

# **CARBON ENERGY LTD QUARTERLY REPORT**

## **SEPTEMBER 2012**

# CARBON ENERGY LIMITED • ABN 56 057 552 137

## QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2012

**ASX CODE: CNX OTCQX CODE: CNXAY**

### ISSUED CAPITAL AS AT 30 SEPTEMBER 2012

776,306,566 shares issued

22,000,000 Unlisted Directors' options

9,875,000 Unlisted management and employee options

35,000,000 Unlisted Pacific Road Convertible Note options

5,689 Shareholders

### TOP 20 SHAREHOLDERS

Hold 54.30% of listed shares

### BOARD OF DIRECTORS & MANAGEMENT

Dr Chris Rawlings – Non-Executive Chairman

Mr Andrew Dash – Chief Executive Officer & Managing Director

Mr Max Cozijn – Non-Executive Director

Dr Helen Garnett – Non-Executive Director

Mr Peter Hogan – Non-Executive Director

Mr Louis Rozman – Non-Executive Director

Mr Morné Engelbrecht – Chief Financial Officer & Company Secretary

Dr Cliff Mallett – Technical Director

Mr Justin Haines – General Manager Technical Services

Mr Terry Moore – General Manager Operations

### MAJOR SHAREHOLDERS

Incitec Pivot	9.73%
NV Pacific Road Carbon Energy	8.45%

keyseam® is a registered mark of Carbon Energy Ltd

## COMPANY OVERVIEW

Carbon Energy specialises in underground coal gasification (UCG). Our proprietary keyseam technology is the key to unlocking new energy sources, 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, operations, site decommissioning and rehabilitation.

Carbon Energy achieved Proof of Concept of its technology following 10 years of research with Australia's premier scientific research agency, the Commonwealth Scientific and Industrial Research Organisation (CSIRO), 5 years of in-field trials and over \$100 million investment in technology development.

By successfully proving our keyseam technology, we have earned a reputation for delivering consistent, high quality product gas which can be used to produce power, fertilisers and 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 also has two wholly-owned assets in southeast Queensland's Surat Basin:

- 1.36 billion tonnes of coal JORC Inferred Resource which is part of a 4 to 8 billion tonnes of coal Exploration Target; and
- 743PJ of Certified 2P syngas reserves.

The Company is headquartered in Brisbane, Australia, listed on the Australian Securities Exchange (ASX) as CNX and is quoted on the OTCQX International Exchange as CNXAY in the United States. Carbon Energy has UCG projects in Australia, China, Chile, Turkey and the United States.

## KEY EVENTS OF THE QUARTER

### Carbon Energy:

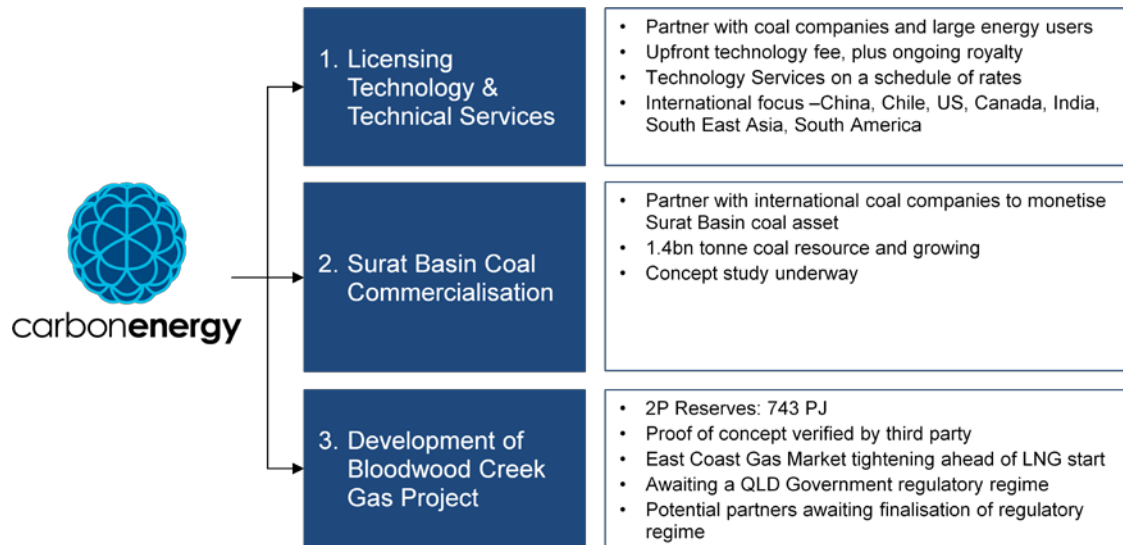
- increased its JORC Inferred Coal Resource by 15% increase to 1.36 billion tonnes across its wholly-owned Surat Basin tenements;
- achieved 20 months of continuous gas production at Bloodwood Creek;
- continued with cost reduction programs;
- was advised by the Queensland Department of Natural Resources and Mines, in mid-September, that the draft report from the Independent Scientific Panel (ISP) on Underground Coal Gasification (UCG) policy had been submitted; and
- announced the resignation of Managing Director Andrew Dash. Mr Dash will leave Carbon Energy at the end of 2012, to ensure an orderly transition in the leadership of the Company.

## EVENTS SUBSEQUENT TO QUARTER END

- Carbon Energy announced on the 18 October 2012, it had executed its first international, commercial scale, technology license agreement with Shanxi Coal Transportation & Sales Group (Shanxi Coal). The deal, which is the first agreement executed by the Company since it announced its new strategic direction includes an initial \$10 million technology fees. It is also the first agreement where the Company is a non-equity partner in the relationship and project development costs will also be fully funded by Shanxi Coal.
- In October 2012 the Company completed and lodged the preliminary documentation for the 2012 Research and Development Tax Incentive and anticipates to receive a cash payment of approximately \$6.9 million in the first quarter of 2013. In the 2012 tax year the company incurred qualifying research and development expenditure of approximately \$15.5 million.

## GROWTH STRATEGIES

Carbon Energy is moving toward the next phase of development through the following strategies.



## LICENSED TECHNOLOGY & TECHNICAL SERVICES

### CHINA

Carbon Energy on 18 October 2012 announced, it had signed its first international technology license agreement with Chinese coal giant Shanxi Coal Transportation and Sales Group (Shanxi Coal), to be its exclusive underground coal gasification (UCG) technology partner for the Shanxi Province.

The Definitive Agreement finalised between Carbon Energy and Shanxi Coal is a significant milestone for Carbon Energy. In-line with the strategic direction, announced earlier this year, the agreement marks the first licensing of its technology as a non-equity, contributing partner. This agreement follows the Heads of Agreement signed between both parties on 14 May 2012.

The Definitive Agreement will deliver to Carbon Energy:

1. A Technology Fee of US\$10 million (US\$7.5 million payable within 30 days of execution of this Definitive Agreement and the balance of US\$2.5 million payable upon achievement of Phase I project milestones);
2. The payment of a commercial schedule of rates for technical and engineering services provided by Carbon Energy; and
3. A royalty stream based on:
  - a. Phase I – Up to US\$3 million once gas from the Demonstration Project is sold to the local market. Expected for completion within 12 to 18 months.
  - b. Phase II - The development of major commercial projects with a projected minimum production rate of 30 PJ p.a of syngas. This phase has the potential to generate over US\$400 million in royalties over a 20 year project life.

Work will commence immediately upon receipt of the initial \$7.5 million portion of Technology Fee. The Company will provide technical and engineering services on a schedule of rates and both phases will be fully funded by Shanxi Coal under the agreement.



Shanxi Coal Project Location

## CHILE

Project	JORC Resource <sup>1</sup> (Mt)	Recoverable Gas <sup>2</sup> (PJ)
Mulpun, Chile <sup>3</sup>	103	1,100

### Notes

- JORC compliant – Competent Person: Dr C. Mallett
- 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%)
- Carbon Energy has the right to 30% contributing interest in Chile deposit upon completion of agreed milestones

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

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.

## UNITED STATES OF AMERICA

Project	Commercial Target <sup>1</sup> (Mt)	Recoverable Gas <sup>2</sup> (PJ)
Wyoming, United States	500	5,000

### Notes

- Carbon Energy non-JORC target
- 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%)

Carbon Energy continues to meet its obligations on its tenements to maintain its licenses. The Company continues to evaluate the commercial feasibility of its US projects and is monitoring the forward gas market and pricing, which may impact on project timelines.

## TURKEY

Carbon Energy is working to finalise a geological study as well as evaluating local economic and regulatory conditions of the coal resources at Hema Endustri's (subsidiary of the diversified Hattat Group) coal tenements near Amasra, in northern Turkey. The Company also appointed an independent resource assessor to undertake a UCG resource study.



## WHOLLY OWNED CORE ASSETS

### **15% INCREASE IN JORC INFERRED COAL RESOURCE TO 1.36 BILLION TONNE**

On 10 September 2012, Carbon Energy announced a 15% increase in its JORC Inferred Coal Resource to 1.36 billion tonnes in its wholly-owned Surat Basin tenements.

The upgrade to 1.36 billion tonnes builds on the 1.2 billion tonnes Resource announced in July 2012 and is based on data from an additional 91 bore holes that recently became available on public file. Data from a further 81 bore holes has recently become available and is currently being assessed. Additional data for a further 20 boreholes is due to be released into the public domain within the next six months. This information will allow the Company to further assess its coal resource.

This resource statement continues the modelling of existing Carbon Energy and public file drill-hole information by independent third party mining professional services company, Moultrie Group.

The newly defined resource relates to tonnage increases at EPC 867 (excluding MDL 374), EPC 869 and EPC 1132, in the Macalister Seam formation.

There is also significant potential for further definition of resources in other Walloon Coal Measure seams in these leases.

The resource potential of EPC 868 is yet to be assessed.

Coal quality within Carbon Energy's Resources is expected to be consistent with the published coal qualities of the Macalister Seam at the Wilkie Creek and Kogan operating coal mines. These mines produce an export thermal coal product of around 11% Ash, 9% moisture and Gross Calorific Value of 6,200 kCal/kg.



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

Tenure	Formation	Inferred Resource (Mt)
<b>EPC867<sup>1</sup></b>	Macalister Seam	986.2
<b>EPC869</b>	Macalister Seam	228.9
<b>EPC1132</b>	Macalister Seam	151.5
	<b>Total:</b>	<b>1,366.6</b>
<b>MDL3742</b>	<b>Macalister Seam</b>	<b>294.9</b>

Table Footnotes:

<sup>1</sup> EPC867 excludes resources contained within MDL374

<sup>2</sup> MDL374 resource also comprise the Companies 743PJ of certified 2P Syngas Reserve

Notes on Resources:

- Coal seams not intruded or not outside the tenure boundaries;
- Coal thicknesses <0.3m excluded;
- The depth range of calculation was from the base of weathering to 500m below natural topography;
- Coal seams <50% adb from coal quality or estimated from downhole density logs (in g/cc) excluded from the calculations;
- A discount factor varying from 13-15% 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.
- 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 with 3,200m between Points of Observation; and
- 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<sup>3</sup>.

## CONCEPTUAL STUDY PROGRESSING WELL

Carbon Energy is currently progressing a Conceptual Study to define potential mining projects within the Company's Surat Basin Resource and/or Exploration Target areas.

Work to date has identified:

1. Sufficient resources to support several underground mining operations at depths of 180-300m;
2. Development areas are free from strategic cropping land impacts and outside town restriction boundaries;
3. Development areas that is free of significant environmentally sensitive habitats and preservation areas;
4. Land tenure is predominantly freehold; and
5. A coal marketing study has confirmed potential sale as export quality thermal coal (subject to coal quality and washability tests being consistent with neighbouring mines) and identified current and potential customers of coal consistent with that contained in Carbon Energy's leases.

## COAL RESOURCE DEVELOPMENT NEXT STEPS:

The next steps in the coal resource development are:

1. Finalise conceptual study which includes infrastructure assessment as well as port and rail capacity;
2. Commercial assessment of the identified project areas; and
3. A targeted exploration program will be conducted following completion of the conceptual study, and is anticipated to be completed by the first quarter of 2013.

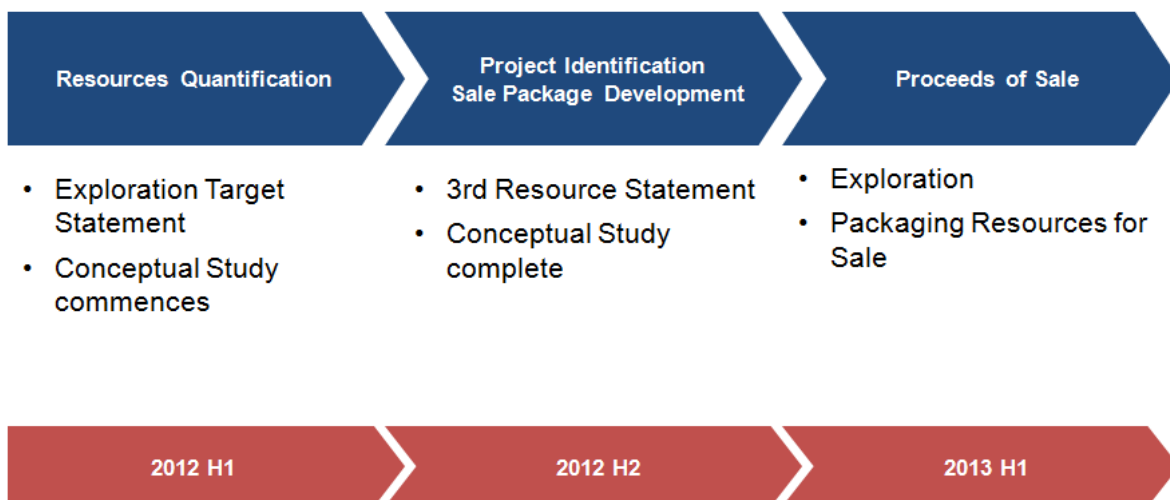
## COAL COMMERCIALISATION STRATEGY

Since announcing the strategic direction to monetise its coal assets, Carbon Energy has been achieving key milestones in defining its coal resource and the initial development plans to maximise value from these assets. The Company is pursuing the following strategy for the monetisation of its coal assets in the Surat Basin:

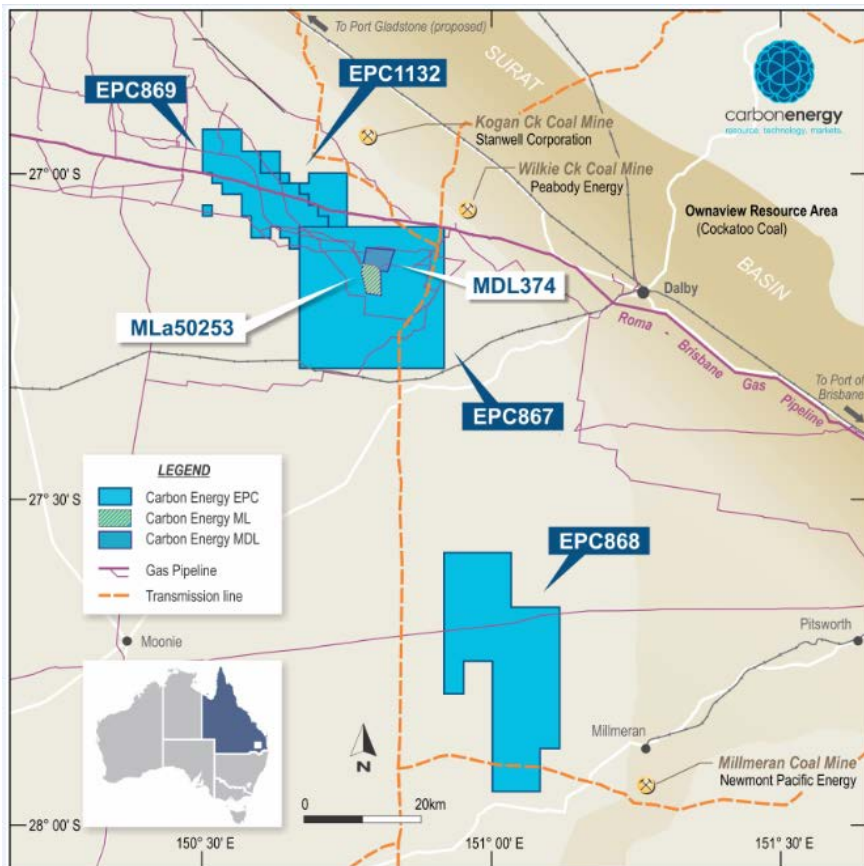
- Sale of initial minority interest(s) in coal tenements;
- Purchaser funds all ongoing exploration and mining studies to meet defined resource and reserve targets;
- Milestone payments made to Carbon Energy upon achievement of targets; and
- The Company retains minority stake and is free-carried during exploration, feasibility, construction and production phases.

# COAL STRATEGY TIMELINE

Seeking Commercial Partners for potential sale or partnership opportunities



# EXPLORATION TARGET LOCATION MAP



## TENEMENT STATUS AT END SEPTEMBER 2012

Tenement <sup>1</sup>	Status	As at September 2012	Area km <sup>2</sup>
MLA 50253	Application	1,343 ha	13
MDL 374	Granted	2,868 ha	29

Tenement1	Status	As at September 2012 Sub-blocks	Area km <sup>2</sup>
EPC 867	Granted	191	596
EPC 869	Granted	64	196
EPC 868	Granted	177	538
EPC 1132	Granted	23	70
<b>Total Eastern Surat Basin EPC's</b>		<b>455</b>	<b>1,400</b>

Tenement <sup>1</sup>	Status	As at September 2012 Sub-blocks	Area km <sup>2</sup>
EPC 1109	Granted	65	197
<b>Total Beaudesert EPC's</b>		<b>65</b>	<b>197</b>

Table Footnotes

<sup>1</sup>No change in tenement holding since June 2012.

# UCG SYNGAS

## BLOODWOOD CREEK UPDATE

Carbon Energy has been working with the Queensland Government-appointed Independent Scientific Panel (ISP) to assist the Panel in forming their recommendations on the future of UCG technology in Queensland.

The recommendations from the ISP will assist the State Government in developing a policy position. In mid-September 2012 Carbon Energy was advised by the Queensland Department of Natural Resources and Mines that the draft ISP report had been received. Based on the advice of Government a State Policy is anticipated early in 2013.

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. In anticipation of a decision Carbon Energy is in discussions with potential partners to help realise the value from its existing gas assets at its project site in Queensland's Surat Basin.

At the same time, environmental monitoring as well as planning work on the rehabilitation of the panels will continue at the site in order to demonstrate the completion of the final stage of the full lifecycle of a UCG panel.

## 20 MONTHS OF CONTINUOUS GAS PRODUCTION

As of October 2012 Carbon Energy achieved 20 months of continuous gas production at Bloodwood Creek, with the site producing amongst the highest quality and most consistent UCG gas of its kind anywhere in the world.

## 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.

## CORPORATE

### LEGAL ACTION

Legal action initiated by the Department of Environment and Heritage Protection (DEHP) against the Company and Managing Director, has been set a court hearing date of 3 December 2012.

Legal proceedings by the Company against Alexware Consulting Pty Ltd trading as Pangea Partners International and former employee, Mr John Wedgwood are continuing.

### CASH MANAGEMENT

As noted in the June 2012 Quarterly Report, 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 from both the Initial Technology fee (US\$7.5 million) and Technology Services fee expected to commence from this agreement during the month of November 2012, with Technology Services being charged on an agreed schedule of rates and billed monthly for the duration of the project.
- As noted in the quarterly report Carbon Energy is anticipating a \$6.9 million tax rebate following its lodgement in October 2012 of preliminary documentation for the 2012 Research and Development Tax Incentive.
- The Company's non-core conventional coal assets will be prepared for sale, with a formal sale process anticipated to commence early 2013.
- Further 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. Decommissioning of Panel 2 is now under way which will result in further cost savings relating to site operating and labour costs. The Company is also releasing funds through the disposal of non-core Bloodwood Creek fixed assets
- Since announcing the revised strategy in March 2012 the Company has decreased its quarterly cash outflow by 21%, and will further reduce the quarterly net cash outflow by 47% by the end of the December 2012 quarter (compared to the March 2012 quarter cash outflow and excluding any anticipated cash inflows from the above) while still delivering on the new strategy as outlined:

Quarter-End	Net cash outflow for the quarter \$ Amount	Cumulative decrease in net cash outflow \$ Amount	Cumulative decrease in net cash outflow %
March 2012	\$4.4 million	n/a	n/a
June 2012	\$4.3 million	\$0.1 million	2%
September 2012	\$3.5 million	\$0.9 million	21%
December 2012 (forecast spend)	\$2.6 million	\$1.8 million	47%

## RESEARCH & DEVELOPMENT TAX INCENTIVE

Carbon Energy is anticipating a \$6.9 million dollar tax rebate following its lodgement in October 2012 of preliminary documentation for the 2012 Research and Development Tax Incentive. The cash payment will be made early the first quarter of 2013.

During the 2012 financial year the Company incurred qualifying research and development expenditure of approximately \$15.5 million. This expenditure qualifies for the Federal Government's refundable tax offset and is expected to result in the payment of the \$6.9 million.

## RESIGNATION OF MANAGING DIRECTOR

Carbon Energy announced on 10 September 2012, the resignation of Managing Director Andrew Dash. Mr Dash will leave Carbon Energy at the end of 2012, to ensure an orderly transition in the leadership of the Company.

Carbon Energy Chairman, Dr Chris Rawlings, said: "After four years with the Company and with a rejuvenated executive team around him, Andrew has decided to move on."

"I thank Andrew for his contribution to the business in a very tough market," he said.

The Board has engaged an executive search firm to seek a suitable Chief Executive Officer for Carbon Energy.



**A.M. Dash**

Managing Director

31 October 2012

# 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

56 057 552 137

Quarter ended ("current quarter")

30 September 2012

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) Exploration & Evaluation	-	-
(b) BWC Site Operating & Maintenance Costs	(1,378)	(1,378)
(c) Technical Services	(800)	(800)
(d) Corporate & Administration	(1,578)	(1,578)
(e) Commercial & Other Business Development	(254)	(254)
(g) Other projects	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	39	39
1.5 Interest and other costs of finance paid	(2)	(2)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>	<b>(3,973)</b>	<b>(3,973)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(38)	(38)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	495	495
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material) – Project Chile	(28)	(28)
<b>Net investing cash flows</b>	<b>429</b>	<b>429</b>

+ See chapter 19 for defined terms.



**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (carried forward)	(3,544)	(3,544)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from Pac Road Convertible Note	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material) – Trade Creditors/Debtors	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	<b>(3,544)</b>	<b>(3,544)</b>
1.20	Cash at beginning of quarter/year to date	6,270	6,270
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>2,726</b>	<b>2,726</b>

**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	205
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 2,306,795 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	1,031
4.3 Production	-
4.4 Administration	1,618
<b>Total</b>	<b>2,649</b>

### 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	2,726	2,270
5.2 Deposits at call	-	4,000
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>2,726</b>	<b>6,270</b>

### 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	-	-	-	-

+ 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 (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <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 <b>+Ordinary securities</b>	776,306,566	776,306,566	Various	Fully paid
7.4 Changes during quarter				
(a) Increases through issues	2,306,795	2,306,795	0.540	Fully paid
(b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	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	-	-	-	-

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

7.7 <b>Options</b>			<i>Exercise price</i>	<i>Expiry date</i>
<i>Unlisted Options 25c</i>	5,000,000	-	25c	10/12/2013
<i>Unlisted Options 35c</i>	1,400,000	-	35c	10/12/2013
<i>Unlisted Options 70c</i>	5,600,000	-	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>	875,000	-	\$1.20	10/12/2013
<i>Unlisted Options \$1.60</i>	1,750,000	-	\$1.60	10/12/2013
<i>Unlisted Options \$0.1875</i>	7,000,000	-	\$0.1875	18/01/2017
<i>Unlisted Options \$0.1875</i>	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 <b>Debentures</b> <i>(totals only)</i>	-	-		
7.12 <b>Unsecured notes</b> <i>(totals only)</i>	-	-		

## 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 October 2012

Print name: Morné Engelbrecht

Title: Chief Financial Officer & Company Secretary

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+ See chapter 19 for defined terms.