CARBON ENERGY LTD HALF YEARLY REPORT

DECEMBER 2012

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.

Half-Year Financial Report For the period ended 31 December 2012

Directors

C. D. Rawlings - BSc (Hons), PhD, FAICD, FAusIMM	– Chairman (Non-Executive)
A.M. Dash - BEng (Chem), MCom, MAICD (Resigned 21 December 2012)	– Former CEO and Managing Director (Executive)
M.D.J. Cozijn - BCom, CPA, MAICD	– Director (Non-Executive)
H.M. Garnett - PSM, BSc (Hons), PhD, FTSE, FAICD	– Director (Non-Executive)
P.N. Hogan - BBus, CPA	– Director (Non-Executive)
L.I. Rozman - BEng, MGeos, FAusIMM CP (Man), MAICD	– Director (Non-Executive)

Company Secretary

M. Engelbrecht - BCom (Hons), CA(SA)

Executive Management

M. Engelbrecht	– Acting Chief Executive Officer (appointed Acting Chief Executive Officer 21 December 2012) Chief Financial Officer & Company Secretary
C.W. Mallett	– Technical Director
J. Haines	– General Manager Technical Services
T. Moore	– General Manager Operations

Registered & Principal Office

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Email: askus@carbonenergy.com.au

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Share Registry

Link Market Services Limited
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SYDNEY NSW 2000

Solicitors

Gadens Lawyers
240 Queen Street
BRISBANE QLD 4001

Auditors

Deloitte Touche Tohmatsu
Level 25, Riverside Centre
123 Eagle Street
BRISBANE QLD 4001

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DIRECTORS' REPORT

Your Directors submit the financial report of the Consolidated Group for the half-year ended 31 December 2012, made in accordance with a resolution of the Board.

Directors

The names of Directors who held office during or since the end of the half-year:

• Dr Chris Rawlings (Chairman)

• Mr Andrew Dash (Former Managing Director, resigned 21 December 2012)

• Mr Max Cozijn

• Dr Helen Garnett

• Mr Peter Hogan

• Mr Louis Rozman

REVIEW OF OPERATIONS

The Consolidated Group incurred a loss from ordinary activities after income tax for the half-year of $27,040,276 (2011: loss $9,338,030).

KEY EVENTS FOR THE SIX MONTH PERIOD

Carbon Energy:

- Executed its first international, commercial scale, technology license Definitive Agreement with Shanxi Sanyuan Coal Industry Co. Ltd a subsidiary of Shanxi Coal Transportation & Sales Group (Shanxi Coal);
- Increased its JORC Inferred Coal Resource by 15% to 1.36 billion tonnes across its Surat Basin coal asset tenements;
- Identified at least three longwall mining areas each with the potential of mining 5 million product tonnes per annum of export quality thermal coal following the completion of its conceptual mining study across its coal tenements in the Surat Basin, Queensland.
- Achieved 20 months of continuous gas production at Bloodwood Creek;
- On 30 November 2012, the Independent Scientific Panel (ISP) for Underground Coal Gasification (UCG) provided the government with its report on the UCG pilot trials in Queensland;

- Received $7 million as a research and development (R&D) tax incentive cash rebate for eligible 2011/2012 R&D expenditure;
- Announced that Credit Suisse provided a $10 million bridging loan facility to assist in funding the Company's short term working capital requirements. Carbon Energy repaid $7 million on receipt of the R&D tax incentive; and
- Appointed Morné Engelbrecht as Acting Chief Executive Officer of the Company whilst it continues its search for a permanent candidate for the position.

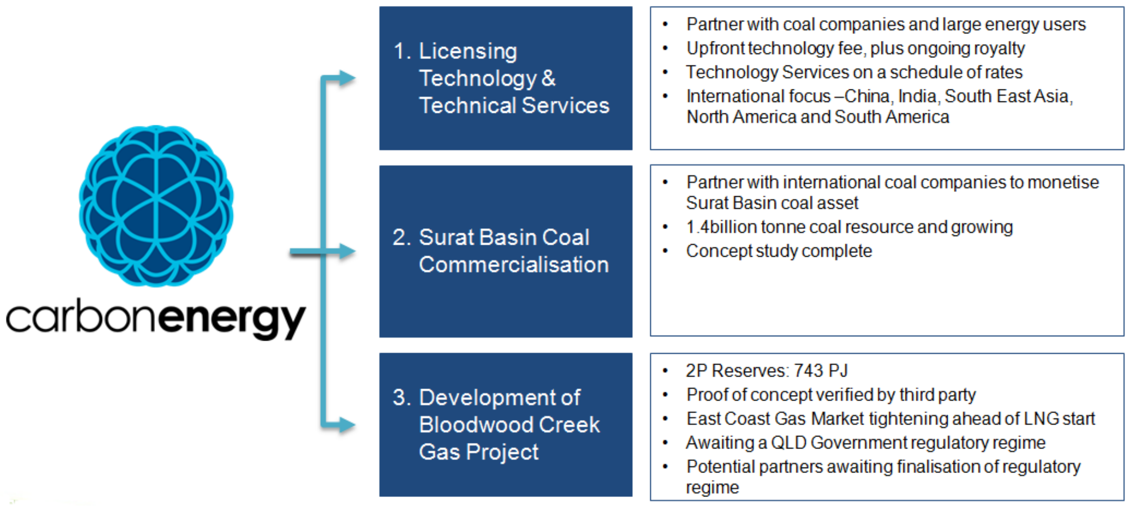
EVENTS SUBSEQUENT TO HALF-YEAR

Carbon Energy:

- Announced on 23 January 2013 a maiden JORC Inferred Resource of 910 million tonnes (Mt) of coal at its tenements in Bridger, Wyoming.
- Also signed a Technology Services Agreement whereby the Company will earn revenue from providing services relating to its keyseam technology amounting to approximately $100,000.
- Announced on 6 March 2013 that milestones 4 and 5 under the Share Sale Agreement with Summa Resource Holdings LLC have not been met and accordingly no further shares will be issued under the agreement.

GROWTH STRATEGIES

In line with its strategic objectives the Company is actively pursuing several business development opportunities.



LICENSED TECHNOLOGY & TECHNICAL SERVICES

CHINA

Carbon Energy on 18 October 2012 announced it had signed its first international technology license agreement with a subsidiary of 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 is a significant milestone for Carbon Energy and marks the first licensing of its technology as a non-equity, contributing partner.

The Agreement provides for:

1. A Technology Fee of US$10 million (US$7.5 million payable once the Demonstration Project is approved by the Shanxi Governor and the balance upon achievement of certain project milestones);
2. The payment of a commercial schedule of rates for the technical and engineering services to be provided by Carbon Energy; and
3. An ongoing royalty stream upon the sale of syngas for commercial purposes.

Subsequent to a change in the head of government in China in November 2012, Shanxi Province also formally appointed a new Governor, Mr. Xiaopeng Li, on 29 January 2013.

Once this transition within the provincial Government is completed, Shanxi Coal will seek the approval of the Demonstration Project by the new Governor, so that the approval process can be completed for the payment of the Technology Fee to Carbon Energy. Both parties remain committed to the project and are aiming to commence work as soon as practical thereafter.

In China, the Government is taking proactive measures to implement cleaner and safer energy technologies at a commercial-scale, which positions our technology to be at the forefront of this new wave of thinking as keyseam allows for the safe extraction of energy from coal with minimal environmental impact.

CHILE

Commercial discussions are continuing with Antofagasta Minerals (AMSA) to align the current joint venture agreement with our new strategic direction as a technology provider. The current agreement also allows for Carbon Energy to take ownership of the Mulpun Energy project and its future development in the event that AMSA is unable or unwilling to continue with the project.

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

UNITED STATES OF AMERICA

Subsequent to half-year end Carbon Energy announced a maiden coal JORC Inferred Coal Resource of 910Mt at Bridger site in Wyoming where the Company has an Exploration Right with Anadarko Land Corporation.

Coal quality at the Bridger leases is expected to be consistent with the coal quality of the Fort Union Formation coal seams at the nearby Bridger Coal Mine. The coal has been reported as 9.7% Ash, 20.5% Moisture and Gross Calorific Value of 5,200 kCal/Kg.

The Company is not seeking to commercialise the resource within the short to medium term due to unfavourable project economics resulting from the oversupply of gas in the US market following the emergence of the shale gas industry and the resulting decrease in energy prices. An impairment write-down amounting to $16,433,682 has been reflected in the half-year accounts and is detailed in note 3.

In accordance with JORC guidelines, the reported Inferred Coal Resources at the Company's Bridger Site, Wyoming are[1]:

AREA	FORMATION	JORC INFERRED RESOURCE (Mt)
Bridger Site Wyoming, USA	O	229
	BU	229
	GU	346
	L	106
	Total	**910**
AREA	**FORMATION**	**EXPLORATION TARGET (Mt) [2]**
Bridger Site Wyoming, USA	O	96
	BU	134
	GU	158
	L	35
	Total	**423**

The information in this statement that relates to in situ coal resources potential is based on information compiled by GeoConsult Pty Ltd and Adrian Buck and reviewed by Warwick Smyth, who is a member of the Australasian Institute of Mining and Metallurgy (CP) Geology; and the Australian Institute of Geoscientists.

1. See CNX ASX/Media Announcement 23 January 2013. CNX is not aware of any new information that would materially affect the resources stated.
2. Exploration Targets met all requirements for an Inferred Resource, however; includes blocks not held by Carbon Energy at the time of reporting. To include a block within the Exploration Target it had to be fully enclosed on all sides by blocks held by Carbon Energy. Targets are conceptual in nature.

TURKEY

Carbon Energy received an independent geological report on the coal resource near Amasra, Turkey. The report shows that these coal resources do not meet fundamental UCG requirements and do not represent a large enough coal resource to economically extract syngas.

SURAT BASIN COAL ASSETS

15% INCREASE IN JORC INFERRED COAL RESOURCE TO 1.36 BILLION TONNES

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.

In accordance with JORC guidelines, the reported Inferred Coal Resources in the Company's Surat Basin tenures are[1]:

TENURE	FORMATION	INFERRED RESOURCE (Mt)
EPC867[2]	Macalister Seam	986.2
EPC869	Macalister Seam	228.9
EPC1132	Macalister Seam	151.5
	Total:	**1,366.6**
MDL374[3]	**Macalister Seam**	**294.9**

Table Footnotes:

The estimates of the Coal Resources presented in this Report are considered to be a true reflection of the Coal Resources as at 10 September 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 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". 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.

1. See CNX ASX/Media Announcement 10 September 2012. CNX is not aware of any new information that would materially affect the Resources stated.
2. EPC867 excludes resources contained within MDL374
3. 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^3.

SIGNIFICANT LONGWALL MINING OPPORTUNITIES IDENTIFIED

At least three longwall mining areas, each with the potential of mining 5 million product tonnes per annum of thermal coal, were identified following the completion of Carbon Energy's conceptual mining study across its coal tenements in the Surat Basin, South East Queensland. The results of the study confirm the Company holds significant coal assets with the potential for development into substantial mining operations.

Additionally the study estimates total production cost at A$81 per tonne (+/-50%) Free On Board (FOB) at Gladstone. The independent conceptual mining study was commissioned by the Company as part of its strategic review to identify the best approach to maximise the value of its coal deposits and to determine which packages will be suitable for open cut or underground mining.

The study identified three mining areas with a target working section of 4.5 metres. Production was staged to produce an average of 12.5 million tonnes p.a. Run of Mine (ROM), for over 35 years as shown below:

MINE AREA	COAL SEAM	1st PRODUCTION	ROM PRODUCTION	LIFE OF MINE
LW1	Macalister	Year 1	6.5 Mtpa	17 years
LW2	Macalister	Year 4	6.5 Mtpa	15 years
LW3	Wambo	Year 15	6.5 Mtpa	26 years

Target production rates reflect those currently being achieved in longwall operations in Queensland and New South Wales. Additional coal is available outside the working seam section at all sites.

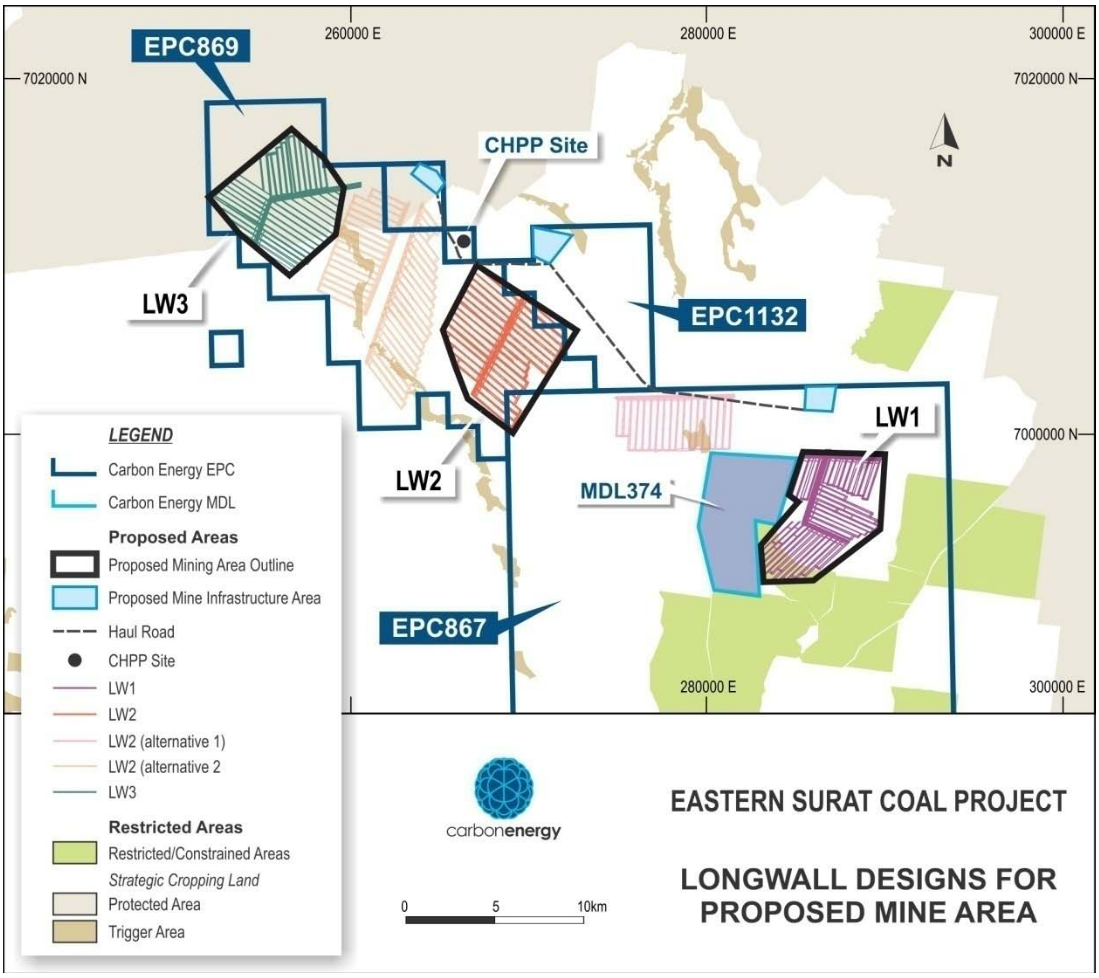
The study uses a Coal Handling and Preparation Plant (CHPP) yield of 78% to achieve an export thermal coal product. This yield is based on typical results for producing Surat basin mines when mining the whole Macalister seam thickness. The ability to target an optimal 4.5m working section is likely to enhance the yield achieved from these projects and will be an area for future optimisation studies.

The report highlights favourable mine locations with two of the three sites unaffected by Strategic Cropping Land (SCL). One of the project areas contains a partial overlap of SCL, and will therefore require further assessment.

Infrastructure requirements for development of coal projects on the tenements were assessed as part of the scoping study. Importantly the Company's tenements are located close to Aurizon's (formerly QR National) existing West Moreton Coal System.

The Company aims to upgrade its substantial coal resources through a modest program of exploration drilling, incorporating coal quality and washability testing.

Upgrading the coal resource and completing the Concept Study which identified substantial mining operation development potential is consistent with our plans to add value to our coal assets prior to their sale. We are engaged with a number of parties for the monetisation of these coal assets.



COAL RESOURCE DEVELOPMENT NEXT STEPS

The next steps in the coal resource development are:

- Continue to upgrade resource as more relevant data become available in the public domain; and
- A targeted exploration program will be planned following completion of the conceptual study.

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:

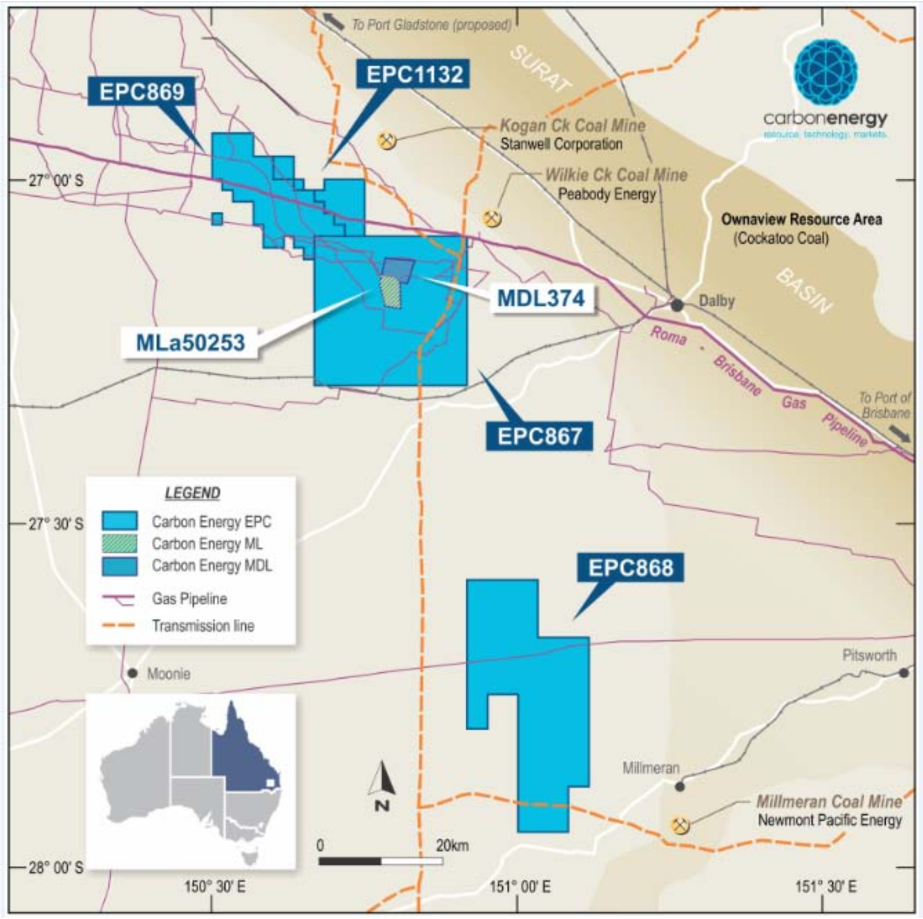
- Sale of initial minority interest(s) in coal tenements for cash consideration;
- Purchaser funds all ongoing exploration and mining studies to meet defined resource and reserve targets;
- Additional milestone payments made to Carbon Energy upon achievement of targets; and
- The Company retains a stake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

Carbon Energy plans on utilising the funds generated from monetising its coal assets to further develop its core business of providing underground coal gasification technology and services.

The Company is engaged with multiple parties for the monetisation of the coal assets.

Seeking Commercial Partners for potential sale or partnership opportunities

EXPLORATION TARGET LOCATION MAP



TENEMENT STATUS AT 31 DECEMBER 2012

TENEMENT[1]	STATUS	AS AT DECEMBER 2012	AREA Km^2
MLA 50253	Application	1,343 ha	13
MDL 374	Granted	2,868 ha	29

TENEMENT[1]	STATUS	AS AT DECEMBER 2012 SUB-BLOCKS	AREA Km^2
EPC 867	Granted	195	595.7
EPC 869	Granted	64	195.8
EPC 868	Granted	177	538.0
EPC 1132	Granted	23	70.4
Total Eastern Surat Basin EPC's		**459**	**1,399.9**
TENEMENT[1]	**STATUS**	**AS AT DECEMBER 2012 SUB-BLOCKS**	**AREA Km^2**
EPC 1109	Granted	65	195
Total Beaudesert EPC's		**65**	**195**

[1] No change in tenement holding since June 2012.

BLOODWOOD CREEK SYNGAS RESERVE

20 MONTHS OF CONTINUOUS GAS PRODUCTION

As of October 2012 Carbon Energy achieved 20 months of continuous gas production at Bloodwood Creek. This adds to our Proof of Concept announced in March 2012 where we achieved the highest-quality consistent syngas production worldwide from UCG. This critical breakthrough to commercialisation is essential for downstream gas project viability and our extensive operational data positions Carbon Energy as the leading UCG technology provider.

BLOODWOOD CREEK UPDATE

Carbon Energy is currently entering its final phase for the remediation and rehabilitation of its UCG Panels at Bloodwood Creek. These programs are essential in demonstrating the full life-cycle of a UCG panel and is a component in the development of our technological services and intellectual property portfolio.

QUEENSLAND GOVERNMENT POLICY OUTCOME

Carbon Energy was advised by the Queensland Government in early December 2012 that a Final Report on UCG had been provided to the Government from the Independent Scientific Panel (ISP). The ISP appointed by the State Government has worked for the past two years on developing a report to assist the Government in forming their recommendations on the future of UCG technology in Queensland.

We are eagerly awaiting a positive policy decision from the Queensland Government to give certainty for UCG investment in Queensland. In preparation for the commercial development of our gas reserve we are progressing with project conceptual study for the site.

UCG SYNGAS RESERVE

In accordance with the Society of Petroleum Engineers (SPE) guidelines, the reserves in these properties are[1]:

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.

1. See CNX ASX/Media Announcement 8 December 2009. CNX is not aware of any new information that would materially affect the Reserves stated.

CORPORATE

CASH MANAGEMENT

The Consolidated Group had $7.825 million in cash and cash equivalents as at 31 December 2012.

RESEARCH & DEVELOPMENT TAX INCENTIVE

On 17 December 2012, the Company received A$7 million as a research and development (R&D) tax incentive cash rebate for eligible 2011/2012 R&D expenditure in relation to the development of its keyseam technology at Bloodwood Creek, near Dalby in South-East Queensland.

Changes to the Federal R&D legislation were introduced for 2011/2012 and resulted in a tax cash rebate for eligible R&D being paid to the Company.

The keyseam R&D activities continue and are focussed on ensuring that the Company remains at the forefront of UCG technology.

CREDIT SUISSE $10 MILLION FACILITY

On 16 November 2012, Carbon Energy announced that Credit Suisse had provided a $10 million bridging loan facility to assist in funding the Company's short term working capital requirements.

The proceeds from the R&D tax incentive were used to repay $7 million of the Credit Suisse $10 million Facility, which leaves an outstanding balance of $3 million on the Facility. The terms of the loan are a 12 month secured term loan facility at an interest rate of 8% per annum with 61,728,395 Options issued with an exercise price of $0.081.

ACTING CEO APPOINTED

The Board advised on 17 December 2012 that Mr Morné Engelbrecht had been appointed as Acting Chief Executive Officer of the Company effective 21 December 2012 whilst it continues its search for a permanent candidate for the position. Morné assumed the role of Acting Chief Executive Officer on 21 December 2012 following the departure of Mr Andrew Dash.

The Board thanks Andrew for his contribution to the business in a very tough market and for progressing the Company from a start-up company through to Proof of Concept stage for the Company's keyseam UCG technology and initial steps toward commercialisation.

ISSUED CAPITAL & UNLISTED OPTIONS

The total issued capital at 31 December 2012 was 778,451,954 fully paid ordinary shares quoted on the Australian Stock Exchange.

A total of 9,875,000 Unlisted management and employee options with exercise prices between $0.80 and $1.60 are on issue with an expiry date of 10 December 2013 and with the vast majority subject to meeting annual performance measures.

A total of 61,728,395 Unlisted options were issued to Credit Suisse AG on 16 November 2012 with an exercise price of $0.081 and an expiry date of 15 November 2014.

ISSUED CAPITAL & UNLISTED OPTIONS (continued)

A total of 9,645,845 Unlisted options were issued to Pacific Road Capital Management Pty Ltd on 15 November 2012 with an exercise price of $0.081 each, on the same term and conditions as the Credit Suisse options issued under the Credit Suisse Senior Secured Funding Facility on 15 November 2012. These options were issued in accordance with the non-dilution clause in the Pacific Road Facility Agreement whereby that Agreement has provision to prevent any further capital raising from diluting Pacific Road's share holding in Carbon Energy. The non-dilution clause applies to any capital raising undertaken prior to termination, or full conversion of, the facilities with Pacific Road.

LEGAL ACTION

On 12 July 2011 DERM (now called DEHP) advised Carbon Energy of charges laid against the Company and the Managing Director, associated with an alleged release of process water in August 2009. Carbon Energy conducted a thorough investigation of the issue at the time, and the resulting report concluded no ongoing environmental harm. DERM accepted the report in October 2010 and the Government subsequently confirmed the Company's findings.

Several subsidiary hearings were conducted in relation to aspects of the matter during 2012. However, on 5 December 2012, the Parties agreed to settle the matter.

On 12 June 2012, DEHP issued a Complaint and Summons in the Emerald Magistrates Court in relation to charges under the Environmental Protection Act (EPA). The charges relate to the classification of process water transported from Carbon Energy's Bloodwood Creek site during the month of June 2011. Carbon Energy will be defending those charges which are set down for a trial in the Brisbane Magistrates Court on 22 July 2013.

The legal proceedings against Alexware Consulting Pty Ltd trading as Pangea Partners International ("Pangea") and Mr John Wedgwood were still in progress during the period.

LISTED INVESTMENTS

Carbon Energy held 29 million shares in ASX listed uranium company, Energia Minerals Limited (16.45%) as at 31 December 2012.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under section 307C of the Corporation Act 2001 is set out on page 16 for the half-year ended 31 December 2012.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s306(3) of the Corporations Act 2001.

On behalf of the Directors:

Dr Chris Rawlings
Chairman
Brisbane, 14 March 2013

Dr Helen Garnett
Non-Executive Director

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

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Board Audit Committee
Carbon Energy Limited
Level 12, 301 Coronation Drive
Milton QLD 4064

14 March 2013

Dear Board Members,

Independence Declaration

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Carbon Energy Limited.

As lead audit partner for the review of the financial statements of Carbon Energy Limited for the half-year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Stavrou
Partner
Chartered Accountants

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

		Consolidated Group	
	Notes	Dec '12 $	Dec '11 $
Revenue			
Finance income		115,757	357,189
Other income		33,921	5,314
TOTAL Revenue		**149,678**	**362,503**
Expenditure			
Bloodwood Creek operating costs		(1,401,263)	(2,979,809)
Employee and consultancy costs		(3,541,220)	(3,760,567)
Administration, legal & corporate costs		(2,247,472)	(2,635,508)
Finance costs		(2,674,788)	(38,054)
Depreciation expense		(34,362)	(31,359)
Loss on disposal of assets		(115,080)	-
Loss on disposal of investment in associate		(176,710)	-
Impairment expense	3	(16,433,682)	-
Movement in fair value of derivatives		(699)	-
Share-based (payments)/cancellations	3	-	539,164
Net loss from equity accounted investment in associate		(564,678)	(794,400)
TOTAL Expenditure		**(27,189,954)**	**(9,700,533)**
Loss before income tax expense		**(27,040,276)**	**(9,338,030)**
Income Tax Expense		-	-
Loss for the Period	3	**(27,040,276)**	**(9,338,030)**
Other comprehensive income for the period (net of tax)		-	-
Total comprehensive income for the period		**(27,040,276)**	**(9,338,030)**
Loss attributable to owners of the parent		(27,040,276)	(9,338,030)
Total comprehensive income attributable to owners of the parent		**(27,040,276)**	**(9,338,030)**
Overall Operations:			
Basic loss per share (cents per share)		(3.48)	(1.30)
Diluted loss per share (cents per share)		(3.48)	(1.30)

The above consolidated statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

Consolidated Group

	Notes	Dec '12 $	Jun '12 $
Assets **Current Assets**			
Cash and cash equivalents		7,825,352	6,270,646
Trade and other receivables	5	409,825	497,953
Other current assets	6	29,657	-
Total Current Assets		**8,264,834**	**6,768,599**
Non Current Assets			
Trade and other receivables	5	1,681,765	1,620,356
Investment in associate	7	-	1,727,388
Available for sale financial assets	8	986,000	-
Construction work in progress	9	2,555,334	2,715,768
UCG panel assets	10	1,733,640	1,733,640
Property, plant and equipment	11	674,921	1,346,933
Other non-current assets	12	1,656,408	1,607,662
Deferred exploration and evaluation costs	13	91,939,337	108,128,765
Intangible assets	14	47,827,715	54,815,481
Total Non Current Assets		**149,055,120**	**173,695,993**
Total Assets		**157,319,954**	**180,464,592**
Liabilities **Current Liabilities**			
Trade and other payables		785,633	1,313,321
Loans and borrowings	15	2,366,581	-
Derivative financial liability	16	1,318,437	-
Provisions	17	313,771	768,020
Total Current Liabilities		**4,784,422**	**2,081,341**
Non Current Liabilities			
Provisions	17	3,474,924	3,008,464
Financial liabilities	18	5,854,058	5,375,340
Total Non Current Liabilities		**9,328,982**	**8,383,804**
Total Liabilities		**14,113,404**	**10,465,145**
Net Assets		**143,206,550**	**169,999,447**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2012

Consolidated Group

	Notes	Dec '12 $	Jun '12 $
Equity			
Issued Capital	19	227,422,169	227,174,129
Reserves		17,856,975	17,857,636
Accumulated losses		(102,072,594)	(75,032,318)
Total Equity		**143,206,550**	**169,999,447**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

Consolidated Group

	Issued Capital $	Share-Based Payments Reserve $	FX Reserve $	Other Reserve $	Accumulated Losses $	TOTAL $
Balance at 1 Jul 2011	218,256,942	14,149,360	-	-	(56,469,464)	**175,936,838**
Shares issued during the period	8,410,363	-	-	-	-	**8,410,363**
Transaction costs	(139,877)	-	-	-	-	**(139,877)**
Finalisation of Clean Coal Limited (CCL) transaction	(1,338)	-	-	-	-	**(1,338)**
Translation of Foreign Operations	-	-	100,174	-	-	**100,174**
Movement in share option reserve	-	(684,743)	-	-	-	**(684,743)**
Losses attributable to members of the parent entity	-	-	-	-	(9,338,030)	**(9,338,030)**
Total comprehensive income / (expense) for the period	-	-	-	-	-	**-**
Balance at 31 Dec 2011	**226,526,090**	**13,464,617**	**100,174**	**-**	**(65,807,494)**	**174,283,387**

	Issued Capital $	Share-Based Payments Reserve $	FX Reserve $	Other Reserve $	Accumulated Losses $	TOTAL $
Balance at 1 Jul 2012	227,174,129	15,718,230	37,816	2,101,590	(75,032,318)	**169,999,447**
Shares issued during the period	251,145	-	-	-	-	**251,145**
Transaction costs	(3,105)	-	-	-	-	**(3,105)**
Translation of Foreign Operations	-	-	(661)	-	-	**(661)**
Movement in share option reserve	-	-	-	-	-	**-**
Losses attributable to members of the parent entity	-	-	-	-	(27,040,276)	**(27,040,276)**
Total comprehensive income / (expense) for the period	-	-	-	-	-	**-**
Balance at 31 Dec 2012	**227,422,169**	**15,718,230**	**37,155**	**2,101,590**	**(102,072,594)**	**143,206,550**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

	Consolidated Group	
	Dec '12 $	Dec '11 $
Cash Flows from Operating Activities:		
Payments to suppliers and employees	(7,664,887)	(9,273,303)
Receipt of Research & Development rebate	7,002,767	-
Interest received	72,550	184,771
Net cash used in operating activities	(589,570)	(9,088,532)
Cash Flows from Investing Activities:		
Payments for property, plant and equipment	(42,430)	(239,339)
Proceeds from disposal of property, plant and equipment	565,000	-
Payments for Construction in progress	-	(2,046,090)
Payments for UCG Panel assets	-	(66,794)
Payments for exploration costs	(250,191)	(6,477)
Payments for intangible assets	(15,001)	(181,375)
Net payments for premises security bonds	(48,484)	-
Net Payments for Chile project	(48,746)	(112,104)
Net cash flows used in investing activities	160,148	(2,652,179)
Cash Flows from Financing Activities:		
Proceeds from issues of shares	-	8,264,783
Proceeds from short term loan facility	10,000,000	-
Repayments of loan facility	(7,002,767)	-
Term facility costs	(1,010,000)	-
Capital raising costs	(3,105)	(124,182)
Net cash flows provided by financial activities	1,984,128	8,140,601
Net (decrease) increase in cash and cash equivalents held	1,554,706	(3,600,110)
Cash and cash equivalents at 1 July	6,270,646	9,798,985
Cash and cash equivalents at 31 December	7,825,352	6,198,875

The above consolidated cash flow statement should be read in conjunction with the accompanying notes

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

NOTE 1 – BASIS OF PREPARATION

The half-year consolidated financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2012 and any public announcements made by Carbon Energy Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half-year financial report does not include full disclosures of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing activities of the Consolidated Group as the full financial report.

Reporting Basis and Conventions

The half-year report has been prepared on an accruals basis and is based on historical costs modified, by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Carbon Energy Limited annual report for the financial year ended 30 June 2012. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

- Amendments to AASB 1, 5, 7, 101, 112, 120, 121, 132, 133 and 134 as a consequence of AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior half-years. However, the application of AASB 2011-9 has resulted in changes to the Group's presentation of, or disclosure in, its half-year financial statements.

AASB 2011-9 introduces new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB 101, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

NOTE 2 – GOING CONCERN

The financial report has been prepared on a going concern basis, which assumes the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

In concluding that the going concern basis is appropriate a cash flow forecast for twelve months from the signing of the financial report was considered. The ability of the Consolidated Group to continue as a going concern and fund the development and commercialisation of its UCG technology is dependent upon the receipt of a contracted Technology Fee (refer to Note 20) and/or the ability to source additional funds in the coming months from a range of opportunities, including the further licensing of the Company's keyseam UCG technology, providing technical services, commercialising its coal resources, realising non-core assets and from equity markets. Any capital raising through the equity markets will be influenced by a number of factors including market sentiment and the progress of current development and licensing activities. The Consolidated Group has successfully sourced such funds in difficult capital market environments in the past.

Notwithstanding this, as a technology development and exploration Company with start-up projects and a dependency on continued support from current financiers and on securing additional sources of funds, should the Consolidated Group neither receive the contracted Technology Fee nor secure additional funding there are material uncertainties as to whether the Consolidated Group will be able to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Consolidated Group not continue as a going concern.

NOTE 3 – LOSS FOR THE PERIOD

The following significant transactions are relevant in explaining the financial performance:

	Dec '12 $	Dec '11 $
Impairment expense [1]	**(16,433,682)**	**-**
Share based (payments)/cancellations [2]	**-**	**539,164**

[1] The US coal assets were written down by $16,433,682 during the 2012 half year period following the Company's decision to not proceed with commercialising this resource in the short to medium term.

[2] The prior period balance relates to accounting for share options provided to employees in accordance with the Australian Accounting Standards and are based on a theoretical cost using a 70% volatility factor. For the half year ended 31 December 2011, the negative expense of $539,164 is comprised of $684,743 (negative expense) reflecting the cancellation of a number of options and $145,579 Share Based Payments expense arising from Short Term Incentive and Long Term Incentive shares issued to Executives during the half year period. No incentives were paid and no options were cancelled in the current period.

NOTE 4 – SEGMENT INFORMATION

The Consolidated Group operates in one segment, being development to produce clean energy and chemical feedstock from UCG Syngas and report to the chief operating decision-maker on this basis. As such one reportable segment has been identified and this basis is consistent with the current reporting structure.

NOTE 5 – TRADE AND OTHER RECEIVABLES

	Dec '12 $	Jun '12 $
Current		
Other receivables	409,825	497,953
TOTAL CURRENT TRADE & OTHER RECEIVABLES	**409,825**	**497,953**
Non Current		
Deposits	270,053	221,569
Receivable from Crescent Gold Limited [1]	1,411,712	1,398,787
TOTAL NON CURRENT TRADE & OTHER RECEIVABLES	**1,681,765**	**1,620,356**

[1] On 30 November 2009, Carbon Energy Limited executed an asset sale agreement with Crescent Gold Limited pertaining to the sale of its gold interests in the Laverton area of Western Australia. The total consideration was $2,500,000 in cash and a further payment of $1,500,000 is contingent on gold production exceeding 75,000 ounces. The non-current receivable has been recognised at 31 December 2012 representing the Directors' best estimate of the fair value of the receivable.

NOTE 6 – OTHER CURRENT ASSETS

	Dec '12 $	Jun '12 $
Current		
Prepayments	29,657	-
TOTAL OTHER CURRENT ASSETS	**29,657**	**-**

NOTE 7 – INVESTMENT IN ASSOCIATE

	Dec '12 $	Jun '12 $
Opening Balance	1,727,388	3,044,920
Share of associate's loss after income tax	(564,678)	(1,317,532)
Closing Balance prior to disposal	**1,162,710**	-
Fair Value at date of disposal	986,000	
Profit / (Loss) on deemed disposal of associate	(176,710)	-
Transfer to Available for Sale Financial Asset	(986,000)	-
Closing Balance	**-**	**1,727,388**

On 11 December 2012 Energia Minerals Limited completed a Rights Issue reducing Carbon Energy's % holding from 26.48% to 16.45%. Accordingly Carbon Energy's investment in Energia Minerals Limited has been reclassified from an Investment in Associate to an Available for Sale Financial Asset as of 11 December 2012. The loss on disposal at 11 December 2012 arising from the difference between the fair value and carrying value at 11 December 2012 is $176,710.

NOTE 8 – AVAILABLE FOR SALE FINANCIAL ASSETS

	Dec '12 $	Jun '12 $
Listed securities		
Equity securities	986,000	-
TOTAL AVAILABLE FOR SALE FINANCIAL ASSETS	**986,000**	**-**

NOTE 9 – CONSTRUCTION WORK IN PROGRESS

	Dec '12 $	Jun '12 $
Opening Balance	2,715,768	12,370,001
Additions	-	3,147,411
Transfer to Intangible assets	-	(12,801,644)
Costs written off during the period	(160,434)	-
Closing Balance	**2,555,334**	**2,715,768**

The above costs relate to the construction of Panel 3 at Bloodwood Creek, Dalby in Queensland.

NOTE 10 – UCG PANEL ASSETS

	Dec '12 $	Jun '12 $
Opening Balance	1,733,640	10,616,055
Additions	-	1,143,404
Transfers to Intangible assets	-	(10,025,819)
Closing Balance	**1,733,640**	**1,733,640**

NOTE 11 – PROPERTY, PLANT & EQUIPMENT

	Dec '12 $	Jun '12 $
Opening Balance	1,346,933	8,756,618
Additions	42,430	421,307
Transfers to Intangible asset	-	(7,640,919)
Disposals	(680,080)	(99,706)
Depreciation expense	(34,362)	(90,367)
Closing Balance	**674,921**	**1,346,933**

NOTE 12 – OTHER NON-CURRENT ASSET

	Dec '12 $	Jun '12 $
Opening Balance	1,607,662	1,100,473
Additions	48,746	507,189
Closing Balance	**1,656,408**	**1,607,662**

NOTE 13 – DEFERRED EXPLORATION AND EVALUATION COSTS

	Dec '12 $	Jun '12 $
Opening Balance	108,128,765	107,964,187
Additions	250,191	164,578
Impairment write-down	(16,433,682)	-
Costs written off	(5,937)	-
Closing Balance	**91,939,337**	**108,128,765**

NOTE 14 – INTANGIBLE ASSETS

	Dec '12 $	Jun '12 $
Opening Balance	54,815,481	24,218,525
Additions	15,001	128,574
Transfers from Construction Work-in-Progress	-	12,801,644
Transfers from Property, Plant & Equipment	-	7,640,919
Transfers from UCG Panel Assets	-	10,025,819
Carrying value reduction following receipt of R&D rebate	(7,002,767)	-
Closing Balance	**47,827,715**	**54,815,481**

NOTE 15 – LOANS AND BORROWINGS

	Dec '12 $	Jun '12 $
Current		
Term Facility (Secured)	2,366,581	-
Closing Balance	**2,366,581**	**-**

The Company entered into a $10,000,000 bridging loan facility with Credit Suisse on 15 November 2012 to assist in funding the Company's short term working capital requirements. The loan is a 12 month secured loan facility at an interest rate of 8% per annum.

As per the facility agreement, 61,728,395 Options have been issued at a strike price of $0.081 to Credit Suisse. Refer to Note 16 below for further disclosure on the options.

	Dec '12 $	Jun '12 $
Loan proceeds	10,000,000	-
Less: Repayment	(7,002,767)	-
Secured Loan Debt outstanding at 31 December 2012	**2,997,233**	**-**
Accounting Adjustments		
Less: transaction costs Facility fee, upfront interest, legal fees	(1,080,053)	-
Less: transaction costs Options issued	(1,317,737)	-
Financial Liability Unwinding at 31 December 2012	1,767,138	-
Closing Loan Facility Balance	**2,366,581**	**-**

NOTE 16 – DERIVATIVE FINANCIAL LIABILITY

	Dec '12 $	Jun '12 $
Current		
Option Liability	1,318,437	-
Closing Balance	**1,318,437**	**-**

As part of the finalisation of the Credit Suisse loan facility, 61,728,395 options were issued to Credit Suisse at a strike price of $0.081. The issue of these options has been treated as an embedded derivative and accordingly the value has been classified as a derivative financial liability.

NOTE 17 – PROVISIONS

	Dec '12 $	Jun '12 $
Employee Benefits	327,597	315,386
Other Provisions	3,461,098	3,461,098
TOTAL PROVISIONS	**3,788,695**	**3,776,484**
Current	313,771	768,020
Non-Current	3,474,924	3,008,464
TOTAL PROVISIONS	**3,788,695**	**3,776,484**
EMPLOYEE BENEFITS		
Provision for Annual Leave (Current)	313,771	293,501
Provision for Long Service Leave (Non-Current)	13,826	21,885
Closing Balance	**327,597**	**315,386**
PROVISION FOR REHABILITATION		
Current	-	474,519
Non-Current	3,461,098	2,986,579
Closing Balance	**3,461,098**	**3,461,098**

NOTE 18 – FINANCIAL LIABILITIES

	Dec '12 $	Jun '12 $
Non-Current		
Convertible Note Facility (Secured)	5,854,058	5,375,340
TOTAL FINANCIAL LIABILITIES	**5,854,058**	**5,375,340**

NOTE 18 – FINANCIAL LIABILITIES (continued)

	Dec '12 $	Jun '12 $
Proceeds of issue	10,000,000	10,000,000
Less Transactional costs	(2,592,086)	(2,592,086)
Less Equity component	(2,101,590)	(2,101,590)
Financial Liability Unwinding	547,734	69,016
Closing Loan Facility Balance	**5,854,058**	**5,375,340**

The total secured Pacific Road convertible note outstanding at 31 December 2012 is $10,000,000.

A total of 9,645,845 Unlisted options were issued to Pacific Road Capital Management Pty Ltd on 16 November 2012 with an exercise price of $0.081 and an expiry date of 15 November 2014. These options were issued in accordance with the non-dilution clause in the Pacific Road Facility Agreement whereby the convertible note has provision to prevent any further capital raising from diluting Pacific Road's share holding in Carbon Energy.

NOTE 19 – EQUITY SECURITIES ISSUED

2012	Half-Year '12 No.	Half -Year '12 $
Balance 30 June 2012	**773,999,771**	**227,174,129**
29 August 2012 interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	2,306,795	124,567
29 November 2012 interest costs in relation to drawdown of Tranche A and Tranche B (Pacific Road Convertible Note Facility)	2,145,388	126,578
Issue costs	-	(3,105)
Balance 31 December 2012	**778,451,954**	**227,422,169**

2011	Half-Year '11 No.	Half -Year '11 $
Balance 30 June 2011	**698,517,858**	**218,256,942**
14 November 2011 rights issue placement @ 12 cents per share	68,873,204	8,264,784
Short Term Incentive/Long Term Incentive Shares allotted for Executives	735,898	145,579
Adjustment arising from finalisation of CCL transaction	-	(1,338)
Issue costs	-	(139,877)
Balance 31 December 2011	**768,126,960**	**226,526,090**

NOTE 20 – CONTINGENT ASSETS

	Dec '12 $	Jun '12 $
Shanxi Sanyuan Coal First Technology Fee	7,174,018	-
TOTAL	**7,174,018**	**-**

The Consolidated Group is awaiting the receipt of the Technology Fee of $7,174,018 from Shanxi Sanyuan Coal Industry Co. Ltd pursuant to the signed Definitive Agreement which provides for Carbon Energy Limited to be the exclusive UCG technology partner for the Shanxi Province pending Government approvals. The Directors are confident that the required approval and subsequent fee will be received. However, as the approval process is outside the control of the Consolidated Group, the criteria in the Accounting Standards for the recognition of an asset have not been met. Accordingly, the asset has been classified as contingent and has not yet been recorded on the balance sheet.

NOTE 21 – CONTINGENT LIABILITIES & COMMITMENTS

(a) Exploration Commitments

Ongoing annual exploration expenditure is required to maintain title to the Consolidated Group's mineral exploration tenements and to earn an interest in various joint venture mining prospects. No provision has been made in the financial statements for these amounts as the amounts are expected to be fulfilled in the normal course of the operations of the Consolidated Group. The Consolidated Group has certain statutory obligations to perform minimum exploration work on its tenements.

	Dec '12 $	Jun '12 $
These obligations which are not provided for in the financial statements and are payable:		
• Within 12 months	803,001	914,087
• 2 to 5 years	866,939	961,090
TOTAL EXPLORATION COMMITMENTS	**1,669,940**	**1,875,177**

The summary of statutory exploration commitments has been deferred and the Consolidated Group is currently waiting on a decision from the Department of Natural Resources & Mines. The Statutory expenditure requirement may be renegotiated with the relevant state department of Minerals and Energy, and expenditure commitments may be varied between tenements, or reduced subject to reduction of exploration area and/or relinquishment of non-prospective tenements.

NOTE 21 – CONTINGENT LIABILITIES & COMMITMENTS (continued)

(b) Operating Lease Commitments

	Dec '12 $	Jun '12 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
• Within 12 months	395,789	231,504
• 2 to 5 years	1,456,017	-
• Later than 5 years	434,652	-
TOTAL OPERATING LEASE COMMITMENTS	**2,286,458**	**231,504**

These relate to property leases as follows:

Brisbane office lease (level 12, 301 Coronation Drive) commenced 1 November 2008 and expires 25 April 2013 with 5 year option. A new lease agreement for the Brisbane office (level 9, 301 Coronation Drive) was signed on 24 October 2012 commencing 1 February 2013 with a lease term of 6 years.

(c) Claims of Native Title and Cultural Heritage

Mineral exploration

The Company is aware of native title claims made in accordance with the Native Title Act 1993 (NTA) that was enacted to accommodate the decision of the High Court in Mabo v Queensland (No2) (1992) 175 CLR 1, which recognised the rights and interests of the Aboriginal and Torres Strait Islanders as a form of common law native title.

The main objectives of the NTA are to:

- provide for the recognition and protection of native title;
- establish ways in which future dealings affecting native title may proceed and to set standards for those dealings; and
- establish a mechanism for determining claims to native title; and provide for, or permit, the validation of past acts invalidated because of the existence of native title.

Coal Exploration and UCG

A Cultural Heritage Management Plan (CHMP) has been developed in partnership with the Aboriginal traditional owners of the lands the subject of the UCG demonstration trial. The CHMP is registered under the provisions of the Aboriginal Cultural Heritage Act and ensures that there is minimal impact or damage caused to Aboriginal cultural heritage items, materials or values during the exploration and UCG activities on mining and petroleum tenements owned by Carbon Energy.

NOTE 21 – CONTINGENT LIABILITIES & COMMITMENTS (continued)

(d) Credit Facilities

	Dec '12 $	Jun '12 $
Credit Suisse Term Facility	2,997,233	-
Pacific Road Convertible Note Facility	10,000,000	10,000,000
Credit Facility – Deposit	32,500	32,500
TOTAL	**13,029,733**	**10,032,500**
Amount Utilised	(13,029,733)	(10,032,500)
Unused Credit Facility	**-**	**-**

On 16 November 2012 the Company secured a short term bridging loan facility with Credit Suisse for $10 million to assist in funding the Carbon Energy's short term working capital requirements. Repayments amounting to $7,002,767 were also made during the period leaving an outstanding balance of $2,997,233 on the Facility.

The terms of the Credit Suisse Term Facility are a 12 month secured term loan facility at an interest rate of 8% per annum with 61,728,395 million Options issued at a strike price of $0.081.

The interest rate on the Pacific Road Convertible Note Facility is 5% per annum, payable on the three month anniversary of the utilisation date of an advance. The Company will issue Shares to the Financier on the interest payment date to satisfy its obligations to pay interest.

Interest rates on the credit facilities other than the Credit Suisse Term Facility and Pacific Road Convertible Note Facility are variable and subject to adjustment.

	Dec '12 $	Jun '12 $
Bank Guarantee in relation to Environmental bonds	20,640	21,783
Bank Guarantee in relation to the entity's share of guarantee for Lease of office premises	181,913	132,286

(e) Contingent Liabilities

The Company currently has a number of open legal matters of an environmental and commercial nature however the Directors are comfortable these cases will be settled without material costs.

NOTE 22 – EVENTS SUBSEQUENT TO REPORTING DATE

Carbon Energy:

- Announced on 23 January 2013 a maiden JORC Inferred Resource of 910 million tonnes (Mt) of coal at its tenements in Bridger, Wyoming.
- Also signed a Technology Services Agreement whereby the Company will earn revenue from providing services relating to its keyseam technology amounting to approximately $100,000.
- Announced on 6 March 2013 that milestones 4 and 5 under the Share Sale Agreement with Summa Resource Holdings LLC have not been met and accordingly no further shares will be issued under the agreement.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

a) The financial statements and notes, as set out on pages 17 to 32 comply with the Corporations Act 2001, including compliance with accounting standards and give a true and fair view of the Consolidated Group's financial position as at 31 December 2012 and of its performance for the half-year ended on that date.

b) In the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

Dr Chris Rawlings
Chairman

Dr Helen Garnett
Non-Executive Director

Brisbane, Queensland
14 March 2013

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Independent Auditor's Review Report to the Members of Carbon Energy Limited

We have reviewed the accompanying half-year financial report of Carbon Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of profit and loss and other comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 17 to 33.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Carbon Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Carbon Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Carbon Energy Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of matter

Without qualifying our conclusion, we draw attention to Note 2 in the financial report which indicates that the Consolidated Group is dependent upon the receipt of a contracted technology fee and/or the ability to source additional funds in order to be able to continue as a going concern and fund the development of their technology.

These conditions, as set out in Note 2, indicate the existence of material uncertainty that may cast significant doubt about the Consolidated Group's ability to continue as a going concern and therefore, the Consolidated Group may be unable to realise their assets and discharge their liabilities in the normal course of business.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Stavrou
Partner
Chartered Accountants
Brisbane, 14 March 2013