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ASX Announcement

22 July 2010

BLOODWOOD CREEK UPDATE

Further to our release of 16 July, Carbon Energy (ASX:CNX) advises it has received formal notices from the Queensland Department of Environment and Resource Management (DERM) to undertake an Environmental Evaluation of the Company's Bloodwood Creek site.

On Monday of this week senior executives of the Company met with Stephen Robertson, Minister for Natural Resources Mines and Energy and indicated that the Company would cooperate fully with the Department in the event that an Environmental Evaluation was requested. This assurance was given in response to a media release by DERM on 15th July concerning the Cougar Energy shutdown in which it signalled that an evaluation may be requested as a "precautionary measure".

The Environmental Evaluation requires the Company to report on, amongst other things, the source, cause and extent of any contamination of land, groundwater and surface water at the Bloodwood Creek site. The Company is required to complete the Environmental Evaluation by 20 August 2010. DERM then has 20 business days to review and respond following receipt of the report. It is Carbon Energy's intention to expedite this review by completing the evaluation as soon as possible. Much of the work required to complete the evaluation has been already done as part of normal monitoring and compliance activities so the Company is confident it can quickly prepare the necessary material and as an additional measure will engage an independent third party to compile and review the report.

Dr Cliff Mallett, the Company's Technical Director said that "Carbon Energy takes its responsibilities in relation to environmental management very seriously and will use this opportunity to re-affirm the integrity of the environmental systems and processes used at the Bloodwood Creek plant."

"Our processes are the outcome of over 10 years of scientific research by the CSIRO, with which I was intimately involved. The geotechnical and hydrological modeling processes we employ and the unique underground UCG Panel design represents a step-change in how UCG is conducted around the world."

"The rigorous selection process applied by Carbon Energy excludes sites where operations could impact on high value farming or useful groundwater, and the Bloodwood Creek pilot fulfills these requirements. It should be emphasized however, that our UCG technology is designed and operated to continuously control the movement of gasification by-products underground, bringing them to the surface where they are safely treated, and protecting natural groundwater."

While the Environmental Evaluation is being conducted, the Company may continue to operate the current UCG panel, which is currently operating in idle mode. Initiation of the Company's planned UCG Panel 2, currently scheduled for late August 2010, will require approval from DERM following their assessment of the Environmental Evaluation.

In the interim, the Company will continue with drilling activities and completion of the above ground infrastructure for UCG Panel 2, both of which are currently underway. Construction is anticipated to be complete by late August. The Company will work cooperatively with DERM in the evaluation process in order to minimise any impact on the Company's project schedule for Panel 2 (which could be a delay of up to 4 weeks) and the subsequent commissioning of the 5MW power station, pending a favourable outcome from DERM's review.

Carbon Energy is continuing to engage in negotiations with prospective partners for its Queensland projects and is continuing to receive strong interest in its UCG technology from around the world.

The Company remains focused on the continued development of its world leading UCG technology and will work cooperatively with the appropriate authorities as it continues to build its energy business in Queensland and internationally.

For and on behalf of the Board

Andrew Dash
Managing Director

About Carbon Energy
Carbon Energy's purpose is to produce clean energy and chemicals feedstock from Underground Coal Gasification (UCG) syngas.

Carbon Energy's unique approach to UCG and syngas production produces a low cost option for capturing CO2making it a leader in clean coal technology.

Carbon Energy's ambition is for syngas to become the preferred feedstock for producing clean coal power stations, and the production of synthetic natural gas, an alternative to oil-based fuel, agribusiness products (fertilisers & explosives), polyolefin products (such as plastics) and allowing for economic carbon capture.

Carbon Energy's technological advantage comes from its association with CSIRO including world class geotechnical, hydrological and gasification modeling capabilities.

Carbon Energy is building an international portfolio of coal assets, suitable for UCG with close proximity to markets.