



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 January 2012

Bloodwood Creek producing World-class UCG gas & Ergon Energy Connection

Carbon Energy Limited (ASX:CNX) (OTCQX:CNXAY) continues to make significant progress at its Underground Coal Gasification (UCG) project at Bloodwood Creek, where it is developing high-value, low emissions fuel technology for local and world markets.

The Company announced today that the Bloodwood Creek project, near Dalby in Queensland, continued to perform above expectations, with the site producing amongst the highest quality UCG gas of its kind anywhere in the world over the past month.

The high gas quality levels demonstrate the world leading technological advancements at the site, where last year an Australian first in generating electricity was achieved, using syngas produced through Carbon Energy's proprietary UCG technology.

The continued successful operation of UCG Panel 2 at Bloodwood Creek has now achieved almost nine months of sustained syngas production, delivering consistent, high-quality gas, since its initiation in March 2011. Gas heating value has been consistently in the range of 6.0 to 7.5 MJ/m³.

The energy produced at Bloodwood Creek will be plugged back into the grid to support local communities and can be sold at prices not under pressure of global price parity. Carbon Energy has now completed all work required in readiness for testing the exporting of electricity to the local area network.

Carbon Energy Managing Director Andrew Dash said the recent achievements represented significant steps forward for the Company which is consolidating its position as a world leader in UCG technology-development and expertise for delivering lower emission energy from coal.

Ergon Energy Corporation Ltd (Ergon Energy) has confirmed it installed a connection point between Bloodwood Creek and its local area network last Friday 20 January. Completion of work and testing required by Ergon Energy to allow Carbon Energy to export to their local grid is expected in the next few weeks.



The Company is currently awaiting approval from the Queensland Department of Environment and Resource Management (DERM) to increase production from the current limit of 1.5 MW (single engine operation) up to the nameplate capacity of the power station of 5 MW (3 engines in operation). DERM advised late last year it required a further extension to determine the application and subsequently requested additional information from Carbon Energy. The information requested will take several months to collate and DERM has now advised of a further extension to April 2012.

The Board of Directors is frustrated by DERM's continuing delays and continues to engage actively with all stakeholders to expedite the delivery of power in Queensland using our industry leading technology. Our focus on existing and new offshore opportunities has intensified as a result of the regulatory challenges in Queensland.

While work on providing the additional information progresses, the Company remains focused on the continued production of high quality syngas and completion of testing the electricity connection to the local grid.

ENDS

For and on behalf of the Board



Andrew Dash
Managing Director



About Carbon Energy

Carbon Energy is a world leader in 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, United States and Turkey.