



CarbonEnergy



Quarterly Financial Report

June 2009



CarbonEnergy

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.

Quarterly Financial Report For the period ended 30 June 2009

DIRECTORS:

K. Robinson B.Sc.(Geology) – Chairman
M.D.J. Cozijn B. Com. ASA MAICD. - Director
A.M Dash BE(Chem), MCom - Managing Director
P.N. Hogan B.Bus, ACA. – Director
J.G. Linley PhD, B.Sc. Hons. – Director (resigned 21 May 2009)
C.W. Mallett MSc, PhD, FAIE - Technical Director
P.T. McIntyre B.Sc (Eng), MBA, FIEAust - Director
I.W. Walker B.Sc. Hons.(Geology) - Director

SECRETARY:

P.K. Nair B Bus (Acctg), MBA, FCA, FCIS, FTIA, MAICD

MANAGEMENT TEAM:

A Dash - Managing Director
C Mallett - Technical Director
R Mark – General Manager - Business Development
P Nair – CFO & Company Secretary
P Swaddle – General Manager - Commercial
J Wedgwood – General Manager - Operations

REGISTERED & PRINCIPAL OFFICE:

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PERTH WA 6000



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Highlights For The Quarter

Corporate – Capital Raising

Carbon Energy (CEL) successfully completed a share placement of approximately 74.4 million ordinary shares at \$0.43 to raise \$32 million. Strong interest from both domestic and overseas institutional and sophisticated investors has resulted in the issue being oversubscribed.

Energy – Underground Coal Gasification (UCG)

- Carbon Energy is currently finalizing agreements and preparing to commence construction of a 5MW power station to utilise Syngas on the Bloodwood Creek UCG trial site.
- A third party scientific review of Carbon Energy's groundwater monitoring program during the trial has confirmed the safe environmental operation of Carbon Energy's UCG process within the surrounding groundwater environment of Bloodwood Creek.
- The drilling program associated with defining the coal source and due diligence review which are subject to a Heads of Agreement with Eneabba Gas Limited to acquire a coal resource in WA (minimum 300 MT) and supply Syngas to Eneabba's planned Centauri 1 Power Station is continuing.

Minerals (Carbon Energy 100%)

- Discussions have been held with a number of groups concerning potential divestment options with respect to CEL's uranium and gold interests.



CORPORATE CAPITAL RAISING

- On 5 June 2009, the Company announced that it had successfully completed a share placement of approximately 74.4 million ordinary shares at \$0.43 to raise \$32 million. Strong interest from both domestic and overseas institutional and sophisticated investors has resulted in the issue being oversubscribed.
- The placement of the shares was conducted by Southern Cross Equities and undertaken in two tranches: 50 million shares have been placed in the 1st tranche, with the balance of approximately 24.4 million shares being placed subject to shareholder approval at General Meeting of shareholders to be held on 20 July 2009.
- The 1st tranche was completed on the 15 June 2009 raising \$21.5 million gross with the issue of 50 million fully paid shares and the 2nd issue of shares being conditional on shareholder approval.
- Major shareholder, Incitec Pivot Limited participated for approximately 10% of the placement to be issued in the 2nd tranche and will maintain their shareholding in excess of 10% of Carbon Energy's issued capital.

ENERGY – UNDERGROUND COAL GASIFICATION

- Carbon Energy Ltd (CEL) is an emerging energy Company whose purpose is to produce clean energy (power and synthetic natural gas) and chemical feedstock from Underground Coal Gasification (UCG) Syngas. It aims to do this by pursuing the following key areas of focus:
 - **Continuous improvement of UCG technology** and the development of complementary technologies that will ensure CNX will develop a superior technical capability in the UCG Syngas industry.
 - **Expand its coal resource** inventory by exploration within its current tenements or through identification of suitable joint venture opportunities and acquisitions, leveraged off CEL's ability to successfully undertake UCG Syngas production in Australia and globally.
 - **Identify and develop commercial opportunities** using Syngas derived from Carbon Energy's superior UCG technology for the production of power, synthetic natural gas, chemicals and gas to liquids (GTL) either in the Company's own right or by way of strategic partnerships.



Progress in each of these key areas is as follows:

1. Continuous Improvement of UCG Technology (Bloodwood Creek UCG Trial)

- Following the completion of its 100 day trial at the Bloodwood Creek, which demonstrated that the UCG module design can deliver commercial scale Syngas production of 1 peta joule (1 PJ) per annum, further development of the site is continuing as follows:
 - UCG production panel continues to be operated in turndown mode with air injection. This panel has now been continuously producing for 9 months.
 - Construction of a 5 MW power generation plant to utilise the existing output of Syngas from the trial panel with construction planned to commence July 2009 and targeted completion December 2009.
 - Connection of the above power plant to the local distribution network concurrent with the power plant construction.
 - Sale of electricity and generation of Queensland gas energy credits (GECS) once the 5 MW unit comes on line.
 - A Front End Engineering & Design (FEED) study for the development of a future 20 MW generation facility to commence in August 2009.
 - Investigation of pre-combustion carbon capture techniques and potential carbon sequestration in conjunction with the 20 MW plant.
 - A comprehensive scientific review of the intensive groundwater monitoring program conducted during the trial by an independent expert to confirm the safe environmental operation of Carbon Energy's UCG process in the surrounding water table of Bloodwood Creek.

2. Expand Coal Resource

- Western Australia
 - Pursuant to the Heads of Agreement with Eneabba Gas Limited (ENB), Carbon Energy technical staff have been co-operating with ENB in a drilling program aimed at delineating 300 million tonnes of JORC compliant inferred resource near Dongara in Western Australia. Sampling and modelling is continuing. This is consistent with Carbon Energy’s policy of seeking access to coal resources in multiple regions where CEL’s UCG capability can be utilized.

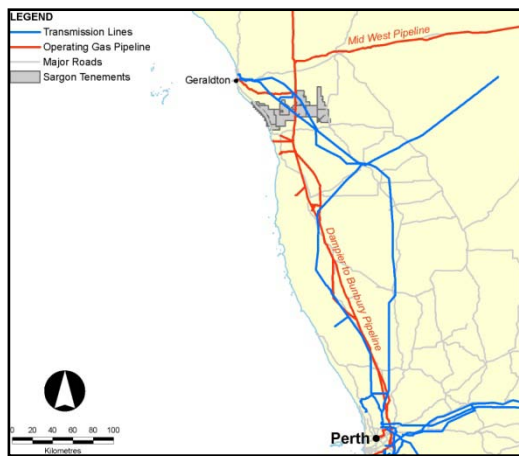


Figure 1 - Location of Coal tenements in Western Australia subject ENB Heads of Agreement

- Coal Exploration and Mining Tenure
 - At the end of the June Quarter 2009 Carbon Energy had four granted exploration permits along the eastern edge of the Surat Basin and one in the Moreton Basin (EPC 1109) south of Beaudesert between Brisbane and the Gold Coast (see Figure 2). Carbon Energy has a granted Mineral Development Licence between Dalby and Chinchilla named ‘Bloodwood Creek’ and has an application for a portion of the same to be transferred into a mining lease, MLA 50253.

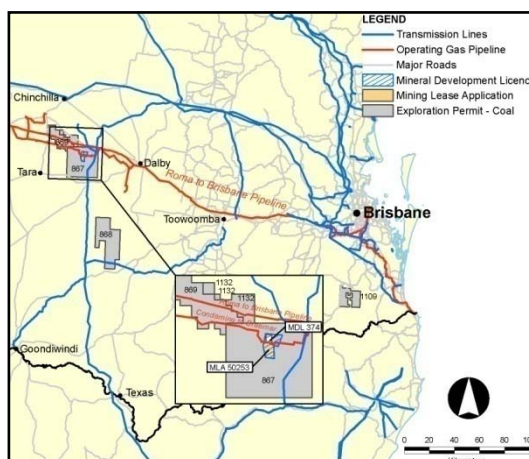


Figure 2 - Location of Company’s Coal tenements in South East Queensland



Tenement	Status	Sub-blocks as at March 2009	Sub-blocks as at June 2009
MLA 50253	Application	1342 ha	1342 ha
MDL 374	Granted	2687 ha	2687 ha
867	Granted	191	191
869	Granted	64	64
868	Granted	177	177
1132	Granted	23	23
1109	Granted	23	23
Kogan West	Application	-	35*

Table 1 – Tenement Status as at the end of June 2009

* There are a further 2 sub-blocks on the application occupied by granted EPC’s. These sub-blocks are for the purpose of applying for a contiguous application area.

3. Identify and develop commercial opportunities

- A detailed review of the commercial applications available using the Syngas produced during the Bloodwood Creek trial and utilizing standard ‘off the shelf’ commercial plant and equipment was conducted by Uhde Shedden. The study encompassed the use of the Syngas produced by the CEL UCG process for the following applications:
 - Combined cycle power generation
 - Combined cycle power generation with CO2 removal
 - Manufacture of hydrogen
 - Manufacture of ammonia in a ‘world scale’ plant
 - Manufacture of synthetic natural gas (SNG)
- All of the above indicated the wide ranging opportunities for commercial use of Syngas as a fuel of first choice in practical commercial applications with the added advantage of being a fuel suitable for a constrained carbon future.
- Discussions continue with Australian and International energy, resource and chemical companies in regard to joint ventures utilising the above options.

Other Minerals

- The Company has significant minerals projects in both uranium and gold, the latter held partly in Joint Venture. Divestment of these minerals assets, including outright sale or transfer to a new corporate entity by way of an IPO are currently being assessed. Further details of the projects are given below.

URANIUM EXPLORATION (CARBON ENERGY 100%)

- The Company is undertaking uranium exploration in Western Australia, South Australia, Queensland and the Northern Territory (Figure 3).

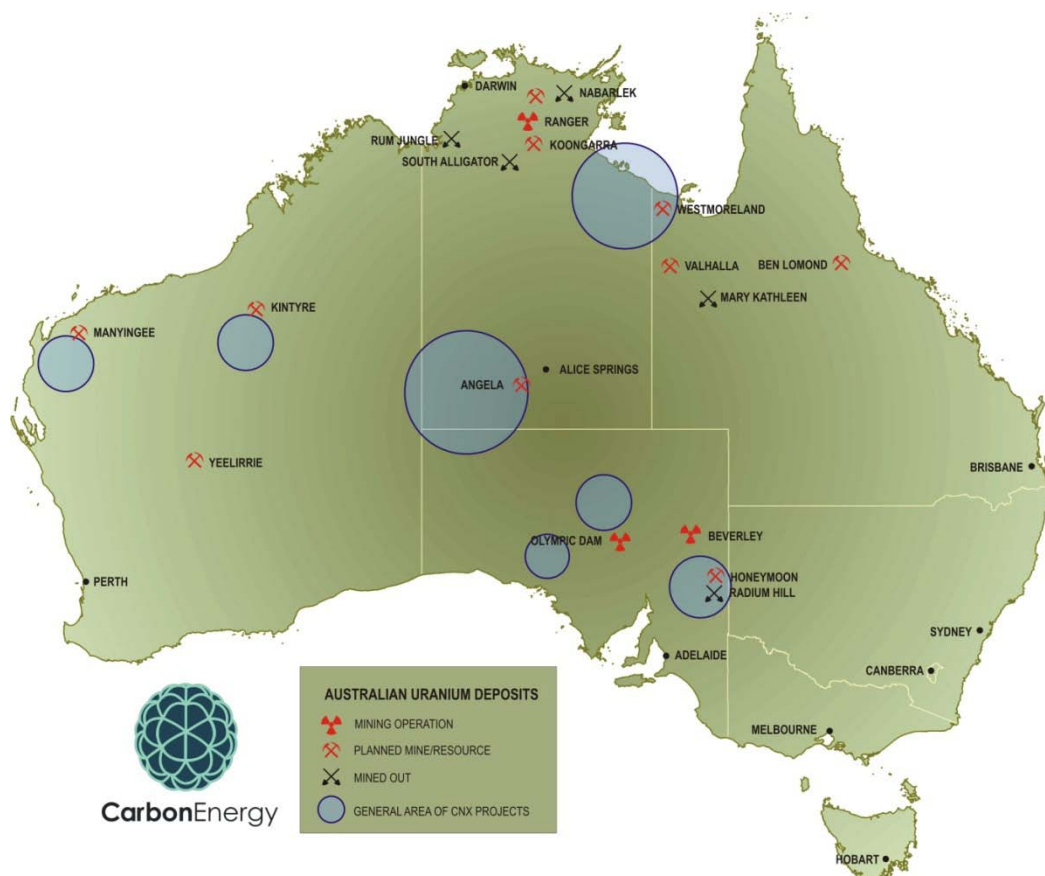


Figure 3 - Location of Areas of Specific Uranium Interest – Australia.

- In Western Australia, a total area of 1379 km² is held in 4 granted exploration licences and one application (Table 2). At the Nyang Project in the Carnarvon basin (E08/1644, 45 and 46), mineralisation has been delineated over a strike length exceeding 3km, and includes results from Aircore drilling up to 8m @ 0.13% U₃O₈.



State	Tenement	Location	Status	Area (sq km)
Western Australia	E 08/1644	Yannarie South	Granted	470
	E 08/1645	Pleiades	Granted	475
	E 08/1646	Pleiades South	Granted	264
	E 45/2886	Table Top	Application	170

Table 2 - Western Australia – Tenements under Grant or Application for Uranium Exploration

- In South Australia 8 exploration licences have been granted (Table 3) for a total area of 1809 km². The main target is “IOCG” deposits of the Olympic Dam type, but there is also potential for palaeochannel-hosted roll-front deposits in several tenements. Geophysical modeling has outlined several potential IOCG targets at drill-accessible depths, one on EL3680 and one on EL3957.

State	Tenement	Location	Status	Area (sq km)
South Australia	EL 3650	Lake Eyre	Granted	324
	EL 3651	Coomba Springs	Granted	52
	EL 3680	Blyth Creek	Granted	368
	EL 3682	Balta Baltana Creek	Granted	348
	EL 3683	Hidden Swamp	Granted	145
	EL 3957	Curdimurka	Granted	294
	EL 3958	Strangeway Springs	Granted	126
	EL 4035	Lake Milliyera	Granted	152

Table 3 - South Australia – Tenements granted for Uranium Exploration

- Two applications in north-western Queensland and four applications in the Northern Territory are awaiting grant.

LAVERTON EXPLORATION JOINT VENTURE – CARBON ENERGY 50%

- The Laverton Exploration Joint Venture (LEJV) is a 50:50 joint venture between Carbon Energy and Barrick (GSM) Ltd, a wholly owned subsidiary of Barrick Gold of Australia Limited. Barrick is the owner of the Granny Smith Mine, located approximately 20km south of Laverton.
 - A summary of gold resources delineated to date in the Laverton area is attached as Appendix A, whereby Carbon Energy retains approximately 850,000 attributable in-ground ounces of gold.
- Magma Metals Limited has the right under a Concurrent Rights Agreement to earn 100% interest in Ni-Cu-PGM mineralization associated with ultramafic rocks over various LEJV and 100% Carbon Energy Laverton tenements.

Corporate

ISSUED CAPITAL

- The total issued capital at the end of the Quarter was 547,296,637 fully paid ordinary shares quoted on the Australian Stock Exchange. 50,000,000 shares were placed during the period providing the Company with \$21.5 million gross. A total of 69,451,000 unlisted options with exercise prices between 15c and \$1.60 (with vesting dates ranging between 31 March 2009 and 10 December 2014, with the majority also subject to meeting of annual key performance indicators (KPIs) and performance hurdles being met) are on issue.
- A total of 7,407,408 shares remain to be issued to Dr Cliff Mallett and Mr Rusty Mark upon the successful completion of the Bloodwood Creek Trial and analysis of trial results. Issue of Shares to Dr Mallett is subject to shareholder approval (on 20 July 2009) as a result of a related party transaction. In addition, up to 15 million shares remain to be issued to Constellation Energy, subject to completion of documentation.
- The Company retains cash reserves of \$22.1 million as at 30 June 2009.



LISTED INVESTMENTS

- Carbon Energy holds 10 million shares in ASX listed nickel-copper-platinum group metals (PGE) explorer Magma Metals Limited. Magma is actively exploring in Canada and Western Australia.

CHANGE IN DIRECTORSHIP

- On 21 May 2009, Dr Linley tendered his resignation from the Board as a result of his other business commitments. The Board expressed its thanks to Dr Linley for his contribution to the Company.

For and on behalf of the Board

A.M. Dash
Managing Director

8 July 2009.

Competent Person Statement – Coal

The information in this release that relates to resources is based on information compiled by Dr C. W. Mallett, Executive 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.

Competent Person Statement – Gold and Uranium

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr I. W. Walker, Non-Executive Director of Carbon Energy Limited who is a member of the Australian Institute of Geoscientists. Mr Walker has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Walker consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.



Coal Resource Summary – Appendix A

AS AT 30 JUNE 2009

June 2009 Quarter Resource Statement

Location	Seam Thickness Cut-Off	Indicated (Mt)	Inferred (Mt)	TOTAL (Mt)
Bloodwood Creek	2	218	280	498
	5'	158	57	215
Kogan	2		170	170
	5'		149	149
Total Resource	2			668
	5'			364

Notes:

1. Optimal target for Underground Coal Gasification

Laverton Projects Resource Summary – Appendix B

GEOLOGICAL RESOURCE SUMMARY AS AT 30 JUNE 2009

	Lower Cut g/t	Upper Cut g/t	MEASURE Tonnes	INDICATED g/t au	Tonnes	INFERRED g/t au	Tonnes	TOTAL			
								g/t au	Tonnes	g/t a/u	Ounces
M38/37 - Lancefield Resource2 (Carbon Energy 100%)											
DEEPS	4	-			603,000	6.2	120,000	7	723,000	6.3	147,000
NML	4	-			126,000	7.9	440,000	7	566,000	7.2	131,000
SPO	4	-			114,000	6.8	54,000	8	168,000	7.2	39,000
WMC ³	3	-	1,036,000	6.8	158,000	4.7			1,194,000	6.5	250,000
TELEGRAPH ⁴	4	20					91,000	6	91,000	6.0	18,000
TOTAL TONNES			1,036,000	6.8	1,001,000	6.2	705,000	7	2,742,000	6.6	
TOTAL OUNCES			226,000		201,000		157,000				585,000
STH L'FIELD OXIDE	1	15			72,000	4.0	3,000	5	75,000	4.0	10,000
TOTAL M38/37 TONNES			1,036,000	6.8	1,073,000	6.1	708,000	6.9	2,817,000	6.6	
TOTAL M38/37 OUNCES			226,000		210,000		158,000				595,000

Laverton Exploration Joint Venture (Carbon Energy 50%)

Various Oxide Resources

BEASLEY CREEK	1	IDS	420,000	2.4	690,000	2.2	940,000	2	2,050,000	2.1	140,600
INNUENDO	1	IDS			180,000	2.9	380,000	2.3	560,000	2.5	45,100
WHISPER ⁶	1	IDS					1,408,000	2.4	1,408,000	2.4	110,000
RUMOUR	1	IDS			1,590,000	2.1	1,060,000	2.1	2,650,000	2.1	179,300
NTH GLADIATOR ⁵	1	5	10,000	1.7	40,000	1.8	120,000	2	170,000	1.9	10,500
GARDEN WELL ⁵	1	12	90,000	3.3	110,000	2.6	150,000	2	350,000	2.3	29,200
TOTAL OXIDE TONNES			520,000	2.5	2,610,000	2.2	4,058,000	2.2	7,188,000	2.2	
TOTAL OXIDE OUNCES			42,100		184,600		287,200				514,700

OVERALL TONNES			1,556,000	5.4	3,683,000	3.3	4,766,000	2.9	10,005,000	3.4	
OVERALL OUNCES			268,100		394,600		445,200				1,109,700
CARBON ENERGY ATTRIBUTABLE OUNCES											852,350

Notes

1. Tonnes, grade and ounces have been rounded to the appropriate levels of precision, and may not balance exactly
2. M38/37 only, predominantly sulphide resource, Telegraph free-milling West Lode, WMC includes minor West Lode
3. WMC data as per WMC Mineral Resources Report Dec 1994
4. Telegraph resource calculated on basis of weighted average grade over minimum downhole width of 1m
5. Resources calculated by Micromine OBM as diluted geological resource, all others using IDS methodology. Based on 1g/t model within 0.5g/t outline.
Reference March 99 Pre-feasibility Report.
6. Whisper resource recalculated May 05.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

CARBON ENERGY LIMITED

ABN

ABN 56 057 552 137

Quarter ended ("current quarter")

30 JUNE 2009

Consolidated statement of cash flows

	Current quarter \$A'000	Year to Date (12 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation (net)	(1,102)	(6,288)
(b) development – Bloodwood Creek - UCG	(1,436)	(17,539)
(c) production	-	-
(d) administration (net)	(680)	(1,746)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	27	731
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes benefit received	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(3,191)	(24,842)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(3)	(578)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	3
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material) - Bonds	(21)	(72)
Net investing cash flows	(24)	(647)
1.13 Total operating and investing cash flows (carried forward)	(3,215)	(25,456)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(3,215)	(25,456)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	21,500	22,384
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – Trade Creditors/Debtors	(1,164)	(442)
	Net financing cash flows	20,336	21,942
Net increase (decrease) in cash held			
		(17,121)	(3,514)
1.20	Cash at beginning of quarter/year to date	5,017	25,652
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	22,138	22,138

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current Quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	213
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Costs included in item 1.23 above covers Directors' expenses for any services undertaken outside the scope of directors duties, salaries for the Brisbane based executive Directors plus Non-Executive Director's fees and superannuation.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

-

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Barrick Granny Smith Mines is contributing 50% to the LEJV.

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements/bonds	411	411

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,000
4.2 Development	4,000
Total	5,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	387	937
5.2 Deposits at call	21,340	3,690
5.3 Bank overdraft	-	-
5.4 Other (Deposit Bonds)	411	390
Total: cash at end of quarter (item 1.22)	22,138	5,017

Changes in interests in mining tenements

	Tenement reference	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	Refer Covering Quarterly Activity Report attached hereto		
6.2	Interests in mining tenements acquired or increased	Refer Covering Quarterly Activity Report attached hereto		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
7.1 Preference +securities <i>(description)</i>	Nil	Nil	-	-
7.2 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	547,296,637	547,296,637	Various	Fully Paid
7.4 Changes during quarter				
(a) Increases Placement made to Institutional & Sophisticated investors	50,000,000	50,000,000	43c	Fully Paid
(b) Decreases through return of capital, buy-backs	-	-	-	-
7.5 +Convertible debt securities <i>(description)</i>	Nil	Nil	-	-
7.6 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through securities matured, converted	-	-	-	-
7.7 Options			<i>Exercise price</i>	<i>Expiry date</i>
<i>Unlisted Options 15c</i>	250,000	-	15c	31/10/2009
<i>Unlisted Options 15c</i>	5,000,000	-	15c	31/12/2009
<i>Unlisted Options 15c</i>	125,000	-	15c	01/01/2010
<i>Unlisted Options 20c</i>	9,000,000	-	20c	31/03/2010
<i>Unlisted Options 20c</i>	250,000	-	20c	31/10/2010
<i>Unlisted Options 20c</i>	125,000	-	20c	01/01/2011
<i>Unlisted Options 30c</i>	500,000	-	30c	30/06/2011
<i>Unlisted Options 60c</i>	2,000,000	-	60c	30/06/2011
<i>Unlisted Options 25c</i>	100,000	-	25c	01/04/2012
<i>Unlisted Options 40c</i>	351,000	-	40c	01/04/2012
<i>Unlisted Options 25c</i>	5,000,000	-	25c	10/12/2013
<i>Unlisted Options 35c</i>	7,000,000	-	35c	10/12/2013
<i>Unlisted Options 70c</i>	8,000,000	-	70c	10/12/2013
<i>Unlisted Options 80c</i>	7,250,000	-	80c	10/12/2013
<i>Unlisted Options \$1.00</i>	10,000,000	-	\$1.00	10/12/2014
<i>Unlisted Options \$1.20</i>	7,250,000	-	\$1.20	10/12/2013
<i>Unlisted Options \$1.60</i>	7,250,000	-	\$1.60	10/12/2013
7.8 Options <i>Issued during quarter</i>	Nil		<i>Exercise price</i>	<i>Expiry date</i>
7.9 Exercised during quarter Unlisted Employee Options	-			
7.10 Expired during quarter Unlisted Employee Options	-	-	-	-

+ See chapter 19 for defined terms.

7.11 Debentures <i>(totals only)</i>	Nil	Nil
7.12 Unsecured notes <i>(totals only)</i>	Nil	Nil

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:

Date:8 July 2009.....



Print name: Prem Nair

Title: **Chief Financial Officer &
Company Secretary**

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