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ASX Announcement

20 October 2010

Environmental and Operational Update

Carbon Energy (ASX: CNX) advises that, further to its ASX update of 20th September 2010, the additional information requested by Queensland Department of Environment and Resource Management (DERM) in relation to a release of process water in August 2009, has been submitted to the Department.

On review of the additional information requested and subsequent discussions with DERM, the Company has conducted an additional series of soil tests. The additional tests were precautionary, however the time required to undertake the testing has extended the time frame to submit a response from the initial estimates.

The comprehensive soil testing program that was undertaken was independently monitored by a Tier one Environmental Consultancy and they have confirmed that there was no presence of contaminants and there are no ongoing effects or environmental harm. The Company has also instigated an ongoing testing and monitoring program.

The potential for a re-occurrence of this type of event has been substantially reduced by the Company through a thorough review of existing procedures and the implementation of additional engineering, operational and administrative controls.

The Company continues to engage regularly with DERM in an effort to have this matter resolved to the satisfaction of all parties and anticipates an early response from DERM after they have reviewed the additional information.

Bloodwood Creek Operations

Operations have continued to progress at the Company's Queensland site at Bloodwood Creek west of Dalby, with all construction and pre-commissioning activities for the second UCG Panel having been completed. Commissioning of UCG Panel 2 is subject to DERM's satisfactory review of Carbon Energy's Environmental Evaluation and the additional information provided.

Drilling and construction of Carbon Energy's UCG Panel 3 has also been completed on schedule and on budget. When commissioned in 2011, this Panel will provide Carbon Energy with the ability to demonstrate a multi-panel operation that will enable consistent higher volume power generation to support larger developments.

The Company is continuing to ready its Stage 1: 5MW power station in advance of syngas production from the newly constructed Panel 2. Once consistent gas production is established progressive commissioning of the reciprocating gas engines for the power station will commence.

Further to our announcement of a Power Station Development Agreement with Arcadia Energy Trading on 6th September 2010, documentation of a long term power purchase agreement for the Company's planned Stage 2: 25 MW power station is well progressed with execution anticipated to be in the next 4-6 weeks.

Project Update - Chile

Following Environmental Approval for the Company's project in Chile with partner Antofagasta Minerals ("Antofagasta"), Carbon Energy is pleased to advise that the project continues to progress well with the completion of the design plan for the pilot stage expected by early November 2010.

Expressions of interest have been sent to a number of international engineering firms to conduct Front End Engineering and Design (FEED) for the first UCG Panel and above ground facilities in Chile. Responses are due in early November with construction expected to commence in the first quarter of 2011.

A technical team from Chile conducted a site visit at Bloodwood Creek in early October to inspect the completion of UCG Panels 2 and 3 in advance of works commencing in Chile.

In parallel, during the next three months, studies will be undertaken to assess the optimal equipment selection for the above ground generation equipment for the first major UCG power project in Chile.

Carbon Energy is continuing to attract strong interest in its projects in Queensland and Chile as well as other prospective locations in North America and Europe.

Further updates on the Environmental Evaluation process and progress of projects at Bloodwood Creek and Chile will be provided over the coming weeks.

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 carbon dioxide making it a leader in clean coal technology.

Carbon Energy's ambition is for syngas to become the preferred feedstock for creating 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 modelling capabilities.

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