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ASX Announcement

27 May 2011

Bloodwood Creek syngas 5MW Power Station Update

Carbon Energy Limited
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ABN 61 105 176 967

Carbon Energy Limited (ASX: CNX) developer of Australia's first syngas-fuelled power station is pleased to advise that the testing and commissioning program for its 5 MW Power Station is continuing to progress well, with the following activities completed:

- Successful commissioning of gas delivery train from UCG Panel 2 to power station
- Introduction of syngas into Engine No.1
- Successfully completed initiation of Engine No.1 on syngas and operated at full speed (~750 rpm with no load).
- Initial testing of Engines No.2 & No.3
- Hazardous area and High Voltage audit inspection completed and priority works have been completed.
- Installation and electrical connection of a 2 MW Load Bank.

As outlined in Carbon Energy's ASX Announcement dated 2 May 2011, all of the components of the 5 MW Power Station are now in testing phase. Andrew Dash, the Company's Managing Director said, "a lot of the key activities have been completed over the past month and whilst we still have some solid weeks of work ahead of us I am really pleased with both the level of activity and the results the team have achieved on site to date.

During June, the focus of work will be on completing stability testing of engines No.2 & No.3 followed by connection to the 2MW load bank.

The load bank enables us to load test one engine at a time and will allow us to successfully demonstrate the production of electricity from UCG syngas."

As mentioned in previous announcements, prior to operating the 5MW Power Station at full capacity (three engines operating simultaneously) the Company will need an amendment to its existing Environmental Authority to allow for an increase in the volume of gas consumed. The process of seeking that amendment is well underway and completion is planned in time for connection of the power station to Ergon Energy's network, in the coming months.

Further project updates will be provided over the coming months as other key milestones are achieved.

For and on behalf of the Board



Andrew Dash
Managing Director





Gas Processing and gas delivery plant from panel 2 to 5MW Power Station May 2011 (power station rear right)

About Carbon Energy

Carbon Energy Limited, developer of Australia's first syngas fuelled power station, is focused on producing cleaner energy and chemical feedstock from Underground Coal Gasification (UCG) syngas.

The Company's unique approach to UCG and syngas production increases the efficiency of capturing carbon emissions making it a leader in clean coal technology.

Carbon Energy's technological advantage comes from its association with Australia's premier research agency, CSIRO, including world-class geotechnical, hydrological and gasification modelling capabilities.

Carbon Energy is building an international portfolio of coal assets suitable for UCG and accessible to high-value markets.

