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ASX / Media Announcement

14 June 2013

Positive Conceptual Study Identifies Commercial Scale UCG Opportunities in Australia

- **Comprehensive study identifies economically viable, commercial scale UCG opportunities at Bloodwood Creek.**
- **Ammonia and Synthetic Natural Gas (SNG) production identified as the most economically attractive downstream products.**
- **Existing syngas Reserve is sufficient to support the production of approximately 2,200 tonnes of Ammonia per day or 25PJ of SNG per annum for 25 years.**
- **Results based on successful trial data gathered from 5 years of in-field operations.**

Carbon Energy (ASX:CNX, OTCQX:CNXAY) today announced the conclusion of the Conceptual Study in identifying attractive, commercial scale opportunities for the Company's wholly owned syngas Reserve at Bloodwood Creek in the Surat Basin, South East Queensland.

Based on data gathered from more than five years of in-field Underground Coal Gasification (UCG) trials, the Conceptual Study confirms the commercial viability of producing both Ammonia and SNG from the Company's certified 743PJ 2P syngas Reserve.

The study was completed to advance commercialisation of the Company's gas Reserves, subject to the Queensland State Government's decision on its UCG policy for Queensland and of securing a joint venture development partner.

The Conceptual Study is the third phase in a process which follows 10 years of scientific development and research conducted by Australia's leading scientific agency CSIRO and 5 years of in-field trials (see Table 1 attached).

The Conceptual Study identified and assessed the commercial viability of a suite of downstream products to determine the most attractive commercialisation option(s).

The elements of the Conceptual Study included:

- A market analysis conducted for each downstream market.
- Utilisation of robust engineering studies from engineering specialists LogiCamms using data from the in-field UCG trials. For the purpose of the study two UCG facility sizes were reviewed – an 8PJ p/a facility and a 25PJ p/a facility.
- Review of the existing and anticipated major regulatory and environmental requirements and impacts on the timing of commercialisation.
- Local social impacts study which showed a commercial scale UCG project has the capacity to stimulate strong social and economic impacts at a local, regional, and state level with the ramp up of a workforce for the commercial project.
- Strong economic evaluation based on successful trial data derived from extensive in-field trials.

The study identified Ammonia and SNG production as the most attractive options to deliver maximum value from Carbon Energy's wholly-owned coal resources in Queensland.

The Company's syngas Reserve is positioned on Mineral Development Licence 374 within the Company's wholly owned 1400 km² of exploration leases in Queensland's Surat Basin. The site is well placed for full commercialisation with nearby infrastructure including major power lines, the Roma-Brisbane Gas Pipeline, industrial-grade water supply, roads and rail as well as skilled labour (see Maps 1 and 2 attached).

Following this positive Conceptual Study, Carbon Energy is in a position to move to the next stage of development which will involve the completion of a Pre-Feasibility Study, which will rigorously assess the economics of Ammonia and SNG production to a greater level of accuracy. This will be dependent on clarification of the Queensland Government's UCG policy.

Acting CEO for Carbon Energy, Morné Engelbrecht, said the study provides confidence in the economic viability of commercialising the Company's syngas Reserve.

"This study confirms there are strong economic opportunities for Ammonia and SNG production. We own substantial Reserves here in Queensland which offers the potential of over 25 years of continuous production, providing long term returns for the company and our shareholders," Mr Engelbrecht said.

ENDS

For and on behalf of the Board

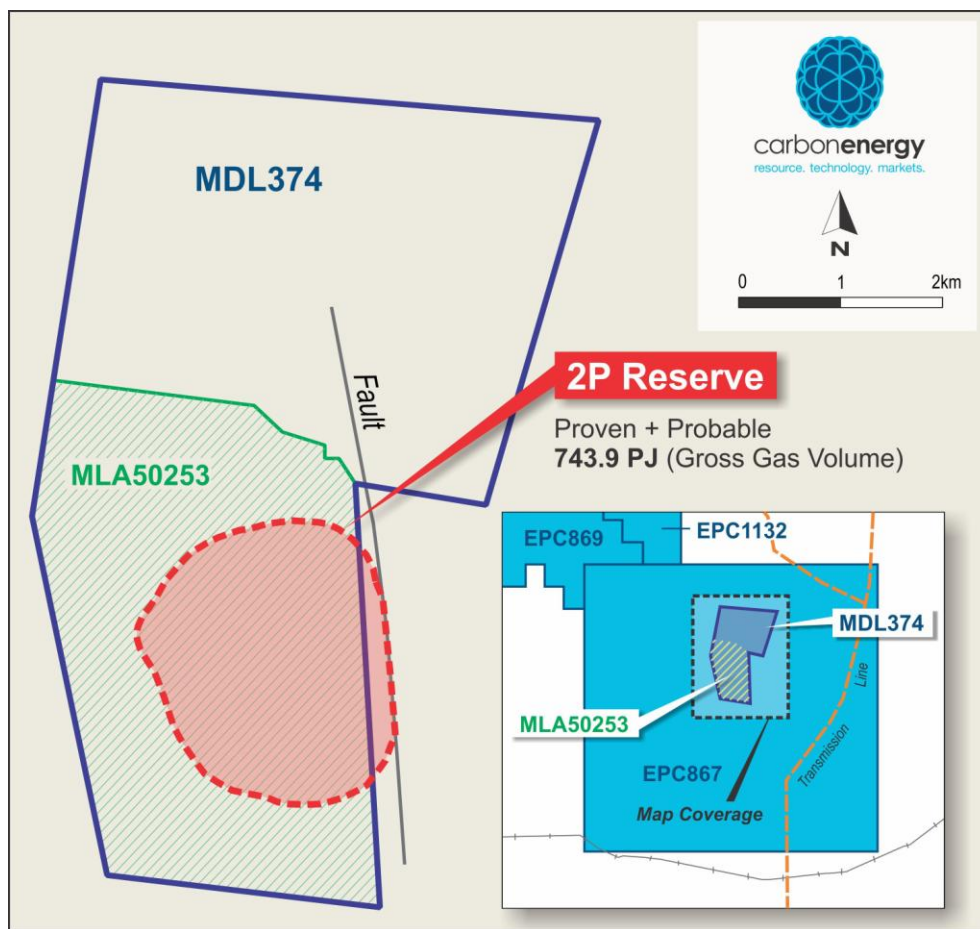
Morné Engelbrecht
Acting Chief Executive Officer and Company Secretary

**For more information please contact Andrew Crook on +61 419 788 431
or refer to our website at www.carbonenergy.com.au**

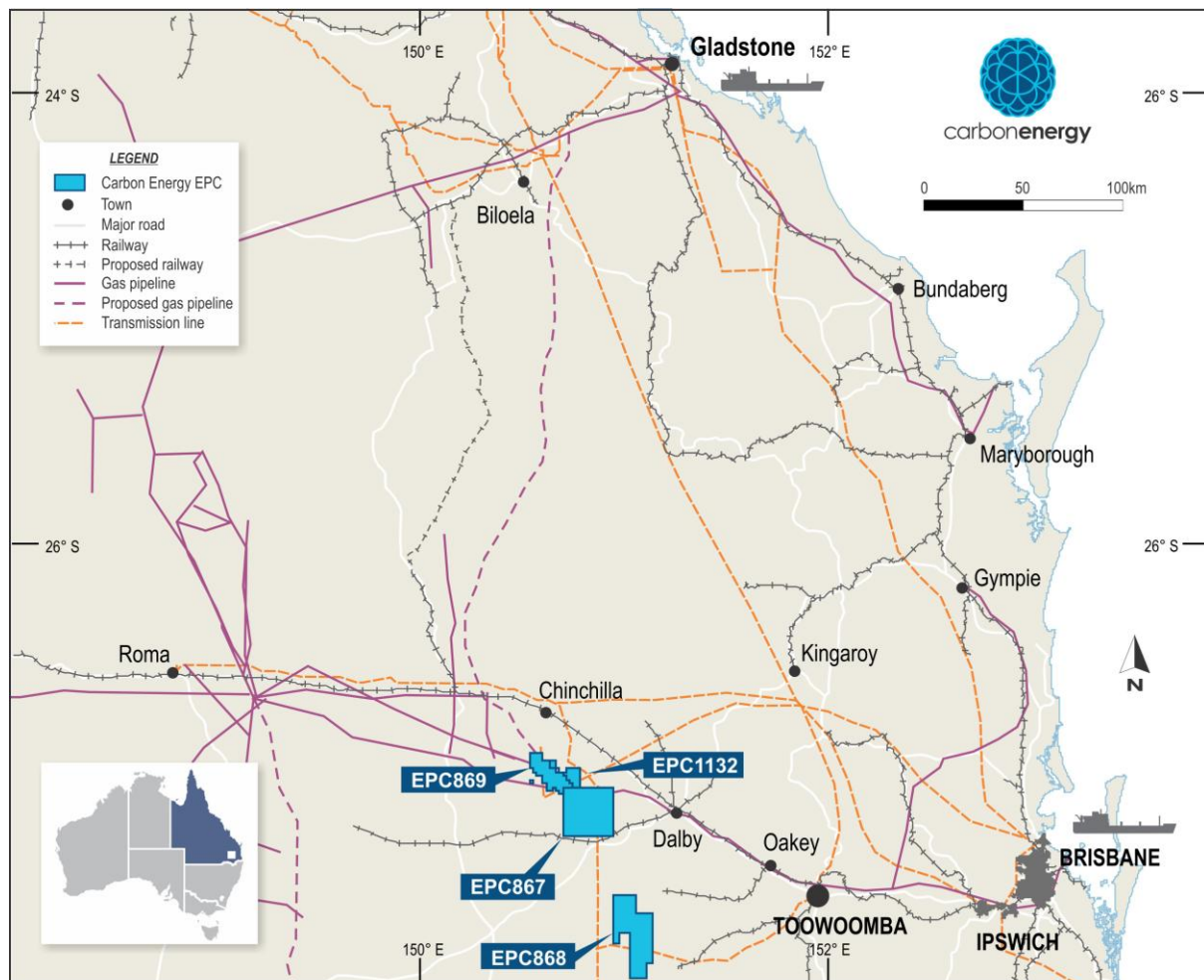
Table 1 Development Phases

Technology Development Phase	Trial Phase	Identification Phase	Selection Phase	Definition Phase
CSIRO <ul style="list-style-type: none"> • 10yrs of scientific development & research by Australia's premier research agency CSIRO • Developed industry leading predictive modelling tools for gas quality and ground response • Assessed the then state of the art UCG technologies to increase commerciality by improving product gas quality, consistency and efficiency—resulting in the keyseam technology used by CNX today 	Infield Operations <ul style="list-style-type: none"> • 5 yrs of scientific development • Research & development spend of approximately \$100m • Achieved commercial proof of concept • Over 4yrs of in-field UCG demonstrations and operation • Validation adjacent panels can operate independently 	Conceptual Study <ul style="list-style-type: none"> • Identification of a UCG Commercial Scale Project integrated with alternative end market users. • Study to include Market Analysis, Strategic Review, Regulatory Requirements, Identification of potential partners and high level timeline and commercial analysis. • Duration 2-3 mths 	Pre-Feasibility Study <ul style="list-style-type: none"> • Select the preferred alternative to go forward with. • Chosen set of alternatives are rigorously reviewed. • Comparative evaluation of the alternative's full value and risk profile • One preferred alternative selected • Duration 6-8 mths 	"Bankable" Feasibility Study <ul style="list-style-type: none"> • Demonstrate an optimal case for technical and economic viability. • Risk and reward profile to a level of confidence required to achieve a decision to proceed to execution. • Study to support raising of finances and provide a basis for detailed designs and construction. • Duration 8-12 mths (not including EIS timeline)

Map 1 Carbon Energy Coal Tenure – Surat Basin



Map 2 Carbon Energy Coal Tenure and Regional Infrastructure



Carbon Energy Coal Tenure and Regional Infrastructure

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.