



CarbonEnergy



Quarterly Report

September 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 September 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
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
P Nair – CFO & Company Secretary
P Swaddle – General Manager - Commercial
J Wedgwood – General Manager - Operations

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Highlights For The Quarter

Corporate – Capital Raising

Carbon Energy (CEL) completed its second tranche of the share placement (announced in June 2009) in July 2009 after Shareholders approved the capital raising at a General Meeting of Shareholders on 20 July 2009. In total, approximately 74.4 million ordinary shares issued to raise \$32 million (gross).

Energy – Underground Coal Gasification (UCG)

- Carbon Energy has signed a off-take agreement with Queensland Government owned electricity provider Ergon Energy. The contract, worth approximately \$2 million per year, is for electricity produced at Carbon Energy’s 5MW syngas-powered electricity production facility currently being constructed at Bloodwood Creek in the Surat Basin.
- Carbon Energy has commenced construction of a 5MW power station to utilise Syngas on the Bloodwood Creek UCG trial site. Site work commenced in August and will continue until December. The power generation equipment is being relocated from Victoria and will be delivered in October.
- Also in July an Agreement was signed with Queensland based ZeroGen .The agreement signalled the first phase of a CO2 injection test program which will see Carbon Energy combine their successful Underground Coal Gasification (UCG) technology with ZeroGen’s techniques for CO2 injection. The scoping study for the carbon capture and storage component of this project started in July with initial findings due by the end of this calendar year, with the first phase of a CO2 injection test program expected to commence in conjunction with the completion Carbon Energy’s 20 MW power station in approximately 18months.
- In July Carbon Energy has signed a Heads of Agreement (HoA) with Liberty Resources Limited ASX: LBY (“Liberty”) to establish a joint venture to develop Liberty’s thermal coal resource in the Galilee Basin. Carbon Energy will hold 80% of the Joint Venture and will be the operator. Carbon Energy will contribute its expertise in Underground Coal Gasification to assess the optimal development of the resource and to execute the required development plan.

Minerals (Carbon Energy interests between 50-100%)

- Carbon Energy completed its divestment program for non-core assets raising \$9 million:
 - Gold Interests sale to Crescent Gold Limited
 - IPO listing of the uranium assets
 - MMB share sale (subsequent to end of September Quarter).

The proceeds will be used to accelerate the development of commercial opportunities for the Company’s core energy business.

CORPORATE CAPITAL RAISING

- As part of the capital raising announced in June 2009, the Company completed the second tranche on 27 July 2009 with the issue of 24.4 million shares which was approved by shareholders at General Meeting of shareholders to be held on 20 July 2009. The funds raised from Share Placement (both the first and second tranches) amounted to \$32 million (gross).
- Major shareholder, Incitec Pivot Limited participated in the 2nd tranche of the capital raising and at the end of the Quarter maintained a shareholding interest of 10.7 % of Carbon Energy's issued capital.
- Major shareholder CSIRO's shareholding after the Capital Raising now accounts for 15% of the issued capital of the Company.

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:
 - A UCG production panel continues to be operated in turndown mode with air injection. This panel has now been continuously producing for close to 12 months.
 - Construction of a 5 MW power generation plant (utilising the existing output of Syngas from the trial panel) is underway and is targeted for completion December 2009.
 - In July a contract for the sale of electricity from the 5 MW power plant was signed with Queensland Government owned Ergon Energy .
 - A Front End Engineering & Design (FEED) study for the development of a future 20 MW generation facility commenced in September 2009.
 - Investigation of pre-combustion carbon capture techniques will be part of the design of the 20MW. In July Carbon Energy signed an agreement with Queensland based ZeroGen for the trial of carbon sequestration.
 - The results of a comprehensive scientific review of the intensive groundwater monitoring program which was 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, were provided to the relevant Departments within Queensland Government in July.

2. Expand Coal Resource

- Western Australia
 - Sampling and modelling is continuing in 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. This is consistent with Carbon Energy's policy of seeking access to coal resources in multiple regions where CEL's UCG capability can be utilised. An initial assessment of the resource potential is anticipated to be completed by end of calendar year.

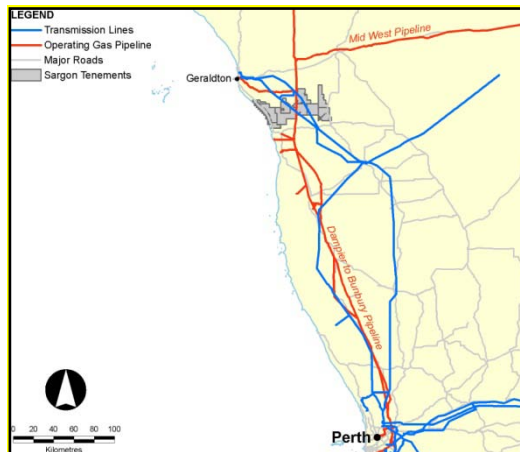


Figure 1 - Location of Coal tenements in Western Australia subject ENB Heads of Agreement

- Coal Exploration and Mining Tenure
 - At the end of the September Quarter 2009 Carbon Energy still holds 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.

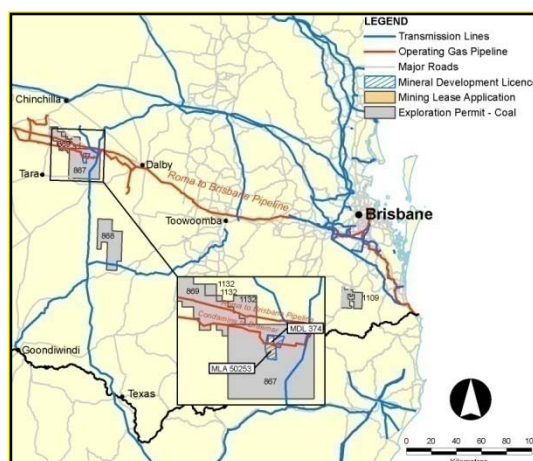


Figure 2 - Location of Company's Coal tenements in South East Queensland



Tenement	Status	Sub-blocks as at June 2009	Sub-blocks as at September 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*-	35*

Table 1 – Tenement Status as at the end of September 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

- Discussions with enterprises associated with alternate processing of CO₂ involving bio-sequestration have commenced with a view to long-term solutions of reducing Carbon Energy’s carbon footprint.
- Discussions continue with Australian and overseas enterprises with a view to growing Carbon Energy’s resource base with a focus on North and South America.

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 is under way. For the gold projects, this is by way of an Asset Sale and Purchase Agreement with Crescent Gold Limited. Formal documentation of this is being finalised. The uranium projects will comprise a new IPO which is anticipated to be completed during the December quarter. Further details of the projects are presented below.
- The Company has also disposed of its holding in Magma Metals (MMB) subsequent to the end of the September 09 quarter.

URANIUM EXPLORATION (CARBON ENERGY 100%)

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

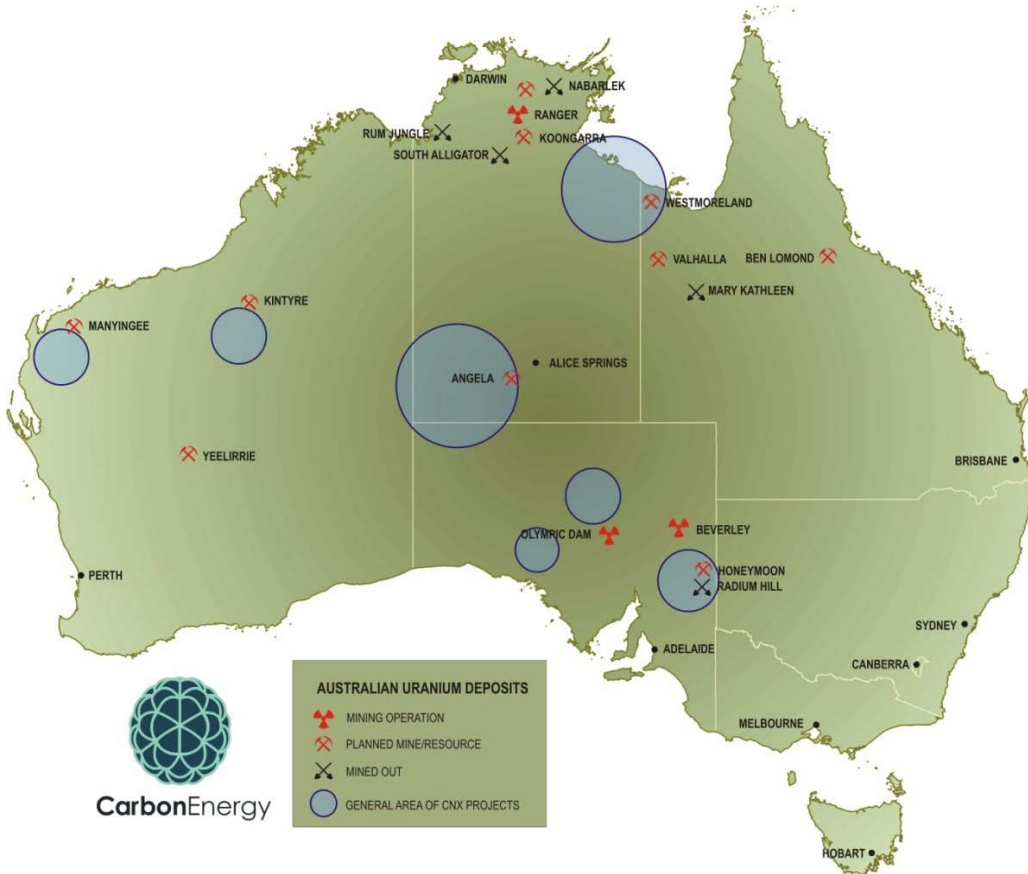


Figure 3 - Location of Areas of Specific Uranium Interest – Australia.

- 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. Geophysical modeling has now outlined three targets at drill-accessible depths, one on EL3680, one on EL3682 and one on EL3957. Reduction of areas by approximately 25% has been proposed for EL3650, EL3957 and EL3958 as part of the tenement extension application.

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 Millyera	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 B, whereby Carbon Energy retains approximately 850,000 attributable in-ground ounces of gold.
- Following the restructure of the business in June 2008 and accompanying shift in strategy towards the development of Underground Coal Gasification, the decision was taken to pursue opportunities for the rationalization of its gold interests. In August 2009 Carbon Energy announced it had reached an agreement with Crescent Gold Limited to sell all its gold interests for \$2.5 million in cash together with \$1.5 million deferred consideration following the production of 75,000 ounces of gold from the divested tenements.
- 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 581,122,650 fully paid ordinary shares quoted on the Australian Stock Exchange. During the quarter 2,000,000 options were exercised (1 million Options at \$0.15 and 1 million at \$0.60); 7,407,408 shares were issued to Dr Cliff Mallett and Mr Rusty Mark as a result of the successful completion of the Bloodwood Creek Trial and analysis of trial results; and 24,418,605 shares were issued as part of the second tranche Share Placement.
- A total of 62,451,000 unlisted options with exercise prices between 15c and \$1.60 (with expiry dates ranging between 31 October 2009 and 10 December 2014, with the majority subject to meeting annual performance measures) are on issue.



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- 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 \$24.9 million as at 30 September 2009.

LISTED INVESTMENTS

Carbon Energy held 10 million shares in ASX listed nickel-copper-platinum group metals (PGE) explorer Magma Metals Limited as at 30 September 2009. Carbon Energy announced its sale of the investment on 22 October 2009.

For and on behalf of the Board

A.M. Dash
Managing Director

28 October 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 September 2009

September 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 SEPTEMBER 2009¹

	Lower Cut g/t	Upper Cut g/t	MEASURE Tonnes	g/t au	INDICATED Tonnes	g/t au	INFERRED Tonnes	g/t au	TOTAL		
									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	147,200
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	38,800
WMC ³	3	-	1,036,000	6.8	158,000	4.7			1,194,000	6.5	250,400
TELEGRAPH ⁴	4	20					91,000	6	91,000	6.0	17,600
TOTAL TONNES			1,036,000	6.8	1,001,000	6.2	705,000	7	2,742,000	6.6	
TOTAL OUNCES			226,495		201,000		157,000				585,000
STH L'FIELD OXIDE	1	15			72,000	4.0	3,000	5	75,000	4.0	9,700
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			226,495		210,259		157,957				594,700

Laverton Exploration Joint Venture (Carbon Energy 50%)

Various Oxide Resources

BEASLEY CREEK (M38/49)	1	IDS	270,000	2.0	527,000	2.1	833,000	2.0	1,630,000	2.0	106,900
BEASLEY CREET STH (M38/49)	1	IDS	147,000	3.1	161,000	2.5	111,000	1.7	419,000	2.5	33,700
GLADIATOR NORTH ⁵ (M38/49)	1	5	7,000	1.7	41,000	1.7	123,000	1.6	171,000	1.6	9,000
INNUENDO (M38/101)	1	IDS			180,000	2.9	380,000	2.3	560,000	2.5	44,900
WHISPER ⁶ (M38/535)	1	IDS					1,408,000	2.4	1,408,000	2.4	108,600
RUMOUR (M38/535)	1	IDS			1,590,000	2.1	1,060,000	2.1	2,650,000	2.1	178,900
GARDEN WELL ⁵ (M38/101)	1	12	90,000	3.3	110,000	2.6	150,000	2	350,000	2.5	28,400
TOTAL OXIDE TONNES - LEJV			514,000	2.5	2,609,000	2.2	4,605,000	2.2	7,188,000	2.2	
TOTAL OXIDE OUNCES - LEJV			41,692		183,922		284,717				510,400

OVERALL TONNES			1,550,000	5.4	3,682,000	3.3	4,773,000	2.9	10,005,000	3.4	
OVERALL OUNCES			268,188		394,182		442,673				1,105,100
CARBON ENERGY ATTRIBUTABLE OUNCES											849,900

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.