

QUARTERLY ACTIVITIES REPORT
FOR THE THREE MONTHS ENDED 31 DECEMBER 2011

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 Joint Venture (JV) with Santos QNT Pty Ltd (Santos), as previously advised. Santos has now acquired a 65% interest in the tenements and is the project Operator.)

Since the previous quarterly announcement¹ social opposition to coal seam gas activity has continued to grow, particularly in New South Wales. Since its commencement of exploration in the early 1990s, ACM has always committed to responsible development of the resource, as does ACM's JV partner Santos.

It is important that coal seam gas operators continue to maintain open and transparent lines of communication with all stakeholders, especially host communities. While many landholders have legitimate questions about the impact coal seam gas will have on them, elements of the public debate on coal seam gas are based on misinformation. A key challenge facing the coal seam gas industry is to counter the extreme views with clear, fact-based arguments that demonstrate the proven ability to co-exist with other land uses² - particularly agriculture - and the significant economic benefits a responsible industry will bring.

Carbon Minerals entered the coal seam gas industry some 20 years ago in the belief that natural gas offered a cleaner alternative for base-load electricity and other energy requirements, pending the development of technologies which would permit renewables to fulfil this role. Whether or not Australia's goal of 20% renewable energy by 2020 is achieved, attainment of close to 100% clearly remains many decades away, and as it is unlikely that the world's demand for energy will diminish, natural gas resources MUST be responsibly utilised.

Glasserton Pilot

Drilling of the proposed multi-well pilot at Carbon Minerals' "Glasserton" property, located approximately 44km south-southeast of Gunnedah was scheduled to commence in the reporting period, however as previously announced, was put on hold. In place of the previous multi-well proposal, the JV elected for a single pump-test well located on elevated ground. Despite the existence of all necessary statutory approvals to proceed with this well, the JV went further, agreeing to delay activities until the findings of the Namoi Valley Water Study (see below) – expected in Q1, 2012 – were available. This will allow for further consultation with the community about the pilot testing process.

Kahlua Pilot

The Kahlua multi-well pilot is located approximately 23 km west of Gunnedah and comprises three monitor bores (Kahlua 3, 4, & 5) and a central production well (Kahlua 2). The pilot was operating from September 1, 2011 until November 17, 2011, when Kahlua 2 was shut in due to a temperature sensor trip in the gas flow line. This technical issue has since been resolved, however testing at the pilot has been temporarily suspended to allow for an investigation into the gas rate impact of suspected liner cement ingress during well completion. Some additional works may be completed to improve the performance of this well. Further community consultation is also considered appropriate.

Exploration Wells

Planning is well advanced for additional exploration coreholes to better define the resources of the biogenic and adjacent Early Permian fairways in central PEL 1 and extending into the northeast corner of PEL 12.

Namoi Valley Water Study

This is a scientific study to understand the risks to the Namoi catchment's water resources from existing and proposed coal mining and gas developments. The work is overseen by a committee appointed by the NSW Government, comprising representatives from the minerals, petroleum, agricultural and irrigation industries and government. The study will create a valuable asset for agribusiness and resource operators to use in future planning, particularly given the increasingly interconnected nature of food, water and energy security.

Further details, including access to intermin reports, are available from
<http://www.namoicatchmentwaterstudy.com.au/site/index.cfm?display=238460>

PEL 12 RENEWAL APPLICATION

No further advice has been received from the administration regarding the status of the PEL 12 renewal application which was lodged in the prior reporting period, as advised. Despite the current climate, the JV partners are unaware of any impediment to the renewal of this licence.

¹ <http://www.asx.com.au/asxpdf/20111031/pdf/422642t87dnbv6.pdf>

² <http://www.appea.com.au/industry/csg/introduction.html>

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Exploration Expenditure Incurred

Exploration expenditure incurred during the quarter ended 31 December 2011 on the group's projects is set out below:-

Project	Amount Incurred
New South Wales PELs 1 & 12 (Gunnedah Basin)	\$ 49,774 =====

SCHEDULE OF MINERAL TENEMENTS AS AT 31 DECEMBER 2011

<i>LOCATION</i>	<i>TENEMENT</i>	<i>HOLDER</i>	<i>INTEREST</i>	<i>AREA</i>	<i>CURRENT TO</i>
New South Wales:					
Gunnedah					
Bando	PEL 1	ACM	35% ¹	72 blocks	10/02/2015
	PEL 12	ACM	35% ¹	31 blocks	26/09/2011 ²

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 with Santos QNT Pty Ltd ("Santos"), in which Santos has earned an initial 25% interest. Pursuant to an agreement between ACM and Santos, a further 40% equity in each tenement has been transferred to Santos for a cash consideration of \$15 million, taking Santos' interest in each tenement to 65%.
2. A renewal application has been lodged for this tenement.