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## **ASX Announcement**

28 April 2010

### **Australia`s first UCG Syngas Power Station - Commissioning Update**

Carbon Energy (ASX: CNX) advises that construction work is nearing completion and commissioning continues of its Queensland based 5 MW power station. Good progress has been made with planning for construction of Panel 2, with:

- Construction to commence in May 2010,
- Directional drilling of Panel 2 scheduled to commence in June 2010 with gas production expected August 2010 (pending rig availability),
- Gas production from Panel 2 to become the primary fuel source for the 5MW power station,
- Carbon Energy has the option to commence construction of a third UCG Panel immediately following completion of Panel 2 , and
- Panel 1 will not form part of the field configuration now planned for the power station.

### **Construction of Panel 2 and Panel 3**

Construction of Panel 2 will commence during May, with directional drilling commencing in June, and the gas produced from this new panel (Panel 2) will become the primary fuel source for the 5MW power station.

Detailed design work, incorporating the lessons learnt from Panel 1, has been completed and a final review of the modified design is currently being undertaken by an external engineering consultancy.

Due to the long lead time currently being experienced in hiring the type of specialty drill rig required to undertake Carbon Energy`s unique panel design, the Company has negotiated an option to commence the construction of Panel 3 immediately after the completion of Panel 2. Once triggered, this option will enable testing of multi-panel operation in advance of the Company`s planned 20 MW power station, the development of which will follow on from the current 5 MW project.

## **Remediation work – Panel 1 Injection Well**

It has been decided not to deploy Panel 1 as a fuel source for the power station, in part because the Panel 1 configuration (following remediation) is not part of our base design (previously outlined in our ASX Announcement of the 3rd March 2010). In addition, it is not cost effective to expand remediation work on Panel 1 given that Panel 2 will be available in the short term.

The Company is evaluating future options for Panel 1, including running a controlled de-commissioning process for Panel 1 which will provide the opportunity to demonstrate and report on the operation of the complete life cycle of a UCG panel. The results from this process would provide valuable operational data for the planning of the Company's full scale commercial operations which are the subject of a current Mining Lease Application. A final decision on Panel 1 will be taken prior to the end of this calendar year.

## **Final Stage of Power Station and Infrastructure Construction**

Construction of the power station and associated infrastructure is in the final stages. The roll out of the 12.6 kilometres of overhead power lines that connect the power station to the local grid is now close to completion.

As initial gas from Panel 2 is now expected to be available from August, the progressive commissioning of the four engines to supply the additional electricity required for export is now scheduled for August/September 2010.

As previously advised, in July 2009, Carbon Energy signed an off-take agreement with Ergon Energy (a Queensland Government owned electricity provider), for electricity produced at this facility. Whilst the first revenue from the project is expected to be delayed, there is no financial penalty to Carbon Energy associated with the date change.

Andrew Dash, Carbon Energy's Managing Director commented "we remain confident that our underlying approach to UCG is sound and we are working diligently to complete this important first stage of our commercialisation strategy as quickly as possible."

"We remain focused on the execution of our broader strategy, which includes adding to our portfolio of coal resources, the continuous improvement of our UCG technology and the rapid commercialisation of our resources both in Australia and overseas."

Regular updates on the progress of the 5 MW power station and construction of Panel 2 will be provided as the project proceeds.

For and on behalf of the Board



Andrew Dash  
Managing Director

## **About Carbon Energy**

Carbon Energy's purpose is to produce clean energy and chemicals feedstock from Underground Coal Gasification (UCG) Syngas.

Carbon Energy's unique approach to UCG and Syngas production produces a low cost option for capturing CO<sub>2</sub> making it a leader in clean coal technology.

Carbon Energy's ambition is for Syngas to become the preferred feedstock for producing clean coal power stations, and the production of synthetic natural gas, 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.

Carbon Energy is building an international portfolio of coal assets, suitable for UCG with close proximity to markets.