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Carbon Energy Limited | ABN 56 057 552 137

ASX Announcement

19 October 2012

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Carbon Energy Limited
ABN 56 057 552 137
Carbon Energy (Operations) Pty Ltd
ABN 61 105 176 967

Notice of Annual General Meeting – 22 November 2012

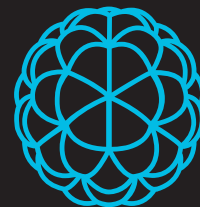
Carbon Energy's 2012 Annual General Meeting will be held on Thursday, 22 November 2012 at the Brisbane Convention Centre, Room M2, Cnr Merivale & Glenelg Streets, South Brisbane, Queensland at 9.30am AEST.

The Notice of Meeting, Explanatory Memorandum and Voting Form will be mailed to shareholders today. Copies of these documents follow this announcement and are available on Carbon Energy's website at www.carbonenergy.com.au.

The 2012 Annual Report will also be mailed today to shareholders who have elected to receive a printed copy of this document. A copy of this document was lodged with the ASX and is available on Carbon Energy's website at www.carbonenergy.com.au.

For and on behalf of the Board

Morné Engelbrecht
CFO & Company Secretary



carbonenergy

CARBON ENERGY LIMITED

ABN 56 057 552 137

NOTICE OF

ANNUAL GENERAL MEETING
OF SHAREHOLDERS 2012

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 3337 9944.

Thursday 22 November 2012
at 9.30am AEST

At The Brisbane Convention Centre
ROOM M2

Cnr Merivale & Glenelg Streets
South Brisbane
Queensland

NOTICE OF ANNUAL GENERAL MEETING

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

NOTICE IS HEREBY GIVEN that the General Meeting of members of Carbon Energy Limited ABN 56 057 552 137 'Company' will be held at the Brisbane Convention Centre Room M2 Cnr Merivale & Glenelg Streets South Brisbane Queensland on Thursday 22 November 2012 at 9.30am AEST.

BUSINESS OF THE MEETING

2012 Annual Report

To receive and consider the Financial Report together with the Directors' Report (including the Remuneration Report) and Auditor's Report for the financial year ended 30 June 2012.

RESOLUTIONS

1. To Re-Elect Mr Max Cozijn as a Director

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

"That Mr Max Cozijn, who retires as a Director of the Company and, being eligible, offers himself for re-election, be and is hereby re-elected as a Director of the Company."

2. To Re-Elect Dr Helen Garnett as a Director

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

"That Dr Helen Garnett, who retires as a Director of the Company and, being eligible, offers herself for re-election, be and is hereby re-elected as a Director of the Company."

3. Ratification of previous issue of 8,129,557 Shares pursuant to Convertible Note Facility

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

"That, for the purpose of Listing Rule 7.4 and for all other purposes, Shareholders ratify the previous issue and allotment of 8,129,557 fully paid ordinary shares in the Company to Pacific Road Capital Management Pty Ltd (4,166,666 Shares), PRCM Nominees Pty Limited (787,029 Shares) and Pacific Road Holdings NV (3,175,862) pursuant to the Convertible Note Facility Agreement announced 05 January 2012 on various dates as set out in the Explanatory Memorandum"

Notes

The rights attaching to the Shares the subject of Resolution 3 are identical in all respects to the existing ordinary shares on issue in the Company.

Further details of the Shares the subject of Resolution 3 are contained within the Explanatory Memorandum.

Voting Exclusion Statement for above Resolution 3:

The Company will disregard any votes cast on the above Resolution by Pacific Road Capital Management Pty Ltd, PRCM Nominees Pty Limited, Pacific Road Holdings NV and any associates of those persons.

However the Company will not disregard a vote if 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 it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

4. Approval to issue an additional 10% of the issued capital of the Company over a 12 month period pursuant to Listing Rule 7.1A (Special Resolution)

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

"That, pursuant to and in accordance with ASX Listing Rule 7.1A, and for all other purposes, the Shareholders approve the issue of Equity Securities of up to 10% of the issued capital of the Company (at the time of issue) calculated in accordance with the formula prescribed in ASX Listing Rule 7.1A.2, over a 12 month period from the date of the Meeting, at a price not less than that determined pursuant to Listing Rule 7.1A.3 and otherwise on the terms and conditions in the Explanatory Memorandum ('Placement Securities')."

Voting Exclusion Statement

The Company will disregard any votes cast on this Special Resolution by a person and any associates of that person who:

- may participate in the issue of the Placement Securities; or
- 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 if:

- 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
- 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.

Important Note:

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 ASX Listing Rule 14.11.1 relating to ASX 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.

5. 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 period ended 30 June 2012 and contained in the Annual Report (as set out on pages 38 to 43 of the Directors' Report) for the Company be adopted."

Advisory Resolution

The vote on this Resolution 5 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 5 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 details of whose remuneration are included in the Remuneration Report; and
- (b) a Closely Related Party of such a member.

However, the above persons may cast a vote on Resolution 5 if the person does so as a proxy and the vote is not cast on behalf of a member of the Key Management Personnel details of whose remuneration are included in the Remuneration Report or a Closely Related Party of such a member and either:

- (a) the voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the resolution; or
- (b) the voter is 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.

NOTICE OF ANNUAL GENERAL MEETING

6. Conditional Spill Resolution

Subject to and conditional upon at least 25% of the votes on Resolution 5 being cast against Resolution 5, to consider, and if thought fit, pass the following resolution, as an Ordinary Resolution of the Company:

"That:

- (a) the Company will convene an Extraordinary General Meeting ('the Spill Meeting') which must be held within 90 days of the passing of this resolution ('Spill Resolution') subject to (d) below;
- (b) all of the Directors in office at the time of the Spill Meeting who:
 - (1) were in office when the Directors' resolution was passed to make the Directors' Report for the financial year ended 30 June 2012 considered at the Company's 2012 Annual General Meeting; and
 - (2) are not a Managing Director of the Company who, in accordance with the Listing Rules, may continue to hold office indefinitely without being re-elected to the office, shall cease to hold office immediately before the end of the Spill Meeting ('Vacating Directors');
- (c) at the Spill Meeting the Company will put resolutions to Shareholders to vote to appoint persons to the offices that will be vacated immediately before the end of the Spill Meeting under paragraph (b) above; and
- (d) in accordance with section 250W of the Corporations Act, where there are no Vacating Directors, the Company need not hold the Spill Meeting."

Note

Resolution 6 will only be put to Shareholders to be considered and voted on if at least 25% of the votes on Resolution 5 are cast against Resolution 5.

Voting Restriction pursuant to Section 250V and 250R(4) and (5) of the Corporations Act

A vote on Resolution 6 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 details of whose remuneration are included in the Remuneration Report; and
- (b) a Closely Related Party of such a member.

However, the above persons may cast a vote on Resolution 6 if the person does so as a proxy and the vote is not cast on behalf of a member of the Key Management Personnel details of whose remuneration are included in the Remuneration Report or a Closely Related Party of such a member and either:

- (a) the voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the resolution; or
- (b) the voter is 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.

GENERAL BUSINESS

To consider any other business as may be lawfully put forward in accordance with the Constitution of the Company.

All members are invited to attend. An explanatory Memorandum to Shareholders follows this Notice.

By Order of the Board



Morné Engelbrecht
Chief Financial Officer & Company Secretary
19 October 2012

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 Thursday 22 November 2012 at 9.30am AEST ("the Meeting").

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

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

BUSINESS OF THE MEETING

2012 Annual Report

Section 317 of the Corporations Act requires the Directors of the Company to lay before the Meeting the Financial Report, Directors' Report (including the Remuneration Report) and the Auditor's Report for the last financial year that ended before the Meeting.

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 Meeting (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 Meeting, 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 no later than five business days before the Meeting to the registered office of the Company.

A copy of the 2012 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 (Ordinary) – To Re-Elect Mr Max Cozijn as a Director

Background to Resolution 1

In accordance with Rule 17 of the Company's Constitution and ASX Listing Rule 14.4, one third of the Directors need to retire by rotation each year. Accordingly, Mr Cozijn is required by rotation at the forthcoming Meeting, and being eligible, offers himself for re-election as a Director of the Company.

Mr Cozijn was appointed as a Director on 30 September 1992 and was re-elected as a Director at the 2010 AGM.

Mr Max Cozijn, Director (Non-Executive) BCom, CPA, MAICD

Mr Cozijn has a Bachelor of Commerce Degree from the University of Western Australia, having graduated in 1972. Mr Cozijn is an Associate of the Australian Society of Certified Practising Accountants and is a member of the Australian Institute of Company Directors. Mr Cozijn has over 30 years experience in the administration of listed mining and industrial companies, as well as various private operating companies. Mr Cozijn was the Company's Finance Director between 1993 and 2008, and is now a Non-Executive Director.

Mr Cozijn also holds the following listed company Directorships:

- Oilex Ltd (from September 1997) Non-Executive Chairman;
- Magma Metals Ltd (from June 2005) Non-Executive Chairman (resigned 25 June 2012);
- Malagasy Minerals Limited (from September 2006) Executive Chairman; and
- Energia Minerals Limited (from May 1997) Non-Executive.

Mr Cozijn is also the Chairman of the Remuneration Committee.

Recommendation of Directors:

The Directors (apart from Mr Cozijn) recommend that the Shareholders vote in favour of the resolution to appoint Mr Cozijn as a Director.

EXPLANATORY MEMORANDUM

Resolution 2 (Ordinary) – To Re-Elect Dr Helen Garnett as a Director

Background to Resolution 2

Whilst not required by the Constitution, the Board is of the view that it is an appropriate corporate governance mechanism to have an additional Director stand for re-election at the Meeting. Accordingly, Dr Garnett has elected to retire at the end of the forthcoming Meeting, however being eligible, offers herself for re-election as a Director.

Dr Garnett was appointed as a Director on 6 September 2010 and was re-elected as a Director at the 2010 AGM.

Dr Helen Garnett
Director (Non-Executive)
PSM, BSc (Hons), PhD, FTSE, FAICD

Dr Garnett has more than 25 years experience in transforming technical innovation into practical commercial outcomes. She has 15 years experience as a Chief Executive and more than 16 years as a Non-Executive Director having been closely associated with the resource and energy sectors throughout this time. She is a Fellow of the Australian Institute of Company Directors and the Academy of Technical Sciences and Engineering. Dr Garnett is currently Director of Australian Centre for Plant Functional Genomics and Director of National Centre for vocational Education research. During the past three years Dr Garnett has held the following other listed company Directorships:

- Energy Resources of Australia Limited (from January 2005) Non-Executive Director; and
- Delta Electricity (from January 2012) Chair.

Dr Garnett is also the Chair of the Audit & Risk Committee.

Recommendation of Directors:

The Directors (apart from Dr Garnett) recommend that the Shareholders vote in favour of the resolution to appoint Dr Garnett as a Director.

Resolution 3 (Ordinary) - Ratification of issue of 8,129,557 Shares pursuant to Convertible Note Facility

Background to Resolution 3

The Company announced on 5 January 2012 that the Convertible Note Facility Agreement with Pacific Road Capital Management Pty Ltd ('Pacific Road Capital') had been finalised ('Convertible Note Facility'). Under the Convertible Note Facility, Pacific Road Capital was to provide the Company with a facility amount of \$10 million which may be converted into Shares in accordance with the terms of the Convertible Note Facility Agreement. The Company has fully drawn down the Convertible Note Facility.

Additionally, the Convertible Note Facility provides for:

1. a fee of 5% on the amount of the facility to be satisfied by the issue of Shares at the rights issue price of \$0.12 ('Facility Fee Shares'); and
2. interest payable 3 monthly in arrears on a quarterly basis at 5% per annum which is payable by way of the issue of Shares at the 5 day VWAP for the Shares on the day prior to the day an interest payment is due ('Interest Shares').

At the 2011 AGM, Shareholder approval was obtained for:

1. the entry by the Company into the Convertible Note Facility;
2. the issue of a maximum of 66,666,667 Shares in the event of the exercise of conversion rights under the Convertible Note Facility; and
3. the granting of 35,000,000 options to various nominated funds managed by Pacific Road Capital.

At the 2011 AGM, Shareholder approval was not sought for the issue of the Facility Fee Shares or the issue of the Interest Shares. Since the 2011 AGM, the Company has issued the Facility Fee Shares and a number of Interest Shares. As such, the Company now seeks ratification of the previous issue of:

1. Facility Fee Shares as follows:
 - (a) 833,333 Shares on 18 January 2012 in part consideration of the facility fee due under the Convertible Note Facility in respect of Tranche A (\$2 million) ('Tranche A Facility Fee Shares');
 - (b) 3,333,333 Shares on 29 February 2012 in part consideration of the facility fee due under the Convertible Note Facility in respect of Tranche B (\$8 million) ('Tranche B Facility Fee Shares');(together the '2012 Facility Fee Shares')

2. Interest Fee Shares as follows:

- (a) 293,083 Shares on 26 April 2012 in consideration of interest costs payable 3 months in arrears in respect of Tranche A (\$2 million) under the Convertible Note Facility ('Tranche 1 Interest Shares');
- (b) 1,363,013 on 29 May 2012 in consideration of interest costs payable 3 months in arrears in respect of Tranche B (\$8 million) and 33 days in arrears in respect of Tranche A (\$2 million) under the Convertible Note Facility ('Tranche 2 Interest Shares');
- (c) 2,306,795 Shares on 29 August 2012 in consideration of interest costs payable 3 months in arrears in respect of Tranche A (\$2 million) and Tranche B (\$8 million) under the Convertible Note Facility ('Tranche 3 Interest Shares');

(together the '2012 Interest Shares').

Listing Rule 7.4

In accordance with Listing Rule 7.4, Shareholder approval is sought to ratify the issue of the 2012 Interest Shares and the 2012 Facility Fee Shares, being issues of securities made by the Company during the previous 12 months for which Shareholder approval has not already been obtained.

Listing Rule 7.1 prohibits a company, except in certain cases, from issuing new equity securities equivalent in number to more than 15% of its capital in any 12 month period without the prior approval of its Shareholders. Equity securities issued with Shareholder approval under Listing Rule 7.1 do not count towards the 15% limit.

Listing Rule 7.4 provides that an issue of equity securities made without prior approval under Listing Rule 7.1 can be treated as having been made with that approval if Shareholders subsequently approve it.

If Resolution 3 is approved it will have the effect of refreshing the Company's ability, to the extent of the 2012 Interest Shares and the 2012 Facility Fee Shares, to issue further capital during the next 12 months pursuant to Listing Rule 7.1 without the need to obtain further Shareholder approval (subject to the Listing Rules and the Corporations Act). If Resolution 3 is not passed, the 2012 Interest Shares and the 2012 Facility Fee Shares will be counted toward the 15% limit pursuant to Listing Rule 7.1 for a period of 12 months from the date of issue.

For the purposes of Listing Rule 7.5 the Company advises as follows:

1. For the purposes of the Tranche A Facility Fee Shares:

- a. 833,333 Shares were issued to Pacific Road Capital at a deemed issue price of \$0.12 per Share;
- b. the Tranche A Facility Fee Shares were issued in part consideration of the facility fee in respect of Tranche A (\$2 million) due under the Convertible Note Facility and as such, no funds were raised from the issue;
- c. the date of issue of the Tranche A Facility Fee Shares was 18 January 2012; and
- d. the Tranche A Facility Fee Shares rank pari passu with existing Shares on issue.

2. For the purposes of the Tranche B Facility Fee Shares:

- a. 3,333,333 Shares were issued to Pacific Road Capital at a deemed issue price of \$0.12 per Share;
- b. the Tranche B Facility Fee Shares were issued in part consideration of the facility fee in respect of Tranche B (\$8 million) due under the Convertible Note Facility and as such, no funds were raised from the issue;
- c. the date of issue of the Tranche B Facility Fee Shares was 29 February 2012; and
- d. the Tranche B Facility Fee Shares rank pari passu with existing Shares on issue.

3. For the purposes of the Tranche 1 Interest Shares:

- a. 293,083 Shares were issued to PRCM Nominees Pty Limited (58,206 Shares) and Pacific Road Holdings NV (234,877 Shares) at a deemed issue price of \$0.0853 per Share;
- b. the Tranche 1 Interest Shares were issued in consideration of interest costs payable 3 months in arrears in respect of Tranche A (\$2 million) under the Convertible Note Facility ('Tranche 1 Interest Shares') and as such, no funds were raised from the issue;
- c. the date of issue of the Tranche 1 Interest Shares was 26 April 2012; and
- d. the Tranche 1 Interest Shares rank pari passu with existing Shares on issue.

EXPLANATORY MEMORANDUM

4. For the purposes of the Tranche 2 Interest Shares:
 - a. 1,363,013 Shares were issued to PRCM Nominees Pty Limited (270,694 Shares) and Pacific Road Holdings NV (1,092,319 Shares) at a deemed issue price of \$0.08 per Share;
 - b. the Tranche 2 Interest Shares were issued in consideration of interest costs payable 3 months in arrears in respect of Tranche B (\$8 million) and 33 days in arrears in respect of Tranche A (\$2 million) under the Convertible Note Facility and as such, no funds were raised from the issue;
 - c. the date of issue of the Tranche 2 Interest Shares was 29 May 2012; and
 - d. the Tranche 2 Interest Shares rank pari passu with existing Shares on issue.
5. For the purposes of the Tranche 3 Interest Shares:
 - a. 2,306,795 Shares were issued to PRCM Nominees Pty Limited (458,129 Shares) and Pacific Road Holdings NV (1,848,666 Shares) at a deemed issue price of \$0.054 per Share;
 - b. the Tranche 3 Interest Shares were issued in consideration of interest costs payable 3 months in arrears in respect of Tranche A (\$2 million) and Tranche B (\$8 million) under the Convertible Note Facility and as such, no funds were raised from the issue;
 - c. the date of issue of the Tranche 3 Interest Shares was 29 August 2012; and
 - d. the Tranche 3 Interest Shares rank pari passu with existing Shares on issue.

Recommendation of Directors:

The Directors unanimously recommend Shareholders vote in favour of Resolution 3.

Resolution 4 (Special) - Approval to issue an additional 10% of the issued capital of the Company over a 12 month period pursuant to Listing Rule 7.1A

Background to Resolution 4

Pursuant to Resolution 4, the Company is seeking Shareholder approval to issue an additional 10% of issued capital over a 12 month period 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 of at least 75% of the volume weighted average price ('VWAP') for the Company's Equity Securities in that class (calculated over the last 15 days on which trades in the Equity Securities are recorded immediately before the date on which the price at which the Placement Securities are to be issued is agreed, or if the Placement Securities are not issued within five trading days of that date, the date on which the Placement Securities are issued) ('Issue Price').

This approval is sought pursuant to Listing Rule 7.1A which recently came into effect. 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 the AGM, are permitted to issue an additional 10% of issued capital over a 12 month period from the date of the AGM ('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 undertaken, would be applied to further implement the Company's announced strategic direction including the continued development of the Company's technology and progressing its intellectual property and full life-cycle process development at its project near Dalby, South West Queensland. Additionally funds raised would be used to assist in further International Business development as well as being used for working capital.

Recommendation of Directors:

The Directors unanimously recommend that Shareholders vote in favour of Resolution 4.

Listing Rule 7.1A

General

Eligibility

An entity is eligible to undertake an Additional 10% Placement if at the time of its AGM 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 05 October 2012 the Company's market capitalisation was \$36.5 million based on the Closing Trading Price on that date. The calculation of market capitalisation will be based on the Closing 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 (excluding restricted securities and securities quoted on a deferred settlement basis).

The Company is also not included in the S&P/ASX300 Index as at the time of this Meeting, 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 4, the approval obtained will not lapse and the Company will still be entitled to issue the Placement Securities.

Special Resolution

Listing Rule 7.1A requires this Resolution 4 to be passed as a Special Resolution, which means that it must be passed by at least 75% of the votes cast by members entitled to vote on the resolution. Pursuant to Listing Rule 7.1A, no Placement Securities will be issued until and unless this Special Resolution is passed at the Meeting.

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.

10% Placement Period – Listing Rule 7.1A.1

Assuming Resolution 4 is passed, Shareholder approval of the Additional 10% Placement under Listing Rule 7.1A is valid from the date of the Meeting and expires on the earlier to occur of:

1. the date that is 12 months after the date of the Meeting; or
2. 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 22 November 2013, unless Shareholder approval is granted pursuant to Listing Rules 11.1.2 or 11.2 prior to that date.

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 AGM may issue or agree to issue, during the 12 month period after the date of the AGM, a number of Equity Securities calculated in accordance with the following formula:

(A x D) – E

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. [Note: This does not include an issue of fully paid ordinary securities under the entity's 15% placement capacity without Shareholder approval]
- less the number of fully paid ordinary securities cancelled in the 12 months

D is 10 percent.

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 in the Company quoted on the ASX are Shares. The Company presently has 776,306,566 Shares on issue, as at the date of this Notice of Meeting.

Minimum Issue Price

The issue price for the Placement Securities issued under Listing Rule 7.1A must be not less than 75% of the VWAP of Equity Securities in the same class calculated over the 15 Trading Days immediately before:

1. the date on which the price at which the relevant Placement Securities are to be issued is agreed; or
2. if the relevant Placement Securities are not issued within five Trading Days of the date in paragraph (1) above, the date on which the relevant Placement Securities are issued.

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

If Resolution 4 is passed and the Company issues any Placement Securities under Listing Rule 7.1A, the Company will give to ASX:

1. 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
2. the following information required by rule 3.10.5A, which will be released to the market on the date of issue:
 - a. details of the dilution to the existing holders of Equity Securities caused by the issue;
 - b. 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;
 - c. details of any underwriting arrangements, including any fees payable to the underwriter; and
 - d. any other fees or costs incurred in connection with the issue.

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 776,306,566 Shares. Assuming no further securities are issued prior to the Meeting, the Company will have the capacity to issue the following Shares on the date of the Meeting:

1. 115,542,145 Shares under Listing Rule 7.1 (assuming Resolution 3 is passed); and
2. subject to Shareholder approval being obtained under Resolution 4, 77,552,061 Shares under Listing Rule 7.1A (assuming Resolution 3 is passed).

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).

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, the Placement Securities issued pursuant to approval under Listing Rule 7.1A must have an issue price of not less than 75% of the VWAP for the Equity Securities over the 15 Trading Days immediately before:

1. the date on which the price at which the Placement Securities are to be issued is agreed; or
2. if the Placement Securities are not issued within 5 Trading Days of the date in paragraph (1) above, the date on which the Placement Securities are issued.

The Company will disclose to the ASX the issue price on the date of issue of the Placement Securities.

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

As provided by Listing Rule 7.3A.2, if Resolution 4 is passed and the Company issues the Placement Securities, there is a risk of economic and voting dilution to the existing Shareholders. The Company currently has on issue 776,306,566 Shares. Assuming Resolution 3 is passed, the Company could issue 77,552,061 Shares on the date of the Meeting (however, it is important to note that the exact number of Equity Securities which may be issued will be calculated in accordance with the formula contained in Listing Rule 7.1A.2 details of which are set out above). Any issue of Placement Securities will have a dilutive effect on existing Shareholders.

There is a specific risk that:

1. 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
2. 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	50% decrease in Market Price 2.35c		Current Market Price 4.70c		100% increase in Market Price 9.40c	
	10 % Voting Dilution	Capital Raised	10 % Voting Dilution	Capital Raised	10 % Voting Dilution	Capital Raised
Present Issued Share Capital = 776,306,566 Shares	77,630,656	\$1,824,320.42	77,630,656	\$3,648,640.83	77,630,656	\$7,297,281.66
50% Increase in Share Capital = 1,164,459,849 Shares	116,445,984	\$2,736,480.62	116,445,984	\$5,472,961.25	116,445,984	\$10,945,922.50
100% Increase in Share Capital = 1,552,613,132 Shares	155,261,313	\$3,648,640.86	155,261,313	\$7,297,281.71	155,261,313	\$14,594,563.42

Assumptions and explanations

- The Market Price is 4.7c based on the closing price of the Shares on ASX on 05 October 2012.
- The above table only shows the dilutionary effect based on the issue of the Placement Securities (assuming only Shares are issued) and not any Shares issued under the 15% under Listing Rule 7.1.
- The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue.
- The Company issues the maximum number of Placement Securities.
- The Issued Share Capital has been calculated in accordance with the formula in Listing Rule 7.1A(2) as at 05 October 2012.
- The issue price of the Placement Securities used in the table is the same as the Market Price and does not take into account the discount to the Market Price (if any).

EXPLANATORY MEMORANDUM

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 during the 12 months after the date of this Meeting which the Company anticipates will end on 22 November 2013. The approval under Resolution 4 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 Meeting.

Purpose – Listing Rule 7.3A.4

As noted above, the purpose for which the Placement Securities may be issued include 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 undertaken, would be applied to further implement the Company's announced strategic direction including the continued development of the Company's technology and progressing its intellectual property and full life-cycle process development at its project near Dalby, South West Queensland. Additionally funds raised would be used to assist in further International Business development as well as being used for working capital.

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. If the Company issues Placement Securities for 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.

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:

1. 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;
2. the effect of the issue of the Placement Securities on the control of the Company;

3. the financial situation and solvency of the Company; and
4. 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.

Company not previously obtained Shareholder approval under listing rule 7.1A

The Company has not previously obtained Shareholder approval under Listing Rule 7.1A.

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.

Resolution 5 (To adopt the Remuneration Report) and Resolution 6 (Conditional Spill Resolution)

Remuneration Report

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

The Remuneration Report is set out in the Directors' Report section of the Annual Report. The Report:

- (a) explains the Board's policy for determining the nature and amount of remuneration of Executive Directors and Senior Executives 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 Director and the Senior Executives of the Company, who are members of the Company's Key Management Personnel; and
- (d) details and explains any performance conditions applicable to the remuneration of Executive Directors and Senior Executives of the Company.

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

Members of the Key Management Personnel and their proxies and Closely Related Parties are restricted from voting on a resolution ('Voting Restriction') put to Shareholders that the Remuneration Report of the Company be adopted. Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The Voting Restriction does not apply where:

- (a) the Chairperson or any other member of the Key Management Personnel is appointed in writing (by a Shareholder who is not a member of the Key Management Personnel or a Closely Related Party of Key Management Personnel) as a proxy (Management Proxy) with specific instructions on how to vote on a resolution to adopt the Remuneration Report of the Company; or
- (b) the Chairperson is appointed in writing (by a Shareholder who is not a member of the Key Management Personnel or a Closely Related Party of Key Management Personnel) as a proxy with no specific instructions on how to vote on a non-binding Shareholder vote on remuneration, where the Shareholder provides express authorisation for the Chairperson to vote on the resolution.

Shareholders should be aware that any undirected proxies given to the Chairperson will be cast by the Chairperson and counted in favour of the resolutions the subject of this Meeting, including this Resolution 5, other than in respect of Resolution 6, which the Chairperson will vote any undirected proxies against, subject to compliance with the Corporations Act.

The "Two Strikes Rule"

The Corporations Act requires that listed companies must put their Remuneration Report to a non-binding advisory Shareholder vote at the AGM ('Remuneration Report Resolution'). Last year, the "Two Strikes Rule" was introduced by the Corporations Legislation (Improving Accountability on Director and Executive Remuneration) Act 2011 and commenced on 1 July 2011.

Under the "Two Strikes Rule" if the Remuneration Report Resolution receives a "no" vote of 25% or more (a 'Strike') at two consecutive AGMs, a resolution to spill the board in accordance with Part 2G.2, Division 9 of the Corporations Act ('Spill Resolution') must be put to Shareholders.

If the Spill Resolution is passed as an ordinary resolution:

- (a) the Company will convene an extraordinary general meeting ('Spill Meeting') which must be held within 90 days of the passing of the Spill Resolution subject to (d) below;
- (b) all of the Directors in office at the time of the Spill Meeting who:
 - (1) were in office when the Directors' resolution was passed to make the Directors' Report for the financial year ended 30 June 2012 (which includes the 2012 Remuneration Report) considered at the Meeting; and
 - (2) are not a Managing Director of the Company who, in accordance with the Listing Rules, may continue to hold office indefinitely without being re-elected to the office,

shall cease to hold office immediately before the end of the Spill Meeting ('Vacating Directors');

- (c) at the Spill Meeting the Company will put resolutions to Shareholders to vote to appoint persons to the offices that will be vacated immediately before the end of the Spill Meeting under paragraph (b) above. The Vacating Directors, if they choose, may stand for re-election at the Spill Meeting;
- (d) in accordance with section 250W of the Corporations Act, where there are no Vacating Directors, the Company need not hold the Spill Meeting; and

- (e) if the Company does not hold the Spill Meeting within 90 days after the Spill Resolution is passed, each person who is a Director of the Company at the end of that 90 day period commits an offence, even if the person was not a Director when the Spill Resolution was passed.

First Strike

At the Company's AGM last year, approximately 28.2% of the votes cast in respect of the Remuneration Report Resolution, to adopt the Company's 2011 Remuneration Report, were voted against that resolution. Accordingly, the Company received a "first Strike".

Review of Remuneration Practices

During the past financial year the Company sought professional advice from independent, industry specialist, remuneration consultants. All staff have been benchmarked against a surveyed average matching skills and job roles and remuneration adjusted to within the range of 20% above or below the average.

The Board believes that the Company's remuneration arrangements, as set out in the 2012 Remuneration Report, are fair, reasonable and appropriate. The arrangements support the strategic direction of the Company and align with Shareholders' expectations.

Shareholders will be given a reasonable opportunity at the Meeting to ask questions about, and make comments on, the Remuneration Report and the Company's remuneration arrangements.

Second Strike Resolution 6 (Consequences of voting against Resolution 5)

If the votes cast against this year's Remuneration Report Resolution, to adopt the 2012 Remuneration Report, are again 25% or more of the total votes cast, the Company will receive its "second Strike" and will be required to put the Spill Resolution to Shareholders.

Accordingly, this Notice of Meeting includes a "conditional" resolution (Resolution 6) which will be put to Shareholders only if 25% or more of the votes cast are against Resolution 5 and the Company therefore receives a second Strike.

If Resolution 6 is passed then it will be necessary for the Board to convene the further Spill Meeting within 90 days of the Meeting in order for Shareholders to consider the composition of the Board. At the Spill Meeting, the following Directors will be the Vacating Directors who will cease to hold office immediately before the conclusion of the Spill Meeting unless they stand for re-election and are re-elected at the Spill Meeting:

- Dr Chris Rawlings;
- Mr Max Cozijn;
- Dr Helen Garnett;
- Mr Peter Hogan; and
- Mr Louis Rozman.

It is noted that even if Mr Cozijn and Dr Garnett are re-elected at this year's Meeting, under Resolution 6 they will still be Vacating Directors at the Spill Meeting.

It is noted that holding a Spill Meeting would cause some disruption to the running of the Company as a result of management distraction, the time involved in organising such a meeting and the diversion of resources. In addition, there will be a cost to the Company of holding a Spill Meeting which is expected to be approximately \$15,000.00.

Recommendation of Directors:

The voting exclusion statement for Resolution 5 is set out on page 3 of the Notice of Meeting. The Board unanimously recommends that Shareholders vote in favour of Resolution 5. A vote on this Resolution is advisory only and does not bind the Directors of the Company.

The voting exclusion statement for Resolution 6 is set out on page 4 of the Notice of Meeting. **Mr Andrew Dash as Managing Director is the sole disinterested Director in this resolution and recommends that Shareholders vote against Resolution 6 on the basis that it would be extremely disruptive to the Company and in Mr Dash's view, would be inappropriate to remove all of the Non-Executive Directors in the circumstances.** The other Directors have abstained from making a recommendation on Resolution 6.

Interpretation

AGM means annual general meeting.

ASX means the ASX Limited ABN 98 008 624 691.

Board means the Board of Directors of the Company.

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

1. a spouse or child of the member; or
2. a child of the member's spouse; or
3. a dependant of the member or the member's spouse; or
4. 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
5. a company the member controls; or
6. a person prescribed by the regulations for the purposes of this paragraph.

Company means Carbon Energy Limited ABN 56 057 552 137.

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

Directors mean Directors of the Company.

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

Explanatory Memorandum means this explanatory memorandum accompanying the Notice of Meeting.

Key Management Personnel has the definition given in the accounting standards as 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.

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

Meeting means the Annual General Meeting of Shareholders to be held at the Brisbane Convention Centre Room M2 Cnr Merivale & Glenelg Streets South Brisbane Queensland on Thursday 22 November 2012 at 9.30am AEST.

Notice of Meeting means the notice of meeting convening the Meeting and the Explanatory Memorandum.

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

Resolution means a resolution to be proposed at the Meeting.

Shares means fully paid ordinary shares in the Company.

Shareholder means a holder of Shares in the Company.

Special Resolution means a resolution:

1. of which notice has been given as set out in paragraph 249L(1)(c) of the Corporations Act; and
2. 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.

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 2001 (Cth).

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 deposited at, posted to, or sent by facsimile transmission to the Share Registry at the address listed below 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.

LINK MARKET SERVICES LIMITED

LEVEL 15, 324 QUEEN STREET, BRISBANE, QLD,
AUSTRALIA, 4000

Tel: (02) 8280 7454

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 of Meeting.

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 7pm on 20 November 2012. 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 security holder may sign. |
| Power of Attorney: | To sign under Power of Attorney, you must have already lodged 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 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. |



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



By fax: +61 2 9287 0309



All enquiries to: Telephone: 1300 554 474



X99999999999

SHAREHOLDER VOTING FORM

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

STEP 1

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 (excluding the registered shareholder) you are appointing as your proxy. I/we appoint the Chairman of the Meeting as an alternate proxy to the person named.

If no person/body corporate is named, the Chairman of the Meeting, is appointed as my/our proxy and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at **9:30am on Thursday, 22 November 2012, at Brisbane Convention Centre, Room M2, Cnr Merivale & Glenelg Street, South Brisbane QLD** and at any adjournment or postponement of the meeting.

If the Chairman of the meeting is appointed (or by default becomes) my/our proxy, I/we expressly authorise the Chairman of the Meeting to exercise my/our proxy on Resolution 5 (Remuneration Report) and Resolution 6 (Conditional Spill Resolution) (except where I/we have indicated a different voting intention below) even though Resolutions 5 and 6 are connected directly or indirectly with the remuneration of a member of the Key Management Personnel which includes the Chairman.

The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business except Resolution 6 where he will be voting against that Resolution. If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting by marking the appropriate box in step 2 below.

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

STEP 2

VOTING DIRECTIONS

Resolutions

Resolutions	For	Against	Abstain*	For	Against	Abstain*
1 Re-Elect Mr Max Cozijn as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4 Approval to issue an additional 10% of the issued capital of the Company over a 12 month period pursuant to Listing Rule 7.1A	<input type="checkbox"/>	<input type="checkbox"/>
2 Re-Elect Dr Helen Garnett as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5 Adopt the Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>
3 Ratification of previous issue of 8,129,557 Shares pursuant to Convertible Note Facility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	THE CHAIRMAN OF THE MEETING INTENDS TO VOTE ALL AVAILABLE PROXIES AGAINST RESOLUTION 6		
				6 Conditional Spill Resolution	<input type="checkbox"/>	<input type="checkbox"/>

i * 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.

STEP 3

SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Shareholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Shareholder 3 (Individual)

Director

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 PRX201R



HOW TO COMPLETE THIS 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 a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you appoint someone other than the Chairman of the Meeting as your proxy, you will also be appointing the Chairman of the Meeting as your alternate proxy to act as your proxy in the event the named proxy does not attend the meeting.

If the Chairman of the Meeting is appointed your proxy (or becomes your proxy by default), you authorise the Chairman to exercise your proxy even if he has an interest in the outcome of the resolutions and that votes cast by the Chairman of the Meeting for those resolutions other than as proxy holder will be disregarded because of that interest, subject to the requirements of the *Corporations Act 2001* (Cth). If you have directed your proxy how to vote on a Resolution and your named proxy either does not attend the Meeting or attends the Meeting but does not vote on a poll on the Resolution, the Chairman of the meeting will become your proxy in respect of that Resolution.

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 (except in relation to Resolutions 5 and 6 where you have appointed a member of the Key Management Personnel of the Company (other than the Chairman) or their closely related parties as your proxy, in which case there are additional restrictions explained below). 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. The appointment of the Chairman of the Meeting as your alternate proxy also applies to the appointment of the second proxy.

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.
- (b) return both forms together.

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 **9:30am on Tuesday, 20 November 2012**, 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 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 or Level 12, 680 George Street, Sydney NSW 2000.

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.

Exercise of undirected proxies by Key Management Personnel

If a member of the Company's Key Management Personnel (other than the Chairman) or their closely related parties is your proxy and you have not directed the proxy how to vote, that person will not vote your shares on Resolutions 5 and 6 (being resolutions which are connected directly or indirectly with the remuneration of members of the Company's Key Management Personnel).

If the Chairman of the Meeting is appointed your proxy (or becomes your proxy by default), and you have not directed the proxy how to vote, you authorise the Chairman to exercise your proxy on Resolutions 5 and 6 even though Resolutions 5 and 6 are connected directly or indirectly with the remuneration of a member of Key Management Personnel (and the Chairman is a member of Key Management Personnel).

The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business (including Resolution 5), except Resolution 6 which he will be voting against. If you do not wish to authorise the Chairman to vote your proxy in this way, you should direct your proxy in accordance with the instructions in this proxy form.

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.