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ASX / Media Announcement

23 May 2014

Environmental Sampling Completed Marking Commencement of the Final Step Towards Commercialisation

- **Drilling and sampling required for rehabilitation plan completed**
- **More than 800m drilled and over 150 samples collected**
- **Another step closer towards gaining commercial UCG approval**
- **Decommissioning Report and Rehabilitation Plan to be submitted to Queensland Government for approval by end of Q3 this year**

Carbon Energy (ASX:CNX, OTCQX:CNXAY) today announced the completion of its comprehensive drilling and sampling program at its Bloodwood Creek (BWC) underground coal gasification (UCG) pilot site near Dalby in South East Queensland.

The samples obtained from the drilling program will provide the key inputs to the development of a comprehensive risk-based rehabilitation plan, if rehabilitation is required.

Carbon Energy expects to submit its Decommissioning Report and Rehabilitation Plan to the Queensland Government for approval by the end of the third quarter this year, marking the final step in gaining Government approval to initiate a commercial scale UCG project at BWC utilising our unique keyseam technology.

The Company has been collecting underground samples across its BWC site since February 2014. The drilling program included the drilling of more than 800m spread over four locations; one drill hole into the cavity; two drill holes in close proximity to the cavity; one background drill hole.

In total over 150 samples have been collected and sent for testing by accredited laboratories in Australia and Canada. The analysis of laboratory results and the development of any rehabilitation plan required for the site will be carried out by independent experts with globally respected credentials specifically in site investigation and remediation.

Carbon Energy CEO, Morné Engelbrecht said, "We have undertaken a drilling and testing program as part of the approval process established by the Queensland Government on the recommendation of the Independent Scientific Panel (ISP). The

results will demonstrate the environmental safety of the final stage of the life cycle, after the ISP concluded in their report that the other stages of the life cycle of our unique technology could be undertaken in an environmentally safe and socially acceptable manner.

“We are now close to finalising our Decommissioning Report and Rehabilitation Plan which is the culmination of the keyseam commercialisation approval process and are working co-operatively with the State Government towards the creation of a safe, new and vibrant industry that will supply much-needed gas.

“We are committed to unlocking the significant commercial value of this project for our shareholders and to making an important contribution to the Queensland economy,” Mr Engelbrecht said.

The acceptance of the Decommissioning Report and Rehabilitation Plan will be another significant milestone for Carbon Energy, facilitating the advancement of the Company’s plans to develop a commercial UCG facility at BWC. The scale of the Company’s 1362PJ certified 2P syngas Reserve¹ at BWC reinforces the enormous value that successful commercialisation of this site can deliver.

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For and on behalf of the Board

Morné Engelbrecht
Managing Director & Chief Executive Officer

For more information please contact Marina Cid on +61 3156 7777

¹ See ASX Announcement 7 November 2013.

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.