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ASX / Media Announcement

16 January 2014

Carbon Energy Commences Drilling as Next Step Towards Facilitating Development of UCG in Queensland

- **Carbon Energy moves closer towards commercialising UCG in Queensland**
- **Drilling commenced into Panel 2 at Queensland UCG site**
- **Cavity water and core samples to be collected for analysis to facilitate development of a Decommissioning Plan for the final phase of the UCG life-cycle**

Carbon Energy (ASX:CNX, OTCQX:CNXAY) is pleased to announce that the Company commenced drilling into Panel 2 at the Company's Bloodwood Creek UCG site as the next step towards commercialising the Company's UCG operations in Queensland.

Drilling and completion of a well into the cavity will allow the collection of cavity water and core samples to confirm the conditions in the cavity. The data from analysis of the samples will be used to develop a Decommissioning Plan which is required to satisfy the preconditions to commercialisation recommended by the Queensland Government appointed Independent Scientific Panel (ISP) in July 2013.

To satisfy the most stringent environmental standards, Carbon Energy engaged specialist environmental consultants BlueSphere Environmental to develop detailed sampling and analysis specifications, including requirements for both rock core and liquid samples. BlueSphere Environmental will also assist in the analysis of the samples and development of any required remediation program.

Carbon Energy CEO Morné Engelbrecht said "Carbon Energy's UCG keyseam technology was developed by Australia's leading scientific agency, the CSIRO, with the goal of developing low emission, safe, and environment friendly ways of better converting coal to energy. Today we commence the next step to demonstrate a

commercial UCG operation can be operated in an environmentally safe way through application of Carbon Energy's UCG keyseam technology."

Carbon Energy's trial UCG Panel 2 is located at the Company's Bloodwood Creek site in the Surat Basin in Queensland. The Panel was decommissioned in October 2012 after almost 2 years of operations and achievement of proof of concept for its keyseam UCG technology.



Figure 1: Drill rig on site at Bloodwood Creek

ENDS

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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