

SOUTH AMERICA

MULPUN, CHILE



Since we entered into our first international energy project in South America with global mining giant, Antofagasta Minerals S.A., significant progress has been made. The agreement was signed at the end of 2009 to jointly assess and develop Antofagasta's deep coal deposit adjacent to the town of Mulpun in Chile using keyseam. Antofagasta Minerals has formed a new energy division called Mulpun Energy which has day to day carriage of the project located in southern central Chile, 800 kilometres south of Santiago.

Chile continues to provide an attractive market for energy projects due to the nation's reliance on imported fuel and rapidly growing energy demand of 8% p.a. When Carbon Energy initially considered the Mulpun Project in late 2009, electricity spot prices were US\$120 per MWh. Recently, reports have indicated that spot prices have increased to US\$220 per MWh making these some of the highest power prices in the world.

The first major project milestone was achieved in August 2010 when Mulpun Energy obtained Environmental Approval for the parties' first stage joint UCG project in Mulpun. This has paved the way for the development of the project and allows us to construct and operate a pilot project that includes our first UCG panel and on-site facilities. The purpose of the pilot project is to confirm the gas quality produced from the Mulpun coal deposit to enable detailed design work and equipment installation to be undertaken for a major power generation project at that site.

Seismic studies have been assessed to confirm the location and configuration of the initial UCG panel. The drilling of site characterisation wells was completed in the first quarter of

2011 and groundwater monitoring began during the second quarter of 2011.

At the beginning of June 2011, a major development milestone was achieved with sign-off by both Carbon Energy and Antofagasta of the achievement of key Phase 1 deliverables. These deliverables include: design plan, work plan and budget development; hydrological model development; site selection for the pilot project; land acquisition; environmental approval for the pilot project; and a preliminary market study for the commercial application of UCG syngas for the production of power and synthetic natural gas. Completion of Phase 1 enables the project to move forward with the formalisation of the Joint Venture Company.

Also in June 2011 we completed our maiden JORC Resource Assessment for the Mulpun coal deposit in Chile. The JORC Resources estimate totals 103 million tonnes at 2 metre coal seam thickness cut-off (Measured: 26 million tonnes, Indicated: 37 million tonnes, Inferred: 40 million tonnes). This was our first international JORC Resource Assessment and upon completion of agreed milestones we have the rights to a contributing 30% interest in the Mulpun deposit.

This 103 million tonne coal resource could produce approximately 1,100 petajoules (PJ) of syngas¹ based on conservative assumptions.

Energy output of this scale would be sufficient to operate a 300MW power station for over 55 years making this a significant energy resource in the Chilean market.

Activities with Antofagasta have been increasing in Chile. The work program is progressing well

with the following activities being undertaken during the second quarter 2011:

- Tender submissions for the first panel drilling contract have been received and are under evaluation.
- Drilling of the water monitoring wells has commenced and completion is targeted for October 2011 with baseline environmental monitoring underway.
- Dispatch of long lead items such as well heads and related materials, supplied from Australia has been completed.
- Preliminary site civil works have commenced with the construction of roadways and drilling pads substantially completed and targeted for full completion in October 2011.

Front End Engineering and Design (FEED) is well progressed with Antofagasta Minerals and ourselves now finalising FEED documentation prior to entering the detailed Engineering, Procurement and Construction (EPC) phase. The project schedule is progressing as planned and first gas production is targeted for March 2012.

Both parties have also agreed to accelerate feasibility studies and approvals required for a commercial scale power project based on the application of our proprietary keyseam technology.

Note 1: 103 million tonnes of coal at an energy content of 21.67 GJ per tonne has 2,232 PJ energy in place. Using a conservative UCG recovery figure of 50% (that takes into account coal left as pillars, losses and a gasification efficiency of 80%) the estimated recoverable energy is approximately 1,100 PJ should a resource of this size proceed to production. 1 petajoule (PJ) is equivalent to 1,000,000 gigajoules (GJ).



Resource highlights

JORC Resource Assessment

Location	Coal Thickness Cut-Off (m)	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	TOTAL (Mt)
Mulpun, Chile ¹	2	26.4	36.7	40.1	103.2
	5 ²	25.3	19	39.3	83.6

Notes:

1. Carbon Energy has the right to a 30% contributing interest in the Chile deposit upon completion of agreed milestones
2. Optimal target for Underground Coal Gasification

Competent Person Statement – Coal

The information in this table relates to resources is based on information compiled by Dr C.W. Mallett, Technical Director Carbon Energy Limited who is a member of the Australian Institute of Mining and Metallurgy. Dr Mallett has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Dr Mallett consents to the inclusion in the release of the matters based on his information in the form and context in which it appears.

