



carbonenergy

Carbon Energy Limited | ABN 56 057 552 137

Level 9, 301 Coronation Drive,
Milton QLD 4064 Australia
PO Box 2118, Toowong DC
QLD 4066 Australia
phone + 61 (0) 7 3156 7777
fax + 61 (0) 7 3156 7776
www.carbonenergy.com.au

Carbon Energy Limited
ABN 56 057 552 137
Carbon Energy (Operations) Pty Ltd
ABN 61 105 176 967

ASX Announcement

15 May 2017

Amendment to Deed of Company Arrangement

- **Deed of Company Arrangement and Creditors' Trust amended**
- **Creditor's meeting to be held at 11:00am on Tuesday 23 May 2017**
- **Shareholder meeting deferred to July 2017**

On 22 November 2016, Carbon Energy Limited (Administrators Appointed) (the **Company**) (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).

A Deed of Company Arrangement and Creditors' Trust (subject to shareholder approval) ("DOCA") was approved by Creditors on 9 March 2017, the terms of which were included in an announcement on 17 February 2017 and a copy of the relevant documents lodged with ASX on 1 March 2017.

During this intervening period the Company, Kam Lung Investment Development Co. Ltd ("Kam Lung") and the Pacific Road Group ("Pacific Road") have been working on satisfying the conditions precedent, finalising the financing documentation and preparing the Notice of Meeting to shareholders.

The DOCA contained a number of conditions precedent including requiring that the employment or other contracts of the key employees and key contractors (as named) continued on terms satisfactory to Kam Lung. A mutually acceptable agreement has not been reached. Kam Lung and Pacific Road have subsequently been in discussions to seek an alternative path forward to find a mechanism to waive the key employee condition precedent, resulting in an amendment to the DOCA.

Subject to documentation and creditor approval Kam Lung and Pacific Road have agreed on the following key changes to the DOCA terms and consideration to be paid by Kam Lung.

Updated Summary of Key DOCA Terms and Consideration

Key terms	Original DOCA	Revised DOCA
Cash consideration paid by Kam Lung for final settlement by CNX of all obligations owing under the current \$10m Convertible Note Facility with Pacific Road	\$9 million	\$7 million
Pacific Road's 9.29% equity interest in CNX	Transferred to Kam Lung	Retained by Pacific Road, noting that the 9.29% equity interest will be diluted following the issue of new equity to Kam Lung on the terms of the Revised DOCA

Interim Funding provided by Kam Lung for working capital	\$1.3 million	\$1.94 million
Pacific Road Loan Facility (unsecured) available for CNX working capital	N/A	\$1 million advanced to CNX on completion of the DOCA. Interest free Unsecured. Guaranteed by Kam Lung. Repayable to Pacific Road upon Successful Ignition of the UCG panel by the JinHong Joint Venture in China. (Successful ignition: defined as continuous gas flow for three consecutive days)
Kam Lung new equity ("Capital")	\$3.85 million for the issue of new shares (42.32%) such that their resulting shareholding will be 80%.	\$3.85 million for the issue of new shares (51.61%) such that their resulting shareholding will be 80%.
Creditor's Trust	\$300k of the Capital to be placed in Creditor's trust for payment of unsecured creditors.	Unchanged
The contracts of Key Employee and Key contractors (as named) are negotiated on terms acceptable to Kam Lung.	Condition Precedent to completion of the DOCA	Condition removed

A creditor's meeting to approve the amended terms of the DOCA is scheduled to be held at 11:00am on Tuesday 23 May 2017 at Ferrier Hodgson, Level 7, 145 Eagle Street, Brisbane. Should creditors not approve the amended terms then there are insufficient financial resources for the Company to continue to trade and control of the Company will revert back to the Deed Administrators, Tim Michael and Will Colwell of Ferrier Hodgson, who will determine the future path for the Company. It should be noted that in accordance with the Administrators Report issued to Creditors on 28 February 2017, if the DOCA is not approved the likely outcome for the Company is liquidation.

Should creditors approve the amended DOCA then the Company, Kam Lung, Pacific Road and the Deed Administrators will finalise all documentation and seek regulatory approvals, as required, to call a meeting of shareholders before 22 July 2017 putting forward the resolutions for shareholders to approve the transactions contemplated under the revised DOCA. All parties will then work towards completion of the DOCA and application to ASX for CNX shares to recommence trading on the ASX.

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