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ASX / Media Announcement

17 June 2013

Carbon Energy Executes Agreement to Become UCG Provider to Zhengzhou Group

- **Execution of the Master Technology Licence Agreement with Zhengzhou Coal Industry Group to become the exclusive underground coal gasification technology partner for a Government approved commercial scale project in Inner Mongolia, China.**
- **Carbon Energy will receive \$10m in technology licence fees, upon achieving milestones, additional revenue from technology service fees and ongoing royalty payments.**
- **A commercial scale project producing at least 30PJ per annum will be completed in 3 stages over the next 2 years.**
- **Stage 1 will start immediately after the conclusion of the site identification and characterisation phase which is expected to be finalised within the week.**
- **The project will be fully funded by the Zhengmei Group.**

Carbon Energy (ASX:CNX, OTCQX:CNXAY) today announced it has signed a Master Technology Licence Agreement (TLA) with Zhengzhou Coal Industry Group Co Ltd (Zhenzhou Group) to be the exclusive underground coal gasification (UCG) technology partner for a project in Inner Mongolia, China.

The TLA is a significant milestone for Carbon Energy as it will provide consistent revenue flow from technology license fees, the provision of technical services and ongoing royalties. It will also advance the promotion and establishment of Carbon Energy's keyseam technology as the UCG technology of choice in China and ultimately, globally.

The agreement follows the 8 May 2013 announcement of the signing of the Memorandum of Understanding and Technology Services Agreement between the two companies.

The Commercial Scale Project is to produce at least 30PJ per annum and is to be completed in 3 stages over the next 2 years and will be fully funded by the Zhengzhou Group. Carbon Energy will be paid for all services rendered to Zhengzhou during this project.

Zhengzhou Group is noted among China's top 500 Enterprises and owns the Haoqin Coal Field in Xiwuqi, Inner Mongolia, China. The project has already received a Mineral Resources Exploration Licence and UCG Project approval from the Ministry of Land and Resources, P.R.C. and the Inner Mongolian Government.

The Haoqin Coal Field has more than seven years of drilling and seismic data available and 3.1 billion tonnes of China Ministry of Land and Resources approved coal resource, covering 184 square kilometres.

The project will deliver to Carbon Energy:

- A Technology Fee of \$10 million, payable on achieving certain milestones;
- The payment for technical and engineering services to implement Carbon Energy's UCG keyseam technology; and
- An ongoing royalty stream once revenue is generated from the commercial project.

The commercial scale project producing at least 30PJ per annum will be completed in 3 stages over the next two years:

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

Within the next week a comprehensive site selection and characterisation technical study of the coal deposits in the Haoqin Coal Field will be finalised by Carbon Energy prior to commencing Stage 1 of the project.

Cube Gas, a private technical services company specialising in the oil and gas industry and based in Brisbane, was engaged by its Chinese partners including the Zhengzhou Group to complete an extensive 6 month review of available UCG technologies worldwide.

Cube Gas CEO, Michael Langford said that after an extensive global search for a suitable UCG technology provider, which included technical teams visiting different UCG locations worldwide to independently assess the different UCG technologies, it was clear that Carbon Energy, with its independent verification of its keyseam UCG technology, its technical results, technical competency and a willingness to work collaboratively with its Chinese partners, was to be selected as the preferred partner.

“Cube Gas was very pleased to select and promote Carbon Energy not only as the preferred partner for the Zhengzhou Group but its other Chinese partners for potential UCG projects worldwide,” Mr Langford said.

Carbon Energy’s acting CEO Morné Engelbrecht said advancing the partnership is very exciting for Carbon Energy as the Zhengzhou Group is a leading Chinese company with substantial coal assets that are suitable for UCG and have already obtained the necessary Government approval for the UCG project in Inner Mongolia.

“This agreement will provide ongoing revenue for Carbon Energy and it will no doubt open the door to other licensing opportunities within China and globally,” Mr Engelbrecht said.

“We are very pleased to be selected by the Zhengzhou Group on recommendation from Cube Gas and its Chinese partners and Carbon Energy look forward to continue to work collaboratively with all of our new partners.”

“Carbon Energy is grateful to Cube Gas and its Chinese partners for their strong support of the Company and its keyseam UCG technology.”

ENDS

For and on behalf of the Board

Morné Engelbrecht
Acting Chief Executive Officer

**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 specialises in underground coal gasification (UCG). Our proprietary keyseam® technology is the key to unlocking new energy sources, transforming stranded, deep or otherwise uneconomic coal resources into high-value fuels with lower carbon emissions.

Carbon Energy delivers end-to-end UCG services from initial project assessment through to commercial project development, operations, site decommissioning and rehabilitation.

Carbon Energy achieved Proof of Concept of its keyseam technology following 10 years of research by Australia's premier scientific research agency, the Commonwealth Scientific and Industrial Research organisation (CSIRO), 5 years of in-field trials and over \$100 million investment in technology development.

By successfully proving our keyseam technology, we have earned a reputation for delivering consistent, high quality product gas which can be used for many purposes including power generation, fertilisers and production of pipeline quality gas. keyseam maximises resource efficiency, whilst minimising surface disturbance and preserving groundwater quality.

Carbon Energy also has previously announced the following assets:

- 2.0 Billion tonnes¹ of coal JORC Inferred Resource in southeast Queensland's Surat Basin;
- 743PJ² of Certified 2P syngas reserves in southeast Queensland's Surat Basin; and,
- 910 Million tonnes³ of coal JORC Inferred Resource at its Bridger, Wyoming USA farm-in area.

The Company is headquartered in Brisbane, Australia, listed on the Australian securities Exchange (ASX) as CNX and is quoted on the OTCQX International Exchange as CNXAY in the United States. Carbon Energy has UCG projects in Australia, China, Chile, Turkey and the United States.

¹ See CNX ASX/Media Announcement 2 April 2013. CNX is not aware of any new information that would materially affect the Resources stated.

² See CNX ASX/Media Announcement 8 December 2009. CNX is not aware of any new information that would materially affect the Reserves stated.

³ See ASX/Media Announcement 23 January 2013. CNX is not aware of any new information that would materially affect the Resources stated.

About Zhengzhou Group

Zhengzhou Coal Industry & Electric Power Co., Ltd. (Zhengzhou Group) engages in the production and sale of coal primarily in China. The company is based in Zhengzhou, China.

Zhengzhou Group is noted among China's top 500 Enterprises and owns the Haoqin Coal Field in Xiwuqi, Inner Mongolia, China, which will be the location for the UCG Commercial Project.

About Cube Gas

Cube Gas (www.cubegas.com) was established to provide unprecedented access to cost competitive, energy and commodity related technical services. Cube Gas has a strong track record of delivering successful outcomes to both large Chinese and Australian companies. This has included completion of projects and tenders, commercial negotiations and facilitation for Australian companies entering the Chinese market.

Cube Gas' experienced technical specialists and management team enable us to deliver client focused technical, financial and engineering services. As sector specialists we focus on working with operators in the unconventional energy space, in particular those companies exploring for, or developing coal mine methane, coalbed methane, underground coal gasification, tight gas/oil and shale gas/oil. Within each of these sectors, Cube Gas' comprehensive skills and expertise are a valued client resource.