



carbonenergy
resource. technology. markets.

Quarterly Report March 2011

Highlights

- Carbon Energy's new Underground Coal Gasification (UCG) Panel 2 was successfully commissioned during March.
- Commissioning of the horizontal product well and main flare achieved on 2 April 2011.
- At the date of this report (29 April) Panel 2 has successfully operated and produced Syngas for a period of four weeks. Syngas from this Panel will be introduced to the Company's 5 MW power station in the next few days to commence testing of the gas engines.
- Carbon Energy announced the next stage in the Company's international expansion with the acquisition of Clean Coal Inc and Clean Coal Amasra Ltd. The acquisitions deliver agreements for the development of UCG projects in the USA and in Turkey offering the potential for in excess of 2 billion tonnes of additional coal resource in highly attractive energy markets.
- A Memorandum of Understanding was executed with Adani Enterprises Ltd (a member of the Adani Group of India), for the purpose of a joint bid for UCG specific Coal leases in India. The joint bid with the Adani Group was compiled and submitted 16 March 2011 for two coal blocks being tendered out for UCG projects by Coal India.
- The Company retained cash of \$17.1 million as at 31 March 2011.

Resource

Queensland – Bloodwood Creek

During the quarter Carbon Energy obtained amended environmental conditions that allowed the Company to proceed to initiate gasification of UCG Panel 2.

Additional groundwater monitoring wells were successfully installed at the Company's Bloodwood Creek Site between late February and early March.

Commissioning for the start of Panel 2 commenced on Monday 21 March 2011 with the first gas being produced late Friday 25 March 2011 (refer Figure 1 below).



Fig 1 Queensland, Bloodwood Creek UCG Panel 2, 26th March 2011

Following a week of operation at the Ignition Well, product gas was introduced to the Product Well (Fig 1) on 2 April 2011 establishing gas production from the operational configuration of Panel 2 (refer Figure 2).



Fig 2 Queensland, Bloodwood Creek main flare for UCG Panel 2, April 2nd 2011

Following successful commissioning of the horizontal Product Well and main flare on 2 April 2011, the panel continues to perform consistently and according to expectations. Gas quality continues to build and commissioning of the surface gas processing facilities is progressing as planned.

Introduction of syngas to the power station's first gas engine will commence by the end of April. Initial testing of the gas engines is anticipated to be completed by mid June 2011.

Completion of the electricity lines from the site to the local network and connection work by the network operator is progressing with major sub-contracts to be let during May. In addition, work on further amendments to the environmental conditions required to move from the testing phase to full commissioning of the 5 MW power station are being progressed with the Queensland Department of Environment and Resource Management (DERM).

The controlled decommissioning of UCG Panel 1 is continuing as planned. Results from the decommissioning process will be used to demonstrate the environmentally safe operations of a full life cycle of a UCG Panel in support of applications for long term gas production licences.

Tenement Status at end March 2011

Tenement	Status	Sub-Blocks as at December 2010	Sub-Blocks as at March 2011	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
			Total	1,837

International Projects

Chile – Mulpun

Activities by Carbon Energy staff in conjunction with our partner Antofagasta have been increasing in Chile. The work program is progressing well with the following activities being undertaken during the quarter

- Tender submissions for the drilling contract for the first panel have been received and are under evaluation.
- The drilling plan for the water monitoring wells is being finalised.
- Ordering of long lead items such as well heads and panel casing has been initiated.
- Preliminary site works have commenced with a coring drill rig on site and in operation.
- The final location of the first UCG trial panel has been established.

Earthworks are well progressed with internal site roads established and drilling pads, plant area and construction lay down areas on track for completion in early May 2011 (refer Figures 3 and 4 below).



Fig 3 -Coring Drill Rig and Ignition Well Drilling Pad, Mulpun



Fig 4 Earthworks for plant area underway, Mulpun

United States of America & Turkey

Carbon Energy announced in February 2011 that it had executed a Share Sale Agreement to acquire USA-based Clean Coal Inc. and UK-based Clean Coal Amasra Ltd. This transaction delivers projects in the United States of America and Turkey as developed by Clean Coal Ltd. The acquisition, as reported, has the potential to increase Carbon Energy's coal resources by almost three fold to in excess of 2 billion tonnes and underpins the Company's plans to build an international portfolio of UCG projects.

A summary of each project follows:

- Wyoming Project, USA: includes rights to explore and lease coal tenements with Anadarko Land Corporation over 113 km². Carbon Energy is responsible for rents and minimum expenditures and production royalty to Anadarko.
- Montana / North Dakota Project, USA: includes rights to explore and lease coal tenements with Great Northern Properties (subsidiary of the Quintana Capital Group) in an area over 276km². Carbon Energy is responsible for rents, minimum expenditures and production royalty to GNP.
- Amasra Project, Turkey: Carbon Energy will establish a 50/50 Joint Venture Agreement with Hema Endustri (subsidiary of the diversified Hattat Group) to develop UCG projects in Hema's coal tenements in Amasra northern Turkey. Carbon Energy is responsible for initial pilot costs, while the joint venture company is responsible for production royalties to state-owned mining company, Turkish Hard Coal Enterprise ("TTK").

From this transaction Carbon Energy can potentially increase its coal resources by almost three fold to in excess of 2 billion tonnes if the Company is able to fully develop these assets combined with the existing 668 million tonnes at its Queensland location (450 million tonnes Inferred and 218 million tonnes Indicated with 2 metres cut-off).

Carbon Energy's key commercial criterion for these projects is a resource of 500 million tonnes of in-situ coal at each of the three locations. Each of these significant projects enables Carbon Energy to establish relationships with strategic partners in key energy markets and diversifies regulatory and market risk.

The acquisition of the two companies was for an upfront payment consisting of US\$10 million of Carbon Energy shares with a further US\$9 million issued subject to confirmation of resources of 500 million tonnes or more at each planned project location.

As a result of this acquisition, Carbon Energy will be opening and staffing its first overseas office, in the USA in June 2011. The first project to commence development will be in Wyoming where a regulatory pathway for UCG projects has already been established in State legislation.

India

Carbon Energy signed a Memorandum of Understanding (MoU) with Adani Enterprises Ltd (Adani), a member of the Adani Group of India, for the purpose of establishing a joint venture in India to pursue Underground Coal Gasification.

A joint bid with Adani was compiled and submitted 16 March 2011 for two coal blocks being tendered for UCG projects by Coal India. Carbon Energy is the technical partner with Adani and the bid will be assessed on both technical merit and commercial terms.

Adani's choice of Carbon Energy as its preferred technical bid partner demonstrates that Carbon Energy continues to be the leading UCG technology provider and project partner of choice for major international energy companies.

Markets

Ammonia and Synthetic Natural Gas

Carbon Energy and Incitec Pivot continue to explore options for developing their commercial relationship at Bloodwood Creek in Queensland and at other locations where the companies have projects. Following positive results from concept studies conducted during 2010 for the production of ammonia and synthetic natural gas production (SNG) from UCG syngas, pre-feasibility studies are now underway.

Power Station Development

Phase 1: 5MW Power Station Development

Over the past quarter the Company has been progressing the following schedule to facilitate the completion of the 5MW Power Station which will be Australia's first commercial syngas-fuelled power station from UCG.

- Mid February – Mid March 2011: installation of additional monitoring wells were completed
- April 2011: initiation and commissioning of UCG Panel 2 was completed
- April: Establishment of consistent syngas flow is complete

Activities to be progressed include:

- Introduce syngas to engines and conduct engine testing
- Finalise environmental amendments to ramp up to full production
- Fully Commission 5 MW plant and ramp up power production
- Complete overhead electricity lines and connection work to local electricity grid
- Export of electricity to the grid

Phase 2: 25MW Power Station Development

Connection arrangements for the 5MW Power Station are being designed to allow, as much as possible, for the future planned export of a further 25MW from the Company's planned development of a 25MW Power Station. 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 risk.

Phase 3: 300 MW Power Station – Blue Gum Energy

Future plans for a 300MW Power Station fuelled by syngas and developed with Carbon Energy's power station development partner, Arcadia Energy Trading, will be further developed later in 2011. It is anticipated that Federal Government plans to implement policy for the reduction of carbon emissions will positively change the economics of Carbon Energy's planned project. This is expected as the carbon intensity of the syngas-fuelled power station (CO₂/MWh of electricity generated) will be lower than the average intensity of electricity generation (such as coal-fired) in Queensland and in Australia causing the power station to be a net beneficiary of the pass through of carbon costs into electricity prices.

Corporate

Management

During January Mr Julian Hoskin was appointed as the Company's Chief Operating Officer). Mr Hoskin is a professional mining engineer with over 30 years experience in the coal industry in Australia and the UK. He has a BSc (Eng) (with First Class Honours) in mining engineering from the Royal School of Mines, and Masters' degrees in Applied Science (Mining Geomechanics) and Business Administration. He is also a Fellow of AusIMM.

Mr Hoskin has overall responsibility for operations management and technical implementation of Carbon Energy's technology. He has previously held senior management roles with Vale, AMCI, Xstrata/MIM and Arco with responsibility for exploration, project development, technical support and operational management of mines.

Issued Capital & Cash Funds

- The total issued capital at the end of the March 2011 Quarter was 670,872,650 fully paid ordinary shares quoted on the Australian Stock Exchange.
- Subsequent to 31 March a further 27,645,208 shares were issued as consideration for the acquisition of USA-based Clean Coal Inc. and UK-based Clean Coal Amasra Ltd. These shares were issued in 3 tranches
 - a. Tranche 1- 3,317,425 shares
 - b. Tranche 2 - 10,505,179 shares issued under voluntary escrowed restrictions for 6 months from 6 April 2011
 - c. Tranche 3 – 13,822,604 shares issued under voluntary escrowed restrictions for 18 months from 6 April 2011
- A total of 37,955,000 unlisted options with exercise prices between \$0.2 and \$1.60 are on issue (with expiry dates ranging between 30 June 2011 and 22 March 2015) and with the vast majority subject to meeting annual performance measures. 2 million employee options were cancelled during the Quarter.
- As part of the second tranche December 2010 Placement, \$9.9 million was received in January 2011 which lead to the issue of 30,303,030 new ordinary shares.
- The Company retains cash of \$17.1 million as at 31 March 2011.



Listed Investments

- Carbon Energy held 29 million shares in ASX listed uranium company, Energia Minerals Limited, as at 31 March 2011.

For and on behalf of the Board

A.M. Dash
Managing Director
29 April 2011

Coal Resource Summary – Appendix A

As at 31st March 2011

March 2011 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
	5¹	158	206	364

Notes:

1. Optimal target for Underground Coal Gasification

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 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”. 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.

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
	2P Reserve (Proven + Probable)	743
	3P Reserve (Proven + Probable + Possible)	1,042

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

Appendix 5B

Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

CARBON ENERGY LIMITED

ABN

56 057 552 137

Quarter ended ("current quarter")

31 MARCH 2011

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 & evaluation	-	-
(b) development	(1,257)	(3,750)
(c) technical services	(630)	(1,451)
(d) administration	(1,156)	(3,289)
(e) commercial & other business development	(375)	(951)
(g) Other projects – UCG Panel 1, Project Support, Project Chile	(378)	(1,076)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	173	431
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material) – Fuel Tax Credits	34	96
Net Operating Cash Flows	(3,589)	(9,990)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments		
(c) other fixed assets		
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments		
(c) other fixed assets		
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 and 3 rd UCG Panels and other site works	(966)	(7,531)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

	Net investing cash flows	(966)	(7,531)
1.13	Total operating and investing cash flows (carried forward)	(4,555)	(17,521)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	9,945	19,494
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 (provide details if material) – Trade Creditors/Debtors	(140)	(3,967)
	Net financing cash flows	9,805	15,527
	Net increase (decrease) in cash held	5,250	(1,994)
1.20	Cash at beginning of quarter/year to date	11,833	19,077
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	17,083	17,083

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	233
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

The second tranche of capital raising was completed in January 2011 providing additional cash inflows of \$9.945 million from the issue of 30,303,030 shares.

Costs included in item 1.23 above cover Directors' expenses for any services undertaken outside the scope of Directors' duties; salaries for the Brisbane based executive Directors, plus Non-Executive Directors' 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

N/A

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

N/A

Financing facilities available

+ See chapter 19 for defined terms.

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	187	187

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	-
4.2 Development	5,500
4.3 Production	-
4.4 Administration	1,150
Total	6,650

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	4,083	3,233
5.2 Deposits at call	13,000	8,600
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	17,083	11,833

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	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	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 (see note 3) (cents)	Amount paid up per security (see note 3) (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	Nil	Nil	-	-
7.3 +Ordinary securities	670,872,650	670,872,650	Various	Fully paid
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	30,303,030 -	30,303,030 -	33c -	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 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>	205,000	-	40c	01/04/2012
<i>Unlisted Options 25c</i>	5,000,000	-	25c	10/12/2013
<i>Unlisted Options 35c</i>	1,400,000	-	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>	1,750,000	-	\$1.20	10/12/2013
<i>Unlisted Options \$1.60</i>	1,750,000	-	\$1.60	10/12/2013
7.8 Issued during quarter	-	-	-	-
7.9 Exercised during quarter	-	-	-	-

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

7.10	Expired during quarter				
	<i>Unlisted Options \$1.20</i>	1,000,000	-	\$1.20	<i>22/03/2015</i>
	<i>Unlisted Options \$1.60</i>	1,000,000	-	\$1.60	<i>22/03/2015</i>
7.11	Debentures <i>(totals only)</i>	-	-		
7.12	Unsecured notes <i>(totals only)</i>	-	-		

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: 29 April 2011

Print name:

Prem Nair

Title:

Chief Financial Officer & Company Secretary

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+ See chapter 19 for defined terms.