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ASX / Media Announcement

11 November 2013

Carbon Energy Achieves Company First With Receipt of Trigger Payment for Inner Mongolia UCG Project

- **Payment of \$725,000 received triggering commencement of site preparation and engineering works on the Process Characterisation Panel (PCP) for the Inner Mongolia UCG project**
- **Payment represents start of long term project revenue stream**
- **Drill rig mobilised to site and has commenced coal characterisation drilling**
- **PCP construction to start early 2014**

Carbon Energy (ASX:CNX, OTCQX:CNXAY) is pleased to announce the Company has received the first milestone payment from its UCG project in Inner Mongolia, China, which represents the first ever commercialisation of its keyseam® Underground Coal Gasification (UCG) technology.

The \$725,000 received today is the first instalment of a series of payments totalling \$8.25 million in Service and Technology fees relating to Stage 1 of the project.

The payment has triggered the commencement of technical services and engineering works by the Carbon Energy team for the delivery of the PCP in accordance with the scope of works agreed with project partners Zhengzhou Group (*refer ASX Announcement 19 August 2013*). A PCP is required at each potential UCG site to confirm the modelled process variables prior to the design and construction of the commercial UCG facility.

Carbon Energy CEO Morné Engelbrecht said: “Receiving this payment is a significant milestone for Carbon Energy. It represents the start of the first steady income stream for the Company and the first ever commercialisation of our keyseam UCG technology. It demonstrates that Carbon Energy’s UCG technology is considered a viable and environmentally safe solution to energy security concerns.”

The UCG project is on schedule to be delivered in 3 stages:

- Stage 1(commenced) – Construct and operate one UCG panel from which the results will be used to confirm the site characterisation before commencing the commercial scale under- and aboveground designs;
- Stage 2 – Construct and operate two additional panels to confirm the results from the first panel; and
- Stage 3 – Construct and operate a commercial scale production facility producing at least 30 PJ per annum.

In addition to the \$8.25 million to be generated through Engineering Services and Technology License Fees for Stage 1, Carbon Energy will also receive an additional \$7 million in Technology Licence Fees paid on achievement of milestones over Stages 2 and 3 and further Engineering Services fees (amount to be agreed). Once first revenues from the sales of project syngas are generated, Carbon Energy will also receive an ongoing royalty revenue stream.

Carbon Energy geologists and engineers have been on-site in Inner Mongolia to oversee drilling and test work for characterisation of the PCP site. A drill rig is operating at the site and coal characterisation drilling is underway. The resulting data will provide input into panel design by the Carbon Energy team.

Carbon Energy CEO Morné Engelbrecht said: “It is vital to the success of the PCP that Carbon Energy geologist and engineers are on the ground to oversee site characterisation activities. Site specific characteristics will be identified through our unique panel design criteria to ensure the integrity of the panel design and so ensure the most efficient, consistent and safe conversion of coal to syngas.”

“We can be confident about the future of a global UCG industry and Carbon Energy’s technology as a global leader in that industry. We are underpinning that leadership role by moving into the delivery phase for this project with revenues having commenced. At the same time we are developing a rehabilitation plan for our Bloodwood Creek UCG site in Queensland and developing a plan for the delivery of our UCG project in Mulpun, Chile.”

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For and on behalf of the Board

Morné Engelbrecht
Managing Director & Chief Executive Officer

**For more information please contact Jodie Springer on +61 7 3156 7712
or refer to our website at www.carbonenergy.com.au**

About Carbon Energy

Carbon Energy is an emerging global energy technology provider and services company with expertise in unconventional syngas extraction through utilising its proprietary keyseam® underground coal gasification (UCG) technology.

Carbon Energy works with international partners to unlock new energy sources by converting deep, stranded, or otherwise uneconomical coal into a high-value gas, known as syngas, while it is still in-situ underground. Carbon Energy's market advantage lies in its proprietary keyseam UCG technology and its UCG technical and UCG engineering expertise.

The Company's keyseam UCG technology reached a proof of concept stage following 10 years of research by Australia's premier scientific research agency the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and more than 5 years of in-field trials.

keyseam produces a high-quality syngas which can be used for many purposes including power generation, fertilisers, and production of pipeline-quality gas. keyseam also maximises resource efficiency, while minimising surface disturbance and preserving groundwater quality.

Carbon Energy's three pillar growth strategy positions the Company to take advantage of a rising interest in UCG as a cleaner alternative to satisfy the world's growing energy needs; as well as optimising its Australian assets. The Company's core business strategy is to seek global opportunities to license its keyseam technology. Additionally, the Company holds significant coal and gas assets in Australia which offer the potential of long-term financial growth through commercialisation strategies.

The Company delivers end-to-end UCG services from initial project assessment through to commercial project development, operations, site decommissioning and rehabilitation. Carbon Energy is headquartered in Brisbane, Australia, is listed on the Australian Securities Exchange (ASX) as CNX and is quoted on the OTCQX International Exchange as CNXAY in the United States.

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