

ASX Announcement

18 February 2014

Level 9, 301 Coronation Drive, Milton QLD 4064 Australia PO Box 2118, Toowong DC QLD 4066 Australia phone + 61 (0) 7 3156 7777 fax + 61 (0) 7 3156 7776

www.carbonenergy.com.au

Carbon Energy Limited ABN 56 057 552 137 Carbon Energy (Operations) Pty Ltd ABN 61 105 176 967

Carbon Energy Achieves Substantial Completion of First Two Packages – Inner Mongolia Project

- Carbon Energy has achieved substantial completion of the first two engineering work packages for the Inner Mongolia UCG Project Process Characterisation Panel (PCP) on time and within budget
- Contract payments delayed pending the appointment of new Chairman and Director of the Haoqin Mining Joint Venture
- Carbon Energy to delay handover of completed project deliverables and suspend further works pending advance payment of invoices

Carbon Energy (ASX:CNX, OTCQX:CNXAY) has achieved substantial completion of the first two engineering work packages for Stage 1 of the Inner Mongolia UCG Project (**Project**), and is ready to commence delivery of the staged deliverables for package 3. All works have been completed to date in accordance with the agreed project timetable.

Under the terms of the company's Technical Services Agreement (**Agreement**) with the Haoqin Mining joint venture an amount of AUD\$335k has been invoiced and is now payable.

Under the same Agreement, the Company has also separately invoiced for an additional advance payment totalling approximately AUD\$2 million relating to the remaining engineering packages to be commenced and is to be paid before work commences on these packages.

Carbon Energy has been advised that payment of these amounts has been delayed pending the appointment of a new Chairman of the Haoqin Mining joint venture to enable the signing of the requisite authorisation for these payments. The Company understands that the funds required to settle these invoices are available and ready for payment.

While the company is confident payment will be forthcoming once this procedural issue is overcome, it has advised the Haoqin Mining joint venture that it will neither deliver any packages of work already completed nor commence work on any further engineering packages until these outstanding advance cash calls are paid.

Accordingly there will be a reduction in the number of contract staff to mitigate the cost impact of this delay on the Company. Contractors will be re-engaged once payment is received.

Carbon Energy CEO Morné Engelbrecht said: "Carbon Energy is confident this procedural issue will be overcome and is maintaining a regular dialogue with its project partners to ensure minimal disruption to the project timetable."

ENDS

For and on behalf of the Board

Morné Engelbrecht 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.