FINANCIAL **REPORT**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 1 – Statement of Significant Accounting Policies

The financial report covers the Consolidated Group of Carbon Energy Limited and its controlled entities. Carbon Energy Limited is a listed public company, incorporated and domiciled in Australia.

Basis of Preparation

The financial report has been prepared on a historical cost basis modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars unless otherwise stated.

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"), and the Corporations Act 2001 and other requirements of the law. The financial statements were authorised for issue by the directors on 15 September 2011.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The following is a summary of the material accounting policies adopted by the Consolidated Group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Going Concern

The financial report has been prepared on the 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.

For the year ended 30 June 2011 the Consolidated Group incurred a loss of $15,840,856 (2010: $10,820,487) and recorded a net cash outflow from operating and investing activities of $28,587,520 (2010: $15,976,794). Further, for the year ended 30 June 2011 the Company incurred a loss of $1,189,211 (2010: profit of $2,839,029).

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 this financial report which included management's estimates of cash inflows and outflows for that period. The ability of the Company and the Consolidated Group to continue as going concerns is dependent upon additional capital being raised to finance continued development of the Bloodwood Creek and offshore projects and fund the operations of the Consolidated Group. The ability of the Company and the Consolidated Group to raise additional funds will be dependent upon a number of factors including market sentiment and the progress of current development activities. The Directors are confident of the Consolidated Group's ability to undertake such a capital raising based on past demand for previous capital raisings.

As a result of the above matters, there is material uncertainty as to whether the Company and the Consolidated Group will be able to continue as going concerns and, therefore, whether they will realise their assets and extinguish their 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 the amounts and classification of liabilities that might be necessary should the Company and Consolidated Group not continue as going concerns.

(b) Principles of Consolidation

A controlled entity is any entity over which Carbon Energy Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 32 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the Consolidated Group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group balances and transactions between entities in the Consolidated Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the subsidiary acquired 'acquiree' and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange.

(c) Income tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the Statement of Comprehensive Income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future tax profits will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Consolidated Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(d) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The cost of plant and equipment constructed within the Consolidated Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Consolidated Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation

The cost of all plant and equipment is depreciated on a reducing balance basis commencing from the time the asset is held ready for use as intended by management. Computers are depreciated on a straight line basis over their useful lives to the Consolidated Group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset and depreciation rate

Motor Vehicles 22.5%

Plant and Equipment 7.5-50%

Water Monitoring assets 4%

Site Infrastructure 4%

Bloodwood Creek Trial Plant and Equipment assets 4%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the profit and loss component of the statement of comprehensive income.

(e) UCG panel assets

UCG Panel Assets include costs transferred from Construction Work-in-progress once technical feasibility and commercial viability for a particular Panel can be demonstrated. When production commences, the accumulated costs for the relevant area of interest (for each panel) are amortised over the life of the area according to the rate of coal depletion.

(f) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is either written off as incurred or accumulated in respect of each identifiable area of interest. Costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area, sale of the respective areas of interest or where activities in the area have not yet reached a stage, which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure.

(g) Mine development costs

Mine development costs represent development expenditure in respect of areas of interest in which mining for UCG has commenced or likely to commence shortly. It is only carried forward when future economic benefits can be established. After the Consolidated Group moves into the commercial phase of the project, assets classified as mine developments costs will be moved to a producing asset category and amortised over the life of the asset.

The net carrying value of the area of interest is reviewed annually for impairment. In the event that the carrying value of an area exceeds its recoverable amount the asset will be written down to its recoverable amount.

(h) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses and accounted for on a straight line basis in the periods in which they are incurred. There are no finance leases.

(i) Financial instruments

Recognition and Initial measurement

Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments, incorporating financial assets and liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Financial instruments incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

Classification and subsequent measurement

(i) Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the profit and loss component of the statement of comprehensive income in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to Comprehensive Income.

(iv) Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(v) Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arms length transactions, reference to similar instruments and option pricing models.

(vi) Impairment

At each reporting date, the Group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the profit and loss component of the statement of comprehensive income.

(j) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(k) Investments in associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognises the Group's share of post acquisition reserves of its associates. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Such investments are tested for impairment in accordance with the policy stated in Note 1 (j).

(l) Interest in joint ventures

The Consolidated Group's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements.

The Consolidated Group's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements.

The parent entity's interests in joint venture entities are brought to account using the cost method.

(m) Intangibles

Underground Coal Gasification (UCG) intangible assets - arising from development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The UCG Intangible asset UCG 'know how' recognised by the Company has an indefinite life and is not amortised. Each period, the useful life of the asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy stated in note 1 (j).

Trademarks and licences

Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives, which vary from 3 to 5 years.

De-recognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

(n) Employee benefits

Provision is made for the entity's liability for employee benefits arising from services rendered by employees to the balance date. Short term employee benefits have been measured at the amounts expected to be paid when the liability is settled, plus related on costs. Other long term employee benefits have been measured at the present value of the estimated future cash outflows to be made for those benefits. The fair value of equity granted is measured at grant date based on the fair value of services received.

Contributions are made by the Consolidated Group to employee superannuation funds and are charged as expenses when incurred.

Equity settled compensation

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. The Group also enters into equity-settled share-based payment arrangements with major suppliers whereby the Company (supplier) receives shares in Carbon Energy Limited as payment for services provided by the supplier. The equity granted is recognised based on the fair value of services provided.

(o) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. The amount recognised as a provision represents the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Provision for restoration and rehabilitation

Site rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of exploration and development activities undertaken, it is probable that an outflow of benefits will be required to settle the obligation and the provision can be measured reliably. The estimated future obligations will include (but are not limited to) the costs of site restoration, investigative bore holes, cavity process water clean-up and removal/transfer of surface infrastructure (if applicable).

The provision for future restoration is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. Future restoration costs will be reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

The initial estimate of restoration and rehabilitation relating to the construction or installation of site assets is capitalised into the cost of the related asset and amortised on the same basis as the related asset.

Changes in the estimate of the provision for restoration and rehabilitation are treated in the same way, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

Panel rehabilitation

The amount recognised as a provision will be the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. The provision will be measured using the cashflows estimated to settle the present obligation, therefore the carrying amount will be the present value of those cashflows. Essentially management will take the present value of the estimated panel rehabilitation costs, calculated over the estimated life of the panel and recognise the rehabilitation expense based on the percentage of coal utilisation for the period.

(p) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(q) Revenue and other income

Interest revenue is recognised on a monthly basis taking into account the interest rates applicable to the financial assets. Gain from sale of investments is recognised on the date of the contract for sale note. All revenue is stated net of the amount of goods and services tax (GST).

(r) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(s) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(t) Critical accounting estimates and judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key Estimates – Impairment

The Group assess impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

An impairment review is completed annually on carried forward exploration costs resulting from relinquishments, transfers and ongoing exploration prospectivity and commercial value.

Key Estimates – Construction work in progress

The construction work in progress comprises of various assets located at the Bloodwood Creek site, namely 5MW Power Station Plant, Panel 3 and design costs for the 20MW Power Station. These assets when completed and ready for use will be allocated to the appropriate asset category. After the Consolidated Group moves into the commercial phase of the project, these assets will be depreciated /amortised over the life of the respective assets.

Key Estimates – Provision for rehabilitation

The provision for rehabilitation is based on the present obligations of the estimates of the future sacrifice of economic benefits required to rehabilitate the Bloodwood Creek site at Kogan. The Group has considered the provision for rehabilitation for its exploration and tenements at Bloodwood Creek based on valuations provided by independent consultants. The Consolidated Group has taken the future value of the estimated rehabilitation liability provided by the external consultants and used an appropriate discount rate to calculate the present value of the provision for rehabilitation.

Key Estimates – Estimate of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Details of the useful lives of property, plant and equipment are set out in note 1(d).

Note 2 – Application of new and revised Accounting Standards

2.1 Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section 2.2.

Standards affecting presentation and disclosure

Amendments to AASB 101 'Presentation of Financial Statements' (adopted in advance of effective date of 1 January 2011)	The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.
Amendments to AASB 107 'Statement of Cash Flows'	The amendments (part of AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. Consequently, cash flows in respect of development costs that do not meet the criteria in AASB 138 'Intangible Assets' for capitalisation as part of an internally generated intangible asset (and, therefore, are recognised in profit or loss as incurred) have been reclassified from investing to operating activities in the statement of cash flows.

Standards and Interpretations affecting the reported results or financial position

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

2.2 Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	Except for the amendments to AASB 5 and AASB 107 described earlier this section, the application of AASB 2009-5 has not had any material effect on amounts reported in the financial statements.

2.2 Standards and Interpretations adopted with no effect on financial statements continued

AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-Settled Sharebased Payment Transactions'	The application of AASB 2009-8 makes amendments to AASB 2 'Share-based Payment' to clarify the scope of AASB 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
AASB 2009-10 'Amendments to Australian Accounting Standards – Classification of Rights Issues'	The application of AASB 2009-10 makes amendments to AASB 132 'Financial Instruments: Presentation' to address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments.
AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project	The application of AASB 2010-3 makes amendments to AASB 3(2008) 'Business Combinations' to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of noncontrolling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of noncontrolling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, the application of AASB 2010-3 makes amendments to AASB 3(2008) to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with AASB 2 'Share-based Payment' at the acquisition date ('market-based measure').
AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	Except for the amendments to AASB 7 and AASB 101 described earlier this section, the application of AASB 2010-4 has not had any material effect on amounts reported in the financial statements.
Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments	This Interpretation provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular, the equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss. To date, the Group has not entered into transactions of this nature.

Note 2 – Application of new and revised Accounting Standards continued

2.3 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 124 'Related Party Disclosures' (revised December 2009), AASB 2009-12 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
AASB 9 'Financial Instruments', AASB 2009¬11 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement'	1 January 2011	30 June 2012
AASB 2010-5 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'	1 July 2011	30 June 2012
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 10 Consolidated Financial Statements	1 January 2013	30 June 2014
AASB 11 Joint Arrangements	1 January 2013	30 June 2014
AASB 12 Disclosure of Interests in Other Entities	1 January 2013	30 June 2014
AASB 127 Separate Financial Statements	1 January 2013	30 June 2014
AASB 128 Investments in Associates and Joint Ventures	1 January 2013	30 June 2014
AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards.	1 January 2013	30 June 2014

Note 3 – Other income

	Note	CONSOLIDATED GROUP 2011 $	2010 $
Operating Activities			
• Interest received		699,965	965,519
		699,965	965,519
Non-operating activities			
• Fair value adjustment on Energia Minerals Investment	4 (b)	-	3,946,749
• Other Income		72,667	354,433
• Gain/loss on disposal of assets	4 (b)	-	1,631,250
		72,667	5,932,442
TOTAL OTHER INCOME		772,632	6,897,961

Note 4 – Loss from ordinary activities

	CONSOLIDATED GROUP 2011 $	2010 $
Loss from ordinary activities before income tax has been determined after:		
(a) Expenses		
Depreciation of Non-current assets		
• Motor Vehicles	18,549	8,311
• Plant & Equipment	124,426	122,081
Total Depreciation	142,975	130,392
Rental expenses on operating leases		
• Minimum lease payments	256,847	278,223
Loss on disposal of assets	-	42,563
(b) Significant Transactions		
Gain on divestment of Uranium Assets		
During the year ended 30 June 2010, Carbon Energy Limited disposed of its Uranium interests and acquired a 42% interest in Energia Minerals Limited, a company incorporated in Australia and engaged in uranium exploration and mining via an Initial Public Offering. In exchange for seed capital of $400,000 and uranium interests carried at $1,053,254, Carbon Energy Minerals Limited received 4 million shares at $0.10 and 25 million shares at $0.20. A gain of $3,946,746 was recognised representing the difference between the Group carrying value disposed of and fair value of consideration received by way of investment in Energia Minerals Limited.	-	3,946,746
Gain/loss investments		
• Net proceeds from the sale of Magma Metals Limited shares were received on 21 October 2009 and amounted to $6,464,250. The carrying value of the investment at the date of disposal was $4,508,000 resulting in a realised gain of $1,956,250. In 2009 the investment was impaired by $1,177,535 to reflect the fair value at that date.	-	1,956,250
• Loss on disposal of Laverton Gold Assets	-	(325,000)
Share based payments		
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 2011 financial year relates to the forfeiture of a number of options during the period.	98,421	(2,074,912)
TOTAL	98,421	3,503,084

Note 5 – Earnings per share (EPS)

	CONSOLIDATED GROUP 2011 $	CONSOLIDATED GROUP 2010 $
Net Loss for the year attributable to members of the parent entity	(15,840,856)	(10,820,487)
Basic loss per share	(2.45)	(1.83)
• cents per share		
Diluted loss per share	(2.45)	(1.83)
• cents per share		
(a) Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted EPS	647,689,993	592,675,611

Options outstanding at 30 June 2011, totalling 39,955,000 are not considered potential ordinary shares as the effect is anti-dilutive.

Note 6 – Income tax expense

	CONSOLIDATED GROUP 2011 $	CONSOLIDATED GROUP 2010 $
(a) The components of tax expense comprise		
Current year tax	-	-
Deferred tax	-	-
Recoupment of prior years tax losses	-	-
R&D tax concession	-	-

(b) The prima facie tax/(benefit) on Profit/(Loss)

from ordinary activities is reconciled to the income tax expense as follows:

	2011 $	2010 $
Prima facie tax/(benefit) on Profit/(Loss) from ordinary		
activities before income tax at 30%	(15,840,856)	(10,820,487)
2011:30% (2010: 30%)	(4,752,257)	(3,246,146)

Add tax effect of:

	2011 $	2010 $
Non-deductible items	(26,713)	1,195,065
Other deductible items	(235,481)	(780,792)
Revaluation and gain on disposals of investments		
not subject to income tax	(383,855)	763,855
Deferred tax assets not brought to account	5,398,306	2,068,018
Income tax attributable to entity	-	-

	2011 $	2010 $
(c) Deferred tax assets		
An income tax Consolidated Group was formed from 1 July 2008.	32,244,449	30,240,000
Taking into account deductions from acquisition of exploration assets and loss to 30 June 2011 amount to: Adjustment to prior year carry forward losses to incorporate claim for Research and Development upon completion and lodgement of tax return	16,249,433	-
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur		
Temporary differences	(676,678)	(63,569)
Tax losses (after income tax at 30%)	5,398,306	2,068,018
TOTAL DEFERRED TAX ASSETS NOT BROUGHT TO ACCOUNT	53,215,510	32,244,449

Note 7 – Key Management Personnel compensation

(a) Names and positions held of the consolidated and parent entity Key Management Personnel in office during the financial year are:

Executive / Non-Executive Directors

Mr K. Robinson
Non-Executive Director (Non-Executive Chairman)

Mr A.M. Dash
Chief Executive Officer & Managing Director (Executive Director)

Dr C.W. Mallet
Technical Director (Executive Director) (retired 30 June 2011)

Mr M.D.J. Cozijn
Non-Executive Director

Mr P.N. Hogan
Non-Executive Director

Mr L.I. Rozman
Non-Executive Director

Dr H.M. Garnett
Non-Executive Director (appointed 6 September 2010)

Mr I.W. Walker
Non-Executive Director (retired 31 December 2010)

Other Key Management Personnel

Mr J Bidwell
General Manager Project Development

Mr J Hoskin
Chief Operating Officer (appointed 24 January 2011)

Dr C Mallett
Technical Director

Mr A Mifflin
Chief Operating Officer (resigned 4 February 2011)

Mr P Nair
CFO & Company Secretary

Mr P Swaddle
General Manager Commercial

Note 7 – Key Management Personnel compensation continued

	2011 $	2010 $
Short-term employee benefits	1,973,138	1,241,622
Post-employment benefits	153,139	331,526
Share-based payments	1,398,842	2,314,928
TOTAL	3,525,119	3,888,076

Detailed remuneration disclosures are provided in the remuneration report.

(b) Option Holdings held directly and indirectly by Key Management Personnel:

2011 Directors	Balance at 01 Jul 10	Granted as Remuneration	Options Exercised	Net Change Other	Balance at 30 Jun 11	Total Vested 30 Jun 11	Total Exercisable 30 Jun 11	Total Unexercisable 30 Jun 11
Mr K. Robinson	-	-	-	-	-	-	-	-
Mr I.W. Walker (retired 31 December 2010)	-	-	-	-	-	-	-	-
Mr M.D.J. Cozijn	-	-	-	-	-	-	-	-
Dr C.W. Mallett (Retired 30 June 2011)	5,250,000	-	-	(875,000)	4,375,000	4,375,000	4,375,000	-
Mr A.M. Dash	30,000,000	-	-	(5,600,000)	24,400,000	14,400,000	14,400,000	10,000,000
Mr P.N. Hogan	-	-	-	-	-	-	-	-
Mr L. I. Rozman	-	-	-	-	-	-	-	-
Dr H.M Garnett	-	-	-	-	-	-	-	-
TOTAL	35,250,000	-	-	(6,475,000)	28,775,000	18,775,000	18,775,000	10,000,000

2010 Directors	Balance at 01 Jul 09	Granted as Remuneration	Options Exercised	Net Change Other	Balance at 30 Jun 10	Total Vested 30 Jun 10	Total Exercisable 30 Jun 10	Total Unexercisable 30 Jun 10
Mr K. Robinson	2,000,000	-	2,000,000	-	-	-	-	-
Mr I.W. Walker	6,000,000	-	6,000,000	-	-	-	-	-
Mr M.D.J. Cozijn	3,000,000	-	3,000,000	-	-	-	-	-
Mr P.T. McIntyre (Retired 12 February 2010)	1,000,000	-	1,000,000	-	-	-	-	-
Dr C.W. Mallett	5,250,000	-	-	-	5,250,000	3,500,000	3,500,000	1,750,000
Mr A.M. Dash	30,000,000	-	-	-	30,000,000	12,000,000	12,000,000	18,000,000
Mr P.N. Hogan	-	-	-	-	-	-	-	-
Mr L. I. Rozman (Appointed 7 April 2010)	-	-	-	-	-	-	-	-
Dr J.G. Linley	-	-	-	-	-	-	-	-
TOTAL	47,250,000	-	12,000,000	-	35,250,000	15,500,000	15,500,000	19,750,000

2011 Executives	Balance at 01 Jul 10	Granted as Remuneration	Options Exercised	Net Change Other (i)	Balance at 30 Jun 11	Total Vested 30 Jun 11	Total Exercisable 30 Jun 11	Total Unexercisable 30 Jun 11
Mr P Nair	3,000,000	-	-	(2,000,000)	1,000,000	1,000,000	1,000,000	-
Mr P Swaddle	3,000,000	-	-	(2,000,000)	1,000,000	1,000,000	1,000,000	-
Mr A. Mifflin	3,000,000	-	-	(2,000,000)	1,000,000	1,000,000	1,000,000	-
Mr J. Bidwell	-	-	-	-	-	-	-	-
Mr J. Hoskin	-	-	-	-	-	-	-	-
TOTAL	9,000,000	-	-	(6,000,000)	3,000,000	3,000,000	3,000,000	-

(i) These options were forfeited during the 2011 financial year.

2010 Executives	Balance at 01 Jul 09	Granted as Remuneration	Options Exercised	Net Change Other (i)	Balance at 30 Jun 10	Total Vested 30 Jun 10	Total Exercisable 30 Jun 10	Total Unexercisable 30 Jun 10
Mr R Mark	7,500,000	-	-	(7,500,000)	-	-	-	-
Mr J Wedgwood	3,000,000	-	-	(3,000.000)	-	-	-	-
Mr P Nair	3,000,000	-	-	-	3,000,000	1,000,000	1,000,000	2,000,000
Mr P Swaddle	3,000,000	-	-	-	3,000,000	1,000,000	1,000,000	2,000,000
Mr G. Scott	1,250,000	-	-	(1,250,000)	-	-	-	-
Mr A. Mifflin	-	3,000,000	-	-	3,000,000	-	-	3,000,000
TOTAL	17,750,000	3,000,000	-	(11,750,000)	9,000,000	2,000,000	2,000,000	7,000,000

(i) These options lapsed prior to vesting on cessation of employment.

Note 7 – Key Management Personnel compensation continued

(c) Share Holdings held directly and indirectly by Key Management Personnel:

2011 Directors	Balance at 01 Jul 10	Options Exercised	Net change Other	Balance at 30 Jun 11
Parent Entity Directors				
Mr K. Robinson	2,000,000	-	-	2,000,000
Mr A.M. Dash	-	-	-	-
Dr C.W. Mallett (retired 30 June 2011)	11,766,952	-	-	11,766,952
Mr M.D.J. Cozijn	3,628,340	-	(600,000)	3,028,340
Mr P. Hogan	200,000	-	50,000	250,000
Mr L. I. Rozman	-	-	-	-
Mr I.W. Walker (retired 31 December 2010)	8,576,603	-	(8,576,603) (i)	-
Dr H.M Garnett	-	-	27,101	27,101
TOTAL	26,171,895	-	(9,099,502)	17,072,393

2010 Directors	Balance at 01 Jul 09	Options Exercised	Net change Other	Balance at 30 Jun 10
Parent Entity Directors				
Mr K. Robinson	-	2,000,000	-	2,000,000
Mr A.M. Dash	-	-	-	-
Dr C.W. Mallett	9,437,322	-	2,329,630	11,766,952
Mr M.D.J. Cozijn	2,128,340	3,000,000	(1,500,000)	3,628,340
Mr P.N. Hogan	100,000	-	100,000	200,000
Mr L. I. Rozman (appointed 7 Apr 2010)	-	-	-	-
Mr I.W. Walker	6,326,603	6,000,000	(3,750,000)	8,576,603
Mr P.T. McIntyre (retired 12 Feb 2010)	50,000	1,000,000	(1,050,000)	-
TOTAL	18,042,265	12,000,000	(3,870,370)	26,171,895

(i) Ian Walker resigned as a Director during the 2011 financial year, accordingly his shareholding is shown as nil at 30 June 2011.

2011 Key Management Personnel	Balance at 01 Jul 10	Options Exercised	Net change Other	Balance at 30 Jun 11
Executives				
Mr A Mifflin	-	-	-	-
Mr P. Nair	-	-	-	-
Mr P. Swaddle	-	-	-	-
Mr J Bidwell	-	-	-	-
Mr J.Hoskin	-	-	-	-
TOTAL	-	-	-	-

2010 Key Management Personnel	Balance at 01 Jul 09	Options Exercised	Net change Other	Balance at 30 Jun 10
Executives				
Mr A Mifflin	-	-	-	-
Mr P. Nair	-	-	-	-
Mr P. Swaddle	-	-	-	-
Mr J Bidwell	-	-	-	-
Mr R. Mark	2,252,778	-	(2,252,778)	-
Mr J. Wedgwood	-	-	-	-
TOTAL	2,252,778	-	(2,252,778)	-

Note 8 – Cash and cash equivalents

	CONSOLIDATED GROUP	
	2011 $	2010 $
Cash on hand	750	750
Cash at bank	3,289,235	12,873,480
Short term deposits	6,500,000	6,000,000
TOTAL CASH AND CASH EQUIVALENTS	9,798,985	18,874,230

Note 9 – Trade and other receivables

	CONSOLIDATED GROUP	
	2011 $	2010 $
CURRENT		
Trade Receivables	-	9,073
Other Receivables *	520,813	119,076
TOTAL CURRENT TRADE & OTHER RECEIVABLES	520,813	128,149
NON CURRENT		
Deposits	221,569	233,403
Receivable from Crescent Gold Limited	1,175,000	1,175,000
TOTAL NON CURRENT TRADE & OTHER RECEIVABLES	1,396,569	1,408,403

* Balance at 30 June 2011 includes $296,640 relating to costs incurred by Carbon Energy on the Chile project that will be re-charged to Antofagasta Minerals (refer note 14)

Note 10 – Investment in associate

In the 2010 financial year Carbon Energy Limited disposed of its Uranium interests and acquired a 42% interest in Energia Minerals Limited. During the 2011 financial year Energia Minerals Limited completed a number of capital raisings resulting in a dilution of Carbon Energy's holding in Energia Mineral Limited. The resulting 26% interest in Energia Minerals Limited at 30 June 2011 has been accounted for as an associate on the basis that Carbon Energy Limited exerts significant influence over the entity.

The equity accounted loss for the year ended 30 June 2011 amounted to $1,279,518 resulting in a carrying value of the investment as at 30 June 2011 of $3,044,920.

	CONSOLIDATED GROUP	
	2011 $	2010 $
(a) Carrying amount of investment in associate:		
Balance at the beginning of the financial year	4,324,438	-
Investments made during the period	-	5,400,002
Share of associate's loss after income tax	(1,279,518)	(1,075,564)
BALANCE AT 30 JUNE 2011	3,044,920	4,324,438

Note 11 – Construction work-in-progress

	CONSOLIDATED GROUP	
	2011 $	2010 $
(a) Carrying amount of Construction Work-in-progress		
Balance at the beginning of the financial year	14,825,380	-
Additions during the year	9,380,891	14,825,380
Transfer to UCG Panel Assets (refer note 12)	(8,916,055)	-
Transfer to Property, Plant and Equipment assets (refer note 13)	(606,657)	-
Transfer to Water Monitoring assets (refer note 13)	(1,514,768)	-
Transfer to UCG intangible asset (refer note 15)	(798,790)	-
BALANCE AT 30 JUNE 2011	12,370,001	14,825,380

The 2011 Work in progress balance relates to the construction of the 5MW power plant, Panel 3 and design costs for the 20MW power station at Bloodwood Creek in Queensland. Commissioning of the 5MW power plant is expected towards the end of the 2011 calendar year.

Note 12 – UCG panel assets

	CONSOLIDATED GROUP	
	2011 $	2010 $
(a) Carrying amount of UCG Panel Assets:	-	-
Balance at the beginning of the financial year	-	-
Transfer from Construction Work-in-progress	8,916,055	-
Additions	1,700,000	-
BALANCE AT 30 JUNE 2011	10,616,055	-

The above costs relate to the construction of Panel 2 commissioned during the 2011 financial year. As additional Panels are constructed and commissioned they will be transferred into this asset category.

Note 13 – Property, plant and equipment

	CONSOLIDATED GROUP	
	2011 $	2010 $
Freehold Land	408,016	408,016
Motor Vehicles – cost	87,287	40,348
Less accumulated depreciation	(26,860)	(8,311)
	60,427	32,037
Site Infrastructure – cost	764,000	-
Less accumulated depreciation	-	-
	764,000	-
Plant and equipment – cost	1,307,760	574,938
Less accumulated depreciation	(298,763)	(174,337)
	1,008,997	400,601
Water Monitoring Assets – cost	2,714,768	-
Less accumulated depreciation	-	-
	2,714,768	-
Bloodwood Creek UCG Trial Construction – cost	3,800,410	9,831,382
Less accumulated depreciation	-	-
	3,800,410	9,831,382
TOTAL PROPERTY, PLANT & EQUIPMENT	8,756,618	10,672,036

Note 13 – Property, plant and equipment continued

(a) Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Land $	Motor Vehicles $	Site Infrastructure $	Property, Plant & Equipment $	Water Monitoring Assets $	Laverton Project Property Plant & Equipment $	Bloodwood Creek Trial Plant $	Total $
Carrying amount at 1 July 2009	408,016	1,514	-	224,534	-	41,159	9,831,382	10,506,605
Additions	-	40,348	-	340,176	-	-	-	380,523
Disposals	-	(1,514)	-	(42,028)	-	(41,159)	-	(84,701)
Depreciation expense	-	(8,311)	-	(122,081)	-	-	-	(130,392)
Carrying amount at 30 June 2010	408,016	32,037	-	400,601	-	-	9,831,382	10,672,036
Carrying amount at 1 July 2010	408,016	32,037	-	400,601	-	-	9,831,382	10,672,036
Additions	-	46,939	-	126,165	-	-	397,000	570,104
Transfer from Mine Development costs (refer note 17)	-	-	550,000	-	1,200,000	-	-	1,750,000
Transfer from Construction in progress (refer note 11)	-	-	-	606,657	1,514,768	-	-	2,121,425
Transfer to Site Infrastructure assets	-	-	214,000	-	-	-	(214,000)	-
Transfers to Intangible asset (refer note 15)	-	-	-	-	-		(6,183,694)	(6,183,694)
Disposals	-	-	-	-	-	-	(30,278)	(30,278)
Depreciation expense	-	(18,549)	-	(124,426)	-	-	-	(142,975)
Carrying amount at 30 June 2011	408,016	60,427	764,000	1,008,997	2,714,768	-	3,800,410	8,756,618

Note 14 – Other non-current asset (Chile project)

	CONSOLIDATED GROUP	
	2011 $	2010 $
(a) Carrying amount of non-current asset (Chile project):		
Balance at the beginning of the financial year	-	-
Additions	1,100,473	-
BALANCE AT 30 JUNE 2011	1,100,473	-

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 Underground Coal Gasification 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 time and travel costs. Antofagasta will conduct drilling and hydrological testing at its cost during this phase.

Note 15 – Intangible assets

	Note	CONSOLIDATED GROUP 2011 $	2010 $
UCG intangible asset		21,700,526	-
Trademarks		18,000	-
Acquired on acquisition			
Licences and Intellectual property		2,499,999	2,499,999
Total Intangible Assets		24,218,525	2,499,999
(a) Reconciled as follows:			
Opening Balance		2,499,999	2,499,999
Additions arising from legal fees in relation to facilitation of Trademark applications lodged in Australia and international jurisdictions		18,000	-
Additions arising from recognition of UCG intangible asset (refer Notes 11, 13a & 17)		21,700,526	-
Cost carried forward in respect of areas of Interest in Exploration and Evaluation phases		24,218,525	2,499,999

UCG intangible asset

UCG 'know how' intangible asset recognised by the Company has an indefinite life. A new intangible asset amounting to $21,700,526 has been recognised in the 2011 financial year and relates to transfers from Mine Development costs and Property, Plant and Equipment from the Bloodwood Creek trial. This balance also includes design and engineering costs in relation to the modification of carburettors and other associated work to enable the engines to run on syngas.

Trademarks and licences

Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses.

COSFLOW licence and Intellectual Property

The licence relates to the use of COSFLOW, a modelling system which predicts the geotechnical hydrological effects and impacts on subsidence gas, and water flows of large scale coal removal. Intellectual property relates to modelling tools developed for site selection characterisation and gasifier design and gas production prediction specific to the application of UCG. In addition the intangible assets include research support agreements from CSIRO which the Consolidated Group can draw upon and have rights to geological data base in the Surat Basin. This intangible asset has an indefinite life and is not amortised.

Note 16 – Deferred exploration and evaluation costs

	Note	CONSOLIDATED GROUP 2011 $	2010 $
Exploration Expenditure			
Exploration expenditure – cost		107,964,187	89,714,658
Total capitalised exploration and evaluation expenditure		107,964,187	89,714,658
(a) Reconciled as follows:			
Opening Balance		89,714,658	101,451,222
Additions arising from Clean Coal transaction (refer note 18)		18,249,529	-
Transfer to mine development costs		-	(10,846,579)
Expenditure capitalised during year		-	163,269
Disposals	4 (b)	-	(1,053,254)
Cost carried forward in respect of areas of Interest in Exploration and Evaluation phases		107,964,187	89,714,658

Note 17 – Mine development costs

	CONSOLIDATED GROUP 2011 $	2010 $
Opening balance	16,468,042	3,621,463
Additions	-	2,000,000
Transfer from deferred exploration and evaluation costs	-	10,846,579
Transfers to Water Monitoring assets (refer note 13a)	(1,200,000)	-
Transfers to Site Infrastructure assets (refer note 13a)	(550,000)	-
Less transfers to Intangible asset (refer note 15a)	(14,718,042)	-
Total Mine Development Costs	-	16,468,042

Note 18 – Acquisition of Clean Coal exploration assets

On 6th April 2011, Carbon Energy acquired exploration assets and options to lease located in Wyoming and Montana (USA) and joint venture rights in Amasra (Turkey) for a total consideration of $US 19,000,000 (including deferred consideration of US $9,000,000). As part of this transaction Carbon Energy Limited acquired 100% of USA-based Clean Coal Inc. and UK-based Clean Coal Amasra Limited and accordingly Carbon Energy Limited issued 27,645,208 shares on 7 April 2011 (US $10,000,000 of shares based on 60 day VWAP preceding the date of execution of the agreement of 23 February 2011).

Two further tranches of deferred consideration US $4,500,000 of shares each (based on 30 day VWAP at time of milestone achievement) may be issued subject to meeting key development milestones including the delineation of JORC compliant coal resources in excess of 500Mt at two of the three project locations ie. Wyoming, Montana and Turkey.

The transaction has resulted in an increase in exploration costs of $18,249,529 at 30 June 2011. In accordance with the Share Sale Agreement, Tranches 1, 2 and 3 comprising 27,645,208 shares were issued on 7 April 2011 and have increased share capital in Carbon Energy Limited by $9,979,920. Under the Share Sale Agreement the remaining shares to be issued have been recognised in the share-based payments reserve amounting to $7,826,052.

Note 19 – Trade and other payables

	CONSOLIDATED GROUP	
	2011 $	2010 $
Trade payables	33,800	1,674,576
Sundry creditors and accrued expenses	1,403,900	2,450,622
TOTAL TRADE AND OTHER PAYABLES	1,437,700	4,125,198

Note 20 – Provisions

	CONSOLIDATED GROUP	
	2011 $	2010 $
CURRENT		
PROVISION FOR ANNUAL LEAVE		
Opening balance	191,919	93,808
Increase in provisions	225,010	249,391
Benefits paid	(179,597)	(151,280)
CLOSING BALANCE	237,332	191,919
NON CURRENT		
PROVISION FOR LONG SERVICE LEAVE		
Opening balance	40,350	-
Increase in provisions	37,926	40,350
Benefits paid	-	-
CLOSING BALANCE	78,276	40,350
TOTAL EMPLOYEE BENEFITS	315,608	232,269

A provision has been recognised for employee entitlements relating to annual leave and long service leave entitlements accrued at the balance date. The measurement and recognition criterion relating to employee benefits has been included in Note 1 (n) to this report.

PROVISION FOR REHABILITATION (NON CURRENT)		
Opening balance	-	-
Increase in provisions *	2,097,000	-
CLOSING BALANCE	2,097,000	-
TOTAL NON CURRENT PROVISIONS	2,175,276	40,350

* This balance represents the present value of the estimated rehabilitation costs for the Bloodwood Creek site and includes both panel rehabilitation work and removal of aboveground infrastructure. The measurement and recognition criterion relating to rehabilitation costs has been included in Note 1 (o) to this report.

Note 21 – Issued capital

	CONSOLIDATED GROUP	
	2011 $	2010 $
698,517,858 (2010: 609,497,650) Fully paid ordinary shares	218,256,942	188,759,462

	2011 No.	2010 No.
Ordinary Shares at the beginning of the reporting period	609,497,650	547,296,637
Shares issued during the year:		
• 23 July 2009 placement @ 43c per share	-	24,418,605
• 23 July 2009 exercise of 2nd Tranche Options on CEPL Acquisition 79c per share	-	7,407,408
• 17 August 2009 exercise of Directors options @ 15c per share	-	1,000,000
• 16 September 2009 exercise of employee options @ 60c per share	-	1,000,000
• 2 October 2009 exercise of employee options @ 15c per share	-	250,000
• 10 November 2009 exercise of employee options @ 20c per share	-	500,000
• 15 December 2009 exercise of Directors options @ 15c per share	-	1,000,000
• 17 December 2009 exercise of Directors options @15c per share	-	3,125,000
• 16 March 2010 exercise of Directors options @ 20c per share	-	4,000,000
• 22 March 2010 exercise of Directors options @ 20c per share	-	2,500,000
• 31 March 2010 exercise of Directors options @ 20c per share	-	2,000,000
• 28 May 2010 issue of shares to Constellation Energy Pty Ltd @ 20c per share	-	15,000,000
• 19 October 2010 exercise of employee options @ 20 cents per share	250,000	-
• 16 December 2010 placement @ 33 cents per share	30,696,970	-
• 30 December 2010 exercise of employee options @ 20 cents per share	125,000	-
• Jan 2011 placement @ 0.33 per share	30,303,030	-
• 7 April 2011 issued 27,645,208 @ 0.361 per share to Summa Resource Holdings LLC	27,645,208	-
At reporting date	698,517,858	609,497,650

The Company has no maximum authorised share capital. Ordinary shares are of no par value.

	No. Shares	$
BALANCE AT 1 JULY 2009	547,296,637	166,450,930
30 June 2009 Deferred consideration on acquisition of Carbon Energy (Operations) Pty Ltd – future issues	7,407,408	5,814,815
Ordinary shares on issue including deferred consideration on acquisition of Carbon Energy (Operations) Pty Ltd	554,704,045	172,265,745
Balance at 1 July 2009 (excluding deferred consideration on acquisition of Carbon Energy (Operations) Pty Ltd	547,296,637	166,450,930
Share Placements	24,418,605	10,500,000
Issue of shares on exercise of 2nd Tranche Options on CEPL Acquisition	7,407,408	5,814,815
Issue of shares under employee share option plan	1,750,000	737,500
Issue of shares under Directors share option plan	13,625,000	2,468,750
Issue of shares to Constellation Energy	15,000,000	3,000,000
Release from Option Reserve	-	312,467
Share Issue costs	-	(525,000)
BALANCE AT 30 JUNE 2010	609,497,650	188,759,462
BALANCE AT 1 JULY 2010	609,497,650	188,759,462
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
Jan 2011 placement @ 0.33 per share	30,303,030	10,000,000
7 April 2011 issued 27,645,208 @ 0.361 per share to Summa Resource Holdings LLC (refer note 18)	27,645,208	9,979,920
Release from Option Reserve	-	5,285
Share Issue costs	-	(692,725)
BALANCE AT 30 JUNE 2011	698,517,858	218,256,942

(a) Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

(b) At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Capital risk management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

In order to maintain or adjust the capital structure, the entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, enter into joint ventures or sell assets.

The entity does not have a defined share buy-back plan.

No dividends were paid in 2011 (2010: Nil) and no dividends are expected to be paid in 2012.

Stock exchange listing

Quotation has been granted for 698,517,858 of the Company's ordinary shares on all Member exchanges of the Australian Stock Exchange Limited ("ASX").

Quotation of the Company's ordinary shares on the Berlin Stock Exchange commenced in July 1997.

Note 21 – Issued capital continued

Options

As at the year end the Company has on issue 39,955,000 unlisted options of which 27,080,000 have vested and are exercisable. Exercise prices for unlisted options range from $0.25 to $1.60.

For information relating to share options issued to Key Management Personnel during the financial year refer to Note 34, Share based payments.

Note 22 – Reserves

Option reserve

The Option reserve records items recognised as expenses on valuation of employee share options together with shares to be issued arising from the Clean Coal transaction as disclosed in note 18.

	CONSOLIDATED GROUP	
	2011 $	2010 $
Balance at beginning of the year	6,427,014	4,664,569
Movement in share option reserve on recognition of share based payments	(98,421)	2,074,912
Exercise of options	(5,285)	(312,467)
Shares to be issued arising from Clean Coal transaction (refer note 18)	7,826,052	-
BALANCE AT END OF THE YEAR	14,149,360	6,427,014

Note 23 – Accumulated losses

	CONSOLIDATED GROUP	
	2011 $	2010 $
Balance at beginning of the year	(40,628,608)	(29,808,121)
Loss attributable to the Group	(15,840,856)	(10,820,487)
BALANCE AT END OF THE YEAR	(56,469,464)	(40,628,608)

Note 24 – Interests in joint ventures

Since the disposal of Laverton gold assets during the 2010 financial year, the Consolidated Group no longer participates in any joint venture arrangements. The Consolidated Group settled all previous Joint Venture arrangements during the previous financial year as disclosed in the 2010 annual report.

Note 25 – Statement of operations by segment

The Consolidated Group operates in one segment, being to produce clean energy and chemicals feedstock from Underground Coal Gasification (UCG) Syngas and reports 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.

Note 26 – Parent entity disclosures

	PARENT ENTITY	
	2011 $	2010 $
Financial Position		
Assets		
Current assets	9,959,155	18,291,152
Non-current assets	200,858,791	156,457,131
TOTAL ASSETS	210,817,946	174,748,283
Liabilities		
Current liabilities	39,048	16,639
Non-current liabilities	-	-
TOTAL LIABILITIES	39,048	16,639
Equity		
Issued capital	218,256,942	188,759,462
Accumulated losses	(21,627,404)	(20,438,193)
Reserves		
Share based payments reserve	14,149,360	6,427,014
TOTAL EQUITY	210,778,898	174,748,283

Financial performance	2011 $	2010 $
Profit/(loss) for the year	(1,189,211)	2,839,029
Other comprehensive	-	-
TOTAL COMPREHENSIVE INCOME	(1,189,211)	2,839,029

Carbon Energy Limited had nil contingent liabilities at 30 June 2011 (2010: nil).

(a) Operating lease commitment

	PARENT ENTITY	
	2011 $	2010 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
• not later than one year	267,121	256,847
• later than one year but not later than five years	231,504	498,625
TOTAL OPERATING LEASE COMMITMENTS	498,625	755,472

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.

Note 27 – Financial risk management

The Consolidated Group's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to finance the Consolidated Group's operations. The Consolidated Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. Cash flow interest rate risk is the main risk arising from the Consolidated Group's financial instruments. Other minor risks are either summarised below or disclosed at Note 21 in the case of capital risk management. The Managing Director and Executive Team review and agree policies for managing each of these risks.

(a) Cash flow interest rate risk

The Consolidated Group's exposure to the risks of changes in market interest rates relates primarily to the Consolidated Group's cash deposits with a floating interest rate and its short term deposits and bonds with fixed interest rates (these are predominantly 30 day revolving term deposits). These financial assets expose the Consolidated Group to cash flow interest rate risk. All other financial assets and liabilities in the form of receivables and payables are non-interest bearing. The Consolidated Group does not engage in any hedging or derivative transactions to manage interest rate risk. The following tables set out the carrying amount by maturity of the parent entity and Consolidated Group's exposure to interest rate risk and the effective weighted average interest rate for each class of these financial instruments. Also included is the effect on profit and equity after tax if interest rates at that date had been 10% higher or lower with all other variables held constant as a sensitivity analysis. The Consolidated Group has not entered into any hedging activities to cover interest rate risk. In regard to its interest rate risk, the Consolidated Group continuously analyses its exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative investments and the mix of fixed and variable interest rates.

CONSOLIDATED GROUP

	Weighted Ave		Floating Interest		Fixed Interest Rate		Non-interest		Total	
	2011 %	2010 %	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $
FINANCIAL ASSETS										
Cash	5.41	4.77	3,298,232	12,873,480	6,500,000	6,000,000	753	750	9,798,985	18,874,230
Receivables	5.86	5.00	-	-	186,569	203,403	1,730,813	1,333,149	1,917,382	1,536,552
TOTAL FINANCIAL ASSETS			3,298,232	12,873,480	6,686,569	6,203,403	1,731,566	1,333,899	11,716,367	20,410,782
FINANCIAL LIABILITIES										
Payables			-	-	-	-	(1,437,700)	(4,125,198)	(1,437,700)	(4,125,198)
TOTAL FINANCIAL LIABILITIES			-	-	-	-	(1,437,700)	(4,125,198)	(1,437,700)	(4,125,198)
NET FINANCIAL ASSETS (LIABILITIES)			3,298,232	12,873,480	6,686,569	6,203,403	293,866	(2,791,299)	10,278,667	16,285,584

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	Interest Rate Risk Sensitivity 2011		Interest Rate Risk Sensitivity 2010	
	+10% Profit $	-10% Profit $	+10% Profit $	-10% Profit $
FINANCIAL ASSETS				
Cash	53,053	(53,053)	90,026	(90,026)
Receivables	1,093	(1,093)	1,017	(1,017)
TOTAL FINANCIAL ASSETS	54,146	(54,146)	91,043	(91,043)
FINANCIAL LIABILITIES				
Payables	-	-	-	-
TOTAL FINANCIAL LIABILITIES	-	-	-	-
NET FINANCIAL ASSETS (LIABILITIES)	54,146	(54,146)	91,043	(91,043)

A sensitivity of 10% has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. A 10% sensitivity would increase/(decrease) short term interest rates at 30 June 2011 by approximately 50 basis points. This would represent approximately two RBA interest rate increases/(decreases) which is reasonably possible in the current environment particularly due to the volatile markets activities.

Based on the sensitivity analysis only interest revenue from cash deposits, short term, term deposits and bank and cash balances are impacted resulting in a decrease or increase in overall income.

(b) Price risk

The Consolidated Group has not been exposed to equity securities price risk since the sale of Magma Metals Ltd shares during the 2009 financial year.

(c) Credit risk

The Consolidated Group is exposed to credit risk primarily from financial institutions. Receivables primarily include interest and amounts on deposit.

The maximum exposure to credit risk at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements.

The credit risk for counterparties in trade and other receivables at 30 June 2011 are not credit rated by the Company. Their maturities are detailed below:

	CONSOLIDATED GROUP	
	2011 $	2010 $
Contracted maturities of receivable year ended 30 June 2011		
RECEIVABLE		
• Less than 6 months	-	128,149
• 6 to 12 months	-	-
• 1 to 5 years	186,569	233,403
• Later than 5 years	-	-
TOTAL	186,569	361,552

(d) Liquidity risk

The Consolidated Group manages liquidity risk by maintaining sufficient cash reserves and marketable securities, and through the continuous monitoring of budgeted and actual cash flows.

	CONSOLIDATED GROUP	
	2011 $	2010 $
Contracted maturities of payables year ended 30 June 2011		
PAYABLE		
• Less than 6 months	1,437,700	4,125,198
• 6 to 12 months	-	-
• 1 to 5 years	-	-
• Later than 5 years	-	-
TOTAL	1,437,700	4,125,198

Note 27 – Financial risk management continued

(e) Commodity price risk

The Consolidated Group is exposed to commodity price risk. This risk arises from its activities directed at exploration and development of mineral commodities. If commodity prices fall, the market for companies exploring for these commodities is affected. The Consolidated Group does not hedge its exposures.

(f) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. To date the Consolidated Group's foreign transactions have not been material however this will be monitored going forward to ensure foreign currency risk is managed effectively.

(g) Net fair values

For financial assets and liabilities, the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form, other than listed investments. The Company's investment in Energia Minerals Limited will rise and fall depending on market volatility. At 30 June 2011 there were no changes noted in the underlying operations of Energia Minerals Limited and no price sensitive announcements made during the year that would suggest an impairment in the carrying value of the investment.

The Consolidated Group's payables at balance date are detailed in note 19 and comprise trade payables, sundry creditors and accrued expenses.

The Consolidated Group's receivables at balance date are detailed in Note 9 and comprise Bonds and GST input tax credits refundable by the ATO. The balance also includes consideration due from Crescent Gold and rechargeable costs incurred on the Chile project that will be on-charged to Antofagasta Minerals.

Note 28 – Contingent liabilities and 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.

	CONSOLIDATED GROUP	
	2011 $	2010 $
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
TOTAL EXPLORATION COMMITMENTS	2,005,000	2,005,000

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 commitment

	CONSOLIDATED GROUP	
	2011 $	2010 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
• not later than one year	267,121	256,847
• later than one year but not later than five years	231,504	498,625
TOTAL OPERATING LEASE COMMITMENTS	498,625	755,472

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:

1. provide for the recognition and protection of native title;
2. establish ways in which future dealings affecting native title may proceed and to set standards for those dealings; and
3. 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.

(d) Bank guarantees

	CONSOLIDATED GROUP	
	2011 $	2010 $
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 (2010: $32,500)		
Credit Facility - Deposit (Note 9)	32,500	32,500
Amount Utilised	(32,500)	(32,500)
Unused Credit Facility	-	-
Interest rates on these credit facilities are variable		
and subject to adjustment.		
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	-

Note 29 – Cashflow information

	CONSOLIDATED GROUP	
	2011 $	2010 $
(a) Reconciliation of cash flow from operations with loss after income tax		
Loss after income tax	(15,840,856)	(10,820,487)
Non-cash flows in loss		
Depreciation	142,975	130,392
Fair value adjustment on acquisition Energia investment	-	(3,946,747)
Share Options expensed	(98,421)	2,074,912
Equity accounted loss in associate	1,279,518	1,075,564
Loss/(Gain) on disposal of Plant & Equipment	-	42,563
Realised gain on sale on investments	-	(1,956,250)
Changes in assets and liabilities		
(Increase)/Decrease in receivables	(380,829)	(1,257,533)
(Increase)/Decrease in property plant and equipment	-	(380,523)
(Increase)/Decrease in exploration costs	-	1,053,254
(Increase)/Decrease in financial assets	-	(1,053,254)
Increase/(Decrease) in trade creditors and accruals	(2,664,418)	2,432,085
Increase/(Decrease) in provisions	83,339	138,461
Cash flow (used in) operations	(17,478,692)	(12,467,563)

Non-cash transactions

During the current year, Carbon Energy acquired exploration assets and options to coal leases located in Wyoming and Montana (USA) and joint venture rights in Amasra (Turkey) for a total consideration of $US 19 million (including deferred consideration of US $9 million). Consideration of 27,645,208 Carbon Energy shares has been issued (US$10 million of shares based on 60 day VWAP preceding the date of execution of the agreement of 23 February 2011). Two further tranches of US$4.5 million of shares each (based on 30 day VWAP at time of milestone achievement) will be issued subject to meeting key development milestones including the delineation of JORC compliant coal resources in excess of 500Mt at two of the three locations (refer note 18).

Note 30 – Related party transactions

	CONSOLIDATED GROUP	
	2011 $	2010 $
Transactions between related parties are on usual commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.		
(a) Directors' Share Transactions:		
Directors and Director related entities hold directly, indirectly or beneficially as at the reporting date the following equity interests in the Company.		
Ordinary Shares	5,305,441	26,171,895
25 cent vested unlisted options expiring 10/12/13	5,000,000	5,000,000
35 cent vested unlisted options expiring 10/12/13	1,400,000	7,000,000
10 cent vested unlisted options expiring 10/12/13	8,000,000,	-
80 cent vested unlisted options expiring 10/12/13	1,750,000	1,750,000
$1.20 vested unlisted options expiring 10/12/13	875,000	1,750,000
$1.60 vested unlisted options expiring 10/12/13	1,750,000	-

Directors and their related entities did not change their share holdings of (2010: net increase of 8,129,630) ordinary shares through the exercise of employee share options, market transfers during the course of the year.

	2011 $	2010 $
(b) Director – Related Entities:		
Other service fees charged to Carbon Energy Limited of which Mr I.W. Walker is a Director amounted to:	39,820	51,120

Parent entity with significant influence over associated entity where Mr M.D.J. Cozijn is a Director:

Carbon Energy Ltd was the ultimate parent entity of the Energia Minerals Limited ("Energia Group") until 18 December 2009. Post this date Carbon Energy Ltd ("Carbon Energy") remains an entity with significant influence over the Energia Group. As at 30 June 2011 Carbon Energy Ltd owns 26.48% of the Energia Group.

Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Note 31 – Events subsequent to balance date

No matters of circumstance have arisen since the end of the financial year, which significantly affected or may significantly affect the operations of the Consolidated Group, the results of those operations and the state of affairs of the Consolidated Group in subsequent financial years, other than:

On 1st July 2011, Dr Christopher Rawlings joined the Board as a Non-Executive Director (and Chairman) of Carbon Energy Limited.

On 12th July 2011 Department of Environment and Resource Management advised the Company of charges in relation to spillage of process water in 2009. Proceedings have been adjourned to 20 September 2011.

The Federal Government introduced the Clean Energy Bill in July 2011 which proposes a fixed carbon price of $23/tonne from 1 July 2012, moving to a market price three years later. The proposal is intended to replace older technologies with higher emissions to newer and cleaner technologies. As a result Carbon Energy's lower emission use of coal in its UCG process is likely to be a beneficiary of carbon pricing should the legislation be passed through Federal Parliament. To date no assessment of its impact has been made.

Note 32 – Controlled entities

(a) Controlled entities

	COUNTRY OF INCORPORATION	PRINCIPAL ACTIVITY	PERCENTAGE OWNED 2011 %	PERCENTAGE OWNED 2010 %
Parent Entity:				
Carbon Energy Ltd (CEL)	Australia	Parent entity of Carbon Energy group	-	-
Carbon Energy (Holdings) Pty Ltd (CEH)	Australia	Holding company for Carbon Energy Operations	100	100
Carbon Energy (Operations) Pty Ltd (CEOPL)	Australia	Facilitate the construction and commissioning of the Underground Coal Gasification project in Queensland.	100	100
Coronation Drive (Energy) Pty Ltd	Australia	Holding company for the investment in Clean Coal Inc.	100	-
Carbon Energy (Galilee) Pty Ltd	Australia	Holding company for the investment in Clean Coal Amasra Limited	100	-
Carbon Energy USA Inc (previously Clean Coal Inc)*	USA	Company has the right to explore and lease coal tenements in Wyoming, USA and Montana / North Dakota, USA.	100	-
Clean Coal Amasra Limited *	UK	To establish a 50/50 joint venture with Hema Endustri to develop UCG projects in Hema's coal tenements in Amasra.	100	-
Carbon Energy Chile Limitada	Chile	To jointly assess and develop an Underground Coal Gasification project at Mulpun, Chile	100	-

The subsidiaries noted above are all controlled entities and are in the early stage of establishment and are dependent on the parent entity for financial support. At year end, total loans to these subsidiaries amount to $85,839,886 (2010: $58,498,711).

* Carbon Energy USA Inc (previously Clean Coal Inc) and Clean Coal Amasra Limited were acquired on 6 April 2011 as part of the acquisition of Clean Coal exploration assets (refer note 18)

Note 33 - Remuneration of auditors

	CONSOLIDATED GROUP 2011 $	CONSOLIDATED GROUP 2010 $
Auditor of the parent entity:		
• auditing or reviewing the financial report	143,900*	52,500
• other non audit services – advisory services	59,536	189,298
	203,436	241,798
Other auditors		
• auditing or reviewing the financial report	-	-
• corporate advisory services	-	-
	-	-

* Balance includes $43,000 of outside scope audit fees relating to the 30 June 2010 audit period.

Note 34 – Share-based payments

The acquisition of Clean Coal exploration assets (refer note 18) was the only share-based payment arrangement undertaken by the Company during the 2011 financial year.

No. of Shares	Issue Date	Deemed Value
27,645,208	7/04/2011	$0.361

The following share-based payment arrangements were issued during the 2010 financial year.

No. of Options	Grant Date	Exercise Price	Vesting Date	Expiry Date
1,000,000	22/03/2010	$0.80	30/06/2011	22/03/2015
1,000,000	22/03/2010	$1.20	30/06/2012	22/03/2015
1,000,000	22/03/2010	$1.60	30/06/2013	22/03/2015

All Options granted to Key Management Personnel and employees are ordinary shares in Carbon Energy Limited, which confer a right of one ordinary share for every Option held.

None of the Options hold voting or dividend rights. If the Option holder ceases to be in the employment of the Company prior to vesting, the Options will lapse.

No. of Shares	Issue Date	Deemed Value
15,000,000	26/05/2010	$0.20

The Company issued 15,000,000 fully paid shares (Securities) to Constellation Energy Pty Ltd in consideration for the supply of drilling services of $3,000,000 by Constellation for the Bloodwood Creek Trial. The shares issued were in satisfaction of an obligation in an Heads of Agreement announced on 5 May 2008.

The total Options exercisable at 30 June 2011 is 27,080,000 and is comprised of:

No. of Options	Grant Date	Exercise Price	Vesting Date	Expiry Date
500,000	14/11/2007	$0.30	30/06/2008	30/06/2011 *
1,000,000	15/05/2008	$0.60	3/07/2008	30/06/2011 *
2,500,000	16/09/2008	$0.80	30/06/2009	10/12/2013
1,000,000	16/09/2008	$0.80	30/06/2011	10/12/2013
1,000,000	17/10/2008	$0.80	31/10/2009	10/12/2013
1,000,000	17/10/2008	$0.80	31/10/2009	10/12/2013
1,400,000	13/11/2008	$0.35	30/06/2010	10/12/2013
875,000	13/11/2008	$1.20	30/06/2010	10/12/2013
8,000,000	13/11/2008	$0.70	30/06/2011	10/12/2013
1,750,000	13/11/2008	$0.80	30/06/2011	10/12/2013
1,750,000	13/11/2008	$1.60	30/06/2011	10/12/2013
5,000,000	10/12/2008	$0.25	30/06/2009	10/12/2013
205,000	31/03/2009	$0.40	30/06/2010	1/04/2012
100,000	31/03/2009	$0.25	30/06/2010	1/04/2012
1,000,000	21/03/2010	$0.80	30/06/2011	22/03/2015

* Options expired post year end

Note 34 – Share-based payments continued

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Summary of Option Movements	2011 No. of Options	2011 Weighted Average Exercise Price	2010 No. of Options	2010 Weighted Average Exercise Price
Outstanding at the beginning of the year	49,930,000	$0.80	69,451,000	$0.71
Granted - 22 March 2010	-		3,000,000	$1.20
Exercised	(375,000)		(15,375,000)	$0.21
Forfeited	(9,600,000)		(7,146,000)	$1.38
Outstanding at year end	39,955,000		49,930,000	$0.80
Exercisable at year end	27,080,000		21,430,000	$0.49

There were 375,000 (2010: 15,375,000) options exercised during the year. These Options had a weighted average share price of $0.20 (2010: $0.208) at exercise date.

The Options outstanding at 30 June 2011 had a weighted average exercise price of $0.64 and a weighted average remaining contractual life of 2.08 years. Exercise prices range from $0.25 to $1.60 in respect of options outstanding at 30 June 2011.

The weighted average fair value of the options granted during the 2010 financial year was $1.20.

This price was calculated using a Black Scholes option pricing model applying the following inputs:

Weighted average exercise price	$1.20
Weighted average life of option	4.73 years
Underlying share price	$0.58
Expected share price volatility	70%
Risk free interest rate	5.25%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future trend, which may not eventuate. Included under Share-based payment expense in the Statement of Comprehensive Income is a negative expense of $98,421, (2010: expense of $2,074,912) and relates, in full, to equity-settle share - based payment transactions. The negative expense of $98,421 for the 2011 financial year relates to the forfeiture of a number of options during the year.

Note 35 - Company details

The Registered & Principal Office of the Company is:

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