

QUARTERLY ACTIVITIES REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 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 (JA) with Santos QNT Pty Ltd (Santos), as previously advised. Santos has now acquired a 65% interest in the tenements and is project Operator.)

As announced in an ASX release on September 26, 2011¹ an agreement was reached between the company's wholly-owned subsidiary, Australian Coalbed Methane Pty Ltd and farmin operator Santos QNT Pty Ltd in relation to ongoing seam gas exploration and development operations in Petroleum Exploration Licences 1 and 12 in the Gunnedah Basin of northern NSW.

In exchange for an immediate transfer of an additional 40% equity in the tenements to Santos (which would have occurred under the former farmin agreement by June, 2012) an enhanced exploration and development program and budget to better assess the seam gas resource potential of the tenements was negotiated by the partners, and a cash payment of \$15 million was made by Santos to ACM.

The new work program, to be notionally completed by June 2013, will provide a more realistic framework for the evaluation of ACM's assets than was provided by the original agreement, and is aimed at optimising demonstration of 2P gas reserves in the tenements. Target areas include both the Late Permian biogenic fairway currently being assessed by the Kahlua Pilot, and the underlying Early Permian fairway.

Initial work will concentrate on progressing the Kahlua 4-spot pilot where pumping from the central well commenced on September 1, as announced. ACM's contribution to the program, which also includes a second multi-well pilot, additional corehole exploration drilling and seismic acquisition, is capped at \$13 million.

Santos has advised ACM that the Kahlua Pilot is progressing well and that a number of initial teething problems (mainly relating to data telemetry) have now been resolved. Plans are advanced for a Petroleum Assessment Lease application (PALA) over the Kahlua Pilot which will permit expansion of the production trial to pump from all four wells.

Santos also advise that planning for a single pump-test well on Carbon Minerals Limited's "Glasserton" property is well advanced, with most statutory approvals in place and with commencement of drilling imminent. This hole, which is located on elevated ground well away from the flood plain area, replaces the previously planned multi-well pilot at "Glasserton" and is an acknowledgement of the JV's concern to minimise social and environmental impact in this sensitive region. It is hoped that testing, aimed at better understanding seam permeabilities, will commence prior to year's end.

PEL12 RENEWAL APPLICATION

During the reporting period the Operator lodged a renewal application for PEL12 which expired on 26 September 2011. The renewal application incorporated a proposed work program that was agreed with ACM. The partners are aware of no impediment to the renewal of this licence.

¹ <http://www.asx.com.au/asxpdf/20110926/pdf/421b1v986yc76y.pdf>

CARBON MINERALS LIMITED

ABN 29 001 836 586

**QUARTERLY ACTIVITIES REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2011****Exploration Expenditure Incurred**

Exploration expenditure incurred during the quarter ended 30 September 2011 on the group's projects is set out below:-

Project	Amount Incurred
New South Wales PELs 1 & 12 (Gunnedah Basin)	\$ 47,814 =====

SCHEDULE OF MINERAL TENEMENTS AS AT 30 SEPTEMBER 2011

<i>LOCATION</i>	<i>TENEMENT</i>	<i>HOLDER</i>	<i>INTEREST</i>	<i>AREA</i>	<i>CURRENT TO</i>
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. A renewal application has been lodged for this tenement.