

17 February 2017

ASX Announcement & Shareholder Communication No. 4 Carbon Energy Limited (ASX: CNX)

- **Proposed recapitalisation of Carbon Energy Limited and its subsidiaries by way of Deed of Company Arrangement and Creditors' Trust**
- **Kam Lung to provide a new convertible note subscription facility and to take a controlling interest**
- **Mr George Su to be appointed to the Board**

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).

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 key terms of the recapitalisation by way of a Deed of Company Arrangement ("DOCA") and Creditors' Trust (subject, among other things, to creditor and shareholder approval) provide for the following:

- Carbon and its subsidiaries to continue operations as a going concern;
- Pacific Road has agreed to accept \$9 million from Carbon (funded by a secured loan from Kam Lung) in full and final settlement of all monies and obligations owing to them in relation to the Company's Convertible Note, including the transfer of all shares held by them to Kam Lung;
- Kam Lung will provide \$3.85 million in new equity capital in return for the issue of new shares, such that its resulting shareholding, inclusive of the Pacific Road shares, will be 80%;
- \$300,000 of the new capital will be utilised to create a Creditors Trust for the settlement of amounts owing to unsecured creditors by way of a dividend;
- All current staff and key contractors will continue to be engaged by Carbon or its subsidiaries (as applicable);
- The meeting of creditors, to vote on the DOCA proposal is currently scheduled for Thursday, 2 March 2017;

- Signing of the DOCA will occur very shortly after the meeting of creditors, at which point control of the Company and its subsidiaries will return to the Board of Directors;
- Will Colwell and Tim Michael to become Administrators of the DOCA and will have a monitoring and assistance role only and will also be appointed Trustees of the Creditors Trust to administer the Creditors' Trust fund and make distributions to the creditor beneficiaries;
- A further \$1.3 million will be provided by Kam Lung for Carbon's working capital requirements from March 2017 until the shareholders' meeting, anticipated to be in May 2017;
- Mr George Su to be appointed to the Board as a Non-executive director by the Administrators prior to execution of the Deed of Company Arrangement; and
- Carbon will relist on the ASX, subject to necessary ASX approvals.

In October 2016, the Company announced that Dr Chris Rawlings would retire from the Carbon Energy Board at the conclusion of the Company's Annual General Meeting, which at the time of the announcement was expected to occur in late November 2016. Dr Rawlings will now retire from the Carbon Energy Board upon execution of the Deed of Company Arrangement.

The Administrators' 439A report is currently scheduled to be issued to all creditors, employees and contractors on 21 February 2017. A copy of the report will be available on the ASX and the Company's and Ferrier Hodgson's websites once issued.

The second creditors meeting is currently scheduled for 2 March 2017, where creditors will vote on the Kam Lung proposal for a DOCA and Creditors Trust. If approved by creditors, a shareholders' meeting will be convened to seek the necessary shareholder approvals to give effect to the DOCA proposal. The shareholders' meeting is anticipated to be held in May 2017.

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

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