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Carbon Energy (Operations) Pty Ltd

ABN 61 105 176 967

ASX / Media Announcement

11 March 2016

Not for release in the United States

\$5.3M Partially Underwritten Renounceable Rights Issue

- **3 for 11 partially underwritten renounceable rights issue to eligible shareholders to raise up to approximately \$5.3M (before costs).**
- **APP underwriting shortfall of the rights issue to \$1.8M, supported by cornerstone investor Kam Lung.**
- **Kam Lung to take up its full entitlement amounting to \$1.05M.**

Carbon Energy Limited ACN 057 552 137 (Carbon Energy or Company ASX:CNX, OTCQX: CNXAY) announces a 3 for 11 partially underwritten renounceable rights issue to eligible shareholders at 1.3 cents per share to raise up to approximately A\$5.3 million (before costs) based on Carbon Energy's undiluted share capital ("**Rights Issue**") (assuming the Rights Issue is fully subscribed). The offer price of 1.3 cents per share represents a 19.2% discount to the volume weighted average trading price for the five trading days to 8 March 2016 and a 13.3% discount to the closing price on 8 March 2016.

The Rights Issue has the support of the Company's cornerstone investor Kam Lung Investment Development Co. Ltd (**Kam Lung**), which is sub-underwriting any shortfall to the Rights Issue to \$1.8 million.

Kam Lung has also confirmed that it will be taking up its full entitlement amounting to \$1.05 million. This support from Kam Lung further cements the relationship between Carbon Energy and Kam Lung, and reinforces the confidence Kam Lung has in employing the Company's keyseam® UCG technology in China through the China JinHong New Energy Joint Venture.

"We are pleased that Kam Lung recognises the strength of Carbon Energy's technology and the opportunity that it can create in newly industrialised countries like China and also the confidence Kam Lung has shown in the Company and its management team," said Managing Director Morné Engelbrecht. "We believe the China joint venture will provide an increasingly important contribution towards the Company's future cash inflows, and growth prospects not only in China but around the world."

APP Securities Limited has been appointed Lead Manager and Underwriter to the Rights Issue and will assist Carbon Energy in managing shareholder participation and placement of any shortfall.

In accordance with the ASX Listing Rules, Carbon Energy has considered the number of shareholders with registered addresses outside of Australia, New Zealand, Hong Kong, China and the size of the shareholdings held by those shareholders. Taking this into consideration, as well as the costs of complying with the legal requirements and the requirements of the regulatory authorities relating to the shareholders with registered addresses outside of Australia, New Zealand, Hong Kong and China, the Company has formed the view that it is unreasonable to extend the Rights Issue to those shareholders. Accordingly, shareholders outside of Australia, New Zealand, Hong Kong and China will not be entitled to participate in the Rights Issue.

Funds raised will ensure Carbon Energy's continued international expansion and allows the Company to continue the rehabilitation plans for Bloodwood Creek, MDL 374.

The proceeds of the Entitlement Offer will be used for the following purposes:

- (a) pursuing International and Australian business development opportunities;
- (b) progressing the activities of the work plan for the Company's mineral development licence (MDL374), that include the continuation of the Company's ground water monitoring program under its Environmental Authority which form part of its Rehabilitation Plan for the trial site near Dalby, in South East Queensland;
- (c) meeting general working capital requirements; and
- (d) paying offer costs.

The Rights Issue is being made in accordance with section 708AA of the Corporations Act 2001 (Cth) (**Corporations Act**). Carbon Energy will prepare and send an information booklet to all eligible shareholders on 22 March 2016, as set out in the timetable below.

The Rights Issue will be available to all registered shareholders who hold shares at 7pm AEDT on 17 March 2016 ("**Record Date**") with registered addresses in Australia, New Zealand, Hong Kong and China (and, in respect of China, is a "qualified domestic institutional investor") ("**Eligible Shareholders**"). Eligible Shareholders will be entitled to apply for any shortfall after subscribing for their full entitlement. Fractional entitlements will be rounded down.

Shares issued pursuant to the Rights Issue will rank equally with all shares on issue.

The Entitlement Offer is renounceable, meaning that Eligible Shareholders may sell their Entitlements to third parties if they do not wish to take them up. A market will be established on ASX to facilitate this Entitlements trading. Carbon Energy has appointed a nominee to sell the entitlements of ineligible shareholders. The net proceeds of the sale will be remitted to ineligible shareholders.

Option holders need to exercise their options and be a registered holder of shares on the Record Date if they wish to participate in the Rights Issue.

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Entitlements trading commences on ASX on 16 March 2016 and will cease trading at 5.00pm (AEDT) on 24 March 2016.

Further information in relation to the Rights Issue will be set out in an information booklet which the Company intends to lodge shortly with ASX and which will be sent to Eligible Shareholders, with a personalised entitlement and acceptance form, when the securities are offered. An Appendix 3B applying for quotation of the new shares under the Rights Issue will be lodged with ASX shortly.

The proposed timetable for the Rights Issue is set out in the table below:

Activity	Date
Announcement of the Entitlement Offer	11 March 2016
Ex date	16 March 2016
Record Date for Entitlement Offer (7.00pm AEDT)	17 March 2016
Information Booklet and Entitlement and Acceptance Form despatched	22 March 2016
Entitlement Offer opens	22 March 2016
Entitlement trading begins	16 March 2016
Entitlements trading ends (5.00pm AEDT)	24 March 2016
New Shares quoted on a deferred settlement basis	29 March 2016
Closing date for acceptances under Entitlement Offer (5.00pm AEST)	4 April 2016
Announcement of results of Entitlement Offer and under-subscriptions	7 April 2016
Allotment of New Shares issued under the Entitlement Offer	11 April 2016
Normal ASX trading for New Shares issued under the Entitlement Offer commences	13 April 2016
Anticipated despatch of holding statements for New Shares issued under the Entitlement Offer	14 April 2016

This timetable is indicative only and may be subject to change subject to the requirements of the Corporations Act and the ASX Listing Rules.

ENDS

For and on behalf of the Board

Morné Engelbrecht
Chief Executive Officer and Managing Director

This announcement has been prepared for release in Australia. It does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States nor any other jurisdiction. The securities in the Rights Issue have not been, and will not be, registered under the US Securities Act of 1933 or any state securities laws and, accordingly, may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws.