



CarbonEnergy



Half Year Financial Report

December 2009



CarbonEnergy

Corporate Details

CARBON ENERGY LIMITED | ABN 56 057 552 137 | AND CONTROLLED ENTITIES

Incorporated under the Corporations Act 2001 in the State of Western Australia on 29 September 1992.

Half Year Financial Report For the period ended 31 December 2009

DIRECTORS:

K. Robinson B.Sc.(Geology) – Chairman
A.M Dash BE(Chem), MCom - Managing Director
C.W. Mallett MSc, PhD, FAIE - Technical Director
M.D.J. Cozijn B. Com. ASA MAICD. - Director
P.N. Hogan B.Bus, ACA. – Director
P.T. McIntyre B.Sc (Eng), MBA, FIEAust – Director (resigned 12 February 2010)
I.W. Walker B.Sc. Hons.(Geology) - Director

SECRETARY:

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

MANAGEMENT TEAM:

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

REGISTERED & PRINCIPAL OFFICE:

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SOLICITORS:

Gadens Lawyers
240 Queen Street
BRISBANE QLD 4001

AUDITORS:

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Contents

Directors Report.....	4
Auditors Independence Declaration – Appendix A.....	11
Condensed Consolidated Statement of Comprehensive Income – Appendix B.....	12
Consolidated Statement of Financial Position – Appendix C.....	13
Consolidated Statement of Changes in Equity– Appendix D.....	14
Consolidated Cash Flow Statement – Appendix E.....	15
Notes to the Financial Statements – Appendix F.....	16
Directors’ Declaration.....	25
Audit Report.....	26



Directors Report

Your Directors submit the financial report of the consolidated entity for the half year ended 31 December 2009, made in accordance with a resolution of the Board.

Directors

The names of directors who held office during or since the end of the half year:

- Mr Kim Robinson
- Mr Andrew Dash
- Dr Cliff Mallett
- Mr Max Cozijn
- Mr Peter Hogan
- Mr Peter McIntyre (resigned 12 February 2010)
- Mr Ian Walker

Review Of Operations

The consolidated entity incurred a loss from ordinary activities after income tax for the half year of \$1,263,159 (2008: loss \$7,156,716).

The Company has achieved the following highlights during this half year:

Highlights For The Six Months

Corporate

- Carbon Energy (CEL) completed its second tranche of the share placement (announced in June 2009) in July 2009 after Shareholders approved the capital raising at a General Meeting of Shareholders on 20 July 2009. In total, approximately 74.4 million ordinary shares issued to raise \$32 million (gross) and of this balance \$21.5 million (gross) was received prior to 30 June 2009.

- Carbon Energy completed its divestment program for non-core assets raising \$9 million:
 - Gold Interests sale to Crescent Gold Limited;
 - IPO listing of the uranium assets;
 - Magma Metals Limited share sale (subsequent to end of September Quarter).
- The proceeds are planned to be used to accelerate the development of commercial opportunities for the Company's core energy business.
- 20 November the Annual General Meeting (AGM) was held in Brisbane and all resolutions were carried by a show of hands.

Energy – Underground Coal Gasification (UCG)

- Carbon Energy has signed an off-take agreement with Queensland Government owned electricity provider Ergon Energy. The contract, worth approximately \$2 million per year, is for electricity produced at Carbon Energy's 5MW syngas-powered electricity production facility currently being constructed at Bloodwood Creek in the Surat Basin.
- Carbon Energy, commenced construction of a 5MW power station in September 2009, this facility will utilise Syngas being produced at the Bloodwood Creek site.
- Also in July an agreement was signed with Queensland based ZeroGen. The agreement signalled the first phase of a CO₂ injection test program which will see Carbon Energy combine their successful Underground Coal Gasification (UCG) technology with ZeroGen's techniques for CO₂ injection. The scoping study for the carbon capture and storage component of this project started in July with initial findings received in November. The first phase of a CO₂ injection test program expected to commence in conjunction with the completion of Carbon Energy's 20 MW power station in approximately 18 months.
- In July Carbon Energy signed a Heads of Agreement (HoA) with Liberty Resources Limited ASX: LBY ("Liberty") to establish a joint venture to develop Liberty's thermal coal resource in the Galilee Basin. Carbon Energy will hold 80% of the Joint Venture and will be the operator. Carbon Energy will contribute its expertise in Underground Coal Gasification to assess the optimal development of the resource and to execute the required development plan.
- On 19 November the Parliamentary Secretary to the Minister for the Department of Employment, Economic Development and Innovation (DEEDI), Mr Choi, participated in an official launch activity of the 5MW plant at Bloodwood Creek. Local dignitaries, including the Mayor, Mr Ray Brown, and Ms Deidre Daylight, a representative of the local indigenous community, were also in attendance.

- On 4 December a Development & Cooperation Agreement was executed with Antofagasta for Carbon Energy to earn a 30% interest in Antofagasta's Mulpun coal deposit in Chile. Antofagasta is one of the largest copper producer in the world. Work has begun on the design and feasibility of a one panel trial with a view to develop electricity generation project in Chile.
- On 8 December Carbon Energy announced its maiden reserves certification under the Society for Petroleum Engineers (SPE) Guidelines, including a 2P reserve of 744 PJ. This is another world first and enables commercial partners and investors to better understand the useful energy content of UCG resources.
- Eneabba Gas Limited has advised Carbon Energy that it does not wish to extend the Heads of Agreement between the two organisations, consequently the HOA has terminated on 18 December in accordance with its terms.

Progress to date in each of the key areas is as follows:

1. Continuous Improvement of UCG Technology (Bloodwood Creek UCG Trial)

- Further developments on the Bloodwood Creek site are continuing as follows:
 - Construction of a 5 MW power generation plant (utilising Syngas) is still under construction.
 - The Front End Engineering & Design (FEED) study for the development of a future 20 MW generation facility which commenced in September 2009 will provide an interim report focusing on turbine equipment suitability by Q1 2010.
 - A submission to the Australian Government to participate in the Global Carbon Capture and Storage Institute (GCCSI) Project Funding and Support Program has been lodged on the basis of pre- and post-combustion capture of CO₂ in the utilisation of UCG Syngas in power generation.
 - Ongoing monitoring of UCG interaction with local water conditions on the Bloodwood Creek site is continuing with expanded water monitoring capability consisting of additional water monitoring wells being installed.
 - Close co-ordination with the Queensland Government's government working parties associated with the Queensland UCG Policy continues.

2. Expand Coal Resource

- Reserves Certification

On 8 December Carbon Energy announced its maiden reserves certification under the Society for Petroleum Engineers (SPE) Guidelines, including a 2P reserve of 744 PJ. This is another world first and enables commercial partners and investors to better understand the useful energy content of UCG resources.

- Coal Exploration and Mining Tenure

At the end of the December Quarter 2009 Carbon Energy still holds four granted exploration permits along the eastern edge of the Surat Basin and one in the Moreton Basin (EPC 1109) south of Beaudesert between Brisbane and the Gold Coast (see Figure 2). Carbon Energy has a granted Mineral Development Licence between Dalby and Chinchilla named 'Bloodwood Creek' and has an application for a portion of the same to be transferred into a mining lease, MLA 50253.

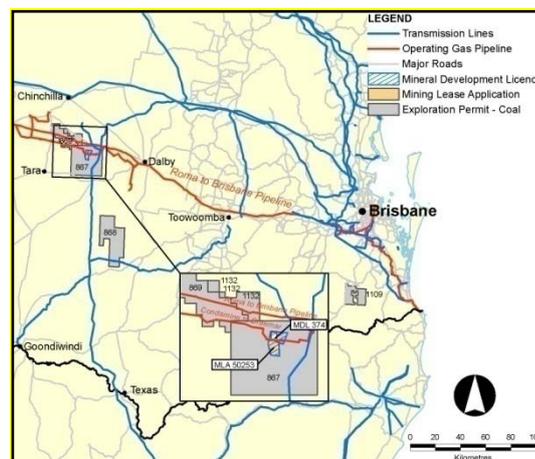


Figure 2 - Location of Company's Coal tenements in South East Queensland



Tenement	Status	Sub-blocks as at September 2009	Sub-blocks as at December 2009
MLA 50253	Application	1342 ha	1342 ha
MDL 374	Granted	2687 ha	2687 ha
867	Granted	191	191
869	Granted	64	64
868	Granted	177	177
1132	Granted	23	23
1109	Granted	23	23
Kogan West	Application	35*-	35*

Table 1 – Tenement Status as at the end of December 2009

* There are a further 2 sub-blocks on the application occupied by granted EPC's. These sub-blocks are for the purpose of applying for a contiguous application area.

3. Identify and develop commercial opportunities

- **Chile**

On 4 December a Joint Venture & Cooperation Agreement was executed with Antofagasta for Carbon Energy to earn a 30% interest in Antofagasta's Mulpun coal deposit. Work has begun on the design and feasibility of a one panel trial.

4. Commissioning status of 5MW UCG syngas power station

- Carbon Energy has advised the ASX that the final stages of the construction and commissioning of its 5 MW power station have been rescheduled in order to accommodate:
 - Reconfiguration of the injection well;
 - Completion of auxiliary work on power plant and transmission line;
 - Progressive commissioning of each of the 4 engines, allowing for steady ramp up of power generation to 5 MW of export to the grid; and
 - Completion of UCG panel 2.
- Plans are in place to ensure that the required gas quality and flow continues to be delivered. These include the continued remediation activities on the injection well for the existing panel (Panel 1), and construction of a new UCG panel (Panel 2), as previously announced.
- It is anticipated that work on the injection well for Panel 1 will enable the company to progressively commission the power station as follows:
 - Operation of 1 engine on syngas to provide electricity to operate Carbon Energy's site operations (approximately 1 MW);
 - The progressive commissioning of the next three engines to supply the additional electricity required for export;
 - Export of 1 MW of electricity to the local electricity grid; and
 - Steady ramp up of power generation to 5 MW for export to the grid, this is anticipated to be achieved over the next 2-3 months.
- In the event that remediation work to existing injection well of panel 1 is not to the Company's satisfaction, the power station will be fuelled and commissioned using syngas produced by Panel 2. The commencement of drilling for Panel 2 is currently scheduled for the end of May and is expected to be fully operational by the end of July 2010.

Issued Capital

- The total issued capital at the end of December 2009 was 585,997,650 fully paid ordinary shares quoted on the Australian Stock Exchange. During the six months 6,875,000 options were exercised (5.375 million Options at \$0.15, 0.5 million at \$0.20 and 1 million at \$0.60).
- A total of 57,560,000 unlisted options with exercise prices between 20c and \$1.60 (with expiry dates ranging between 31 March 2010 and 10 December 2014, with the majority subject to meeting annual performance measures) are on issue.
- In addition, up to 15 million shares remain to be issued to Constellation Energy, subject to completion of documentation.

Listed Investments

- Carbon Energy holds 29 million shares in ASX listed uranium explorer, Energia Minerals Limited (EMX). Energia is actively exploring in Western Australia and Italy.

Funds on Hand

- As at 31 December 2009 funds on hand were \$26.7 million.

Auditors Independence Declaration

- The lead auditor's independence declaration under section 307C of the Corporation Act 2001 is set out on page 11 for the half-year ended 31 December 2009.

This report is signed in accordance with a resolution of the Board of Directors.



K. Robinson
Chairman



A.M. Dash
Managing Director

Dated this 10th day of March 2010

Competent Person Statement – Coal

The information in this release that relates to resources is based on information compiled by Dr C.W. Mallett, Executive Director Carbon Energy Limited who is a member of the Australian Institute of Mining and Metallurgy. Dr Mallett has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Dr Mallett consents to the inclusion in the release of the matters based on his information in the form and context in which it appears.

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

10 March 2010

Dear Committee Members

Carbon Energy Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Carbon Energy Limited.

As lead audit partner for the review of the financial statements of Carbon Energy Limited for the half-year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Matthew Sheerin
Partner
Chartered Accountants

Condensed Consolidated Statement of Comprehensive Income – Appendix B

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Note	CONSOLIDATED GROUP	
		31-Dec-09	31-Dec-08
Revenue from continuing operations		101,061	60,838
Employee benefits		(1,734,304)	(589,361)
Depreciation expense		(38,895)	(24,951)
Administration costs		(817,232)	(1,020,403)
Consultancy costs		(1,049,115)	(99,904)
Bloodwood Creek operating costs		(2,041,340)	-
Tenement holding costs		(114,371)	(141,701)
Other expenses		(273,789)	(298,792)
Share-based payments	2	(1,263,297)	(1,480,602)
Realised gain on sale of investment	2	1,956,250	-
Unrealised loss on revaluation of investments	2	-	(2,744,000)
Net loss from equity accounted investment in associate		(197,954)	-
Net gain on disposal	3	3,621,746	-
Finance income		588,081	639,017
Restructuring - redundancies		-	(1,048,350)
Exploration expenditure		-	(408,507)
Loss before income tax expense		(1,263,159)	(7,156,716)
Income Tax Expense		-	-
Loss for the Period		(1,263,159)	(7,156,716)
Other comprehensive income for the period (net of tax)		-	-
Total comprehensive income for the period		(1,263,159)	(7,156,716)
LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT		(1,263,159)	(7,156,716)
Total comprehensive income attributable to owners of the parent		(1,263,159)	(7,156,716)

Overall Operations:

Basic loss per share (cents per share)	(0.22)	(1.46)
Diluted loss per share (cents per share)	(0.22)	(1.46)

* The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.



Consolidated Statement of Financial Position – Appendix C

AS AT 31 DECEMBER 2009

	Note	CONSOLIDATED ENTITY	
		31-Dec-09	30-Jun-09
Current Assets			
Cash and cash equivalents		26,745,484	21,747,232
Trade and other receivables	5	2,533,732	129,501
Exploration interest held for sale	6	-	4,000,000
Financial assets / investments	2	-	4,508,000
Total Current Assets		29,279,216	30,384,733
Non Current Assets			
Trade and other receivables	5	1,659,403	440,774
Property, plant & equipment	7	17,733,158	10,506,605
Financial assets / investments	8	5,202,047	-
Mine development	10	16,668,042	3,621,463
Deferred exploration and evaluation costs	9	89,715,017	101,451,222
Intangible assets		2,499,999	2,499,999
Total Non Current Assets		133,477,666	118,520,063
TOTAL ASSETS		162,756,882	148,904,796
Current Liabilities			
Trade and other payables		1,021,927	1,688,795
Short-term provisions		131,374	93,808
Total Current Liabilities		1,153,301	1,782,603
TOTAL LIABILITIES		1,153,301	1,782,603
NET ASSETS		161,603,581	147,122,193
Equity			
Issued capital	11	184,039,018	172,265,745
Reserves		8,635,843	4,664,569
Accumulated losses		(31,071,280)	(29,808,121)
Total Equity		161,603,581	147,122,193

* The above consolidated statement of financial position should be read in conjunction with the accompanying notes.



Consolidated Statement of Changes in Equity– Appendix D

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	CONSOLIDATED ENTITY			
	Issued Capital	Share-based Payments Reserve	Retained Earnings	TOTAL
Balance at 1 July 2008	151,126,952	171,792	(14,422,694)	136,876,050
Shares issued during the period	247,000	-	-	247,000
Transaction costs	(449,342)	408,342	-	(41,000)
Exercise of options	3,065	(3,065)	-	-
Movement in share option reserve on recognition of share based payments	-	1,258,602	-	1,258,602
Losses attributable to members of the parent entity	-	-	(7,156,716)	(7,156,716)
Total comprehensive income/(expense) for the period	-	-	-	-
Balance at 31 December 2008	150,927,675	1,835,671	(21,579,410)	131,183,936
Balance at 1 July 2009	172,265,745	4,664,569	(29,808,121)	147,122,193
Shares issued during the period	12,006,250	-	-	12,006,250
Transaction costs	(525,000)	-	-	(525,000)
Exercise of options	292,023	(292,023)	-	-
Movement in share option reserve on recognition of share based payments	-	1,263,297	-	1,263,297
Losses attributable to members of the parent entity	-	-	(1,263,159)	(1,263,159)
Shares to be issued on execution of contract with Constellation	-	3,000,000	-	3,000,000
Total comprehensive income/(expense) for the period	-	-	-	-
Balance at 31 December 2009	184,039,018	8,635,843	(31,071,280)	161,603,581

* The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement – Appendix E

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	CONSOLIDATED ENTITY	
	31-Dec-09	31-Dec-08
Cash Flows from Operating Activities		
Payments to suppliers and employees	(4,537,229)	(2,250,564)
BWC Trial construction and operations	(2,041,340)	(14,007,546)
Payments for exploration and development expenditure	-	(934,032)
Interest received	410,281	639,017
Administration services	-	18,053
Other receipts	131,001	47,568
Net cash used in operating activities	(6,037,287)	(16,487,504)
Cash Flows from Investing Activities		
Payments for property, plant & equipment	(7,346,333)	(119,599)
Proceeds from sale of property, plant & equipment	-	5,000
Proceeds from sale of Magma shares	6,464,250	-
Payment for seed capital in Energia Minerals Ltd	(400,000)	-
Payment for exploration costs	(163,628)	-
Investments in term deposits - performance bonds	-	(45,157)
Part proceeds from sale of Laverton Gold tenements	1,000,000	-
Net cash flows used in investing activities	(445,711)	(159,756)
Cash Flows from Financing Activities		
Proceeds from issues of shares	12,006,250	25,000
Capital raising costs	(525,000)	(41,000)
Net cash flows provided by / (used in) financial activities	11,481,250	(16,000)
Net increase (decrease) in cash held	4,998,252	(16,663,260)
Cash and cash equivalents at 1 July 2009	21,747,232	25,651,820
Cash and cash equivalents at 31 December 2009	26,745,484	8,988,560

* The accompanying notes form part of these financial statements.

Notes to the Financial Statements – Appendix F

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

NOTE 1 – BASIS OF PREPARATION

The half-year consolidated financial statement is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2009 and any public announcements made by Carbon Energy Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Carbon Energy Limited 2009 annual report for the financial year ended 30 June 2009, except for the impact of the Standards and Interpretations described below.

The half-year financial report does not include full disclosures of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing activities of the consolidated entity as the full financial report.

Reporting Basis and Conventions

The half-year report has been prepared on an accruals basis and is based on historical costs modified, by the revaluation of selected non-current assets, financial assets and financial liabilities for which fair value basis of accounting has been applied. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The consolidated entity has adopted the following revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

NOTE 1 – BASIS OF PREPARATION (continued)

The adoption of AASB 101 Presentation of Financial Statements (2007) and its amending standards has resulted in the inclusion of a Statement of Comprehensive Income in the half-year report.

The Group has adopted AASB 8 *Operation Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards* arising from AASB 8 with effect 1 from January 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

NOTE 2 – LOSS FOR THE PERIOD

The following significant transactions are relevant in explaining the financial performance:

	31 Dec 2009	31 Dec 2008
Share based payments	(1,263,297)	(1,480,602)
This expense 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.		
Unrealised loss on revaluation of investments	-	(2,744,000)
This expense relates to “marking” the Magma Metals Limited investment to Market (i.e. the MMB share price at 31 December 2008).		
Restructuring – Redundancies	-	(1,048,350)
This expense relates to focussing on the syngas operations in Queensland and moving the registered office to Brisbane which has resulted in the Perth based positions becoming redundant.		
Realised gain on sale of investments	1,956,250	-
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.		

**NOTE 3 – NET GAIN/(LOSS) ON DISPOSAL OF ASSETS**

	Note	31 Dec 2009	31 Dec 2008
Laverton Gold Assets	6	(325,000)	-
Divestment of Uranium Assets	8	3,946,746	-
TOTAL		3,621,746	-

NOTE 4 – SEGMENT INFORMATION

The consolidated entity 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.

NOTE 5 – RECEIVABLES

	Note	Dec 09	Jun 09
Current			
Trade Receivables		2,603	38,511
Other receivables		1,031,129	90,990
Receivable from Crescent Gold Limited	6	1,500,000	-
TOTAL CURRENT TRADE AND OTHER RECEIVABLES		2,533,732	129,501
Non Current			
Performance bonds		454,403	410,774
Environmental bonds		30,000	30,000
Receivable from Crescent Gold Limited	6	1,175,000	-
TOTAL NON CURRENT TRADE AND OTHER RECEIVABLES		1,659,403	440,774

NOTE 6 – EXPLORATION INTEREST HELD FOR SALE

	Dec 09	Jun 09
Current		
Laverton gold tenements held for sale	-	4,000,000

On 30 November 2009, Carbon Energy Limited executed an asset sale agreement with Crescent Gold Limited pertaining to the sale of its gold interests in the Laverton area of Western Australia. The total consideration was \$2.5 million in cash (\$1 million payable on execution and \$1.5 million 6 months from that date). A further payment of \$1.5 million is contingent on gold production exceeding 75,000 ounces. The remaining consideration due from Crescent Gold has been classified as a Receivable at 31 December 2009. The non-current receivable has been recognised at 31 December 2009 representing the directors' best estimate of the fair value of contingent consideration receivable.

NOTE 7 – PROPERTY, PLANT & EQUIPMENT

	Dec 09 6 months	Jun 09 12 months
Opening Balance	10,506,605	7,933,309
Additions	715,428	17,112,376
Construction in Progress	6,630,905	-
Disposals	(80,885)	(4,444)
Depreciation expense	(38,895)	(66,593)
Transfer to Mine Development	-	(3,621,463)
Transfer to Deferred Exploration & Evaluation	-	(10,846,580)
Closing Balance	17,733,158	10,506,605

NOTE 8 – INVESTMENT IN ASSOCIATE

During the half year period, 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. This transaction completes the demerger of uranium assets from Carbon Energy.

In exchange for injection of seed capital of \$400,000 and uranium interests carried at \$1.05 million, 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. The resulting 42% interest in Energia Minerals Limited at 31 December 2009 has been accounted for as an associate on the basis that Carbon Energy Limited exerts significant influence over the entity.

The fair value of the investment in Energia Minerals Limited at 31 December 2009 was assessed at \$5,400,001. The equity accounted loss for the half year ended 31 December 2009 amounted to \$197,954 resulting in a carrying value of the investment of \$5,202,047.

NOTE 9 – DEFERRED EXPLORATION AND EVALUATION COSTS

	Dec 09 6 months	Jun 09 12 months
Opening Balance	101,451,222	95,222,555
Expenditure capitalised during the period	163,628	1,989,719
Disposals	(1,053,254)	-
Transfer from Property, Plant & Equipment	-	10,846,580
Transfer to financial assets held for sale	-	(4,000,000)
Transfer to mine development costs	(10,846,579)	-
Expenditure written off during the period	-	(2,607,632)
Closing Balance	89,715,017	101,451,222

NOTE 10 – MINE DEVELOPMENT

	Dec 09 6 months	Jun 09 12 months
Opening Balance	3,621,463	-
Transfer from Property, Plant & Equipment	-	3,621,463
Additions	2,200,000	-
Transfer from deferred exploration and evaluation costs	10,846,579	-
Closing Balance	16,668,042	3,621,463

NOTE 11 – EQUITY SECURITIES ISSUED

2009	Half Year 2009 No.	Half Year 2009 \$
Balance 30 June 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 at 30 June 2009	554,704,045	172,265,745
Shares issued during the period		
23 July 2009 placement @ 43c per share	24,418,605	10,500,000
23 July 2009 exercise of 2nd Tranche Options on CEPL Acquisition 79c per share (recognised under future issues)	-	-
17 August 2009 exercise of Directors options @ 15c per share	1,000,000	150,000
16 September 2009 exercise of employee options @ 60c per share	1,000,000	600,000
Carried forward	581,122,650	183,515,745

NOTE 11 – EQUITY SECURITIES ISSUED (continued)

	Half Year 2009 No.	Half Year 2009 \$
Brought forward	581,122,650	183,515,745
2 October 2009 exercise of employee options @ 15c per share	250,000	37,500
10 November 2009 exercise of employee options @ 20c per share	500,000	100,000
15 December 2009 exercise of Directors options @ 15c per share	1,000,000	150,000
17 December 2009 exercise of Directors options @15c per share	3,125,000	468,750
Issue Costs	-	(525,000)
Release from option reserve on exercise of options	-	292,023
Balance 31 December 2009	585,997,650	184,039,018
	Half Year 2008 No.	Half Year 2008 \$
2008		
Balance 30 June 2008	490,446,637	145,312,137
30 June 2008 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 at 30 June 2008	497,854,045	151,126,952
Shares issued during the period		
14 August 2008 issue of performance based shares	600,000	222,000
27 October 2008 exercise of unlisted employee options @ 10c per share	250,000	25,000
Issue costs	-	(449,342)
Exercise of options	-	3,065
Balance 31 December 2008	498,704,045	150,927,675



NOTE 12 –COMMITMENTS

The original budget for the 5MW plant and panel was \$8 million with a 10% variation. Commitments for the remainder of the project relate to drilling of Panel 2, consulting fees and to finalise construction of the 5MW plant amounting to \$2.2 million.

During December 2009 the company entered into an agreement with Antofagasta Minerals S.A. to jointly assess and develop a coal deposit in Chile, using Carbon Energy's UCG technology. Under the agreement both Carbon Energy and Antofagasta are in the process of finalising a work plan, schedule and budget for the initial trial at the Mulpun location. This represents phase one of the project, which has been structured in four phases. Carbon Energy will be required to fund 30% of the total costs resulting in a commitment of \$4.5 million.

NOTE 13 – EQUITY SECURITIES TO BE ISSUED

As part of the trial plant construction at Bloodwood Creek, Carbon Energy Limited has entered into an arrangement for the issue of 15 million fully paid share for a total of \$3 million to Constellation Energy Pty Ltd. The consideration for this transaction comprises drilling services valued at \$2.2 million and cash of \$800,000.

The key commercial principles have been agreed between both parties and final documentation is being prepared to reflect the agreement. On this basis the amounts relating to the above transaction have been recognised in the half year report.

NOTE 14 – EVENTS SUBSEQUENT TO REPORTING DATE

Carbon Energy (Galilee) Pty Ltd (ACN 141 880 757) and Coronation Drive (Energy) Pty Ltd (ACN 141 880 775) were registered on 5 February 2010 as wholly owned subsidiaries of Carbon Energy Limited. Both Carbon Energy (Galilee) Pty Ltd and Coronation Drive (Energy) Pty Ltd are currently operating as dormant companies.

Carbon Energy has advised the ASX that the final stages of the construction and commissioning of its 5 MW power station have been rescheduled in order to accommodate:

- Reconfiguration of the injection well;
- Completion of auxiliary work on power plant and transmission line;
- Progressive commissioning of each of the 4 engines, allowing for steady ramp up of power generation to 5 MW of export to the grid; and
- Completion of UCG panel 2.



NOTE 14 – EVENTS SUBSEQUENT TO REPORTING DATE (continued)

Plans are in place to ensure that the required gas quality and flow continues to be delivered. These include the continued remediation activities on the injection well for the existing panel (Panel 1), and construction of a new UCG panel (Panel 2), as previously announced.

In the event that remediation work to existing injection well of panel 1 is not to the Company's satisfaction, the power station will be fuelled and commissioned using syngas produced by Panel 2. The commencement of drilling for Panel 2 is currently scheduled for the end of May and is expected to be fully operational by the end of July 2010.

No other matters or circumstances have arisen since the end of the financial period, which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of the affairs for the consolidated entity in subsequent financial years.

Directors' Declaration

The directors of the company declare that:

- a) The financial statements and notes, as set out on pages 12 to 24:
 - i. comply with the *Corporations Act 2001*, including compliance with accounting standards; and
 - ii. give a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half year ended on that date.
- b) In the directors' opinion there are reasonable grounds to believe that the group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors



K. Robinson
Chairman



A.M. Dash
Managing Director

Brisbane, Queensland
10th March 2010

Independent Auditor's Review Report to the Members of Carbon Energy Limited

We have reviewed the accompanying half-year financial report of Carbon Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2009, and the condensed consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 12 to 25.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Carbon Energy Limited's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Carbon Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Carbon Energy Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of Carbon Energy Limited's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Matthew Sheerin
Partner
Chartered Accountants
Brisbane, 10 March 2010