

# HALF YEARLY REPORT DECEMBER 2011



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# 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 2011**

## Directors

C. D. Rawlings - BSc (Hons), PhD, FAICD, FAusIMM	– Chairman (Non-Executive) (Appointed 1 July 2011)
A.M. Dash - BEng (Chem), MCom	– 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)
K. Robinson - BSc (Geology)	– 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

A.M. Dash	– CEO & Managing Director
M. Engelbrecht	– CFO & Company Secretary (Appointed 24 October 2011)
C.W. Mallett	– Technical Director
J. Bidwell	– General Manager Commercial & Project Development
J. Haines	– General Manager Technical Services (Appointed 28 November 2011)
P. Swaddle	– Senior Vice President – Strategy and Business Development
J. Hoskin	– Chief Operating Officer (Resigned 21 November 2011)
P.K. Nair	– CFO & Company Secretary (Resigned 25 November 2011)

## Registered & Principal Office

Level 12, 301 Coronation Drive

MILTON QLD 4064

Telephone: + 617 3337 9944

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Email: [askus@carbonenergy.com.au](mailto:askus@carbonenergy.com.au)

## Postal Address

PO Box 2118

TOOWONG DC QLD 4066

## Share Registry

Security Transfer Registrars P/L

770 Canning Highway

APPLECROSS WA 615

## 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 2011, 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:

- Mr Chris Rawlings (appointed 1 July 2011) (Chairman);
- Mr Andrew Dash (Managing Director);
- Mr Max Cozijn;
- Dr Helen Garnett;
- Mr Peter Hogan;
- Mr Kim Robinson; and
- Mr Louis Rozman.

## REVIEW OF OPERATIONS

The Consolidated Group incurred a loss from ordinary activities after income tax for the half-year of \$9,338,030 (2010: loss \$6,696,327).

## HIGHLIGHTS FOR THE SIX MONTH PERIOD

### Operations

- In August 2011, Carbon Energy delivers a major milestone in achieving an Australian first in power generation using Underground Coal Gasification (UCG) syngas.
- Subsequent to the half-year ended 31 December 2011, Carbon Energy further announced on 10 February 2012, that it was the first Australian company to commercially export electricity generated from UCG syngas, to the local electricity grid.
- Bloodwood Creek project delivers an innovation in UCG, proving its keyseam® Controlled Retractable Injection Point (CRIP).
- UCG Panel No. 2 at Carbon Energy's Bloodwood Creek site in Queensland, Australia has been producing syngas continuously for 9 months, from March 2011. The gas heating value has been consistently in the range of 6.0 to 7.5 MJ/m<sup>3</sup>. This energy content is amongst the highest quality of UCG gas of its kind, being produced anywhere in the world.
- Over 13kms of powerlines direct from Carbon Energy's power station to Ergon Energy Corporation Ltd's (Ergon Energy) distribution system has been completed. Carbon Energy completed all work required in readiness for testing the exporting of electricity to the local area network in January 2012.
- The Board elected Dr Chris Rawlings as the new Chairman.



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## Operations (continued)

- Carbon Energy completed a capital raising program for the half-year raising \$18,264,784, including \$8,264,784 from the 1 for 8 rights issue (a take up of 79%) and a \$10,000,000 Convertible Note Facility with Pacific Road Capital Management Nominees Pty Limited and Pacific Road Holdings NV (collectively Pacific Road Capital).

## Corporate

- Executive Management appointments – Morné Engelbrecht is appointed CFO and Company Secretary. Justin Haines is appointed General Manager Technical Services and Terry Moore is appointed General Manager Operations.

## STRATEGIC REVIEW

The Company is currently undertaking a strategic review of its business operations and has engaged corporate advisors Pacific Road Corporate Finance (PRCF) to assist in this review. PRCF is independent of Pacific Road Capital, who are major shareholders of Carbon Energy.

The review will include options for building on and the expansion of the Company's interests internationally as well as optimisation of its Queensland assets. In Queensland the Company currently holds a number of exploration permits for coal (EPC's) which contain coal suitable for UCG and conventional coal resources.

## MARKETS

### AUSTRALIAN MARKET

#### QUEENSLAND

Bloodwood Creek, Queensland

#### Phase 1 Power Generation: 5MW Power Station Development

The Company's trial UCG Panel No. 2 has been performing above expectation with a consistently higher than anticipated calorific value of syngas being produced. The gas heating value has been consistently in the range of 6.0 to 7.5 MJ/m<sup>3</sup>. This energy content is amongst the highest quality UCG gas of its kind, being produced anywhere in the world. At the end of December 2011, the panel has been operating continuously for nine months providing valuable operating experience and data.

The connection of the powerline between the 5MW power station and Ergon Energy's distribution network has been completed and power was sent to the grid on 10 February 2012 as part of the completion testing performed by Ergon Energy.



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### **Phase 1 Power Generation: 5MW Power Station Development (continued)**

This powerline has been built to allow for a maximum of 30MW to be exported. Performance of the three engines in the power station has achieved nameplate rating on syngas. Each engine has been successfully load tested.

The Company is currently awaiting approval from the Queensland Department of Environment and Resource Management (DERM) to increase production from the current equivalent limit of 1.5MW (single engine operation) up to the power station capacity of 5MW (equivalent to 3 engines in operation). DERM advised late last year it required a further extension to determine the application and subsequently requested additional information from Carbon Energy. The information requested will take several months to collate and DERM has now advised of a further extension to April 2012.

Having worked with DERM from early 2011 to gain necessary environmental approvals, the Company has been following the approval process as stipulated by DERM. In late December 2011, Carbon Energy was presented with a further 19 page report requesting additional information to questions previously asked, and also a series of new questions. The new questions from DERM include documenting complete life-cycle environmental rehabilitation of underground coal Panels on site as well as management of air emissions.

Given the above, subsequent to the half year ended 31 December 2011, and following the advice of the Company's environmental advisors, Carbon Energy has requested an extension until June 2012, in order to provide DERM with a complete report.

It is important to note that the Company has been operating successfully at Bloodwood Creek for the past 3 years and obtained approval for revised environmental authorities in February 2011 that enabled the commissioning of Panel No. 2 and the testing of its power station. The technical and environmental performance of Panel No. 2 since that time has met or exceeded expectations.

### **Queensland Government UCG Policy**

The QLD Government's UCG Policy, announced in February 2009, provides for a trial period to assess the technical, environmental and commercial performance of UCG and assist the Government in making future policy decisions about this important technology.

As part of this process the Government established an Independent Scientific Panel (ISP) to assist Government in assessing the technical and environmental performance of UCG.

Carbon Energy has been working on a report to the ISP on Carbon Energy's operations as part of this process.



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## Queensland Government UCG Policy (continued)

The ISP is currently due to report to Government in May 2012 with a Government submission to Cabinet due in June 2012. Based on the current timetable, a Government policy position regarding UCG is anticipated prior to the end of 2012.

### Phase 2 Power Generation: 25MW Power Station

Bloodwood Creek's second phase of power generation and future planned export of a further 25MW from the Company's planned 25MW Power Station remains consistent with the September 2011 quarter's update. Final commitments to the 25MW Power Station will be made once there is greater certainty on the Queensland Government's UCG policy such that the necessary financial investment is not subject to tenure and regulatory risk.

### Phase 3 Power Generation: 300 MW Power Station, Blue Gum Energy Park

A satisfactory outcome to the Queensland Government's UCG policy will be required to provide tenure certainty prior to an investment decision proceeding.

## INTERNATIONAL MARKETS

The basis and structure of the Company's participation in current and future international opportunities is included in the scope of the strategic review currently being conducted.

## CHILE

Project	JORC Resource <sup>1</sup> (Mt)	Recoverable Gas <sup>2</sup> (PJ)
Mulpun, Chile <sup>3</sup>	103 <sup>4</sup>	1,100 <sup>4</sup>

#### 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
- Represents 100% of the Mulpun Energy Resource

Following receipt of tender submissions for the first panel drilling contract, project staff have re-tested the market to secure better pricing and delivery timeframes.

In addition, the following activities continue to progress as planned:

- Work associated with the preliminary site civil works including the construction of roadways and the drilling pads are substantially complete. Completion of the drilling of an extensive (ground water) monitoring well program is targeted for the first quarter of this calendar year.



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**CHILE (CONTINUED)**

- Front End Engineering and Design (FEED) for the above ground facilities is now complete, and Antofagasta Minerals and Carbon Energy are finalising the FEED documentation prior to entering the detailed Engineering, Procurement and Construction (EPC) phase.
- The underground FEED for the design and completion of the UCG panel has also been completed by Carbon Energy and submitted to Mulpun Energy. This is a key deliverable by Carbon Energy as part of its participation in the Mulpun UCG trial.

As the project moves towards commencement of the UCG production trial, Carbon Energy has promoted and relocated the Manager - UCG Technology, Richard Duffy, into a new position located on-site and he will operate as part of the Mulpun Management team.

Chile continues to provide an attractive market for energy projects due to the country's reliance on imported fuel and rapidly growing energy demand of 8% p.a. When Carbon Energy initially considered the Mulpun Project in late 2009, electricity spot prices were US\$120/MWh. Recently, reports have indicated that spot prices have increased to US\$220/MWh making these some of the highest prices in the world. These electricity prices would equate to fuel prices into a power station of \$14.5/GJ to \$27/GJ on a short-run marginal cost basis.

**UNITED STATES OF AMERICA**

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

## Notes

1. Carbon Energy 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 the final quarter of FY2011 Carbon Energy established an office in the United States (US) to support the Company's developing project interests in Wyoming and in Montana/North Dakota.

Over the Quarter the Company continued to further its review of the UCG potential resources within the Wyoming and North Dakota project areas and also continued discussions with parties on securing further North American UCG Partnerships.

**Wyoming**

Carbon Energy has established a positive working relationship with the Wyoming Government; led by the Governor well-versed in the significant benefits UCG can potentially bring to the energy-rich State.



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## Wyoming (continued)

Open dialogue with environmental regulators continued over the period and Carbon Energy is encouraged by the well-defined regulatory pathway for developing UCG projects in Wyoming which leads the US in facilitating this permitting process.

Field work has begun on Carbon Energy's site with cultural, biological and access-related surveys being undertaken to support the Company's environmental permit application.

## TURKEY

During the period Carbon Energy completed an extensive desk top study of the coal resources that form part of the Hema Endustri (subsidiary of the diversified Hattat Group) coal tenements in Amasra, northern Turkey. The results of the study are being used to form recommendations and proposals for advancement in collaboration with the project team from Hema Endustri.

## INDIA

Carbon Energy's Memorandum of Understanding with Adani Enterprises resulted in a bid for two potential UCG coal blocks released by Coal India during the period. Although our bid was not successful it has been suggested by local Indian reports that the lowest bidder has withdrawn from the process which may require resubmission of bids in due course.



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## RESOURCES

Coal Resource Summary at end December 2011

Location	Coal Thickness Cut-Off (m)	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	TOTAL (Mt)
Bloodwood	2	-	218	280	498
Creek, Australia	5 <sup>1</sup>	-	158	57	215
Kogan, Australia	2	-	-	170	170
	5 <sup>1</sup>	-	-	149	149
Mulpun, Chile <sup>2</sup>	2	26.4	36.7	40.1	103.2 <sup>3</sup>
	5 <sup>1</sup>	25.3	19	39.3	83.6 <sup>3</sup>
Total Resource	2	26.4	254.7	490.1	771.2
	5 <sup>1</sup>	25.3	177	245.3	447.6

Notes:

1. Optimal target for Underground Coal Gasification
2. Carbon Energy has the right to a 30% contributing interest in the Chile deposit upon completion of agreed milestones
3. Represents 100% of the Mulpun Energy Resource

### Competent Person Statement – Coal

The information in this report that relates to resources is based on information compiled by Dr C.W. Mallett, Technical Director Carbon Energy Limited who is a member of the Australian Institute of Mining and Metallurgy. Dr Mallett 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". Dr Mallett consents to the inclusion in the release of the matters based on his information in the form and context in which it appears.

## CORPORATE

### Executive Team Changes

On 24 October 2011 the Company appointed Morné Engelbrecht as Chief Financial Officer and Company Secretary.

Mr Engelbrecht, has had an extensive career in the oil and gas, mining and audit and business advisory sectors, including InterOil Corporation Ltd, Lihir Gold Limited, Harmony Gold Limited and PricewaterhouseCoopers. He also brings with him considerable international experience, from which the Company stands to benefit.

Mr Engelbrecht has a Bachelor of Commerce Honours Degree from the University of Pretoria and is a member of the South African Institute of Chartered Accountants.

In addition, the Company restructured the Executive team to provide a greater focus on exploration and technology, in line with the Company's strategy. This involved splitting the role of Chief Operating Officer into two specialised roles, General Manager Technical Services and General Manager Operations.



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## Executive Team Changes (continued)

On 28 November 2011 Mr Justin Haines was appointed to the role of General Manager Technical Services.

Mr Haines brings to the Company solid industry expertise with 20 years experience in mining, project management and geological services, including, most recently, as Principal Engineer and Service Group Manager at GHD Pty Ltd. Prior to GHD, Mr Haines worked in multiple commodity areas including coal exploration and in-situ leach addressable uranium exploration and mining. Mr Haines has a Bachelor of Applied Science from QUT, Graduate Diploma of Science (Honours) from the University of Tasmania. He holds memberships of the Australasian Institute of Mining and Mineralogy (M.AusIMM) and of the Australian Institute of Geosciences (M.AIG) and is a Registered Professional Engineer of Queensland in the area of Geotechnical/Geological (RPEQ No. 9860).

In December 2011 the Company, appointed Terry Moore as the General Manager Operations, who commenced work on 30 January 2012. Mr Moore brings over 15 years experience as a senior manager in the engineering sector including roles at Ausenco Operations and Downer EDI Mining. His experience includes electrical, mechanical, and civil engineering, design and construction projects from concept to commissioning and operational readiness. Mr Moore's solid track record incorporates management of projects including plant utilisation, cost control and business process.

## Issued Capital & Cash Funds

The total issued capital at the end of the December 2011 Quarter was 768,126,960 fully paid ordinary shares quoted on the Australian Stock Exchange.

On 14 November 2011 Carbon Energy completed a rights issue raising \$8,264,784 or a total of 68,703,985 shares.

A total of 32,171,000 unlisted options with exercise prices between \$0.25 and \$1.60 are on issue (with expiry dates ranging between 1 April 2012 and 10 December 2014) and with the vast majority subject to meeting annual performance measures. 3,409,000 employee options were cancelled during the half-year.

In addition to the funds raised through the Rights Issue a \$10,000,000 Convertible Note Facility with Pacific Road Capital was concluded, which brought the total funds raised to \$18,264,784. The Consolidated Group retains cash of \$6,198,875 as at 31 December 2011. As at 31 December 2011 Carbon Energy was still to draw down on the \$10,000,000 Convertible Note Facility finalised with Pacific Road. Refer to subsequent event note 16.

## Tax Legislation Change

On 24 August 2011, Federal Parliament passed the Tax Laws Amendment (Research and Development) Bill 2010 and the Income Tax Rates Amendment (Research and Development) Bill 2010. The Bills received Royal Assent on 8 September 2011.



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## Tax Legislation Change (continued)

Broadly, the new Research and Development (R&D) tax incentive program takes a two-tiered approach:

- A 45% cash refundable R&D tax incentive will be available for companies with a grouped turnover of less than \$20 million; and
- A 40% non-refundable R&D tax offset will be available for companies with a grouped turnover of more than \$20 million.

Carbon Energy will therefore qualify for the 45% cash refundable tax incentive program for FY12. This will entitle Carbon Energy to a R&D cash refund equivalent to 45% of the total R&D spend for FY12.

## Legal Actions

On 12 July 2011 DERM 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. Proceedings in this matter have currently been adjourned until 30 March 2012.

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 (26.5%) as at 31 December 2011.

## EVENTS SUBSEQUENT TO HALF-YEAR

### Bloodwood Creek connection to the local area network

Ergon Energy confirmed it installed a connection point between Bloodwood Creek and its local area network on Friday 20 January 2012. Carbon Energy announced on 10 February 2012 that it became the first Australian company to export power generated by syngas into a commercial electricity grid from its UCG plant at Bloodwood Creek, near Dalby, Queensland.

Carbon Energy has successfully conducted testing for the export of electricity to Ergon Energy Corporation Ltd's local electricity grid, within the current allowable limit of 1.5 MW.



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### **Request for extension to DERM report**

Subsequent to the half year ended 31 December 2011, and following the advice of the Company's environmental advisors, Carbon Energy has requested an extension until June 2012, in order to provide DERM with a complete and thorough report.

### **Pacific Road Capital Convertible Note Facility drawdown notice**

A drawdown notice for \$2,000,000 was issued to Pacific Road Capital and the funds were received on 25 January 2012 with a further drawdown notice issued for the remaining \$8,000,000 of the Convertible Note Facility with funds received on 28 February 2012. Refer to subsequent event note 16.

### **Appointment of Merriman Capital, Inc as Principal American Liaison**

On 18 January 2012 the Company announced that it has appointed Merriman Capital, Inc. as its Principal American Liaison to sponsor its American Depositary Receipt program on OTCQX International and who have further been retained to provide a suite of investor and market making services in the US.

### **Appointment of Link Market Services Limited as Carbon Energy's new Share Registrar**

On 23 February 2012 the Company announced that it has appointed Link Market Services Limited as its new Share Registrar effective start of business Monday, 2 April 2012.

## **AUDITOR'S INDEPENDENCE DECLARATION**

The lead auditor's independence declaration under section 307C of the Corporation Act 2001 is set out on page 14 for the half-year ended 31 December 2011.

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



**C.D. Rawlings**

Chairman

Brisbane, 6 March 2012



**A.M. Dash**

Managing Director



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

5 March 2012

Dear Committee Members,

### **Carbon Energy Limited**

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 2011, 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



M G Sheerin  
Partner  
Chartered Accountants

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

Consolidated Group

	Notes	Dec '11 \$	Dec '10 \$
<b>Revenue</b>			
Finance income		357,189	280,755
Other income		5,314	-
<b>TOTAL Revenue</b>		<b>362,503</b>	<b>280,755</b>
<b>Expenditure</b>			
Bloodwood Creek operating costs		(2,979,809)	(1,958,159)
Employee and consultancy costs		(3,760,567)	(2,977,966)
Administration, legal & corporate costs		(2,673,562)	(1,887,025)
Depreciation expense		(31,359)	(68,562)
Share-based (payments)/cancellations	3	539,164	734,884
Net loss from equity accounted investment in associate		(794,400)	(820,254)
<b>TOTAL Expenditure</b>		<b>(9,700,533)</b>	<b>(6,977,082)</b>
<b>Loss before income tax expense</b>		<b>(9,338,030)</b>	<b>(6,696,327)</b>
Income Tax Expense		-	-
<b>Loss for the Period</b>	3	<b>(9,338,030)</b>	<b>(6,696,327)</b>
Other comprehensive income for the period (net of tax)		-	-
<b>Total comprehensive income for the period</b>		<b>(9,338,030)</b>	<b>(6,696,327)</b>
Loss attributable to owners of the parent		(9,338,030)	(6,696,327)
<b>Total comprehensive income attributable to owners of the parent</b>		<b>(9,338,030)</b>	<b>(6,696,327)</b>
Overall Operations:			
Basic loss per share (cents per share)		(1.30)	(1.09)
Diluted loss per share (cents per share)		(1.30)	(1.09)

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



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# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

Consolidated Group

	Notes	Dec '11 \$	June '11 \$
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		6,198,875	9,798,985
Trade and other receivables	5	288,863	520,813
<b>Total Current Assets</b>		<b>6,487,738</b>	<b>10,319,798</b>
<b>Non Current Assets</b>			
Trade and other receivables	5	1,570,781	1,396,569
Investment in Associate	6	2,250,520	3,044,920
Construction Work in Progress	7	14,561,544	12,370,001
UCG Panel assets	8	11,016,736	10,616,055
Property, plant and equipment	9	8,674,312	8,756,618
Other non-current assets	10	1,575,366	1,100,473
Deferred exploration and evaluation costs	11	107,973,724	107,964,187
Intangible assets	12	25,461,546	24,218,525
<b>Total Non Current Assets</b>		<b>173,084,529</b>	<b>169,467,348</b>
<b>Total Assets</b>		<b>179,572,267</b>	<b>179,787,146</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables		1,622,129	1,437,700
Provisions	13	2,336,750	237,332
<b>Total Current Liabilities</b>		<b>3,958,879</b>	<b>1,675,032</b>
<b>Non Current Liabilities</b>			
Provisions	13	1,330,001	2,175,276
<b>Total Non Current Liabilities</b>		<b>1,330,001</b>	<b>2,175,276</b>
<b>Total Liabilities</b>		<b>5,288,880</b>	<b>3,850,308</b>
<b>Net Assets</b>		<b>174,283,387</b>	<b>175,936,838</b>



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# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2011

Consolidated Group

	Notes	Dec '11 \$	June '11 \$
<b>Equity</b>			
Issued Capital	14	226,526,090	218,256,942
Reserves		13,564,791	14,149,360
Accumulated losses		(65,807,494)	(56,469,464)
<b>Total Equity</b>		<b>174,283,387</b>	<b>175,936,838</b>

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



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# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

Consolidated Group

	Issued Capital \$	Share-Based Payments Reserve \$	FX Reserve \$	Accumulated Losses \$	TOTAL \$
<b>Balance at 1 July 2010</b>	188,759,462	6,427,014	-	(40,628,608)	<b>154,557,868</b>
Shares issued during the period	10,205,000	-	-	-	<b>10,205,000</b>
Transaction costs	(596,799)	-	-	-	<b>(596,799)</b>
Exercise of options	5,285	(5,285)	-	-	-
Movement in share option reserve	-	(734,884)	-	-	<b>(734,884)</b>
Losses attributable to members of the parent entity	-	-	-	(6,696,327)	<b>(6,696,327)</b>
Total comprehensive income / (expense) for the period	-	-	-	-	-
<b>Balance at 31 December 2010</b>	<b>198,372,948</b>	<b>5,686,845</b>	-	<b>(47,324,935)</b>	<b>156,734,858</b>

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

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



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# CONSOLIDATED CASH FLOW STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

Consolidated Group

	Dec '11 \$	Dec '10 \$
<b>Cash Flows from Operating Activities:</b>		
Payments to suppliers and employees	(9,273,303)	(9,835,331)
Interest received	184,771	260,963
<b>Net cash used in operating activities</b>	<b>(9,088,532)</b>	<b>(9,574,368)</b>
<b>Cash Flows from Investing Activities:</b>		
Payments for property, plant and equipment	(239,339)	(11,315)
Payments for Construction in progress	(2,046,090)	(7,058,551)
Payments for UCG Panel assets	(66,794)	-
Payments for exploration costs	(6,477)	-
Payments for intangible assets	(181,375)	-
Payments for environmental security bonds	-	(5,000)
Net Payments for Chile project	(112,104)	-
<b>Net cash flows used in investing activities</b>	<b>(2,652,179)</b>	<b>(7,074,866)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from issues of shares	8,264,783	10,205,000
Capital raising costs	(124,182)	(596,799)
<b>Net cash flows provided by financial activities</b>	<b>8,140,601</b>	<b>9,608,201</b>
Net (decrease) increase in cash held	(3,600,110)	(7,041,033)
Cash and cash equivalents at 1 July	9,798,985	18,874,230
<b>Cash and cash equivalents at 31 December</b>	<b>6,198,875</b>	<b>11,833,197</b>

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



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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

## NOTE 1 – BASIS OF PREPARATION

The half-year consolidated financial statement 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 2011 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 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 2011. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

There are no new and revised standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Consolidated Group.

## 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.

The Consolidated Group incurred a loss from ordinary activities after income tax for the half-year of \$9,338,030 (2010: loss \$6,696,327) and recorded a net cash outflow from operating and investing activities of \$11,740,711 (2010: \$16,649,234).



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**NOTE 2 – GOING CONCERN (CONTINUED)**

In concluding that the going concern basis is appropriate, the Directors considered many factors, including a cash flow forecast for twelve months from the signing of the financial report which included management's estimates of cash inflows and outflows for that period.

The ability of the Consolidated Group to continue as a going concern is dependent upon additional funding being raised to finance the development activities of the Consolidated Group. The ability of the Consolidated Group to raise additional funds will be dependent upon a number of factors including market sentiment, the status of the Queensland Government's UCG Policy (refer below) and the progress of current development activities. The Directors are confident of the Consolidated Group's ability to undertake such fund raising based on past demand. In this respect, the Consolidated Group had a successful program for the December quarter including raising \$8,264,784 from the 1 for 8 rights issue (a take up of 79%) and the finalisation of a \$10,000,000 Convertible Loan Facility with Pacific Road Capital of which \$2,000,000 was drawn down and received in January 2012, and the remaining \$8,000,000 of the Convertible Loan Facility drawn down and received in February 2012.

Further to the above the Consolidated Group is projecting the receipt of a planned Research and Development (R&D) tax incentive (cash reimbursement) by October 2012 under the new FY12 R&D tax incentive program. The Consolidated Group is actively working with tax advisors to assist in the preparation and timely lodgement of this R&D claim. If the tax incentive reimbursement is not received by October 2012 the Consolidated Group will be required to undertake a capital raising at that time.

The Consolidated Group also engaged Corporate Advisors, Pacific Road Corporate Finance (PRCF), to assist with developing its strategic plan including expansion of the Consolidated Group's interests internationally and the optimisation of its Queensland assets which contain coal suitable for UCG and conventional coal resources.

The Queensland Government's UCG Policy, announced in February 2009, provides for a trial period to assess the technical, environmental and commercial performance of UCG and to assist the Government in making future policy decisions about this important technology. As part of this process the Government established an Independent Scientific Panel (ISP) to assist in assessing the technical and environmental performance of UCG. The Consolidated Group has been working on a report to the ISP on Carbon Energy's operations as part of this process. The ISP is currently due to report to Government in May 2012 with a Government submission to Cabinet due in June 2012.



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**NOTE 2 – GOING CONCERN (CONTINUED)**

Based on the current timetable, a Government policy position regarding UCG is anticipated prior to the end of this calendar year, which may impact on the ability of the Consolidated Group to raise further capital as and when needed.

As a result of the above matters, there are material uncertainties as to whether the Consolidated Group will be able to continue as a going concern and, therefore, whether the Consolidated Group 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 or 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 '11 \$	Dec '10 \$
Share based (payments)/cancellations	539,164	734,884

This 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. The negative expense for the half-year ended 31 December 2010 relates to the cancellation of a number of options. For the half year ended 31 December 2011, the negative expense of \$539,164 is comprised of \$684,743 (negative expense) reflecting the movement in the option reserve and \$145,579 Share Based Payments expense arising from Short Term Incentive and Long Term Incentive shares issued to some executives during the half year 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.



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**NOTE 5 – TRADE AND OTHER RECEIVABLES**

	Dec '11 \$	June '11 \$
<b>Current</b>		
Other receivables	288,863	520,813
<b>Total Current Trade and Other Receivables</b>	<b>288,863</b>	<b>520,813</b>
<b>Non Current</b>		
Deposits	221,569	221,569
Receivable from Crescent Gold Limited	1,349,212	1,175,000
<b>Total Non Current Trade and Other Receivables</b>	<b>1,570,781</b>	<b>1,396,569</b>

**NOTE 6 – INVESTMENT IN ASSOCIATE**

	Dec '11 \$	June '11 \$
<b>Opening Balance</b>	3,044,920	4,324,438
Share of associate's loss after income tax	(794,400)	(1,279,518)
<b>Closing Balance</b>	<b>2,250,520</b>	<b>3,044,920</b>

**NOTE 7 – CONSTRUCTION WORK IN PROGRESS**

	Dec '11 \$	June '11 \$
<b>Opening Balance</b>	12,370,001	14,825,380
Additions	2,372,919	9,380,891
Transfer to UCG Panel Assets	-	(8,916,055)
Transfer to Property, Plant & Equipment assets	-	(606,657)
Transfer to Water Monitoring assets	-	(1,514,768)
Transfer to Intangible assets	(181,376)	(798,790)
<b>Closing Balance</b>	<b>14,561,544</b>	<b>12,370,001</b>

The above costs relate to the construction of the 5MW power plant, Panel 3 and design costs for the 20MW power station at Bloodwood Creek in Queensland.



**NOTE 8 – UCG PANEL ASSETS**

	Dec '11 \$	June '11 \$
Opening Balance	10,616,055	-
Transfer from Construction work-in-progress	-	8,916,055
Additions	1,160,619	1,700,000
Transfers to Intangible assets	(759,938)	-
<b>Closing Balance</b>	<b>11,016,736</b>	<b>10,616,055</b>

**NOTE 9 – PROPERTY, PLANT & EQUIPMENT**

	Dec '11 \$	June '11 \$
<b>Opening Balance</b>	8,756,618	10,672,036
Additions	250,760	570,104
Transfer from Mine Development costs	-	1,750,000
Transfers from Construction in progress	-	2,121,425
Transfers to Intangible asset	(301,707)	(6,183,694)
Disposals	-	(30,278)
Depreciation expense	(31,359)	(142,975)
<b>Closing Balance</b>	<b>8,674,312</b>	<b>8,756,618</b>

**NOTE 10 – OTHER NON-CURRENT ASSET**

	Dec '11 \$	June '11 \$
<b>Opening Balance</b>	1,100,473	-
Additions	474,893	1,100,473
<b>Closing Balance</b>	<b>1,575,366</b>	<b>1,100,473</b>

Carbon Energy has executed an Agreement with Antofagasta Minerals S.A (AMSA) to jointly assess and develop a coal deposit in Mulpun, Chile using Carbon Energy's UCG technology. Under the Agreement both entities have commenced work to finalise a work plan, schedule and budget for an initial trial at the Mulpun location. This represents phase one of the project, which has been structured in four phases, with Carbon Energy's contribution during phase one being management and technical specialists time and travel costs. Antofagasta will conduct drilling and hydrological testing at its cost during this phase.



**NOTE 11 – DEFERRED EXPLORATION AND EVALUATION COSTS**

	Dec '11 \$	June '11 \$
<b>Opening Balance</b>	107,964,187	89,714,658
Additions	9,537	18,249,529
<b>Closing Balance</b>	<b>107,973,724</b>	<b>107,964,187</b>

**NOTE 12 – INTANGIBLE ASSETS**

	Dec '11 \$	June '11 \$
<b>Opening Balance</b>	24,218,525	2,499,999
Additions	181,376	21,718,526
Transfers from UCG Panel Assets and Property, Plant & Equipment	1,061,645	-
<b>Closing Balance</b>	<b>25,461,546</b>	<b>24,218,525</b>

**NOTE 13 – PROVISIONS**

	Dec '11 \$	June '11 \$
<b>Current</b>		
<b>Provision for Annual Leave (Current)</b>		
Opening Balance	237,332	191,919
Increase in provisions	69,042	225,010
Benefits paid	(38,720)	(179,597)
<b>Closing Balance</b>	<b>267,654</b>	<b>237,332</b>
<b>Provision for Rehabilitation (Current)</b>		
Opening Balance	-	-
Increase in Provisions	2,069,096	-
<b>Closing Balance</b>	<b>2,069,096</b>	<b>-</b>
<b>Non Current</b>		
<b>Provision for Long Service Leave (Non Current)</b>		
Opening Balance	78,276	40,350
Increase in Provisions	684	37,926
<b>Closing Balance</b>	<b>78,960</b>	<b>78,276</b>



**NOTE 13 – PROVISIONS (CONTINUED)**

	Dec '11 \$	June '11 \$
<b>Provision for Rehabilitation (Non Current)</b>		
Opening Balance	2,097,000	-
Transfer to current Provision for Rehabilitation	(2,069,096)	-
Increase in Provisions	1,223,137	2,097,000
<b>Closing Balance</b>	<b>1,251,041</b>	<b>2,097,000</b>

**NOTE 14 – EQUITY SECURITIES ISSUED**

2011	Half-Year '11 No.	Half-Year '11 \$
<b>Balance 30 June 2011</b>	<b>698,517,858</b>	<b>218,256,942</b>
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)
<b>Balance 31 December 2011</b>	<b>768,126,960</b>	<b>226,526,090</b>

2010	Half-Year '10 No.	Half-Year '10 \$
<b>Balance 30 June 2010</b>	<b>609,497,650</b>	<b>188,759,462</b>
19 October 2010 exercise of employee options @ 20 cents per share	250,000	50,000
16 December 2010 placement @ 33 cents per share	30,696,970	10,130,000
30 December 2010 exercise of employee options @ 20 cents per share	125,000	25,000
Issue costs	-	(596,799)
Release from option reserve on exercise of options	-	5,285
<b>Balance 31 December 2010</b>	<b>640,569,620</b>	<b>198,372,948</b>



## NOTE 15 – 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 '11 \$	June '11 \$
These obligations which are not provided for in the financial statements and are payable:		
• not later than one year	230,000	230,000
• 2 to 5 years	1,775,000	1,775,000
<b>Total Exploration Commitments</b>	<b>2,005,000</b>	<b>2,005,000</b>

The above summary of statutory exploration commitments has currently been deferred and waiting on the 2012 decision from the Department of Employment & Economic Development. 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.

### (b) Operating Lease Commitments

	Dec '11 \$	June '11 \$
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
• not later than one year	249,313	267,121
• later than one year but not later than five years	115,752	231,504
<b>Total Operating Lease Commitments</b>	<b>365,065</b>	<b>498,625</b>

These relate to property leases as follows:

Brisbane office lease commenced 1 November 2008 and expires 25 April 2013 with 5 year option. Rent increases are set at a 4% increase per annum.



## (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.



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**(d) Credit Facilities**

	Dec '11 \$	June '11 \$
Standby arrangements with banks to provide funds and support facilities for bank guarantees relating to rehabilitation bonds.		
These facilities are secured by fixed term cash deposits of (2011: \$32,500)		
Credit Facility – Deposit	32,500	32,500
Amount Utilised	(32,500)	(32,500)
Pacific Road Convertible Note Facility	10,000,000	-
<b>Unused Credit Facility</b>	<b>10,000,000</b>	<b>-</b>

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

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.

Bank Guarantee in relation to Environmental bonds	21,783	21,783
Bank Guarantee in relation to the entity's share of guarantee for Lease of office premises	132,286	132,286
Bank Guarantee in relation to Ergon contract	470,800	470,800

**NOTE 16 – EVENTS SUBSEQUENT TO REPORTING DATE****Bloodwood Creek connection to the local area network**

Ergon Energy confirmed it installed a connection point between Bloodwood Creek and its local area network on Friday 20 January 2012. Carbon Energy announced on 10 February 2012 that it became the first Australian company to export power generated by syngas into a commercial electricity grid from its UCG plant at Bloodwood Creek, near Dalby, Queensland.

Carbon Energy has successfully conducted testing for the export of electricity to Ergon Energy Corporation Ltd's local electricity grid, within the current allowable limit of 1.5 MW.

**Request for extension to DERM report**

Subsequent to the half year ended 31 December 2011, and following the advice of the Company's environmental advisors, Carbon Energy has requested an extension until June 2012, in order to provide DERM with a complete report.



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### **Pacific Road Capital Convertible Note Facility drawdown notice**

A drawdown notice for \$2,000,000 was issued to Pacific Road Capital and the funds were received on 25 January 2012 with a further drawdown notice issued for the remaining \$8,000,000 of the Convertible Note Facility with the funds being received on 28 February 2012.

### **Appointment of Merriman Capital, Inc as Principal American Liaison**

On 18 January 2012 the Company announced that it has appointed Merriman Capital, Inc. as its Principal American Liaison to sponsor its American Depositary Receipt program on OTCQX International and who have further been retained to provide a suite of investor and market making services in the US.

### **Appointment of Link Market Services Limited as Carbon Energy's new Share Registrar**

On 23 February 2012 the Company announced that it has appointed Link Market Services Limited as its new Share Registrar effective start of business Monday, 2 April 2012.



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## DIRECTORS' DECLARATION

The directors of the Company declare that:

- a) The financial statements and notes, as set out on pages 14 to 30 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 2011 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.

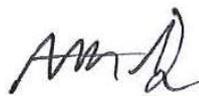
Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



**C.D. Rawlings**

Chairman



**A.M. Dash**

Managing Director

Brisbane, Queensland

6 March 2012



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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 condensed statement of financial position as at 31 December 2011, and the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed 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 15 to 31.

### *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 2011 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.

## *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 2011 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 modifying our conclusion, we draw attention to Note 2 in the financial report, which indicates that during the half-year ended 31 December 2011 the Consolidated Entity incurred a net loss of \$9,338,030 and recorded a net cash outflow from operating and investing activities of \$11,740,711. These conditions, along with other matters as set forth in Note 2, indicate the existence of material uncertainties that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.



DELOITTE TOUCHE TOHMATSU



M G Sheerin  
Partner  
Chartered Accountants  
Brisbane, 6 March 2012