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Lawyers

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Sydney NSW 2000

Australia

12 May 2009

Fax

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ASX Limited
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Mr Prem Nair
Company Secretary
Carbon Energy Limited
Level 12
301 Coronation Drive
Milton
BRISBANE QLD 4066

By facsimile: 07 3337 9945

Our reference: 14258/16508/80085480

Number of Pages - 13 (including this cover page)

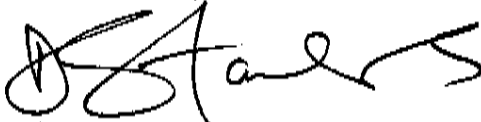
Dear Sirs,

NOTICE OF INITIAL SUBSTANTIAL HOLDER

We act for Pacific Road Capital A Pty Limited, Pacific Road Capital B Pty Limited and Pacific Road Capital Management G.P. Limited and lodge an executed 'Notice of Initial Substantial Holder' on behalf of:

1. Pacific Road Capital A Pty Limited and Pacific Road Capital B Pty Limited; and
2. Pacific Road Capital Management G.P. Limited

Yours sincerely



David Stammers, Partner
+61 2 9353 4180
dstammers@claytonutz.com

Form 603
Corporations Act 2001
Section 671B

Notice of initial substantial holder

To Company Name/Scheme Carbon Energy Limited

ACN/ARSN ACN 057 552 137

1. Details of substantial holder (1)

Name Pacific Road Capital A Pty Limited (ACN 123 091 976); and
Pacific Road Capital B Pty Limited (ACN 123 091 930).

ACN/ARSN (if applicable) As above

The holder became a substantial holder on 26 March 2010

2. Details of voting power

The total number of votes attached to all the voting shares in the company or voting interests in the scheme that the substantial holder or an associate (2) had a relevant interest (3) in on the date the substantial holder became a substantial holder are as follows:

| Class of securities (4) | Number of securities | Person's votes (5) | Voting power (6) |
|-------------------------|----------------------|--------------------|------------------|
| Ordinary Shares | 87,346,154 | 87,346,154 | 14.8 |

3. Details of relevant interests

The nature of the relevant interest the substantial holder or an associate had in the following voting securities on the date the substantial holder became a substantial holder are as follows:

| Holder of relevant interest | Nature of relevant interest (7) | Class and number of securities |
|--|--|---|
| Pacific Road Capital A Pty Limited | Relevant interest in ordinary shares in Carbon Energy Limited under s608(8) of the Corporations Act 2001 (Cth) | 8,673,473 ordinary shares in Carbon Energy Limited |
| | Relevant interest in ordinary shares in Carbon Energy Limited under s608(3) Corporations Act 2001 (Cth) | 87,346,154 ordinary shares in Carbon Energy Limited |
| Pacific Road Capital B Pty Limited | Relevant interest in ordinary shares in Carbon Energy Limited under s608(8) of the Corporations Act 2001 (Cth) | 8,673,473 ordinary shares in Carbon Energy Limited |
| | Relevant interest in ordinary shares in Carbon Energy Limited under s608(3) Corporations Act 2001 (Cth) | 87,346,154 ordinary shares in Carbon Energy Limited |
| Pacific Road Capital Management G.P. Limited | Relevant interest in ordinary shares in Carbon Energy Limited under s608(8) of the Corporations Act 2001 (Cth) | 69,999,208 ordinary shares in Carbon Energy Limited |
| | Relevant interest in ordinary shares in Carbon Energy Limited under s608(3) Corporations Act 2001 (Cth) | 87,346,154 ordinary shares in Carbon Energy Limited |

4. Details of present registered holders

The persons registered as holders of the securities referred to in paragraph 3 above are as follows:

| Holder of relevant interest | Registered holder of securities | Person entitled to be registered as holder (8) | Class and number of securities |
|--|--|--|---|
| Pacific Road Capital A Pty Limited | Commonwealth Scientific and Industrial Research Organisation (CSIRO) | Commonwealth Scientific and Industrial Research Organisation (CSIRO) | 87,346,154 ordinary shares in Carbon Energy Limited |
| Pacific Road Capital B Pty Limited | As above. | As above. | As above. |
| Pacific Road Capital Management G.P. Limited | As above. | As above. | As above. |

5. Consideration

The consideration paid for each relevant Interest referred to in paragraph 3 above, and acquired in the four months prior to the day that the substantial holder became a substantial holder is as follows:

| Holder of relevant interest | Date of acquisition | Consideration (9) | | Class and number of securities |
|--|--|-------------------|----------|--------------------------------|
| | | Cash | Non-cash | |
| Pacific Road Capital A Pty Limited | 26 March 2010 | | N/A | 5,858,677 Ordinary Shares |
| | Option exercisable within 24 months from the date of acceptance of original offer. | \$3,515,206.20 | N/A | 2,814,796 Ordinary Shares |
| Pacific Road Capital B Pty Limited | 26 March 2010 | | N/A | 5,858,677 Ordinary Shares |
| | Option exercisable within 24 months from the date of acceptance of original offer. | \$3,515,206.20 | N/A | 2,814,796 Ordinary Shares |
| Pacific Road Capital Management G.P. Limited | 26 March 2010 | | N/A | 47,282,411 Ordinary Shares |
| | Option exercisable within 24 months from the date of acceptance of original offer. | \$28,369,446.60 | N/A | 22,718,797 Ordinary Shares |

6. Associates

The reasons the persons named in paragraph 3 above are associates of the substantial holder are as follows:

| Name and ACN/ARSN (if applicable) | Nature of association |
|---|---|
| Pacific Road Capital A Pty Limited, Pacific Road Capital B Pty Limited Pacific Road Capital Management G.P. Limited | Associates of each other by virtue of s12(2) of the Corporations Act. |

7. Addresses

The addresses of persons named in this form are as follows:

| Name | Address |
|--|---|
| Pacific Road Capital A Pty Limited | Level 23, Gold Fields House, 1 Alfred Street, Sydney NSW 2000 |
| Pacific Road Capital B Pty Limited | Level 23, Gold Fields House, 1 Alfred Street, Sydney NSW 2000 |
| Pacific Road Capital Management G.P. Limited | 89 Nexus Way, Camana Bay, Grand Cayman KY1, Cayman Islands |
| Commonwealth Scientific and Industrial Research Organisation (CSIRO) | Riverside Corporate Park, 5 Julius Avenue, North Ryde, 2113 |

Signature

print name Greg Dick capacity Secretary, Pacific Road Capital A Pty Limited

sign here [Signature] date 30 / 3 / 2010

print name Greg Dick capacity Secretary, Pacific Road Capital B Pty Limited

sign here [Signature] date 30 / 3 / 2010


DIRECTIONS

- (1) If there are a number of substantial holders with similar or related relevant interests (eg. a corporation and its related corporations, or the manager and trustee of an equity trust), the names could be included in an annexure to the form. If the relevant interests of a group of persons are essentially similar, they may be referred to throughout the form as a specifically named group if the membership of each group, with the names and addresses of members is clearly set out in paragraph 7 of the form.
 - (2) See the definition of "associate" in section 9 of the Corporations Act 2001.
 - (3) See the definition of "relevant interest" in sections 608 and 671B(7) of the Corporations Act 2001.
 - (4) The voting shares of a company constitute one class unless divided into separate classes.
 - (5) The total number of votes attached to all the voting shares in the company or voting interests in the scheme (if any) that the person or an associate has a relevant interest in.
 - (6) The person's votes divided by the total votes in the body corporate or scheme multiplied by 100.
 - (7) Include details of:
 - (a) any relevant agreement or other circumstances by which the relevant interest was acquired. If subsection 671B(4) applies, a copy of any document setting out the terms of any relevant agreement, and a statement by the person giving full and accurate details of any contract, scheme or arrangement, must accompany this form, together with a written statement certifying this contract, scheme or arrangement; and
 - (b) any qualification of the power of a person to exercise, control the exercise of, or influence the exercise of, the voting powers or disposal of the securities to which the relevant interest relates (indicating clearly the particular securities to which the qualification applies).
- See the definition of "relevant agreement" in section 9 of the Corporations Act 2001.
- (8) If the substantial holder is unable to determine the identity of the person (eg. if the relevant interest arises because of an option) write "unknown."
 - (9) Details of the consideration must include any and all benefits, moneys and other, that any person from whom a relevant interest was acquired has, or may, become entitled to receive in relation to that acquisition. Details must be included even if the benefit is conditional on the happening or not of a contingency. Details must be included of any benefit paid on behalf of the substantial holder or its associate in relation to the acquisitions, even if they are not paid directly to the person from whom the relevant interest was acquired.
-



Pacific Road
Capital Management

This is a true copy of the relevant parts of the relevant agreement relating to the Notice of initial substantial holder issued by Pacific Road Capital A Pty Limited and Pacific Road Capital B Pty Limited¹.


Signed

30/3/2010
Dated

~~STRICTLY CONFIDENTIAL~~

Karl Rodrigues
Executive Manager, IP, Licensing & Technology Transfer Support
CSIRO Operations
Riverside Corporate Park
5 Julius Avenue
North Ryde NSW 2113

24 March 2010

Dear Karl,

Carbon Energy Limited

1. Introduction

I refer to your advice on Monday 22 March 2010, that a sub-committee of the CSIRO Board has agreed to the terms under which CSIRO would sell its interest in Carbon Energy Limited ("CNX") to the Pacific Road Resources Fund ("PRRF"). Pacific Road Capital Management ("PRCM") as manager and adviser to PRRF is agreeable to those terms which are set out below in the following offer.

2. Offer

Offer to acquire 10% of the issued shares of CNX

PRRF offers to acquire 58,999,765 shares in CNX at a price of \$0.60 per share ("Offer").

Option over the remaining 4.8% of CNX shares held by CSIRO

In recognition and as a condition of the share price premium contained in the Offer, PRRF will be granted a call option over CSIRO's remaining 28,346,389 CNX shares ("Call Option"). The Call Option exercise price will be \$0.93 per share, exercisable on the date twenty four months from CSIRO's acceptance of this Offer or an earlier date if mutually acceptable to CSIRO, and PRRF.

Documentation of the terms and conditions of the Call Option must occur prior to the financial close of the sale and purchase of the initial 10% of the CNX issued shares.

1. Parts of this document which are not terms of the offer to acquire shares in CNX have been redacted on the basis that they are confidential and do not impact the acquisition of shares or options over shares in CNX in any way.

Page 1

Offer available 5 days

This Offer is open for acceptance until Friday, 26 March 2010 on the terms set out herein.
The Offer may be accepted by CSIRO earlier.

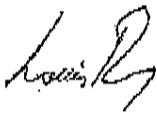
Offer is strictly confidential

This Offer is market sensitive and should be treated as strictly confidential.

Acceptance

If this Offer is acceptable to CSIRO please arrange for a duly authorised CSIRO Officer to sign and return the attached copy of this letter.

Yours sincerely,



Louis Rozman

Director

CSIRO acknowledges receipt of your letter dated 24 March 2010, and its duly authorised officer confirms CSIRO's acceptance of the terms and conditions.

Date

Form 603
Corporations Act 2001
Section 671B

Notice of initial substantial holder

To Company Name/Scheme Carbon Energy Limited

ACN/ARSN ACN 057 562 137

1. Details of substantial holder (1)

Name Pacific Road Capital Management G.P. Limited

ACN/ARSN (if applicable) N/A

The holder became a substantial holder on 28 March 2010

2. Details of voting power

The total number of votes attached to all the voting shares in the company or voting interests in the scheme that the substantial holder or an associate (2) had a relevant interest (3) in on the date the substantial holder became a substantial holder are as follows:

| Class of securities (4) | Number of securities | Person's votes (5) | Voting power (6) |
|-------------------------|----------------------|--------------------|------------------|
| Ordinary Shares | 87,346,154 | 87,346,154 | 14.8 |

3. Details of relevant interests

The nature of the relevant interest the substantial holder or an associate had in the following voting securities on the date the substantial holder became a substantial holder are as follows:

| Holder of relevant interest | Nature of relevant interest (7) | Class and number of securities |
|--|--|---|
| Pacific Road Capital Management G.P. Limited | Relevant interest in ordinary shares in Carbon Energy Limited under s608(6) of the Corporations Act 2001 (Cth) | 66,999,208 ordinary shares in Carbon Energy Limited |
| | Relevant interest in ordinary shares in Carbon Energy Limited under s608(3) Corporations Act 2001 (Cth). | 87,346,154 ordinary shares in Carbon Energy Limited |
| Pacific Road Capital A Pty Limited | Relevant interest in ordinary shares in Carbon Energy Limited under s608(6) of the Corporations Act 2001 (Cth) | 8,673,473 ordinary shares in Carbon Energy Limited |
| | Relevant interest in ordinary shares in Carbon Energy Limited under s608(3) Corporations Act 2001 (Cth) | 87,346,154 ordinary shares in Carbon Energy Limited |
| Pacific Road Capital B Pty Limited | Relevant interest in ordinary shares in Carbon Energy Limited under s608(6) of the Corporations Act 2001 (Cth) | 8,673,473 ordinary shares in Carbon Energy Limited |
| | Relevant interest in ordinary shares in Carbon Energy Limited under s608(3) Corporations Act 2001 (Cth) | 87,346,154 ordinary shares in Carbon Energy Limited |

4. Details of present registered holders

The persons registered as holders of the securities referred to in paragraph 3 above are as follows:

| Holder of relevant interest | Registered holder of securities | Person entitled to be registered as holder (8) | Class and number of securities |
|--|--|--|---|
| Pacific Road Capital A Pty Limited | Commonwealth Scientific and Industrial Research Organisation (CSIRO) | Commonwealth Scientific and Industrial Research Organisation (CSIRO) | 87,346,154 ordinary shares in Carbon Energy Limited |
| Pacific Road Capital B Pty Limited | As above. | As above. | As above. |
| Pacific Road Capital Management G.P. Limited | As above. | As above. | As above. |

5. Consideration

The consideration paid for each relevant interest referred to in paragraph 3 above, and acquired in the four months prior to the day that the substantial holder became a substantial holder is as follows:

| Holder of relevant interest | Date of acquisition | Consideration (\$) | | Class and number of securities |
|--|--|--------------------|----------|--------------------------------|
| | | Cash | Non-cash | |
| Pacific Road Capital Management G.P. Limited | 26 March 2010 | | N/A | 47,262,411 Ordinary Shares |
| | Option exercisable within 24 months from the date of acceptance of original offer. | \$26,369,448.60 | N/A | 22,716,797 Ordinary Shares |
| Pacific Road Capital A Pty Limited | 26 March 2010 | | N/A | 5,858,677 Ordinary Shares |
| | Option exercisable within 24 months from the date of acceptance of original offer. | \$3,515,206.20 | N/A | 2,814,796 Ordinary Shares |
| Pacific Road Capital B Pty Limited | 26 March 2010 | | N/A | 5,858,677 Ordinary Shares |
| | Option exercisable within 24 months from the date of acceptance of original offer. | \$3,515,206.20 | N/A | 2,814,796 Ordinary Shares |

6. Associates

The reasons the persons named in paragraph 3 above are associates of the substantial holder are as follows:

| Name and ACN/ARSN (if applicable) | Nature of association |
|---|---|
| Pacific Road Capital A Pty Limited, Pacific Road Capital B Pty Limited Pacific Road Capital Management G.P. Limited | Associates of each other by virtue of s12(2) of the Corporations Act. |

7. Addresses

The addresses of persons named in this form are as follows:

| Name | Address |
|--|---|
| Pacific Road Capital Management G.P. Limited | 89 Nexus Way, Camana Bay, Grand Cayman KY1, Cayman Islands |
| Pacific Road Capital A Pty Limited | Level 23, Gold Fields House, 1 Alfred Street, Sydney NSW 2000 |
| Pacific Road Capital B Pty Limited | Level 23, Gold Fields House, 1 Alfred Street, Sydney NSW 2000 |
| Commonwealth Scientific and Industrial Research Organisation (CSIRO) | Riverside Corporate Park, 5 Julius Avenue, North Ryde, 2113 |

Signature

print name

Evan Burton
Directorcapacity Director,
Pacific Road Capital Management
G.P. Limited

sign here



date 29 / 3 / 2010

DIRECTIONS

- (1) If there are a number of substantial holders with similar or related relevant interests (eg. a corporation and its related corporations, or the manager and trustee of an equity trust), the names could be included in an annexure to the form. If the relevant interests of a group of persons are essentially similar, they may be referred to throughout the form as a specifically named group if the membership of each group, with the names and addresses of members is clearly set out in paragraph 7 of the form.
 - (2) See the definition of "a associate" in section 9 of the Corporations Act 2001.
 - (3) See the definition of "relevant interest" in sections 608 and 671B(7) of the Corporations Act 2001.
 - (4) The voting shares of a company constitute one class unless divided into separate classes.
 - (5) The total number of votes attached to all the voting shares in the company or voting interests in the scheme (if any) that the person or an associate has a relevant interest in.
 - (6) The person's votes divided by the total votes in the body corporate or scheme multiplied by 100.
 - (7) Include details of:
 - (a) any relevant agreement or other circumstances by which the relevant interest was acquired. If subsection 671B(4) applies, a copy of any document setting out the terms of any relevant agreement, and a statement by the person giving full and accurate details of any contract, scheme or arrangement, must accompany this form, together with a written statement certifying this contract, scheme or arrangement; and
 - (b) any qualification of the power of a person to exercise, control the exercise of, or influence the exercise of, the voting powers or disposal of the securities to which the relevant interest relates (indicating clearly the particular securities to which the qualification applies).
- See the definition of "relevant agreement" in section 9 of the Corporations Act 2001.
- (8) If the substantial holder is unable to determine the identity of the person (eg. if the relevant interest arises because of an option) write "unknown."
 - (9) Details of the consideration must include any and all benefits, moneys and other, that any person from whom a relevant interest was acquired has, or may, become entitled to receive in relation to that acquisition. Details must be included even if the benefit is conditional on the happening or not of a contingency. Details must be included of any benefit paid on behalf of the substantial holder or its associate in relation to the acquisitions, even if they are not paid directly to the person from whom the relevant interest was acquired.
-



**Pacific Road
Capital Management**

This is a true copy of the relevant parts of the relevant agreement relating to the Notice of Initial substantial holder issued by Pacific Road Capital Management G.P. Limited¹.

[Signature]
Signed

30/3/2010
Dated

STRICTLY CONFIDENTIAL

Karl Rodrigues
Executive Manager, IP, Licensing & Technology Transfer Support
CSIRO Operations
Riverside Corporate Park
5 Julius Avenue
North Ryde NSW 2113

24 March 2010

Dear Karl,

Carbon Energy Limited

1. Introduction

I refer to your advice on Monday 22 March 2010, that a sub-committee of the CSIRO Board has agreed to the terms under which CSIRO would sell its interest in Carbon Energy Limited ("CNX") to the Pacific Road Resources Fund ("PRRF"). Pacific Road Capital Management ("PRCM") as manager and adviser to PRRF is agreeable to those terms which are set out below in the following offer.

2. Offer

Offer to acquire 10% of the issued shares of CNX

PRRF offers to acquire 58,999,765 shares in CNX at a price of \$0.60 per share ("Offer").

Option over the remaining 4.8% of CNX shares held by CSIRO

In recognition and as a condition of the share price premium contained in the Offer, PRRF will be granted a call option over CSIRO's remaining 28,346,389 CNX shares ("Call Option"). The Call Option exercise price will be \$0.93 per share, exercisable on the date twenty four months from CSIRO's acceptance of this Offer or an earlier date if mutually acceptable to CSIRO, and PRRF.

Documentation of the terms and conditions of the Call Option must occur prior to the financial close of the sale and purchase of the initial 10% of the CNX issued shares.

1. Parts of this document which are not terms of the offer to acquire shares in CNX have been redacted on the basis that they are confidential and do not impact the acquisition of shares or options over shares in CNX in any way.

Offer available 5 days

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The Offer may be accepted by CSIRO earlier.

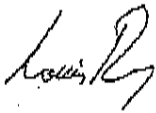
Offer is strictly confidential

This Offer is market sensitive and should be treated as strictly confidential.

Acceptance

If this Offer is acceptable to CSIRO please arrange for a duly authorised CSIRO Officer to sign and return the attached copy of this letter.

Yours sincerely,



Louis Rozman

Director

CSIRO acknowledges receipt of your letter dated 24 March 2010, and its duly authorised officer confirms CSIRO's acceptance of the terms and conditions.

Date