



CarbonEnergy

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Power Generation in Queensland



Managing Director's List

MAY 2009

Managing Director's Message



Welcome to the May update - it's been a busy time with lots of exciting things happening in the business. Last November at our AGM we outlined our commercialisation strategy and today I would like to give you a quick update on how things are progressing.

We have made a number of announcements over the past few months regarding resource upgrade, gas composition, findings from our commercial trial and the recent Heads of Agreement with WA based Eneabba Mining, so now I wanted to outline how these important announcements fit into our overall commercialisation strategy.

To achieve our business goals, Carbon Energy are pursuing a simple strategy that encompasses 3 key areas, these being;

1 RESOURCE AVAILABILITY

Carbon Energy's strategy is to build a portfolio of coal resource assets suitable for UCG both in Australia and internationally.

Current resources are:

- > 668 million tonnes of inferred and indicated coal resource in QLD
- > 300 million tonnes (drilling underway to confirm mid 2009) in WA
- > A number of international opportunities identified and under investigation

2 SUPERIOR TECHNOLOGY

Carbon Energy's proven technology was developed in conjunction with the CSIRO.

Carbon Energy's proprietary UCG technology incorporates sophisticated geological modeling tools and, being modular in design, can be scaled to meet the requirements of the particular location or product application.

This enables Carbon Energy to produce cleaner, cheaper, more resource efficient energy.

3 READY ACCESS TO KEY MARKETS

LOCATION, PRODUCT MIX AND PARTNER CAPABILITIES

This strategy involves identifying suitable resource availability located within close proximity to key markets and infrastructure.

Both the QLD and WA sites offer infrastructure access to major power and gas markets.

Working with experienced national partners to produce products such as power, gas, transport fuels or chemical feedstock enables Carbon Energy to match resources to customer demand.

Resource Availability

Our strategy is to build a portfolio of coal resource assets suitable for UCG both in Australia and internationally. You may remember Resource Upgrade Announcements that we made in early March that saw our Queensland indicated and inferred (JORC 2004) resource jump from around 100Mt in December 2008 to 668Mt in March 2009, 218Mt indicated and 450Mt inferred with a 2 metre cut-off applied (JORC 2004). [Please click here for more details regarding the resource upgrade.](#)

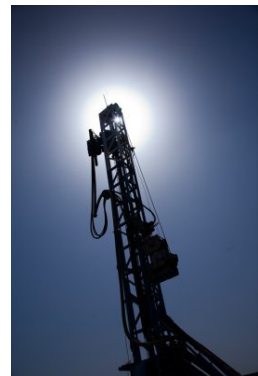
In April we made an announcement covering the Heads of Agreement with Western Australian company Eneabba Gas Limited (ENB). Finalisation of the HOA with ENB is dependent on further exploration and ENB identifying 300Mt of JORC inferred coal resource (approximately 6,000PJ) suitable for underground coal gasification. Timing is expected by mid-year. [For full details regarding this agreement, please click here.](#)

Additionally, a number of international resource opportunities have been identified by Carbon Energy and are under investigation.

Superior Technology

Finalisation of Carbon Energy's \$20m Bloodwood Creek commercialisation trial has seen Carbon Energy achieve the world's first oxygen injected syngas, suitable for the production of low emission energy, chemicals and liquid fuel.

The commercial trial, completed at the end of January 2009, successfully demonstrated the company's capability to convert in-situ coal into significant quantities of UCG syngas (energy). Importantly, a large proportion of the energy produced (68%) is in the form of methane and ethane, the key components required in the production of synthetic natural gas.



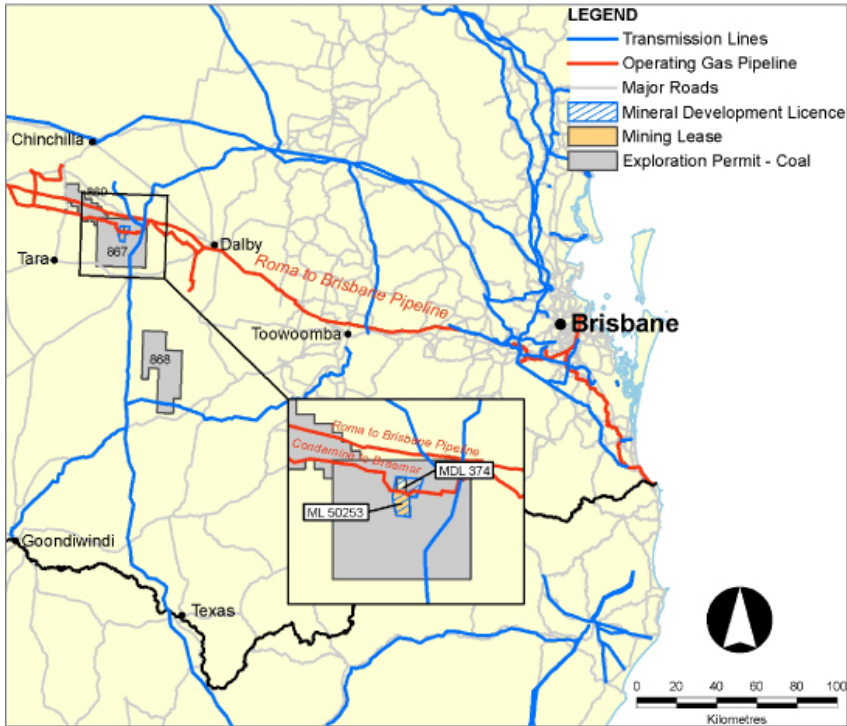
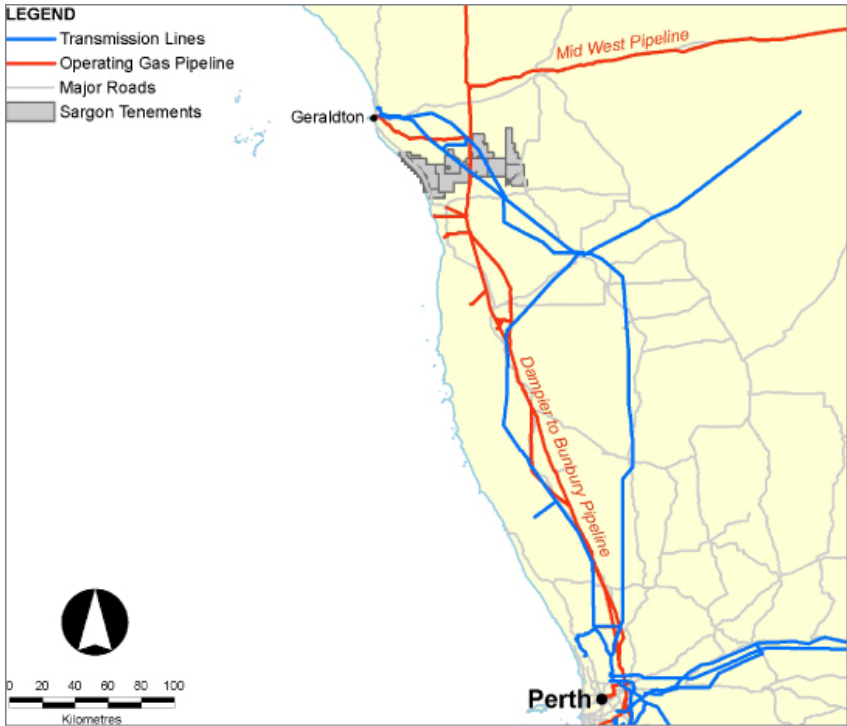
Understanding that, Carbon Energy have huge resources available plus the technology to convert those resources into substantial amounts of energy (approximately 2,890PJ) which will be in the form of key components of synthetic natural gas (methane and ethane).

[For full details regarding the gas composition please click here.](#)

Ready Access to Key Markets

Location, Product Mix and Partner Capabilities

This part of the strategy involves identifying suitable resource availability that is located within close proximity to key markets and infrastructure. Both the Queensland and WA sites offer infrastructure access to major power and gas markets. This enables Carbon Energy to match resources to customer demand.



We are in discussions regarding a number of really interesting and exciting projects, which will see Carbon Energy developing the potential to become a major contributor to the growing energy industry in Queensland and WA.



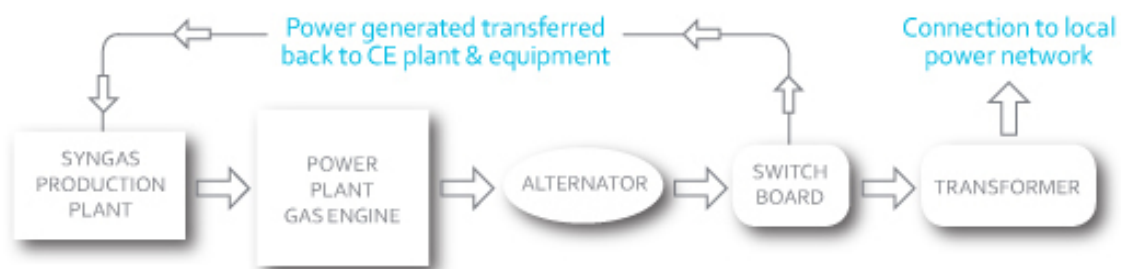
Planning underway

Power generation at Bloodwood Creek in Queensland

As you may be aware, we have been producing syngas at our Bloodwood Creek location for several months. Consequently we are now evaluating the opportunity to use the gas we are producing to generate electricity. Planning is well underway for the development of a 5MW power station located at the Bloodwood Creek site for supply into the local electricity grid.

Converting the syngas into electricity will have a number of major benefits for Carbon Energy, such as;

- ▶ the ability to provide power to our own plant and equipment, thereby reducing our diesel usage and importantly, our running costs.
- ▶ once the 5MW power station is connected to the local electricity network, this gives us the opportunity to generate revenue from the sale of the electricity generated.



Whilst a number of aspects of the 5MW power station project are yet to be finalised, a decision to commence is expected within the next couple of months. Once operational, this power facility will be the first commercial UCG syngas fired power station in Australia. Timing to produce the first electrons is expected between October and December this year.

Competent Person Statement/Coal

The information in this e-newsletter May 2009 relating 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 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 the release of the matters based on his information in the form and context in which it appears.

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