



CarbonEnergy

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ASX Announcement

1 April 2009

Carbon Energy (CNX) executes Heads of Agreement to acquire WA coal resource and secure foundation Gas Sale Agreement

Highlights

- West coast coal resource to support existing east coast holding and development of Carbon Energy's national resource availability strategy
- Potentially increases Carbon Energy's coal resource from 668Mt to at least 968Mt, an increase of 45%
- Supply contract for 168 MW Centauri 1 power station
- Potential to supply gas to Oakajee and Geraldton port developments to support Western Australian Government's mid-west development plans
- Potential to supply additional source of gas and power to Western Australian market at lower cost to industry and mining operations and improve the State's energy security

Carbon Energy Limited has executed a Heads of Agreement with Eneabba Gas Limited (ENB) and its fully-owned subsidiary, Eneabba Mining Pty Ltd (EMPL) to acquire EMPL's granted coal tenements of over 1,000 km² and develop an Underground Coal Gasification syngas supply for the planned ENB owned Centauri 1 Power Station near Dongara in Western Australia (see attached location map).

When completed, the Heads of Agreement will result in:

1. Carbon Energy acquiring a substantial coal exploration area in Western Australia including at least 300Mt JORC inferred resource;
2. A long-term Gas Sale Agreement for 5.5 – 16.5 PJ per annum of UCG syngas for the Centauri 1 Power Station; and
3. Issue of 30,000,000 fully paid Ordinary Carbon Energy shares to Eneabba Gas Limited in exchange for the Sargon Group of coal tenements.

"Following successful exploration, Carbon Energy will supply UCG syngas to power the proposed Centauri 1 Power Station, 8 kilometres east of Dongara in Western Australia," said Managing Director of Carbon Energy, Andrew Dash.

"Our target was to secure an additional coal resource within Australia by the end of 2009, in line with our strategy to build a national resource availability to support the development of commercial energy projects, based on Carbon Energy's world leading UCG technology."

"We anticipate this transaction will be unconditional by the middle of 2009, well ahead of our target."

"This agreement sees Carbon Energy increase its coal resources by 45% to at least 968Mt and hold major resources on both the East Coast and West Coast of Australia, close to growing demand centres for both power generation and natural gas."

"The location of the Sargon Group of coal tenements in the mid-west of Western Australia, are well placed for such a development. They are adjacent to major infrastructure, particularly the port of Geraldton and the planned deepwater Oakajee port both of which are within 70 kilometres."

The opportunity to bring reasonably priced power generation to mid-west Western Australia will assist in the establishment of iron ore mines and provide the power for the planned Oakajee port, which will support the State Government's development plans for the region.

The resource is also well placed to produce synthetic natural gas for supply to existing gas pipelines that service Perth.

"The agreement is made possible by Carbon Energy's world leading UCG technology and our ability to apply our technology to any suitable coal seam anywhere in the world," said Managing Director Andrew Dash.

"We are aiming to replicate our Australian East Coast strategy in Western Australia and to be a major contributor to the State's power and gas needs.

"While Western Australia has abundant reserves of natural gas, most of these are earmarked for LNG production and export overseas. This has resulted in record gas prices being achieved for domestic natural gas sales in recent times."

"Carbon Energy has the potential to supply an additional source of gas and power into the Western Australian market at lower cost to industry and mining operations. In addition, this potential new source of energy will also improve the State's energy security."

Under the Heads of Agreement, ENB will work exclusively with Carbon Energy to conduct exploration drilling, at ENB's cost, to identify a coal resource of at least 300 Mt (JORC inferred), that is suitable for UCG and to negotiate a Share Sale Agreement and a Gas Sale Agreement to give effect to the transaction.

These agreements are also subject to the completion of acquisition due diligence by both parties. Satisfaction of these conditions and completion of documentation is anticipated to be achieved by the middle of this year, with first gas sales targeted to be available approximately 18 months later in December 2010.

For and on behalf of the Board



Andrew Dash
Managing Director

For Further information please contact:

Investors

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Competent Person Statement (Coal Resource)

The information in this release that relates to resources is based on information compiled by Dr C.W. Mallett, Executive Director Carbon Energy Limited who is a member of the Australian Institute of Mining and Metallurgy. Dr Mallett has supervised and reviewed the estimation of coal resources prepared by Nicola Rich. Dr Mallett has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves".

Dr Mallett consents to the inclusion in this release of the matters based on his information in the form and context in which it appears.

ABOUT CARBON ENERGY

Carbon Energy's produces clean energy and chemicals from Underground Coal Gasification (UCG) syngas.

Carbon Energy's unique approach to UCG and syngas production produces a low cost option for capturing CO₂ making it a leader in clean coal technology.

Carbon Energy's is working to make syngas the preferred feedstock for producing clean coal power stations, an alternative to oil-based fuel, agribusiness products (fertilisers & explosives), polyolefin products (such as plastics) and allowing for economic carbon capture.

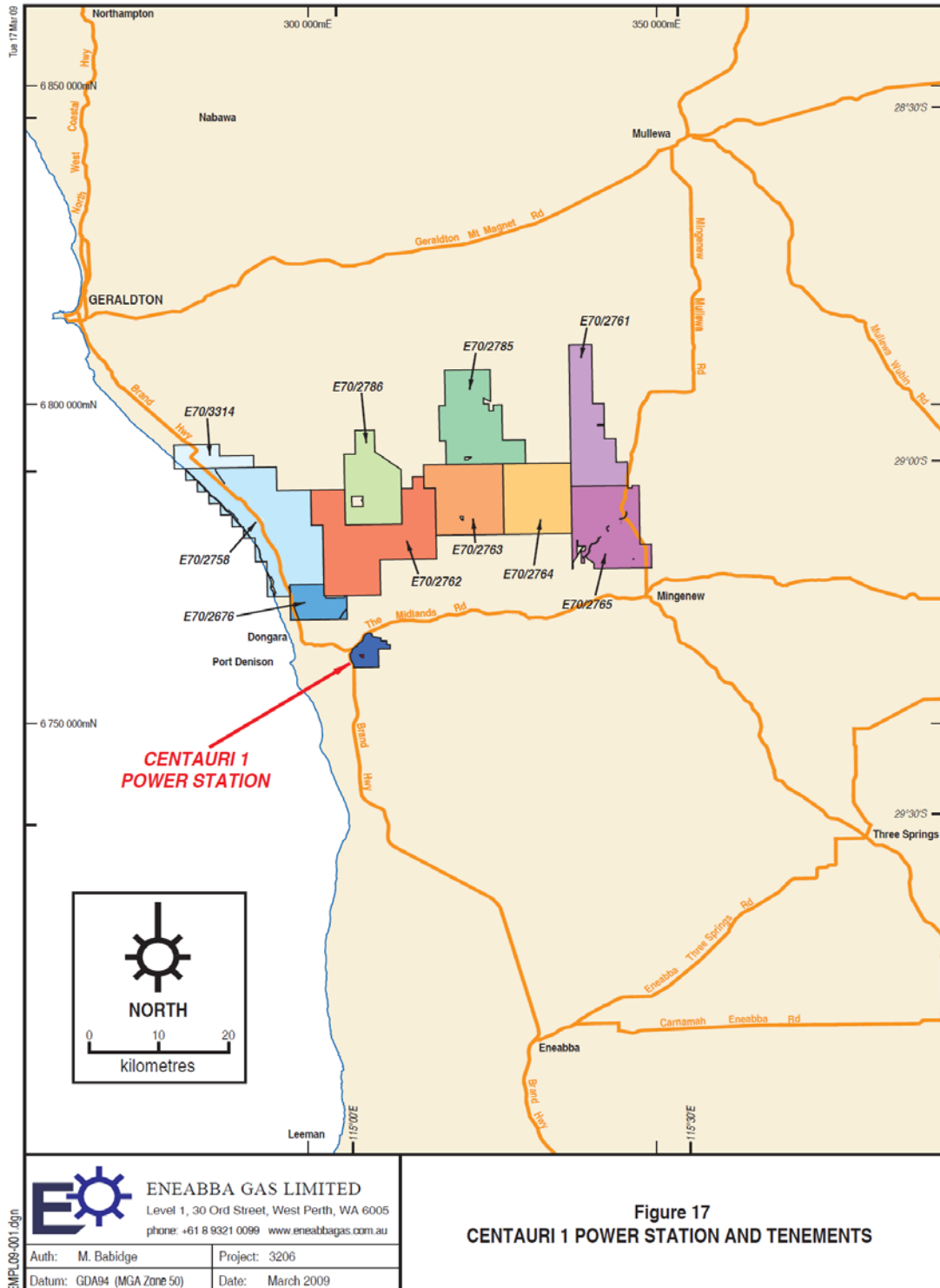
Carbon Energy's technological advantage comes from its association with CSIRO including world class geotechnical, hydrological and gasification modelling capabilities.

Located at the hub of the Surat Basin's energy infrastructure, Carbon Energy's energy resources are perfectly positioned to provide the basis for future energy, industrial and agricultural chemicals, and liquid fuels for export and to the growing local industrial hub.

ABOUT ENEABBA GAS LIMITED

Eneabba Gas Limited is focused on the development of the 168MW gas-fired Centauri 1 power station on Company-owned land 8km east of Dongara in the Mid West of Western Australia. Its Centauri 1 Power Station project now has all the necessary regulatory approvals for development. Eneabba Gas proposes to market power from Centauri 1 to the fast growing Mid West region of Western Australia.

PROJECT LOCATION AND TENEMENTS



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