



Carbon Minerals Limited

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Seam Gas Pioneers of the Gunnedah Basin, NSW
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CARBON MINERALS LIMITED

**QUARTERLY REPORT
to September 30, 2012**

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 Ltd (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.)

Whilst there has been no resumption of field activities at the Gunnedah Project during the past quarter Joint Venture partner Santos advise that work designed to enhance production from the Kahlua pilot is scheduled for the current quarter and that regional core drilling will recommence early in 2013. A number of recent developments in government administration are also relevant to the project. These relate to a resumption of the petroleum licence renewals process following release by the NSW government of the Strategic Regional Land Use Policy, the release of the Namoi Catchment Water Study final report and new charges levied on the minerals and petroleum industries in NSW.

Strategic Regional Land Use Policy

On September 11 the NSW Government released the **Strategic Land Use Policy** which includes a number of measures designed to provide a framework for responsible development of CSG and other resources within NSW whilst protecting agricultural land, water and the environment.

These measures include:

- A **Gateway Process** for developments affecting **Strategic Agricultural Land**;
- The requirement for an **Agricultural Impact Statement** for exploration proposals;
- An **Aquifer Interference Policy**;
- Appointment of a new **Land and Water Commissioner**;

- New **Codes of Practice** for the CSG industry relating to drilling and hydraulic fracturing;
- Standardised access agreements;
- The requirement for CSG producers to set up **Regional Community Funds** to invest in local communities.

Whilst such measures will result in a considerable addition to compliance costs and lead times for exploration and development, clarification of issues should allow seam gas exploration and development within NSW to proceed with more certainty. Following the release of the Policy, the Government resumed the process of renewals of Petroleum Exploration titles which has been stalled for the past 16 months.

Petroleum Exploration Licence 12 Renewal

An offer of renewal for PEL12 for a five year term has been received by the Operator from NSW Trade and Investment, Resources and Energy. The terms of renewal have been reviewed by both ACM and Santos and clarification has been requested on a number of conditions. We anticipate renewal will be finalised before the end of this Quarter.

Namoi Catchment Water Study

The independent expert's Final Report and modelling for the Namoi Catchment Water Study was released in July. Conclusions were that development of a CSG industry at a realistic level will have no significant impact on overall availability of water in the region. However because of the regional nature of the study, local-scale effects cannot be predicted. Both coal mining and CSG extraction are considered to have the potential to impact on groundwater and surface waters at a local scale and as risks are location specific, each proposed development will require assessment of likely impacts.

Comments by Joint Venture partner Santos can be found at

<http://www.santos.com/exploration-acreage/nsw-csg/ncws.aspx> .

The entire report can be downloaded at

<http://www.namoicatchmentwaterstudy.com.au/site/index.cfm?display=317529>

New NSW Government charges on the Mining and Petroleum Industries

Commencing 1 July 2012 two new fees are being levied by the NSW Government on the mining and petroleum industries. These are an administration levy and an annual rent tax based on the size of each tenement. The charges were introduced as part of the [*State Revenue and Other Legislation Amendment \(Budget Measures\) Act 2012*](#) passed by Parliament on 19 June 2012. These fees have been estimated by the Government to raise more than \$19.5 million per year to fund government administration and enforcement of the industry as well as provide for ongoing work in acquisition and provision of geological and geophysical data. Full details are available on the Resources and Energy website at <http://www.resources.nsw.gov.au/info/fees>.

Whilst the size of the fees is not overly onerous in the scale of operations, they do introduce an additional cost and administrative burden.

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QUARTERLY ACTIVITIES REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2012

Exploration Expenditure Incurred

Exploration expenditure incurred during the quarter ended 30 September 2012 on the group's projects is set out below:-

Project	Amount Incurred
New South Wales PELs 1 & 12 (Gunnedah Basin)	\$ 39,200 =====

SCHEDULE OF MINERAL TENEMENTS AS AT 30 SEPTEMBER 2012

LOCATION	TENEMENT	HOLDER	INTEREST	AREA	CURRENT TO
New South Wales:					
Gunnedah	PEL 1	ACM	35% ¹	72 blocks	10/02/2015
Bando	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. An offer of renewal has been received and is currently being considered.