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ASX Announcement

28th March 2011

Successful Initiation of UCG Panel 2

Carbon Energy Limited (ASX: CNX) is pleased to advise that it has successfully initiated syngas production from its Underground Coal Gasification (UCG) Panel 2 at the Company's Bloodwood Creek facility, located in the Surat Basin, south east Queensland.

Andrew Dash, Managing Director of Carbon Energy said, "Commissioning for the start of the panel commenced on Monday 21st with the first gas being produced late Friday 25th (please see photo attached). This is a fantastic achievement by our operational staff members on site, who have worked long hours over the past few weeks to complete our water monitoring wells and commence commissioning activities."

Mr Dash commented further, "This is a particularly exciting time for the Company's Queensland project. Once the panel is fully commissioned the syngas produced will enable us to start the commissioning process for the gas engines at our 5MW Power Station."

Gas is currently being produced to the vertical initiation well as planned. Activities will now continue to commission the horizontal production well and main flare. Gas production will then be ramped-up to produce consistent gas quality and flow. These activities are anticipated to be complete within the next 4 weeks, at which time syngas can then be introduced to the Company's 5 MW power station to commence testing and commissioning of the gas engines.

This will enable Carbon Energy to undertake its first steps towards generating electricity from UCG syngas, which will be the first Power Generation facility of its type in Australia and an important milestone for Carbon Energy and the quest to produce cleaner energy from coal.

Further project updates will be provided over the coming months as key milestones are achieved.

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.

The Company's unique approach to UCG and syngas production increases the efficiency of capturing carbon dioxide making it a leader in clean coal technology.

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

Carbon Energy is building an international portfolio of coal assets suitable for UCG and accessible to high-value markets.



Queensland, Bloodwood Creek UCG Panel 2, 26th March 2011

