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ASX Announcement

25 August 2010

Bloodwood Creek Operations Update

Carbon Energy (ASX: CNX) is pleased to advise that the drilling program for UCG Panel 2 has been successfully completed.

Work to complete the above ground pipe work and associated facilities is currently underway (see attached photos) and is anticipated to be finished by the end of August.

Drilling for UCG Panel 3 is progressing with both the vertical initiation well and the horizontal injection well having been completed. Drilling has commenced on the production well. The drilling program for Panel 3 is on track and is scheduled to be complete by the end of August.

Commencement of operations for Panel 2 is subject to Queensland Department of Environment and Resource Management (DERM)'s review of the Company's Environmental Evaluation and notice from DERM that the Company may proceed. It is anticipated that DERM's review of the Environmental Evaluation will be complete by 17th September 2010.

Immediately upon approval, Panel 2 will be initiated. Once consistent gas production is established the progressive commissioning of the four reciprocating gas engines installed on site will commence.

Further updates on the progress of the 5 MW power station and construction of Panels 2 and 3 will be provided as the project proceeds.

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 CO₂ making 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.



Vertical drill rig for drilling of Panel 2



Horizontal drill rig for Panel 2



Panel 2 - injection well head



Panel 2 knock-out skid which forms part of the gas production facilities