



carbonenergy

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

TO BE HELD ON

29 NOVEMBER 2017 AT 10.00AM AEST

**AT THE OFFICES OF MCCULLOUGH ROBERTSON LAWYERS, LEVEL 11 CENTRAL PLAZA
TWO, 66 EAGLE STREET, BRISBANE, QUEENSLAND**

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 7 3156 7777.

THIS NOTICE OF MEETING SHOULD BE READ IN CONJUNCTION WITH THE ATTACHED EXPLANATORY MEMORANDUM.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of members of Carbon Energy Limited ABN 56 057 552 137 (the **Company** or **Carbon Energy**) will be held at the offices of McCullough Robertson Lawyers, Level 11 Central Plaza Two, 66 Eagle Street, Brisbane, Queensland on 29 November 2017 at 10.00am AEST.

Terms and abbreviations used in this Notice, including the Explanatory Memorandum are defined in Schedule 1 of the Explanatory Memorandum.

CHAIRMAN'S LETTER

19 October 2017

Dear Shareholders

Annual general meeting of Shareholders

The annual general meeting ("AGM") for Carbon Energy Limited ("Carbon Energy" or the "Company") will be held at 10.00am AEST on 29 November 2017 at the offices of McCullough Robertson Lawyers, Level 11 Central Plaza Two, 66 Eagle Street, Brisbane, Queensland. I strongly encourage you to attend the Meeting, either in person or by proxy.

Business of the AGM

In summary, the business at the AGM is as follows:

- to adopt the remuneration report (Resolution 1);
- to re-elect Mr Huihai Zhuang as a Director (Resolution 2);
- to approve the Company having an additional 10% placement capacity (Resolution 3);

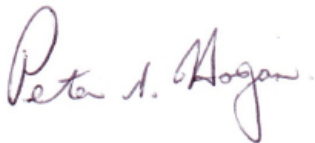
Further information and next steps

I encourage you to read the Explanatory Memorandum in full before deciding how to vote at the AGM. If you are in any doubt as to what to do, I would encourage you to seek advice from independent and appropriately licensed financial, legal and taxation advisers.

The Board strongly encourages all Shareholders to vote at the AGM either in person or by proxy. A proxy form is enclosed for those Shareholders who will not be able to attend the AGM in person.

On behalf of the Board, I would like to take this opportunity to thank you for your continued support of the Company.

Yours sincerely



Peter Hogan
Chairman

NOTICE OF MEETING

BUSINESS OF THE MEETING

Financial Statements and Reports

To receive and consider the Company's financial statements and the reports of the Directors and the Auditor for the year ended 30 June 2017.

RESOLUTIONS

1) To Adopt the Remuneration Report

To consider and, if thought fit, to pass the following non-binding resolution as an Ordinary Resolution:

"That for the purpose of section 250R(2) of the Corporations Act and for all other purposes, the Remuneration Report for the year ended 30 June 2017 and contained in the Annual Report (as set out on pages 13 to 28 of the Directors' Report) for the Company be adopted."

Advisory Resolution

The vote on this Resolution 1 is advisory only and does not bind the Directors of the Company.

Voting Restriction pursuant to Section 250R(4) of the Corporations Act

A vote on Resolution 1 must not be cast (in any capacity) by or on behalf of either of the following persons:

- (a) a member of the Key Management Personnel ("KMP") whose remuneration details are included in the Remuneration Report; and
- (b) a Closely Related Party of such a KMP (including close family members and companies the KMP controls).

However, a person described above may cast a vote on Resolution 1 as a proxy if the vote is not cast on behalf of a person described above and either:

- (a) the proxy appointment is in writing that specifies the way the proxy is to vote (e.g. for, against, abstain) on the Resolution; or
- (b) the vote is cast by the chair of the Meeting and the appointment of the chair as proxy:
 - does not specify the way the proxy is to vote on the Resolution; and
 - expressly authorises the chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company or, if the Company is part of a consolidated entity, for the entity.

Shareholders should be aware that any undirected proxies given to the Chair will be cast by the Chair and counted in favour of the Resolutions the subject of this Meeting, including Resolution 1, subject to compliance with the Corporations Act. In exceptional circumstances, the Chair of the Meeting may change his/her voting intention on any Resolution, in which case an ASX announcement will be made.

2) To Re-Elect Mr Huihai Zhuang as a Director

To consider and if thought fit, to pass the following Resolution, with or without amendment, as an Ordinary Resolution:

"That Mr Huihai Zhuang, who retires by rotation in accordance with Rule 17.2 of the Company's Constitution, and being eligible, be re-elected as a Director of the Company."

3) Approval of 10% Placement Capacity

To consider and, if thought fit, pass the following Resolution with or without amendment, as a Special Resolution:

"That, for the purposes of Listing Rule 7.1A, and for all other purposes, approval is given for the issue of Equity Securities of up to 10% of the Shares on issue (at the time of the issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2, at a price not less than that determined pursuant to Listing Rule 7.1A.3 and on the terms and conditions in the Explanatory Memorandum."

Voting Exclusion Statement for Resolution 3:

In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this Special Resolution by a person and any Associates of that person who:

- (a) may participate in the issue of the Placement Securities; or

NOTICE OF MEETING

- (b) might obtain a benefit if this Special Resolution is passed, except a benefit solely in their capacity as a holder of Shares if the Resolution is passed.

However, the Company need not disregard a vote cast on Resolution 3 if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

Note: under Listing Rule 14.11.1 and the notes under that rule about Rule 7.1A, as at the date of this Notice of Meeting it is not known who may participate in the proposed issue (if any). On that basis, no security holders are currently excluded.

All members are invited to attend.

An Explanatory Memorandum to Shareholders follows and forms a part of this Notice.

By order of the Board



Ian Morgan

Joint Company Secretaries

19 October 2017



Ye-Fei Guo

EXPLANATORY MEMORANDUM

THIS EXPLANATORY MEMORANDUM SHOULD BE READ IN ITS ENTIRETY. IF SHAREHOLDERS ARE IN DOUBT AS TO HOW THEY SHOULD VOTE, THEY SHOULD SEEK ADVICE FROM THEIR ACCOUNTANT, SOLICITOR OR OTHER PROFESSIONAL ADVISER PRIOR TO VOTING.

The Explanatory Memorandum has been prepared for the information of Shareholders in connection with the business to be conducted at the Annual General Meeting of Shareholders to be held on 29 November 2017 at 10.00am AEST at the offices of McCullough Robertson Lawyers, Level 11 Central Plaza Two, 66 Eagle Street, Brisbane, Queensland.

This Explanatory Memorandum should be read in conjunction with the accompanying Notice of Meeting.

Terms used in this Explanatory Memorandum are defined in the Interpretation section.

BUSINESS OF THE MEETING

Financial Statements and Reports

Section 317 of the Corporations Act requires the Directors of the Company to lay before the Annual General Meeting the Financial Report, Director's Report and the Auditor's Report for the last financial year that ended before the AGM.

In accordance with section 250S of the Corporations Act, Shareholders will be provided with a reasonable opportunity to ask questions or make statements in relation to those reports but no formal resolution to adopt the reports will be put to Shareholders at the AGM (save for Resolution 1 for the adoption of the Remuneration Report).

Shareholders will be given a reasonable opportunity to ask the auditor questions about the conduct of the audit and the preparation and content of the Auditor's Report. In addition to taking questions at the AGM, written questions to the Chairman about the management of the Company, or the Company's Auditor regarding:

- the preparation and content of the Auditor's Report;
- the conduct of the audit;
- accounting policies adopted by the Company in relation to the preparation of the financial statements; and
- the independence of the Auditor in relation to the conduct of the audit,

may be submitted by 5pm AEST no later than 5 business days before the AGM, i.e. no later than 5pm AEST on Wednesday, 22 November 2017, to the registered office of the Company.

A copy of the 2017 Annual Report is available at www.carbonenergy.com.au within the Announcements & Reports section of the website.

RESOLUTIONS

The following matters should be noted in respect of the various items of business:

RESOLUTION 1 (ADVISORY) – TO ADOPT THE REMUNERATION REPORT

1.1 Remuneration Report

The Board has submitted its Remuneration Report to Shareholders for consideration and adoption by way of a non-binding Advisory Resolution.

If there is a vote of 25% or more against the Remuneration Report at the Meeting, and another vote of 25% or more at the next AGM ("Second Strike"), then a resolution will be put to Shareholders at the next AGM to put the Board (other than the Managing Director) up for re-election ("Spill Resolution"). If the Spill Resolution passes, then the Company must hold an extraordinary general meeting within 90 days at which all Directors (other than the Managing Director) who were Directors at the time the Remuneration Report that received the Second Strike will retire and may resubmit themselves for re-election.

The Remuneration Report is set out in the Directors' Report section of the Annual Report. The Remuneration Report, amongst other things:

- (a) explains the Board's policy for determining the nature and amount of remuneration of Key Management Personnel of the Company;
- (b) explains the relationship between the Board's remuneration policy and the Company's performance;
- (c) sets out remuneration details for each Key Management Personnel of the Company, including details of performance related remuneration and options granted as part of remuneration; and
- (d) details and explains any performance conditions applicable to the remuneration of Key Management Personnel of the Company.

The Remuneration Report is available on pages 13 to 28 in the Company's Annual Report and is available at www.carbonenergy.com.au within the Announcements and Reports section of the website.

EXPLANATORY MEMORANDUM

A reasonable opportunity will be provided for discussion of the Remuneration Report at the Meeting.

1.2 Voting restrictions on Key Management Personnel and their proxies and Closely Related Parties

A voting exclusion statement is set out under Resolution 1 in the Notice of Meeting.

1.3 Recommendation of Directors:

The Directors abstain, in the interests of corporate governance, from making a recommendation in relation to Resolution 1.

RESOLUTION 2 (ORDINARY) – TO RE-ELECT MR HUIHAI ZHUANG AS A DIRECTOR

2.1 Background

In accordance with Rule 17.2 of the Constitution, one third of the Directors need to retire by rotation each year. The Directors to retire under Rule 17.2 are those who have been in office the longest since being appointed. As between Directors who were elected on the same day, the Directors to retire are (in default of agreement between them) determined by ballot.

Accordingly, Mr Huihai Zhuang is required to retire at the end of the forthcoming AGM, and being eligible, offers himself for re-election as a Director of the Company.

Mr Zhuang was appointed to the Board on 29 October 2015 and was most recently re-elected as a Director at the 2015 annual general meeting.

Mr Zhuang Non-Executive Director

BS degree (Shantou University)

Mr Zhuang is 100% owner of our cornerstone investor Kam Lung Investment Development Company (Kam Lung). Mr Zhuang was appointed to the Board as the nominee for Kam Lung following their increase in shareholding to 19.99%. Mr Zhuang brings to the board strong networks across Chinese business and government sectors which is anticipated to create a more effective cultural and relationship building leverage for the Company in doing business in China.

Recommendation of Directors:

The Directors (apart from Mr Zhuang) recommend that the Shareholders vote in favour of the Resolution 2 to appoint Mr Zhuang as a Director of the Company.

RESOLUTION 3 (SPECIAL) – APPROVAL OF 10% PLACEMENT CAPACITY

3.1 Introduction

Pursuant to Resolution 3, the Company is seeking Shareholder approval to issue up to 10% of issued capital over a 12-month period after the annual general meeting, in addition to the 15% annual placement capacity pursuant to Listing Rule 7.1A. If passed, this Resolution will allow the Company to allot and issue up to the number of new Equity Securities calculated in accordance with Listing Rule 7.1A.2 (“Placement Securities”) each at an issue price calculated in accordance with Listing Rule 7.1A.3 (“Issue Price”).

This approval is sought pursuant to Listing Rule 7.1A. Under Listing Rule 7.1A small and mid- cap listed entities that meet the eligibility threshold and have obtained the approval of their ordinary shareholders by special resolution at an annual general meeting, are permitted to issue an additional 10% of issued capital over a 12-month period after the date of the annual general meeting (“Additional 10% Placement”).

The Additional 10% Placement under Listing Rule 7.1A is in addition to the ability of the Company to issue 15% of its issued capital without shareholder approval over a 12-month period pursuant to Listing Rule 7.1. The Company may issue the Placement Securities to raise funds for the Company and as non-cash consideration (further details of which are set out below). Funds raised from the issue of Placement Securities, if any, would be applied towards delivering on the Company’s strategic priorities, the highest of which being to further secure projects in China and to continue to progress international business development opportunities. Additionally, funds raised may be used for expenses associated with the issue of Placement Securities as well as for general working capital.

EXPLANATORY MEMORANDUM

3.2 Listing Rule 7.1A

Eligibility

An entity is eligible to undertake an Additional 10% Placement if at the time of the relevant annual general meeting it has a market capitalisation of \$300 million or less and it is not included in the S&P/ASX300 Index.

For illustrative purposes only, on 18 October 2017 (being the date the Company's Shares last traded on the ASX) the Company's market capitalisation was \$17.9 million based on the Closing Market Price of the Company's Shares on that date. The calculation of market capitalisation will be based on the Closing Market Price of the Shares on the last Trading Day on which trades in the Shares were recorded before the date of the AGM, multiplied by the number of Shares on issue.

The Company is also not included in the S&P/ASX300 Index as at the time of this AGM, however, it should be noted that the S&P/ASX300 Index is rebalanced twice a year in March and September.

The Company is therefore an Eligible Entity and able to undertake an Additional 10% Placement under Listing Rule 7.1A.

In the event that the Company for any reason ceases to be an Eligible Entity after the Company has already obtained Shareholders' approval pursuant to this Resolution 3, the approval obtained will not lapse and the Company will still be entitled to issue the Placement Securities.

Shareholder Approval

The ability to issue the Placement Securities is conditional upon the Company obtaining Shareholder approval by way of a Special Resolution at the Meeting (which means that it must be passed by at least 75% of the votes cast by members entitled to vote on the Resolution).

3.3 10% Placement Period – Listing Rule 7.1A.1

Assuming Resolution 3 is passed, Shareholder approval of the Additional 10% Placement under Listing Rule 7.1A is valid from the date of the AGM and expires on the earlier to occur of:

- the date that is 12 months after the date of the AGM; or
- the date of the approval by Shareholders of a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking),

or such longer period if allowed by ASX.

If approval is given for the issue of the Placement Securities then the approval will expire on 29 November 2018, unless Shareholder approval is granted pursuant to Listing Rules 11.1.2 or 11.2 prior to that date.

3.4 Calculation for Additional 10% Placement – Listing Rule 7.1A.2

Listing Rule 7.1A.2 provides that Eligible Entities which have obtained shareholder approval at an annual general meeting may issue or agree to issue, during the 12-month period after the date of the annual general meeting, a number of Equity Securities calculated in accordance with the following formula:

(A x D) – E

where:

- A** is the number of ordinary securities on issue 12 months before the date of issue or agreement:
 - plus the number of fully paid ordinary securities issued in the 12 months under an exception in Listing Rule 7.2;
 - plus the number of partly paid ordinary securities that became fully paid in the 12 months;
 - plus the number of fully paid ordinary securities issued in the 12 months with approval of holders of ordinary securities under Listing Rules 7.1 or 7.4.;
 - less the number of fully paid ordinary securities cancelled in the 12 months;
- D** is 10 percent; and
- E** is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with the approval of shareholders under Listing Rules 7.1 or 7.4.

EXPLANATORY MEMORANDUM

Listing Rule 7.1A.3

Equity Securities

Any Equity Securities issued under the Additional 10% Placement must be in the same class as an existing quoted class of Equity Securities of the Company.

As at the date of this Notice of Meeting, the only class of Equity Securities which are quoted on the ASX are Shares. As at the date of this Notice of Meeting, the Company has 64,933,515 Post Consolidation Shares on issue.

3.5 Information to be given to ASX – Listing Rule 7.1A.4

If Resolution 3 is passed and the Company issues any Placement Securities under Listing Rule 7.1A, the Company will give to ASX:

- (a) a list of allottees of the Placement Securities and the number of Placement Securities allotted to each (this list will not be released to the market); and
- (b) the following information required by rule 3.10.5A, which will be released to the market on the date of issue:
 - details of the dilution to the existing holders of ordinary securities caused by the issue;
 - where the Equity Securities are issued for cash consideration, a statement of the reasons why the Company issued the Equity Securities as a placement under rule 7.1A and not as (or in addition to) a pro rata issue or other type of issue in which existing Shareholders would have been eligible to participate;
 - details of any underwriting arrangements, including any fees payable to the underwriter; and
 - any other fees or costs incurred in connection with the issue.

3.6 Listing Rule 7.1 and 7.1A

The ability of an entity to issue Equity Securities under Listing Rule 7.1A is in addition to the entity's 15% placement capacity under Listing Rule 7.1.

At the date of this Notice, the Company has on issue 64,933,515 Post Consolidation Shares. Assuming no further Equity Securities are issued prior to the Meeting, the Company will have the capacity to issue the following Equity Securities assuming Resolution 3 is passed:

- (a) 9,740,027 Equity Securities under Listing Rule 7.1; and
- (b) 6,493,351 Equity Securities under Listing Rule 7.1A .

The actual number of Equity Securities that the Company will have the capacity to issue under Listing Rule 7.1A will be calculated at the date of issue of the Equity Securities in accordance with the formula prescribed in Listing Rule 7.1A.2 (as described above).

3.7 Specific Information required by Listing Rule 7.3A

Minimum Price of securities issued under Listing Rule 7.1A – Listing Rule 7.3A.1

Pursuant to and in accordance with Listing Rule 7.1A.3, any Placement Securities issued pursuant to approval under Listing Rule 7.1A must have an issue price of not less than 75% of the Volume Weighted Average Market Price for the Equity Securities in that class over the 15 Trading Days immediately before:

- (a) the date on which the price at which the Placement Securities are to be issued is agreed; or
- (b) if the Placement Securities are not issued within 5 Trading Days of the date in paragraph (a) above, the date on which the Placement Securities are issued.

The minimum price cannot be determined at this stage, however, the Company will, if it decides to issue any Placement Securities, disclose to the ASX the issue price on the proposed date of issue of such Placement Securities.

Risk of economic and voting dilution – Listing Rule 7.3A.2

Any issue of Equity Securities under the Additional 10% Placement will dilute the voting interests and may dilute the economic interests of Shareholders who do not receive Equity Securities under the issue.

In particular, in relation to the issue of any Placement Securities, there is a risk that:

- (a) the market price for the Company's Equity Securities may be significantly lower on the date of the issue of any Placement Securities than it is on the date of the Meeting; and

EXPLANATORY MEMORANDUM

- (b) the Placement Securities may be issued at a price that is at a discount to the market price for the Company's Equity Securities on the issue date,

which may have an effect on the amount of funds raised by the issue or the value of the Placement Securities.

As required by Listing Rule 7.3A.2, Table 1 below shows the potential economic and voting dilution effect, in circumstances where the issued share capital has doubled and the market price of the Shares has halved. Table 1 also shows additional scenarios in which the number of issued Shares have increased (by both 50% and 100%) and the market price of the Shares has decreased by 50% and increased by 100%.

Table 1

Issued Share Capital (Post Consolidation Shares)	50% decrease in market price \$0.138		Current market price \$0.275		100% increase in market price \$0.550	
	10 % Voting Dilution	Funds Raised	10 % Voting Dilution	Funds Raised	10 % Voting Dilution	Funds Raised
Present Issued Share Capital = 64,933,515	6,493,352	\$896,083	6,493,352	\$1,785,672	6,493,352	\$3,571,343
50% Increase in Share Capital = 97,400,273	9,740,027	\$1,344,124	9,740,027	\$2,678,507	9,740,027	\$5,357,015
100% Increase in Share Capital = 129,867,030	12,986,703	\$1,792,165	12,986,703	\$3,571,343	12,986,703	\$7,142,687

Assumptions and explanations

- Resolution 3 is approved.
- The market price is \$0.275 based on the Closing Market Price of the Shares on ASX on 18 October 2017.
- Table 1 only shows the dilutionary effect based on the issue of the maximum amount of Placement Securities under the Additional 10% Placement (assuming only Shares are issued), that is it does not include any Shares issued under the Company's annual 15% capacity under Listing Rule 7.1.
- Table 1 does not show examples of dilution that may be caused to any particular Shareholder by reason of issues of Equity Security under the Additional 10% Placement. Shareholders should consider the dilution caused to their own shareholding depending on their specific circumstances.
- The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue.
- Table 1 assumes the Company issues the maximum number of Placement Securities.
- Table 1 assumes that no Options (including any Options issued following approval of Resolution 3) are exercised before the date of the issue of the Equity Securities under Listing Rule 7.1A.
- The Issued Share Capital has been calculated in accordance with the formula in Listing Rule 7.1A(2) as at 19 October 2017.

3.8 Final date for issue – Listing Rule 7.3A.3

As required by Listing Rule 7.3A.3, the Company will only issue and allot the Placement Securities (if any) during the period of up to and including 12 months after the date of the Meeting, being 29 November 2018. The approval under Resolution 3 for the issue of the Placement Securities will cease to be valid in the event that Shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities of the Company) or Listing Rule 11.2 (the disposal of the main undertaking of the Company) before the anniversary of the AGM.

3.9 Purpose – Listing Rule 7.3A.4

As noted above, the purpose for which the Placement Securities may be issued includes to raise funds for the Company and as non-cash consideration (further details of which are set out below). Funds raised from the issue of Placement Securities, if issued, would be applied towards delivering on the Company's strategic priorities, the highest of which being to further projects in China and to continue to progress international business development opportunities. Additionally, funds raised would be used for expenses associated with the issue of Placement Securities as well as being used for general working capital.

3.10 Shares Issued for Non-cash consideration – Listing Rule 7.3A.4

The Company may issue Placement Securities for non-cash consideration, such as the acquisition of new assets or investments or the payment of interest or other expenses of the Company. If the Company issues Placement Securities for

EXPLANATORY MEMORANDUM

non-cash consideration, the Company will release to the market a valuation of the non-cash consideration that demonstrates that the issue price of the Placement Securities complies with Listing Rule 7.1A.3.

3.11 Company's Allocation Policy – Listing Rule 7.3A.5

The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue of the Placement Securities. The identity of the allottees of Placement Securities will be determined on a case-by-case basis having regard to a number of factors including but not limited to the following:

- (a) the purpose of the issue;
- (b) the methods of raising funds that are available to the Company, including but not limited to, rights issue or other issue in which existing Shareholders can participate;
- (c) the effect of the issue of the Placement Securities on the control of the Company;
- (d) the financial situation and solvency of the Company and its projected need for working capital at any given time; and
- (e) advice from corporate, financial and broking advisers (if applicable).

The allottees of the Placement Securities have not been determined as at the date of this Notice but may include existing substantial shareholders and/or new Shareholders who are not related parties or Associates of a related party of the Company.

Further, if the Company is successful in acquiring new assets or investments for which Placement Securities are issued as consideration, it is likely that the allottees of some of the Placement Securities will be the vendors of the new assets or investments.

3.12 Company has previously obtained shareholder approval under Listing Rule 7.1A – Listing Rule 7.3A.6

The Company previously obtained Shareholder approval under Listing Rule 7.1A at the 2016 AGM on 18 July 2017 but has not issued any Equity Securities under this authority.

As the Company has previously obtained Shareholder approval under Listing Rule 7.1A, the following information is provided to Shareholders, in accordance with Listing Rule 7.3A.6, regarding the Equity Securities issued since 18 July 2016:

Listing Rule 7.3A.6(a): Total Equity Securities issued since 18 July 2016 are set out in Table 2 below. The 100:1 Share Consolidation was approved by Shareholders and implemented. The figures in Table 2 include Pre-Share Consolidation Equity Securities for comparative purposes.

EXPLANATORY MEMORANDUM

Table 2

	Pre-Share Consolidation				Post Share Consolidation			
	Shares	Listed Options	Unlisted Options	Total	Shares	Listed Options	Unlisted Options	Total
Number of Equity Securities on issue at commencement of 12-month period to 18 July 2017	1,806,500,280	443,695,476	87,994,151	2,338,189,907	18,065,003	4,436,955	879,942	23,381,900
Equity Securities issued in prior 12-month period to 18 July 2017	6,928,599	-	-	6,928,599	69,286	-	-	69,286
Less Equity Securities cancelled in prior 12-month period to 18 July 2017	-	443,695,476	78,499,071	522,194,547	-	4,436,955	784,991	5,221,946
Number of Equity Securities on issue at 18 July 2017	1,813,428,879	-	9,495,080	1,822,923,959	18,134,289	-	94,951	18,229,240
Number of Equity Securities on issue at 18 July 2017	1,813,428,879	-	9,495,080	1,822,923,959	18,134,402 ¹	-	94,951	18,229,353
Equity Securities issued in prior period from 18 July 2017 to current date	4,679,911,281	-	-	4,679,911,281	46,799,113	-	-	46,799,113
Less Equity Securities cancelled in prior period from 18 July 2017 to current date	-	-	9,495,080	9,495,080	-	-	94,951	94,951
Current number of Equity Securities on issue	6,493,340,160	-	-	6,493,340,160	64,933,515	-	-	64,933,515
New Equity Securities as a proportion of Shares on issue on issue at 18 July 2017								258%
New Equity Securities as a proportion of total Equity Securities on issue on issue at 18 July 2017								257%

Listing Rule 7.3A.6(b): Details of Equity Securities issued since 18 July 2016 and prior to the date of the AGM are set out in Schedule 2.

3.13 Kam Lung Convertible Notes

The Kam Lung Convertible Notes will be convertible in whole or in part into Shares (“Notes Conversion”) at the option of the Noteholder at any time and from time to time on or after the first anniversary of the Completion Date up to and including the maturity date of the Kam Lung Facility, which is five years from the issue of the notes. The conversion price will be calculated using the following formula:

$$\text{Conversion Price} = 125\% \times \text{VWAP}$$

where **VWAP** means the volume-weighted average price of the Company’s Shares traded on the ASX in the 20 dealing days immediately preceding (but not including) the first anniversary of the Completion Date.

¹ Includes additional 113 Shares due to rounding.

EXPLANATORY MEMORANDUM

At any relevant time on which Shares are issued under the terms of the Kam Lung Convertible Notes, the maximum number of Shares that the Kam Lung Convertible Notes held by Kam Lung can be converted into at any time is subject to the 90% holder limitation. At this point, Kam Lung would have a Relevant Interest in, and Voting Power of, approximately 90% of the Shares (depending on the number of other securities on issue at that point). For the avoidance of doubt, if the Kam Lung Convertible Notes are converted in part into Shares, the balance of the amount owing under the Kam Lung Convertible Notes shall remain outstanding in accordance with the terms of the Kam Lung Convertible Notes.

As the 90% holder limitation applies to:

- (a) the number of Interest Shares that can be issued to Kam Lung at any relevant time; and
- (b) the number of Shares that can be issued to Kam Lung at any time as a result of a conversion of the Kam Lung Convertible Notes,

the maximum Voting Power that Kam Lung could hold as a result of either of the above is 90%. Assuming that Kam Lung holds 80% Voting Power prior to the issue of any Interest Shares or the conversion of any Kam Lung Convertible Notes, the maximum extent of the increase in Kam Lung's Voting Power as a result of either of the above is 10%.

As a result of the 90% holder limitation, the maximum dilutionary effect to Non-Interested Shareholders caused by (1) the conversion by Kam Lung of Kam Lung Convertible Notes into Shares or (2) the issue of Interest Shares to Kam Lung is 50% (i.e. Non-Interested Shareholders who hold approximately 17.4% at the relevant time would be diluted to approximately 8.7%).

3.14 Voting Exclusion Statement

A voting exclusion statement is included in the Notice of Meeting. At the date of the Notice of Meeting, the proposed allottees of any Placement Securities are not as yet known or identified. In these circumstances (and in accordance with the note set out in Listing Rule 14.11.1 relating to Listing Rules 7.1 and 7.1A), for a person's vote to be excluded, it must be known that that person will participate in the proposed issue. Where it is not known who will participate in the proposed issue (as is the case in respect of the Placement Securities), Shareholders must consider the proposal on the basis that they may or may not get a benefit and that it is possible that their holding will be diluted and there is no reason to exclude their votes.

Recommendation of Directors

The Directors recommend that the Shareholders vote in favour of the Resolution 3 to approve 10% Placement Capacity.

EXPLANATORY MEMORANDUM

SCHEDULE 1 – INTERPRETATION

The following terms used in the Notice of Meeting and the Explanatory Memorandum are defined as follows:

Administrators means Tim Michael and Will Colwell of Ferrier Hodgson in their capacity as joint and several administrators of the Company, Carbon Holdings and Carbon Operations under Part 5.3A of the Corporations Act.

Annual Report means the consolidated annual report for the Company for the financial year ended 30 June 2017.

Associate has the meaning set out in section 12 of the Corporations Act, as if subsection 12(1) of the Corporations Act included a reference to this Explanatory Memorandum and the Company was the designated body, unless that term is being used in the context of an approval under the Listing Rules in which case that term has the meaning given in the Listing Rules.

ASX means ASX Limited ABN 98 008 624 691 and, where the context requires, the financial market that it operates.

Board means the board of directors of the Company.

Carbon Energy Group means the Company and each of its controlled entities (as set out in the 2017 Annual Report).

Carbon Holdings means Carbon Energy (Holdings) Pty Ltd ACN 120 429 209.

Carbon Operations means Carbon Energy (Operations) Pty Ltd ACN 105 176 967.

Closely Related Party (as defined in the Corporations Act) of a member of the Key Management Personnel for an entity means:

- (a) a spouse or child of the member; or
- (b) a child of the member's spouse; or
- (c) a dependant of the member or the member's spouse; or
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the entity; or
- (e) a company the member controls; or
- (f) a person prescribed by the regulations for the purposes of this paragraph.

Closing Market Price has the meaning given to that term in the Listing Rules.

Completion Date has the meaning given in the DOCA.

Company means Carbon Energy Limited ABN 56 057 552 137.

Corporations Act means the *Corporations Act 2001* (Cth) as amended from time to time.

Deed Companies means the Company, Carbon Holdings and Carbon Operations.

Directors mean directors of the Company.

DOCA means the deed of company arrangement in respect of the Deed Companies dated 9 March 2017, as amended on 26 May 2017.

End of Day means on any trading day, 7.00pm AEDT or such other time as ASX Settlement may from time to time determine.

Equity Securities has the meaning given to that term in the Listing Rules.

Explanatory Memorandum means this explanatory memorandum accompanying, and forming part of, the Notice of Meeting.

Group Company means a company forming part of the consolidated entity (as that term is defined in the Corporations Act) which includes the Company.

Independent Expert's Report means the BDO Corporate Finance (QLD) Ltd report titled "Carbon Energy Limited Independent Expert's Report" and dated 24 May 2017.

Interest Shares means Shares that may be issued to Kam Lung under the terms of the Kam Lung Convertible Notes as a result of a conversion of accrued interest to Shares.

Kam Lung means Kam Lung Investment Development Company Limited, a company incorporated in the People's Republic of China (or, where applicable, its nominee).

Kam Lung Convertible Notes means convertible notes issued by the Company under the Kam Lung Facility with a principal amount of \$1,000 each, approved on 18 July 2017 by Shareholders.

Kam Lung Facility means the secured convertible note facility to be provided to the Company by Kam Lung, as contemplated in the DOCA.

Key Management Personnel are (in respect of an entity) those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any director (whether executive or otherwise) of that entity.

Listing Rules means the official listing rules of the ASX as amended from time to time.

Meeting or **Annual General Meeting** or **AGM** means the Annual General Meeting of Shareholders to be held the offices of McCullough Robertson Lawyers, Level 11 Central Plaza Two, 66 Eagle Street, Brisbane, Queensland on 29 November 2017 at 10.00am AEST.

Non-Interested Shareholders means all Shareholders other than any Pacific Road Group entity or Kam Lung.

Noteholder means the holder of Kam Lung Convertible Notes from time to time.

Notice of Meeting means the notice of meeting convening the Meeting.

Option means an option to subscribe for a Share.

Ordinary Resolution means a resolution passed by more than 50% of the votes cast at a general meeting of shareholders.

Pacific Road Group means PRCM Nominees Pty Limited as trustee of the Pacific Road CE Trust, Pacific Road Holdings S.a.r.l. (a company registered with the Luxembourg Register of Commence and Companies under number B 133.143), Pacific Road Resources Fund L.P. (a limited

EXPLANATORY MEMORANDUM

partnership established under the laws of England and Wales and with registered number LP011774) represented by Pacific Road Capital Management GP Limited, and PRCM Nominees Pty Ltd as trustee of the Carbon Energy Security Trust and Pacific Road Capital Management Pty Ltd ACN 117 934 586.

Post Consolidation Share(s) means a Share(s) immediately after 100 for 1 Share consolidation on 24 July 2017.

Pre-Consolidation Share(s) means a Share(s) immediately before 100 for 1 Share consolidation on 24 July 2017.

Related Party has the meaning given to that term in section 228 of the Corporations Act.

Relevant Interest has the meaning given to it in sections 608 and 609 of the Corporations Act.

Relevant Interest Acquisition has the meaning given to it the glossary and in section 1.0 of the Independent Expert's Report

Resolution means a resolution to be proposed at the Meeting.

Security Transaction has the meaning given to it in the glossary and in section 1.0 of the Independent Expert's Report.

Shareholder means a holder of Shares in the Company.

Shares means fully paid ordinary shares in the Company.

Special Resolution means a resolution:

- (a) of which notice has been given as set out in paragraph 249L(1)(c) of the Corporations Act; and
- (b) that has been passed by at least 75% of the votes cast by members entitled to vote on the resolution.

Trading Day has the meaning given to that term in the Listing Rules.

Voting Power has the meaning given to it by section 610 of the Corporations Act.

Volume Weighted Average Market Price has the meaning given to that term in the Listing Rules.

EXPLANATORY MEMORANDUM

SCHEDULE 2 – EQUITY SECURITIES ISSUED SINCE 18 JULY 2016 AND PRIOR TO THE DATE OF THE AGM

Date of Issue	Number Issued	Class/ Type of equity security	Summary of terms	Names of persons who received securities or basis on which those persons was determined	Price at which equity securities were issued	Discount to market price (if any)	For cash issues:				For non-cash issues:	
							Total cash consideration received	Amount of cash consideration spent	Use of cash consideration	Intended use for remaining amount of cash (if any)	Non-cash consideration paid	Current value of that non-cash consideration
18 July 2017	4,679,911,281	Fully paid ordinary shares (Pre-consolidation)	Shares rank pari passu with all other fully paid ordinary shares on issue in the Company.	Kam Lung Investment Development Co Ltd	\$0.000823 per share	N/A	\$3,850,000	\$300,000	\$300,000 paid into creditors' trust for claims of the creditors of the Deed Companies	N/A	N/A	N/A
								\$3,550,000	\$1,150,000 expenditure for: <ul style="list-style-type: none"> • General working capital • Administrators' unpaid fees and expenses • Legal and other professional costs for the Company related to the Relevant Interest Acquisition and the Security Transaction 	\$2,400,000 for general working capital		
30 August 2016	6,924,582	Fully paid ordinary shares	Shares rank pari passu with all other fully paid ordinary shares on issue in the Company.	PRCM Nominees Pty Ltd (1,375,220 shares) and Pacific Road Holdings NV (5,549,362 shares)	\$0.0182 per share (deemed issue price)	30% premium	Nil	N/A	N/A	N/A	In consideration of the interest costs, payable quarterly in arrears, in relation to the \$10M Pacific Road Convertible Note Facility	\$126,027
28 July 2016	4,017	Fully paid ordinary shares	Shares rank pari passu with all other fully paid ordinary shares on issue in the Company.	Listed Options attached to each new share allocated in the Prospectus dated 13 November 2013.	\$0.05941	Nil	\$239	\$239	General working capital	N/A	N/A	N/A

EXPLANATORY MEMORANDUM

PROXIES AND REPRESENTATIVES

Shareholders are entitled to appoint a proxy to attend and vote on their behalf. Where a Shareholder is entitled to cast two or more votes at the Meeting, they may appoint two proxies. Where more than one proxy is appointed, each proxy may be appointed to represent a specific proportion or number of votes the shareholder may exercise. If the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes. The proxy may, but need not, be a shareholder of the Company.

Shareholders who are a body corporate are able to appoint representatives to attend and vote at the Meeting under Section 250D of the Corporations Act.

The proxy form must be signed by the Shareholder or his/her attorney duly authorised in writing or, if the Shareholder is a corporation, in a manner permitted by the Corporations Act.

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be **given to the Company's Share Registry, Link Market Services Limited**, in the manner indicated in the instructions to the proxy form, not less than 48 hours before the time for holding the Meeting, or adjourned Meeting as the case may be, at which the individual named in the proxy form proposes to vote.

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the Company's share registry.

A proxy form is attached to this Notice.

VOTING ENTITLEMENT

For the purposes of determining voting entitlements at the Meeting, shares will be taken to be held by the persons who are registered as holding the shares at End of Day on Monday, 27 November 2017. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

SIGNING INSTRUCTIONS

You must sign the proxy form as follows in the spaces provided:

Individual: Where the holding is in one name, the holder must sign.

Joint Holding: Where the holding is in more than one name, any Shareholder may sign.

Power of Attorney: To sign under Power of Attorney, you must lodge this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place



carbonenergy

ABN 56 057 552 137

LODGE YOUR VOTE

ONLINE
www.linkmarketservices.com.au

BY MAIL
Carbon Energy Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

BY FAX
+61 2 9287 0309

BY HAND
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138

ALL ENQUIRIES TO
Telephone: +61 1300 554 474

PROXY FORM

I/We being a member(s) of Carbon Energy Limited and entitled to attend and vote hereby appoint:

APPOINT A PROXY

the Chairman of the Meeting (mark box)

OR if you are NOT appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

Blank box for proxy name

STEP 1

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Annual General Meeting of the Company to be held at 10:00am on Wednesday, 29 November 2017 at the offices of McCullough Robertson Lawyers, Level 11, Central Plaza Two, 66 Eagle Street, Brisbane Queensland (the Meeting) and at any postponement or adjournment of the Meeting.

Important for Resolution 1: If the Chairman of the Meeting is your proxy, either by appointment or by default, and you have not indicated your voting intention below, you expressly authorise the Chairman of the Meeting to exercise the proxy in respect of Resolution 1, even though the Resolution is connected directly or indirectly with the remuneration of a member of the Company's Key Management Personnel (KMP).

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting. Please read the voting instructions overleaf before marking any boxes with an X

STEP 2

Resolutions

Table with 3 columns: Resolutions, For, Against, Abstain*. Contains 3 rows of resolutions for voting.

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Signature lines for Shareholder 1 (Individual), Joint Shareholder 2 (Individual), Joint Shareholder 3 (Individual), Sole Director and Sole Company Secretary, Director/Company Secretary (Delete one), Director.

STEP 3

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the Corporations Act 2001 (Cth).

CNX PRX1702C



HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form, including where the Resolution is connected directly or indirectly with the remuneration of KMP.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am on Monday, 27 November 2017**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).



BY MOBILE DEVICE

Our voting website is designed specifically for voting online. You can now lodge your proxy by scanning the QR code adjacent or enter the voting link www.linkmarketservices.com.au into your mobile device. Log in using the Holder Identifier and postcode for your shareholding.

QR Code



To scan the code you will need a QR code reader application which can be downloaded for free on your mobile device.



BY MAIL

Carbon Energy Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



BY FAX

+61 2 9287 0309



BY HAND

delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

* During business hours (Monday to Friday, 9:00am–5:00pm)

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**