



CarbonEnergy

ASX Announcement

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Australia`s first UCG syngas Power Station - Commissioning Update

Carbon Energy (ASX: CNX) advises that final stages of the construction and commissioning of its 5 MW power station have been rescheduled in order to accommodate:

- Reconfiguration of the injection well;
- Completion of auxiliary work on power plant and transmission line;
- Progressive commissioning of each of the 4 engines, allowing for steady ramp up of power generation to 5 MW of export to the grid; and
- Completion of UCG panel 2.

Remediation work – Injection Well

As previously advised on 17th December 2008 during the initial stages of the Bloodwood Creek UCG trial a blockage occurred in the injection well that was to service the initial UCG panel (Panel 1) which required the injection well to be repositioned. The work undertaken at the time resulted in the successful completion of the trial and continued operation of the UCG process.

However, during recent gas ramp-up activities (from a low flow state), gas volume and quality has not progressed at the rate required for production, resulting in the need to again reposition the injection well. It is important to note that the reconfiguration is not part of our base design and as such these issues are not expected to recur in future panels.

Plans are in place to ensure that the required gas quality and flow continues to be delivered. These include the continued remediation activities on the injection well for the existing panel (Panel 1), and construction of a new UCG panel (Panel 2), as previously announced.

To date this remedial action in Panel 1 has resulted in gas quality and volume continuing to improve with commissioning now expected to occur as outlined below.

Progressive commissioning of the power station over 4 stages

It is anticipated that work on the injection well for Panel 1 will enable the company to progressively commission the power station as follows:

- Operation of 1 engine on syngas to provide electricity to operate Carbon Energy's site operations (approximately 1 MW);
- The progressive commissioning of the next three engines to supply the additional electricity required for export;
- Export of 1 MW of electricity to the local electricity grid; and
- Steady ramp up of power generation to 5 MW for export to the grid, this is anticipated to be achieved over the next 2-3 months.

Construction of Panel 2

In the event that remediation work to existing injection well of panel 1 is not to our satisfaction, the power station will be fuelled and commissioned using syngas produced by Panel 2. The commencement of drilling for Panel 2 is currently scheduled for the end of May and is expected to be fully operational by the end of July 2010.

Final Completion of Power Station Construction

Construction of the power station and associated infrastructure is 95% complete. The only outstanding matters are, the roll out of the overhead power lines that connect to the local grid and the coordination of grid connection with the local electrical authority (2-3 weeks' notice of connection is required once commissioning of the engines have been achieved).

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 will be slightly delayed there is no financial penalty to Carbon Energy associated with the date change.

Andrew Dash, Carbon Energy's Managing Director commented "The delay to our commissioning and export of electricity is obviously disappointing because it falls short of the original target date we set. However, it should be noted that this project is the forerunner of what we expect to be the establishment of a significant new industry targeting production of clean energy and petrochemicals using UCG Syngas. We remain confident that our underlying approach to UCG is sound and we look forward to completing this stage as quickly as possible."

"The business continues to move forward with the execution of our strategy, this being to add to our portfolio of coal resources, continuous improvement of our UCG technology and the rapid commercialisation of our resources. We are successfully progressing negotiations for future projects and expect to be in a position to provide an update on their progress over the coming weeks and months."

Regular updates on the progress of the 5 MW power station 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 CO² 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 modeling capabilities.

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