CARBON MINERALS LIMITED

A.B.N. 29 001 836 586

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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A.B.N. 29 001 836 586
Annual financial report for the year ended 31 December 2010

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Directors
Paul Aurius Lincoln Smith LL.B. (University of Sydney), Chairman
Marcus Paul Lincoln Smith B.A., BSc. (Hons.), MSc., PhD. (University of Sydney)
Wayne Vincent Annis-Brown LL.B., LL.M. (University of Sydney)
Steven John Danielson F.C.A., B.B.S.
Bun Kiem Lee F.C.A., B.Com. (Alternate for S.J. Danielson)

Secretaries
Steven John Danielson F.C.A., B.B.S.
Rachel Lee Thorn

Registered office
C/- Mitchell & Partners
Level 7, 10 Barrack Street
SYDNEY NSW 2000 AUSTRALIA
Telephone: (02) 9392 8686

Share registry
Mitchell & Partners
Level 7, 10 Barrack Street
SYDNEY NSW 2000 AUSTRALIA
Telephone: (02) 9392 8686

Solicitors
Blake Dawson
Level 36, Grosvenor Place
225 George Street
SYDNEY NSW 2000 AUSTRALIA

Auditor
PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex Street
SYDNEY NSW 1171 AUSTRALIA

Bankers
Australia and New Zealand Banking Group Limited
Lower Ground, 450 George Street
SYDNEY NSW 2000 AUSTRALIA

Securities Exchange listing
Carbon Minerals Limited shares are listed on the Australian Securities Exchange under the code CRM.

The Company is limited by shares, incorporated and domiciled in Australia.

Directors' report

Your directors present their report on the consolidated entity consisting of Carbon Minerals Limited and the entities it controlled at the end of, or during, the year ended 31 December 2010.

The following persons were directors of Carbon Minerals Limited during the whole of the year, and up to the date of this report:

P.A. Lincoln Smith
M.P. Lincoln Smith
W.V. Annis-Brown
S.J. Danielson
B.K. Lee (alternate director for S.J. Danielson)

Principal Activities
The principal continuing activities of the Group in the course of the year were the exploration for natural resources in the Commonwealth of Australia.

Operating Results
The consolidated loss of the consolidated entity after providing for income tax amounted to $203,948 (2009: loss $168,751).

Dividends
The directors report that during the year ended 31 December 2010 no dividends were declared or paid (2009: nil).

Review of Operations

GUNNEDAH BASIN COALBED METHANE PROJECT
PETROLEUM EXPLORATION LICENCES 1 and 12, NSW (GUNNEDAH BASIN)
(These tenements are held by wholly owned subsidiary, Australian Coalbed Methane Pty Limited (ACM) and are subject to a farmin agreement (FIA) with Santos QNT Pty Limited (Santos), as previously advised. Pursuant to that Farmin Agreement Santos has now acquired a 25% interest in the tenements. Santos is the Operator.)

The year 2010 represented yet another milestone in the development of the company's coal seam gas resources in the Gunnedah Basin. December 14, 2009 marked the conclusion of Phase 1 ("Test Farmin" work) under the farmin agreement (FIA) between ACM and Operator Santos QNT in relation to PELs 1 and 12 in the Gunnedah Basin of northern NSW. The FIA provided a three month period (to March 14, 2010) for Santos to submit to ACM a draft Pilot Farmin Work program, and a further six-week period (to April 25, 2010) for the parties to negotiate mutual agreement for such work.

Commercial seam gas potential for PEL 1, and especially the biogenic seam gas fairway paralleling the southern margin of the Boggabri Ridge (Map 1), has been significantly enhanced, and is the principal focus for ongoing activities, including the all-important Kahlua and Glasserton pilot trials. Five exploration wells will also be drilled in PEL 1 during the two-year Pilot Farmin Work program which will conclude on June 7, 2012.

Directors' report (continued)

Review of Operations (continued)

As announced in the March, 2010 ASX Quarterly Review of Operations, following a period of vigorous negotiation, agreement in principle was reached for the two-year Pilot Farmin program, which was to largely focus on PEL 1. The intended program provided not only for the Kahlua and Georges Island (Glasserton) pilots, but also for a program of additional exploration drilling to further assess both the biogenic fairway and the adjacent zone of Early Permian seam gas potential in the marginal Mullaley Sub-Basin region of PEL 1. As advised in separate ASX releases during the second quarter of 2010, and despite having previously reached "agreement in principle", the parties ultimately failed to reach agreement regarding details of the phase 2 (Pilot Farmin Work) pilot testing, and the matter was referred to arbitration in accordance with provisions of the FIA (ASX release June 8, 2010[1]).

Following the arbitration decision of June 4, 2010, Santos advised ACM that it intended to exercise its option to proceed to the Pilot Farmin Work phase of the FIA, and that work would commence on June 8, 2010. Since that announcement to proceed with the stage 2 work program (as announced to the ASX by Carbon Minerals on June 9, 2010[2]), communications between the parties were extremely limited for the remainder of the reporting period (CRM ASX Progress Report of October 28, 2010[3]) .

Since the commencement of the FIA in June, 2007, and as announced in the Carbon Minerals June 2010 Quarter Review of Operations[4], there have been numerous and significant changes in the Santos team managing this project, and as a consequence of the introduction of a new team in the third quarter of 2010, ACM was hopeful of a resumption of normal communications and successful progression of activities. The company was pleased to advise that regular monthly reporting by the Operator resumed as of November, 2010.

Contingent Resource Bookings
Following completion of the Stage 1 (Test Farmin Work) program Carbon Minerals was able to release initial Contingent Resource bookings for the ACM tenements in the first quarter of 2010[5]:

	1C (PJ)	2C (PJ)	3C (PJ)
ACM share (75%)	16.4	183	4093.9

These apply principally to PEL 1, with only a small part of the 3C extending into PEL 12.

Kahlua Pilot
Operationally, drilling and completion of the four wells for the Kahlua pilot was by far the most important activity conducted during the reporting period. The pilot wells at Kahlua have confirmed the excellent development of the principal Late Permian target seams (the Hoskissons Coal and the Melvilles Seam), as detailed in the company's recently released review of Activities for the December Quarter of 2010[6].

[1] http://www.asx.com.au/asxpdf/20100608/pdf/31qqtl3mz1c109.pdf
[2] http://www.asx.com.au/asxpdf/20100609/pdf/31qrp8qzzw74f2.pdf
[3] http://www.asx.com.au/asxpdf/20101028/pdf/31th6h6qml18bn.pdf
[4] http://www.asx.com.au/asxpdf/20100730/pdf/31rmqfx8krm7hc.pdf
[5] http://www.asx.com.au/asx/statistics/displayAnnouncement.do?display=pdf&idsId=01032761
[6] http://www.asx.com.au/asxpdf/20110131/pdf/41whnfsvr3gbvl.pdf

Directors' report (continued)

Review of Operations (continued)

ACM's technical consultants, Earth Resources Australia Pty Limited, have advised the company[7] that the results from the Kahlua pilot drilling are excellent and have confirmed the commercial potential of the Late Permian shallow biogenic gas play. Based on $5m^3/t$ (raw basis) of >90% methane in the 11+m aggregate Hoskissons/Melvilles targets, gas in place of some 2.9 billion cubic feet (bcf) or approximately 3 petajoules of energy ***per square kilometre*** is represented for the biogenic zone at Kahlua, with potential for an additional 1 PJ or so GIP per square kilometre for the Early Permian coals.

Background information on this pilot work, conducted mainly in the fourth quarter of 2010, may be found in the Santos Gunnedah Basin Newsletters for November and December, 2010. These can be accessed via the Gunnedah Basin links on the Santos website.

Petroleum Assessment Lease Application 5 (PALA 5)
As defined in the Onshore Petroleum Act, an assessment lease "*is designed to allow retention of rights over an area in which a significant petroleum deposit has been identified, if mining the deposit is not commercially viable in the short term but there is a reasonable prospect that it will be in the longer term. The holder is allowed to continue prospecting operations and to recover petroleum in the course of assessing the viability of commercial mining*."

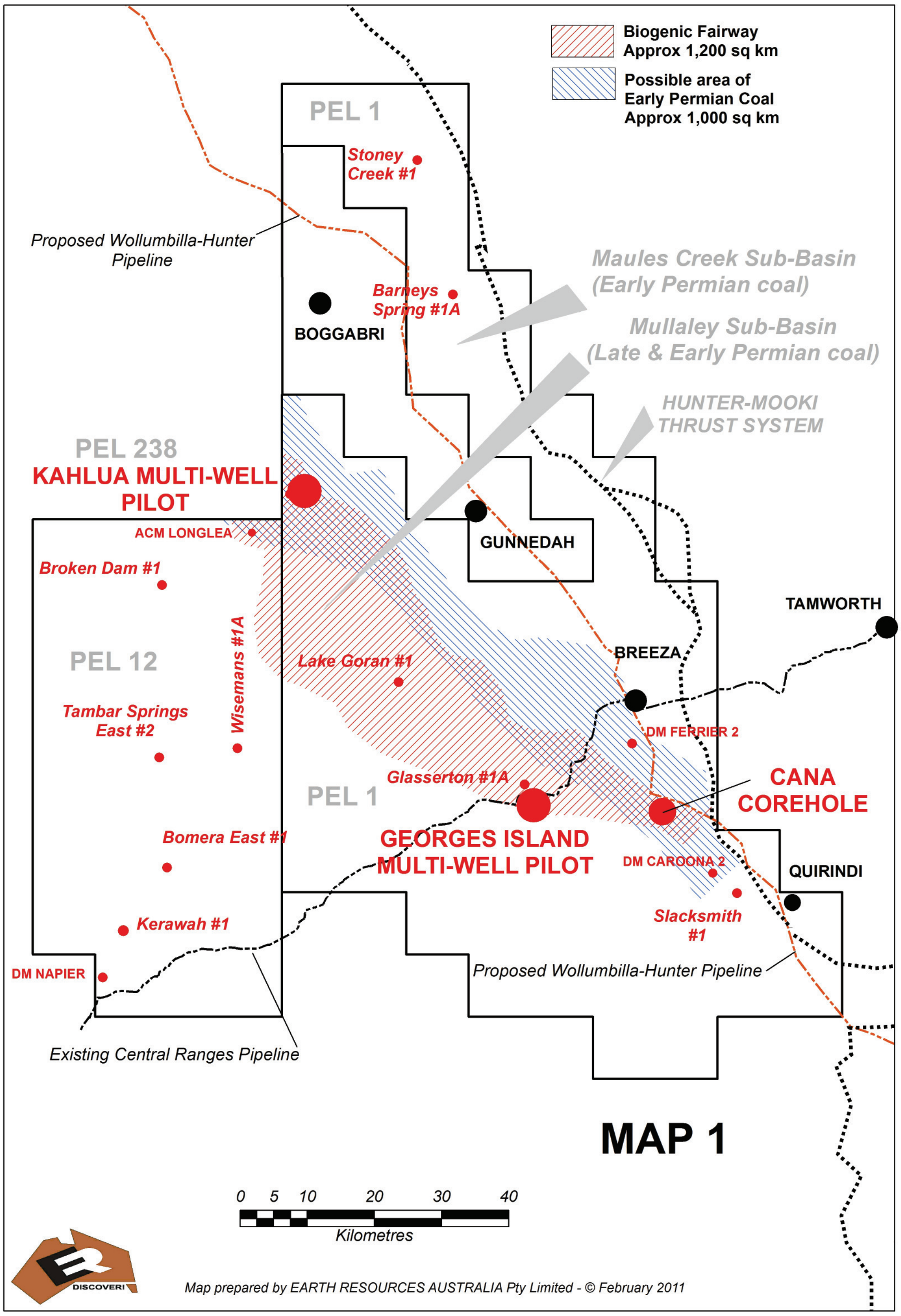
In August, 2008, application for PALA 5 over Georges Island was lodged. Due to a range of bureaucratic procedural matters (as previously reported), finalisation of the application was not achieved until May 4, 2010. Following communications between the parties, and as announced on October 28, 2010[8], the PALA 5 application was withdrawn. Irrevocable cancellation of the application took effect on September 23, 2010, more than two years after the application was lodged. Pursuant to the withdrawal of the PALA 5 application, amendment of the PEL 1 work program was sought (and granted) to permit the Glasserton pilot testing under the PEL tenure.

SOUTHWEST SYDNEY BASIN SEAM GAS JOINT VENTURE
PEL 454 - Apex Energy NL (70% and Operator), Australian Coalbed Methane Pty Ltd (30%)

The Company advised in its September 2010 quarterly review of activities that its 30% equity in this tenement had been sold to the Operator.

[7] *Advice from ERA was provided by Managing Director and Principal Consultant, Mr Mal Bunny who is a geologist with over 40 years' experience in mineral exploration and is a "competent person" as defined in Appendix 5A of the ASX Listing Rules. He has consented to the inclusion of this statement - in the form and context in which it appears - with this report. A company controlled by Mr Bunny holds shares in both Carbon Minerals and Santos.*

[8] http://www.asx.com.au/asxpdf/20101028/pdf/31th6h6qml18bn.pdf


Biogenic Fairway
Approx 1,200 sq km
Possible area of
Early Permian Coal
Approx 1,000 sq km
PEL 1
Stoney
Creek #1
Proposed Wollumbilla-Hunter
Pipeline
Maules Creek Sub-Basin
(Early Permian coal)
Barneys
Spring #1A
BOGGABRI
Mullaley Sub-Basin
(Late & Early Permian coal)
HUNTER-MOOKI
THRUST SYSTEM
PEL 238
KAHLUA MULTI-WELL
PILOT
ACM LONGLEA
GUNNEDAH
Broken Dam #1
TAMWORTH
PEL 12
Wisemans #1A
Lake Goran #1
BREEZA
Tambar Springs
East #2
DM FERRIER 2
Glasserton #1A
CANA
COREHOLE
PEL 1
Bomera East #1
GEORGES ISLAND
MULTI-WELL PILOT
DM CAROONA 2
QUIRINDI
Slacksmith
#1
Kerawah #1
DM NAPIER
Proposed Wollumbilla-Hunter Pipeline
Existing Central Ranges Pipeline
MAP 1
0 5 10 20 30 40
Kilometres
DISCOVERI
Map prepared by EARTH RESOURCES AUSTRALIA Pty Limited - © February 2011

Directors' report (continued)

Other Activities
The Group continues to monitor exploration opportunities both in areas of current Group activity and other regions throughout Australia.

Significant Changes in the State of Affairs
In the opinion of the directors there were no significant changes in the state of affairs of the Group that occurred during the year under review, not otherwise disclosed in this report or the Group financial statements.

Likely Developments and Expected Results of Operations
The Group proposes to continue its natural resources exploration programmes.

Additional comments on expected results of certain operations of the Group are included in this report under the Review of Operations.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Matters Subsequent to the End of the Year
In the opinion of the directors there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature which, in the opinion of the directors, is likely to affect substantially the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years, apart from those events mentioned in the review of operations.

Environmental Regulation
The Group's operations are subject to significant environmental and other regulations. The group has a policy of engaging only suitably experienced contractors and consultants to ensure compliance with environmental regulations in respect of its mineral exploration and primary production activities.

There have been no material breaches of environmental regulations during the financial year and up to the date of this report.

Information on Directors
Paul Aurius Lincoln Smith LL.B. (University of Sydney). *Executive Chairman.* Age 83.
Experience and expertise
Executive Chairman of the Board since 25 January 1980. Practising solicitor of the Supreme Court of New South Wales. Mr. Lincoln Smith has had in excess of 40 years experience in the management of mineral exploration companies.

Other current directorships
None.

Former directorships in last 3 years
None.

Special responsibilities
Chairman of the Board, Chief Executive Officer and Chief Financial Officer.

Interests in shares
15,193,372 ordinary shares in Carbon Minerals Limited.

Directors' report (continued)

Information on Directors (continued)

Marcus Paul Lincoln Smith B.A., BSc. (Hons.), MSc., PhD. (University of Sydney). *Executive Director.* Age 56.
Experience and expertise
Non-executive director since 6 December 1996. Environmental scientist for 29 years and has considerable experience in the field of environmental consulting.

Other current directorships
None.

Former directorships in last 3 years
None.

Special responsibilities
None.

Interests in shares
15,193,372 ordinary shares in Carbon Minerals Limited.

Wayne Vincent Annis-Brown LL.B., LL.M. (University of Sydney). *Non-Executive Director.* Age 60.
Experience and expertise
Executive director since 4 August 1988. Practising solicitor of the Supreme Court of New South Wales for 37 years and has considerable experience in commercial and business law.

Other current directorships
None.

Former directorships in last 3 years
None.

Special responsibilities
None.

Interests in shares
41,000 ordinary shares in Carbon Minerals Limited.

Steven John Danielson F.C.A., B.B.S. *Non-Executive Director.* Age 57.
Experience and expertise
Non-executive director since 23 June 1993. Chartered Accountant practising for 39 years and has considerable experience in accounting, taxation law and management practices. Mr. Danielson is also a company secretary.

Other current directorships
None.

Former directorships in last 3 years
None.

Special responsibilities
None.

Interests in shares
100 ordinary shares in Carbon Minerals Limited.

Directors' report (continued)

Information on Directors (continued)

Bun Kiem Lee F.C.A., B.Com. (Alternate for S.J. Danielson). *Non-Executive Director.* Age 57.
Experience and expertise
Non-executive director since 5 April 2006. Chartered Accountant practising for 37 years and has considerable experience in accounting, taxation law and management practices.

Other current directorships
None.

Former directorships in last 3 years
None.

Special responsibilities
None.

Interests in shares
10,000 ordinary shares in Carbon Minerals Limited.

Company Secretaries
Steven John Danielson F.C.A., B.B.S.
Mr. Danielson was appointed to the position of company secretary on 20 September 1988. Mr. Danielson is also a non-executive director of the Company. Details of his qualifications and experience are shown above.

Rachel Lee Thorn
Ms. Thorn was appointed to the position of company secretary on 26 September 1994. Ms. Thorn is experienced in office management and has extensive secretarial skills.

Meeting of Directors
The following table sets out the number of meetings of the Company's directors held during the year ended 31 December 2010, and the number of meetings attended by each director:

Director	Meetings attended / held:
P.A. Lincoln Smith	3/3
M.P. Lincoln Smith	3/3
W.V. Annis-Brown	0/3
S.J. Danielson	3/3
B.K. Lee (Alternate for S.J. Danielson)	0/3

Remuneration Report
This report details the policy and principles that govern the remuneration of directors and executives of the Company and Group; the link between remuneration policy and principles and the Company's and Group's performance for the year and the remuneration arrangements of directors and executives.

The directors and executives who are responsible for the overall planning, directing and controlling of the activities of the Company and Group during the year are as follows:

Directors' report (continued)

Remuneration Report (continued)

Executive Chairman, Chief Executive Officer and Chief Financial Officer
P.A. Lincoln Smith

Executive Director
M.P. Lincoln Smith

Non-Executive Directors
W.V. Annis-Brown
S.J. Danielson
B.K. Lee

Remuneration policy
Objectives and principles of remuneration policy
The objective of the Company's and Group's remuneration policy and its principles is to ensure that reward is competitive and appropriate.

No element of remuneration is determined in relation to the financial performance of the Company or Group. As there is no link to financial performance there is no further discussion of the matters required by section 300A of the *Corporations Act 2001* and Part 2M of the Regulations. These sections require discussion over the current year and the previous 4 years of the link between reward and:

- earnings
- dividends
- share price movements

During the year ended 31 December 2010, the Company did not have a separate remuneration committee. Instead, the duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the entire Board.

The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:
- competitiveness and reasonableness
- acceptability to shareholders
- transparency
- capital management.

Remuneration and other terms of employment for directors are formalised within the Constitution / Articles of Association of the Company and Group entities. This outlines that remuneration to directors be limited to $20,000 per annum with alterations to be determined only through notice at a general meeting.

Details of remuneration (audited)
Executive directors' and non-executive directors' remuneration and other terms of employment are reviewed annually by the Board. The current base remuneration was last reviewed with effect from 1 January 2010. The remuneration details of executive and non-executive directors of the Company and Group are set out in the table below:

Directors' report (continued)

Remuneration policy (continued)

Name	Year	Cash fee $
Executive directors		
P.A. Lincoln Smith	**2010**	**8,000**
	2009	8,000
M.P. Lincoln Smith	**2010**	**4,000**
	2009	4,000
Non-executive directors		
W.V. Annis-Brown	**2010**	**4,000**
	2009	4,000
S.J. Danielson	**2010**	**-**
	2009	-
B.K. Lee (alternate for S.J. Danielson)	**2010**	**-**
	2009	-
Total	**2010**	**16,000**
	2009	16,000

No bonuses or share options have been paid or issued to directors during the year (2009: nil).

Information on directors' shareholdings is set out in note 21 to the financial statements.

Auditors
PricewaterhouseCoopers continue in office in accordance with Section 327 of the *Corporations Act 2001*.

Auditors' independence declaration
A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 11.

This report is made in accordance with a resolution of the directors.

P.A. Lincoln Smith
Director

Sydney
7 March 2011

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
www.pwc.com/au

Auditor's Independence Declaration

As lead auditor for the audit of Carbon Minerals Limited for the year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Carbon Minerals Limited and the entities it controlled during the period.

Marc Upcroft
Partner
PricewaterhouseCoopers

Sydney
7 March 2011

Corporate governance statement

The board of directors are responsible to the shareholders for the performance of the Company and the implementation of corporate governance policies. The board has reviewed the Company's corporate governance practices in relation to the recommendations released by the ASX Corporate Governance Council. The board supports the intent of the recommendations and recognises that given the current size and scope of the Company it is not practical to institute all of the recommendations at present.

A description of the Company's main corporate governance practices is set out hereunder. Unless stated otherwise, all of the following practices were in place for the entire year.

	PRINCIPLES AND RECOMMENDATIONS	COMPLIANCE	COMMENT
1.	**Lay solid foundations for management and oversight**		
1.1	Companies should formalise and disclose the functions reserved to the board and those delegated to management	Does not comply	This recommendation has not been adopted due to the size of the Company's operations, the number of directors constituting the Board and the fact that the Company has no employees. The Board is responsible for all functions typically delegated to management in addition to its usual board functions. The Board has delegated responsibility for the day to day operations and administration of the Group to the Chairman.
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Complies	The Board undertakes annual assessment of the performance of the Chairman, who also fulfils the role of CEO. The Chairman undertakes an annual assessment of the performance of executive directors as measured against criterion determined by the Chairman. Any deficiency(ies) identified in a director's performance are addressed directly with the relevant director(s).
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Complies	Departures from the Recommendation 1.1 are stated above.
2.	**Structure the Board to add value**		
2.1	A majority of the board should be independent directors.	Does not comply	The Board consists of two executive directors (P.A. Lincoln Smith and M.P. Lincoln Smith) and two non-executive directors (S.J. Danielson and W.V. Annis-Brown). B.K. Lee is an alternate director for S.J. Danielson. The company has no independent directors. The Board is of the opinion that the Company is best served by its current board composition of executive and non-executive directors. The existing directors are conversant with the Company's position and objectives, and the Board does not consider that the current stage of establishment of the Group justifies the cost of increasing the number of directors.

	PRINCIPLES AND RECOMMENDATIONS	COMPLIANCE	COMMENT
2.2	The chairperson should be an independent director.	Does not comply	The Chairman is an executive director elected by the full Board. The Chairman is not an independent director because he has a substantial shareholding interest in the Company.
2.3	The roles of chairperson and chief executive officer (CEO) should not be exercised by the same individual.	Does not comply	The Chairman is an executive director and also fulfils the role of CEO. The Board is of the opinion that the Company is best served by the same person performing the role of Chairman and CEO due to the current size, complexity and stage of development of the Group.
2.4	The board should establish a nomination committee.	Does not comply	Given the present size of the Group, the existing Board structure is able to meet the needs of the Group in the examination of selection and appointment practices without the establishment of a nomination committee of the Board. Any board member may make recommendations on board composition and appointments; however appointments are subject to the final approval of the full Board. The Board should comprise a balance of executive and non-executive directors with a range of skills and experience that are appropriate and assist the directors in performing their duties within the scope of the Company's operations. The board should comprise at least three directors, increasing where additional expertise is considered necessary in certain areas to a maximum of nine directors.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Complies	The Board undertakes annual self assessment of its collective performance and the performance of the Chairman. The Chairman undertakes an annual assessment of the performance of individual directors as measured against criterion determined by the Chairman. Any deficiency identified in a director's performance is addressed directly with the relevant director.

	PRINCIPLES AND RECOMMENDATIONS	COMPLIANCE	COMMENT
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Complies	Directors' skills, experience and expertise; and period of office held by each director in office are set out in the Information on Directors section of the Directors' report. Directors have the right, in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, which will not be unreasonably withheld. Explanation of departures from the Recommendations 2.1, 2.2, 2.3 and 2.4 are set out in this section.There are no departures from Recommendations 2.5 and 2.6.
3.	**Promote ethical and responsible decision making**		
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Does not comply	The board expects all directors to perform their duties in a manner which is ethical, honest and objective and at all times endeavour to maintain and improve the performance and reputation of the Company. A code of conduct has not been formally established due to the small number of directors constituting the Board and the fact that Board changes are infrequent. The Chairman consistently and continuously ensures that all members of the Board have a clear understanding of their duties, responsibilities and their accountability to the Company and its shareholders for their conduct.
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	Does not comply	The Board considers that it is unnecessary to establish a policy concerning diversity given the current size of operations and stage of development of the Group.
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	Does not comply	See comment on Recommendation 3.2 above.

	PRINCIPLES AND RECOMMENDATIONS	COMPLIANCE	COMMENT
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Does not comply	See comment on Recommendation 3.2 above.
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Does not comply	Explanation of departures from the Recommendations 3.1, 3.2, 3.3 and 3.4 are set out in this section.
4.	**Safeguard integrity in financial reporting**		
4.1	The board should establish an audit committee.	Does not comply	This recommendation has not been adopted. Due to the small number of directors constituting the Board and the fact that the Board bears the ultimate responsibility for the integrity of the Group's financial reporting and the independence of the external auditor, the Board has deemed that the establishment of a separate audit committee is unnecessary. Accordingly, the Board is responsible for all functions typically delegated to an audit committee. Assessment procedures undertaken by the Board include: • Assessment of external reporting to ensure consistency with Board members information and knowledge • Assessment of the management processes supporting external reporting • Assessment of the performance and independence of the external auditors.
4.2	The Audit Committee should be structured so that it: • consists of only non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chairperson of the board • has at least three members.	Does not comply	The Company has only four directors (two non-executive directors and two executive directors). No Company directors are considered independent. Presently the cost of a larger Board size is not justifiable. Also see comment on Recommendation 4.1 above.
4.3	The audit committee should have a formal charter.	Does not comply	The Board considers that it is unnecessary to establish a formal charter for the same reasons as set out above.
4.4	Companies should provide the information indicated in Guide to reporting on Principle 4.	Does not comply	Explanation of departures from Recommendations 4.1, 4.2, 4.3 and 4.4 are set out in this section.

	PRINCIPLES AND RECOMMENDATIONS	COMPLIANCE	COMMENT
5.	**Make timely and balanced disclosure**		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Does not comply	The Company aims to provide relevant and timely information to its shareholders and the broader investment community in accordance with its continuous disclosure obligations under the Australian Securities Exchange (ASX) Listing Rules. The Board considers that it is unnecessary to establish written policies designed to ensure compliance as it has delegated the function of continuous disclosure as required under the ASX Listing Rule to the Chairman and the Company Secretaries to assess the type of information that needs to be disclosed and to ensure that Group's announcements are made in a timely manner, are factual, do not omit material information and are in compliance with the ASX Listing Rules. Information which is considered to be price sensitive is approved by the Chairman before its release. Mr. S.J. Danielson, company secretary, has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Does not comply	Explanation of departures from Recommendations 5.1 and 5.2 are set out in this section.
6.	**Respect the rights of shareholders**		
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Complies	The Board's policy is for all investors to have equal and timely access to material information concerning the Group, including its financial position, performance, ownership and governance. Due to the size of the Company's operations the Chairman has determined that the cost of establishing and maintaining a Company website is unwarranted. Communication with Shareholders is principally by post. All shareholders are notified in writing of general meetings. Any relevant information is available to the shareholders on request by email, facsimile or post.

	PRINCIPLES AND RECOMMENDATIONS	COMPLIANCE	COMMENT
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Complies	There are no departures from the Recommendations 6.1 and 6.2.
7.	**Recognise and manage risk**		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Complies	The Company's established policies for the oversight and management of material business risks are summarised below: • Review the reliability and integrity of financial and operating information and the processes used to identify, measure, classify and report such information • Examine and evaluate the adequacy of internal control systems • Ensure compliance with relevant laws, regulations and standards • Formulate and regularly review programmes for exploration and development • Regularly report against established targets • Manage financial risk • Oversee of the conduct of contractors • Assess the probability and potential impact of identified risks • Develop actions to eliminate, diminish or deal with the potential consequences of identified risks
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Complies	The executive directors are responsible for designing and implementing the risk management and internal control system to manage the Company's material business risks. The executive directors monitor and receive advice as required in relation to the Company's material business risks and design and implement appropriate risk management strategies. Specific areas of risk that are identified are regularly considered by the executive directors. The executive directors have reported to the Board as to the effectiveness of the Company's management of its material business risks.

	PRINCIPLES AND RECOMMENDATIONS	COMPLIANCE	COMMENT
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Complies	The Board requires the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to provide such a statement at the relevant time.
7.4	Companies should provide the information indicated in Guide to reporting on Principle 7.	Complies	There are no departures from Recommendations 7.1, 7.2, 7.3 and 7.4. The Board has received the report from the executive directors under Recommendation 7.2 The Board has received assurance from the Chairman, who also fulfils the roles of CEO and CFO under Recommendation 3.
8.	**Remunerate fairly and responsibly**		
8.1	The board should establish a remuneration committee	Does not comply	This recommendation has not been adopted. Due to the small number of directors constituting the Board and the fact that ultimate responsibility for the Company's remuneration policy rests with the full Board, the establishment of a separate remuneration committee is deemed unnecessary. Accordingly, the full Board contemplates the issues that would otherwise be considered by the remuneration committee.
8.2	The Remuneration Committee should be structured so that it: • consists of a majority of independent directors • is chaired by an independent chair • has at least three members.	Does not comply	The Company has only four directors (two non-executive directors and two executive directors). No Company directors are considered independent. Presently the cost of a larger Board size is not justifiable. Also see comment on Recommendation 8.1 above.

	PRINCIPLES AND RECOMMENDATIONS	COMPLIANCE	COMMENT
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Does not comply	There is no distinction between the structure of non-executive directors' remuneration and that of executives. Non-executive directors' remuneration is calculated on the same basis as executive directors' remuneration. The directors consider this method appropriate at this stage of the Company's development. The Company determines by resolution the total remuneration to be paid to the directors, and the directors determine how the total remuneration is divided among them. The total determined directors' remuneration currently stands at $20,000 per annum. The Chairman receives an annual directors' fee of $8,000 and the other directors, excluding S.J. Danielson and B.K. Lee (alternate director for S.J. Danielson) receive annual directors' fees of $4,000 each. Further information on directors' remuneration is set out in the Directors' Report at pages 8-9.
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Does not comply	Explanation of departures from Recommendations 8.1, 8.2, 8.3 and 8.4 are set out in this section. Due to the size of the Company's operations the Chairman has determined that the cost of establishing and maintaining a Company website, compared to the possible benefits, is unwarranted.

Statement of comprehensive income
for the year ended 31 December 2010

	Notes	2010 $	2009 $
Revenue from continuing operations	5	**48,991**	160,765
Net gain on sale of interest in joint venture partnership		**55,567**	-
Raw materials and consumables used		**(10,986)**	(99,529)
Exploration expenses		**(5,144)**	-
Administration expenses	6	**(233,225)**	(228,386)
Other expenses		**(4,516)**	(1,601)
Share of net loss of joint venture partnership accounted for using the equity method		**(54,635)**	-
Profit/(loss) before income tax		**(203,948)**	(168,751)
Income tax (expense)/benefit	7	**-**	-
Profit/(loss) from continuing operations		**(203,948)**	(168,751)
Profit/(loss) for the year		**(203,948)**	(168,751)
Total comprehensive income/(loss) for the year		**(203,948)**	(168,751)
Profit/(loss) is attributable to:			
Owners of Carbon Minerals Limited		**(203,948)**	(168,751)
Total comprehensive income/(loss) for the year is attributable to:			
Owners of Carbon Minerals Limited		**(203,948)**	(168,751)
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company:		**Cents**	Cents
Basic and diluted earnings per share	26	**(1.08)**	(0.09)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:			
Basic and diluted earnings per share	26	**(1.08)**	(0.09)

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position
as at 31 December 2010

	Notes	2010 $	2009 $
ASSETS			
Current Assets			
Cash and cash equivalents	8	**230,346**	547,595
Receivables	9	**29,804**	90,029
Term deposits	10	**10,000**	-
Total Current Assets		**270,150**	637,624
Non-Current Assets			
Term deposits	11	**65,000**	75,000
Receivables	12	**-**	6,000
Investments accounted for using the equity method	13	**-**	4,166
Property, plant and equipment	14	**736,080**	736,080
Exploration and evaluation expenditure	15	**3,877,265**	3,686,983
Total Non-Current Assets		**4,678,345**	4,508,229
Total Assets		**4,948,495**	5,145,853
LIABILITIES			
Current Liabilities			
Payables	16	**101,930**	97,663
Borrowings	17	**-**	13,677
Total Current Liabilities		**101,930**	111,340
Non-Current Liabilities			
Payables	18	**88,000**	72,000
Total Non-Current Liabilities		**88,000**	72,000
Total Liabilities		**189,930**	183,340
Net Assets		**4,758,565**	4,962,513
EQUITY			
Contributed equity	19	**8,433,899**	8,433,899
Accumulated losses	20	**(3,675,334)**	(3,471,386)
Parent entity interest		**4,758,565**	4,962,513
Total Equity		**4,758,565**	4,962,513

The above statements of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity
for the year ended 31 December 2010

	Attributable to owners of Carbon Minerals Limited		
	Contributed equity $	**Accumulated losses $**	**Total equity $**
Balance at 1 January 2009	**8,433,899**	**(3,302,635)**	**5,131,264**
Total comprehensive income for the year	-	(168,751)	(168,751)
Balance at 31 December 2009	**8,433,899**	**(3,471,386)**	**4,962,513**
Total comprehensive income for the year	-	(**203,948**)	(**203,948**)
Balance at 31 December 2010	**8,433,899**	**(3,675,334)**	**4,758,565**

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows
for the year ended 31 December 2010

	Notes	2010 $	2009 $
Cash flows from operating activities			
Interest received		**22,421**	33,768
Receipts from customers (inclusive of goods and services tax)		**54,808**	24,019
Payments			
- to suppliers and employees (inclusive of goods and services tax)		**(167,160)**	(183,335)
- for exploration expenditure (inclusive of goods and services tax)		**(213,641)**	(175,552)
Net cash (outflow) from operating activities	25	**(303,572)**	(301,100)
Cash and cash equivalents at the beginning of the year		**533,918**	835,018
Cash and cash equivalents at the end of the year	8	**230,346**	533,918

The above statements of cash flows should be read in conjunction with the accompanying notes.

Contents of the notes to the financial statements

Notes to the financial statements
31 December 2010

Note 1: Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Carbon Minerals Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS
The consolidated financial statements of the Carbon Minerals Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

Critical accounting estimates and judgements
The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Financial statement presentation
The group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Principles of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Carbon Minerals Limited ("Company" or "parent entity") as at 31 December 2010 and the results of all subsidiaries for the year then ended. Carbon Minerals Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(f)).

Notes to the financial statements
31 December 2010 (continued)

Note 1: Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment losses) identified on acquisition (refer to note 28).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CEO.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Interest income
Interest income is recognised on a time proportion basis using the effective interest method.

(ii) Crop sales
During the year, the Group grew and harvested crops on vacant land. Revenue from the sale of these crops is recognised when the Group sells the produce to the customer.

Notes to the financial statements
31 December 2010 (continued)

Note 1: Summary of significant accounting policies (continued)

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Tax consolidation legislation
Carbon Minerals Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Carbon Minerals Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Carbon Minerals Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(f) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value

Notes to the financial statements
31 December 2010 (continued)

Note 1: Summary of significant accounting policies (continued)

(f) Business combinations (continued)

and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

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 acquisition. The discount rate used is the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(g) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(h) Receivables

Trade receivables are recognised initially at fair value less provision for impairment.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

(i) Inventories

Stores are stated at the lower of cost and net realisable value. Costs comprise direct materials and direct labour. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Investments and other financial assets

The Group classifies its investments in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Loans and receivables
Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (refer to notes 9 and 12).

(ii) Available-for-sale financial assets
Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Notes to the financial statements
31 December 2010 (continued)

Note 1: Summary of significant accounting policies (continued)

(j) Investments and other financial assets (continued)

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(k) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Notes to the financial statements
31 December 2010 (continued)

Note 1: Summary of significant accounting policies (continued)

(l) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:
- Furniture, fittings and equipment 3-8 years

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 (note 1(o)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(m) Exploration and evaluation expenditure

Exploration and evaluation expenditure is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

For each area of interest, expenditures incurred in the exploration for and evaluation of mineral resources is expensed as incurred unless:

- the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale and exploration; and
- evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas. The directors review the carrying amount for impairment annually.

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Notes to the financial statements
31 December 2010 (continued)

Note 1: Summary of significant accounting policies (continued)

(o) Impairment of assets

Goodwill and 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 each reporting date.

(p) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(q) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(r) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(s) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

Notes to the financial statements
31 December 2010 (continued)

Note 1: Summary of significant accounting policies (continued)

(s) Earnings per share (continued)

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(t) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(u) Agricultural produce

The net market value of the wheat harvested during the year and recognised as revenue is determined as the net market value of wheat immediately after harvesting less associated point of sale costs. Wheat harvested during the year which has not been sold prior to the year end is included within inventory at the lower of cost and net realisable value.

(v) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2010 reporting periods. The entity's assessment of the impact of these new standards and interpretations is set out below.

(i) 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)* (effective from 1 January 2013)
AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The group has not yet decided when to adopt AASB 9.

Notes to the financial statements
31 December 2010 (continued)

Note 1: Summary of significant accounting policies (continued)

(v) New accounting standards and interpretations (continued)

(ii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)
In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the amended standard from 1 January 2011. When the amendments are applied, the group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

(iii) AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective from 1 July 2013)
On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Carbon Minerals Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

(iv) AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)
Amendments made to AASB 7 *Financial Instruments: Disclosures* in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the group's disclosures. The group intends to apply the amendment from 1 January 2012.

(v) AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (*effective from 1 January 2012)
In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The group will apply the amendment from 1 January 2012. It is currently evaluating the impact of the amendment.

Notes to the financial statements
31 December 2010 (continued)

Note 1: Summary of significant accounting policies (continued)

(w) Parent entity financial information

The financial information for the parent entity, Carbon Minerals Limited, disclosed in note 30 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities
AASB127(43)(c) Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Carbon Minerals Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation legislation
Carbon Minerals Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Carbon Minerals Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Carbon Minerals Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

(iii) Financial guarantees
Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

Note 2: Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk, liquidity risk and price risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Board and the financial risks faced by the Group are considered minimal at this stage.

(a) Market risk

The Group's and parent's main interest rate risk arises from cash and cash equivalents and deposits with banks. The Group and parent are not exposed to currency risk.

Group and parent entity sensitivity
At 31 December 2010, if interest rates had changed by -/+ 100 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been $2,303 lower/higher (2009 – change of 100 bps: $5,476 lower/higher), as a result of lower/higher interest income from cash and cash equivalents and deposits with banks.

Notes to the financial statements
31 December 2010 (continued)

Note 2: Financial risk management (continued)

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures in respect of outstanding receivables and committed transactions.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

(c) Liquidity risk

The Group manages liquidity risk by monitoring actual cash flows and maintaining sufficient cash to fund operations. Surplus funds are generally only invested in short term deposits with Australian Banks.

The Group does not have any borrowing facilities in place at the reporting date.

Maturities of financial liabilities
The tables below analyse the Group's and parent's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undisclosed cash flows.

At 31 December 2010	**Less than 6 months $**	**6 – 12 months $**	**Between 1 and 2 years $**	**Between 2 and 5 years $**	**Over 5 years $**	**Total contractual cash flows $**	**Carrying amount (assets) / liabilities $**
Non-derivatives							
Non-interest bearing	189,930	-	-	-	-	189,930	189,930
Total non-derivatives	189,930	-	-	-	-	189,930	189,930

At 31 December 2009							
Non-derivatives							
Non-interest bearing	169,663	-	-	-	-	169,663	169,663
Variable rate	13,677	-	-	-	-	13,677	13,677
Total non-derivatives	183,340	-	-	-	-	183,340	183,340

Notes to the financial statements
31 December 2010 (continued)

Note 2: Financial risk management (continued)

(d) Capital risk management

The Group manage their capital to ensure the Group will be able to continue as a going concern while maximising the return to stakeholders. The Group's overall strategy remains unchanged from 2009.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings.

The Group operates through subsidiary companies in Australia. None of the Group's subsidiaries are subject to externally imposed capital requirements.

The Group's cash flows are used for exploration and development of the mineral interests, crop expenses and to fund corporate costs of the Company.

(e) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

The carrying value less impairment provision of receivables and payables are assumed to approximate their fair values due to their short-term nature.

Note 3: Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below.

Exploration and evaluation expenditure
Certain exploration and evaluation expenditure is capitalised where it is considered likely that the expenditure will be recovered by future exploitation or sale, or where activities have not reached a stage which permits a reasonable assessment of the existence of commercially recoverable reserves. This process necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether economically viable extraction operations can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under this policy it is concluded unlikely that the expenditure will be recovered by future exploitation or sale, the relevant amount capitalised is written off to the income statement.

Carried forward exploration and evaluation expenditures are disclosed in note 15 and relate primarily to capitalised exploration and evaluation costs from activities in the Gunnedah Basin.

Notes to the financial statements
31 December 2010 (continued)

Note 4: Financial reporting by segments

The Group operates as a natural resources explorer and a primary producer in one geographical location, being Australia.

2010	**Natural resources exploration $**	**Primary production $**	**Total continuing operations $**	**Consolidated $**
Total segment revenue	104,558	-	104,558	104,558
Consolidated revenue			104,558	104,558
Segment result	(192,748)	(11,200)	(203,948)	(203,948)
Profit before income tax			(203,948)	(203,948)
Segment assets and liabilities				
Segment assets	4,579,789	368,706	4,948,495	4,948,495
Segment liabilities	189,930	-	189,930	189,930

2009	**Natural resources exploration $**	**Primary production $**	**Total continuing operations $**	**Consolidated $**
Total segment revenue	40,697	120,068	160,765	160,765
Consolidated revenue			160,765	160,765
Segment result	(189,140)	20,389	(168,751)	(168,751)
Profit before income tax			(168,751)	(168,751)
Segment assets and liabilities				
Segment assets	4,712,245	433,608	5,145,853	5,145,853
Segment liabilities	183,340	-	183,340	183,340

Note 5: Revenue

	2010 $	2009 $
From continuing operations		
Crop sales	**-**	120,068
Access compensation received	**26,830**	7,500
Interest received – non related corporations	**22,161**	33,197
	48,991	160,765

Notes to the financial statements
31 December 2010 (continued)

Note 6: Expenses

	2010 **$**	2009 $
Profit/(loss) before income tax includes the following specific expenses:		
Administration expenses		
Secretarial fees	**67,050**	54,118
Share registry and listing fees	**43,211**	42,900
Audit fees	**32,000**	30,000
Other fees	**80,038**	89,982
Other expenses including bank charges	**10,926**	11,386
	233,225	228,386

Note 7: Income tax expense

(a) Income tax (expense)/benefit	**-**	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) from operations before income tax expense	**(203,948)**	(168,751)
Tax at the Australian tax rate of 30% (2009: 30%)	**61,184**	50,625
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Benefit of tax losses of prior years recouped	**-**	-
Deferred tax assets not brought to account	**(61,184)**	(50,625)
Income tax (expense)/benefit	**-**	-
(c) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	**4,449,238**	4,245,291
Potential tax benefit @ 30%	**1,334,771**	1,273,587

Note 8: Current assets – cash and cash equivalents

Cash at bank and on hand	**9,523**	-
Deposits at call	**220,823**	547,595
	230,346	547,595

Notes to the financial statements
31 December 2010 (continued)

Note 8: Current assets – cash and cash equivalents (continued)

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	2010 **$**	2009 $
Balances as above	**230,346**	547,595
Bank overdrafts (note 17)	**-**	(13,677)
Balances per statement of cash flows	**230,346**	533,918

(b) Cash at bank and on hand

Cash at bank balances are subject to interest at variable rates and the average rate for the year was 0.25% (2009: 0.75%).

(c) Deposits at call

Deposits at call are subject to interest at fixed rates and the average interest rate for the year was 4.71% (2009: 4.41%). These deposits have a maturity of 30 days.

Note 9: Current assets – receivables

Security Bond	**6,000**	-
Interest receivable	**1,242**	1,502
Other receivables	**21,895**	88,227
Refundable deposit	**667**	300
	29,804	90,029

(a) Impaired receivables

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

There were no impaired receivables for the Group and there were no receivables past due for the Group.

(b) Interest rate risk

Information about the Group's and the parent entity's exposure to interest rate risk in relation to receivables is provided in note 2.

Notes to the financial statements
31 December 2010 (continued)

Note 9: Current assets – receivables (continued)

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair values.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's receivables.

Note 10: Current assets – term deposits

	2010 $	2009 $
Term deposit held as security for bank guarantee (Note 24)	**10,000**	-

Note 11: Non-current assets – term deposits

Term deposits held as security for bank guarantees (note 24)	**65,000**	75,000

Term deposits are subject to interest at fixed rates and the average interest rate for the year was 3.92% (2009: 4.45%).

Note 12: Non-current assets – receivables

Security bond	**-**	6,000

Note 13: Non-current assets – investments accounted for using the equity method

Interest in associates	**-**	4,166

Disclosures relating to movements in the carrying value of associates are set out in note 28.

Note 14: Non-current assets – property, plant and equipment

Freehold Land		
Opening net book amount	**736,080**	736,080
Additions	**-**	-
Disposal	**-**	-
Closing net book amount	**736,080**	736,080
Cost	**736,080**	736,080
Accumulated depreciation	**-**	-
Net book amount	**736,080**	736,080

Notes to the financial statements
31 December 2010 (continued)

Note 15: Non-current assets – exploration and evaluation expenditure

	2010 **$**	2009 $
Cost brought forward	**3,686,983**	3,526,155
Expenditure incurred during the year	**95,426**	160,828
Expenditure written off during the year	**(5,144)**	-
Exploration cost carried forward	**3,877,265**	3,686,983
Provisions for impairment in value of capitalised expenditure	**-**	-
Net exploration and evaluation expenditure carried forward	**3,877,265**	3,686,983

The above amounts represent costs of areas of interest carried forward as an asset in accordance with the accounting policy set out in note 1(m). The ultimate recoupment of deferred exploration and evaluation expenditure in respect of an area of interest carried forward is dependent upon the discovery of commercially viable reserves and the successful development and exploitation of the respective areas or alternatively sale of the underlying areas of interest for at least their carrying value. Amortisation, in respect of the relevant area of interest, is not charged until a mining operation has commenced.

Note 16: Current liabilities – payables

Trade payables	**33,759**	19,830
Other payables and accruals	**68,171**	77,833
	101,930	97,663

Note 17: Current liabilities – borrowings

Secured		
Bank overdrafts	**-**	13,677

Note 18: Non-current liabilities – payables

Other payables	**88,000**	72,000

Notes to the financial statements
31 December 2010 (continued)

Note 19: Contributed equity

	2010 **$**	2009 $
(a) Share Capital		
5 ordinary shares of $0.50 each, fully paid, issued as subscriber shares	**3**	3
18,803,493 ordinary shares of $0.50 each fully paid	**8,433,896**	8,433,896
	8,433,899	8,433,899

(b) Movements in share capital

Date	Details	Number of Shares	Issue Price (cents)	$
1 January 2009	Opening balance	18,803,498		8,433,899
31 December 2010	Balance	18,803,498		8,433,899

(c) Ordinary shares

At 31 December 2010 there were 18,803,498 fully paid ordinary shares.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Note 20: Accumulated losses

	2010 **$**	2009 $
Movements in accumulated losses were as follows:		
Balance 1 January	**(3,471,386)**	(3,302,635)
Net profit/(loss) for the year	**(203,948)**	(168,751)
Balance 31 December	**(3,675,334)**	(3,471,386)

Note 21: Key management personnel disclosures

(a) Directors

The following persons were directors of Carbon Minerals Limited during the financial year:

(i) Chairman – executive
P.A. Lincoln Smith
(ii) Executive director
M.P. Lincoln Smith
(iii) Non- executive directors
W.V. Annis-Brown
S.J. Danielson
B.K. Lee (alternate director for S.J. Danielson)

No other key management personnel have been identified.

Notes to the financial statements
31 December 2010 (continued)

Note 21: Key management personnel disclosures (continued)

(b) Key management personnel of the Group and the Company compensation

2010	Short-term benefits	Post-employment benefits	Share-based payment		
Name	**Directors' Base Fee** $	**Super-annuation** $	**Options** $	**Total** $	**Remune-ration consisting of options** %
Executive directors					
P.A. Lincoln Smith Chairman	8,000	-	-	8,000	-
M.P. Lincoln Smith	4,000	-	-	4,000	-
Non-executive directors					
W.V. Annis-Brown	4,000	-	-	4,000	-
S.J. Danielson	-	-	-	-	-
B.K. Lee	-	-	-	-	-
Total	**16,000**	**-**	**-**	**16,000**	**-**

2009	Short-term benefits	Post-employment benefits	Share-based payment		
Name	**Directors' Base Fee** $	**Super-annuation** $	**Options** $	**Total** $	**Remune-ration consisting of options** %
Executive directors					
P.A. Lincoln Smith Chairman	8,000	-	-	8,000	-
M.P. Lincoln Smith	4,000	-	-	4,000	-
Non-executive directors					
W.V. Annis-Brown	4,000	-	-	4,000	-
S.J. Danielson	-	-	-	-	-
B.K. Lee	-	-	-	-	-
Total	**16,000**	**-**	**-**	**16,000**	**-**

No remuneration was payable to any officers of the Group or the Company other than the amounts disclosed above.

Disclosures relating to key management personnel transactions with the Group and the Company are set out in note 23.

Notes to the financial statements
31 December 2010 (continued)

Note 21: Key management personnel disclosures (continued)

(c) Shareholdings

The numbers of shares in the Company held during the financial year by each director of Carbon Minerals Limited and other key management personnel of the Group, including their personally related entities, are set out below. Where shares are held by the individual director or executive and any entity under the joint or several control of the individual director or executive they are shown as 'beneficially held'. Shares held by those who are defined by AASB 124 *Related Party Disclosures* as close members of the family of the individual director or executive are shown as 'non-beneficially held'.

Name	Type	Balance as at 31 December 2009	Net changes during the year	Balance as at 31 December 2010
Executive directors				
P.A. Lincoln Smith	Beneficially held	15,184,872	-	15,184,872
	Non-beneficially held	8,500	-	8,500
M.P. Lincoln Smith	Beneficially held	1,500	-	1,500
	Non-beneficially held	15,191,872	-	15,191,872
Non-executive directors				
W.V. Annis-Brown	Beneficially held	1,000	-	1,000
	Non-beneficially held	40,000	-	40,000
S.J. Danielson	Beneficially held	100	-	100
	Non-beneficially held	-	-	-
B.K. Lee	Beneficially held	-	-	-
	Non-beneficially held	10,000	-	10,000

(d) Loans to key management personnel

No directors of Carbon Minerals Limited or other key management personnel of the Group, including their personally related parties, held any loans with the Group or the Company during the year.

(e) Other transactions with key management personnel

Refer to note 23 of the financial statements for details of related party transactions with key management personnel.

Note 22: Remuneration of auditors

	2010 **$**	2009 $
Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:		
Auditors of parent entity		
- Parent entity	**32,000**	30,000
- Controlled entities	**-**	-
Total remuneration for audit services	**32,000**	30,000

Notes to the financial statements
31 December 2010 (continued)

Note 23: Related party transactions

(a) Controlling entity

The Company's ultimate controlling entity is Malewi Investments Pty Limited, incorporated in New South Wales, which owns 11.22% of Carbon Minerals Limited directly and a further 69.54% through other investments held.

(b) Directors

The names of each person holding the position of director of the Company during the year are Messrs. P.A. Lincoln Smith, M.P. Lincoln Smith, W.V. Annis-Brown, S.J. Danielson and B.K. Lee. Also professional fees of $67,050 (2009: $54,119) were payable to Mitchell & Partners (Chartered Accountants) of which firm Messrs. S.J. Danielson and B.K. Lee are principals.

(c) Remuneration

Information on remuneration of directors is provided in note 21 and the Remuneration Report.

(d) Terms and conditions

Transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for repayment of loans between related parties. Outstanding balances are unsecured and are repayable in cash.

Note 24: Contingent liabilities

Details and estimates of maximum amounts of contingent liabilities are as follows:

Secured guarantees and security bonds exist in respect of mining tenements with the Department of Industry & Investment. These guarantees and security bonds comprise deposits held with financial institutions on behalf of (notes 9 to 12):

	2010	2009
	$	$
Guarantees		
Australian Coalbed Methane Pty Limited	**75,000**	75,000
Security Bonds		
Australian Coalbed Methane Pty Limited	**6,000**	6,000

Notes to the financial statements
31 December 2010 (continued)

Note 25: Reconciliation of profit/(loss) after income tax to net cash outflow from operating activities

	2010 **$**	2009 $
Profit/(loss) after income tax	**(203,948)**	(168,751)
Net gain on disposal of interest in joint venture partnership	**(55,567)**	-
Share of net loss of joint venture partnership	**54,635**	-
Exploration expenditure capitalised	**(190,282)**	(160,828)
Exploration expensed	**5,144**	-
Change in operating assets and liabilities:		
(Increase) decrease in interest receivable	**260**	571
(Increase) decrease in other receivables	**66,286**	(71,114)
(Increase) decrease in refundable deposits	**(367)**	-
(Increase) decrease in inventories	**-**	36,399
Increase (decrease) in trade payables	**13,929**	14,924
Increase (decrease) in other payables	**6,338**	47,699
Net cash outflow from operating activities	**(303,572)**	(301,100)

Note 26: Earnings per share

Basic earnings per share	**(0.0108)**	(0.0090)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**18,803,498**	18,803,498

(a) Reconciliation of earnings used in calculating earnings per share

Profit/(loss) attributable to members of Carbon Minerals Limited	**(203,948)**	(168,751)
Profit/(loss) attributable to minority interests	**-**	-
Profit/(loss) attributable to ordinary equity holders of the Company used in calculating basic earnings per share	**(203,948)**	(168,751)

Diluted earnings per share are the same as basic earnings per share.

Notes to the financial statements
31 December 2010 (continued)

Note 27: Commitments for expenditure

Exploration Commitments
In order to maintain current rights to tenure to exploration tenements, the consolidated entity has the following discretionary exploration expenditure requirements up until expiry of leases. These obligations, which are subject to renegotiation upon expiry of the leases, are not provided for in the financial statements and are payable:

	2010 **$**	2009 $
Within one year	**-**	-
Later than one year but not later than 5 years	**-**	5,170,565
	-	5,170,565

If the consolidated entity decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

The renewal of PELs 1 and 12 took effect on 6 April 2009 and 31 January 2008 respectively. Under the terms of the licence renewals, as granted by the NSW Department of Primary Industries, expenditure commitments as disclosed above are required in respect of PELs 1 and 12. These tenements are subject to a farmin agreement (FIA) between Australian Coalbed Methane Pty Ltd (ACM), a wholly-owned subsidiary of Carbon Minerals Limited and Santos QNT Pty Limted (Santos). Santos has earned an initial 25% interest in the tenements and has elected to proceed to a phase 2 commitment under the FIA which requires Santos to meet the expenditure commitments required under the terms of the licence renewals.

Note 28: Investments in associates

Wholly owned subsidiary, Australian Coalbed Methane Pty Limited (ACM) sold its 30% interest in the joint venture known as the Southwest Sydney Basin Seam Gas Joint Venture to joint venture partner Apex Energy NL on 31 August 2010.

The consolidated entity's interest in the joint venture is accounted for in the consolidated financial statements using the equity method of accounting (refer to note 13).

Notes to the financial statements
31 December 2010 (continued)

Note 28: Investments in associates (continued)

(a) Carrying amounts

	Ownership interest			
	2010	2009	**2010**	2009
	%	%	**$**	$
South Sydney Basin Seam Gas Joint Venture	**-**	30	**-**	4,166

(b) Movements in carrying value

Carrying amount at the beginning of the year	**4,166**	4,166
Contribution	**54,635**	-
Share of losses before income tax	**(54,635)**	-
	4,166	-
Disposal	**(59,733)**	-
Net gain on disposal	**(55,567)**	-
Net gain transferred to revenue account	**55,567**	-
Carrying amount at the end of the year	**-**	4,166

(c) Summarised financial information of associates

	Group's share of:			
	Assets	**Liabilities**	**Revenues**	**Loss**
	$	**$**	**$**	**$**
2010				
Southwest Sydney Basin Seam Gas Joint Venture	-	-	-	-
2009				
Southwest Sydney Basin Seam Gas Joint Venture	4,166	-	-	-

Note 29: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	**Country of Incorporation**	**Class of Shares**	**Equity Holding***	
			2010	2009
			%	%
Linger & Die Gold Pty Limited	Australia	Ordinary	**100**	100
Australian Coalbed Methane Pty Limited	Australia	Ordinary	**100**	100
Websters Find Gold Pty Limited	Australia	Ordinary	**100**	100

* The proportion of ownership interest is equal to the proportion of voting power held.

Notes to the financial statements
31 December 2010 (continued)

Note 30: Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2010 **$**	2009 $
Balance Sheet		
Current Assets	**258,004**	628,749
Total Assets	**4,914,736**	5,126,023
Current Liabilities	**68,171**	91,510
Total Liabilities	**156,171**	163,510
Shareholders' equity		
Issued capital	**8,433,899**	8,433,899
Accumulated losses	**(3,675,334)**	(3,471,386)
	4,758,565	4,962,513
Profit or loss for the year	**203,948**	168,751
Total comprehensive income	**203,948**	168,751

(b) Contingent liabilities of the parent entity

The parent entity has secured guarantees with the Department of Industry & Investment in respect of mining tenements of subsidiaries. These guarantees comprise deposits held with financial institutions as described in Note 24.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 20 to 49 are in accordance with the *Corporations Act 2001,* including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and the chief financial officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the directors.

P.A. Lincoln Smith
Director

Sydney
7 March 2011

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
www.pwc.com/au

Independent auditor's report to the members of Carbon Minerals Limited

Report on the financial report

We have audited the accompanying financial report of Carbon Minerals Limited (the company), which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Carbon Minerals Limited and the Carbon Minerals Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of Carbon Minerals Limited (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Carbon Minerals is in accordance with the *Corporations Act 2001*, including:

    (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and

    (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*,and

(b) the consolidated financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 8 to 10 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Carbon Mineral Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Marc Upcroft
Partner

Sydney
7 March 2011

Shareholder information

The shareholder information set out below was applicable as at 24 February 2011.

1. Substantial Shareholders

The names of the substantial shareholders and the number of shares in which they have an interest, as disclosed in substantial holding notices given to the company are as follows:

Paul Aurius Lincoln Smith: 15,273,172 fully paid ordinary shares (incorporating 11,813,692 shares held by Magnum Resources Pty Limited; 2,109,855 shares held by Malewi Investments Pty Limited; 720,000 shares held by Pali Pty Limited; 540,000 shares held by Pada Pty Limited ATF The L-S Unit Trust; 40,000 shares held by Malewi Investments Staff Superannuation.

2. Voting Rights

The voting rights attaching to the shares are, on a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

3. On-Market Buy-Back

There is no current on-market buy-back.

4. Distribution of Shareholders

Analysis of numbers of shareholders by size of holding:

Number of Shares	Number of Shareholders
1 - 1,000	375
1,001 - 5,000	119
5,001 - 10,000	27
10,001 - 100,000	51
100,001 and over	9
	581

(ii) There were 297 holders of less than a marketable parcel of shares.

5. Twenty Largest Shareholders

The names of the twenty largest holders of shares are listed below:

	Name of Shareholder:	Number Held:	Percentage of Issued Shares:
1.	Magnum Resources Pty Limited	10,756,700	57.21
2.	Malewi Investments Pty Limited	2,109,855	11.22
3.	Pada Pty Limited as trustee for the L S Unit Trust	1,495,000	7.95
4.	Imaj Pty Limited <Super Fund A/C>	831,500	4.42
5.	Pali Pty Limited	720,000	3.83
6.	Probex Pty Limited	345,415	1.84
7.	Mr. John Edward Barry	220,000	1.17
8.	Altex Holdings Pty Limited	156,000	0.83
9.	Platigraf Pty Limited <Platigraf Super Fund A/C >	129,000	0.69
10.	Imaj Pty Limited	81,000	0.43
11.	Weresyd Proprietary Limited	70,520	0.38
12.	Ms. Jillian Elizabeth Ross	67,500	0.36
13.	Bruce William Fleeting & Deidre Rosemary Fleeting	63,775	0.34
14.	Mr. John Joseph Ruddy	58,000	0.31
15.	Mr. Stephen Harry Jones	54,000	0.29
16.	RCW Constructions Pty Limited <Annis-Brown Super A/C>	51,500	0.27
17.	Nefco Nominees Pty Limited	50,000	0.27
18.	Mr. Paul Lincoln Smith	48,625	0.26
19.	Mr. Ianaki Semerdziev	43,200	0.23
20.	P.J. Howarth Investments Pty Limited	40,000	0.21
		17,391,590	92.51

6. Schedule of Tenements

Location	Tenement	Holder	Interest	Area	Current to
New South Wales:					
Gunnedah	PEL 1	ACM	75%[1]	72 blocks	10/02/2015
Bando	PEL 12	ACM	75%[1]	31 blocks	26/09/2011

Key to Tenement Types

PEL Petroleum Exploration Licence

Key to Tenement Holders

ACM Australian Coalbed Methane Pty Limited

Notes

1. PELs 1 and 12 are subject to a farmin agreement (FIA) with Santos QNT Pty Ltd, in which Santos has earned an initial 25% interest. Santos has elected to proceed to a phase 2 commitment under the FIA, which gives Santos the right to earn an additional 40% equity in each tenement.

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