



carbonenergy

Carbon Energy Limited | ABN 56 057 552 137

ASX Announcement

25 October 2016

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Cornerstone Investor Support Secures Carbon Energy's Pathway Forward

- **Cornerstone investor Kam Lung to purchase \$10m Convertible Note**
- **Proposed \$5 million rights issue to place Company in a stronger financial position – to be 70% underwritten by Kam Lung**
- **Extension of time to hold 2016 Annual General Meeting granted**
- **Pacific Road appointed to monetise the Company's coal assets**

Carbon Energy Limited (ASX:CNX, OTCQX:CNXAY) today announces that with the backing of its cornerstone investor, Kam Lung Investment Development Co Ltd ("Kam Lung"), it has secured funding for the refinancing of the Company's \$10 million Convertible Note ("Convertible Note") as well as establishing a solid foundation for growth in the years ahead.

Kam Lung to purchase \$10 million convertible note

In a strong show of support for seeing the Company's China Joint Venture progress to commercial production, Kam Lung has agreed to purchase the Convertible Note from Pacific Road Group.

The current Convertible Note will be extended for a further five years on substantially the same terms. Kam Lung will purchase the extended Convertible Note from the current holder Pacific Road, with Pacific Road receiving a mix of upfront and deferred cash consideration, including a refinancing fee, amounting to a total of \$10 million in cash consideration.

The negotiation of terms for the purchase of the Convertible Note has followed an extensive marketing program for the note that has been undertaken by PwC Securities and Magma Capital, targeting a large number of potential purchasers in Asia and Europe.

A summary of the key terms and consideration is set out below. Shareholders will be asked to approve the purchase by Kam Lung from Pacific Road of the extended Convertible Note at this year's Annual General Meeting, to be held in mid-December 2016.

Proposed \$5 million rights issue

As a condition precedent to Kam Lung acquiring the extended Convertible Note, the Company will secure additional financial support through the completion of a rights issue capital raising that is open to all shareholders, for a minimum amount of \$5 million.

The rights issue will be priced at 1.2c per share, being a 25% discount to the 90 trading day VWAP and an 8% discount to the 5 day VWAP price.

Attached to every two shares subscribed for will be one listed option, with a strike price of 2.4c and a three year life.

Kam Lung has agreed to underpin the rights issue through the provision of \$3.5 million in underwriting support. Kam Lung's commitment is a further showing of strong support by the Company's largest shareholder. In addition to Kam Lung providing underwriting support to the rights issue, the Company will be seeking to secure further underwriting opportunities from other sources.

The proceeds of the rights issue will be used to pay the costs associated with refinancing the current \$10 million Convertible Note and general working capital to pursue business development opportunities and ongoing commitment to rehabilitating the Bloodwood Creek trial site. It is expected that capital raised, together with the technical service fees to be generated from the JinHong Joint Venture and cost reduction initiatives will provide sufficient cash flow for at least the coming 12 months.

More information regarding the proposed rights issue will be announced following the outcome of the resolution for approval of the purchase of the extended Convertible Note by Kam Lung to be considered by shareholders at the Company's 2016 AGM.

Managing Director Kerry Parker commented today that "Extending the Company's debt facility by a further five years and resolving the Company's short-term financial capacity by securing underwriting support for our \$5 million rights issue is a significant milestone and will allow management to focus on progressing the China Joint Venture with JinHong Investment Development Co. Ltd and to pursue additional joint venture and other business opportunities in particular Asia and Europe. We appreciate the support that Mr Zhuang (Kam Lung) is providing and this reinforces Mr Zhuang and JinHong's commitment to progressing the China Joint Venture."

Extension granted for conducting the Company's 2016 Annual General Meeting

The Company advises that it has received approval from the Australian Securities and Investment Corporation ("ASIC") for the Company's request for an extension of time to hold its Annual General Meeting for the financial year ended 30 June 2016 ("2016 AGM").

The 2016 AGM will now be held in mid-December 2016.

The Corporations Act requires a publicly listed company to hold its Annual General Meeting within five months after the end of its financial year (30 November 2016), however there is an ability to apply to ASIC to request an extension to this time.

As the Company is required to seek approval from shareholders for entering into the extended Convertible Note with Kam Lung on the terms and conditions proposed, including the issue of quarterly interest shares, grant of security and financial assistance, the Company is presently preparing comprehensive meeting materials and has engaged advisors, including an independent expert, to assist with this.

Given the anticipated timing for concluding negotiations, the comprehensive materials that are contemplated and the costs that can be saved by combining the two shareholder meetings, the Company applied to ASIC who has approved an extension to the period within which the Company must hold its 2016 AGM from 30 November 2016 to 16 December 2016.

The Company will confirm the date of the 2016 AGM and will despatch a notice of meeting and accompanying documents to all shareholders in due course.

Pacific Road appointed to monetise the Company's coal assets

Pacific Road and the Company's subsidiary, Carbon Energy (Operations) Pty Limited ("CEO"), have entered into a letter agreement whereby Pacific Road will act for and represent CEO in seeking to solicit offers for the sale of CEO's thermal coal assets located in the Surat Basin of Queensland ("Marketing Services").

The Company has considered the strategic rationale for retaining its exploration permits for coal and has determined that the tenements no longer form a material part of the Company's portfolio of assets.

In consideration for the Pacific Road Group securing a buyer or buyers for the tenements, CEO will share the proceeds of the sale with Pacific Road on a 50:50 basis. Pacific Road will not be entitled to any fees or reimbursement of expenses.

The Marketing Services agreement will remain in place until 30 June 2018 (except that CEO will be entitled to terminate the engagement with respect to particular tenements, if the holding costs following renewal are expected to be materially higher than those that applied prior to the renewal date, and together the parties decide to allow the tenement to lapse rather than renewing it).

Carbon Energy continues to work with Photon Energy to progress the Company's plans for a renewable energy project at its Bloodwood Creek Project Site as a means for extracting value from its Queensland assets. With existing grid connection and supportive infrastructure, the site is ideally located for a solar power generation plant.

The partnership opportunity with Ascot Energy in Indonesia is progressing, with the recent marketing of the Company's Convertible Note also unlocking potential project finance partners.

ENDS

Kerry Parker
Managing Director and Chief Executive Officer

Further information :

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Summary of Key Terms and Consideration – Convertible Note refinancing
(further details will be set out in the 2016 AGM Notice of Meeting and accompanying
Explanatory Memorandum)

Nature of payment to Pacific Road	Quantum	Terms
Cash consideration	\$5 million	Kam Lung purchases \$10 million Convertible Note extended for 5 years from Pacific Road. All existing Pacific Road security transferred to Kam Lung.
Deferred cash consideration (Milestone Payment 1)	\$2 million	To be paid by JinHong Joint Venture or its nominees on achievement of commercial production from the JinHong JV. In consideration for this payment Carbon Energy will issue \$2 million worth of shares, to be issued at the same price as the proposed rights issue, to the JinHong JV or its nominees.
Deferred cash consideration (Milestone Payment 2)	\$2 million	To be paid by JinHong Joint Venture or its nominees on the first anniversary of Milestone Payment 1. In consideration for this payment Carbon Energy will issue \$2 million worth of shares, to be issued at the same price as the proposed rights issue, to the JinHong JV or its nominees.
Transaction Fee	\$1 million	Payable by Carbon Energy, upon closing of the proposed rights issue.

Key terms of the extended Convertible Note

Nature of payment to Pacific Road	Terms
Facility	\$10 million Convertible Note
Term	Five years
Interest	Payable at 5%, quarterly in arrears. The interest will be paid through the issuance of CNX securities at a volume weighted average price of CNX securities on ASX over the 5 trading days immediately prior to the date on which the interest payment is due.
Conversion Price	\$0.020
Conversion and Repayment	The principal outstanding under the Facility (being \$10 million), or any part of that amount, is not convertible by Kam Lung until the end of the Term at which time it may be converted into CNX shares at the Conversion Price. If the Facility is not converted at the end of the Term, the principal outstanding is payable by CNX to Kam Lung in full. CNX maintains its right to elect for Conversion if the 60 day VWAP is equal to or greater than \$0.053.