



CarbonEnergy



Quarterly Report

March 2010



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 31 March 2009

CURRENT DIRECTORS:

K. Robinson BSc (Geology) – Chairman
A.M Dash BEng (Chem), MCom - Managing Director
C.W. Mallett MSc, PhD, FAIE - Technical Director
M.D.J. Cozjin B Com, ASA, MAICD - Director
P.N. Hogan B.Bus, ACA – Director
P.T. McIntyre BSc (Eng), MBA, FIEAust – Director (resigned Feb. 2010)
I.W. Walker BSc Hons (Geology) - Director
L.I. Rozman BEng, MGeos, FAusIMM CP(Man), MAICD (appointed 7 Apr. 2010)

SECRETARY:

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

MANAGEMENT TEAM:

A Dash - Managing Director
C Mallett - Technical Director
A Mifflin – General Manager Technical Services
P Nair – CFO & Company Secretary
P Swaddle – General Manager - Commercial
J Wedgwood – General Manager - Operations

REGISTERED & PRINCIPAL OFFICE:

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Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 615

SOLICITORS:

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BRISBANE QLD 4001



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Highlights For The Quarter

- On 29th March Carbon Energy announced that the Pacific Road Resources Fund had agreed to acquire a 10% stake in Carbon Energy from the CSIRO. The acquisition followed a six month comprehensive due diligence process and is a strong third party endorsement for Carbon Energy's strategy and UCG technology.
- Pacific Road has an option to acquire the balance of CSIRO's 4.8% interest in carbon Energy.
- Pacific Road may elect to transfer some of its position to an investor or investors in its funds.
- Carbon Energy welcomed the appointment of Louis Rozman as a non-executive Board Director following Pacific Road agreeing to become a cornerstone investor. Mr Rozman brings extensive knowledge of the resources sector and energy sector including from his time as Chief Executive Officer at CH₄ Gas Limited (merged with Arrow Energy).
- On 5th March Incitec Pivot Limited advised that it had increased its ownership of Carbon Energy to 11.358% in an on-market trade.
- On 3rd March Carbon Energy announced an update and re-scheduling of its 5 MW power station project. Subsequent to March the company has advised that the commissioning of the 5 MW project will now be completed utilising gas from its planned second UCG panel, anticipated to be in August/September 2010.
- On 22nd January Carbon Energy announced the appointment of Andy Mifflin as General Manager Technical Services. Andy has over 30 years experience in the coal industry in the UK and Australia and in this new role will evaluate and develop coal resources suitable for underground coal gasification in Australia and overseas.
- Retains cash reserves of over \$22 million as at 31 March 2010.

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)

- Further developments on the Bloodwood Creek site are continuing as follows:

Construction of the Company's 5 MW power station was progressed during the quarter and is nearing completion.

Subsequent to March, the company has announced that it is not cost effective to continue with remediation work on UCG Panel 1 and that commissioning of the power station will not proceed on gas produced from UCG Panel 1. Construction of Panel 2 will commence in May with the vertical ignition well. Directional drilling is scheduled to commence in June. Commissioning of the engines is anticipated to be complete in August/September 2010.

An additional 5 water monitoring bore holes have been completed to monitor the planned new UCG panels and the Company's tenements generally. Ongoing water monitoring is being conducted to provide further evidence of the low environmental impact of UCG.

Close coordination with the Queensland Government's working parties associated with the Government's UCG Policy continues.

Final independent design reviews for the commencement of the second panel at Bloodwood Creek have begun with site preparation for drilling having commenced. The design of Panel 2 has taken into consideration the lessons learned from issues experienced in Panel 1 to ensure no re-occurrence of the mechanical issues that affected the trial panel.

Drilling contractors are anticipated to be contracted in the near future with drilling of Panel 2 to be undertaken shortly thereafter. A decision to drill panel 3 after panel 2 will have cost benefits in shared mobilization and demobilization, as well as anticipated production efficiencies gained by drilling two consecutive panels.

20MW Power Station Development

The proposed 20MW power station configuration has been amended to a steam turbine following initial review of engineering advice and discussions with prospective commercial partners. Proposals for a FEED Study have been received and are being reviewed with final selection of our preferred engineering partner to occur in the near future.

2. EXPAND COAL RESOURCE

- **Galilee Basin (QLD)**

Discussions with Liberty Resources continue in order to formalise a joint venture agreement that will earn Carbon Energy an 80% interest in Liberty's granted EPC's in the Galilee Basin by Carbon Energy funding the early stages of underground development through to a trial project.

- **Chile**

Carbon Energy and Antofagasta are working closely together on site selection at Mulpun, Chile for the development of the Company's first international UCG project.

Geological assessment is underway to determine site selection for panel alignment and location of above ground infrastructure. Seismic studies are planned during April 2010 and the selection of a drilling partner has commenced.

Design parameters for an initial UCG panel will be undertaken following site assessment with commencement of the construction likely in the final quarter of 2010.

- **Other opportunities**

Carbon Energy continues in discussions to identify other potential coal resources suitable for UCG both in Australia and overseas.

Tenement Status at end March 2010

Tenement	Status	Sub-blocks as at December 2009	Sub-blocks as at March 2010	Area Sq km
MLA 50253	Application	1342 ha	1342 ha	15
MDL 374	Granted	2687 ha	2687 ha	32
867	Granted	191	191	670
869	Granted	64	64	213
868	Granted	177	177	605
1132	Granted	23	23	78
1109	Granted	65	65	224
1741 Kogan West	Application	35	35	119
			TOTAL	1,956

3. IDENTIFY AND DEVELOP COMMERCIAL OPPORTUNITIES

Commercial negotiations are well advanced with a short-list of partners to develop Carbon Energy's planned 20 MW power project in Queensland, the selection of a preferred partner is targeted for the middle of 2010. An assessment of market opportunities for Carbon Energy's proposed 300 MW power project at the Company's 'Blue Gum' Energy Park will be made in due course.

Discussions are continuing with resource owners in North America and Europe regarding Carbon Energy earning an equity position in coal resources suitable for UCG by providing access to the Company's world leading UCG technology.

Corporate

BOARD CHANGES

- In February 2010, Peter McIntyre retired from the Board after 7 years of service due to increasing personal commitments. The Board sincerely thanks Peter for his stewardship especially during the Company's shift in focus to an emerging energy entity.
- Louis Rozman was appointed to fill a casual vacancy of the Board on 7 April 2010. Louis is currently the Investment Director of Pacific Road and has over 25 years experience in mining operations, joint ventures and corporate management in Australia and Africa.

SUBSTANTIAL SHAREHOLDERS

- Pacific Road Capital, a private equity manager which invests in the global mining industry has decided to invest in Carbon Energy after a six month comprehensive due diligence process. Pacific Road Resources Fund 1 has agreed to acquire CSIRO's stake in Carbon Energy with an initial 10% interest and has an option over CSIRO's remaining 4.8 %.
- Incitec Pivot Limited increased their holding in the CNX to 11.3% in March 2010.
- Lujeta Pty Ltd became a substantial shareholder of CNX on 29 March 2010 with a holding of 5%.

ISSUED CAPITAL & CASH FUNDS

- The total issued capital at the end of the Quarter was 594,497,650 fully paid ordinary shares quoted on the Australian Stock Exchange. During the quarter 8,500,000 options were exercised at \$0.20 each.
- A total of 52,060,000 unlisted options with exercise prices between 20c and \$1.60 are on issue (with expiry dates ranging between 31 October 2010 and 22 March 2015, with the vast majority subject to meeting annual performance measures). 3,000,000 options were issued during the quarter at exercise prices between 80c and \$1.60.
- 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 \$22.3 million as at 31 March 2009.

LISTED INVESTMENTS

- Carbon Energy held 29 million shares in ASX listed uranium company, Energia Minerals Limited as at 31 March 2009

For and on behalf of the Board



A.M. Dash
Managing Director
30 April 2010

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.



Coal Resource Summary – Appendix A

As at 31st March 2010

March 2010 Quarter Resource Statement

Location	Seam Thickness Cut-Off	Indicated (Mt)	Inferred (Mt)	TOTAL (Mt)
Bloodwood Creek	2	218	280	498
	5 ¹	158	57	215
Kogan	2		170	170
	5 ¹		149	149
Total Resource	2	218	450	668
	5 ¹	158	206	364

Notes:

1. Optimal target for Underground Coal Gasification

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

AREA	CATEGORY	GROSS GAS VOLUMES(PJ)
Bloodwood Creek EPC 867 (including MDL 374)	1P Reserve (Proven)	11.0
	2P Reserve (Proven + Probable)	743.9
	3P Reserve (Proven + Probable + Possible)	1,042.8

The reserve estimates used in this document were compiled by Mr Timothy Hower of MHA Petroleum consultants, Colorado, USA, a qualified person under ASX Listing Rule 5.11. Mr Hower has consented to the use of the reserve information contained within this document in the form and context in which it appears.

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")

31 MARCH 2010

Consolidated statement of cash flows

	Current quarter \$A'000	Year to Date (9 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)	-	(233)
(b) development – BWC Operations	(3,740)	(7,004)
(c) production	-	-
(d) administration (net)	(630)	(2,050)
(e) commercial and business devel.	(276)	(924)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	175	595
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes benefit received	-	-
1.7 Other (provide details if material) fuel tax credits	77	173
Net Operating Cash Flows	(4,394)	(9,443)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(189)	(321)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments MMW shares	-	6,464
(c) other Gold tenements & fixed assets sales	-	1,041
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material) - Construction of 5MW Plant, 2 nd UCG Panel, Site infrastructure & Water Monitoring	(1,861)	(8,135)
Net investing cash flows	(2,050)	(951)
1.13 Total operating and investing cash flows (carried forward)	(6,444)	(10,394)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)		
		(6,444)	(10,394)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	1,700	12,711
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	(165)	(2,165)
	Net financing cash flows	1,535	10,546
	Net increase (decrease) in cash held	(4,909)	152
1.20	Cash at beginning of quarter/year to date	27,199	22,138
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	22,290	22,290

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	185
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

Nil

+ 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	454	454

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	0
4.2 Development	1,500
Total	1,500

Reconciliation of cash

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

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	2,636	245
5.2 Deposits at call	19,200	26,500
5.3 Bank overdraft	-	-
5.4 Other (Deposit Bonds)	454	454
Total: cash at end of quarter (item 1.22)	22,290	27,199

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		Nil	Nil
6.2	Interests in mining tenements acquired or increased	Coal Refer Covering Activity Report attached hereto	100%	100%

+ 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	594,497,650	594,497,650	Various	Fully Paid
7.4 Changes during quarter				
(a) Increases due to exercise of Options	8,500,000	8,500,000	@20c	Fully paid
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 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>	1,000,000	-	60c	30/06/2011
<i>Unlisted Options 25c</i>	100,000	-	25c	01/04/2012
<i>Unlisted Options 40c</i>	335,000	-	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 80c</i>	1,000,000	-	80c	22/03/2015
<i>Unlisted Options \$1.00</i>	10,000,000	-	\$1.00	10/12/2014
<i>Unlisted Options \$1.20</i>	4,750,000	-	\$1.20	10/12/2013
<i>Unlisted Options \$1.20</i>	1,000,000	-	\$1.20	22/03/2015
<i>Unlisted Options \$1.60</i>	4,750,000	-	\$1.60	10/12/2013
<i>Unlisted Options \$1.60</i>	1,000,000	-	\$1.60	22/03/2015
7.8 Options			<i>Exercise price</i>	<i>Expiry date</i>
<i>Issued during quarter</i>	1,000,000	-	80c	22/03/2015
	1,000,000	-	\$1.20	22/03/2015
	1,000,000	-	\$1.60	22/03/2015
7.9 Exercised during quarter				
Unlisted Employee/Other Options	8,500,000	-	20c	
7.10 Expired during quarter	Nil	-	-	-
7.11 Debentures <i>(totals only)</i>	Nil	Nil		

+ See chapter 19 for defined terms.

7.12 Unsecured notes (<i>totals only</i>)	Nil	Nil
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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:30 April 2010.....



Print name: Prem Nair

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

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