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ASX / Media Announcement

19 August 2013

Carbon Energy Commences First Commercial UCG Project in Inner Mongolia, China

- **Carbon Energy and Zhengzhou Group have agreed the engineering work packages for the first UCG panel**
- **Generation of revenue a significant milestone for the Company**
- **\$8.25 million in revenues anticipated to be generated by mid-2014 for engineering works together with the first Technology Fee milestone payment**
- **\$7 million in revenues anticipated to be earned over subsequent phases relating to Technology Fee milestone payments**
- **Commissioning of the first UCG panel is estimated to occur by mid-2014**

Carbon Energy (ASX:CNX, OTCQX:CNXAY) is pleased to announce the commencement of works for the Company's first commercial UCG project. The Company and project partners Zhengzhou Group have agreed on the scope of works comprising a total of eight engineering packages, for the design and commissioning of the first UCG panel (Process Characterisation Panel (PCP)).

It is anticipated that Carbon Energy will earn a total of \$5.25 million from the engineering works to be performed to design and commission the first UCG panel (PCP) together with a Technology Fee milestone payment of \$3 million on successful commissioning. Commissioning of the PCP is estimated to occur by mid-2014.

Further Engineering Services Fees (scope of works to be agreed) and \$7 million in Technology Fees are payable during and on achievement of certain milestones over subsequent phases in implementing the commercial scale project and subject to the successful commissioning of the PCP.

Carbon Energy will now commence the tendering of work packages and the design of the PCP, which will be closely followed by the construction and commissioning of the UCG panel. The operation of the PCP will provide important data which will be used to confirm the site characterisation and enable finalisation of the aboveground and subsurface design of the commercial scale facilities.

This is a significant milestone for the Company as upon commencement of the PCP design, Carbon Energy will begin to generate ongoing revenue from the project. Revenue cash flow will continue through the design, construction and commissioning phases of the commercial facilities with royalty payments beginning once production revenue is generated.

The agreement of the scope of works comes as a result of the recently executed Master Technology Licence Agreement with Zhengzhou Group to become the UCG technology partner for a commercial scale facility in Inner Mongolia, China (see ASX announcement 17 June 2013). The PCP design and commissioning will be delivered by Carbon Energy under the associated Technology Services Agreement (see ASX Announcement 15 May 2013).

Carbon Energy CEO Morné Engelbrecht said “this is a significant step for Carbon Energy and great news for the further commercialisation of our keyseam UCG technology in China and around the world.”

“Our first commercial scale project will see the Company secure long-term cash flows while we further build on our pipeline of revenue generating projects.”

The next steps for the project are to establish the technical team and for Zhengzhou Group to begin site characterisation drilling and test work under the supervision of Carbon Energy’s Senior Geologist. The Carbon Energy team will travel to Inner Mongolia to develop the project execution plans and user requirements specifications with Zhengzhou Group’s technical team. All capital costs regarding the project are to be covered by the Zhengzhou Group.

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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 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 regime.

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. The company 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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