

CHAIRMAN'S REPORT

It's with great pleasure that I present my first report to you as Chairman.

I have watched Carbon Energy for some time, as the Company has demonstrated its ability to progressively de-risk the technology and environmental issues, associated with Underground Coal Gasification (UCG). Since my appointment we continue to focus on delivering on our technology, which will bring long term value to shareholders.

While the global economic outlook remains uncertain, the Board is confident our strategy is growing even more relevant in the current climate. This strategy is clear:

We have rights to and will continue to acquire unique energy assets suitable for keyseam. We will transform these into high value fuels using our proprietary technology and monetise the energy we create to supply global energy markets and return long term shareholder value.

Execution of this strategy requires our continued focus on:

Resource:

the acquisition of targeted coal resources, with criteria suitable for keyseam, in markets that require our energy service delivery

Technology:

the development and implementation of the keyseam as the world leading advanced UCG technology, that delivers a low cost, lower emission energy source

Markets:

the implementation of keyseam to supply energy to high-value downstream markets and maximise shareholder return

Governments are demanding more renewable energy sources. The reality is that renewables alone will be unable to meet the demand required at reasonable prices, in the short to medium term. Markets are turning to non-conventional energy fuels such as shale gas, coal seam gas and syngas which capitalise on previously inaccessible or stranded fuel resources and at the same time offer lower emissions. These non-traditional fuel reserves also provide lower cost alternatives that can alleviate some of the environmental constraints, currently being applied to conventional energy sources.

keyseam has been developed with over 10 years research with Australia's CSIRO and has completed three years of in-field trials in readiness for commercialisation. keyseam extracts 80% of the energy recoverable from coal in-situ. In a world hungry for energy, resource efficiency is becoming a higher priority.

Carbon Energy's Australian developed, keyseam technology has the potential to unlock energy contained in otherwise stranded coal resources.

The future for Carbon Energy remains exciting. We have delivered an Australian first in generating electricity from syngas. We expect to start taking our first revenues from the supply of syngas derived electricity into the local grid in Queensland before Christmas 2011 and at our Bloodwood Creek site, further UCG panels will demonstrate the scalability of syngas production.

Carbon Energy's global expansion continues with the construction and commissioning of our first UCG

panel in Chile, in conjunction with joint venture partners Antofagasta Minerals. Together we are working to accelerate feasibility studies and gain approvals required to build a commercial power project in Mulpun, approximately 800km south of Santiago.

We are also about to launch into an UCG project in Wyoming in the United States. A dedicated drilling program to fast track the establishment of resources is planned for next year. Exploration, permit approvals and environmental baseline monitoring will be the focus of effort across the projects in Wyoming and the Montana/ North Dakota border regions throughout 2012.

I joined the Board in July 2011. Kim Robinson has stepped down as Chair but remains as a Non-Executive Board Member. Dr Cliff Mallet has left the Board, but remains an Executive as our Technical Director to assist the development of UCG opportunities globally.

On behalf of the Board I would like to acknowledge our appreciation to Kim for his tenure as Chairman and also to Cliff for his contribution as a founding Director. Fortunately we have retained the benefit of Kim's and Cliff's expertise through their ongoing services.



The strategy of a company is only as good as the people who execute it. One thing that has impressed me in the short time I've been a part of Carbon Energy is the enthusiasm and knowledge of our dedicated management team. The past year has provided many challenges and distractions and despite this the team has continued to achieve milestones as well as work on future projects beyond the commercialisation of Bloodwood Creek. The Board and I thank the Executive team and all staff for their tremendous efforts.

Finally, since becoming Chairman I have had the privilege of meeting several institutional and individual investors. This has been a very valuable experience in understanding the demands of our shareholders. I thank you for your continued support in what has been a very challenging period in our development and I look forward to meeting many more of you as we deliver further progress over the years ahead.

Chris Rawlings
Chairman

