



Level 12, 301 Coronation Drive,
Milton QLD 4064 Australia
PO Box 2118, Toowong DC
QLD 4066 Australia
phone +61 (0) 7 3337 9944
fax +61 (0) 7 3337 9945
www.carbonenergy.com.au

Carbon Energy Limited
ABN 56 057 552 137
Carbon Energy (Operations) Pty Ltd
ABN 61 105 176 967

ASX Announcement

23 February 2011

Carbon Energy Signs Agreement for Major International Acquisitions

Carbon Energy Limited ("Carbon Energy" ASX: CNX) developer of Australia's first commercial Underground Coal Gasification (UCG) fuelled power station has executed a Share Sale Agreement to acquire USA-based Clean Coal Inc. and UK-based Clean Coal Amasra Ltd. This transaction delivers projects in the United States of America and Turkey as developed by Clean Coal Ltd. The acquisition has the potential to increase Carbon Energy's coal resources by almost three fold to in excess of 2 billion tonnes and underpins the Company's plans to build an international portfolio of UCG projects.

Key points

Carbon Energy to acquire two companies holding rights to projects in Wyoming (USA), North Dakota/Montana (USA) and Amasra (Turkey):

- Consideration of US\$10 million of shares (based on 60 day VWAP) which will be issued within the Company's 15% share issue capacity (ASX Listing Rule 7.1). Two further tranches of US\$4.5 million of shares each (based on 30 day VWAP at time of milestone achievement) will be issued subject to meeting key development milestones including the delineation of JORC complaint coal resources in excess of 500Mt at two of the three locations.
- Wyoming Project: includes rights to explore and lease coal tenements with Anadarko Land Corporation over 113 km². Carbon Energy is responsible for rents and minimum expenditures and production royalty to Anadarko.
- Montana / North Dakota Project: includes rights to explore and lease coal tenements with Great Northern Properties (subsidiary of the Quintana Capital Group) in an area over 276km². Carbon Energy is responsible for rents, minimum expenditures and production royalty to GNP.
- Amasra Project: 50/50 Joint Venture Agreement with Hema Endustri (subsidiary of the diversified Hattat Group) to develop UCG projects in Hema's coal tenements in Amasra northern Turkey. Carbon Energy is responsible for initial pilot costs, while the joint venture company is responsible for production royalties to state-owned mining company, Turkish Hard Coal Enterprise ("TTK").



The Agreement has been approved by the Boards of the respective parties. There are a number of conditions precedent for the benefit of Carbon Energy consisting of minor variations to the agreements with Anadarko, Great Northern Properties and Hema, which are anticipated to be satisfied within the next 4 weeks.

Andrew Dash, Carbon Energy's Managing Director said, "This Agreement will launch Carbon Energy into both the North American and European markets and underpins the transformation of the Company into a truly international energy business. Whilst we will need to undertake exploration programs for each site, the considerable amount of data available to Carbon Energy gives us a high degree of confidence that we will confirm our target resources.

If we are able to fully develop these assets our experience in Queensland suggests that each project will be capable of producing approximately 5,000 PJ of syngas from 500 million tonnes of in-situ coal resource, enough to generate 5,000 MW of electricity for 15 years in each location.

Our technology is particularly attractive where the coal lies in deep seams either unreachable or uneconomic to recover via conventional mining.

Moreover the technology which was developed in conjunction with Australia's premier research agency, CSIRO, has a low impact on the environment, does not de-water the regional water table and has a small surface footprint especially when compared with current mining technique which benefits all stakeholders." said Mr Dash.

Strategic Rationale

Carbon Energy's strategy is to develop a portfolio of coal resources suitable for UCG and accessible to attractive markets in Australia and internationally to build on the Company's underlying coal inventory and to diversify market and regulatory risk.

The Company has actively sought to establish relationships with companies that can provide not only access to suitable coal resources but also access to downstream markets and associated expertise.

Mr Dash commented, "This acquisition is consistent with our growth strategy and will establish the Company in our target markets of North America and Europe.

In addition, the commercial partners we will have as a consequence of this acquisition are each major players in their respective markets. Their ability to bring considerable strategic benefits to this transaction will provide Carbon Energy with opportunities for early project success.

We have been developing a suite of products from "syngas", a mixture of hydrogen, methane and carbon monoxide produced in the UCG process. These downstream uses for syngas include low emission power generation, synthetic natural gas production and chemical manufacture, such as ammonia. We believe that each of these products will play an important role in the US and European markets.

In addition to these traditional product streams, there is market demand for carbon dioxide (CO₂) in the US for its use in Enhanced Oil Recovery (EOR), a technique that has been demonstrated at a commercial scale for over 30 years in the US. Wyoming's current shortage of CO₂ for EOR coupled with Anadarko being the State's largest consumer of CO₂ for this application provides significant opportunity for Carbon Energy to further reduce its carbon emissions in a commercially attractive manner.



The agreement with Anadarko not only provides access to the coal, but also includes terms for the sale of CO₂ to Anadarko for use in EOR applications in their existing oil production activities. While CO₂ may be viewed as a liability in some markets, it is an additional product and source of revenue in the US.

Wyoming is also one of the few jurisdictions to have an established regulatory approval process for the commercial production of syngas from UCG, and additionally, the State of Montana is expected to embrace a similar type of regulatory framework in the next few months," said Mr Dash.

Commenting on the Turkish market Mr Dash said, "Turkey imports some 70% of its energy needs and presents a significant opportunity for Carbon Energy".

Background notes on the 3 projects are attached.

For and on behalf of the Board



Andrew Dash
Managing Director





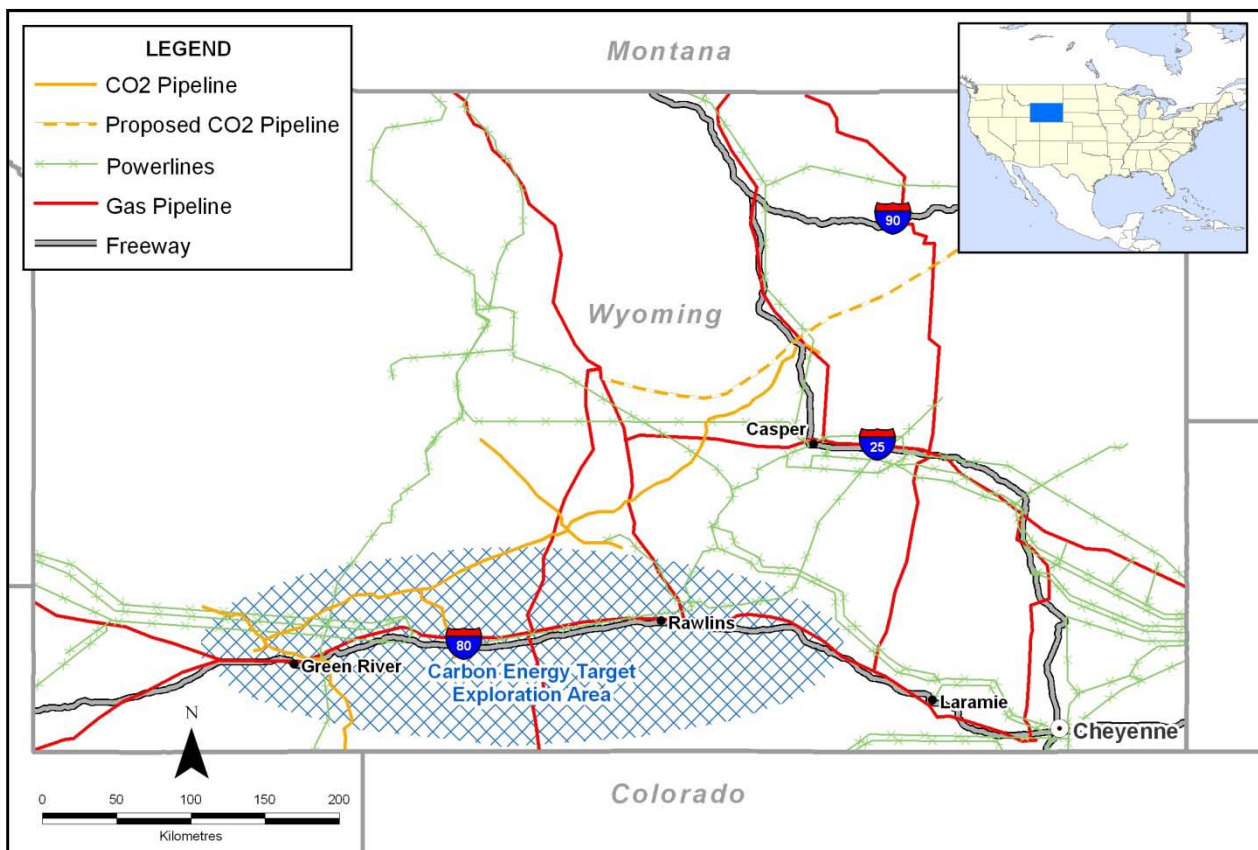
Wyoming Project (Carbon Energy 100%)

1. Background

Key Development Milestone: 500Mt inferred resource is required of which 100Mt is required to be indicated resource.

There are three factors that underpin the attractiveness of the Wyoming project:

- the structure and depth of the coal seams suitable for UCG;
- an existing permitting process for UCG; and
- accessibility to existing natural gas, electricity and CO₂ pipeline infrastructure.



2. Anadarko Project Agreement

Anadarko is a significant owner of coal and coal rights in Wyoming and also has rights of entry and surface access. The agreement gives Carbon Energy the right to explore 44 identified sections of land (over 113km²) owned by Anadarko and exercise an option to enter into an exclusive long term coal lease (20 years+) for all or a portion of the property with Anadarko and to extract coal via UCG in exchange for a production royalty.

Anadarko has supplied borehole data and Carbon Energy has commenced the process of evaluating potential project sites within the Wyoming Project area. The Wyoming Project has coal seams at depths of between 200 and 1,000 metres, with multiple seam thicknesses of up to 10 metres in certain areas. The proximity to natural gas pipelines and Enhanced Oil Recovery opportunities for the use of CO₂ makes the Wyoming Project extremely attractive.





The Wyoming Project is located in the Rocky Mountain region which contains numerous operating coalfields. The geology of the area has been studied extensively as part of regional coal mining and natural gas extraction activities.

The Company has assessed hundreds of boreholes and identified two seams of up to 10m thick suitable for UCG. Consequently, there is a high degree of confidence that the 500Mt inferred resource Key Development Milestone will be met.

3. Market Opportunity

Carbon Energy is currently assessing the following commercialisation options:

- Off-take with a local power station, supplemented by CO₂ sales; and
- Conversion of syngas into synthetic natural gas (SNG) to supply the local gas pipeline network

The resource-rich state of Wyoming is increasingly providing the growing demands for electricity generation from surrounding states with future plans to supply power to the highly populated west coast.

4. Project Timeline

Carbon Energy has already commenced preliminary site selection, assisted by Anadarko's internal team of geologists. From available drilling data, Carbon Energy has narrowed its search to three locations within the target exploration area considered suitable for UCG development. The Company is currently evaluating this data and expects to conclude project site selection during 2011.

On completion of site selection Carbon Energy will exercise its option to enter into a coal lease agreement with Anadarko on agreed terms.

In parallel, Carbon Energy will commence environmental permitting activities involved in satisfying regulatory requirements and submit a mining plan to the State of Wyoming for approval of the facility and operations.

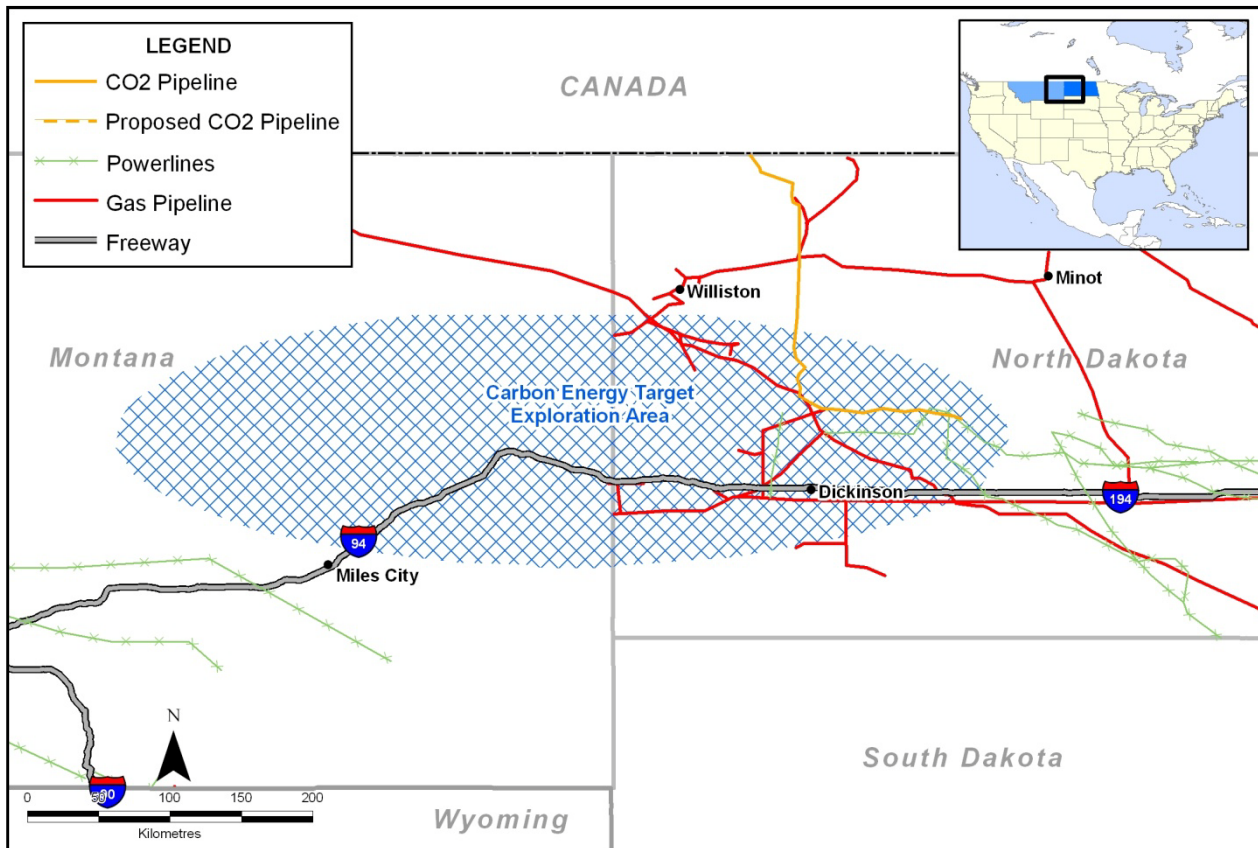




Montana / North Dakota Project (Carbon Energy 87.5 – 100%)

1. Background

Key Development Milestone: 500Mt inferred resource is required of which 100Mt is required to be indicated resource



The second United States project area is in the states of Montana and North Dakota where the Company has the rights to explore and an option to lease from and potentially partner with Great Northern Properties (GNP). GNP is the largest private non-governmental coal owner in the USA with over 20 billion tonnes of proven coal reserves throughout the mainland.

Montana and North Dakota contain large amounts of lignite and sub-bituminous coal reserves. The coal-bearing strata are shallow in central Montana, becoming increasingly deeper towards the State's eastern border and into North Dakota. As the largest private mineral rights owner in both states, GNP controls vast amounts of coal resources. Preliminary work undertaken by state and federal geological associations has produced a number of potential targets for UCG development across GNP land in both states. Under the Agreement, Carbon Energy has exploration rights over an area of approximately 276km² of GNP's coal resource in Montana and North Dakota. GNP has the right to take a 12.5% contributing stake in the Carbon Energy project on GNP's property. Carbon Energy believes that GNP's involvement will bring enormous benefit to the project due to their extensive experience in the natural



resource industry, and their proven capability in project delivery. GNP has been instrumental in advancing UCG legislation in North Dakota and Montana (currently under evaluation with greater regulatory certainty expected within the coming months).

2. Market Opportunity

Local power generation supplemented by Enhanced Oil Recovery (EOR) is currently considered to represent the most viable opportunity, with fertiliser production and local gas production opportunities also under consideration.

Whilst additional work needs to be undertaken, Carbon Energy considers the project to be commercially attractive as it fulfils the following key criteria:

- Accessible to key markets and infrastructure;
- Significant coal resources;
- Viable solution for carbon reduction available; and
- Favourable regulatory environment

About Great Northern Properties (GNP)

Houston-based Great Northern Properties is a privately owned land management company with its lands and minerals largely concentrated in Montana and North Dakota. Formed in 1991 by the Robertson family and American Bailey Mining Limited Partnership to acquire these lands from Burlington Northern Railroad, GNP is the largest private owner of coal reserves in the United States.





Amasra Project (Carbon Energy 50%)

1. Background



The project is a 50/50 Joint Venture between Carbon Energy and private company, Hema Endustri (subsidiary of the diversified Hattat Group). The Amasra project is located on the coast of the Black Sea in northern Turkey, approximately 435km from Istanbul and 300km from Ankara. The Amasra coalfield has been subject to extensive exploration and mining over the past 40 years by state-owned mining company, Turkish Hard Coal Enterprise ("TTK") and more recently by Hema. As a result, the geology is well understood and there is a significant amount of exploration data available.

2. Joint Venture Agreement with Hema Endustri

Hema Endustri is a privately owned conglomerate based in Istanbul with interests in construction, mining and transport. Hema has mining and Coal Seam Gas (Coal Bed Methane) rights over the Amasra Project area. Consequently, there are no conflicts of access to the coal and gas resources in the target area. TTK has stated that the right to pilot a UCG project is covered by the existing rights granted to Hema. In addition, the Minister of Energy has approved a site to conduct a UCG Pilot in the project area.





The Joint Venture Agreement gives both Carbon Energy and Hema a 50% interest each in the development of the Amasra Project. The joint venture agreement states that Carbon Energy will pay for the pilot project costs, and subsequently, both parties must equally contribute to the commercial-scale project costs in order to maintain their respective 50% interest in the joint venture.

Under the joint venture agreement Carbon Energy will operate the Amasra Project. The agreement has a term of 15 years with the option for a 15-year extension.

To date, 160 wells have been drilled at the Amasra site by various parties, of which Hema has drilled approximately 50. The geological information provided by Hema has contributed to Carbon Energy's understanding of the general geology. Four coal seams have been correlated and thicknesses of coal seams and contour plots have been drawn for a region in the east field. This has been critical in understanding the project economics to determine the most favourable locations for UCG. Carbon Energy will undertake a drilling program to identify JORC compliant resources.

Of the four correlated seams, one seam is up to 6.5 metres thick and is considered by the Company to be the most suitable for UCG. Exploration drilling will be undertaken to determine the site location for the pilot project and further confirm the suitability of these coal resources for UCG.

3. Market Opportunity

Significant market opportunity currently exists for power generation and the production of synthetic natural gas (SNG) as Turkey is one of the fastest growing economies in Europe. Turkey imports some 70% of its energy and the country's GDP is projected to grow 4.5% during 2011.

About Hema

Hema Endustri is a large diversified energy company in Turkey with coal, gas and oil assets and plans to build a coal fired power station of between two and four units of 660MW each at Amasra. Hema is part of the larger Hattat Holdings group which includes diversified interests in property, automotive and tourism industries and offers Carbon Energy the benefit of partnering with a well-established local company for joint venture development.





EDITORS' NOTES

Underground Coal Gasification (UCG)

Underground Coal Gasification (UCG) is an alternative coal mining method that is operated remotely from the surface. The coal is extracted by gasification rather than the mechanical excavation used in conventional mining, and without the associated environmental impacts. Carbon Energy's wholly owned UCG technology, developed in conjunction with CSIRO, enables the Company to deploy the environmentally safe and commercially viable extraction of coal as a gas, called syngas.

UCG provides the opportunity to utilise large reserves of otherwise inaccessible coal, minimising the environmental impact of extraction and providing the energy as syngas (hydrogen, methane and carbon monoxide) as the basis for a new generation of clean power and liquid fuels technologies.

UCG accesses the coal through boreholes and recovers the coal transformed into a gas. It does this by injecting oxidising gases such as oxygen, steam or air down a borehole into a gasification chamber in the coal, reactions convert the coal into a gas, and the UCG product gas is extracted through another borehole. Only the coal is removed and any rock mixed with the coal (generally referred to as ash) is left underground. The gas is cleaned on the surface and processed for its specific use at that site.

This technology is the most economic pathway to carbon capture when compared with all of the new clean coal technologies which are based on coal gasification.

About Carbon Energy

Carbon Energy's purpose is to produce cleaner energy and chemical feedstock from Underground Coal Gasification (UCG) syngas.

Carbon Energy's unique approach to UCG and syngas production increases the efficiency of capturing carbon dioxide, giving the Company a leading edge 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.

