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ASX Announcement

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CARBON ENERGY EXECUTES POWER STATION DEVELOPMENT AGREEMENT WITH ARCADIA ENERGY TRADING

Carbon Energy (ASX: CNX) has executed a Power Station Development Agreement with Arcadia Energy Trading ("Arcadia") that, when completed, will result in the development of both a 25MW and a 300MW power station fuelled by syngas in Queensland. Key terms include:

- Arcadia will enter into a long term Power Purchase Agreement (PPA) to purchase the electricity produced by Carbon Energy's 25 MW power station at Bloodwood Creek,
- Arcadia will, upon Carbon Energy obtaining a Mining Lease for Bloodwood Creek, purchase the 25 MW power station from Carbon Energy and enter into a long term Gas Supply Agreement, subject to certain conditions being met, and
- Carbon Energy and Arcadia will partner in the development of Carbon Energy's 300 MW Power Station at the Company's proposed Blue Gum Energy Park, located adjacent to the Bloodwood Creek coal resource.

Power Station Development

Carbon Energy is currently progressing plans for the staged development of a number of power projects based on syngas produced from its Underground Coal Gasification (UCG) project in Queensland:

- Stage 1 – 5 MW Power Station is currently in the final stages of construction and commissioning at the Company's Bloodwood Creek site, with the electricity generated to be connected into the local electricity grid and initially to be sold to Ergon Energy,
- Stage 2 – 25 MW Power Station is in development, to be located at the Company's Bloodwood Creek site,
- Stage 3 – 300 MW Power Station is in planning, to be located at the Company's 'Blue Gum' property, located adjacent to the Bloodwood Creek coal resource.

The Power Station Development Agreement provides a framework for Carbon Energy and Arcadia to progressively develop the Stage 2 - 25 MW power station and Stage 3 - 300 MW power station based on UCG syngas from Carbon Energy's Bloodwood Creek coal resource near Kogan in Queensland.

Carbon Energy Managing Director, Andrew Dash said that "This agreement is a significant development for the company as it represents a clear development path for our Stage 2 and 3 power generation projects. Additionally it presents the opportunity for Carbon Energy to work with an experienced and successful energy trading company which provides complementary market knowledge and financial capability, both of which will assist in the successful progression of Carbon Energy's development plans".

Arcadia's General Manager, James Gillard, said the agreement with Carbon Energy is the first step in Arcadia's plans to move from a pure electricity trading position into a physical power business in the Australian market "Since 2007, Arcadia Energy Trading has built a significant energy trading portfolio with a wide range of Australian counterparties. We are looking to build on this by taking a physical position through ownership of power generation capacity. The partnership with Carbon Energy offers both companies the opportunity to deliver staged energy developments in an achievable timeframe." he said.

Arcadia Energy Trading is affiliated with UK based Arcadia Petroleum and is part of the Farahead Holdings group of companies owned by Norwegian shipping magnate John Fredriksen that comprises a portfolio of companies including Golar LNG Ltd, Arcadia Petroleum Limited, Frontline Limited and Seadrill, with a market capitalisation in excess of US\$11 billion. Arcadia Petroleum itself has access to over US\$4bn in lines of credit

Stage 2: 25 MW Power Station – Bloodwood Creek

Arcadia will initially enter into a long term power purchase agreement to buy all the electricity produced from Carbon Energy's 25MW power station, to be located adjacent to the Company's existing 5 MW plant at Bloodwood Creek. The power purchase agreement is expected to be executed by end November 2010.

Carbon Energy will develop the power station and related infrastructure works initially for a capital cost expected to be in the range \$30-35 million. It is intended that Arcadia will acquire the power station once Carbon Energy has secured longer term tenure over its coal rights in the form of a Mining Lease and subject to some commercial conditions being met. Carbon Energy would then supply syngas (under a long term gas supply agreement) to Arcadia as owners of the power station.

Stage 3: 300 MW Power Station – Blue Gum Energy Park

Arcadia will partner with Carbon Energy in the development of the 300MW power station at Carbon Energy's planned Blue Gum Energy Park near Kogan in Queensland. It is intended that Arcadia will own the power station, estimated to be approximately \$350 million to develop, and be the first customer for the Blue Gum Energy Park to enter into a long term gas supply agreement. A 300MW power station fuelled by syngas would require initial field development by

Carbon Energy of approximately \$100 million in capital expenditure, backed by a gas supply agreement.

Carbon Energy purchased the 517 hectare "Blue Gum" property in January 2009 as the site for its planned industrial and energy park. The Company's ability to provide both low cost syngas and power at this location provides an attractive basis for energy intensive and chemical manufacturing industries to co-locate at this site, bringing value added industries and jobs to regional Queensland.

This major development will be subject to Carbon Energy obtaining a Mining Lease and associated approvals from the Queensland Government including a satisfactory outcome from the technical and environmental review of UCG as outlined in the Queensland Government's announced UCG Policy.

Queensland Power Market

The Australian Energy Market Operator ("AEMO") in its annual Statement of Opportunities, published 31 August 2010, highlights that Queensland may have a shortfall in power station reserve capacity of over 700 MW in 2013/14.

Mr. Dash said that "Queensland is forecast to have the largest and earliest shortfall in electricity supply of all States in Australia, making Carbon Energy's planned 300MW power station a part of the solution to the State's future electricity security requirements. Carbon Energy's cost of production of syngas will be lower than that of other sources of gas in Queensland and will have a smaller carbon footprint than traditional coal fired generation."

Carbon Energy's plans to deliver low cost base load generation capacity in Queensland can be expected to ease the pressure of increasing electricity prices on households and businesses across Queensland.

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.

About Arcadia Energy Trading

Arcadia Energy Trading is a wholesale commodity trading company with specialist electricity, oil and environmental business streams. Arcadia Energy Trading's activities include:

- the provision of structured electricity risk management products to the Australian power sector;
- the purchase and supply of Australian federal and state based environmental energy certificates;
- the purchase and supply of Certified Emission Reduction units (CERs) in Europe and Australia;
- the supply of physical fuel oil and diesel to Australian and Asia-Pacific customers; and
- the provision of oil price risk management products to a range of power generation and transport companies.

Arcadia Energy Trading is undertaking due diligence on a range of asset and infrastructure investments to support and grow its portfolio of energy and environmental business activities. Arcadia Energy Trading is a wholly owned subsidiary of Farahead Holdings Limited and part of a group of energy and shipping companies including Golar LNG Ltd, Arcadia Petroleum Limited, Frontline Limited and Seadrill.