

# CEO & MANAGING DIRECTOR'S MESSAGE

The financial year of 2011 was defined for Carbon Energy as commencing with technical challenges and regulatory delays and finishing with our ground breaking achievement; an Australian first in the innovation of Underground Coal Gasification (UCG), which we pioneered.

I am immensely proud of our team who over the last 12 months have weathered adverse circumstances and have now emerged as world leaders in our industry.

Queensland is experiencing unprecedented growth in energy projects including traditional coal mining, coal seam gas to LNG and the developing UCG industry. This is creating competition for coal resource tenure in some places between competing energy proponents as well as competition for surface land rights between energy developers and farmers. These competing issues have created challenges for all stakeholders, including regulators and Government in balancing the benefits to the State and ensuring equity amongst participants. This will remain a challenge for all energy players in the years to come.

In July 2010 the Department of Environmental & Resource Management requested we conduct an Environmental evaluation of a release of process water in 2009. We conducted a thorough investigation of the issue and our resulting report demonstrated no ongoing environmental harm. The Department accepted our report in October 2010 and the Government subsequently confirmed our findings. While there was no ongoing harm from this incident we have implemented changes in process design and procedures to ensure that this type of event will not re-occur. This approach to continuous improvement in our environmental performance is enshrined in the values of our Company.

In February 2011 we obtained amended environmental authorities and commenced commissioning of UCG Panel 2. Outstanding achievements followed in the successful operation of our unique panel design and an Australian first in the production of electricity from UCG syngas.

UCG Panel 2 was initiated in March 2011 and has achieved six months of continuous syngas production. In August 2011 we achieved an Australian first in generating electricity using syngas produced from our proprietary Underground Coal Gasification (UCG) technology. We have successfully completed testing of power station load circuits and up to 1 MW of electricity has been generated and transmitted into a load bank which replicates the continuous supply of electricity into the grid. This facility confirms Carbon Energy as a world leader in UCG technology development and expertise that will deliver lower emission energy from coal. As we continue to progress amendments to our existing environmental approvals to increase production to 5 MW of electricity, we remain focused on beginning to turn our resources into revenue before the end of 2011.

Bloodwood Creek's site selection has been important in meeting our commitment to environmental and social responsibility. The site is ideal for the type of commercial developments we have planned. It is close to key infrastructure as well as being located away from good quality aquifers and prime agricultural land. Our site is also located outside Strategic Cropping Land so does not infringe on the region's agricultural production.

What we have learned and the improvements we continue to gain at Bloodwood Creek cannot be underestimated. The developments of keyseam have become the

cutting edge of UCG technology. It not only enables us to utilise deep coal resources otherwise inaccessible through traditional coal mining methods but also delivers a high quality, low cost energy source that has a lower impact on the environment. Every day we are expanding the skills and knowledge developed here in Australia and it is our knowledge and intellectual property (IP) that can be exported to markets looking for new sources of energy.

**Our technology delivers access to previously inaccessible coal assets, with a lower impact on the environment, protection of groundwater reserves, as well as maximising energy recovery, up to 20 times more than coal seam gas (coal bed methane).**

Our strategy of developing our assets and technology and supplying high-value fuels to markets has kept the team focused on delivering long term shareholder value. This approach has underpinned the key decisions we have made across acquisitions and global expansion in 2011 financial year, helping to develop a strong foundation for growth.

In February 2011 we executed an agreement for the acquisition of USA based Clean Coal Inc and UK based Clean Coal Amasra Limited. This acquisition launched Carbon Energy into both the North American and European markets and underpinned our transformation into a truly international energy business. In line with our strategic direction the purchase also provided access to coal resources suitable for keyseam. The main commercial criterion for these projects is a target resource of 1000Mt JORC Inferred Resource in the United States projects of Wyoming, Montana/North Dakota border and 500Mt in Amasra, Turkey.



The contracts to our North American rights to coal resources include off-take agreements providing access to an additional revenue stream for the sale of carbon dioxide (CO<sub>2</sub>) for use in Enhanced Oil Recovery (EOR). The separation and sale of CO<sub>2</sub> for use in EOR also has the added benefit of further reducing UCG carbon emissions to below that of Natural Gas.

In June 2011 year we announced our Maiden Resource Statement for the Mulpun project coal deposits in Chile. The JORC Resource estimate totals 103 million tonnes. This is a very significant energy resource for the Chilean market being sufficient to run as much as 300 MW power station for 55 years.

We appreciate the continued support we receive from our partners Antofagasta Minerals. I am continually impressed by their professionalism, enthusiasm and experience to progress developments at Mulpun. As a project team we have worked well to develop the first UCG panel with construction of the site and environmental monitoring underway. Front End Engineering and Design (FEED) is progressing well as we enter into the detailed Engineering, Procurement and Construction (EPC) phase.

Chile has always been an attractive market for energy due to the country's reliance on imported fuel and growing energy demand of 8% pa. When we began looking into this project in 2009 spot energy prices

were US\$120 per MWh. However recent reports have indicated spot prices have increased to US\$220 per MWh making these some of the highest energy prices in the world.

We are lucky in a company as young as ours to have built a team of dedicated and talented people. As our knowledge and experience grows we are developing innovators in our specialised field that can deliver long term growth for shareholders.

This year has given us more challenges than we expected and I'd like to thank you, our shareholders, for your support over the last year. I'd also like to thank my Executive leadership team and all our staff for their commitment to our Australian activities as well as their efforts in driving our expansion globally. All of which have set a very good foundation for a very positive year ahead.

I would also add my welcome to our new Chairman Chris Rawlings, who brings a wealth of experience in both energy and new technology companies.

I look forward to working with him and the Board to continue to develop and grow our company for the benefit of all shareholders.

**Andrew Dash**  
Managing Director



### Our current resource targets

Project	Commercial Target <sup>1</sup> (Million Tonnes)	Jorc Resource <sup>2</sup> (Million Tonnes)	Recoverable Gas <sup>3</sup> (PJ)
Queensland, Australia		668	6,680
Mulpun, Chile <sup>4</sup>		103	1,100
Wyoming, United States	500	By Dec 12	5,000
<b>TOTAL</b>	<b>500</b>	<b>771</b>	<b>12,780</b>

Notes: see page 5.