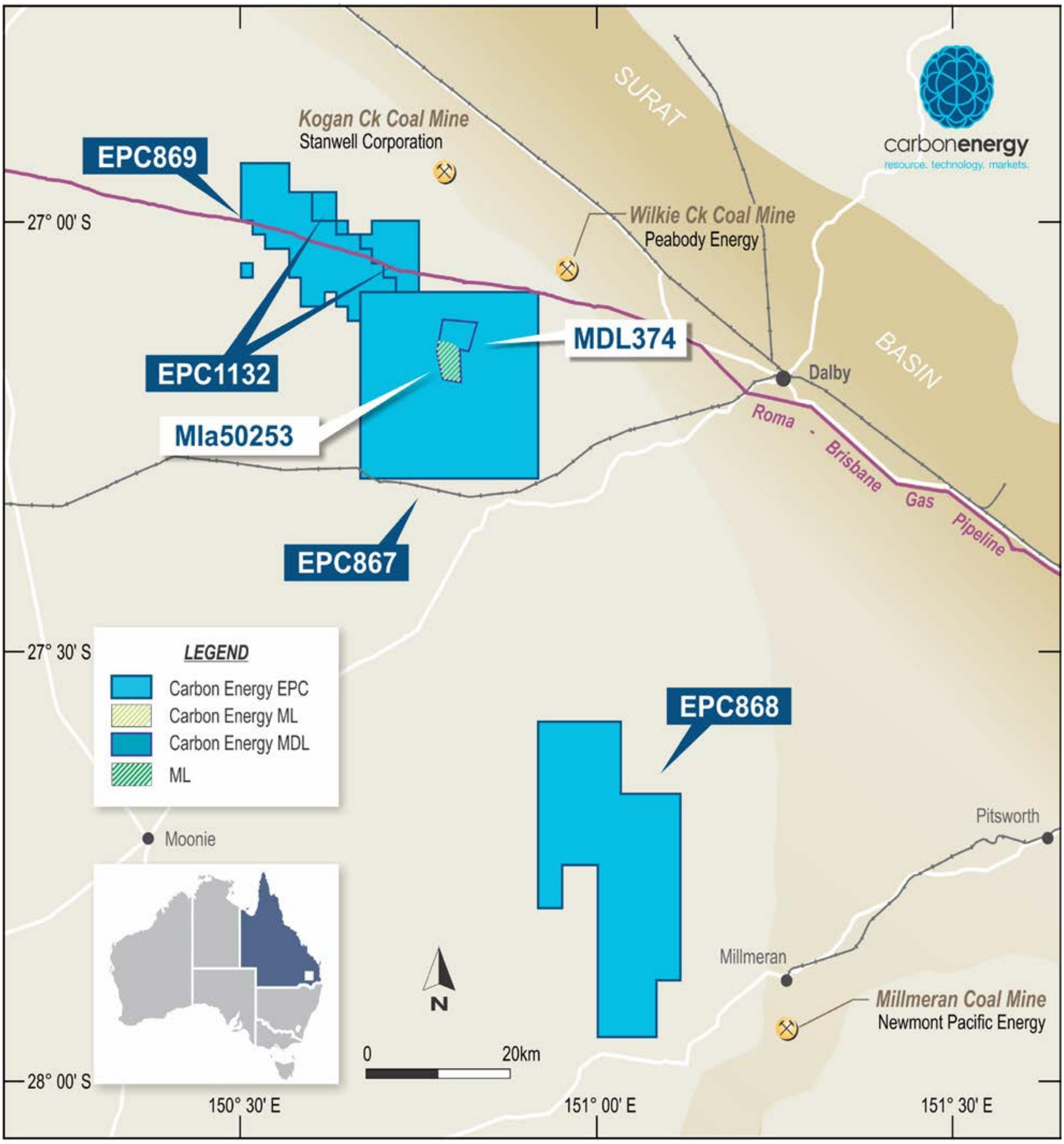
Tenure	Formation	Resource (Mt)[2]
EPC867[1]	Macalister Seam	678.2
EPC868	Not assessed due to insufficient data	
EPC869	Macalister Seam	435.5
EPC1109	Not assessed due to insufficient data	
EPC1132	Macalister Seam	77.2
	Total:	1,190.9

EPC867 excludes resources contained within MDL374
Constraints on the Inferred Resources are as follows:

1. Coal seams not intruded or not outside the tenure boundaries;
2. Coal thicknesses <0.2m excluded;
3. The depth range of calculation was from the base of weathering to 500m below natural topography;
4. Coal seams >50% adb from coal quality or estimated from downhole density logs (in g/cc) excluded from the calculations;
5. A discount factor varying from 5-20% has been subtracted from the initial calculation for unexpected geological losses. This accounts for unexpected conditions such as seam thinning, splitting, or seams missing in barren zones around faults.
6. The mine planning package used was Minex and seam structure and thickness contours were generated using standard modelling algorithms and methodologies. Inferred masks were generated from base circles drawn 3,000m between Points of Observation;
7. Points of observation were defined as those boreholes that had known surveyed positions, detailed lithological logs and coverage of the target coal seams with a suite of downhole geophysical logs that must include density in units of kg/m^3;

The estimates of the Coal Resources presented in this Report are considered to be a true reflection of the Coal Resources as at 5 July 2012 and have been carried out in accordance with the principles and guidelines of the Australian Code for Reporting of Coal Resources and Coal Reserves published in September 2004 (JORC Code).
The information in this release is based on information compiled by Mr Mark Biggs who is an employee of Moultrie Database & Geology and is a member of the Australian Institute of Mining and Metallurgy. Mr Biggs 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 Biggs consents to the inclusion in the presentation of the matters based on his information in the form and context in which it appears.

EXPLORATION TARGET LOCATION MAP



TENEMENT STATUS AT END JUNE 2012

Tenement[1]	Status	As at June 2012	Area km^2
MLA 50253	Application	1,343 ha	13
MDL 374	Granted	2,868 ha	29

Tenement[1]	Status	As at June 2012 Sub-blocks	Area km^2
EPC 867	Granted	191	596
EPC 869	Granted	64	196
EPC 868	Granted	177	538
EPC 1132	Granted	23	70
Total Eastern Surat Basin EPC's		**455**	**1,400**
Tenement[1]	**Status**	**As at June 2012 Sub-blocks**	**Area km^2**
EPC 1109	Granted	65	197
Total Beaudesert EPC's		**65**	**197**

Notes

1. No change in tenement holding since June 2011.
2. Approximate km^2

UCG SYNGAS

BLOODWOOD CREEK UPDATE

The Company is currently working with the newly-formed Queensland Government to obtain approvals required to develop Bloodwood Creek to a commercial scale project. It is also currently in discussions with potential partners to help realise value from its existing gas assets at its project site in Queensland's Surat Basin.

Meanwhile, environmental monitoring as well as work on the rehabilitation of Panel 1 will continue in order to demonstrate the completion of the final stage of the full lifecycle of a UCG panel. In line with the strategic review objectives, the Company has reduced operating costs at the Bloodwood Creek site, totalling an estimated $6 million annually. These savings come from the reduction of 10 roles as well as scaling back the use of diesel, electricity, water disposal and equipment rental.

QUEENSLAND GOVERNMENT UCG POLICY

In May 2012, Carbon Energy submitted a detailed Pilot Project Report to the Queensland Government-appointed Independent Scientific Panel (ISP) to assist the Panel in forming their recommendations. The ISP requested further information which the Company responded to in early July 2012.

The ISP is currently due to make its recommendations to Government in the coming months. Based on the current timetable, a Government policy position regarding UCG is anticipated prior to the end of 2012.

In addition, the Company has submitted a report to the Department of Natural Resources and Mines on the social and economic impacts of a UCG industry in Queensland.

Once regulatory certainty is achieved the Company will continue to develop plans for a Mining Lease and associated Environmental Impact Statement (EIS) to enable large scale production to proceed from this site.

BRIGHT SNG FUTURE FROM SYNGAS

Carbon Energy's strategy to produce cost-effective Synthetic Natural Gas (SNG) from UCG syngas has received a major boost following completion of a study conducted by Brisbane-based process engineering specialists, LogiCamms.

SNG is produced through gas processing of syngas in established commercial scale process plants and is predominantly methane. It meets natural gas pipeline specifications and is equivalent to conventional natural gas or coal seam gas. Converting UCG syngas to SNG therefore would allow gas to be transported throughout the existing gas pipeline infrastructure to sources of demand.

The 2012 Gas Market Review (consultation draft) recently released by the Queensland Government identified a potential shortage in supply of natural gas to the domestic market.

The LogiCamms report produced capital and operating cost estimates at a Front End Loading (FEL) 1 level (+/- 50%) for the manufacture of pipeline quality natural gas from UCG syngas at a proposed plant at Carbon Energy's Bloodwood Creek site.

Capital cost and operating cost estimates for a notional 8 PJ per annum and a 25 PJ per annum case were analysed for an integrated UCG field and downstream SNG production plant to assess the economic viability of a potential project.

The cost of producing pipeline quality natural gas or coal seam gas from Carbon Energy's UCG Syngas was estimated to be in the range of $3.50/GJ to $4.50/GJ (excluding carbon tax and other taxes).

This compares to recently forecast contract natural gas prices of $6.50/GJ to over $10.00/GJ by 2015 (Source: *QLD Government 2012 Gas Market Review, Consultation Draft*).

A key focus of the study was to determine how key utilities for the UCG plant and SNG plant could be integrated and shared. This include power generation, oxygen production, steam production, cooling water, acid gas treatment and raw syngas treatment in addition to developing an integrated site-wide mass and energy balance.

This study is applicable to Carbon Energy UCG projects around the globe.

The Company has made a submission to The Department of Energy and Water Supply in response to the *2012 Queensland Gas Market Review* to promote UCG syngas conversion to pipeline quality gas or coal seam gas as a potential part of the State's future natural gas supply solution.

UCG SYNGAS RESERVE

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

AREA	CATEGORY	GROSS GAS VOLUMES(PJ)
Bloodwood Creek MDL 374	1P Reserve (Proven)	11
	2P Reserve (Proven + Probable)	743
	3P Reserve (Proven + Probable + Possible)	1,042

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.

GLOBAL UPDATE

CHILE

Project	JORC Resource[1] (Mt)	Recoverable Gas[2] (PJ)
Mulpun, Chile[3]	103	1,100

Notes
1. JORC compliant – Competent Person: Dr C. Mallett
2. Carbon Energy calculation based on estimated energy content of the coal and 50% recovery (that takes into account pillars, losses and a gasification efficiency of 80%)
3. Carbon Energy has the right to 30% contributing interest in Chile deposit upon completion of agreed milestones

Activities at Mulpun, Chile progressed during the reporting period with the monitoring wells completed, the installation of the Westbay sampling and water level measurement equipment and telemetry. All surface works are completed to a wet-weather standard in preparation for construction activities to commence at the Mulpun site.

The construction of the first UCG panel at Mulpun has been deferred by Antofagasta Minerals, as operator of the project until the end of November 2012, pending the re-tendering of the above ground construction and drilling contracts.

Antofagasta Minerals is also in the process of identifying several other commercial-scale opportunities beyond power generation for keyseam in Chile. Studies into methanol and ammonia production are also being undertaken as the next stage for UCG in Chile.

Commercial discussions are continuing with Antofagasta Minerals to vary the current joint venture agreement in line with our new strategic direction as a technology provider. In the meantime, the majority of costs continue to be funded by Antofagasta Minerals.

UNITED STATES OF AMERICA

Project	Commercial Target[1] (Mt)	Recoverable Gas[2] (PJ)
Wyoming, United States	500	5,000

Notes
1. Carbon Energy non-JORC target
2. Carbon Energy calculation based on estimated energy content of the coal and 50% recovery (that takes into account pillars, losses and a gasification efficiency of 80%)

In line with its strategic objectives to reduce costs Carbon Energy closed its office in New York and intends to manage North American operations out of its head office in Brisbane in the short to medium term. Market conditions in the US are being impacted by new supplies of shale gas. This coupled with unseasonably warm winters, which have reduced domestic consumption, has led to gas prices across the continent being at record lows.

Regulatory plans to open up export licenses and develop infrastructure to allow the US suppliers to sell to international markets are currently underway. It is predicted that gas pricing will rise again in-line with world parity when this happens.

Carbon Energy continues to meet its obligations of work and expenditure on its tenements to maintain its licenses. The Company continues to evaluate the technical and commercial suitability of its US projects for UCG and is monitoring the forward gas market and pricing which may impact on the priority of the project timelines.

The Company applied for additional tenements, surrounding its lease holdings, through a process of application to Wyoming State Government. The mining rights to these new holdings, if approved, will come at no financial cost and on-going holding costs are estimated to be less than $5,000 annually.

EUROPE

Carbon Energy has completed an extensive desktop study of the coal resources that form Hema Endustri (subsidiary of the diversified Hattat Group) coal tenements in Amasra northern Turkey. The Company has appointed an independent assessor to evaluate the existing nominated coal resources.

In addition, the Company is working to finalise its current evaluation of the local economic and regulatory conditions to enable a streamlined and commercially viable project outcome. Turkey continues to present a market opportunity for Carbon Energy with power and gas prices of around US$70/MWh and US$7.30/GJ respectively[1] subject to the delineation of coal resources which are technically and commercially suitable for UCG.

Note 1 - Sources: TETAS and BOTAS

CORPORATE

CAPITAL MANAGEMENT

The Company is moving towards a self funded position for the ongoing development and commercialisation of its keyseam technology internationally. Key initiatives in this regard include:

- Licensing the technology on an ongoing royalty fee basis and providing technical services on a fee for service basis. This eliminates the need for the Company to fund its share of equity participation in projects around the world and generates short and long term cash flow. The agreement with Shanxi Coal being an example, with cash flow expected to commence from this agreement during the September 2012 quarter.
- Cost reduction measures have been implemented at the Company's Bloodwood Creek site following the achievement of proof of concept for its technology earlier this year.
- The Company's non-core conventional coal assets will be prepared for sale, with a formal sale process anticipated to commence early 2013.
- The Company's research and development (R&D) activities in Queensland qualify for the Federal Government's R&D tax concession. Recent changes in legislation have resulted in rebates being payable to the Company for FY12. Receipt of this rebate is anticipated within the next 6-9 months.

BOARD CHANGES

As previously announced, as part of the Company's corporate restructuring, Kim Robinson retired from the Carbon Energy Board as at 30 June 2012.

EXECUTIVE TEAM CHANGES

Peter Swaddle, Senior Vice President Strategy and Business Development will leave the Company on 31 July 2012. Peter and Carbon Energy reached a mutual agreement following his return from the US and the closure of the New York office. Managing Director, Andrew Dash thanked Peter for his significant contribution to the development of the business and wished him well in his future ventures.

LEGAL ACTION

Legal action initiated by the Department of Environment and Heritage Protection (DEHP) against the Company and Managing Director has been adjourned until mid-August 2012. Legal proceedings by the Company against Alexware Consulting Pty Ltd trading as Pangea Partners International and former employee, Mr John Wedgwood are continuing.

LISTED INVESTMENTS

Carbon Energy held 29 million shares in ASX listed uranium company, Energia Minerals Limited (26.5%) as at 30 June 2012.

For and on behalf of the Board.

A.M. Dash
Managing Director
31 July 2012

Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

CARBON ENERGY LIMITED

ABN	Quarter ended ("current quarter")
56 057 552 137	30 June 2012

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $A'000	Year to date $A'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	-	-
	(b) development	(1,525)	(8,400)
	(c) production	(644)	(2,309)
	(d) administration	(1,901)	(6,384)
	(e) commercial & other business development	(121)	(681)
	(g) Other projects	-	-
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	154	428
1.5	Interest and other costs of finance paid	(5)	(5)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	157	157
	Net Operating Cash Flows	**(3,885)**	**(17,194)**
	Cash flows related to investing activities		
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(30)	(321)
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material) – Construction of 5MW Plant, UCG Panels, Project Chile and Project USA	(440)	(4,143)
	Net investing cash flows	**(470)**	**(4,464)**

+ See chapter 19 for defined terms.

1.13	**Total operating and investing cash flows (carried forward)**	**(4,355)**	**(21,658)**
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	8,265
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from Pac Road Convertible Note	-	10,000
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material) – Trade Creditors/Debtors	-	(136)
	Net financing cash flows	-	**18,129**
	Net increase (decrease) in cash held	**(4,355)**	**(3,529)**
1.20	Cash at beginning of quarter/year to date	10,625	9,799
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	**Cash at end of quarter**	**6,270**	**6,270**

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	214
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 cover Directors' expenses for any services undertaken outside the scope of Directors' duties, salaries for the Executive Director, plus Non-Executive Directors' 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

Issue of 1,656,096 Ordinary Shares to cover the interest costs, payable 3 months in arrears, in relation to Tranche A ($2 million) and Tranche B ($8 million) utilised under the $10 million Pacific Road Convertible Note Facility Agreement. These shares are issued in accordance with ASX Listing Rule 7.

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

N/A

+ 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 (Pac Road Convertible Note Facility)	10,000	10,000
3.2	Credit standby arrangements	187	187

Estimated cash outflows for next quarter

		$A'000
4.1	Exploration and evaluation	-
4.2	Development	2,082
4.3	Production	-
4.4	Administration	1,906
	Total	**3,988**

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	2,270	2,625
5.2	Deposits at call	4,000	8,000
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	6,270	10,625

Changes in interests in mining tenements

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-	-	-	-
6.2	Interests in mining tenements acquired or increased	-	-	-	-

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 (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	**Preference +securities** *(description)*	Nil	Nil	-	-
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3	**+Ordinary securities**	773,999,771	773,999,771	Various	Fully paid
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	293,083 1,363,013 50,049	293,083 1,363,013 50,049	$0.0853 $0.0800 Nil	Fully paid Fully paid Nil
7.5	**+Convertible debt securities** *(description)*	The Company completed a $10,000,000 Convertible Note Facility with Pacific Road Capital ("Pacific Road") on 5 January 2012. A drawdown notice for $2,000,000 was issued to Pacific Road on 17 January 2012 and a further drawdown notice issued for the remaining $8,000,000 on 24 February 2012. Pacific Road may convert the Convertible Loan Facility into Shares at any time at $0.15 each, being a 25% premium to the Rights Issue Price, and the Company has a similar right in the event that after 18 months its share price exceeds a 60 day volume weighted average of $0.40. Pacific Road are entitled to a maximum of 66,666,667 Shares in the event of the exercise of conversion rights under the Convertible Loan Facility. The Company is required to pay interest on a quarterly basis at 5% per annum which is payable by way of the issue of Shares at the 5 day VWAP for the Shares on the ASX prior to the day a payment is due.			
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	-	-	-	-

7.7 **Options**			*Exercise price*	*Expiry date*
Unlisted Options 25c	5,000,000	-	*25c*	*10/12/2013*
Unlisted Options 35c	1,400,000	-	*35c*	*10/12/2013*
Unlisted Options 70c	5,600,000	-	*70c*	*10/12/2013*
Unlisted Options 80c	7,250,000	-	*80c*	*10/12/2013*
Unlisted Options $1.00	10,000,000	-	*$1.00*	*10/12/2014*
Unlisted Options $1.20	875,000	-	$1.20	*10/12/2013*
Unlisted Options $1.60	1,750,000	-	$1.60	*10/12/2013*
Unlisted Options $0.1875	7,000,000	-	$0.1875	*18/01/2017*
Unlisted Options $0.1875	28,000,000	-	$0.1875	*25/02/2017*
7.8 Issued during quarter	-	-	-	-
7.9 Exercised during quarter	-	-	-	-
7.10 Expired during quarter	-	-	-	-
7.11 **Debentures** *(totals only)*	-	-		
7.12 **Unsecured notes** *(totals only)*	-	-		

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: 31 July 2012

Print name: Morne Engelbrecht
Title: Chief Financial Officer & Company Secretary

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