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GUNNEDAH SEAM GAS UPDATE – PELs 1 & 12

The market in general, and shareholders in particular, will be aware that progress of field activities related to seam gas in New South Wales have been severely constrained over recent months by a series of events –largely based on misinformation about seam gas exploration and production – targeting the seam gas industry. In the case of Carbon, all field activities in the company's highly prospective Gunnedah seam gas tenements (PELs 1 and 12) ceased in the latter part of last year. As we have recently advised, matters relating to seam gas exploration and production in NSW (particularly in relation to coexistence with rural activities) are currently subject to State Government review.

On March 28, 2012, Carbon's JV Partner and Project Operator SANTOS (which now holds 65% equity in the project), issued a media release warning that NSW businesses and consumers face the risk of constrained gas supply and higher prices in the absence of a growing local gas industry. Research commissioned by Santos, and undertaken by respected economic consultants ACIL Tasman, has concluded that coal seam gas is critical to NSW energy security, and that as early as 2017, NSW's traditional sources of gas – 95% of which is currently imported – will increasingly be used to meet rising demand from both Queensland LNG projects and gas-fired electricity generation. Both the Santos media release and the full ACIL Tasman report can be accessed via the Santos website "Latest News" section.

Similar conclusions were reached in a release dated March 27, 2012, by respected UK-based international energy and metals analyst, **Wood Mackenzie**¹.

Craig McMahon, Head of Australasia Upstream Research for Wood Mackenzie noted that *"Overall demand on the east coast of Australia could reach close to 2.5 billion cubic feet per day (bcfd) by the end of the decade. We forecast that the domestic market will be undersupplied from 2016, although this shortfall can be avoided if new projects are developed in a timely manner."*

Mr McMahon concluded that, *"CSG can play a significant role in meeting future gas demand in eastern Australia. However, if policy uncertainty and land access issues continue to delay developments, the supply shortfall could have a direct impact on the State's consumers, through higher energy costs."*

¹ <http://www.woodmacresearch.com/cgi-bin/wmprod/portal/corp/corpPressDetail.jsp?oid=10467644>

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These releases strongly support comments in Carbon's recently released "*Chairman's Address*"² and will hopefully assist in bringing a pragmatic, science-based approach to ongoing seam gas exploration in New South Wales. This in turn will facilitate responsible resumption of our field activities in PELs 1 and 12 in the Gunnedah Basin where the current JV program is aimed at a commencement of significant reserves booking by June 2013.

Submissions to the NSW State Government in response to their Draft Strategic Land Use Plans (about which shareholders have previously been advised³) close on May 3, 2012, and shareholders will be advised of any significant developments as they come to hand.

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² The Chairman's statement can be viewed at <http://www.asx.com.au/asxpdf/20120329/pdf/425b2x1f4nykl2.pdf>, and will also be published in the Company's forthcoming Annual Report.

³ <http://www.asx.com.au/asxpdf/20120309/pdf/424xsql8hcvvv.pdf>