

1 March 2017

**ASX Announcement & Shareholder Communication No. 5
Carbon Energy Limited (ASX: CNX)**

On 22 November 2016, Carbon Energy Limited (Administrators Appointed) (the **Company** or **Carbon**) (ASX:CNX) announced that Tim Michael and Will Colwell of Ferrier Hodgson had been appointed as Administrators of the Company and two related companies pursuant to section 436A of the *Corporations Act 2001* (Cth).

As announced on 17 February 2017 the Administrators have entered into a \$14 million agreement with Kam Lung Investment Development Co Ltd (“Kam Lung”) for Carbon and subsidiaries to be recapitalised and for the Company to be relisted subject to the necessary ASX approvals.

The second meeting of creditors has been convened for 9 March 2017 at 11:30am (AEST). A copy of the Administrators’ report to creditors pursuant to Section 439A(4)(a) of the *Corporations Act 2001* (Cth) is attached (“Report”). If a creditor would like any of the attachments referenced in the Report they should contact Dylan Master at Dylan.master@fh.com.au.

The Administrators’ report recommends to creditors a Deed of Company Arrangement (DOCA). If creditors approve the execution of the DOCA, a shareholders meeting will be held in May/June 2017. Further details will be provided in due course.

In the meantime, shareholders wishing to make inquiries should contact Dylan Master at Ferrier Hodgson on (07) 3834 9232 if calling from within Australia or +(617) 3834 9232 if calling from overseas.

In the first instance we recommend that shareholders refer to announcements made on the ASX and the Company’s and Ferrier Hodgson’s websites for relevant updates to the external administration.

Shareholders may also wish to refer to ASIC’s insolvency guidelines to shareholders, which is available at the following link:

http://download.asic.gov.au/media/1339292/Insolvency_guide_for_shareholders.pdf

ENDS

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HONG KONG

Carbon Energy Limited

ACN 057 552 137

Carbon Energy (Holdings) Pty Ltd

ACN 120 429 209

Carbon Energy (Operations) Pty Ltd

ACN 105 176 967

(All Administrators Appointed)

Report by Administrators

Pursuant to Section 439A of the Corporations Act

28 February 2017

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Statement by Administrators

In reviewing this Report, creditors should note:

- This Report is based upon our preliminary investigations to date. Any additional material issues that are identified subsequent to the issue of this Report may be the subject of a further written report and/or tabled at the Second Meeting of Creditors.
- The statements and opinions given in this Report are given in good faith and in the belief that such statements and opinions are not false or misleading. We reserve the right to alter any conclusions reached based on any changed or additional information which may be provided to us between the date of this Report and the date of the Second Meeting of Creditors (except where otherwise stated).
- In considering the options available to creditors and formulating our opinion and recommendation, we have necessarily made assumptions as to forecasts of asset realisations and total creditors' claims based on our best assessment in the circumstances. These assumptions are subject to change and as we receive creditor claims and consequently the outcome for creditors might differ from the information provided in this Report.
- Creditors should consider seeking their own independent legal advice as to their rights and the options available to them at the Second Meeting of Creditors.

1 Executive summary

The executive summary aims to provide creditors with basic information with respect to the administration of the Group. Further details are provided throughout this Report.

1.1 Appointment

The Directors appointed Tim Michael and Will Colwell as joint and several Administrators of the following entities on 22 November 2016 pursuant to Section 436A of the Corporations Act 2001 (**the Act**):

- Carbon Energy Limited (**CEL**);
- Carbon Energy (Holdings) Pty Ltd (**CEH**); and
- Carbon Energy (Operations) Pty Ltd (**CEO**)

(collectively referred to as **the Group**)

Due to the interdependent relationship of the entities within the Group, we have prepared this Report on a consolidated basis, this enables stakeholders to fully appreciate the business, operations, financial affairs, and our preliminary investigations of the Group as a whole.

1.2 Conduct of administration

On appointment, the Administrators assumed control of the Group's operations and notified employees, creditors and other stakeholders of their appointment. The Administrators then conducted an urgent financial and commercial review of the Group with the assistance of senior management.

Following the appointment, the immediate priorities addressed by the Administrators were:

- Communication with key stakeholders including, Queensland Government departments, the secured creditor and employees in relation to continued trading and attendance to regulatory/compliance issues;
- Preparation of trading forecasts and cash flows;
- Commencing the process for either a sale of the business, assets or a recapitalisation of the Group;
- Reviewing and assessing the insurances in place and measures to maintain insurance coverages;
- Engaging independent consultants to undertake environmental and workplace health and safety assessments of the Group's operations; and
- Making an application to Australian Securities and Investments Commission (**ASIC**) for the deferral of the Annual General Meeting (**AGM**) that had been convened for 15 December 2016.

1.3 Purpose of report

The purpose of this Report is to table the findings of our investigations of the Group's business, property, affairs and financial circumstances, as well as our opinion on the three options available to creditors in deciding the future of the Group at the Second Meeting.

1.4 Second meeting of creditors

At the Second Meeting, creditors will be asked to resolve for each company of the Group whether:

- The company execute a DOCA;
- The Administration should end; or
- The company be wound up.

The Administrators intend to hold concurrent second meetings of creditors of the Group.

Details of the concurrent Second Meetings are as follows:

Second Meeting	Details
Date	9 March 2017
Registration	From 11.00 am (AEST)
Meeting time	11.30 am (AEST)
Location	Level 7, 145 Eagle Street, Brisbane Queensland 4000

Creditors who wish to participate in the Second Meeting must complete and submit the following forms to this office by 4:00pm (AEST) on 8 March 2017.

Form	Comments
Appointment of proxy (form 532)	<p>A corporate creditor must appoint an individual to act on its behalf.</p> <p>Individuals voting in person are not required to complete this form but must complete this form if a representative is appointed to attend and vote on their behalf.</p> <p>Proxy forms submitted for the First Meeting are not valid for the Second Meeting. A new proxy form must be submitted.</p>
Proof of debt (form 535)	<p>Creditors must submit documentation to support the amount they have claimed (i.e. unpaid invoices, statements).</p> <p>Creditors who have already submitted a proof of debt are not required to resubmit a proof of debt form unless the amount claimed has changed.</p>

1.5 Summary of investigations

The Administrators have noted that:

- In considering the balance sheet test, the Group maintained a positive net asset position at all times prior to the appointment of Administrators.
- Excluding the \$10 million Convertible Facility, at all times until the appointment of Administrators, the Group maintained a surplus of working capital and was able to meet its debts as and when they fell due.
- The Directors obtained independent solvency advice in September 2016, which based on the circumstances at that time, concluded that the Group remained solvent and was expected to remain solvent until February 2017 based on cash flow projections and assuming that the \$10 million Convertible Facility was able to be refinanced and did not become due and payable before 18 January 2017.

Given the above and the fact that no other indicators of insolvency exist, we are of the opinion that the Group was solvent at the time of the appointment of Administrators.

No voidable transactions or offences have been identified.

The preliminary investigations undertaken to date by the Administrators are detailed at section 8 of this Report.

1.6 Return to creditors

Under the proposed DOCA and Creditors' Trust, we estimate creditors are expected to receive the following dividends:

Creditors	Estimated dividend rate (cents in the \$) or treatment
Employee Entitlements - Continuing employees	Carried forward as a liability of the Group
Employee Priority Entitlements - Resigned / terminated employees	100 cents/\$ paid from the Creditors' Trust
Secured Creditor	90 cents/\$ (\$9,000,000) (excluding any value attributable to the Pacific Road shares being transferred)
Unsecured Creditors – External (Trade and statutory creditors) - Up to a maximum claim of \$5,000	Up to \$5,000 of their admitted debt paid from the Creditors' Trust. Any debts above \$5,000 will receive the dividend discussed below.
Unsecured Creditors – External (Trade and statutory creditors) - Claims greater than \$5,000	\$5,000 plus between 10.9 cents and 16.5 cents/\$ on their remaining balance paid from the Creditors' Trust.
Unsecured Creditor – Intercompany loan (CEL)	Carried forward as a liability of the Group
Subordinate Creditors	Nil
Excluded creditors	Carried forward as a liability of the Group
Non-participating creditors – JinHong	Nil
Shareholders	Shares to relist on ASX

The above dividend rates are estimates only. The final rate will be dependent on a number of factors. Please refer to section 10 for further information.

If the Group is placed into liquidation, the funds received from the realisation of the Group's circulating assets will be applied against the costs of the Administration in the first instance, followed by priority employee entitlement claims and the secured creditor. Non circulating assets will be applied to the debt of the secured creditor, PRCM Nominees Pty Limited and associated entities (**Pacific Road**). As the sale proceeds in liquidation are anticipated to be insufficient to discharge Pacific Road's debt in full, it is anticipated that there will be no funds available to unsecured creditors.

If the Group is placed into liquidation at the concurrent Second Meeting, employees may be able to recover their entitlements (excluding unpaid superannuation) through FEG. Please refer to section 10 of this report for further information.

1.7 Administrators' recommendation

Kam Lung has proposed a DOCA incorporating a Creditors' Trust, which contains the following key features:

- Payment of \$9 million (inclusive of a \$150,000 contribution to Kam Lung costs that will otherwise be retained by the Group for working capital) to Pacific Road representing settlement in full of all monies outstanding to Pacific Road and the acquisition of all of Pacific Road's shareholdings.
- Creation of a Creditors Trust in the sum of \$300,000 to satisfy claims of the non-continuing employees and unsecured creditors that are not excluded creditors and the costs of the Trustee of the Creditors' Trust.
- Parties that have a claim against the Group for rights to be issued shares or as a subordinated creditor will form part of the Creditors Trust. However, it is unlikely that any funds will be available to meet those claims, either in whole or part, after payment of dividends to priority employees and ordinary unsecured creditors.
- Creation of a class of creditors being excluded creditors who will not participate in the Creditors' Trust and whose debts will remain a continuing liability of the Group.
- Provision of working capital by way of both interim and post DOCA funding. The interim funding of \$1.3 million will be available to the Administrators/Deed Administrators (if appointed) and the Group to enable continued trading until a shareholders meeting (envisaged to be May 2017, dates to be confirmed).
- If creditors approve the execution of the DOCA, control will revert to the Directors on execution. The Directors will then take the necessary steps to prepare for and convene a shareholders meeting to approve the transaction contemplated by the DOCA.
- If shareholders approve the transaction, a further \$3.4 million (prior to payment of any specified amounts as outlined in the DOCA) of working capital will be available to the Group in return for the issue of shares.

We note the following regarding the three options available for the future of the Group:

- Resolving for the Administration to end will return the Group to the control of the Directors' in circumstances where the available funds on the appointment of Administrators have been depleted by trading costs and the professional costs and outlays of the Administrators, such that the Group would have no ability to continue to trade.

- Resolving that the Group be wound up is estimated to result in no return to unsecured creditors.
- Resolving to approve the Kam Lung DOCA is expected to result in a higher and more certain return to the secured creditor, employees and unsecured creditors than if the Group was liquidated. The Group will also relist on the ASX preserving some value for shareholders.

We are of the opinion and recommend that it would be in creditors' interests for the Group to execute the Kam Lung DOCA because it represents a greater overall return to all creditors, employees and shareholders than the alternative options.

2 Introduction

This section provides information on the entities subject to the voluntary administration process, the objectives of the administration, the purpose of this report, meetings of creditors, and a summary of the Administrators' remuneration.

2.1 Purpose of appointment and this report

The purpose underlying an administrator's appointment is to allow for independent control and investigation of an insolvent company's affairs. During the administration period, creditors' claims are put on hold.

We are required to provide creditors with information and recommendations in relation to the three options available to creditors in deciding the Group's future at the concurrent Second Meeting.

Section 439A(4) of the Act explains the purpose of an Administrator's report in providing that the notice (of second meeting) must be accompanied by a copy of:

- A report by the Administrator about the company's business, property, affairs and financial circumstances; and*
- A statement setting out the Administrator's opinion about each of the following matters:*
 - Whether it would be in the creditors' interests for the company to execute a Deed of Company Arrangement;*
 - Whether it would be in the creditors' interests for the administration to end;*
 - Whether it would be in the creditors' interests for the company to be wound up;*
 - His or her reasons for those opinions; and*
- If a Deed of Company Arrangement is proposed – a statement setting out details of the proposed deed.*

In the available time, we have undertaken the investigations detailed in section 8 of this Report. These investigations have enabled us to form an opinion about the Group's future.

Our opinion is set out in section 11 of this Report.

2.2 Basis of report

This Report has been prepared primarily from information obtained from the Group's books and records and discussions with the Managing Director/Chief Executive Officer, the Chief Financial Officer and senior management of the Group. Although the Administrators have

conducted certain investigations of the affairs of the Group, there may be matters which we are unaware of as an audit of the Group has not been undertaken.

In order to complete our Report, we have relied on information from:

- Australian Securities and Investments Commission;
- Personal Property Securities Register (**PPSR**);
- The Group's book and records;
- Discussions with, and a questionnaire completed by, the Directors of the Group;
- Discussions with management and key employees of the Group;
- Discussions with the secured creditor of the Group;
- Discussions with unsecured creditors of the Group;
- Discussions with relevant State Government Departments; and
- Other public databases.

2.3 Declaration of independence, relevant relationships and indemnities

In accordance with Section 436DA of the Act and the Australian Restructuring, Insolvency & Turnaround Association (**ARITA**) Code of Professional Practice, a Declaration of Independence, Relevant Relationships and Indemnities (**DIRRI**) was enclosed with the first circular to creditors. The DIRRI was also tabled at the First Meeting.

The DIRRI disclosed information regarding the Administrators' independence, prior personal or professional relationships with the Group or related parties and any indemnities received in relation to the appointments (in the case of the Group there were none).

The assessment identified no real or potential risks to our independence. We were not aware of any reasons that would prevent us from accepting the appointment or that would prevent us from continuing the appointment.

Attached is an amended DIRRI at **Annexure A**, which includes details of an indemnity, received as part of Kam Lung's DOCA proposal.

There have been no other changes in the declaration.

2.4 First meeting and committee of creditors

Creditors attended the concurrent First Meeting of creditors on 2 December 2016. At that meeting, creditors ratified the Administrators' appointment.

Creditors elected the following creditors to a committee of creditors (**COC**), with the below tables summarising the creditor and their representative for each entity of the Group:

CEL	
COC member	Representative
Company employees	Catherine Costello
Summa Resource Holdings LLC	Edward Mooney
Beijing Jinhong Investment Development Co Limited	Mark Clifton
PRCM Nominees Pty Limited	Greg Dick

CEH	
COC member	Representative
PRCM Nominees Pty Limited	Greg Dick

CEO	
COC member	Representative
Company employees	Catherine Costello
HA Bachrach Pty Ltd	Richard Shepherd
Beijing Jinhong New Energy Development Co Ltd	Mark Clifton
PRCM Nominees Pty Limited	Greg Dick

A COC meeting was held on 30 January 2017.

The following table summarises the matters discussed and the resolutions passed at the COC meeting on 30 January 2017.

Meeting date	Matters discussed and resolutions passed
30 January 2017	<p>Summary of creditor claims Preliminary liquidation analysis Recapitalisation proposals received and Administrators' preliminary opinion on the preferred DOCA proposal Next steps in the administration and recapitalisation process.</p> <p>No resolutions passed in relation to these matters discussed.</p>

Meeting date	Matters discussed and resolutions passed
	Administrators' remuneration for the period 22 November 2016 to 20 January 2017.
	Resolutions passed:
	CEL
	<i>Administrators' Remuneration for the period from 22 November 2016 to 20 January 2017 be fixed in the amount of \$152,126.48, plus GST.</i>
	CEH
	<i>Administrators' Remuneration for the period from 22 November 2016 to 20 January 2017 be fixed in the amount of \$2,672.03 plus GST.</i>
	CEO
	<i>Administrators' Remuneration for the period from 22 November 2016 to 20 January 2017 be fixed in the amount of \$271,822.48 plus GST.</i>

2.5 Second meeting

Based on the statutory timetable of a voluntary administration, the Second Meeting was required to be held on 29 December 2016.

Given the complexities of the Group, the sale and/or recapitalisation options being considered and the indicative timetable proposed for same, we made an application to the Supreme Court of Queensland for an extension of the convening period.

The Court made orders on 6 December 2016 that the date by which the Administrators were required to convene the Second Meeting of the Group be extended up to and including 31 March 2017, such that the Second Meeting may be held any time up to, or within 5 business days after 31 March 2017, being 7 April 2017.

Pursuant to Section 439A of the Act, a concurrent Second Meeting of creditors is convened for 9 March 2017 at Level 7, 145 Eagle Street, Brisbane at 11.30am (AEST). At the Second Meeting, creditors will decide the future of each company in the Group by voting on one of the following options:

- That the administration should end and control of the company revert to its directors; or,
- That the company should be wound up; or,
- That the company execute a DOCA.

Attached is the Notice of Meeting of Creditors (Form 529) (**Annexure B**) along with an Appointment of Proxy Form (**Annexure C**) and a Proof of Debt or Claim Form (**Annexure D**).

Creditors have the opportunity to adjourn the Second Meeting for up to 45 business days.

2.6 Remuneration

At the Second Meeting, we will be seeking approval of the Administrators' remuneration as follows:

Period	Amount (excl GST)			Total
	CEL	CEH	CEO	
	\$	\$	\$	\$
Voluntary Administration				
For the period 21 January 2017 to 17 February 2017	66,110.48	767.50	79,630.72	146,508.70
Voluntary Administration				
For the period 18 February 2017 to execution of the DOCA	27,500.00	500.00	37,500.00	65,500.00
DOCA (if applicable)	29,000.00	1,000.00	45,000.00	75,000.00
Creditors Trust (if applicable)	45,000.00	-	55,000.00	100,000.00
Liquidation (if applicable)	105,000.00	5,000.00	195,000.00	305,000.00

Please refer to our Remuneration Approval Request Report at **Annexure E** for details of the key tasks undertaken and future tasks to be undertaken throughout the course of the administration along with a summary of the receipts and payments to date.

2.7 Non-disclosure of certain information

There are sections of this Report where we have considered it inappropriate to disclose certain information to creditors. Such information includes:

- Valuations and estimated realisations of specific assets
- Valuations and estimated realisations of certain parts of the business
- Details of offers received during the sale process
- Commercially sensitive prospective financial information (for example, projections / forecasts)

We recognise the need to provide creditors with complete disclosure of all necessary information relating to the Group. However, we believe this information is commercially sensitive and it is not in creditors' interests for us to disclose the information publicly at this stage.

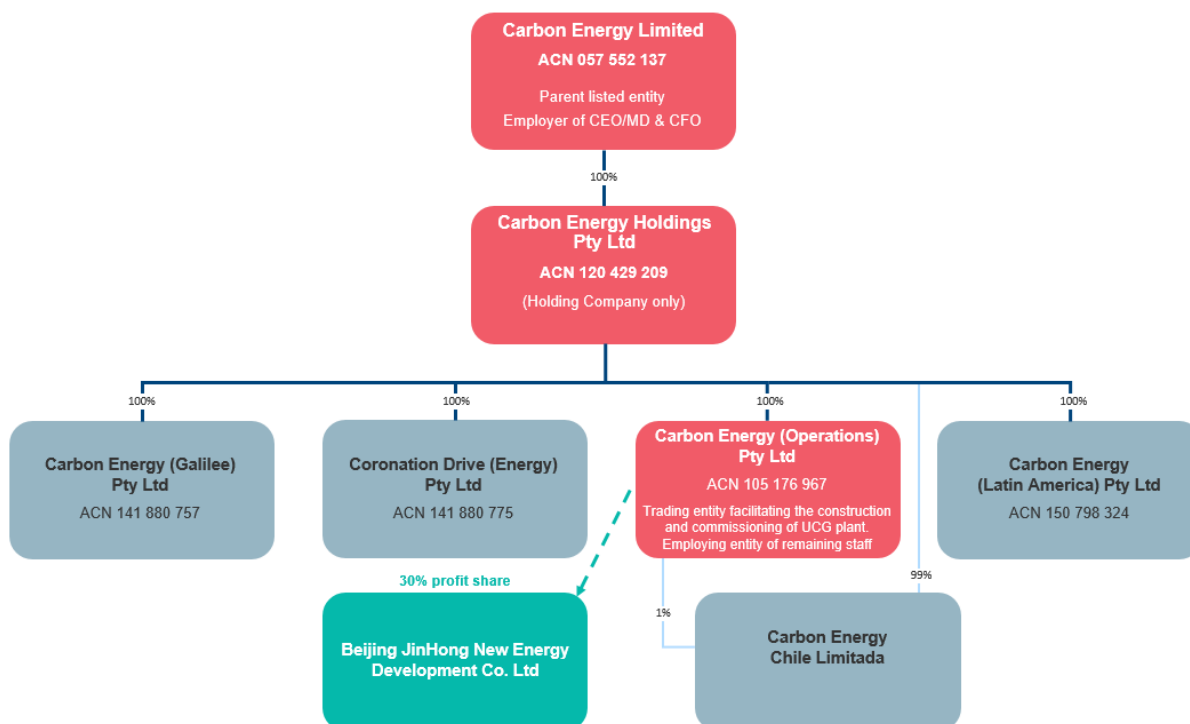
Where necessary in this Report, we provide a combined figure for potential realisations of assets when comparing estimated dividends under the relevant options.

3 Company information

This section provides creditors with information on the history of the Group and the circumstances leading up to the appointment of Administrators and details regarding the entities within the Group including statutory information.

3.1 Group structure

Provided below is the corporate structure of the Group:



Key points to note are as follows:

- CEL is listed on the Australian Securities Exchange ASX:CNX. It also has a listing on the Pink Market (United States of America) where its listed American Depository Receipts are traded;
- CEO is the primary trading entity of the Group;
- Carbon Energy (Galilee) Pty Ltd, Carbon Energy (Latin America) Pty Ltd, Carbon Energy Chile Limitada and Coronation Drive (Energy) Pty Ltd are dormant/inactive entities and administrators are not appointed to these entities;
- Beijing JinHong New Energy Development Co. Ltd is the joint venture entity established between JinHong and CEO in relation to use of the Group's technology in China. The joint venture is referred to as the JinHong Joint Venture.

3.2 Statutory information

The following tables summarise the statutory details for each company extracted from ASIC's national database at the time of our appointment.

CEL	
ACN	057 552 137
Incorporation date	29 September 1992
Shareholder	Refer to listing of top 20 shareholders attached as Annexure F
Registered address / principal place of business	Level 9, 301 Coronation Drive, Milton, 4064, QLD
Directors	Kerry John Parker (Appointed - 1/09/2016) Peter Neville Hogan (Appointed - 29/08/2008) Helen Margaret Garnett (Appointed - 6/09/2010) Christopher David Rawlings (Appointed - 1/07/2011) HuiHai Zhuang (Appointed - 29/10/2015) Louis Ivan Rozman (Ceased - 10/10/2016) Morne Engelbrecht (Ceased - 12/08/2016)
Secretary	Catherine Mary Costello (Appointed – 30/09/2015)
CEH	
ACN	120 429 209
Incorporation date	28 June 2006
Shareholder	Carbon Energy Limited (Administrators Appointed)
Registered address / principal place of business	Level 9, 301 Coronation Drive, Milton, 4064, QLD
Directors	Terence Michael Moore (Appointed - 21/12/2012) Kerry John Parker (Appointed - 15/09/2016) Christopher David Rawlings (Ceased - 15/09/2016) Morne Engelbrecht (Ceased - 12/08/2016)
Secretary	Catherine Mary Costello (Appointed – 30/09/2015)
CEO	
ACN	105 176 967
Incorporation date	24 June 2003
Shareholder	Carbon Energy (Holdings) Pty Ltd (Administrators Appointed)

CEO

Registered address / principal place of business HopgoodGanim Lawyers, Allendale Square, Level 27, 77 Street Georges Terrace, Perth, 6000, WA
Level 9, 301 Coronation Drive, Milton, 4064, QLD

Directors Terence Michael Moore (Appointed - 21/12/2012)
Kerry John Parker (Appointed - 15/09/2016)
Christopher David Rawlings (Ceased - 15/09/2016)
Morne Engelbrecht (Ceased - 12/08/2016)

Secretary Catherine Mary Costello (Appointed – 30/09/2015)

A search of the National Personal Insolvency Index maintained by the Australian Financial Security Authority shows that the Group's Directors are not bankrupt or subject to a Personal Insolvency Agreement under Part X of the Bankruptcy Act 1966.

3.2.1 CEL shareholders

Total fully paid shares issued as at 31 October 2016 were 1,813,428,879.

Attached as **Annexure F** is a listing of the top 20 shareholders as at 31 October 2016, who comprise 59.27% of issued shares.

CEL's market capitalisation on 7 November 2016 (being the day prior to the trading halt) was \$25.4 million.

CEL also has a listing on OTCQX in the United States of America. Prior to the Administrators appointment the board resolved to commence delisting from the OTCQX. That process has resulted in CEL being transferred to the Pink Market.

3.2.2 CEL key ASX announcements

Attached as **Annexure G** is a listing of key ASX announcements from 1 July 2016 until our appointment.

3.2.3 Registered security interests

Under the PPSA legislation that took effect on 30 January 2012, security over property (except land and certain other asset categories) must be registered as a security interest on the PPSR.

Briefly, the concept of fixed and floating charges was replaced under the PPSA by "security interests over non-circulating assets" and "security interests over circulating assets" respectively.

In the case of inventory, title to any inventory will require registration as a PMSI on the PPSR. A PMSI is similar to a ROT provision in terms of trade.

Unless a supplier (including a ROT supplier) registers a PMSI as a security interest on the PPSR, the goods under the ROT clause may become property of the Group and amount to a windfall to the Group and its creditors.

The following table summarises the results of a search of the PPSR that 24 security interests were registered against the Group's assets at the date of the Administrators' appointment.

Creditor Group	Collateral Class	Secured Party	CEL	CEH	CEO
Financiers	Investment Instrument	Pacific Road	-	1	-
	General Intangible	Pacific Road	-	1	-
	APAAP	Pacific Road	-	-	1
Banks	APAAP	National Australia Bank Limited	-	-	2
Motor Vehicles	Motor Vehicles	Various	-	-	3
Suppliers	Other Goods	Various	-	-	16
Total			-	2	22

Our preliminary investigations have revealed that eight registrations remain current, and that 16 registrations were no longer current and have been discharged.

Pacific Road holds a charge over the whole or substantially the whole of the property of CEH and CEO. The security relates to the Convertible Facility secured by a Deed of Mortgage. The debt owed to Pacific Road is cross-collateralised and therefore is jointly and severally payable by each company within the Group.

We obtained an independent legal review of the security and the PPSR registration of the security interest created by the Deed of Mortgage of Pacific Road, which confirmed the validity and enforceability of the security.

At section 5.4.10 we detail our analysis of a pre-appointment dispute about the validity and enforceability of the Pacific Road security.

The remaining eight security interests are held by financiers/lessors of equipment and trade suppliers and are all valid registrations.

There is one additional security interest that the Administrators have identified as not being registered on the PPSR, causing the asset the subject of the hire agreement to vest in CEO.

Our position has been communicated to the hiring party and the asset remains in the Group's control. The hiring party disputes the position.

As a result of the asset vesting, the asset becomes an asset of CEO and the hiring party becomes a creditor of CEO for the market value of the asset vested. We have increased the hiring party's claim by \$55,000, based on our independent valuers assessment of the market value of the asset.

3.2.4 Winding up applications

Public searches indicate that at the date of our appointment, there was no outstanding winding up applications against the Group.

3.3 Company history

CEL was formed in 2006 following a joint venture between Metex Limited and the Commonwealth Scientific and Industrial Research Organisation (**CSIRO**) to develop and commercialise Underground Coal Gasification (**UCG**).

CEL's purpose was to build and test in-field, the keyseam® technology and intellectual property developed following ten years of research with Australia's premier research agency the CSIRO. The keyseam® technology aims to unlock coal resources previously considered too deep or uneconomic to reach.

In May 2008, the Group began the construction of its first pilot scale, oxygen injected UCG trial based on a standard 1 petajoule (PJ) per year UCG syngas module at its Bloodwood Creek site, near the Queensland township of Dalby. This site in the Surat Basin is where the Group maintains its wholly owned thermal coal assets.

In 2011, the Group achieved an Australian first in generating electricity from syngas and had positioned itself as a significant innovator within the Queensland energy industry.

During 2012 and 2013 the Queensland Government appointed Independent Scientific Review Panel (**ISP**) provided its findings on the UCG industry. The ISP in short provided "in-principle" support and recommended the Group to decommission and draft a rehabilitation plan in order to demonstrate the full-lifecycle of a keyseam® project.

The Group completed both the decommissioning of Bloodwood Creek and submitted a rehabilitation plan which resulted in proving its keyseam® technology was safe and effective with strong environmental credentials. These reports were delivered to the Queensland Government in late 2014.

The Group also pursued business development opportunities in China where interest in keyseam® technology had been expressed. In November 2015, CEL shareholders approved a joint venture with Beijing JinHong Investment Development Co Limited (**JinHong**), an associate of the CEL's cornerstone investor, Kam Lung Investment Development Co. Ltd (**Kam Lung**) to develop a China based company focused on exclusively building a gas and technology licencing business in the region.

On 18 April 2016, the Queensland Government announced its decision to ban all UCG projects in Queensland due to concerns about environmental impact.

Shortly following this announcement, the Group's senior management entered into various discussions with the Queensland Government, including the Minister of the Department of Natural Resources and Mines (**DNRM**) and other senior Government officials, in respect of the impact of the announcement on the Group. Despite its acknowledgement of the effort and progress that the Group had achieved, the Queensland Government did not change its position and UCG projects remain banned in Queensland.

In July 2016, the Group received formal confirmation from the Queensland Government that it had met the recommendations of the ISP.

As a part of its China focus, the Group has also been assisting to establish the plans for a research program for the China University for Mining and Technology's International Research Centre for UCG.

3.4 Events leading to our appointment

The following table summarises the events leading to our appointment as Administrators' of the Group:

Date	Event
18 April 2016	Queensland State Government announcement regarding the banning of UCG in Queensland.
April 2016	The Group announces that it will play a key role in the Chinese UCG Research Centre.
June 2016	The Group advises that the JinHong Joint Venture has been registered in China.
June 2016	The Group commenced discussions with its major shareholder, Kam Lung regarding the refinancing of the \$10 million Convertible Facility.
July 2016	The Group receives formal confirmation from the Queensland Government that it has met the recommendations set by the ISP.
September 2016	The Group appointed PwC and Magma Capital in early September to identify an alternate financier and/or assist with improving the offer being negotiated with Kam Lung. It is noted approximately 60 parties were approached, however it did not result in any alternate refinance options.
September 2016	The Group obtained solvency advice from external solicitors, which concluded that the Group would remain solvent until February 2017 based on the cash flows at the time and assuming that the \$10 million Convertible Facility was able to be refinanced and did not become due and payable before 18 January 2017. The advice also noted that in mid-October 2016, the Directors should make a definitive and honest assessment as to whether the Group has the refinancing under control such that it is reasonably likely that the facility was able to be repaid or refinanced by the due date. The advice also concluded that if for any reason the refinancing was not likely to be achieved then the Directors need to consider whether an administrator should be appointed.

Date	Event
25 October 2016 to 21 November 2016	<p>The Group announced that it had obtained the support of Kam Lung for a refinancing of the Group's \$10 million Convertible Facility.</p> <p>A non-binding term sheet was agreed between CEL, Pacific Road and Kam Lung where:</p> <ul style="list-style-type: none"> • Kam Lung would purchase CEL's \$10 million Convertible Facility from Pacific Road and extend the term for repayment for a further five years on substantially the same terms; • Kam Lung would provide Pacific Road with certain agreed consideration in respect of that purchase, by way of a mix of up-front and deferred cash payments; and • Kam Lung would provide CEL with additional financial support for its operations by underwriting up to \$3.5 million of a rights issue capital raising which may raise a minimum amount of \$5 million on certain terms. <p>The Group was well advanced on preparation of the final long form documentation to give effect to the term sheet but an impasse arose between the parties regarding the enforceability of the debt owed to Pacific Road following an internal restructure of the Pacific Road entities that had not been advised to the Group.</p>
10 November 2016	CNX shares suspended on ASX.
18 November 2016	Representatives of Ferrier Hodgson met with the Group's management and general counsel to discuss the Group's affairs and provide an overview of the voluntary administration process and options available in the event of insolvency.
22 November 2016	Because of the refinancing of the Convertible Facility not proceeding and absent other viable funding options available, it was deemed that steps to appoint voluntary administrators should be taken.
22 November 2016	The Directors resolved to appoint Administrators to the Group.

4 Historical financial position

This section provides information on the historical financial performance and position of the Group during FY15, FY16 and YTD FY17.

4.1 Books and records

Section 286 of the Act requires a company to keep written financial records that correctly record and explain the company's transactions, financial position and performance and would enable true and fair financial statements to be prepared. The financial records must be retained for a period of seven years after the transactions covered by the records are completed.

The failure to maintain books and records in accordance with Section 286 provides a rebuttable presumption of insolvency which might be relied upon by a liquidator in an application for compensation for insolvent trading.

Based on our review of the books and records received, we are of the opinion that the Group's books and records were maintained in accordance with Section 286 of the Act.

4.2 Preparation of financial statements

The Group's financial year is 30 June. The Group's auditors are Grant Thornton who undertook their first audit in 2016. The Group's former auditors were Deloitte. Consolidated financial statements were prepared for the Group up to 30 June 2016. Grant Thornton signed off on those accounts on 5 August 2016.

The Group prepared management accounts on a monthly or bi-monthly basis and also lodged quarterly cash flow reports with the ASX.

4.3 Profit and loss statement and preliminary analysis

The table on the following page summarises the Group's consolidated profit and loss statements for:

- Financial year ended 30 June 2015 (audited);
- Financial year ended 30 June 2016 (audited); and
- The period 1 July 2016 to 21 November 2016 (unaudited).

The accounts to 21 November 2016 have been updated to include creditor claims for the period to 21 November 2016, which were received following the Administrators' appointment.

Consolidated Profit and Loss Statement	YTD to 21 Nov 2016 \$	FY 2016 \$	FY 2015 \$
Revenue and other income			
Technology service fee revenue	-	189,069	285,268
Other income	1,450,235	2,560,429	3,906,430
Total revenue and other income	1,450,235	2,749,498	4,191,698
Expenditure			
Employee benefits expense	(1,296,906)	(3,066,278)	(4,195,896)
Administration, legal and corporate costs	(720,400)	(1,680,457)	(1,759,193)
Consultancy costs	(271,120)	(546,111)	(1,327,150)
Operating expenditure	(176,483)	(314,013)	(309,537)
Share-based payments	(202,100)	(75,588)	(83,113)
Depreciation expense	(57,245)	(183,052)	(228,713)
Finance costs	(989,246)	(1,752,442)	(1,878,719)
Movement in fair value of derivatives	-	9,020	1,884
Impairment expenses	(2,818)	(95,677,350)	(634,148)
Total expenditure	(3,716,318)	(103,286,272)	(10,414,585)
Loss before income tax expense	(2,266,083)	(100,536,774)	(6,222,887)
Income tax benefit/(expense)	-	(8,530)	52,122
Profit/(loss) for the year	(2,266,083)	(100,545,304)	(6,170,765)

In respect of the above, we make the following comments:

- The Group has incurred losses since inception. We note however that this is not unusual during the exploration and development phase of a technology company's lifecycle.
- Other income principally relates to receipt of the ATO's research and development tax incentive rebate.
- Operating expenses have reduced as the Group has scaled back operations / decommissioned the Bloodwood Creek site.
- The Group impaired its Queensland project assets in FY2016 (c\$95.7 million) as a consequence of the Queensland Government announcing a ban on UCG in Queensland on 18 April 2016.
- Finance costs largely relate to the Pacific Road \$10 million Convertible Facility and include the interest expense paid through the issue of equity.

4.4 Balance sheet and preliminary analysis

The table on the following page summarises the Group's consolidated balance sheet as at:

- 30 June 2015 (audited);
- 30 June 2016 (audited); and
- 21 November 2016 (unaudited).

The accounts to 21 November 2016 have been updated to include creditor claims for the period to 21 November 2016, which were received following the Administrators' appointment.

Consolidated Balance Sheet	As at 21 November 2016 \$	As at 30 June 2016 \$	As at 30 June 2015 \$
Assets			
Current assets			
Cash and cash equivalents	1,077,812	2,208,071	1,688,736
Trade and other receivables	143,760	177,821	51,878
Other current assets	81,361	78,027	65,424
Total current assets	1,302,933	2,463,919	1,806,038
Non-current assets			
Trade and other receivables	267,553	267,553	267,553
Intangible assets	48,000,214	47,968,814	47,902,732
Construction work in progress	-	-	2,555,334
UCG panel assets	-	-	1,786,888
Property, plant and equipment	694,905	692,707	834,191
Deferred exploration and evaluation costs	-	-	90,376,990
Other non-current assets	-	-	860,326
Total non-current assets	48,962,672	48,929,074	144,584,014
Total Assets	50,265,605	51,392,993	146,390,052
Liabilities			
Current liabilities			
Trade and other payables	652,241	643,270	435,158
Loans and borrowings	-	-	1,165,937
Derivative financial liability	-	-	9,020
Financial liability	9,773,182	9,210,047	-
Provisions	723,283	864,031	386,699
Total current liabilities	11,148,706	10,717,348	1,996,814
Non-current liabilities			
Provisions	2,898,203	2,898,203	3,727,577
Financial liabilities	-	-	8,029,675
Total non-current liabilities	2,898,203	2,898,203	11,757,252
Total Liabilities	14,046,909	13,615,551	13,754,066
Net Assets	36,218,696	37,777,442	132,635,986
Equity			
Issued Capital	244,731,386	244,226,148	238,614,976
Reserves	20,205,709	20,003,609	19,928,021
Accumulated losses	(228,718,399)	(226,452,315)	(125,907,011)
Total Equity	36,218,696	37,777,442	132,635,986

In respect of the above, we make the following comments:

- As noted in the Consolidated Profit and Loss, the Group impaired its Queensland project assets in FY2016 because of the Queensland Government announcing a ban on UCG in Queensland on 18 April 2016, which resulted in the significant deterioration in assets.

- The financial liability represents the discounted value of the Pacific Road \$10 million Convertible Facility, which was due to be repaid by 18 January 2017.
- The Group has funded its ongoing working capital requirements through equity raisings. The most recent equity raising was a rights issue completed in April 2016 of \$3.48 million, with a subsequent placement of the shortfall in July 2016 of \$0.4 million.
- The current and non-current provisions include an amount of \$3.4 million for the rehabilitation of the Group's Queensland site at Bloodwood Creek. The provision is based on the Group's best estimate of executing the rehabilitation plan lodged with the Queensland Government. This matter is considered further in section 5.4.11.2.
- Trade receivables largely relate to services provided to the Group's Chinese Joint Venture partner, JinHong.

5 Statement by directors

This section provides a summary of the Statements submitted by the Directors regarding the Group's affairs, together with the Administrators comments and an explanation of the Directors' reasons for failure of the Group.

Section 438B of the Act requires the directors to give an administrator a statement about the company's business, property, affairs and financial circumstances.

The Administrators provided the Directors an extension of time to submit their statements until 9 December 2016.

The Directors have collectively prepared and have each lodged a Statement for each company under voluntary administration. We received the Directors' Statements progressively from 30 November 2016.

In the Statement, the Directors detail the assets and liabilities of each company at book value and ERV. The following tables summarise the book value of assets and liabilities disclosed in the Directors' Statements.

The Administrators have not audited the Group's records or the book values. The below tables should not be used to determine the likely return to creditors as a number of realisable values are based on the Group's records and remain subject to the review of the Administrators and, in particular:

- The Administrators are not in a position to confirm (or otherwise) certain asset values as valuations commissioned by the Administrators are commercially sensitive and are not disclosed in this Report.
- The value of creditor claims remains subject to change as further claims may be received and require adjudication.
- The tables below do not provide for trading costs or professional costs associated with the administration process.

5.1 CEL

The following table summarises the book value of the assets and liabilities disclosed in the Directors' Statements together with the Directors' ERV:

	Report Reference	Cost or Net Book Value \$	Directors' ERV \$
Circulating assets			
Cash	5.4.1	1,059,802	1,059,802
Pre-appointment debtors / refunds / prepayments	5.4.2	13,173	7,747
Intercompany Loan - CEO	5.4.3	8,667,066	Unknown
Security bond for Brisbane office lease	5.4.1	181,913	-
Total circulating assets		9,921,954	1,067,549
Less: Employee entitlements	5.4.9	(92,201)	(92,201)
Surplus/(shortfall) of circulating assets (after priority claims)		9,829,753	975,348
Non-circulating assets			
Land	5.4.5	-	-
Intellectual Property	5.4.8	214,485	Unknown
Investment - CEH	5.4.7	36,324,527	Unknown
Total non-circulating assets		36,539,012	Unknown
Add: Surplus from circulating assets		9,829,753	975,348
Total assets available for distribution to Secured Creditor		46,368,765	975,348
Less: Secured Creditor	5.4.10	(9,889,620)	(9,889,620)
Surplus/(shortfall) available for unsecured creditors		36,479,145	(8,914,272)
Less: Unsecured creditors	5.4.11	(260,448)	(260,448)
Estimated surplus/(shortfall)		36,218,697	(9,174,720)*

*We note the estimated shortfall in the Directors' ERV does not include a value for all assets given their uncertainty on the realisable value of same.

5.2 CEH

The following table summarises the book value of the assets and liabilities disclosed in the Directors' Statement together with the Directors' ERV:

	Report Reference	Cost or Net Book Value \$	Directors' ERV \$
Circulating assets			
Cash	5.4.1	40	40
Total circulating assets		40	40
Less: Employee entitlements	5.4.9	-	-
Surplus/(shortfall) of circulating assets (after priority claims)		40	40
Non-circulating assets			
Investment - CEO	5.4.7	36,324,484	36,324,484
Investment – Other related parties		3	-
Total non-circulating assets		36,324,487	36,324,484
Add: Surplus from circulating assets		40	40
Total assets available for distribution to Secured Creditor		36,324,527	36,324,524
Less: Secured Creditor	5.4.10	(10,000,000)	(10,000,000)
Surplus/(shortfall) available for unsecured creditors		26,324,527	26,324,524
Less: Unsecured creditors	5.4.11	-	-
Estimated surplus/(shortfall)		26,324,527	26,324,524

5.3 CEO

The following table summarises the book value of the assets and liabilities disclosed in the Directors' Statement together with the Directors' ERV:

	Report Reference	Cost or Net Book Value \$	Directors' ERV \$
Circulating assets			
Cash	5.4.1	17,971	17,971
Pre-appointment debtors / refunds / prepayments	5.4.2	187,056	-
Security Deposits	5.4.1	85,640	-
Work in progress - Unbilled revenue	5.4.4	24,889	-
Total circulating assets		315,556	17,971
<i>Less: Employee entitlements</i>	5.4.9	<i>(347,602)</i>	<i>(347,602)</i>
Surplus/(shortfall) of circulating assets (after priority claims)		(32,046)	(329,631)
Non-circulating assets			
Land	5.4.5	408,016	Unknown
Plant, equipment and motor vehicles	5.4.6	286,890	Unknown
Intellectual property	5.4.8	47,785,728	Unknown
Total non-circulating assets		48,480,634	-
<i>Less: Shortfall from circulating assets</i>		<i>(32,046)</i>	<i>(329,631)</i>
Total assets available for distribution to Secured Creditor		48,448,588	(329,631)
<i>Less: Secured Creditor</i>	5.4.10	<i>-</i>	<i>-</i>
Surplus/(shortfall) available for unsecured creditors		48,448,588	(329,631)
<i>Less: Intercompany Loan - CEL</i>	5.4.3	<i>(8,667,066)</i>	<i>(8,667,066)</i>
<i>Less: External unsecured creditors</i>	5.4.11	<i>(3,457,038)</i>	<i>(3,457,038)</i>
Estimated surplus/(shortfall)		36,324,484	(12,453,735)*

*We note the estimated shortfall in the Directors' ERV does not include a value for all assets given their uncertainty on the realisable value of same.

5.4 Administrators comments

We comment on the Directors' Statement on a consolidated basis.

5.4.1 Cash

The Group operated the following facilities with National Australia Bank Limited (**NAB**):

Type of Facility	Balance as at 22-Nov-16 \$	Administrators' ERV \$
CEL		
Operational account	23,898	29,545
Cash management account	551,201	421,201
Corporate credit card facility	(9,015)	-
Term deposit	500,000	504,450
Term deposit	100,000	100,823
Subtotal CEL	1,166,084	1,056,019
CEO		
Operational account	6,659	13,559
Corporate credit card facility	(1,416)	-
Term deposit – Landlord – 901/301 Coronation Drive, Milton QLD	181,913	-
Term deposit – Security against NAB corporate credit card facility	32,500	33,369
Term deposit – Environmental security bond	20,640	-
Term deposit – Subtenant security deposit (Admedus Ltd)	49,731	-
Subtotal CEO	290,027	46,928
CEH		
Operational account	40	40
Subtotal CEH	40	40
Total Group	1,456,151	1,102,987

Immediately upon appointment, the Administrators wrote to NAB requesting that a freeze to debits be placed on all accounts in the name of the Group.

We provide further comments on the NAB facilities as follows:

- CEL's operational accounts had receipts and payments processed prior to the account freeze occurring. These transactions included a transfer between the company's two operational accounts of \$130k and a subsequent payment to the Group's legal advisors of c\$128k, discussed further below in section 8.5.1.
- The debit balance of the CEL corporate credit card facility (\$9,015) was offset against the available credit funds in the company's operational account.

- Following the Administrators appointment CEL received a GST refund from the ATO and bank fees and charges debited from the account. NAB transferred all available credit funds in the CEL operational accounts (\$29,545) to the Administrators' account on 29 November 2016 and any additional funds received in the operational account after this date will be transferred less any bank fees and charges.
- The debit balance of the CEO corporate credit card facility of \$1,416 was offset against the available credit funds in the company's operational account.
- CEO also received a GST refund from the ATO. NAB transferred all available credit funds in the CEO operational accounts of \$13,559 to the Administrators' account less any bank fees and charges.
- CEL had two term deposits maturing in December 2016. Proceeds from these term deposits plus accrued interest totalling \$605,273 were deposited into the Administrators' account upon maturity on 14 December 2016.
- CEO had a term deposit of \$32,500 which secured the corporate credit card facility. NAB released same plus accrued interest and deposited the funds into the Administrators' bank account.

Funds received or expected to be received by the Administrators' total \$1,102,987. For the purposes of our dividend estimates, we have assumed that these funds will be consumed by the costs incurred during trading and the fees and disbursements of the Administrators.

In relation to the remaining term deposits held by CEO we comment as follows:

- The term deposit of \$181,913 secures CEO's lease of the head office in Brisbane. For the purposes of dividend calculations, we have assumed that this term deposit will be recovered under the DOCA scenario as CEO will continue to occupy the premises. That is, CEO would retain the term deposit in respect of the ongoing obligations under the lease. It would not be recovered in a liquidation scenario as the landlord would call on the term deposit to potentially satisfy CEO's obligations in respect to the lease.
- The sub-tenant security deposit of \$49,731 represents the sub-tenant's payment to CEO securing the sub-tenants obligations under the sub-lease. Given CEO's continued occupation of the head office, CEO would retain this security deposit. For the purposes of dividend calculations, we have assumed that the security deposit will not be recoverable in either a DOCA or liquidation scenario.
- The environmental security bond of \$20,640 relates to the Group's environmental obligations. The security is held by the Queensland Government and would only be returned in the event that the rehabilitation obligations have been fully and finally performed. The extent of the rehabilitation liability is considered further in section 5.4.11.2. For the purposes of dividend calculations, we have assumed that this security bond will be recovered in a DOCA scenario and will not be recovered in a liquidation scenario as it would be offset against contingent environmental liabilities.

5.4.2 Pre-appointment debtors / refunds / prepayments

5.4.2.1 *CEL*

The following table summarises the receivables listed in the Directors' Statement:

	Amount owing (\$)	Administrators' ERV (\$)
Accrued Interest	4,308	5,273
Prepayments (Fees)	5,427	-
GST Refund	3,438	-
Total	13,173	5,273

We comment as follows:

- The interest accrual relates to the company's term deposits. Interest of \$5,273 was realised when the term deposits matured in December 2016 and is included in the cash realisations outlined in section 5.4.1 of the Report. The variance relates to the additional interest accrued from the date of appointment through to maturity.
- Prepayments relate to the US listing and the associated Principal American Liaison (PAL) fees. These fees are not considered recoverable.
- Pre-appointment BAS for November was submitted to the ATO and no refund was recoverable as there was an offsetting PAYG debt for the period.

For the purposes of our dividend estimates, we have assumed that these funds will be consumed by the costs of trading during the administration.

5.4.2.2 *CEO*

The following table provides an ageing of CEO's receivables as at 22 November 2016.

	Current \$	30 days \$	60 days \$	90 days \$	>90 days \$	Total \$	Administrators' ERV \$
Trade debtors	-	-	-	-	129,438	129,438	-
Prepayments	-	-	-	-	-	51,046	-
GST Refund	6,572	-	-	-	-	6,572	-
Total	6,572	-	-	-	129,438	187,056	-

We undertook an assessment of the receivables immediately following our appointment and comment as follows:

- The majority of the trade debtors relates to the services provided by the Group's staff to JinHong. Management have advised that prior to the Administrators' appointment, JinHong advised they wanted progress on the renegotiation and/or refinancing of the \$10 million Convertible Facility before considering payment of the outstanding amount. The recoverability of same will be subject to the outcome of the DOCA proposal and discussions are continuing with Kam Lung in this regard.

- There are two other smaller debtors, one of which has been written off and the other relates to a Chinese based company which management advise will be difficult to recover given the controls on foreign payments from China.
- The majority of the prepayments relate to rent paid for November and December 2016. There are also some minor prepayments relating to water rates and software expenses.
- Pre-appointment BAS for November 2016 was submitted to the ATO and no refund was recoverable as there was an offsetting PAYG debt for the period.

For the purposes of our dividend estimates, we have assumed that any realisations will be consumed by the costs of trading during the administration.

5.4.3 Intercompany loans

The following table provides a summary of intercompany loans as at 22 November 2016.

Loaning Entity	Description	Book value \$	ERV \$
CEL	Loan to CEO	8,667,066	-

The loan relates to funding provided by CEL to CEO to meet operating expenses of the pilot test site and rehabilitation of same.

For the purpose of our dividend calculations we have assumed that there will be no recoveries in both the DOCA and liquidation scenarios.

5.4.4 Work in progress

The Directors reported work in progress (**WIP**) totalling \$24,889 as at the date of our appointment.

WIP is made up of services provided by CEO to the JinHong Joint Venture.

Management have advised that JinHong has requested a renegotiation of rates used to charge personnel for the services performed. The works performed to date have not been invoiced as a result of this renegotiation request together with the refinancing discussions that occurred with Kam Lung prior to the Administrators' appointment. The recoverability of same will be subject to the outcome of the DOCA and discussions are continuing with Kam Lung in this regard.

For the purposes of our dividend calculations, we have assumed that 100% of WIP will be recovered in the DOCA scenario and there will be no recovery in a liquidation scenario.

5.4.5 Freehold land – Blue Gum Station

Searches of the Queensland Land Titles Register indicate that CEL owns real property located at 1252 Kerrs Road, Kogan, Queensland.

We note the Directors' statement refers to CEO as being the registered owner, however our investigations reveal that CEL owns the land and we have noted this accordingly.

At the time of our appointment, the Group was seeking to negotiate the sale of this land to QGC Pty Limited (**QGC**) in exchange for the purchase of land owned by QGC, being the site of the Group's trial UCG plant operation at Bloodwood Creek. The transaction with QGC is discussed further below in section 5.4.11.1.

In their statement, the Directors' estimate the book value of land to be \$408,016. The Administrators have not obtained a formal valuation or appraisal of the land value.

Searches of the Queensland Land Titles Register indicate the Group does not own any further real property.

For the purposes of our dividend estimates, we have assumed the realisable value of the property to be in line with the Directors' book value under both the DOCA and liquidation scenario.

5.4.6 Plant, equipment and motor vehicles

The Directors' Statement indicated that CEO owns all plant, equipment and motor vehicles of the Group.

A search of the Queensland Motor Vehicle Register has not revealed any motor vehicles registered in addition to those included on the Group's asset register.

Following our appointment, we engaged Grays Online, independent auctioneers and valuers, to value the plant and equipment of the Group.

The Administrators' are withholding the valuation information on the basis that it is commercially sensitive, and at this stage it is not in creditors' interests for the Administrators to publicly disclose the information.

For the purposes of our dividend calculations, we have incorporated the going concern value of the assets in a DOCA scenario and the auction realisable values of the assets in a liquidation scenario.

5.4.7 Investments

The investments within the Group relate to capital raised by CEL and used to fund the operations of the Group.

Given the administration of the Group, for the purposes of our dividend calculations we do not expect there to be any recoveries from these investments in either a DOCA or liquidation scenario.

5.4.8 Intellectual property

The Group's intellectual property comprises:

- Internally generated intangible UCG 'know-how'; and
- Registered trademarks and patents.

The UCG technology and intellectual property was initially developed in conjunction with CSIRO.

The intangible UCG 'know-how' had a carrying value of c\$48 million as at 30 June 2016. The Group first recognised an intangible asset in the 2011 financial year. The recognition related to transfers of mine development costs and property, plant and equipment from the Bloodwood Creek site. In addition, other costs have been capitalised associated with engineering work, which resulted in enhanced UCG technology.

The Group has treated the asset as regenerative given knowledge continues to build. It is assessed annually for impairment accrual charges that may be required.

The value of this asset to the Group lies in the future licencing opportunities for the rights to use the technology and in generating ongoing professional fees by providing technology services.

We have not undertaken an assessment of the realisable value of the intellectual property.

In addition, the Group has a number of registered trademarks and patents, and also pending applications, in various worldwide jurisdictions.

Following our appointment, we have been in discussion with the Group's patent attorneys, DLA Piper (based in USA) and trademark lawyers, Bird and Bird (based in Sydney) to preserve the registrations and progress applications on foot.

For the purpose of our dividend calculations, in a liquidation scenario the value of the intellectual property assets has been combined with the Group's assets based on non-binding indicative offers received for the Group's assets. Under a DOCA scenario, intellectual property will carry forward based on the terms of the proposed DOCA.

5.4.9 Employee claims

The following table summarises the priority and unsecured claims of employee entitlements as at 22 November 2016.

	Priority Creditors		Unsecured Creditors	Total*
	CEL (\$)	CEO (\$)	CEL (\$)	
Number of employees	2	9	-	11
Unpaid superannuation	1,764	1,716	-	3,480
Annual leave	25,371	185,992	4,492	215,855
Long service leave	-	55,718	-	55,718
Redundancy**	-	13,539	-	13,539
Total	27,135	256,965	4,492	288,592

*Entitlements are estimates and are subject to change regarding actual employee termination dates.

**Redundancy is subject to change should further staff be terminated or the Group is placed into liquidation.

Employee claims are afforded priority of repayment pursuant to Section 556 of the Act, ahead of any return to unsecured creditors.

The Act provides that excluded employees (including company directors and their spouses) are each restricted to a total maximum priority claim of \$2,000 for unpaid wages and superannuation entitlements and \$1,500 for leave entitlements. Amounts owed to excluded employees that exceed the statutory limit, and all payments owing in respect of redundancy and payment in lieu of notice rank as an ordinary unsecured claim.

As at the date of this Report, one employee has been made redundant and one employee has resigned. The entitlement calculations above include the redundancy entitlement for the redundant employee only.

In a liquidation scenario we have calculated additional PILN and redundancy claims totalling \$733,508 as follows:

	Priority Creditors		Unsecured Creditors	Total*
	CEL (\$)	CEO (\$)	CEL (\$)	
PILN	69,001	147,575	146,902	363,478
Redundancy	32,654	316,045	21,331	370,030
Total	101,655	463,620	168,233	733,508

*Entitlements are estimates and are subject to change regarding actual employee termination dates.

CEH did not employ any staff and therefore there are no employee liabilities.

Should a sale or recapitalisation be achieved, it may result in the transfer of certain employees and their outstanding entitlements to the successful purchaser or the liability for continuing employee's entitlements being carried forward by the Group coming out of a DOCA.

If a sale or recapitalisation is not achieved and the Group is placed into liquidation at the Second Meeting and there are insufficient monies available to pay employee entitlements, employees may be eligible for financial assistance under the Fair Entitlements Guarantee Act 2012. Further information on FEG including eligibility for assistance can be found at www.employment.gov.au/feg.

5.4.10 Secured creditor

The Convertible Facility issued by Pacific Road was secured by a Deed of Mortgage with such security interest registered on the PPSR.

5.4.10.1 *Validity of security*

We have obtained independent advice that both the Deed of Mortgage and the PPSR registration are valid and enforceable.

5.4.10.2 *Pre-appointment dispute*

A significant factor that contributed to the Directors' decision to appoint Administrators was a dispute which arose between the Group and Pacific Road regarding the enforceability of the Pacific Road securities.

Specifically, the Group contended that doubt existed regarding the enforceability of the Pacific Road debt and securities as a result of the purported transfer, by Pacific Road Holdings NV (PRNV) to its shareholders, pursuant to Belgian law, of PRNV's rights under a facility agreement dated 22 December 2011 pursuant to which PRNV and another party provided a \$10 million facility to the Group.

The Group's concerns as mentioned above were also held by Kam Lung.

Background on the dispute is detailed below:

- On or about 22 December 2011:
 - The Group (as borrower);
 - PRNV and PRCM Nominees Pty Ltd in its capacity as trustee of the Pacific Road CE Trust (**PRCM Nominees**) (**as Financiers**); and
 - PRCM Nominees in its capacity as trustee of the Carbon Energy Security Trust (**as Security Trustee**),

entered into an \$10 million Convertible Facility Agreement (**the Facility Agreement**) by which the Financiers agreed to provide facilities totalling \$10 million (**Convertible Facility**) to the Group.

- About 80% of the funds were to be advanced by PRNV and about 20% by PRCM Nominees.
- The facilities were subsequently fully drawn by the Group.
- On or about 13 May 2016, there was a purported transfer, pursuant to Belgian law, of PRNV's assets and liabilities to its shareholders, being;
 - Pacific Road Holdings SARL (**PRSARL**); and
 - Pacific Road Resources Fund LP (**PRLP**),

(together the **Shareholders**).

- At the same time, again pursuant to Belgian law, PRNV was dissolved.
- The Group was not immediately given notice of the purported transfer of PRNV's assets and liabilities to the Shareholders. The Group was not informed of the purported transfer until shortly prior to 16 November 2016 when seeking to finalise long form documentation in respect of the refinancing.
- At that time, one of the Group's shareholders, Kam Lung, was considering taking an assignment of the Financiers' rights under the Facility Agreement. A "Non-Binding Term Sheet Agreement" dated 24 October 2016 records the proposed transaction by which that was to occur.
- It appears that this proposed transaction did not proceed due to the uncertainty created by the dissolution of PRNV and the purported transfer of its assets and liabilities to the Shareholders.

5.4.10.3 *Independent advice*

Given the Group was advised by HopgoodGanim, we instructed independent lawyers Allens Linklaters (**Allens**) to advise on the dispute and also the validity and enforceability of the Deed of Mortgage and the PPSR registration of same.

Under confidentiality arrangements with the solicitors for Pacific Road, we were provided their two counsel opinions, which together with the Group's counsel and legal advices, and the mortgage facility documents, we briefed Allens to provide said independent legal advice.

In short, Allens found that:

- The transfer by PRNV to its Shareholders was valid; and
- The Mortgage and PPSR registration securing the Group's obligations in relation to the \$10 million Convertible Facility was valid.

The above independent finding, and further detailed analysis of the finding was provided to all material stakeholders upon execution of a confidentiality regime including but not limited to the Group, the Directors, the Group's lawyers, Pacific Road, and Kam Lung.

While Allens provided detailed reasoning of their findings, they did highlight that the matter involved some complex factual and legal issues, and there is some residual uncertainty with regard to the conclusions reached.

To date no party has questioned or disputed the Allens' advice.

Accordingly, the Administrators have not considered it necessary to seek directions or a declaration from the court as to the dispute.

5.4.11 Unsecured creditors

In their statement, the Directors recorded unsecured creditor claims totalling \$12,389,044.

The following table summarises the claims of unsecured creditors.

	CEL	CEO	Total
	Directors' ERV	Directors' ERV	
Unsecured Creditor – External (Trade and statutory creditors)	260,448	174,420	434,868
Unsecured Creditor – Non-priority employee and director entitlements	4,492	-	4,492
Unsecured Creditor – Intercompany loan (CEL)	-	8,667,066	8,667,066
Environmental Rehabilitation Provision	-	3,282,618	3,282,618
Total	264,940	12,124,104	12,389,044

The external unsecured creditor amount totalling \$434,868 incorporates the total outstanding creditor accounts received totalling \$358,459, together with an accrual for creditor expenses totalling \$76,409, which had been incurred but had not yet been invoiced to the Group.

To date, excluding debts owed to related companies, the Administrators have received nine proofs of debt (POD) totalling \$9,117,563 for CEL and twelve POD's totalling \$1,040,632 for CEO.

We comment as follows on the POD's received:

- Summa Resource Holdings LLC (Summa) has submitted a POD in CEL totalling US\$9 million which is discussed in section 5.4.12.1.
- The landlord of the Brisbane head office has submitted a POD in CEO totalling c\$1.1 million in relation to liquidated damages should the Group terminate their lease. This represents a contingent liability.

Based on the Group's records and proofs of debt received to date, excluding Summa and intercompany loans, we estimate the Group's liability to unsecured creditors to be approximately:

- CEL - \$323,852; and
- CEO - \$254,669 (excluding the contingent liability of the landlord).

These amounts are subject to receipt and adjudication of formal proofs of debt from creditors.

For the purpose of our dividend calculations, in the DOCA scenario we have assumed the landlord's claim will be nil and in a liquidation scenario we have assumed their claim to be the amount of the landlords POD less the security bond held of c\$181k.

5.4.11.1 QGC

QGC Pty Limited (QGC) owns the land (Glen Mona Station) where the Group's Bloodwood Creek pilot plant is located.

Historically, the Group had a letter agreement in place with QGC in respect of its occupation of the land and any impact for UCG activities on the land. The monthly compensation payments of \$8,000 (plus GST) were paid to QGC and the former landowners until February 2009. The Group had a view that, in hindsight, the compensation amount may have been too high and not reflective of the true compensation for the activities undertaken on the land.

Following the end of the agreement in February 2009, the Group attempted to negotiate a replacement compensation and access agreement with QGC. The content of the former agreement proved to be problematic for the parties in attempting to finalise a new agreement for the period beyond February 2009.

At the time of our appointment as Administrators, the Group did not have a compensation agreement in place with QGC. The Group has made no payments to QGC since February 2009.

The extent of the compensation liability to QGC is therefore uncertain. It is arguable that adopting the previous compensation payments of \$8,000 plus GST per month, the Group has a liability to QGC of c\$770,000.

As set out in section 5.4.5, QGC is in occupation of land owned by the Group. A compensation agreement between QGC and the Group is in place in respect of same. Pursuant to the compensation agreement the Group receives c\$5,000 per annum.

Shortly prior to the Administrators appointment, a proposal was submitted to QGC such that a land exchange agreement be entered into between the parties for the respective landholdings

and for a simplified compensation agreement be entered into for two monitoring wells maintained by the Group on land owned by QGC (outside of the land to be acquired by the Group under the proposed land exchange).

Subsequent to our appointment, we made contact with QGC requesting further information and presently await their response, although we understand the proposal outlined above is largely unacceptable to QGC.

Until QGC outline their position, we are unable to assess their claim. We are aware that QGC were seeking to appoint an independent valuer to conduct a compensation valuation with the valuer's determination to be binding on the parties, however no steps have been taken in this regard by either QGC or the Group.

For the purposes of our dividend calculations we have adopted an estimated claim value of \$130k in both DOCA and liquidation scenarios based on discussions with senior management.

5.4.11.2 *Department of Environment and Heritage Protection*

The Group has ongoing environmental obligations to the Department of Environment and Heritage Protection (DEHP) in respect of the Group's Bloodwood Creek pilot plant and in particular rehabilitation obligations for the Group's exploration and development activities undertaken on the site.

The Group lodged a rehabilitation plan with DEHP in October 2014 and has been implementing that plan since. The Group has also been working with DEHP in respect of same since its lodgement.

The future obligations include monitoring, costs of restoration of the site, investigative boreholes, decommissioning of wells, and removal/transfer of surface infrastructure.

A liability provision for future rehabilitation costs (prepared on a best estimates basis and discounted to present value) of c\$3.4 million was recorded in the Group's audited financial statements as at 30 June 2016.

The Group has provided financial assurance bonds to DEHP in respect of its environmental rehabilitation obligations in the sum of \$53,140. DEHP directly holds a \$32,500 bond with the remaining \$20,640 security being a bank guarantee issued by NAB.

The Group regularly assesses the need for a revision to the carrying value of the provision and now has no reason to consider the current provision to be inadequate.

For the purpose of our dividend calculations, we have assumed the liability provision is carried forward under the DOCA. In the liquidation scenario we have assumed the full provision liability crystallises.

5.4.12 Contingent subordinate liability

5.4.12.1 *Summa Resource Holdings LLC*

Summa Resource Holdings LLC (**Summa**) have lodged a formal proof of debt in the administration of CEL for US\$9 million in relation to a claim pursuant to a share sale agreement dated February 2011 between Summa and CEL.

Since March 2013, CEL has made numerous market announcements and updates regarding Summa's claims, which are rejected by the Group.

The background to the Summa claim is as follows:

- Summa agreed to sell to CEL its interest in companies, which held the right, title and interest in and to certain tenements in Wyoming, North Dakota, Montana and Turkey which had UCG potential.
- In consideration for the transaction, CEL agreed to issue Summa a parcel of fully paid shares over five tranches on completion of agreed terms and milestones.
- Tranches 1, 2 and 3 were issued when due and tranches 4 and 5 were not issued as CEL formed the view in early 2013 that the relevant milestones had not been achieved and were not capable of being achieved.
- Summa rejected CEL's view and continued asserting its rights under the share sale agreement over the course of 2013, 2014 and 2015.

The proof of debt received from Summa did not contain sufficient information to assess the validity of their claim.

We wrote to Summa requesting further particulars, including an explanation as to why Summa believe their entitlement to receive the tranche 4 and 5 shares has converted to a monetary claim of US\$9 million.

Summa provided further particulars of their claim on 1 February 2017 that justified an arguable claim against CEL for breach of contract for US\$9 million.

However, on the information provided by Summa, the claim is a "subordinate claim" against CEL within the meaning of Section 563A of the Act. A subordinate claim is defined to be either:

- *a claim for a debt owed by the company to a person in the person's capacity as a member of the company (whether by way of dividends, profits or otherwise); or*
- *any other claim that arises from buying, holding, selling or otherwise dealing in shares in the company.*

In our opinion, the claim that has been articulated by Summa falls within both limbs of this definition.

In general terms, creditors who have subordinate claims are postponed until all other debts payable by, and claims against, CEL have been satisfied. That is, subordinate creditors are placed last on the priority ladder.

For the purpose of our dividend calculations, we have assumed that Summa have a subordinated claim under both the DOCA and liquidation scenarios, that ranks after the claims of all other creditors.

5.5 Omissions from statement

We have not identified any material omissions from the Directors' Statements.

5.6 Explanation for current financial position

The Directors' explanation for the Group's current financial position is as follows:

- The Group had entered into a tri-partite non-binding term sheet to transfer its \$10 million Convertible Facility from Pacific Road to Kam Lung and to undertake a \$5 million capital raising. Because of various irregularities that were discovered post entering into the non-binding term sheet with regard to an internal restructuring of Pacific Road entities, the parties sought advice on resolving the anomaly to all parties' satisfaction.
- Due to the protracted length of time it took to convert the non-binding term sheet into binding agreements, and a breakdown in the negotiations, the Directors believed that there was insufficient time and financial resources available to complete the refinancing of the facility. Additional funding was sought from Pacific Road to address the cash flow constraints, however this was rejected, resulting in the decision that the Group was likely to become insolvent at some future time and that administrators be appointed.

Our preliminary view is that the above reasons identified by the Directors appropriately explain the cause of the Group's current financial position.

6 Trading by Administrators

This section provides an overview of the trading undertaken during the Administration, including some of the challenges. The Administrators continued to trade the Group's operations in order to preserve the business of the Group for sale or recapitalisation.

6.1 Overview

The Administrators assumed control of the Group's operations immediately following our appointment. With assistance from management, appropriate controls and systems were put in place in respect of trading, payroll, purchase orders, and the care and maintenance of the pilot project site located at Bloodwood Creek.

Following meetings with the CEO/Managing Director and Chief Financial Officer and senior management at the Group's offices in Brisbane, further steps were taken to secure the Group's assets.

In terms of preservation of cash, we confirm the following was undertaken:

- The Group's bank accounts were frozen at the date of our appointment and available funds transferred to the Administrators' bank accounts'.
- Written notice of our appointment was provided to the Group's sub-tenant, Ademedus Ltd, in respect of future lease payments in respect of office space they sub-lease at Level 9, 301 Coronation Drive, Milton QLD.

Additional tasks associated with continued trading and asset realisation were undertaken as follows:

- Reviewed the adequacy of the Group's existing insurance policies and worked with our insurance brokers, including considering changes to policies that could reduce insurance costs whilst ensuring adequate insurance coverage for the Group's operations.
- Preparation of detailed administration trading cash flow forecasts on a rolling basis.
- Assess operational working requirements and temporarily reduce staff working hours to meet the Administration's needs.

- Provide notice to and facilitate the redundancy of one staff member.
- Address matters relating to establishing new trade credit accounts with relevant suppliers and service providers.
- Close liaison with senior management regarding:
 - Assets and liabilities of the Group;
 - Various issues associated with the Group's affairs; and
 - Daily trading matters, including raising of purchase orders and the payment of administration suppliers and payroll.
- Contact with lessors and owners of property in relation to real property or plant and equipment occupied by, or in the possession of the Group at appointment and entering into new arrangements post-administration and, where relevant, disclaiming the Group's interest in same.
- Assessment of PPSR registrations and ongoing impact for the administration regarding validity and vesting provisions.
- Commission a valuation by Grays Online of all plant and equipment owned by the Group, including the Brisbane offices and Bloodwood Creek operations.
- Engaged an independent consultant to undertake an assessment of WHS and environmental risks and address the findings of same across the sites.
- Application to ASIC for an extension of time for the Group to hold its AGM to 22 July 2017.
- Reviewed the procedures for IT services and backup processes for information on site, in particular ensure the protection of intellectual property.
- Liaise with Link Market Services regarding notification to shareholders of the extension of time granted to hold the AGM to 22 July 2017.

6.2 Trading issues

The Administrators continued to trade the operations post appointment, in order to maximise the outcome for all stakeholders via a recapitalisation or sale of the Group's business/assets while continuing to meet its environmental obligations.

We have received full co-operation and support from the Group's management and staff, without which the administration would have been more time-consuming and expensive.

6.2.1 Reorganisation of employee hours

Following the preparation of the trading cash flow forecasts, it was identified that the Group had limited cash resources and as such, measures were implemented in order to preserve the Group's available cash to enable trading to continue for as long as possible in order to maximise the time available for the Administrators to achieve an outcome for all stakeholders.

To this end, staff were consulted to ascertain their views on working a reduced working week with a corresponding reduction in salary. These arrangements were put in place with staff for a six-week period, commencing 5 December 2016.

Following the end of this six-week period, staff resumed their normal working hours and pay, with effect from 16 January 2017.

6.2.2 Environmental obligations

Following our appointment, we held various conference calls with the DEHP regarding the administration and the Group's ongoing obligations.

In consultation with DNRM, we appointed an Executive Safety Manager and Site Safety Manager at the Bloodwood Creek Site.

In addition, we facilitated an on-site inspection at the Group's Bloodwood Creek site by the DEHP. No adverse findings arose from that inspection.

The Group continues to undertake monthly sampling of the groundwater for laboratory analysis with the results being forwarded to DEHP. There have been no adverse developments with respect to the ongoing sampling.

We are maintaining ongoing dialogue with DEHP and DNRM.

6.2.3 Insurance

The Group renewed its suite of insurances from 31 October 2016 and these policies were premium funded for the following 12 months.

On appointment, our independent insurance broker undertook an assessment of those insurances in conjunction with the Group's pre appointment broker.

On advice of our broker, we continued with the Group's pre appointment insurances. While some policies were largely for the benefit of the Directors (i.e. directors & officers and professional indemnity policies), such policies were maintained when a recapitalisation appeared to be more than a possible outcome, particularly as we were advised such policies might not be able to be secured by the Directors post DOCA, or if they could, the cost to secure same would be prohibitive.

6.3 Summary of receipts and payments

A summary of the Administrators' receipts and payments for the period 22 November 2016 to 27 February 2017 is included at part 9 of the Administrators' Remuneration Approval Request Report attached as **Annexure E**.

7 Marketing campaign

The Administrators implemented a number of realisation strategies in order to maximise the return to all creditors.

Immediately following our appointment, we commenced a sales and marketing program seeking urgent expressions of interest from parties interested in either:

- A recapitalisation of the Group; or
- Acquiring the Group's business / assets on a going concern basis; or
- Acquiring CEH's 100% shareholding in CEO; or
- Submitting a proposal for a DOCA; and/or
- Acquiring the CEL listed company shell.

The timetable for the sale process was as follows:

Date	Item
7 December 2016	Information Memorandum available for issue
14 December 2016	Indicative non-binding offer deadline
16 December 2016	Shortlisted parties granted access to online data room
From 16 December 2016	Site visits available
9 January 2017	Final binding offer deadline

Advertisements appeared in the Australian Financial Review and the Singapore Strait Times on 30 November 2016 and 6 December 2016, respectively.

Confidentiality Deeds were issued to 13 parties who expressed an interest. Ten parties executed and returned their confidentiality deeds and were issued a comprehensive information memorandum. The information memorandum detailed:

- Key investment features and opportunities;
- Key stakeholder information;
- Financial information;
- Assets available for acquisition;
- The Group's China Joint Venture; and
- Sale timetable and process.

Ten indicative offers were received and three parties were shortlisted to conduct further due diligence. These parties were selected based on the overall consideration offered, their financial capacity to complete a transaction and on the basis that their offers all contemplated a recapitalisation of the Group as opposed to a break-up sale of the business and assets.

An online data room was set up for the purposes of assisting the shortlisted parties with their due diligence. The information available in the data room included:

- Corporate profile and background
- Statutory information
- Financial information
- Keyseam® technology credentials
- Employees and key contractors
- Assets and creditors
- Key operational information
- JinHong Joint Venture
- Business development and memorandum of understandings

We also facilitated access to management and staff for the parties to assist in the due diligence process as well as providing detail on the administration processes and answering questions arising from the due diligence and where relevant, uploading additional information to the data room.

We facilitated discussions between two of the short listed parties for them to explore the possibility of submitting a joint proposal. Whilst some discussions were had between the parties, each proceeded to submit separate proposals.

Following the deadline for final binding offers on 9 January 2017, two recapitalisation proposals (via a DOCA and a Creditors' Trust) were received. The third party did not submit a final offer citing their inability to agree a mutually acceptable position with the secured creditor in respect of the Convertible Facility.

The two recapitalisation proposals were received from:

- Kam Lung Investment Development Co Ltd (**Kam Lung**); and
- Asian Equity Investments Limited (**AEIL**)

Following receipt, we liaised with each party in order to clarify certain aspects of their proposals. We then undertook an analysis of each of the proposals and presented those to Pacific Road for consideration.

As outlined in Section 5.4.10, Pacific Road hold a valid security interest over all the assets of CEO and 100% of the shares in CEO held by CEH and as such need to, as part of any sale or recapitalisation proposal, agree to the terms of proposal.

Our evaluation of the proposals as received can be summarised on the following three pages.

	Kam Lung	AEIL
Key features of offer	<ul style="list-style-type: none"> • DOCA • Creditors' Trust • Provision of new working capital in return for 80% holding of the issued shares in CNX • Business strategy largely involving the continuation of operations on same terms as prior to administration with the company seeking worldwide licencing and consulting opportunities as well as ongoing commitment to Chinese JV with JinHong 	<ul style="list-style-type: none"> • DOCA • Creditors' Trust • Working capital facilities by way of a line of credit and convertible note and additional standby letter of credit (all drawdowns subject to AEIL approval) • Business strategy was not fully defined although strong interest was had in developing a pilot plant in Indonesia which may or may not have involved the dismantling and relocation of the Bloodwood Creek pilot plant
Secured creditor return and timing	<ul style="list-style-type: none"> • \$9 million (with a contribution by Pacific Road of \$150k to costs incurred by Kam Lung) • All shares that Pacific Road hold, or are entitled to hold, will be transferred to Kam Lung • Full discharge and release of Pacific Road security • Payment to occur one business day after the date on which Shareholder Approvals are obtained (estimated to be April / May 2017) 	<ul style="list-style-type: none"> • \$10 million • Repayment of the Convertible Note or equity participation • Facility at face value over a period of 24 / 30 months (terms to be negotiated with Pacific Road)
Finance facility / convertible note	<ul style="list-style-type: none"> • Simultaneously with payment of \$8.85 million to Pacific Road and release of security by Pacific Road, Kam Lung would require that the Group enter into a new pre-agreed Convertible Note facility. • The pertinent terms would be: <ul style="list-style-type: none"> ○ Facility amount: \$10.3 million (see further below) ○ Term: 5 years from termination of the DOCA ○ Arrangement fee: \$1 million (payable at the end of the 5-year period) ○ Interest rate: 8% ○ Cost of Kam Lung in preparation of documentation, stamp duty and legals will be paid by Kam Lung and capitalised and therefore not a deduction from the working capital funding otherwise being provided. 	<ul style="list-style-type: none"> • While AEIL offered a rollover of and the repayment in full over 24 / 30 months of the Pacific Road Convertible Facility, their offer was open to further discussion with Pacific Road as to any participation in equity upside.

	Kam Lung	AEIL
Unsecured creditor return and timing	<ul style="list-style-type: none"> • Creditors Trust created and waterfall dividend provisions • \$300k fund to be applied in the following order: <ol style="list-style-type: none"> 1) remuneration and costs of the Trustee 2) priority claims of former employees as if the Group were in liquidation 3) pay the first \$5,000 of each unsecured creditor's claim or lesser amount required to satisfy that creditor's claim in full and 4) remaining funds paid as a pari passu dividend to unsecured creditors 5) subordinate claims 6) any surplus funds remitted to the Group • The dividend would be subject to calling for and adjudication of creditors' claims. The dividend would likely be 6-8 weeks following the shareholder meeting and receipt of funds into trust 	<ul style="list-style-type: none"> • Creditors Trust created • \$310k to pay creditors on a pro-rata basis over a six-month period
Employees	<ul style="list-style-type: none"> • Key employees and contractors entering into new or amended employment contracts on terms satisfactory to Kam Lung. • Any current performance rights and outstanding options to be cancelled • All other employees to continue as per current terms of employment 	<ul style="list-style-type: none"> • Key employees / contractors (being Brent Baker, Cliff Mallett, Terry Moore, Jim Zhang, Burl Davis, Anne Ernst, Ciaran O'Leary, Michael Dennis) execute contracts of employment with AEIL or that their current contracts be endorsed with the consent of all parties to include AEIL as a party to the contract with equal standing to CNX and the employee/contractor • All other current employees would be retained with only those parties above requiring to provide specific commitment to the process. • Recognition of the full liability of employees by paying \$1.2 million into an employee's trust account.
Excluded Claims (i.e. not participate in Creditors Trust)	<ul style="list-style-type: none"> • All current employees, other than one employee made redundant • Landlord at head office Milton • Subtenant at Milton • CSIRO • JinHong Joint Venture • Insured claims • Department of Environment and Heritage Protection (future rehabilitation claim) 	<ul style="list-style-type: none"> • Not dealt with fully in the proposal

	Kam Lung	AEIL
Working capital funding	<ul style="list-style-type: none"> \$3.85 million of new capital (such that Kam Lung holds 80% of issued shares) with \$3.55 million to be retained for working capital and \$300k for the Creditors Trust (see above) 	<ul style="list-style-type: none"> \$4 million of working capital available on approval of the DOCA by way of a line of credit with a simultaneous Convertible Note facility being entered into. An additional \$10 million provided by way of standby letter of credit. A significant portion of the \$10 million was to be directed towards development of a project in Indonesia.
Funding to FH/Company (trading costs, VA/Deed administrators/Creditors Trustee fees and VA third party costs)	<ul style="list-style-type: none"> Kam Lung has committed to provide a further \$1.3 million to the Administrators/the Group to fund its ongoing working capital requirements until the shareholders meeting. This funding forms part of the convertible facility of \$10.3 million (see above). 	<ul style="list-style-type: none"> Proposal identifies that reasonable costs would be met from the funding provided to Carbon
Operational control	<ul style="list-style-type: none"> Control of the Group to revert to the Directors following execution of the DOCA 	<ul style="list-style-type: none"> Not explicit in proposal
Relisting on ASX and Timing	<ul style="list-style-type: none"> Relisting upon shareholder approval (subject to ASX approval process) 	<ul style="list-style-type: none"> Relisting only to occur once AEIL satisfied of business case. Could be delayed for 1-2 years.
Conditions precedent	<ul style="list-style-type: none"> Shareholder Approval The Group entering into new finance facility with Kam Lung for \$10.3 million Pacific Road voting in favour of the DOCA ASX agreeing to restore CNX's ASX listing and any necessary regulatory approvals, waivers and exemptions. Cancellation of all outstanding options and performance rights 	<ul style="list-style-type: none"> Shareholder approval Aside from the employees set out above, AEIL wishes to be permitted to work with the company's managing director on a full-time basis to develop a business plan. In addition, desire to transfer some operations to Indonesia, in advance of the approvals being sought.
Shareholders Voting	<ul style="list-style-type: none"> Pacific Road not entitled to vote at the shareholders meeting in respect of proposal Kam Lung not entitled to vote at the shareholders meeting in respect of their own proposal 	<ul style="list-style-type: none"> Pacific Road not entitled to vote at the shareholders meeting in respect of proposal Kam Lung entitled to vote on the proposal

The AEIL proposal was not acceptable to Pacific Road, in so far as there was a requirement for Pacific Road to roll over their debt and for same to be amortised on an agreed basis.

AEIL held discussions with Pacific Road in order to ascertain if there was any alternative mutually acceptable proposal in respect of the Pacific Road debt.

Given the duration of the campaign that had already been conducted and the limited financial resources to fund continued trading, a deadline of 10.00am, 30 January 2017 was set for AEIL to provide any revised proposal. No revised proposal was received by the deadline or since.

The Administrators therefore determined that the Kam Lung proposal was superior and is the only proposal capable of recommendation to creditors for the following reasons:

- Support of the secured creditor;
- More certain outcome by way of a dividend to priority and unsecured creditors in a shorter timeframe;
- The dividend to unsecured creditors is increased by virtue of the excluded claims continuing and the related party creditor claim being released;
- Continuation of employment of all continuing staff, albeit some on proposed new terms;
- Provides for stock exchange relisting, subject to ASX approval, following shareholder approval; and
- The AEIL offer was not supported by proof of financial capacity to complete the transaction.

As a result of the above, the Administrators entered exclusivity arrangements with Kam Lung in order for the following to occur:

- Provision of interim funding of \$1.3m to the Group / the Administrators in the period up to the shareholders meeting to allow continued trading;
- Finalisation of documentation to give full effect to the Kam Lung proposal including but not limited to the Convertible Note facility and a Deed of Implementation.

We address the Kam Lung DOCA proposal in further detail in section 9.

8 Statutory investigations

This section provides creditors with information on the preliminary investigations undertaken by the Administrators, and whether there have been any potential actions identified that may be pursued by a Liquidator.

8.1 Nature and scope of review

The Act requires an administrator to carry out preliminary investigations into a company's business, property, affairs and financial circumstances.

We reiterate that the investigations are preliminary and have been limited because an administrator is not obligated to carry out investigations to the same extent as a liquidator. A liquidator may require many months of investigations before forming a concluded view on recovery action, having regard to resources available to fund investigations and/or creditors willingness to fund further detailed investigations.

An Administrators' investigations centre on transactions entered into by each company in the Group that a liquidator might seek to void or otherwise challenge where the companies are wound up. These investigations allow an Administrator to advise creditors what funds might become available to a liquidator, such that creditors can properly assess whether to accept a DOCA proposal or resolve to wind up the Group.

A liquidator may recover funds from certain voidable transactions or through other avenues; for example, through action seeking compensation for insolvent trading or breach of director duties. Funds recovered would be available to the general body of unsecured creditors including secured creditors but only to the extent of any shortfall incurred after realising their security.

A deed administrator does not have recourse to voidable transactions.

Our knowledge of the Group's affairs comes principally from the following sources:

- Discussions with the CEO/Managing Director and CFO, the Group's advisors and key staff members.
- The Directors' Statement and questionnaire;
- Financial management accounts, books and records, board reports and minutes, and statements;
- The Group's internal accounting system;
- Correspondence and discussions with the Group's creditors;
- Announcements published on the ASX;
- Searches obtained from ASIC, the Courts, Department of Transport and Main Roads and Department of Natural Resources and Mines;
- Records maintained by the ATO; and
- Publicly available information.

8.2 Review of directors minutes

Outlined below are the Directors' meetings held post issuing the 2016 Annual Report and in particular between 15 September 2016 and 22 November 2016.

- 15 September 2016;
- 11, 12, 14 and 25 October 2016; and
- 2, 7, 9, 16, 18, 21 and 22 November 2016.

These meetings were attended by either the full board of Directors of the Group and the company secretary or for meetings where the proposed refinancing was discussed, Mr H. Zhuang and Mr G. Su (in capacity as alternate director / translator for H. Zhuang) were not present.

Based on our observations of the minutes reviewed, our preliminary review is that there is nothing that warrants further investigation.

8.3 The Company's solvency

Our preliminary view is that the Group was not insolvent at any time prior to our appointment as Administrators.

8.3.1 Overview of insolvency tests and indicators

A precursor to the recovery of funds by a liquidator through the voiding of certain transactions or through other legal action, such as seeking compensation from directors for insolvent trading, is that the company's insolvency must be established at the relevant time.

Establishing insolvency is a complex matter. There are two primary tests used in determining a company's solvency, at a particular date, namely:

- Balance sheet test; and
- Cash flow or commercial test.

The Courts have widely used the cash flow or commercial test in determining a company's solvency.

Section 95A of the Act also contains a definition of solvency. That definition reflects the commercial test in stating that a person is solvent if "the person is able to pay all the person's debts as and when they become due and payable".

However, the commercial test is not the sole determinant of solvency. Determining solvency derives from a proper consideration of a company's financial position in its entirety and in the context of commercial reality.

Relevant issues include, but are not limited to, the following:

- The degree of liquidity. A temporary lack of liquidity is not conclusive, and regard should be had to:
 - Cash resources; and
 - Monies available through asset realisation, borrowings against the security of assets or equity/capital raising;
- All of a company's assets might not be relevant when considering solvency. For example, where a company proposes selling assets that are essential to its business operations, the proceeds of the assets should not be taken into account;
- The voluntary and temporary forbearance by creditors not to enforce payment terms;
- The expectation or otherwise of financial support from related companies; and
- It is not appropriate to base an assessment of whether a company can meet its liabilities as and when they fall due on the prospect that a company might trade profitably in the future.

In summary, it is a company's inability in using such resources as are available to it through the use of its assets, or otherwise, to meet its debts as they fall due, which indicates insolvency.

The tables on the following pages summarise the insolvency indicators adopted by the Courts and ASIC, together with our comments in relation to CEL and CEO as the trading entities of the Group.

8.3.1.1 CEL

Insolvency indicator	Present	Administrators' comments
Working capital deficiency	No	<p>Working capital ratios can be used as a general indicator of liquid assets available to pay debts as and when they fall due within 12 months. A working capital ratio of less than 1.0 indicates a company may not be able to pay its debts as and when they fall due.</p> <p>Based on the financial and management accounts, CEL recorded the following working capital ratios:</p> <ul style="list-style-type: none"> • June 2015 – 1.13 • June 2016 – 0.23 • November 2016 – 0.11 <p>The working capital deficiency at June 2016 and November 2016 is the result of the Convertible Facility which was due for repayment in January 2017 and was the subject of refinancing prior to the Administrators appointment. If the Convertible Facility is removed from current liabilities to non-current liabilities, as expected to have occurred following the refinance of the facility, this would result in a working capital surplus (i.e. ratio of greater than 1.0).</p>
Net asset deficiency	No	<p>Based on the financial and management accounts, CEL recorded the following net asset position:</p> <ul style="list-style-type: none"> • FY2015 – \$132.6 million • FY2016 – \$37.8 million • November 2016 – \$36.2 million
Ageing of creditors	No	<p>The majority of CEL's creditors (95%) were aged between 0 and 30 days as at the date of our appointment.</p>
Inability to extend finance facilities and breaches of covenants	Yes	<p>At the date of appointment, we are not aware of any monetary or non-monetary default occurring in respect of the Group's facilities. However, as discussed in section 5.4.10 the Convertible Facility was due to expire on 18 January 2017 and a refinance was unable to be achieved.</p>
Inability to meet other financial commitments / default on finance agreements	No	<p>There were no defaults on any operating or finance lease obligations at the date of administration.</p>
Unprofitable / trading losses	Yes	<p>Based on the financial and management accounts, CEL recorded the following EBITDA:</p> <ul style="list-style-type: none"> • FY2015 – \$71.3k • FY2016 – (\$12.3 million) • November 2016 – (\$2.3 million)

Insolvency indicator	Present	Administrators' comments
Cash flow difficulties	No	<p>As outlined in the board minutes in section 8.2 of this Report, the Group obtained external legal advice as to its solvency position in September 2016.</p> <p>The advice dated September 2016 determined that the Group was solvent and would continue to be so unless there was no realistic opportunity to refinance or repay the Convertible Facility.</p> <p>In the month prior to our appointment, the Group was negotiating with, and seeking to obtain funding from Kam Lung to repay the Convertible Facility, which was due for repayment on or before 18 January 2017. Such negotiations were unsuccessful.</p> <p>The Group maintained a well-prepared and comprehensive series of cash flow statements. In our opinion, the assumptions relied upon by management in preparing the cash flow forecasts were reasonable.</p>
No access to alternative sources of finance (including equity capital)	Yes	<p>In March 2016, management attempted to raise \$5.3 million via a rights issue. However, the Group were only successful in raising \$3.48 million, with an additional \$0.4 million received in July 2016 from placement of the rights issue shortfall.</p> <p>The Group continued to pursue licencing opportunities and other strategic initiatives to generate sufficient cash flow to either repay or refinance the Convertible Facility.</p> <p>Subsequently, the Group sought refinance of the Convertible Facility. PwC and Magma Capital were appointed in September 2016 to assist with identifying an alternate financier and/or assist with improving the offer being negotiated with Kam Lung. Despite approaching over 50 parties, this process was unsuccessful.</p> <p>Following ongoing negotiations with Kam Lung, on 25 October 2016 the Group announced that it had agreed a non-binding term sheet for the refinance of the \$10 million Convertible Facility and additional financial support for the Group's operations by a rights issue for a minimum amount of \$5 million. Ultimately, the refinance and rights issue did not proceed due to an impasse, which arose between the parties as outlined in section 5.4.10.</p>
Inability to dispose non-core assets	No	<p>We are not aware of any non-core assets that could have been disposed of in order to free-up sufficient working capital.</p>
Dishonoured payments	No	<p>None identified.</p>

Insolvency indicator	Present	Administrators' comments
Overdue Commonwealth and State taxes	No	<p>The company's statutory lodgements and liabilities were current as at the date of the Administrators' appointment.</p> <p>Following our appointment, we submitted the company's monthly pre-appointment BAS lodgement for November, which included an amount owing to the ATO in relation to PAYG for that month that offset the GST refund.</p> <p>We are not aware of any payment arrangements previously entered into with any statutory bodies.</p>
Overdue superannuation	No	<p>The records of the Company indicate that compulsory superannuation payments at the date of our appointment were current.</p> <p>However, we note the superannuation payable on the wages processed prior to our appointment for the month of November 2016 fell due after our appointment and remains outstanding.</p>
No forbearance from creditors / legal action threatened or commenced by creditors	No	<p>We are not aware of any statutory demands or winding up applications against the Group or any payment plans entered into with any creditors.</p>

8.3.1.2 CEO

Insolvency indicator	Present	Administrators' comments
Working capital deficiency	No	<p>Working capital ratios can be used as a general indicator of liquid assets available to pay debts as and when they fall due within 12 months. A working capital ratio of less than 1.0 indicates a company may not be able to pay its debts as and when they fall due.</p> <p>Based on the financial and management accounts, CEO recorded the following working capital ratios:</p> <ul style="list-style-type: none"> • June 2015 – 0.21 • June 2016 – 0.25 • November 2016 – 0.25 <p>Whilst the company had a working capital deficiency, it relied on funding from CEL, to be able to pay its debts as and when they fell due.</p>
Net asset deficiency	No	<p>Based on the financial and management accounts, CEO recorded the following net asset position:</p> <ul style="list-style-type: none"> • FY2015 – (\$4.7 million) • FY2016 – \$4.2 million • November 2016 – \$36.3 million
Ageing of creditors	No	<p>CEO's creditors were aged between 0 and 60 days as at the date of our appointment.</p>

Insolvency indicator	Present	Administrators' comments
Inability to extend finance facilities and breaches of covenants	Yes	As per comment for CEL in section 8.3.1.1
Inability to meet other financial commitments / default on finance agreements	No	As per comment for CEL in section 8.3.1.1
Unprofitable / trading losses	Yes	Based on the financial and management accounts, CEO recorded the following EBITDA: <ul style="list-style-type: none"> • FY2015 – (\$6.2 million) • FY2016 – (\$8.1k) • November 2016 – (\$1.4 million)
Cash flow difficulties	No	As per comment for CEL in section 8.3.1.1
No access to alternative sources of finance (including equity capital)	Yes	As per comment for CEL in section 8.3.1.1
Inability to dispose non-core assets	No	We are not aware of any non-core assets that could have been disposed of in order to free-up working capital.
Dishonoured payments	No	None identified.
Overdue Commonwealth and State taxes	No	The company's statutory lodgements and liabilities were current as at the date of the Administrators appointment. Following our appointment, we submitted the Company's monthly pre-appointment BAS lodgement for November, which included an amount owing to the ATO in relation to PAYG for that month that offset the GST refund. We are not aware of any payment arrangements previously entered into with any statutory bodies.
Overdue superannuation	No	The records of the company indicate that compulsory superannuation payments at the date of our appointment were current. However, we note the superannuation payable on the wages processed prior to our appointment for the month of November 2016 fell due after our appointment and remains outstanding.
No forbearance from creditors / legal action threatened or commenced by creditors	No	As per comment for CEL in section 8.3.1.1

8.3.2 Preliminary conclusion as to solvency

Having regard to the above analysis, it is our preliminary opinion that the Group was not insolvent for any material time prior to our appointment on 22 November 2016 due to the following:

- The aged payables indicate that each company within the Group was paying its creditors within their normal trading terms;
- No payment arrangements were in place for creditors;
- Payment of statutory commitments and superannuation were current;
- No statutory demands for repayment of debt have been made against the Group; and
- Up until the time that the Directors concluded that the refinancing of the Convertible Facility was not likely to be effected, the Group had sufficient funds to meet its liabilities as and when they fell due.

A liquidator, if appointed, would need to conduct further investigations, and possibly conduct a public examination of relevant parties, to ultimately determine whether the Group became insolvent at any time prior to the appointment of administrators.

8.4 Potential liquidator recoveries – insolvent trading

We do not believe that there is a claim against the Directors for insolvent trading.

8.4.1 Directors' liability

Section 588G of the Act imposes a positive duty upon company directors to prevent insolvent trading. If a director is found guilty of an offence in contravening Section 588G, the Court may order him or her to pay compensation to the company equal to the amount of loss or damage suffered by its creditors.

The Court may also impose upon the directors one of two types of civil penalty orders, the first can include a fine or an order prohibiting the directors from participating in the management of a company. The second, where there is criminal intent and conviction, a director could also be imprisoned for up to five years.

This action is not a right that is available to an administrator or a deed administrator. Applications for compensation payable to the company are usually made by a liquidator, or in specified circumstances, a creditor.

The substantive elements of Section 588G are:

- A person must be a director of a company at a time when the company incurs a debt;
- The company must be insolvent at the time or becomes insolvent by incurring the debt; and
- The director must have reasonable grounds for suspecting that the company is insolvent or would become insolvent.

The defences available to directors contained in Section 588H are:

- The directors had reasonable grounds at the time the debt was incurred to expect the company to be solvent and would remain solvent even after the debt was incurred;
- The directors relied on another competent and reliable person to provide information about whether or not the company was insolvent;

- The directors were ill or for some other good reason did not take part in the management of the company; and
- The directors took reasonable steps to prevent the incurring of debt.

We do not believe there is a claim against the Directors.

8.4.2 Holding company liability

Section 588V of the Act provides that a holding company may be held liable for the debts of a subsidiary in certain circumstances.

On the basis that we do not believe there is a claim against the directors of the subsidiary companies, we do not believe that there is a claim against the holding company of the Group.

8.5 Potential liquidator recoveries – voidable transactions

This section informs creditors about potential voidable transactions that occurred prior to the appointment of the Administrators, and where the property of the Group was disposed of or dealt with, may be recovered by a liquidator. Our preliminary investigations have not identified any voidable transactions

A liquidator has the power to void certain transactions which are either not beneficial, or are detrimental, to a company. An administrator must identify any transactions that appear to be voidable by a liquidator.

Attached as **Annexure H** is a creditor information sheet published by ARITA. This information sheet details the types of transactions which a liquidator can seek to void.

8.5.1 Unfair preferences

An unfair preference payment is a transaction, generally occurring in the six months prior to the relation back day, between the company and a creditor, resulting in the creditor receiving from the company, in relation to an unsecured debt owed to the creditor, a greater amount than it would have received in relation to the debt in a winding up of the company.

This period is extended up to four years for transactions entered into with a related entity. A transaction can only be considered an unfair preference if the company was insolvent at the time the transaction took place, or the company became insolvent because of the transaction.

There are various defences that may be available to a party that may have received the benefit of a voidable transaction, including, the creditor:

- Became a party to the transaction in good faith;
- At the time when they became a party:
 - they had no reasonable grounds for suspecting that the Group was insolvent at that time, or would become insolvent; and
 - a reasonable person in that person's circumstances would have had no such grounds for so suspecting; and
- Provided valuable consideration under the transaction or has changed their position in reliance on the transaction.

A creditor seeking protection must prove **all three elements**.

The Administrators have identified a potential payment to one of the Group's legal advisors totalling \$128,132 during the relation back period that may be preferential.

Our preliminary view is that the legal advisor would have been aware that the Group was in the process of appointing a Voluntary Administrator, however, we consider the legal advisor could reasonably argue that at the time of the payment the Group was solvent.

A liquidator, if appointed, would need to conduct further investigations in relation to the transaction.

8.5.2 Uncommercial transactions

An uncommercial transaction is a transaction, which a reasonable person in the place of the company would not have entered into, taking into account the benefits and the detriment to the company, the respective benefits to the other parties involved and any other related matters. The period for recovering uncommercial transactions is generally two years. This period is extended up to four years for transactions entered into with a related entity.

A liquidator must investigate transactions deemed uncommercial, having regard to the detriment to the company suffered as a consequence of the transaction in the period two years prior to the date of administration.

Our preliminary investigations we have not identified any transactions at this stage, which would constitute uncommercial transactions.

8.5.3 Unfair loans

An unfair loan is a loan agreement where the interest or charges are considered extortionate. A subsequently appointed Liquidator may potentially overturn unfair loans made to the company any time prior to the appointment of the Administrator, whether or not the company was insolvent at the time the loan was entered into.

A liquidator must investigate loans to the company, which may be considered unfair due to extortionate interest rates or charges.

Our preliminary investigations have not identified any unfair loans, which the Group entered into.

8.5.4 Voidable transactions - related parties

A liquidator must investigate related party transactions within four years of the date of administration and determine whether any transactions occurred when the company was insolvent or was likely to become insolvent because of the transaction.

Other than transactions between the companies in the Group, our preliminary investigations have not identified any transactions with other related parties.

8.5.5 Unreasonable director-related transactions

An unreasonable director-related transaction is a payment, conveyance or other disposition by the company of property to a director or close associate of the director. Furthermore, it is required that it may be expected that a reasonable person in the company's circumstances would not have entered into the transaction having regards to the benefits (if any) and detriment to the company of entering into the transaction.

The transaction must have been unreasonable, and entered into during the four years prior to the relation back day, regardless of the solvency at the time the transaction occurred. These can include remuneration, bonuses, loans, loan forgiveness and asset transfers to company officers with the four-year period ending on the relation-back date.

A liquidator must investigate related party transactions within four years of the date of administration and determine whether any transactions occurred when the company was insolvent or was likely to become insolvent because of the transaction.

Our preliminary investigations have not identified any unreasonable director-related transactions.

8.5.6 Voidable charges

A transaction of a company is voidable where a transaction is entered into for the purpose of defeating, delaying or interfering with the rights of any or all of its creditors. The transaction must have occurred at a time when the company was insolvent, or the company must become insolvent because of the transaction, and have occurred within ten years of the relation back day.

Our preliminary investigations have not identified any voidable transactions.

8.6 Other potential liquidator recoveries

8.6.1 Compensation for breach of directors duties

Sections 180 to 184 of the Act set out the duties, obligations and responsibilities imposed on Directors, which are designed to promote good governance and ensure that Directors act in the best interests of the company. These duties include:

- Duty of care and diligence;
- Duty of good faith;
- Duty not to make improper use of position; and
- Duty not to make improper use of information.

Our preliminary investigations have not identified any breaches committed by the directors.

8.6.2 Arrangements to avoid employee entitlements

Part 5.8A of the Act aims to protect the entitlements of a company's employees from agreements that deliberately defeat the recovery of those entitlements upon insolvency.

Under Section 596AB(1) of the Act, it is an offence for a person to enter into a transaction or relevant agreement with the intention of, or with intentions that include:

- Preventing recovery of employee entitlements; or
- Significantly reducing the amount of employee entitlements recoverable.

Our preliminary investigations have not identified any contravention of Part 5.8A of the Act.

8.7 Other matters arising from investigations

8.7.1 Falsification of books

Pursuant to Section 1307 of the Act, it is an offence for a person to engage in conduct that results in the concealment, destruction, mutilation or falsification of any securities of or belonging to the company or any books affecting or relating to affairs of the company.

If a breach is proven, Part 9.4 of the Act provides for criminal penalties only. Therefore, any breaches of Section 1307 will not result in recovery of funds by a liquidator.

Our preliminary investigations have not revealed any evidence of falsification of books.

8.7.2 False or misleading statements

Pursuant to Section 1308 of the Act, a company must not advertise or publish a misleading statement regarding the amount of its capital. It is an offence for a person to make or authorise a statement that, to the person's knowledge is false or misleading in a material particular.

Our preliminary investigations have not revealed any evidence of any false or misleading statements.

8.7.3 False information

Pursuant to Section 1309 of the Act, it is an offence for an officer or employee to make available or give information to a director, auditor, member, debenture holder, or trustee for debenture holders of the company that is to the knowledge of the officer or employee:

- False or misleading in a particular matter; or
- Has omitted from it a matter the omission of which renders the information misleading in a material respect.

Our preliminary investigations have not revealed any evidence of any false information.

8.8 Summary of potential liquidator recoveries

At this stage, the Administrators do not consider that there will be any voidable transaction recoveries by a liquidator in the event that the companies of Group are wound up.

8.9 Directors' ability to pay a liquidator's claims

In determining the likely recoveries from a company director, we must establish the director's capacity to pay any judgement claim.

As we have not identified any insolvent trading claims, any voidable transactions or breach of director's duties, we have not requested the Directors of the Group to provide a statutory declaration of their respective asset and liability positions.

8.10 Reports to the ASIC

Section 438D of the Act requires us to lodge a report with the ASIC should we become aware of:

- Any offences committed by a past or present officer of the companies;
- Evidence that money or property has been misapplied or retained;
- Evidence that a party is guilty of negligence, default, breach of duty or breach of trust in relation to the companies.

We have not identified any offences that require reporting to the ASIC pursuant to Section 438D of the Act.

Creditors should be aware that any report lodged pursuant to Section 438D (or an investigative report lodged by a liquidator pursuant to Section 533 of the Act) is not available to the public.

9 Proposal for DOCA

The Administrators have received a DOCA proposal from Kam Lung, this section provides details of the proposal.

9.1 Introduction

The Administrators' have entered exclusivity arrangements with Kam Lung to negotiate and finalise the DOCA proposal.

9.2 Key features of the proposal

We outline below the key features of the Kam Lung DOCA proposal.

Key element	DOCA proposal
Commencement date	Following approval by creditors and execution by the Administrators and Kam Lung.
Deed Administrators	Tim Michael and Will Colwell of Ferrier Hodgson.
Parties bound by the DOCA	Secured creditor and unsecured creditors to the extent they are not excluded creditors.
Purpose of the DOCA proposal	Provide for the recapitalisation of the Group, with funding of \$14 million, to facilitate continued trading.
Management of the Company	Control of the Group will revert to the Directors upon execution of the DOCA. The Board of Directors will remain unchanged with the exception of the appointment of Mr George Su as a director. He is currently appointed as an alternate director for Mr Zhuang. We understand that Helen Garnett will likely replace Chris Rawlings, the outgoing Chairman.
Monitoring / reporting requirements	The Deed Administrators will monitor and enforce compliance with the terms of the DOCA.
Moratorium period	Upon execution of the DOCA, no creditor is able to commence or proceed with any enforcement action in respect of any debt owed by the Group, including the secured creditor.

Key element	DOCA proposal
Contributions	\$300k by way of Creditors Trust. Tim Michael and Will Colwell will hold these funds in their capacity as Trustees for the trust creditors.
Conditions Precedent	<p>All must be satisfied or waived prior to completion:</p> <ul style="list-style-type: none"> • Deed Companies enter into new convertible note facility and new security granted; • Creditors and each Pacific Road entity vote in favour of the DOCA at the concurrent Second Meeting of creditors; • All necessary regulatory approvals, waivers and exemptions in relation to the DOCA including the agreement of ASX to restore CNX's ASX listing following completion; • All necessary shareholder approvals to the terms of the DOCA; • Execution of the Trust Deed in relation to the Creditors Trust; • Employment of certain employees and key contractors continuing on terms satisfactory to Kam Lung; • No termination or loss of the Group's intellectual property rights including those rights being free from any encumbrances; • No change in the estimated rehabilitation costs for the Bloodwood Creek Site of more than 50% than that otherwise provided for in the 2016 Annual Report; and • No termination of the commitment deed executed between Kam Lung and Pacific Road
Dividends and order of distribution	<p>Upon conditions precedent being achieved, the following will occur:</p> <ul style="list-style-type: none"> • Pacific Road, as secured creditor will receive \$9 million (of the \$10 million plus interest owed to them) less \$150k which is a contribution to costs of Kam Lung. The Group will retain those funds in order to fund working capital. • Kam Lung will make available a secured convertible note subscription facility to the Group to enable the payment of \$9 million to Pacific Road to occur. The total facility will be \$10.3 million • All shares that Pacific Road hold, or are entitled to hold, will be transferred to Kam Lung. • \$300k will be paid into the Creditors Trust that was created on the approval by creditors of the DOCA and subsequent execution by administrators and Kam Lung • The order of distribution of the Creditors' Trust fund will be as follows: <ul style="list-style-type: none"> ○ First, to the Trustees' remuneration and costs; ○ Next, to non-continuing employee's priority claims; ○ Next, to trust creditors (subject to adjudication), the first \$5,000 of their claim or such lesser amount required to satisfy their claim in full; ○ Next, to remaining trust creditors whose claims are not satisfied above, on a pro-rata basis of their adjudicated claim ○ Next, to subordinated creditor claims; ○ Any remaining amount to the Group.

Key element	DOCA proposal
Trust creditors	All unsecured creditors, to the extent not an Excluded Creditor, former employees for unpaid entitlements or existing share rights and subordinated creditors. The claim of Kam Lung or any related entity of Kam Lung will not participate in the Creditor's Trust.
Excluded creditors	The following Excluded Creditors cannot claim against the Creditor's Trust with the Group remaining liable for the debt or continuing obligation: <ul style="list-style-type: none"> • Claims of any continuing employee; • Insured claims; • Mining tenement claims; • Intercompany claims; • Contracts with/for the following: JinHong JV, CSIRO, Milton office, Milton sub-tenant, Promech, Xtrac Tech, Anne Ernst
Funding	Kam Lung will inject \$3.85 million (inclusive of the \$150,000 costs contribution from Kam Lung which is being retained by the Group) of new capital into Carbon Energy Limited in return for the issue to Kam Lung of a sufficient number of fully paid ordinary shares such that when aggregated with the Pacific Road Shares to be transferred to Kam Lung, Kam Lung will hold 80% of the issued shares. In addition, Kam Lung has agreed to provide funding of \$1.1 million to the Group to enable it to continue trading up to completion of the DOCA. The funding will be provided to the Group as part of the convertible note facility. The funds will be made available to the Group on execution of the DOCA.
Meetings	As deemed necessary by the Deed Administrators or if requested to do so in writing by creditors the value of whose claims is not less than 10% of the value of all the creditors' claims against the relevant company.
Committee of creditors	Dissolves on execution of the DOCA
Administrators' indemnity	The Deed Administrators and Administrators will be indemnified by the assets of the Deed Companies for all costs and expenses incurred in trading the Group and for their remuneration and associated costs. In addition, Kam Lung has provided the Administrators an indemnity for \$200,000 in respect of the approved administrators' remuneration and costs that remain unpaid.

Key element	DOCA proposal
Termination	<p>The DOCA will terminate immediately after completion.</p> <p>There are a number of steps required to occur for completion to be effectuated and those steps are interdependent:</p> <ul style="list-style-type: none"> • All conditions precedent to be satisfied or waived, then; • New convertible note facility to be executed and convertible notes to be issued; • Payment to Pacific Road of \$9 million (less \$150k contribution for costs) • Pacific Road shares are to be transferred to Kam Lung; • New shares are to be issued to Kam Lung; • Kam Lung will advance \$3.85 million (inclusive of the \$150,000 costs contribution from Kam Lung which is being retained by the Group) to the Group as follows: <ul style="list-style-type: none"> ○ \$300k to the Trustees to form the Creditors Trust fund; ○ Administrators / Deed Administrators will be paid their unpaid remuneration and costs; ○ The balance funds will be paid to the Group for working capital <p>Following the above, completion will be effected.</p>

The terms of the DOCA and Creditors' Trust Deed have been negotiated with the Administrators and the proposal is in a form that is capable of being executed should creditors approve the proposal. A copy of the DOCA proposal and Creditors' Trust Deed is **attached** as **Annexure I**.

9.3 ASIC guidelines for creditors' trusts

In May 2005, ASIC issued Regulatory Guide 82 in respect to Creditors' Trusts, titled "External Administrations: Deeds of company arrangement involving a creditors' trust". A copy of the guide can be downloaded from the ASIC website at www.asic.gov.au or is available from our office upon request.

In accordance with the ASIC guide, we set out below the information required to be made available to creditors where a DOCA provides for the use of a creditors' trust.

Item	Information for creditors
Reason	<p>The reasons why the DOCA proposal involves a creditors' trust</p> <p>The DOCA proposal requires the use of creditors trust in order to facilitate the relisting of CEL on the ASX.</p>

Item	Information for creditors
<p>Key events and implications</p>	<p>The anticipated sequence of key events if the DOCA proposal is approved, and the implications for creditors</p> <p>The following are the key events:</p> <ul style="list-style-type: none"> • Creditor approval at the Concurrent Second Meeting of Creditors that the Group execute the DOCA; • Hold a shareholders meeting for the purposes of approval by shareholders of the DOCA including the issue of new shares • Placement of the new shares • The DOCA proponent provides the Trust Fund to be distributed amongst beneficiaries (former employees and Trust creditors) • Simultaneously creditors extinguish their claims against the Group and become beneficiaries of the trust • The DOCA is effectuated • ASX approval of the re-listing of CEL • Distribution of Trust Fund to beneficiaries of the Trust and subject to adjudication of claims <p>The implications for the secured creditor is that:</p> <ul style="list-style-type: none"> • On completion of the DOCA, \$9 million will be paid to them less a deduction of \$150k that will be paid to the Group as a contribution towards costs incurred by Kam Lung; • The Pacific Road shares in CNX will be transferred to Kam Lung on completion; and • They will be bound by the terms of the DOCA. <p>The implications for Trust creditors:</p> <ul style="list-style-type: none"> • Upon approval of the execution of the DOCA: <ul style="list-style-type: none"> ○ The terms of the Deed are binding on all creditors regarding their claim against the Group; ○ The moratorium on creditors rights to commence or continue legal action against the Group remain in force during the DOCA; ○ Claims against the Group continue and become extinguished when the funds (\$300k) are paid into the Creditors Trust. Creditors then become beneficiaries of the Creditors Trust. <p>The implications for excluded creditors is that the Group will remain liable for debts owed or obligations arising from contracts with them.</p>
<p>Return to creditors</p>	<p>The anticipated return to creditors/beneficiaries</p> <p>We anticipate the dividend to be:</p> <ul style="list-style-type: none"> • 100 cents in the dollar to priority non-continuing employees; • 100 cents in the dollar to creditors owed \$5,000 or less; and • \$5,000 plus between 12.8 cents and 18.5 cents in the dollar to creditors in respect of the portion of their debt that is more than \$5,000. • No return for Trust creditors with share rights or subordinate creditors. <p>We anticipate that a first and final dividend should be payable within three months of the termination of the DOCA / funding of the Creditors Trust.</p>

Item	Information for creditors
Trustee particulars	<p data-bbox="491 293 1310 322">The identity, skills, experience and insurance of the proposed trustee</p> <p data-bbox="491 338 1401 432">It is proposed that the Deed Administrators will become the Trustees of the Creditors' Trust. Full details of our experience, qualifications and credentials can be found at www.ferrierhodgson.com.au or from this office upon request.</p> <p data-bbox="491 448 1377 539">The Trustees hold civil liability insurance (including professional indemnity and fidelity) in excess of \$10 million that will cover conduct by them in their capacity as trustee of the Creditors' Trust.</p>
Remuneration	<p data-bbox="491 562 1362 622">The proposed remuneration and expenses of the Deed Administrator and Creditors Trustee</p> <p data-bbox="491 638 1398 792">The remuneration and costs of the Deed Administrators will be paid from the capital contribution from Kam Lung following the issue of shares. The Deed Administrators' remuneration will be based on the hours spent by them and their staff, calculated in accordance with the schedule of Ferrier Hodgson rates annexed to the first circular to creditors dated 23 November 2016.</p> <p data-bbox="491 808 1410 960">The Creditors' Trust provides for the payment of the remuneration and costs of the Trustees from Trust Funds in priority to any distribution to beneficiaries. Remuneration will be based on the hours spent by the Trustee and their staff, calculated in accordance with the schedule of Ferrier Hodgson rates annexed to the first circular to creditors dated 23 November 2016.</p> <p data-bbox="491 976 1390 1160">We do not consider that additional professional fees will be incurred as a result of the use of the Creditors' Trust, compared with the position if the Group remains subject to a DOCA because the role that the Creditors Trustee performs in receiving and distributing the Creditors Trust fund is the same as a Deed Administrators role in receiving and distributing the Deed fund.</p>
Indemnities	<p data-bbox="491 1182 1034 1211">Details of any indemnities for fees or liabilities</p> <p data-bbox="491 1227 1302 1288">The Trustees will be entitled to be indemnified from the Trust Fund if required.</p>
Powers	<p data-bbox="491 1317 1374 1377">The differences between the powers of a deed administrator under the Act and the trustee under the DOCA proposal</p> <p data-bbox="491 1393 1369 1453">The Trustees will have a wide range of powers, including but not limited to those contained in the Trusts Act 1973 (Qld), as follows:</p> <ul data-bbox="491 1469 1385 1688" style="list-style-type: none"> <li data-bbox="491 1469 874 1498">• To administer the trust fund; <li data-bbox="491 1503 1321 1563">• Report to trust creditors and call a meeting of the trust creditors to consider any variation or termination of the trust deed <li data-bbox="491 1568 970 1597">• Adjudicate on trust creditor's claims; <li data-bbox="491 1601 1313 1630">• Pay dividends to trust creditors in respect of admitted claims; and <li data-bbox="491 1635 1385 1688">• More generally take any action necessary in respect of the trust fund or claims to it. <p data-bbox="491 1704 1385 1765">There is no material difference between the powers of a deed administrator under the Act and the trustee under the Creditors Trust.</p>

Item	Information for creditors
Claims	<p data-bbox="491 293 1410 353">How creditors' claims will be dealt with under the DOCA proposal and in what priority</p> <p data-bbox="491 371 1402 495">The claims of creditors participating in the Creditors' Trust will be determined pursuant to subdivisions A, B, C, D and E of Division 6 of Part 5.6 (except sections 554A(3) to 554A(8)) and section 556 of the Corporations Act as if the Group were in liquidation.</p> <p data-bbox="491 510 1394 571">Additionally, Regulations 5.6.11A, 5.6.37, 5.6.39 to 5.6.43 (inclusive), 5.6.44 to 5.6.53 (inclusive) and 5.6.55 to 5.6.72 (inclusive) of the Corporations Act .</p> <p data-bbox="491 586 1291 647">The Trustee must declare and distribute the Trust funds as soon as practicable to the admitted claims of the beneficiaries of the Trust.</p> <p data-bbox="491 663 1394 723">All dividends to trust creditors on their admitted claims will be in full and final satisfaction of all claims against the Group.</p> <p data-bbox="491 739 957 770">The order of priority of payment will be:</p> <ul data-bbox="491 777 1382 1021" style="list-style-type: none"> o First, to the Trustees' remuneration and costs; o Next, to non-continuing employee's priority claims; o Next, to trust creditors (subject to adjudication), the first \$5,000 of their claim or such lesser amount required to satisfy their claim in full; o Next, to remaining trust creditors whose claims are not satisfied above, on a pro-rata basis of their adjudicated claim o Next, to subordinated creditor claims; and o Any remaining amount to the Group.
Other creditor/ beneficiary differences	<p data-bbox="491 1037 1390 1097">A comparison of the protections and rights of creditors under the Act and of beneficiaries under the DOCA proposal</p> <p data-bbox="491 1115 1402 1176">There are no differences between the rights of creditors under the Act to that of other creditors or beneficiaries in the DOCA proposal / Creditors' Trust.</p>
FEG	<p data-bbox="491 1198 1062 1232">Any effect on employee entitlements under FEG</p> <p data-bbox="491 1247 1367 1308">As the Group will not be placed into Liquidation, the employees will not be able to access FEG.</p> <p data-bbox="491 1323 1399 1384">Non-continuing employees retain priority status in the Creditors' Trust before any dividend to unsecured creditors.</p> <p data-bbox="491 1400 1407 1460">Continuing employees are an Excluded Creditor claim and as such represent a continuing liability of the Group.</p>

Item	Information for creditors
Compliance opinion	<p data-bbox="491 293 1362 353">An opinion on the capability of the company (and relevant third parties) to comply with obligations to the trustee</p> <p data-bbox="491 371 1402 495">There is nothing to indicate that the proposer of the DOCA and the Creditors' Trust will be unable to comply with its obligations under the proposal. Importantly, participating creditors' claims against the Group are not extinguished until the funds to satisfy claims are received.</p> <p data-bbox="491 510 1398 571">In addition, we believe the following supports our opinion that the obligations should be complied with:</p> <ul data-bbox="491 577 1402 913" style="list-style-type: none"> <li data-bbox="491 577 1362 667">• We have been provided with evidence that the funds to effectuate the DOCA (\$14 million) have been paid into Kam Lung's lawyers trust account in Australia; <li data-bbox="491 674 1398 790">• An implementation deed has been executed between the Administrators and Kam Lung as to the provision of interim funding (\$1.1 million) to enable the Group to continue to trade up to the shareholders meeting; and <li data-bbox="491 797 1402 913">• A commitment deed has been executed between the secured creditor and Kam Lung in respect of the repayment of the secured creditors current Convertible Facility and transfer of shares it holds or is entitled to hold.
Solvency statement	<p data-bbox="491 931 1331 992">The basis for an opinion that the company will be solvent at the date of effectuation of the DOCA</p> <p data-bbox="491 1010 1046 1043">The terms of the proposed DOCA provide that:</p> <ul data-bbox="491 1061 1409 1648" style="list-style-type: none"> <li data-bbox="491 1061 1409 1151">• The secured creditor will accept \$9 million (less \$150,000 costs contribution to be retained by the Group) in full and final satisfaction of all debts and obligations owed to it by the Group; <li data-bbox="491 1158 1409 1274">• A new convertible note facility for \$10.3 million will be entered into to provide for the repayment of the debt to the secured creditor of \$9 million and for interim funding to be advanced to the Deed Administrators/the Group of \$1.3 million; <li data-bbox="491 1281 1385 1397">• There will be \$3.85 million (less funding for the creditors trust of \$300k and payment to the Administrator/Deed Administrator for any unpaid remuneration and costs) of working capital introduced on completion of the DOCA; <li data-bbox="491 1404 1393 1520">• \$1.1 million of the interim funding will be available to the Group in order to fund working capital requirements up to the shareholders meeting. Any balance held following the shareholders meeting will be retained by the Group for general corporate purposes. <li data-bbox="491 1527 1358 1648">• All Trust creditors, with the exception of Excluded Creditors, will be bound by the DOCA and claims released upon distribution of monies from the Creditors' Trust. Thereafter there will be no unsecured or subordinate creditors carried forward by the Group. <p data-bbox="491 1666 1414 1724">Therefore, it is our opinion that the Group will be balance sheet and cash flow solvent on completion of the DOCA.</p>

Item	Information for creditors
Tax (company / trust)	<p>Details of the taxation and stamp duty implications for the company and the trust</p> <p>The creation of a Creditors' Trust creates the potential for some taxation issues to arise, as compared to an ordinary DOCA proposal (where the claims of participating creditors are dealt with by the Group). These may mean that the funds available to creditors are reduced in order to account for any taxation liabilities associated with the Administration of the distribution process under a trust structure. The Deed Administrators/Trustees will address this matter at the appropriate time and participating creditors will be informed of any changes to the funds available for distribution.</p>
Tax (creditor/ beneficiary)	<p>Potential differences in taxation implications for creditors and beneficiaries</p> <p>There may be some implications for participating creditors as a result of receiving a distribution from a trust in respect of a bad or doubtful debt, rather than from the debtor company being administered under a DOCA. Creditors are advised to seek their own tax advice as to their particular tax position – the Administrators are unable to provide advice on this issue.</p>
Other	<p>Any other material aspects or implications</p> <p>We note an Australian Financial Services Licence is not required by the trustee.</p> <p>No other material aspects or implications have been identified at this stage.</p>

The involvement of a Creditors' Trust creates some complexity for the Administrators (who will be required to act in a trustee capacity) and for creditors. Although many of the operative provisions of the Act are incorporated into the Trust Deed (so as to minimise the effect of the change in legal structure being utilised), participating creditors' rights under the Trust will not be "statutory rights" under the Act, but will instead be rights under the Trustees Act 1973 (QLD) and in equity.

In this instance, it is not anticipated that this will create any difference as the objectives of the Trust are straightforward and it is not expected that the trust will endure for an unduly long period of time. However, creditors' rights are being fundamentally transformed and they should consider this in assessing the merits of the DOCA proposal put forward.

Creditors should seek legal advice prior to the Concurrent Second Meeting of Creditors if they are in any doubt as to what this means for them.

9.4 Reasons for a creditors' trust

A creditors' trust is a mechanism used to accelerate a company's exit from administration and enable, subject to approval by ASX, its relisting on the register.

The DOCA proposal requires the use of a Creditors' Trust and that creditor claims against the Group are extinguished and they become the beneficiaries of the Creditors' Trust.

9.5 Adjudication of creditors' claims

The Trust Deed stipulates that the Trustees, and not the Deed Administrators, will adjudicate upon proofs of debt received from participating creditors who become beneficiaries under the Creditors' Trust. The Creditors' Trust will incorporate the relevant provisions of the Act to

reflect the creditors' proof and dividend procedures under the Act. The Trustees will have access to the books and records of the Group necessary to determine claims.

For the purpose of admitting creditors' proofs, the Creditors' Trust Deed stipulates that subdivisions A, B, C and D of Division 6 of Part 5.6 and section 556 and Regulations 5.6.11A, 5.6.37, 5.6.39 to 5.6.43 (inclusive), 5.6.44 to 5.6.53 (inclusive) and 5.6.55 to 5.6.72 (inclusive) of the Act, apply to claims made under the Deed, with certain modifications as are necessary. Proofs submitted by creditors will be adjudicated as if they were proofs submitted in a liquidation of the Group.

The Creditors' Trust provides for slight differences from the Act. Specifically, any appeal to the Trustees' decision to reject a claim of a participating creditor must be made within 21 days of the Trustees giving notice of rejection, or such longer period as the Trustees permit. In a liquidation, the Act (Regulation 5.6.54(1)(b)(i)) stipulates that the appeal must be made within 14 days of the Trustees giving notice of rejection, or such longer period as the Court permits. We consider this minor difference is favourable to creditors.

9.6 Other creditor differences

Whilst the Creditors' Trust cannot stipulate that Regulations 5.6.12 to 5.6.36A will be applicable (being regulations relating to creditors' meetings), the Trust Deed contains meeting provisions that are similar in their form and substance. As such, we do not consider that the non-application of the specific regulations of the Act relating to creditors' meetings will have a material effect on creditors.

9.7 Payments from third parties

The Group following receipt of the capital contribution of \$3.85 million from Kam Lung will pay the funds that will comprise the Creditors' Trust.

The introduction of the capital contribution is conditional upon completion occurring. The necessary steps are set out in Section 9.2.

If completion does not occur or it is not agreed that the DOCA is varied, then it is unlikely that the funds will be paid.

We have been provided with evidence that Kam Lung's lawyers are holding \$14 million in their trust account in order to effect the DOCA.

9.8 Non-participation in Creditors' Trust

The proposed DOCA provides that Kam Lung and its related bodies corporate including JinHong will not claim for dividend purposes under the DOCA and therefore will not participate in the Creditors Trust. The Administrators have received written confirmation to that effect.

9.9 Further information for creditors

Creditors should seek their own legal advice as to their rights and the effects of their position in entering into the DOCA.

Creditors can obtain further information from the ASIC website at www.asic.gov.au under Regulatory Resources – Insolvency – Insolvency for Creditors and the ASIC Regulatory Guide 82.

10 Return to creditors

The estimated return to creditors under the different scenarios ie DOCA versus Liquidation is discussed below.

10.1 Liquidation

If CEL is wound up, we estimate the following return to creditors:

- Employees – 100 cents/\$ in relation to priority employee entitlements;
- Secured creditor – 90 cents/\$; and
- Unsecured creditors – no return

If CEO is wound up, we estimate that there will be no return to priority employee entitlements or unsecured creditors. We estimate the secured creditor will receive 43.7 cents in the dollar.

The following table summarises our estimate of the return to creditors and employees where CEL and CEO are wound up.

	Notes	CEL Liquidators' ERV \$	CEO Liquidators' ERV \$	Total ERV \$
Circulating Assets				
Cash and term deposits	1	1,056,019	46,928	1,102,947
Pre-appointment debtors / refunds / prepayments		-	-	-
Work in progress		-	-	-
Potential Liquidator recoveries		-	-	-
Realisations from circulating assets		1,056,019	46,928	1,102,947
Less:				
Administrators' net trading expenses	2	(1,004,000)	-	(1,004,000)
Administrators' loan recovery (Administration trading expenses)	3	825,000	-	825,000
Administrators' fees	2	(172,016)	(272,267)	(444,283)
Administrators' disbursements (third party costs)	2	(75,000)	(75,000)	(150,000)
Administrators' office disbursements	2	(1,000)	(2,000)	(3,000)
Liquidators' fees and disbursements	2	(42,000)	(78,000)	(120,000)
Priority Employee Entitlements	4	(128,790)	(720,585)	(849,375)
Surplus/(Deficit) Circulating Assets available for distribution to Secured Creditor		458,213	(1,100,924)	(642,711)
Non Circulating Assets				
Land	5	408,016		
Plant, equipment and motor vehicles	5	-	4,541,984	5,000,000
Intangible Assets	5	50,000		
Sale of Company Listed Shell	6	575,000	-	575,000
Total Non Circulating Assets		1,033,016	4,541,984	5,575,000

	Notes	CEL Liquidators' ERV \$	CEO Liquidators' ERV \$	Total ERV \$
Less:				
Administrators' loan repayment to CEL (Administration trading expenses)	2	-	(825,000)	(825,000)
Administrators' fees	2	(73,721)	(116,686)	(190,407)
Administrators' (third party costs)	2	(40,000)	(40,000)	(80,000)
Administrators' office disbursements	2	(1,000)	(2,000)	(3,000)
Liquidators' fees and disbursements	2	(63,000)	(117,000)	(180,000)
Surplus/(Deficit) Non Circulating Assets available for distribution to Secured Creditor		855,295	3,441,298	4,296,593
Less Administration lien claim	2	-	(380,339)	(380,339)
Add Surplus Circulating Assets		458,213	-	458,213
Total Funds Available for Distribution to Secured Creditor		1,313,508	3,060,959	4,374,467
Less: Secured Creditor Debt	7			(10,000,000)
Secured Creditor Shortfall				(5,625,533)
Total Assets Available for Distribution to Unsecured Creditors		-	-	-
Less:				
Unsecured creditor claims - External	8	(323,852)	(254,669)	(578,521)
Unsecured creditor claims - Non-Priority Employee and Director Entitlements	9	(210,322)	-	(210,322)
Unsecured creditor claims - Intercompany Loan - CEL	10	-	(8,667,066)	(8,667,066)
Unsecured creditor claims - Department of Environment and Heritage Protection	11	-	(3,400,000)	(3,400,000)
Unsecured creditor claims - Contingent	12	-	(933,796)	(933,796)
Total Unsecured Creditor Claims		(534,174)	(13,255,531)	(13,789,705)

Notes

- Cash realisations are as outlined in section 5.4.1.
- The Administrators and Liquidators fees and expenses have been estimated based on work to be completed and split between CEL and CEO accordingly. Further details of the fees and expenses are outlined in the Remuneration Approval Request Reports attached as Annexure D. The Administrators would claim a lien against the non-circulating asset sale proceeds in respect of their unrecovered circulating costs.
- CEL is expected to recover an amount of \$825,000 from the asset sales of CEO to repay monies advanced to CEO to meet the trading costs of the Administration.
- Priority employee entitlements are as outlined in section 5.4.9.
- The realisation of land has been based on Directors' ERV as discussed in section 5.4.5. The realisations of the remaining non circulating assets have been based on non-binding indicative offers received for the sale of the Group's assets. Due to the commercially sensitive nature of the asset realisations, we have grouped together the value of these realisations.
- Estimated realisable value of CEL's ASX listed shell.
- Represents the secured creditor debt as outlined in section 5.4.10.
- External unsecured creditor claims are as outlined in section 5.4.11.
- Non-priority employee entitlement claims are outlined in section 5.4.9. In addition, at the date of appointment, outstanding director fees totalled c\$37k.
- Intercompany loan is as outlined 5.4.3.

11. Represents the estimated liability to the DEHP that is assumed will crystallise if CEL is wound up as discussed in section 5.4.11.2.
12. Contingent creditor claims include the Brisbane landlords claim for damages less the security bond term deposit held.

The above calculations are an estimate only and may change due to:

- The final amount realised from asset sales;
- Final POD's received and adjudication of same; and
- The costs of the administration and liquidation.

As mentioned in section 5.4.9, in a scenario where a company is placed into Liquidation and does not generate sufficient net realisations from circulating assets to enable it to pay employee entitlements in full, those affected employees may be entitled to make a claim for any unpaid entitlements through the government's Fair Entitlements Guarantee (FEG) scheme.

The liquidators' costs of winding up the Group's affairs are estimated to be approximately \$300,000.

Any claims or recoveries in a liquidation scenario may take longer to realise, and may incur additional costs, if disputed, and become the subject of litigation proceedings.

10.2 Proposed DOCA and Creditors' Trust

The Kam Lung DOCA including a Creditors' Trust provides for the continuation of the Group's business operations.

As control of the Group's operations is returned to the Directors on execution of the DOCA, the Deed Administrators will not be liable for any debts incurred by the Group beyond the execution of the DOCA.

As Deed Administrators, we will monitor the affairs of the Group regarding the progress of the steps to satisfy the conditions precedent of the DOCA.

Under the Kam Lung DOCA and Creditors' Trust, it is estimated that the flow of funds will be as follows.

On execution of DOCA		\$
Interim working capital fund and Administrators' indemnity	1,300,000	
Less: Indemnity payment to Administrators	(200,000)	
Less: Working capital funding (for the period to shareholder meeting)	(1,100,000)	
Balance of funding remaining	-	

On completion of DOCA		\$
Secured creditor		
Funding pursuant to new convertible note facility		9,000,000
Less: Payout of secured creditor (\$9,000,000 less \$150,000 contribution to Kam Lung costs)		(8,850,000)
Balance of funding remaining for working capital		150,000
Working Capital		
Capital contribution following Share Issue		3,700,000
Estimated cash at bank (assumed)		-
Less: Contribution to Creditors' Trust		(300,000)
Working capital available to the Group before payment of Administrators and Deed Administrators Remuneration		3,550,000

Creditors' Trust	Administrators' ERV	
	High	Low
	\$	\$
Contribution from DOCA	300,000	300,000
Less: Trustees' Remuneration	(75,000)	(100,000)
Balance of funding remaining	225,000	200,000
Less: Employee priority entitlements (terminated and resigned employees only)	(22,514)	(22,514)
Funds available for unsecured creditors	202,486	177,486
Less: Unsecured creditor claims up to maximum \$5,000	(128,292)	(128,292)
Funds available to unsecured creditor claims greater than \$5,000	74,194	49,194
Remaining balance of unsecured creditor claims greater than \$5,000	450,229	450,229

The following table summarises the estimated return to creditors under the proposed DOCA and Creditors' Trust.

Creditors	Estimated dividend rate (cents in the \$) or treatment
Employee Entitlements - Continuing employees	Carried forward as a liability of the Group
Employee Priority Entitlements - Resigned / terminated employees	100 cents/\$ paid from the Creditors' Trust
Secured Creditor	90 cents/\$ (\$9,000,000) (excluding any value attributable to the Pacific Road shares being transferred)
Unsecured Creditors – External (Trade and statutory creditors) - Up to a maximum claim of \$5,000	Up to \$5,000 of their admitted debt paid from the Creditors' Trust. Any debts above \$5,000 will receive the dividend discussed below.
Unsecured Creditors – External (Trade and statutory creditors) - Claims greater than \$5,000	\$5,000 plus between 10.9 cents and 16.5 cents/\$ on their remaining balance paid from the Creditors' Trust.
Unsecured Creditor – Intercompany loan (CEL)	Carried forward as a liability of the Group

Creditors	Estimated dividend rate (cents in the \$) or treatment
Subordinate Creditors	Nil
Excluded creditors	Carried forward as a liability of the Group
Non-participating creditors – JinHong	Nil
Shareholders	Shares to relist on ASX

The above calculations are an estimate only and may change due to:

- Changes in the quantum of costs of the DOCA for unforeseen issues;
- Final proving and adjudication of creditor claims; and
- Compliance with all provisions of the DOCA.

10.3 Timing of dividend

Under the liquidation scenario, there will not be a dividend to unsecured creditors. Any dividends to the secured creditor and priority creditors, would be subject to asset realisations and the adjudication of creditor claims and would be unlikely to be paid before December 2017.

The timing of the distribution under a DOCA will depend on shareholder approval of the proposed transactions and relisting on the ASX. If the DOCA proceeds without any major delay, we estimate a dividend may be paid from the Creditors' Trust by July/August 2017, subject to the adjudication of creditor claims.

11 Administrators' opinion

We recommend that the DOCA proposal be accepted.

Pursuant to Section 439A(4)(b) of the Act, we are required to provide creditors with a statement setting out our opinion on whether it is in creditors' interests for the:

- Administration to end;
- Company to be wound up; and
- Company to execute a DOCA.

Each of these options is considered below. In forming our opinion, it is necessary to consider an estimate of the dividend creditors might expect and the likely costs under each option.

11.1 Administration to end

The Group is insolvent and unable to pay its debts as and when they fall due. Accordingly, returning control of the Group to its Directors would be inappropriate and is not recommended.

11.2 Winding up of the Company

At the concurrent Second Meeting of creditors, creditors may resolve that the Group be wound up. Should they do so, the Group will be placed into liquidation and unless replaced, the Administrators become the liquidators. The liquidators are required to realise and distribute the assets in accordance with section 556 of the Act and will also be required to complete a thorough investigation into the Group's past dealings and affairs, and the past actions of the Directors.

The effects of the liquidation include:

- The moratorium available under the voluntary administration process will cease.
- The liquidators will be empowered to recover potential voidable transactions, as outlined in section 8 of this Report. It is noted our preliminary investigations have not identified any such recoveries.
- The liquidators will be required to conduct an investigation into the affairs of the Group pursuant to section 533 of the Act and lodge a report with ASIC in respect of same.

Placing the Group into liquidation will not allow the recapitalisation and/or restructure of the Group to be effected and will not produce any return to unsecured creditors.

Accordingly, we believe that winding up the Group is not a viable alternative for creditors and is not recommended.

11.3 DOCA

It is our opinion that it would be in creditor's interests for the Group to execute the DOCA proposed by Kam Lung.

The reasons for our recommendation are as follows:

- It provides a more certain outcome by way of a dividend to priority and unsecured creditors in a shorter timeframe than if the Group were liquidated;
- The dividend to unsecured creditors is increased by virtue of the excluded claims and the Group continuing to be liable for those and also the related party creditor claim is being released;
- There will be a continuation of employment of all continuing staff, albeit some on proposed new terms;
- The Creditors' Trust will allow for stock exchange relisting, subject to ASX approval, following shareholder approval;
- The proposal has the support of the secured creditor; and
- Our preliminary investigations have not revealed any offences in relation to the Group and therefore it is unlikely that placing the Group into liquidation to pursue offences will result in any recoveries that would be available to creditors.

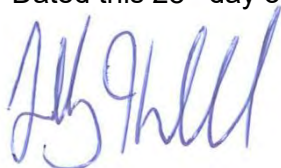
12 Further information and enquiries

The ASIC has released several insolvency information sheets to assist creditors, employees and shareholders with their understanding of the insolvency process. You can access the relevant ASIC information sheets at www.asic.gov.au

We will advise creditors in writing of any additional matter that comes to our attention after the release of this Report, which in our view is material to creditors' consideration.

Should you have any enquiries, please contact Dylan Master on 07 3834 9232 or by email at dylan.master@fh.com.au.

Dated this 28th day of February 2017



Tim Michael
Administrator of Carbon Energy Group

Glossary of terms

Abbreviation	Description
ACN	Australian Company Number
Act	Corporations Act 2001
Administrators	Tim Michael and Will Colwell
AEIL	Asian Equity Investment Limited
AGM	Annual General Meeting
Allens	Allens Linklaters
APAAP	All present and after-acquired property – no exceptions
ARITA	Australian Restructuring, Insolvency & Turnaround Association
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
BAS	Business Activity Statement
c	circa
CEH	Carbon Energy (Holdings) Pty Ltd (Administrators Appointed)
CEL	Carbon Energy Limited (Administrators Appointed)
CEO	Carbon Energy (Operations) Pty Ltd (Administrators Appointed)
CNX	ASX code for CEL
Code	ARITA Code of Professional Practice
COC	Committee of Creditors
Convertible Facility	\$10 million convertible facility
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DEHP	Department of Environment and Heritage Protection
Directors	CEL – Kerry John Parker, Peter Neville Hogan, Helen Margaret Garnett, Christopher David Rawlings and HuiHai Zhuang CEH – Terence Michael Moore and Kerry John Parker CEO – Terence Michael Moore and Kerry John Parker
DIRRI	Declaration of Independence, Relevant Relationships and Indemnities, pursuant to s436DA of the Act and Code.
DNRM	Department of Natural Resources and Mines
DOCA	Deed of Company Arrangement
EBITDA	Earnings before interest, tax, depreciation and amortisation
ERV	Estimated Realisable Value
Facility Agreement	Convertible Facility Agreement dated 22 December 2011
Financiers	PRNV and PRCM Nominees
First Meeting	First meeting of creditors held on 2 December 2016
FY	Financial year
Group	Carbon Energy Limited Carbon Energy (Holdings) Pty Ltd Carbon Energy (Operations) Pty Ltd (All Administrators Appointed)
GST	Goods and services tax
ISP	Independent Scientific Review Panel

Abbreviation	Description
JinHong	Beijing JinHong Investment Development Co Limited
JinHong Joint Venture	Beijing JinHong New Energy Development Co Ltd
k	thousand
Kam Lung	Kam Lung Investment Development Co Ltd
NAB	National Australia Bank Limited
Pacific Road	PRCM Nominees Pty Limited and associated entities
PAL	Principal American Liaison
PAYG	Pay as you go withholding
PILN	Pay in Lieu of Notice
PMSI	Purchase Money Security Interest
POD	Proof of Debt
PPSA	Personal Property Securities Act 2009 (Cth)
PPSR	Personal Property Securities Register
PRCM Nominees	PRCM Nominees Pty Limited in its capacity as trustee of the Pacific Road CE Trust
PRLP	Pacific Road Resources Fund LP
PRNV	Pacific Road Holdings NV
PRSARL	Pacific Road Holdings SARL
QGC	QGC Pty Limited
Report	This report, prepared pursuant to Section 439A of the Act
ROT	Retention of Title
Second Meeting	Second meeting of creditors held pursuant to Section 439A of the Act, where creditors determine the future of the Group
Security Trustee	PRCM Nominees in its capacity as trustee of the Carbon Energy Security Trust
Shareholders	PRSARL and PRLP
Statement	A statement about the business, property, affairs and financial circumstances of the Group
Summa	Summa Resource Holdings LLC
UCG	Underground Coal Gasification
USA	United States of America
WHS	Workplace, Health and Safety
WIP	Work in progress
YTD	Year to date, 1 July 2016 to 21 November 2016

H ARITA creditor information sheet



ASIC

Australian Securities & Investments Commission

Insolvency information for directors, employees, creditors and shareholders

ASIC has 11 insolvency information sheets to assist you if you're affected by a company's insolvency and have little or no knowledge of what's involved.

These plain language information sheets give directors, employees, creditors and shareholders a basic understanding of the three most common company insolvency procedures—liquidation, voluntary administration and receivership. There is an information sheet on the independence of external administrators and one that explains the process for approving the fees of external administrators. A glossary of commonly used insolvency terms is also provided.

The Insolvency Practitioners Association (IPA), the leading professional organisation in Australia for insolvency practitioners, endorses these publications and encourages its members to make their availability known to affected people.

List of information sheets

- INFO 41 *Insolvency: a glossary of terms*
- INFO 74 *Voluntary administration: a guide for creditors*
- INFO 75 *Voluntary administration: a guide for employees*
- INFO 45 *Liquidation: a guide for creditors*
- INFO 46 *Liquidation: a guide for employees*
- INFO 54 *Receivership: a guide for creditors*
- INFO 55 *Receivership: a guide for employees*
- INFO 43 *Insolvency: a guide for shareholders*
- INFO 42 *Insolvency: a guide for directors*
- INFO 84 *Independence of external administrators: a guide for creditors*
- INFO 85 *Approving fees: a guide for creditors*

Getting copies of the information sheets

To get copies of the information sheets, visit ASIC's website at www.asic.gov.au/insolvencyinfosheets. The information sheets are also available from the IPA website at www.ipaa.com.au. The IPA website also contains the IPA's Code of Professional Practice for Insolvency Professionals, which applies to IPA members.

Important note: The information sheets contain a summary of basic information on the topic. It is not a substitute for legal advice. Some provisions of the law referred to may have important exceptions or qualifications. These documents may not contain all of the information about the law or the exceptions and qualifications that are relevant to your circumstances. You will need a qualified professional adviser to take into account your particular circumstances and to tell you how the law applies to you.

What is the Personal Property Securities Act?

The Personal Property Securities Act 2009 (PPSA) established national legislation governing security interests in personal property. It replaced a large number of existing Commonwealth, State and Territory laws. "Personal Property" is any property that is not "Real Property" (i.e. land and buildings and fixtures). Personal Property generally includes all property (tangible and intangible) other than land and buildings, fixtures, most water rights and some statutory licences. It includes goods or inventory, intellectual property, shares, debts and contractual rights.

There is a single national Register for parties to record their interests in personal property, called the Personal Property Securities Register (PPSR), on which all security interests in personal property can be registered. The PPSR replaced a number of State and Commonwealth registers, including the ASIC Register of Company Charges and all State Registers of Encumbered Vehicles (REVs). Any holder of a security interest in personal property must register to ensure they have a priority claim over that property.

The PPSA has changed the way security interests are dealt with across Australia. Legal title to personal property in some situations is no longer enough to protect owners, as this legislation overturns fundamental personal property law concepts.

What is a 'Security Interest'?

A security interest is an interest in personal property, created by a transaction that secures payment or performance of an obligation.

Security interests can include:

- Interests of owners in assets leased to other parties;
- Interests of sellers of goods subject to hire purchase agreements;
- Interests of suppliers in stock delivered but subject to retention of title arrangements.

The PPSA states that a security interest exists regardless of the form of the transaction, or the identity of the person who has title to the property. The concept of a security interest under the PPSA covers a broader range of interests than traditional security concepts.

If you have a security interest, it must be perfected. If you have not perfected your security interest, usually by registration on the PPSR, you may lose the ability to enforce your claim.

How does the PPSA impact your business?

There are some significant implications for businesses arising from the PPSA, for example:

Retention of title arrangements

Some transactions that were not previously security interests are now registerable on the PPSR. For example, if you sell goods on retention of title terms, you may need to review your terms of trade and register an interest on the PPSR to protect your interest in goods delivered but not paid for.

Leases

Under the PPSA, 'title' or 'ownership' of goods can have a lower status than possession or control of goods if the owner of the goods has not registered their interest on the PPSR. You should register your security interest to 'perfect' your rights. If you do not register, then you may not be able to recover your goods or receive payment if the customer becomes insolvent. You may also lose your rights to another creditor of the customer who has 'perfected' their security interest over the property.

You should seek legal advice about the implications of the PPSA to your individual circumstances.

For more information regarding how the PPSA may impact your business, including detailed examples and case studies, visit our website at:

SecuriSearch is an Android, iOS and Windows application allowing users to search and review the PPSA quickly and easily from a mobile device.

Visit [Ferrier Hodgson](#) website to find out more or scan this QR Code



To download this application for **iOS device**, please scan this QR Code



To download this application for an **Android device**, please scan this QR Code



To download this application for an **Windows device**, please scan this QR Code



This document is intended to provide commentary and general information only. It is not intended to provide legal or professional advice, is not intended as a substitute for legal or professional advice, and should not be relied upon as such. Readers of this document should seek their own legal or professional advice with respect to their own circumstances.

I Deed of Company Arrangement (including Creditors' Trust Deed)



HERBERT
SMITH
FREEHILLS

Deed

DRAFT

Deed of Company Arrangement

Tim Michael and Will Colwell in their capacity as
joint and several administrators of the Deed
Companies

Carbon Energy Limited (administrators appointed)

Carbon Energy (Holdings) Pty Ltd (administrators
appointed)

Carbon Energy (Operations) Pty Ltd (administrators
appointed)

Kam Lung Investment Development Co Ltd



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Signing page

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Deed of Company Arrangement

Date ► 2017

Between the parties

Deed Administrators **Tim Michael and Will Colwell** in their capacity as joint and several administrators of the Deed Companies
of Ferrier Hodgson, Level 7, 145 Eagle Street, Brisbane QLD 4000
Telephone: +61 7 3831 4833
Email: tim.michael@fh.com.au
Attention: Tim Michael

CNX **Carbon Energy Limited (administrators appointed)**
ACN 057 552 137 c/- Ferrier Hodgson, Level 7, 145 Eagle Street,
Brisbane QLD 4000
Telephone: +61 7 3831 4833
Email: tim.michael@fh.com.au
Attention: Tim Michael

CEH **Carbon Energy (Holdings) Pty Ltd (administrators appointed)**
ACN 120 429 209 c/- Ferrier Hodgson, Level 7, 145 Eagle Street,
Brisbane QLD 4000
Telephone: +61 7 3831 4833
Email: tim.michael@fh.com.au
Attention: Tim Michael

CEO **Carbon Energy (Operations) Pty Ltd (administrators appointed)**
ACN 105 176 967 c/- Ferrier Hodgson, Level 7, 145 Eagle Street,
Brisbane QLD 4000
Telephone: +61 7 3831 4833
Email: tim.michael@fh.com.au
Attention: Tim Michael

Deed Proponent **Kam Lung Investment Development Co Ltd**
of FI 19, World Financial Centre, 1 Central East 3rd Ring Road,



Chaoyang District, Beijing China

Email: hehx@ghid.com.cn, gsu@srcg.com.au and George Su - george_su@yahoo.com

Attention: He Huanxue and George Su

with a copy to:

Herbert Smith Freehills
161 Castlereagh St, Sydney NSW 2000

Email: mark.clifton@hsf.com and andrew.rich@hsf.com

Attention: Mark Clifton / Andrew Rich

Recitals

- 1 On the Appointment Date, Tim Michael and Will Colwell were appointed as administrators of the Deed Companies pursuant to Part 5.3A of the Corporations Act.
- 2 At meetings held on **[insert]** 2017 and convened pursuant to section 439A of the Corporations Act, the Creditors of each of the Deed Companies resolved that the Deed Companies execute the deed of company arrangement proposed by the Deed Proponent under section 444B(2)(b) of the Corporations Act.
- 3 The Deed Companies, the Deed Administrators and the Deed Proponent have agreed to execute this Deed to give effect to the resolutions referred to in recital 2.
- 4 The Deed Administrators have consented to be the administrators of this Deed.
- 5 Subject to the terms of this Deed, this Deed binds all creditors of the Deed Companies, in accordance with section 444D of the Corporations Act and also binds the Deed Companies, and their Officers and Members in accordance with section 444G of the Corporations Act.

This Deed witnesses as follows:



1 Definitions and interpretation

1.1 Definitions

The meanings of the terms used in this Deed are set out below.

Term	Meaning
Administration Debt	any: <ol style="list-style-type: none">1 debt referred to in section 443A(1) of the Corporations Act which was incurred by the Administrators during the Administration Period; and2 liability to the Commissioner of Taxation referred to in section 443BA(1), in respect of which the Administrators are entitled to be indemnified under section 443D of the Corporations Act.
Administration Period	the period of time commencing on the Appointment Date and concluding on the Commencement Date.
Administrators	jointly and severally, Tim Michael and Will Colwell in their capacity as administrators of the Deed Companies and any successor to that office appointed pursuant to the Corporations Act.
Administrators Indemnity Amount	the sum of \$200,000 paid or to be paid to the Administrators pursuant to the Indemnity Deed.
Appointment Date	22 November 2016.
Approved Remuneration and Costs	the amount payable to the Administrators or Deed Administrators in respect of their Remuneration and Costs up to the Completion Date which remains unpaid at the Completion Date (subject in the case of Remuneration to prior approval having been obtained under section 449E of the Corporations Act)
ASIC	the Australian Securities and Investment Commission.
ASX	ASX Limited ABN 98 008 624 691 and, where the context requires, the financial market that it operates.



Term	Meaning
Bloodwood Creek Site	Bloodwood Creek, Bellbee Road, Kogan Qld 4406.
Business Day	any day other than a Saturday, Sunday or public holiday in Brisbane, Sydney or Beijing.
Capital Contribution	\$3,850,000 inclusive of the Costs Contribution Amount.
Claim	<p>a debt payable by, and all claims against, a Deed Company (present or future, certain or contingent, ascertained or sounding only in damages or by way of fine or penalty), being a debt or claim any of the circumstances giving rise to which occurred on or before the Appointment Date that would be admissible to proof against any Deed Company in accordance with Division 6 of Part 5.6 of the Corporations Act, if that Deed Company had been wound up and the winding up was taken to commence on the Appointment Date:</p> <ol style="list-style-type: none">1 including a Claim of a Secured Creditor; and2 including any Claim in relation to Share Rights;3 including a Subordinate Claim; but4 excluding any Excluded Claim.
Commencement Date	the date that this Deed is executed by all parties to this Deed.
Commitment Deed	<p>the Commitment Deed between the Deed Proponent and the Pacific Road Entities dated on or about 15 February 2017, pursuant to which, in consideration of the payment of the Pacific Road Repayment Amount, each Pacific Road Entity and PRCM (as applicable):</p> <ol style="list-style-type: none">1 consents to and approves the Deed Administrators transferring all of the Pacific Road Shares to the Deed Proponent (or its nominee) on Completion for all purposes, including for the purposes of CNX's constitution and section 444GA of the Corporations Act;2 agrees to do all things reasonably requested by the Deed Administrators or the Deed Proponent to give effect to the transfer of the Pacific Road Shares and the release of the Pacific Road Security contemplated by this Deed; and3 directs CNX to deduct the Costs Contribution Amount from the Pacific Road Repayment Amount, for the account of the Deed Proponent.
Completion	completion of the Completion Steps.



Term	Meaning
Completion Steps	has the meaning given in clause 11.2.
Completion Date	the date on which Completion is required to take place under clause 11.1.
Conditions Precedent	each of the conditions in clause 4.1.
Continuing Employee	each employee of a Deed Company as at the Completion Date and, for the avoidance of doubt, excludes any Terminated Employee.
Convertible Note Deed Poll	a deed poll executed by CNX and the Guarantors in favour of the holders of the Convertible Notes from time to time.
Convertible Note Facility	a secured facility for the: <ol style="list-style-type: none">1 subscription for \$10.3 million of secured convertible notes to be issued under the Convertible Note Deed Poll and guaranteed by the Guarantors; and2 provision of further secured cash advances on an uncommitted basis, as contemplated by the Implementation Deed.
Convertible Note Facility Agreement	a facility agreement between the Deed Proponent (or its nominee), CNX and the Guarantors governing the Convertible Note Facility as contemplated by the Implementation Deed.
Convertible Note Subscription Amount	\$10.3 million.
Convertible Notes	Convertible notes with a subscription price of \$10.3 million to be issued pursuant to the Convertible Note Facility.
Corporations Act	the <i>Corporations Act 2001</i> (Cth).
Costs	includes costs, charges, fees, government charges, taxes and expenses, including those incurred in connection with advisers, incurred in connection with the performance of the Administrators and Deed Administrators' duties, obligations and responsibilities



Term	Meaning
	under the Corporations Act and this Deed during the Administration Period and the Deed Period and includes any Administration Debt but does not include any Cost incurred by the Deed Administrators except to the extent that the Deed Administrators are personally liable for those Costs.
Costs Contribution Amount	\$150,000.
Court	the Supreme Court of Queensland.
Creditor	any person who has a debt or claim against a Deed Company which would be admissible to proof in accordance with Division 6 of Part 5.6 of the Corporations Act, if that Deed Company had been wound up and the winding up was taken to commence on the Appointment Date.
Deed	this deed of company arrangement as amended from time to time.
Deed Administrators	jointly and severally, Tim Michael and Will Colwell in their capacity as administrators of the Deed and any successor to that office appointed pursuant to the Corporations Act.
Deed Companies	CNX, CEH and CEO.
Deed Period	means the period commencing on the Commencement Date and ending on the Termination Date.
Directors	in respect of a Deed Company, the directors of that company from time to time.
Encumbrance	any: <ol style="list-style-type: none">1 security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power, or title retention or flawed deposit arrangement and any 'security interest' as defined in sections 12(1) or (2) of the PPSA; or2 right, interest or arrangement which has the effect of giving another person a preference, priority or advantage over creditors including any right of set-off; or



Term	Meaning
	<ol style="list-style-type: none">3 right that a person (other than the owner) has to remove something from land (known as a profit à prendre), easement, public right of way, restrictive or positive covenant, lease, or licence to use or occupy; or4 any other third party right or interest or any right arising as a consequence of the enforcement of a judgment, or any agreement to create any of them or allow them to exist.
End Date	has the meaning given in clause 4.3.
Enforcement Process	has the same meaning as in the Corporations Act.
Escrow Deed	an escrow deed between CNX and the Deed Proponent or its nominee (as the case may be) in substantially the form set out in Schedule 5.
Excluded Claim	any: <ol style="list-style-type: none">1 Claim of a Continuing Employee in respect of an amount referred to in section 556(1)(e), (g) or (h) of the Corporations Act other than a Claim in respect of Share Rights;2 Insured Claim;3 Mining Tenement Claim;4 Intra-Group Claim; or5 Claim arising under an Excluded Contract.
Excluded Contract	means any contract set out in Schedule 1 provided that: <ol style="list-style-type: none">1 the Creditor has not exercised:<ol style="list-style-type: none">a) any right to terminate the relevant contract; orb) any other default right arising as a consequence of the appointment of the Administrators to a Deed Company or any other insolvency event in respect of the Deed Company; and2 if the Creditor has a right to terminate the relevant contract, the Creditor has waived or waives any such right or event of default or breach by the relevant Deed Company which occurred on or prior to the Commencement Date or which may occur during the Deed Period insofar as the Creditor would be entitled to terminate the contract.



Term	Meaning
Excluded Creditor	a Creditor who has an Excluded Claim but only to the extent of that Excluded Claim.
Excluded Superannuation Debt	a Superannuation Debt (as defined in clause 11.11(b) of this Deed) in respect of which the Deed Administrators make a determination under clause 11.11(b) of this Deed.
Fund Amount	\$300,000.
GOC	a GOC or a GOC Act entity as defined in the <i>Government Owned Corporations Act 1993</i> (Qld).
Government Authority	a government or a government instrumentality, agency, authority or department or a division, branch or other part of a government instrumentality, agency, authority or department but for the avoidance of doubt does not include a GOC.
Guarantors	CEH, CEO and each other Subsidiary of CNX specified by the Deed Proponent.
Immediately Available Funds	<ol style="list-style-type: none">1 cash;2 bank cheque payable to the payee (or as the payee directs); or3 electronic transfers of cleared funds into the bank account nominated or directed by the payee.
Implementation Deed	the Implementation Deed between the Administrators, each Deed Company and the Deed Proponent dated on or about 16 February 2017.
Indemnity Deed	the Deed of Indemnity between the Administrators and the Deed Proponent dated on or about the date of this Deed in respect of the Administrators' Remuneration.
Insured Claim	a Claim which a Creditor has against a Deed Company which would have been entitled to priority in a liquidation of that Deed Company under section 562 of the Corporations Act, being a Claim where: <ol style="list-style-type: none">1 the Deed Company is insured against the Claim under a contract of insurance entered into before the Appointment Date;



Term	Meaning
	<p>and</p> <p>2 an amount in respect of that Claim would be payable by the insurer to the Deed Company under the contract of insurance, but only to the extent of such part of the Claim as would be discharged by the payment from the insurer, and provided the Creditor provides the Deed Company with an indemnity in the form of Schedule 4 in respect of all costs and expenses incurred by the Deed Company in connection with such Claim.</p>
Intellectual Property Rights	patents, trade marks, service marks, designs, copyright, business names, trade secrets, know how and other intellectual property rights and interests (in each case whether registered under any statute or not), and any right or licence in relation to any of the foregoing.
Interim Facility	the \$1.1 million loan facility to be provided to CNX as borrower by the Deed Proponent or its nominee as lender as contemplated by the Implementation Deed under which funding is provided for the purpose of meeting the operational costs of the Deed Companies during the Deed Period.
Interim Funding Amount	the sum of the Administrators Indemnity Amount and the outstanding balance of the Interim Facility.
Intra-Group Claim	any Claim against a Deed Company held by another Deed Company or any Related Body Corporate of a Deed Company.
Key Contractors	each person listed in paragraph (b) of Schedule 2.
Key Employees	each person listed in paragraph (a) of Schedule 2.
Keyseam Technology	the Keyseam technology as referred to in the information memorandum issued by the Administrators dated 7 December 2016, including the right to continue to use the COSFLOW software and other licensed technology pursuant to the Technology Assignment and Licence Agreement dated 10 July 2006 between CEO (formerly Coal Gas Corporation Pty Limited) and Commonwealth Scientific and Industrial Research Organisation
Legal Personal Representative	a trustee or executor appointed to the Deed Administrators upon death, incapacity, insanity or any combination of them.



Term	Meaning
Member	has the meaning as defined in section 9 of the Corporations Act.
Mining Tenement Claim	any Claim of a Government Authority against a Deed Company arising under or in respect of any: <ol style="list-style-type: none">1 mining lease;2 exploration permit;3 environmental authority;4 mineral development license;5 other permit, licence or authority from a Government Authority in connection with mining activities; or6 application for any of the above, as renewed or varied from time to time.
New Shares	3,837,252,126 fully paid ordinary shares in CNX quoted on the ASX or such other number of fully paid ordinary shares in CNX such that, when aggregated with the Pacific Road Shares to be transferred to the Deed Proponent (and/or its nominee), the Deed Proponent (and/or its nominee) will hold 80% of the issued shares in CNX.
Officer	has the meaning as defined in section 9 of the Corporations Act.
Owner	any person who is the legal or beneficial owner (including a lessor) of property in the possession of a Deed Company as at the Appointment Date.
Pacific Road Debt	the existing secured debt owed by the Deed Companies under the A\$10,000,000 convertible facility agreement dated 22 December 2011 originally between CNX, Pacific Road Holdings NV and PRCM Nominees Pty Limited in its own capacity and in its capacity as trustee of the Pacific Road CE Trust.
Pacific Road Entities	<ol style="list-style-type: none">1 PRCM Nominees Pty Limited (in its capacity as trustee of the Pacific Road CE Trust);2 Pacific Road Holdings S.a.r.l.;3 Pacific Road Capital Management GP Limited (as general partner of Pacific Road Resources Fund LP); and4 PRCM Nominees Pty Limited (in its capacity as trustee of the Carbon Energy Security Trust).



Term	Meaning
Pacific Road PPSR Registrations	The security registrations made by the Pacific Road Entities under the PPSA in connection with the Pacific Road Security, with registration numbers 201603020014898, 201603020015116 and 201201190052357.
Pacific Road Repayment Amount	\$9,000,000.
Pacific Road Security	<ol style="list-style-type: none">1 the Deed of Mortgage of Securities in respect of the shares in CEO dated 23 February 2016 between CEH, CNX and PRCM Nominees Pty Limited; and2 the Deed of Mortgage in respect of certain intellectual property rights of CEO dated 22 December 2011 between CEO and PRCM Nominees Pty Limited.
Pacific Road Shares	<p>all of the shares in CNX held by the Pacific Road Entities, PRCM and their associated entities as at Completion, being in aggregate as at the date of this Deed 168,531,831 ordinary shares in CNX, in respect of which:</p> <ul style="list-style-type: none">• PRCM Nominees Pty Limited (in its capacity as trustee of the Pacific Road CE Trust), is the registered and legal owner of 32,642,892 of those shares;• PRCM, is the registered and legal owner of 4,166,666 of those shares; and• Pacific Road Holdings Sarl, is the registered and legal owner of 131,722,273 of those shares
PPSA	the <i>Personal Property Securities Act 2009</i> (Cth).
PRCM	Pacific Road Capital Management Pty Limited.
Regulations	the <i>Corporations Regulations 2001</i> (Cth).
Related Body Corporate	has the meaning that 'related body corporate' has in the Corporations Act.
Remuneration	<p>the remuneration payable to the Administrators and Deed Administrators for acting as:</p> <ol style="list-style-type: none">1 the Administrators of the Deed Companies under Part 5.3A of the Corporations Act; and



Term	Meaning
	2 the Deed Administrators of the Deed Companies under this Deed.
Section 439C Resolution	the resolution referred to in recital 2.
Secured Creditor	<ol style="list-style-type: none">1 each Pacific Road Entity which has a legal or beneficial interest in the Pacific Road Debt or Pacific Road Security; and2 any Creditor with the benefit of a Security Interest at the Commencement Date over all or any property of a Deed Company securing all or any part of the Creditor's Claim.
Security Documents	the security documents (including any security trust deed, tripartite agreements or other related documents) required by the Convertible Note Facility Agreement.
Security Interest	any mortgage, chattel mortgage, pledge, charge, agreement, encumbrance, lien, right of set-off (arising otherwise than by operation of law or as a result of a banker's right to combine accounts) and assignment which provides for and secures the payment of any debt or monetary liability or the performance of any obligation and any 'security interest' as defined in sections 12(1) or (2) of the PPSA, each in respect of a Deed Company.
Share Rights	any option or performance right which confers on the holder thereof the rights to be issued shares in CNX whether or not in consideration of the payment of any subscription price for those shares.
Shareholder Approvals	has the meaning given to it in clause 4.1(c).
Subordinate Claim	a Claim that meets the criteria of a "subordinate claim" as that term is defined by section 563A(2) of the Corporations Act.
Subordinate Creditor	a Creditor that has a Subordinate Claim.
Subsidiary	has the meaning that 'subsidiary' has in the Corporations Act.
Terminated Employee	any employee of a Deed Company who has resigned from his or her employment or whose employment with that Deed Company



Term	Meaning
	has been terminated either prior to the Commencement Date or prior to Completion and any person who made an advance of money to a Deed Company to which s 560 of the Corporations Act would apply if that company were taken to be in liquidation on the Appointment Date.
Termination Date	the date upon which the Deed is terminated pursuant to clause 17 of this Deed.
Trust	the Creditors' Trust to be established under the Trust Deed.
Trust Creditor	each Creditor who has a Claim other than a Claim in respect of an Excluded Superannuation Debt, but excluding any Creditor that is prohibited from making a claim against the Trust Fund under clause 7.7(b).
Trust Deed	the trust deed to be entered into between the Deed Companies, and the Trustees substantially in the form of that contained in Schedule 3, which creates the Trust.
Trust Fund	has the same meaning as under the Trust Deed.
Trustees	Tim Michael and Will Colwell as trustees of the CNX Creditors' Trust established under the Trust Deed.

1.2 Interpretation

In the Deed, unless the subject or context otherwise requires:

- (a) headings and bold type are for convenience only and do not affect the interpretation of this Deed;
- (b) the singular includes the plural and the plural includes the singular;
- (c) words of any gender include all genders;
- (d) other parts of speech and grammatical forms of a word or phrase defined in this Deed have a corresponding meaning;
- (e) a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and any government agency as well as an individual;
- (f) a reference to a clause, party, part, schedule, attachment or exhibit is a reference to a clause or part of, and a party, schedule, attachment or exhibit to, this Deed;



- (g) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them;
- (h) a reference to a document (including this Deed) includes all amendments or supplements to, or replacements or novations of, that document;
- (i) a reference to '\$', 'A\$' or 'dollar' is to Australian currency unless denominated otherwise;
- (j) a reference to any time is, unless otherwise indicated, a reference to that time in Sydney;
- (k) a term defined in or for the purposes of the Corporations Act has the same meaning when used in this Deed;
- (l) a reference to a party to a document includes that party's successors and permitted assignees;
- (m) no provision of this Deed will be construed adversely to a party because that party was responsible for the preparation of this Deed or that provision;
- (n) any agreement, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) binds them jointly and severally;
- (o) any agreement, representation, warranty or indemnity in favour of two or more parties (including where two or more persons are included in the same defined term) is for the benefit of them jointly and severally; and
- (p) a reference to a body, other than a party to this Deed (including an institute, association or authority), whether statutory or not:
 - (1) which ceases to exist; or
 - (2) whose powers or functions are transferred to another body,is a reference to the body which replaces it or which substantially succeeds to its powers or functions.

1.3 Inconsistency with Act or Regulations

If there is any inconsistency between the provisions of this Deed and the Corporations Act or Regulations, this Deed prevails to the extent permitted by law.

1.4 Other inconsistencies

If there is any inconsistency between the provisions of this Deed and the constitution of the Deed Companies and any other obligation binding on the Deed Companies, the provisions of this Deed prevail to the extent of the inconsistency, and all persons bound by this Deed agree to sign all documents and do all things necessary to remove such inconsistency, the costs of which will be borne by the Deed Companies.

1.5 Business Days

Except where otherwise expressly provided, if the day on or by which any act, matter or thing is to be done as required by this Deed is a day other than a Business Day, that act, matter or thing must be done on or by the next Business Day.



1.6 Bar to Claims

This Deed may be pleaded and tendered by:

- (a) the Deed Companies against any person having or asserting a Claim released, discharged and extinguished by clause 7.4; and
- (b) the recipient of any release or covenant contained in this Deed, as an absolute bar and defence to any legal proceeding brought or made at any time in respect of a claim, release or covenant as the case may be.

1.7 Exclusion of Prescribed Provisions

Except as provided in clause 13.1, the prescribed provisions contained in Schedule 8A of the Regulations do not apply to this Deed.

1.8 Required Provisions

To the extent that the Corporations Act requires any provision to be included in this Deed which is not expressly included in this Deed, such provision will be deemed to be included in this Deed.

1.9 Interpretation of inclusive expressions

Specifying anything in this Deed after the words 'include' or 'for example' or similar expressions does not limit what else is included.

2 Operation

2.1 Commencement Date

Subject to clause 3(a), this Deed will commence and take effect on the Commencement Date.

2.2 Interim Effect

To the extent that a person would be bound by this Deed if it had already been executed, the person must not, at any time after the Section 439C Resolution is passed but before this Deed is executed, do anything inconsistent with the terms of this Deed, except with the leave of the Court.

3 Conditions to commencement of Deed

- (a) This Deed, other than clause 2.2, is subject to and conditional upon the execution of this Deed by each person named as a party to it.
- (b) If as a result of clause 3(a), this Deed has not come into full force and effect on or prior to the expiration of 15 Business Days (or such further period as the Court allows) after the Section 439C Resolution is passed, then this Deed will terminate automatically.

4 Conditions Precedent to Completion

4.1 Conditions Precedent

The operation of clause 11 is conditional upon all of the following events taking place:

- (a) each Pacific Road Entity, with respect to its interest in the Pacific Road Debt, voting or procuring that its interest is voted in favour of this Deed at the meetings of Creditors convened by the Administrators under s 439A of the Corporations Act;
- (b) all necessary regulatory approvals, waivers and exemptions required in connection with the transactions contemplated by this Deed (including the ASX agreeing to lift the suspension and restore CNX's ASX listing if the DOCA is completed in accordance with its terms);
- (c) all necessary shareholder approvals (including, to the extent required, under s208(1)(a), s254H and item 7 of s611 of the Corporations Act and under ASX Listing Rules 7.1, 10.1 and 10.11) required in connection with the Convertible Note Facility (including for the conversion of the Convertible Notes into CNX shares), the issue of the New Shares and a share consolidation (if, and on the terms, required by the Deed Proponent) (the **Shareholder Approvals**);
- (d) execution of the Trust Deed;
- (e) the employment or other contracts of the Key Employees and Key Contractors continuing on terms satisfactory to the Deed Proponent (acting reasonably);
- (f) there being no loss, termination or expiry of the Deed Companies' Intellectual Property Rights to exploit and commercialise the Keyseam Technology prior to Completion;
- (g) the Deed Proponent being satisfied that no right of termination in respect of the Keyseam Technology or related Intellectual Property Rights will exist immediately following Completion;
- (h) the Keyseam Technology and the Deed Companies' related Intellectual Property Rights being free from Encumbrances (except for any Encumbrances to be released on Completion);
- (i) there being no material change in circumstances outside the reasonable control of the Deed Proponent or the Deed Companies after 13 February 2017 which results in an increase of 50% or more to the estimated rehabilitation costs for the Bloodwood Creek Site provided for in the 2016 CNX Annual Report; and
- (j) the Commitment Deed has not been terminated in accordance with its terms.

4.2 Obligation to satisfy Conditions Precedent

To the extent that it is within their control, each party must use reasonable endeavours to ensure that the Conditions Precedent are satisfied, provided that nothing in this Deed will prevent the Deed Proponent from exercising any right under the Commitment Deed.

4.3 Consequence of non-satisfaction of the Conditions Precedent

If each of the Conditions Precedent are not satisfied or waived by the Deed Proponent on or before 30 September 2017 (or such later date as may be agreed in writing by the Deed Proponent and the Deed Administrators) (**End Date**), the Deed Proponent will cease to be bound by this Deed and the Deed Administrators will convene a meeting of creditors under clause 16(a) to determine the future of the Deed Companies.



5 Control of the Deed Companies and the Trust Fund

5.1 Control of the Deed Companies

From the Commencement Date:

- (a) control and stewardship of each Deed Company will revert to its Directors;
- (b) the Directors may exercise all of their powers as directors, including their powers of management and the power to conduct the business of each Deed Company, as applicable; and
- (c) the role of the Deed Administrators is to:
 - (1) monitor and enforce compliance with the terms of this Deed;
 - (2) exercise their powers as Deed Administrators to the extent necessary and desirable to give effect to this Deed.

5.2 Obligations of the Directors

During the Deed Period, the Directors must:

- (a) co-operate with and assist the Deed Administrators in discharging their obligations arising in relation to the Administration Period;
- (b) co-operate with and assist the Deed Administrators in the performance by the Deed Administrators of their obligations under this Deed; and
- (c) to the extent that it is within their power to do so, take all steps necessary and desirable to ensure that the Deed Companies perform their obligations pursuant to the Deed.

6 Effect of this Deed on Members

Until this Deed terminates, any Member of the Deed Companies and any Creditor holding any Encumbrance over any shares must not deal with shares or exercise shareholder rights that are contrary to the terms of this Deed.

7 Moratorium and Release

7.1 Binding Effect

The Deed binds:

- (a) in accordance with section 444D of the Corporations Act, all Creditors; and
- (b) in accordance with section 444G of the Corporations Act, the Deed Companies, their Officers and Members and the Deed Administrators.

7.2 No Limitation

Nothing in the Deed limits the rights in law or equity of the Deed Administrators:

- (a) to make an application under section 444F of the Corporations Act; or



- (b) to apply for orders or directions pursuant to the Corporations Act (including, without limitation, section 447A(1) or section 447D of the Corporations Act).

7.3 Moratorium

Upon and following the execution of the Deed no Creditor may, in relation to that Creditor's Claim:

- (a) make or proceed with an application for an order to wind up a Deed Company;
- (b) institute, revive or continue any action, suit, arbitration, mediation or proceeding against a Deed Companies or in relation to the property of a Deed Company;
- (c) institute, revive or continue with any Enforcement Process against the property of a Deed Company;
- (d) take any action whatsoever to seek to recover any part of its Claim;
- (e) exercise any right of set off or defence, cross claim or cross action to which that Creditor would not have been entitled had the Deed Companies been wound up on the Appointment Date;
- (f) commence or take any further step in any arbitration against the Deed Companies or to which the Deed Companies are a party in relation to any matter arising or occurring before the Appointment Date;
- (g) subject to clause 8, in the case of a Secured Creditor, enforce its Security Interest or take possession, sell or otherwise recover property subject to its Security Interest; or
- (h) otherwise enforce any right it may have or acquire.

7.4 Release of Claims

Subject to clause 7.7, each Creditor agrees that upon Completion, its Claims are extinguished and released.

7.5 Execution of all necessary documents

Each Creditor must, if required by the Deed Companies or the Deed Administrators, execute any document that the Deed Companies or a Deed Administrator may require from time to time to give effect to the releases in clause 7.4.

7.6 Bar to Claims

Subject to section 444D of the Corporations Act, this Deed may be pleaded by the Deed Companies or the Deed Administrators against any person having a Claim against the Deed Companies as an absolute bar and defence to any legal proceeding brought at any time in respect of that Claim.

7.7 Conversion of Claims

- (a) Subject to clause 7.7(b), the Deed Administrators and the Creditors agree that, upon all Claims being released pursuant to clause 7.4, each Creditor who had a Claim, will be entitled to make a claim against the Trust Fund, in accordance with the Trust Deed, which is equal in amount to their released Claim.
- (b) The following Creditors will not be entitled to make a claim against the Trust Fund:



- (1) Excluded Creditors;
- (2) the Pacific Road Entities and PRCM; and
- (3) the Deed Proponent and its Related Bodies Corporate.

7.8 Priority of Claims

The proceeds of the Trust Fund will be applied in the order of priority set out in the Trust Deed.

8 Secured Creditors

- (a) Nothing in this Deed will restrict the right of a Secured Creditor to realise or otherwise deal with its Security Interest to the extent permitted by section 444D(2) of the Corporations Act.
- (b) Subject to clause 8(c), if a Secured Creditor votes in favour of the Section 439C Resolution:
 - (1) it will be subject to the restrictions in clause 7.3 and must not do anything, or permit, procure or facilitate any security trustee for that Secured Creditor to do anything, inconsistent with the restrictions in clause 7.3; and
 - (2) its Claim against the Deed Companies will be extinguished and released pursuant to clause 7.4 and (except in the case of Creditors referred to in clause 7.7(b)) converted, pursuant to clause 7.7, into an entitlement to claim against the Trust Fund.
- (c) The restrictions in clause 7.3 will cease to apply to a Secured Creditor who votes in favour of the Section 439C Resolution on the earliest to occur of the following:
 - (1) the conditions in clause 4.1 are not satisfied or waived on or before the End Date; and
 - (2) the termination of this Deed for any reason prior to Completion.

9 Insured Claims

9.1 Rights of Creditors who have Claims covered by insurance

If insurance is held by or on behalf of a Deed Company in respect of an Insured Claim:

- (a) the Creditor may, in relation to its Insured Claim and notwithstanding that Completion has occurred, take action to recover the amount due in respect of the Claim against the Deed Company, but such action must not exceed what is necessary to obtain payment from the insurer;
- (b) to the extent that the Creditor is able, by settlement, arbitral award or judgment, to obtain payment from the insurer on account of the Claim, the Creditor may do so;



- (c) no Deed Company is required to provide assistance to a Creditor in relation to a Claim under this clause or take any action in response to enforcement action taken by a Creditor in accordance with this clause; and
- (d) where a Creditor intends to take enforcement action in relation to a Claim under this clause:
 - (1) the Creditor must, prior to taking any enforcement action in relation to the Claim, provide the Deed Company with an indemnity in the form of Schedule 4 (**Creditor Indemnity**) prior to, or during, any enforcement action in relation to the Claim;
 - (2) if requested by a Deed Company, provide that Deed Company with evidence, to the reasonable satisfaction of the Deed Company, that the Creditor will be (and will continue to be) in a financial position, or have access to sufficient funds, to enable it to satisfy the Creditor Indemnity; and
 - (3) a Deed Company may plead this Deed as a bar to any enforcement action taken by a Creditor in relation to the Claim in circumstances where the Creditor has not, prior to commencing that enforcement action, given the Creditor Indemnity referred to in clause 9.1(d)(1) to the Deed Company.

9.2 Release of Insured Claims where payment not obtained from insurer

To the extent that the Creditor is unable to seek or obtain payment on account of its Insured Claim from the insurer (including, without limitation, by reason of any excess or deductible applicable to the insurance policy, or failure by a Deed Company to take action) this Deed operates as a complete release and bar to that part of the Creditor's claim which has not been met by the insurer.

10 Owners of Property in the possession of a Deed Company

- (a) Nothing in this Deed will restrict a right that an Owner who does not vote in favour of the Section 439C Resolution has in relation to the property of that Owner under section 444D(3) of the Corporations Act.
- (b) An Owner of property in the possession of a Deed Company who is an Excluded Creditor in relation to the lease or other agreement affecting the relevant property and who votes in favour of the Section 439C Resolution waives any event of default or breach by the relevant Deed Company of any agreement to which that Deed Company and the Owner is a party which occurred on or prior to the Commencement Date or which may occur during the DOCA Period, insofar as the Owner would be entitled to terminate the agreement or take possession of or otherwise recover the property the subject of the agreement.



11 Completion

11.1 Completion Date

Completion will occur on the Business Day after the satisfaction or waiver of all Conditions Precedent or such other date as may be agreed in writing by the Deed Administrators and the Deed Proponent.

11.2 Completion Steps

On the Completion Date, each party must take the steps specified in clauses 11.3 to 11.7 (**Completion Steps**).

11.3 Payments by Deed Proponent

- (a) In consideration of the issue of the New Shares and the transfer of the Pacific Road Shares to the Deed Proponent, the Deed Proponent must pay or procure the payment of the Capital Contribution to be applied as follows:
- (1) to the Deed Administrators, their Approved Remuneration and Costs; and
 - (2) to the Trustees, the Fund Amount; and
 - (3) to CNX, the balance of the Capital Contribution.
- (b) The Deed Administrators must hold the Fund Amount in their capacity as Trustees for the Trust Creditors on the terms of the Trust Deed.

11.4 Issuance, transfer of shares

- (a) CNX must issue the New Shares to the Deed Proponent (or its nominee) and must update its register of members to reflect this.
- (b) The Deed Administrators must transfer the Pacific Road Shares, free from Encumbrances, to the Deed Proponent (or its nominee) pursuant to section 444GA of the Corporations Act in accordance with the consent of the holders of the Pacific Road Shares provided in the Commitment Deed and CNX must update its register of members to reflect this.
- (c) The Deed Proponent (or its nominee) as applicable must deliver an executed counterpart of the Escrow Deed to CNX.

11.5 Issue of Convertible Notes and granting of New Security

- (a) CNX and each Guarantor must execute and deliver its counterparts of the Convertible Note Facility Agreement, the Convertible Note Deed Poll and the Security Documents to the Deed Proponent and satisfy any drawdown conditions under the Convertible Note Facility Agreement that have not been satisfied prior to Completion.
- (b) The Deed Proponent (or its nominee) must execute and deliver its counterparts of the Convertible Note Facility Agreement and the Security Documents to CNX.
- (c) The Deed Proponent (or its nominee) must pay the Convertible Note Subscription Amount to CNX.



- (d) CNX must apply the Convertible Note Subscription Amount to the subscription by the Deed Proponent (or its nominee) for the Convertible Notes and CNX must issue the Convertible Notes and shall use the Convertible Note Subscription Amount as follows:
- (1) subject to the deduction of the Costs Contribution Amount, by paying the Pacific Road Repayment Amount to the relevant Pacific Road Entities in Immediately Available Funds, in consideration of the release and discharge of the Pacific Road Debt, the Pacific Road Security and the Pacific Road PPSR Registrations;
 - (2) by paying the Interim Funding Amount to the Deed Proponent (or its nominee) in repayment of the funds advanced by the Deed Proponent (or its nominee) to CNX under the Interim Facility and reimbursement of the Administrators Indemnity Amount;
 - (3) by retaining any balance remaining of the Convertible Note Facility Amount for its general corporate purposes.

11.6 Direction by Deed Proponent

The Deed Proponent directs CNX to retain the Costs Contribution Amount payable to it by the Pacific Road Entities in partial satisfaction of the Capital Contribution.

11.7 Release of Security Interests

- (a) Immediately following the occurrence of each of the Completion Steps in clauses 11.3 to 11.6,
- (1) the Pacific Road Security; and
 - (2) each other Security Interest held by a Secured Creditor who votes in favour of the Section 439C Resolution,
- will be immediately and automatically released without any further action of any person (except, in the case of a Security Interest referred to in clause 11.7(a)(2), to the extent that the Security Interest secures an Excluded Claim of that Secured Creditor).
- (b) The Deed Administrators must deliver to the Deed Proponent executed deed polls of release of each Pacific Road Security.

11.8 Completion Steps are interdependent

- (a) The Completion Steps are interdependent and must (unless the Deed Administrators and the Deed Proponent agree otherwise) take place, as nearly as possible, simultaneously.
- (b) If any of the Completion Steps is not completed, each party must take such actions and steps as are necessary to put each of the parties in the same position as if none of the Completion Steps had occurred and the release in clause 11.7 not effected.

11.9 Trust Creditors' Available Assets

The only property that is available to pay the Trust Creditors' Claims is the assets of the Trust Fund comprising:

- (a) the Fund Amount; and



- (b) such interest as may be earned in relation to the Trust Fund.

11.10 Removal of PPSA Registrations

Each holder of a Security Interest which is released by clause 11.7 must, as soon as reasonably practicable and in any event within 10 Business Days after Completion, remove or procure the removal of all PPSA registrations in favour of that party or any security trustee on behalf of that Secured Creditor for the relevant Security Interest including, in respect of the Pacific Road Debt, the Pacific Road Security and the Pacific Road PPSR Registrations.

11.11 Consistency with the Corporations Act

- (a) For the purposes of section 444DA of the Corporations Act, any Claims of any Terminated Employee will retain a priority:
- (1) until Completion, in respect of the assets of the Deed Companies under the Deed Administrators' control; and
 - (2) after Completion, in respect of the assets of the Trust Fund at least equal to that they would have been entitled to if the property of the Deed Companies had been applied in accordance with sections 556, 560 and 561 of the Corporations Act.
- (b) For the purposes of section 444DB of the Corporations Act, the Deed Administrators (in their capacity as Trustees) must determine that a debt (or part thereof) by way of superannuation contribution (**Superannuation Debt**) is not admissible to proof as a Claim or a claim against the Trust Fund if:
- (1) that debt (or that part of the debt) by way of superannuation guarantee charge:
 - (A) has been paid; or
 - (B) is, or is to be admissible against the Deed Companies; and
 - (2) the Deed Administrators are satisfied that the superannuation guarantee charge is attributable to the Superannuation Debt.
- (c) If the Deed Administrators make a determination in accordance with clause 11.11(b), the Superannuation Debt is to be treated as extinguished as against the Deed Companies.

12 Deed Administrators' Appointment

12.1 Appointment

The Deed Administrators are appointed joint and several administrators of the Deed.

12.2 Acceptance of Appointment

The Deed Administrators:

- (a) accept the appointment as administrators of the Deed; and
- (b) agree to act as administrators of the Deed during the Deed Period or until the Deed Administrators retire or are removed from office in accordance with the Deed or the Corporations Act.



12.3 Deed Administrators are agents

In exercising the powers conferred by the Deed and carrying out the duties arising under the Deed, the Deed Administrators will act as agent for and on behalf of the Deed Companies.

12.4 Joint and several

The rights, powers and privileges of the Deed Administrators may be exercised by them jointly and severally.

12.5 Deed Administrators' resignation

Any Deed Administrator may resign at any time by giving not less than 28 days' prior written notice to the Deed Companies unless that resignation would result in there being no remaining Deed Administrator in which event the Deed Administrator must:

- (a) convene meetings of Creditors of each of the Deed Companies in accordance with clause 16(a) for the purpose of nominating a replacement deed administrator;
- (b) assign to a replacement deed administrator nominated by the Creditors the Deed Administrators' rights, title and benefit under this Deed; and
- (c) do all things reasonably necessary to effect the assignment referred to in clause 12.5(b).

13 Powers of the Deed Administrators

13.1 General Powers

Subject to clause 5.1, the Deed Administrators are entitled to exercise all the powers set out in paragraph 2 of Schedule 8A of the Corporations Act, during the Deed Period.

13.2 Solicitors and Consultants

The Deed Administrators may engage solicitors and consultants, and the Deed Companies will pay all costs of any solicitors and consultants engaged by the Deed Administrators.

13.3 No Personal Liability

During the Deed Period, the Deed Administrators are acting as the agent of the Deed Companies and are not personally liable for any acts, matters or omissions relating to things done or not done in that capacity, including (without limitation) any liability relating to any amounts payable by the Deed Administrators for services rendered, goods bought or property hired, leased, used or occupied by or on behalf of the Deed Companies.

14 Reporting

Except as required by law, the Deed Administrators are not required to report to Creditors. However, the Deed Administrators may, in their absolute discretion, report to Creditors during the Deed Period at such times as the Deed Administrators consider appropriate and on matters which the Deed Administrators consider ought to be brought to the attention of the Creditors.

15 Deed Administrators' remuneration and indemnity

15.1 Remuneration

- (a) The Deed Administrators are entitled to their Remuneration and their Costs on the basis of the time spent by the Deed Administrators, their partners and staff in the performance of services in connection with or in relation to the administration of the Deed Companies under Part 5.3A of the Corporations Act and this Deed and such time will be charged at the Deed Administrators' standard rates, from time to time, for work of that nature.
- (b) The Deed Administrators acknowledge that their Remuneration and Costs will be paid by the Deed Companies and will not be payable from the Trust Fund.

15.2 Indemnity

The Deed Administrators and Administrators (whether or not they are still acting in either capacity) are entitled to be indemnified by the Deed Companies from the assets of the Deed Companies, for:

- (a) all debts, liabilities, actions, suits, proceedings, accounts, claims, damages, awards and judgments whatsoever arising out of or in any way connected to the administration of the Deed Companies or their role as Administrators and incurred or sustained in good faith and without negligence;
- (b) any amount which the Administrators are entitled to be indemnified out of the assets of the Deed Companies for, in accordance with the Corporations Act, at law or in equity, including any amounts payable pursuant to section 443A, section 443B or section 443BA of the Corporations Act;
- (c) any debts, liabilities, damages, losses and remuneration to which the statutory indemnity under section 443D of the Corporations Act applies;
- (d) any amount for which the Deed Administrators are entitled to exercise a lien at law or in equity on the property of the Deed Companies;
- (e) the Deed Administrators' Remuneration and Costs; and
- (f) all debts, liabilities, actions, suits, proceedings, accounts, claims, damages, awards and judgments arising out of or in the course of the Deed and incurred or sustained in good faith and without negligence.

15.3 Continuing Indemnity

The indemnity in the Deed is a continuing indemnity and will endure for the benefit of the Legal Personal Representatives despite the removal of the Deed Administrators and the appointment of new Deed Administrators or the termination of the Deed for any reason whatsoever.



15.4 Indemnity not to be affected or prejudiced

The indemnity under clauses 15.2 and 15.3 will not:

- (a) be affected, limited or prejudiced in any way by any irregularity, defect or invalidity in the appointment of the Deed Administrators and extends to cover any actions, suits, proceedings, accounts, liabilities, claims and demands arising in any way out of any defect in the appointment of the Deed Administrators or defect in the approval or execution of the Deed or otherwise; or
- (b) affect or prejudice any rights that the Deed Administrators may have against the Deed Companies or any other person to be indemnified against the Costs, and liabilities incurred by the Deed Administrators in the performance of, or incidental to, any of the powers or authorities conferred on the Deed Administrators by the Deed or otherwise.

16 Application of the Corporations Act and Regulations to Creditors' Meetings

- (a) The Deed Administrators may convene a meeting or meetings of Creditors at any time in accordance with section 445F of the Corporations Act, and must convene such a meeting or meetings when required to do so under section 445F(1)(b) of the Corporations Act.
- (b) Regulations 5.6.11A to 5.6.36A of the Regulations apply with such modifications as are necessary, to meetings of Creditors held under this Deed as if the references to 'the liquidator', 'the liquidator or provisional liquidator', 'the liquidator, provisional liquidator or chairman' or 'the liquidator, provisional liquidator or trustee for debenture holders', as the case may be, were references to the Deed Administrators.

17 Termination of the Deed

17.1 Termination on effectuation of Deed

The Deed will terminate immediately after Completion.

17.2 Termination on failure of Deed

This Deed automatically terminates in respect of the Deed Companies upon the happening of any one of the following events:

- (a) the court makes an order terminating this Deed under section 445D of the Corporations Act;
- (b) this Deed is varied by a resolution of creditors under section 445A and the terms of the proposed resolution have not been approved in writing by the Deed Proponent; or
- (c) the Creditors of the Deed Companies pass a resolution terminating this Deed in accordance with sections 445C(b) and 445CA of the Corporations Act.



17.3 Notice of Effectuation of Deed

Upon termination in accordance with the provisions of clause 17.1, the Deed Administrators or one of them must immediately certify, in writing that the terms of this Deed have been fulfilled and, within 1 Business Day, must lodge with ASIC a notice substantially in the following form in respect of each of the Deed Companies:

'We, [***name of administrators***] of [***address***] as administrators of the deed of company arrangement executed on [***date***], CERTIFY that the deed has been wholly effectuated in respect to [***insert relevant Deed Company***].'

and the execution of each of the notices (in respect of each Deed Company) terminates, in respect of that Deed Company, this Deed and all Claims of Creditors of the Deed Companies will be extinguished, discharged and released if not extinguished or released earlier under the Deed.

17.4 Effect of Termination

In accordance with section 445H of the Corporations Act, the termination or avoidance, in whole or in part, of this Deed does not affect the previous operation of this Deed.

17.5 Consequences of Termination of the Deed for non-performance

Upon termination of the Deed under clause 17.2:

- (a) the Deed Companies will be taken to have passed special resolutions under section 491 of the Corporations Act that each of the Deed Companies (respectively) be voluntarily wound up and that the Deed Administrators be the Deed Companies' liquidators;
- (b) Regulation 5.3A.07 of the Regulations will apply; and
- (c) the Deed Companies will be wound up.

17.6 Survival of clauses

Despite any other provision of this Deed, clauses 1, 4.3, 7, 8, 9, 11.10, 15, 17, 18 and 19 survive the termination of this Deed under clause 17.1 or 17.2.

18 General

18.1 Variation

Subject to the provisions of the Corporations Act, a variation of any term of this Deed must be in writing and signed by all parties to this Deed.

18.2 Assignment

Rights arising out of or under this Deed are not assignable by a party without the prior written consent of the other parties.



18.3 Further Assurances

Each party and each person bound by this deed must, at its own expense, do all things and execute all documents necessary to give full effect to this Deed and the transactions contemplated by it.

18.4 Governing Law

This deed is governed by the law in force in the State of Queensland.

18.5 Waiver

No party to this Deed may rely on the words or conduct of any other party as a waiver of any right unless the waiver is in writing and signed by the party granting the waiver.

The meanings of the terms used in this clause 18.5 are set out below.

Term	Meaning
conduct	includes delay in the exercise of a right.
right	any right arising under or in connection with this Deed and includes the right to rely on this clause.
waiver	includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

18.6 Counterparts

- (a) This Deed may be executed in any number of counterparts.
- (b) All counterparts, taken together, constitute one instrument.
- (c) A party may execute this Deed by signing any counterpart.
- (d) Counterparts may be exchanged by email or other electronic means.

19 Notices

19.1 Form of notice

A notice or document required to be given to or served upon any party pursuant to or in connection with the Deed must be:

- (a) in writing and in English and signed by or on behalf of the sending party by a director, secretary or other duly authorised person thereof; and
- (b) addressed to that party in accordance with the details nominated on page 1 of this document (or any alternative details nominated to the sending party by notice).



19.2 How notice must be given and when notice is received

- (a) Any notice or document must be given by one of the methods set out in the table below.
- (b) A notice or document is regarded as given and received at the time set out in the table below.

However, if this means the notice or document would be regarded as given and received outside the period between 9.00am and 5.00pm (addressee's time) on a Business Day (**business hours period**), then the notice or document will instead be regarded as given and received at the start of the following business hours period.

Method of giving Notice	When Notice is regarded as given and received
By hand to the nominated address	When delivered to the nominated address
By pre-paid post	When it would have been delivered in the ordinary course of post
By email to the nominated email address (set out in the details for each party to this Deed)	When the email (including any attachment) has been sent to the addressee's email address (unless the sender receives a delivery failure notification indicating that the email has not been addressed to the addressee)

19.3 Notice must not be given by electronic communication

A notice or document must not be given by electronic means of communication (other than email in accordance with clause 19.2).



Schedules

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Schedule 1

Excluded Contracts

- (a) Sino-Foreign Contractual Joint Venture Contract dated 25 September 2015 between Beijing Jinhong Investment Co., Ltd. and CEO
- (b) Technical Services Agreement between Beijing Jinhong New Energy Co., Ltd and CEO in respect of the Keyseam technology
- (c) License Agreement (undated) between CEO as licensor and Beijing Jinhong New Energy Co., Ltd as licensee in respect of the Keyseam technology
- (d) Any other agreement, arrangement or understanding between, on the one hand, Beijing Jinhong New Energy Co., Ltd or any of its Related Bodies Corporate and, on the other hand, a Deed Company, relating to the joint venture which is the subject of the contract referred to in paragraph (a)
- (e) Technology Assignment and Licence Agreement dated 10 July 2006 between CEO (formerly Coal Gas Corporation Pty Limited) and Commonwealth Scientific and Industrial Research Organisation
- (f) Head lease of premises constituting part of the 9th floor of the building located at 301 Coronation Drive, Milton (**Head Office Premises**) between HA Bachrach (Nom) Pty Limited as lessor and CEO as lessee
- (g) Sublease in respect of Head Office Premises between CEO as sub-lessor and Admedus Ltd as sub-lessee
- (h) Agreement for the Provision of Consulting Services between Promech Pty Ltd & CEO dated 2 July 2015
- (i) Agreement for the Provision of Services between Anne Ernst and CEO dated 21 January 2015
- (j) Agreement for the Provision of Services between Xtrac Tech Pty Ltd and CEO dated 4 July 2016



Schedule 2

Key Employees and Key Contractors

- (a) **Key Employees**
 - Cliff Mallett
 - Jianmin Zhang
- (b) **Key Contractors**
 - Promech Pty Ltd



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Schedule 3

Trust Deed



Schedule 4

Creditor Indemnity

To: (Company)

INDEMNITY IN RELATION TO INSURANCE CLAIM

I/We [insert creditor name] refer to the deed of company arrangement in respect of the Company (DOCA) dated [insert date].

I/We wish to take legal proceedings to enforce a Claim under clause 9 of the DOCA (**Insurance Claim**) against the Company. The Insured Claim is [insert full description].

I/We irrevocably and unconditionally indemnify the Company against any costs, expenses, judgments (including but not limited to any judgment or order obtained by me/us against the Company, or any amounts required to be paid by the Company in connection with any judgment or order), suits or actions incurred directly or indirectly as a consequence of commencing legal proceedings in relation to the Insured Claim (**Costs**) to the extent that the Company is not indemnified for such costs pursuant to a contract of insurance entered into before 22 November 2016 or such Costs are not otherwise paid by the Company's insurer.

I/We confirm our agreement to be bound by the terms of clause 9 of the DOCA in respect of the Insured Claim.

Dated: [insert date]

Executed as a deed poll in favour of [Deed Company].

Signed sealed and delivered for and on behalf of

[Creditor name]

by its duly authorised representative
in the presence of:

Signature of witness

Signature of authorised representative

Name of witness (please print)

Name of authorised representative
(please print)



Schedule 5

Escrow Deed



Signing page

Executed as a deed

Deed Administrator

Signed sealed and delivered by
Tim Michael

sign here ► _____

print name _____

in the presence of

sign here ► _____
Witness

print name _____

Deed Administrator

Signed sealed and delivered by
Will Colwell

sign here ► _____

print name _____

in the presence of

sign here ► _____
Witness

print name _____



CNX

Signed sealed and delivered for
Carbon Energy Limited
by its joint and several administrator



sign here ► _____
Administrator

print name _____

in the presence of

sign here ► _____
Witness

print name _____

CEH

Signed sealed and delivered for
Carbon Energy (Holdings) Pty Ltd
by its joint and several administrator



sign here ► _____
Administrator

print name _____

in the presence of

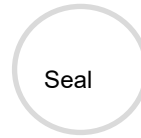
sign here ► _____
Witness

print name _____



CEO

Signed sealed and delivered for
Carbon Energy (Operations) Pty Ltd
by its joint and several administrator



sign here ► _____
Administrator

print name _____

in the presence of

sign here ► _____
Witness

print name _____

Deed Proponent

Signed, sealed and delivered and executed as a deed by
Kam Lung Investment Development Company Limited
by



Sole Director

Witness

Print full name of Sole Director

Print full name of Witness



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FREEHILLS

Deed

DRAFT

Creditors' Trust Deed

Tim Michael and Will Colwell in their capacity as joint and several deed administrators of the Deed Companies

Carbon Energy Limited (subject to deed of company arrangement)

Carbon Energy (Holdings) Pty Ltd (subject to deed of company arrangement)

Carbon Energy (Operations) Pty Ltd (subject to deed of company arrangement)



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Creditors' Trust Deed

Date ►

Between the parties

Trustees	<p>Tim Michael and Will Colwell in their capacity as joint and several administrators of the Deed Companies</p> <p>of Ferrier Hodgson, Level 7, 145 Eagle Street, Brisbane QLD 4000</p> <p>Telephone: +61 7 3831 4833</p> <p>Email: tim.michael@fh.com.au</p> <p>Attention: Tim Michael</p>
CNX	<p>Carbon Energy Limited (subject to deed of company arrangement)</p> <p>ACN 057 552 137 c/- Ferrier Hodgson, Level 7, 145 Eagle Street, Brisbane QLD 4000</p> <p>Telephone: +61 7 3831 4833</p> <p>Email: tim.michael@fh.com.au</p> <p>Attention: Tim Michael</p>
CEH	<p>Carbon Energy (Holdings) Pty Ltd (subject to deed of company arrangement)</p> <p>ACN 120 429 209 c/- Ferrier Hodgson, Level 7, 145 Eagle Street, Brisbane QLD 4000</p> <p>Telephone: +61 7 3831 4833</p> <p>Email: tim.michael@fh.com.au</p> <p>Attention: Tim Michael</p>
CEO	<p>Carbon Energy (Operations) Pty Ltd (subject to deed of company arrangement)</p> <p>ACN 105 176 967 c/- Ferrier Hodgson, Level 7, 145 Eagle Street, Brisbane QLD 4000</p> <p>Telephone: +61 7 3831 4833</p> <p>Email: tim.michael@fh.com.au</p> <p>Attention: Tim Michael</p>



Recitals

- 1 On the Appointment Date, Tim Michael and Will Colwell were appointed as administrators of the Deed Companies pursuant to Part 5.3A of the Corporations Act.
- 2 At meetings held on *[insert]* and convened pursuant to section 439A of the Corporations Act, the Creditors of each of the Deed Companies resolved that the Deed Companies execute the deed of company arrangement proposed by the Deed Proponent under section 444B(2)(b) of the Corporations Act.
- 3 On *[insert]*, the Deed Administrators and the Deed Companies executed the DOCA pursuant to section 444B(2)(b) of the Corporations Act.
- 4 On Completion (as defined under the DOCA), the Deed Proponent will transfer the Fund Amount to the Trustees to settle the Trust in accordance with clause 11 of the DOCA.
- 5 The Deed Companies and the Trustees enter into this Deed as contemplated by the DOCA in order to facilitate a distribution by the Trustees to the Trust Creditors as beneficiaries of the Trust Fund.

This deed witnesses as follows:



1 Definitions and interpretation

1.1 Definitions

The meanings of the terms used in this Deed are set out below. Otherwise, terms used in this Deed that are not set out below have the meaning set out in the DOCA.

Term	Meaning
Admitted Claim	the Claim of any Trust Creditor admitted by the Trustees after adjudication in accordance with clause 5.
Court	the Supreme Court of Queensland or any court having jurisdiction to hear and determine matters under the Corporations Act and the Trusts Act.
Deed	this creditors' trust deed as amended from time to time.
Deed Administrators	jointly and severally, Tim Michael and Will Colwell in their capacity as deed administrators of the Deed Companies and any successor to that office appointed pursuant to the Corporations Act.
Deed Companies	CNX, CEH and CEO.
Deed Proponent	Kam Lung Investment Development Co Ltd.
Dividend	any amount paid to a Trust Creditor in respect of that Trust Creditor's Admitted Claim.
DOCA	the deed of company arrangement between the Deed Administrators, the Deed Companies and the Deed Proponent referred to in recital 3.
Employee Priority Claim	any Claim of a Trust Creditor who has ceased employment with any Deed Company that would have been entitled to be paid in priority to the payment of other unsecured Claims under sections 556(1)(e), (g) or (h) of the Corporations Act if that Deed Company was taken to be in liquidation on the Appointment Date.



Term	Meaning
Final Dividend	the last Dividend payment to be made by the Trustees to any Trust Creditor under this Deed.
GST	has the meaning given in <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth).
Indemnity	the Trustees' indemnity under clause 9.1 of this Deed.
Termination Date	the date on which the Trust terminates in accordance with clause 13.
Trust	the trust created by this Deed.
Trust Fund	the fund contemplated by clause 3.1.
Trusts Act	the <i>Trusts Act 1973</i> (Qld).
Trustees	jointly and severally, Tim Michael and Will Colwell as trustees of the Carbon Energy Creditors' Trust established under this Deed.
Trustees' Costs	the costs, charges and expenses, incurred by the Trustees in connection with the performance of their duties, obligations and responsibilities as trustees of the Trust, including those incurred in connection with advisers.
Trustees' Remuneration	the remuneration of the Trustee referred to in clause 8.1.

1.2 Interpretation

In the Deed, unless the subject or context otherwise requires:

- (a) headings and bold type are for convenience only and do not affect the interpretation of this Deed;
- (b) the singular includes the plural and the plural includes the singular;
- (c) words of any gender include all genders;
- (d) other parts of speech and grammatical forms of a word or phrase defined in this Deed have a corresponding meaning;



- (e) a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and any government agency as well as an individual;
- (f) a reference to a clause, party, part, schedule, attachment or exhibit is a reference to a clause or part of, and a party, schedule, attachment or exhibit to, this Deed;
- (g) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or reenactments of any of them;
- (h) a reference to a document (including this Deed) includes all amendments or supplements to, or replacements or novations of, that document;
- (i) a reference to '\$', 'A\$' or 'dollar' is to Australian currency unless denominated otherwise;
- (j) a reference to any time is, unless otherwise indicated, a reference to that time in Sydney;
- (k) a term defined in or for the purposes of the Corporations Act has the same meaning when used in this Deed;
- (l) a reference to a party to a document includes that party's successors and permitted assignees;
- (m) no provision of this Deed will be construed adversely to a party because that party was responsible for the preparation of this Deed or that provision;
- (n) any agreement, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) binds them jointly and severally;
- (o) any agreement, representation, warranty or indemnity in favour of two or more parties (including where two or more persons are included in the same defined term) is for the benefit of them jointly and severally; and
- (p) a reference to a body, other than a party to this Deed (including an institute, association or authority), whether statutory or not:
 - (1) which ceases to exist; or
 - (2) whose powers or functions are transferred to another body,is a reference to the body which replaces it or which substantially succeeds to its powers or functions.

1.3 Inconsistency with Corporations Act or Regulations

If there is any inconsistency between the provisions of this Deed and the Corporations Act or Regulations, this Deed shall prevail to the extent permitted by law.

1.4 Business Days

Except where otherwise expressly provided, if the day on or by which any act, matter or thing is to be done as required by this Deed is a day other than a Business Day, such act, matter or thing must be done on or by the next Business Day.



2 Declaration of Trust

2.1 Declaration

The Trustees acknowledge and declare that the Trust Fund will be held on trust by the Trustees for the Trust Creditors on the terms of this Deed.

2.2 Name of Trust

The trust constituted by this Deed will be called the Carbon Energy Creditors' Trust.

2.3 Trustees' powers

Without limiting the powers that the Trustees have by operation of the Trusts Act, for the purposes of administering the trust created by this Deed, the Trustees have the following powers:

- (a) to administer the Trust Fund in accordance with the DOCA and this Deed;
- (b) to fulfil the Trustees' obligations in accordance with the terms of this Deed;
- (c) to sell, re-invest or otherwise deal with the assets of the Trust Fund;
- (d) to perfect title in any assets of the Trust Fund;
- (e) to insure any assets of the Trust Fund;
- (f) to, at any time, call meetings of the Trust Creditors for the purpose of considering the variation or termination of this Deed in accordance with the provisions of this Deed;
- (g) to admit Claims to proof in accordance with the provisions of the DOCA and this Deed;
- (h) to determine Admitted Claims and then to pay Dividends in accordance with the terms of this Deed;
- (i) to act as attorney for the Deed Companies or any other person for any purpose associated with the Trust or this Deed;
- (j) to enforce compliance with the terms of this Deed;
- (k) to accept the transfer of any shares, stocks, debentures, debenture stock, annuities, bonds, obligations or other securities of whatever nature that may at any time be transferred to it;
- (l) to enter upon or take possession of the Trust Fund and to collect the revenue or income from or interest on the Trust Fund and exercise any rights or powers relating to any part of the Trust Fund;
- (m) to bring, prosecute and defend any claim, action, suit or proceeding, which power includes the power to bring and defend any claim, counter-claim, set-off, action, suit or proceeding in any of the Deed Companies' names or (after assignment) in the Trustees' name, to enforce any right, claim or cause of action that forms part of the Trust Fund, and to that end:
 - (1) to issue or accept service of any writ, summons or other legal process and to appear or be represented in any court and before all wardens, magistrates or judicial or other officers as the Trustees think fit and to commence or defend and conduct any action or other proceeding in any court of justice in relation to the Trust Fund and



- any claim, proceeding or action forming part of the Trust Fund and to prosecute, discontinue, compromise, stay, terminate or abandon that proceeding or action as the Trustees think fit;
- (2) to appoint any solicitor and counsel to prosecute or defend in those proceedings as occasion may require; and
 - (3) to take any other lawful ways and means for the recovering or getting in any of the Trust Fund;
- (n) to convene and hold meetings of the Trust Creditors for any purpose as the Trustees consider fit;
 - (o) to permit any person authorised by the Trustees to operate any account in the name of the Trust;
 - (p) to do all acts and execute in the name and on behalf of the Trust all deeds, receipts and other documents;
 - (q) to draw, accept, make or endorse any bill of exchange or promissory note in the name and on behalf of the Trust;
 - (r) subject to the Corporations Act, to prove in the winding up of or under any scheme of arrangement entered into by, or deed of company arrangement executed by, any contributory or debtor of the Trust;
 - (s) to bring or defend an application for the vesting or winding up of the Trust;
 - (t) to report to the Trust Creditors from time to time;
 - (u) to make interim or other distributions of the Trust Fund;
 - (v) to appoint agents to do any business or attend to any matter or affairs of the Trust that the Trustees are unable to do, or that it is unreasonable to expect the Trustees to do, in person;
 - (w) to appoint a solicitor, accountant or other professionally qualified person to assist the Trustees;
 - (x) to compromise any claim, action, suit or proceeding brought by or against the Trustees on such terms as the Trustees consider fit, which power includes the power to compromise any claim, action, suit or proceeding referred to in paragraph (m) of this clause;
 - (y) to provision for and set aside a sum or sums equal to an amount which the Trustees reasonably anticipate may be payable in respect of any tax, including income tax, capital gains tax or GST;
 - (z) to do anything incidental to exercising a power set out in this Deed; and
 - (aa) to do anything else that is necessary or convenient for administering the Trust.

3 Trust Fund

3.1 Trust Fund

The Trust Fund shall be comprised of:

- (a) pursuant to clause 11.3(a)(2) of the DOCA, the Fund Amount; and
- (b) such interest as may be earned in relation to the Trust Fund.



3.2 Trust Deed

The Trust Fund is to be held by the Trustees for the benefit of the Trust Creditors on the terms of this Deed.

3.3 Distribution of the Trust Fund

- (a) The Trust Fund will be distributed as follows:
- (1) first, to the Trustees in satisfaction of the Trustees' Remuneration and the Trustees' Costs;
 - (2) next, in satisfaction of any Employee Priority Claim;
 - (3) next, to each Trust Creditor, other than Subordinate Creditors, who has an Admitted Claim, the first \$5,000 of that Trust Creditor's Admitted Claim or such lesser amount as is required to satisfy that Trust Creditor's Admitted Claim in full;
 - (4) next, to any remaining Trust Creditors, other than Subordinate Creditors, whose Admitted Claims have not been satisfied in full by the distributions contemplated in paragraph (3), on a pro-rata basis in accordance with the dollar value of the Admitted Claims of those Trust Creditors;
 - (5) next, to any Subordinate Creditors; and
 - (6) next, any remaining amount of the Trust Fund to CNX.
- (b) For the purposes of section 444DA of the Corporations Act and clause 3.3(a)(2) of this Deed, any Employee Priority Claim will retain a priority in respect of the assets of the Trust Fund at least equal to what they would have been entitled to if the property of the Deed Companies had been applied in accordance with sections 556, 560 and 561 of the Corporations Act.
- (c) The Trustees may distribute the Trust Fund at such times as the Trustees consider, in their absolute discretion, that is appropriate and feasible to do so, including making distributions (whether interim or final) under any provision of clause 3.3(a) in advance of making any payments under any other provision of clause 3.3(a) on the basis that they have retained sufficient funds to ensure that any payments to be made under any provision of clause 3.3(a) having higher priority may be made when the time comes to do so.

3.4 Distributions in respect of Admitted Claims only

No distributions will be made in respect of a Claim of a Trust Creditor unless those Claims are Admitted Claims.

3.5 Postponement

Should proceedings be brought by any person in respect of the distribution of the Trust Fund, and the Trustees have not made a claim on the Indemnity, then the Trustees are entitled at their sole discretion to postpone the payment of any entitlement until determined by the Trustees.



4 Perpetuity period

Notwithstanding any other provision in this Deed, each

- (a) interest in property; and
- (b) Trustees' power over or in connection with property, created or granted by this Deed that, but for this provision, might vest, take effect, or be exercisable after the expiry of eighty (80) years commencing on the date of this Deed, but which has not vested or taken effect by that date,
- (c) will vest or take effect on the last day of that period; and
- (d) is exercisable only on or before the last day of that period.

5 Claims

5.1 Admissibility of Claims

- (a) In accordance with clause 7.7 of the DOCA, each Claim of a Trust Creditor against the Deed Company will convert to and become a claim against the Trust Fund under this Deed, equal in amount to the Trust Creditor's released Claim.
- (b) For the purpose of this clause 5, a reference to "Claim" is a reference to a claim against the Trust Fund under this Deed referred to in sub-clause (a).
- (c) Interest will not accrue or be payable on any Admitted Claim.

5.2 Trustees' discretion

The Trustees may, in their absolute discretion:

- (a) admit all or part of a Claim;
- (b) reject all or part of a Claim; or
- (c) pay any Admitted Claim,

in accordance with the provisions of this Deed.

5.3 Determination of Claims

- (a) Subdivisions A, B, C, D and E of Division 6 of Part 5.6 of the Corporations Act (except sections 554A(3) to 554A(8) and section 556 (other than to the extent expressly incorporated)) apply to Claims under this Deed as if references to the liquidator were references to the Trustees and references to winding up were references to this Deed, and with such other modifications as are necessary to give effect to this Deed, except to the extent that those provisions are varied or excluded expressly or impliedly by this Deed.
- (b) Regulations 5.6.11A, 5.6.37, 5.6.39 to 5.6.43 (inclusive), 5.6.44 to 5.6.53 (inclusive) and 5.6.55 to 5.6.72 (inclusive) of the Regulations shall apply to this Deed and to the Trustees as if references to the liquidator were references to the Trustees and references to winding up were references to this Deed, and with such other modifications as are necessary to give effect to this Deed, except to the extent that those provisions are varied or excluded expressly or impliedly by this Deed.



- (c) The Trustee may make interim distributions of trust property under this Deed (including the Trust Fund).
- (d) The Trustee must declare and distribute trust property under this Deed (including the Trust Fund) as soon as practicable after the Trust comes into effect under clause 2.1. However, subject to clauses 5.3(a) and 5.3(b), the Trustee has an absolute and unfettered discretion as to the admission of Claims, and the amount and timing of the distribution of the trust property in payment of Admitted Claims.
- (e) Where the Trustee proposes to reject a Claim (whether in part or in full) the Trustee shall send a notice to the Trust Creditor informing the Trust Creditor of the proposed rejection and giving the Trust Creditor 21 days within which to make an application to the Court under the *Uniform Civil Procedure Rules 1999* (QLD) to determine the questions relating to the Claim.

5.4 Access to records

The Trustees may at any time inspect the books and records of the Deed Companies and the Deed Companies authorise the Trustees and their staff to enter the Deed Companies' premises for the purpose of conducting such an inspection and for the purpose of doing anything necessary or desirable in the exercise of their powers and discretions and the performance of their duties, obligations and responsibilities as Trustees under this Deed.

5.5 Excluded Superannuation Debts not admissible

An Excluded Superannuation Debt is not admissible to proof against the Trust Fund.

5.6 Creditors' costs and expenses

Any costs and expenses incurred by a Trust Creditor in asserting a Claim under this Deed will be borne by that Trust Creditor and will not form part of that Trust Creditor's Claim under this Deed.

5.7 Abandonment of Claims

A Trust Creditor will have abandoned, and will be taken for all purposes to have abandoned, all Claims and all other entitlements (if any) in the Trust Fund:

- (a) which are not the subject of a proof lodged with the Deed Administrators or the Trustees in the form required by the Trustees prior to the declaration of a Final Dividend; or
- (b) which have been rejected by the Trustees and which are not the subject of any appeal or application to the Court within the time allowed under clause 5.3(e).

5.8 Discharge of Claims

All persons having a Claim must accept their Admitted Claims under this Deed (if any) in full satisfaction and complete discharge of all claims which they have or claim to have against the Trustees or the Trust Fund and each of them will, if called upon to do so, execute and deliver to the Trustees such forms of release of any such claim as the Trustees require.



5.9 Claims extinguished

On payment of the Final Dividend to the Trust Creditors from the Trust Fund, all Claims against the Trust Fund are extinguished and each Trust Creditor will, if called upon to do so, execute and deliver to the Trustees such forms of release of any Claim as the Trustees require.

5.10 Bar

After distribution of the Final Dividend from the Trust Fund, the Trustees may plead this Deed in bar to any Claim.

6 GST on Claims

6.1 Definitions

Words and expressions used in this clause 6 which are defined in the GST Act have the same meaning in this clause.

6.2 GST credits on Claims which have been or will be claimed by the Deed Company

To the extent that input tax credits on Admitted Claims have been or will be claimed by the Deed Companies, the parties agree and acknowledge that following the payment of distributions to those Creditors by the Trustees from the Trust Fund, the relevant Deed Company by its directors will be responsible for making any adjustment required by the provisions of the GST Act insofar as those adjustments relate to those Admitted Claims and Practice Statement PS LA 2012/1 (GA) will be applied by the Deed Companies to calculate the impact of those adjustments.

6.3 GST credits during operation of Trust

The parties agree and acknowledge that to the extent that an input tax credit is available in respect of a Trustee Cost which is incurred and paid for by the Trustees during the operation of the Trust, the Trustees (acting in their capacity as Trustees of the Trust) will be responsible for the claiming those input tax credits.

7 Meetings of Creditors

The Trustees may at any time convene a meeting of Trust Creditors and except to the extent (if any) they are excluded or modified by or are inconsistent with the terms of this Deed, regulations 5.6.11 to 5.6.36A of the Regulations apply, with such modifications as are necessary, to meetings of the Trust Creditors as if the references to the liquidator, the liquidator or provisional liquidator, the liquidator, provisional liquidator or chairperson, or a liquidator, provisional liquidator or trustee for debenture holders, as the case may be, were references to the Trustees.



8 Remuneration

8.1 Remuneration of Trustees

The Trustees:

- (a) are to be remunerated at the usual rates charged by the firm Ferrier Hodgson from time to time in respect of any work done by the Trustees, and any partner or employee of the Trustees, in connection with:
 - (1) the calling for and adjudicating upon proofs of Claims;
 - (2) any appeals or challenges in relation to the adjudication of proofs of Claims;
 - (3) the distribution of the Trust Fund;
 - (4) the exercise of their powers and discretions and performance of their duties, obligations and responsibilities as Trustees under this Deed; and
- (b) acknowledge that the Trustees' Costs, including costs, charges and expenses (including those incurred in connection with advisers) incurred in connection with the foregoing, including any stamp duty payable by them in respect of this Deed will be payable from the Trust Fund.

9 Indemnity

9.1 Indemnity

The Trustees are entitled to be indemnified out of the Trust Fund for all actions, suits, proceedings, accounts, claims and demands arising out of or relating to this Deed which may be commenced, incurred by or made on the Trustees by any person and against all costs, charges and expenses incurred by the Trustees in respect of them, provided that the Trustees shall not be entitled to an indemnity in respect of any liabilities or demands to the extent that the indemnification contravenes the Corporations Act or the Trusts Act.

9.2 Continuing indemnity

This indemnity takes effect on and from the Commencement Date and will be without limitation as to time and will operate notwithstanding the removal of the Trustees (or any of them) and the appointment of new trustees or the termination of this Trust for any reason whatsoever.

9.3 Indemnity not to be affected or prejudiced

The indemnity under clause 9.1 will not:

- (a) be affected, limited or prejudiced in any way by any irregularity, defect or invalidity in the appointment of the Trustees and will extend to all actions, suits, proceedings, accounts, liabilities, claims and demands arising in any way out of any defect in the appointment of the Trustees, the approval and execution of this Deed or otherwise; or
- (b) affect or prejudice all or any rights that the Trustees may have against any other person to be indemnified against the costs, charges, expenses and liabilities



incurred by the Trustees of or incidental to the exercise or performance of any of the powers of authorities conferred on the Trustees by this Deed or otherwise.

10 Liability

10.1 Exclusion of liability

- (a) The Trustees, and the Trustees' partners and employees, are not liable for any loss or damage occasioned to any trust property under this Deed (including the Trust Fund) or to any person by:
- (1) the exercise of any discretion or power conferred by this Deed or by law on the Trustees or any delay or failure to exercise any of those discretions or powers;
 - (2) any breach of duty or trust, unless it is proved to have been committed, made or omitted in personal, conscious and fraudulent bad faith by the Trustees, partner or employee; or
 - (3) any disclosure by the Trustees or the officer of any document, matter or thing relating to the Trust, the Trust Fund or any Trust Creditor.
- (b) All persons claiming any interest in the Trust Fund must be treated as taking it with and subject to notice of the protection conferred by this clause 10.

10.2 Proceedings against co-trustee

The Trustees are not bound to take any proceeding against a co-trustee for any breach or alleged breach of trust committed by the co-trustee.

10.3 Reliance on advice

Where the Trustees act in reliance upon the advice of any solicitor instructed on behalf of the Trust in relation to the interpretation of the provisions of this Deed or any document or statute or any matter concerning the administration of the Trust, the Trustees are not liable to any person in respect of any act done or omitted to be done by the Trustees in accordance with the advice.

11 Trustees' resignation

Any Trustee may resign at any time by giving not less than 28 days' prior written notice to the Deed Company in which event the Trustees must:

- (a) convene a meeting of Trust Creditors in accordance with clause 7 for the purpose of nominating a replacement trustee;
- (b) assign to a replacement trustee nominated by the Trust Creditors the Trustees' rights, title and benefit under this Deed; and
- (c) do all things reasonably necessary to effect the assignment referred to in clause 11(b).



12 Trustees not obliged to take action

The Trustees will not be obliged to take any action under this Deed until such time as there are sufficient funds in hand and immediately available to them without prior or apprehended claim as referred to in clause 3.5 to pay their remuneration, costs, fees and expenses. For the avoidance of doubt, the assertion of any apprehended or prior claim as referred to in clause 3.5 does not affect the Trustees' right to be paid the Trustees' Remuneration and Trustees' Costs pursuant to clause 8.1.

13 Termination

13.1 Termination of the Trust

This Trust will terminate and the Trustees will resign as soon as reasonably practicable:

- (a) after distribution of the Final Dividend from the Trust Fund; or
- (b) upon the expiry of the perpetuity period referred to in clause 4, whichever occurs first.

13.2 Meeting of Trust Creditors

The Trustees must convene a meeting of Trust Creditors to consider a resolution to vary this Deed or terminate the Trust if:

- (a) at any time prior to the termination of the Trust, the Trustees determine that it is no longer practicable or desirable to continue to implement or carry out this Deed; or
- (b) the Court so orders.

13.3 Termination of the Trust by Court order and Trust Creditors' resolution

The Trust established by this Deed will terminate if:

- (a) a Court so orders; or
- (b) the Trust Creditors pass a resolution terminating this Trust at a meeting duly convened pursuant to clause 13.2.

13.4 Report to Trust Creditors

Upon a meeting being convened pursuant to clause 13.2, the Trustees must send each Trust Creditor prior to the meeting a report as to the state of affairs of the relevant Trust accompanied by such financial statements as the Trustees think fit. The report must include:

- (a) a statement explaining the circumstances which have caused the Trustees to convene the meeting pursuant to clause 13.2; and
- (b) a statement that this Trust will be terminated if the Trust Creditors so resolve.



13.5 Previous operation of this Deed preserved

The termination or avoidance, in whole or in part, of this Trust does not affect the efficacy of any act done prior to the termination or avoidance.

14 General

14.1 Variation of Deed

This Deed may be varied with the consent of the Trustees by resolution passed at a meeting of Trust Creditors by a majority of Trust Creditors in number and in value, but only if the variation is not materially different from the proposed variation set out in the notice of that meeting and provided that the variation does not materially prejudice the interests of any class of Trust Creditors without the approval of a majority of that class of Trust Creditors in number and value.

14.2 Invalidity and enforceability

- (a) If any provision of this Deed is invalid under the law of any jurisdiction the provision is enforceable in that jurisdiction to the extent that it is not invalid, whether it is in severable terms or not.
- (b) Clause 14.1(a) does not apply where enforcement of the provision of this Deed in accordance with clause 14.1(a) would materially affect the nature or effect of the parties' obligations under this Deed.

14.3 Waivers

No party to this Deed may rely on the words or conduct of any other party as a waiver of any right unless the waiver is in writing and signed by the party granting the waiver.

The meanings of the terms used in this clause 14.3 are set out below.

Term	Meaning
conduct	includes delay in the exercise of a right.
right	any right arising under or in connection with this Deed and includes the right to rely on this clause.
waiver	includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

14.4 Counterparts

- (a) This Deed may be executed in any number of counterparts.
- (b) All counterparts, taken together, constitute one instrument.



- (c) A party may execute this Deed by signing any counterpart.
- (d) Counterparts may be exchanged by email or other electronic means.

14.5 Governing law

This Deed is governed by the law in force in the State of Queensland.

14.6 Further action to be taken at each party's own expense

Each party must, at its own expense, do all things and execute all documents necessary to give full effect to this Deed and the transactions contemplated by it.

14.7 Entire agreement

This Deed states all the express terms agreed by the parties in respect of its subject matter. It supersedes all prior discussions, negotiations, understandings and agreements in respect of its subject matter.

14.8 No reliance

No party has relied on any statement by any other party not expressly included in this Deed.

14.9 Relationship of the parties

Nothing in this Deed gives a party authority to bind any other party in any way.

14.10 Exercise of rights

- (a) Unless expressly required by the terms of this Deed, a party is not required to act reasonably in giving or withholding any consent or approval or exercising any other right, power, authority, discretion or remedy, under or in connection with this Deed.
- (b) A party may (without any requirement to act reasonably) impose conditions on the grant by it of any consent or approval, or any waiver of any right, power, authority, discretion or remedy, under or in connection with this Deed. Any conditions must be complied with by the party relying on the consent, approval or waiver.

14.11 Stamp duty

Any stamp duty assessed on this Deed is to be paid out of the Trust Fund.

15 Notices

15.1 Form of notice

A notice or document required to be given to or served upon any of the parties pursuant to or in connection with the Deed must be:



- (a) in writing and in English and signed by or on behalf of the sending party by a director, secretary or other duly authorised person thereof; and
- (b) addressed to that party in accordance with the details nominated on page 1 of this document (or any alternative details nominated to the sending party by notice).

15.2 How notice must be given and when notice is received

- (a) Any notice or document must be given by one of the methods set out in the table below.
- (b) A notice or document is regarded as given and received at the time set out in the table below.

However, if this means the notice or document would be regarded as given and received outside the period between 9.00am and 5.00pm (addressee's time) on a Business Day (**business hours period**), then the notice or document will instead be regarded as given and received at the start of the following business hours period.

Method of giving notice	When notice is regarded as given and received
By hand to the nominated address	When delivered to the nominated address
By pre-paid post	When it would have been delivered in the ordinary course of post
By email to the nominated email address (set out in the details for each party to this Deed)	When the email (including any attachment) has been sent to the addressee's email address (unless the sender receives a delivery failure notification indicating that the email has not been addressed to the addressee).

15.3 Notice must not be given by electronic communication

A notice or document must not be given by electronic means of communication (other than email in accordance with clause 15.2).



Signing page

Executed as a deed

Trustee

Signed sealed and delivered by
Tim Michael

sign here ► _____

print name _____

in the presence of

sign here ► _____
Witness

print name _____

Trustee

Signed sealed and delivered by
Will Colwell

sign here ► _____

print name _____

in the presence of

sign here ► _____
Witness

print name _____



CNX

Signed sealed and delivered for
Carbon Energy Limited (subject to deed of company arrangement)
by its joint and several deed administrator

sign here ► _____
Deed administrator

print name _____

in the presence of

sign here ► _____
Witness

print name _____

CEH

Signed sealed and delivered for
Carbon Energy (Holdings) Pty Ltd (subject to deed of company arrangement)
by its joint and several deed administrator

sign here ► _____
Deed administrator

print name _____

in the presence of

sign here ► _____
Witness

print name _____



CEO

Signed sealed and delivered for
**Carbon Energy (Operations) Pty Ltd (subject to deed of company
arrangement)**
by its joint and several deed administrator

sign here ► _____
Deed administrator

print name _____

in the presence of

sign here ► _____
Witness

print name _____