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Carbon Energy Limited | ABN 56 057 552 137

ASX/Media Announcement

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Carbon Energy becomes the exclusive UCG Technology provider to Shanxi Sanyuan Coal

Carbon Energy (ASX:CNX, OTCQX:CNXAY) announced today it had signed a Heads of Agreement (HOA) and agreed commercial terms, to become the exclusive underground coal gasification (UCG) technology partner to Shanxi Sanyuan Coal (wholly owned by Shanxi Coal Transportation & Sales Group Co Ltd) ("Shanxi Coal") for the Shanxi Province.

Shanxi Coal is ranked as the 2nd largest coal company among China's top 100 coal enterprises¹ and is the 72nd largest of China's top 500 enterprises².

This agreement is the first implementation of Carbon Energy's recently announced strategic direction to license the proprietary UCG Technology worldwide. The partnership represents a significant milestone as it lays a solid and self funded foundation to add to the Company's growth.

Following the HOA signing, the companies will formalise the Technology Licence and Project Development agreements. Execution of these agreements, expected in the next 6 months, will deliver to Carbon Energy:

- A Technology Fee of US\$10 million (US\$7.5 million payable upon execution of final agreements and the balance payable upon achievement of project milestone);
- Payment for technical and engineering services based on a commercial schedule of rates; and
- An ongoing royalty based on the number of UCG panels installed and the volume of syngas produced, payable on completion of developed panels prior to syngas production.

The project development is divided into two phases. The first phase involves a single panel supplying 0.5 PJ p.a syngas to the local township of Changzhi, which will generate over US\$3 million in royalties over the next couple of years as project milestones are met.

The second phase is the development of major commercial projects with a minimum production rate of 30 PJ p.a of syngas. Carbon Energy Managing Director Andrew Dash said the second phase project, anticipated to be 30 PJ p.a, has the potential to generate over US\$400 million in royalties over a 20 year project life. The first US\$200 million is payable on completion of developed panels prior to syngas production and it is expected to be progressively received within the next 5 years as project milestones are met.

Shanxi Coal, is one of China's largest coal owners with rights across the Shanxi Province, which is China's major coal producing Province. Shanxi Coal aims to develop UCG projects across the region and is an industry leader with strong experience in the entire supply chain of coal, from production and sales to transportation related logistics.

Under the agreement, the parties will work together exclusively in Shanxi Province to identify further project opportunities, which will have the potential to provide substantial growth in technology royalty payments to Carbon Energy, as additional projects are developed.

Mr Dash said the partnership with Shanxi Coal was an extremely positive outcome for the company. "Shanxi Coal is a leading coal company and has strong support from the Shanxi Provincial Government." he said.

"We are delighted to have reached this agreement to apply our UCG technology with one of China's largest coal companies." he said.

"This agreement will provide the Company with cash flow in the short term and access to a long term revenue stream, without calling on Carbon Energy to contribute capital to the development of these projects." he said.

Notes

1. Source: China National Coal Association, 2009
2. Source: China Enterprise Confederation, 2011

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For and on behalf of the Board



Andrew Dash
Managing Director

For more information please contact Andrew Crook on +61 419 788 431 or refer to our website at www.carbonenergy.com.au

About Carbon Energy

Carbon Energy is a world leader of advanced coal technology. Our business is transforming stranded coal resources into high-value fuels with lower carbon emissions to meet the increasing global demand for new, low cost, alternative energy sources.

Carbon Energy is headquartered in Brisbane, Australia and listed on the Australian Securities Exchange (ASX). The Company also has an office in New York and is quoted on the OTCQX International.

The Company's proprietary technology, keyseam® is an innovation in underground coal gasification (UCG), incorporating a unique site selection methodology and advanced geological and hydrological modelling. Keyseam maximises resource efficiency, extracting up to 20 times more energy from the same resource than coal seam gas, whilst minimising surface disturbance and preserving groundwater quality.

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

Carbon Energy is building an international portfolio of coal assets suitable for keyseam® and accessible to high-value markets. The Company has resources and rights to coal assets in projects across Australia, Chile and the United States.

About Shanxi Coal

Shanxi Coal is a large, modernised coal mining and logistics group established by the Shanxi State-owned Assets Management Committee and 11 municipal state-owned assets management committees. Shanxi Coal Transportation is engaged in a wide variety of coal-related businesses, including the sale of coal and coke, coal and coke technology development, the sale of coal chemicals and the production of coal mining machinery.

Shanxi Coal is an industry leader with strong experience in the entire supply chain of coal, from production and sales to transportation-related logistics.

Shanxi Coal is ranked as the 2nd largest company among China's top 100 coal enterprises in 2009 according to China National Coal Association and is the 72nd largest of China's top 500 enterprises in 2011 according to China Enterprise Confederation.