



carbonenergy

Carbon Energy Limited | ABN 56 057 552 137

ASX Announcement

25 July 2013

Not for release in the United States

Dear Sir/Madam

Carbon Energy Limited – Notice to Option Holder

Notice is given that the Company intends to undertake a non-renounceable rights issue to Eligible Shareholders to raise up to approximately \$7,868,897 based on Carbon Energy's undiluted share capital (**Rights Issue**). The Rights Issue is made on the basis of 1 new fully paid ordinary share for every 2 shares held with an issue price of \$0.02 per share and in addition 1 new listed option will be issued for every 1 new share allotted, with an exercise price of \$0.060 and expiring on 31 July 2016 (together, **New Securities**). Assuming no existing options on issue in the Company are exercised, approximately 393,444,853 new shares and 393,444,853 new listed options will be offered under the Rights Issue. This number will be unaffected by the existing Convertible Note Facility as outlined below.

The Company is also pleased to announce that it has secured a new cornerstone investor Holder East Capital Ltd to invest \$1,000,000 in the Company through a private placement, subject to at least \$2,000,000 being raised in the Rights Issue and other conditions being satisfied by 31 August 2013 (**Placement**). Terms of the Placement are the same terms as the Rights Issue.

As an Option Holder, you are permitted to participate in the issue of New Securities under the Rights Issue **only** in the event that you:

- (a) have exercised your existing options and are on the Company's register prior to the record date selected by the Company for determining entitlements to participate in the Rights Issue, being 7:00pm (AEST) on 2 August 2013 (**Record Date**); and
- (b) have a registered address in either Australia, New Zealand, Belgium, Switzerland or are an institutional investor in the United States who purchases the New Securities in transactions exempt from the registration requirements of the US Securities Act of 1933 and applicable state securities laws (**Eligible Shareholders**).

Eligible Shareholders will be entitled to apply for any shortfall after subscribing for their full entitlement to New Securities.

New Securities issued under the Rights Issue will rank equally with all shares on issue.

The Prospectus to be issued to Eligible Shareholders was lodged with ASIC and ASX on 25 July 2013 and is available on the Company's website www.carbonenergy.com.au and the ASX website.

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

In accordance with the ASX Listing Rules, Carbon Energy has considered the number of shareholders with registered addresses outside of Australia, New Zealand, Belgium, Switzerland and the United States and the size of the shareholdings held by those shareholders. Taking this into consideration, as well as the costs of complying with the legal requirements and the requirements of the regulatory authorities relating to the shareholders with registered addresses outside of those countries, the Company has formed the view that it is unreasonable to extend the Rights Issue to those shareholders. Accordingly, shareholders outside of those countries, including in United Arab Emirates, Canada, China, Germany, France, United Kingdom, Hong Kong, Ireland, Japan, Lao People's Democratic Republic, Malaysia, Papua New Guinea, Qatar, Singapore, Sweden, Thailand and Taiwan, will not be entitled to participate in the Rights Issue.

The purpose of the Rights Issue is to raise up to approximately \$7,868,897, excluding the costs of the Rights Issue.

The Company intends to apply the proceeds from the Rights Issue to:

- the Australian and international business development (Technology Licensing and Technical Services) of Carbon Energy's keyseam Underground Coal Gasification (UCG) technology;
- the implementation of a rehabilitation plan for the UCG panel at Bloodwood Creek in the Surat Basin, as recommended in the ISP Report dated 1 July 2013;
- the repayment of some or all of the outstanding balance of the Credit Suisse Facility;
- the marketing of the Company's 2 billion tonne thermal coal JORC Inferred Resource in the Surat Basin for the purposes of monetisation of the asset;
- general working capital; and
- payment for the costs of the Rights Issue.

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

Event	Date
Announcement of Rights Issue and Prospectus and Appendix 3B lodged with ASX	Thursday, 25 July 2013
Notice of Rights Issue sent to Option Holders	Thursday, 25 July 2013
Notice of Rights Issue sent to Shareholders	Friday, 26 July 2013
Shares commence trading on an ex basis	Monday, 29 July 2013
Record Date for the Rights Issue (7:00pm AEST)	Friday, 2 August 2013
Despatch Prospectus to shareholders	Tuesday, 6 August 2013
Opening Date of Rights Issue (9:00am AEST)	Tuesday, 6 August 2013
Closing Date of Rights Issue (5:00pm AEST)	Wednesday, 21 August 2013
Allotment of New Securities under Rights Issue	Tuesday, 27 August 2013

Normal trading of New Securities on ASX begins	Wednesday, 28 August 2013
Despatch of holding statements for New Securities and deferred settlement trading ends	Thursday, 29 August 2013

This timetable is indicative only and may be subject to change subject to the requirements of the Corporations Act 2001 (Cth) (Corporations Act) and the ASX Listing Rules.

The Rights Issue is not underwritten. Patersons Securities Limited has been appointed as Lead Manager to the Rights Issue and will be paid \$75,000 in corporate advisory fees, 6% on any rights issue acceptances containing the broker stamp of Patersons Securities Limited and 6% of shortfall placed, apart from monies introduced by the Company.

The Rights Issue is being made in accordance with section 713 of the Corporations Act. Accordingly, Carbon Energy will send the prospectus to Eligible Shareholders on 6 August 2013, as set out in the timetable above.

Further information

The Company anticipates that up to approximately 393,444,853 new shares and approximately 393,444,853 new listed options will be issued, pursuant to the Rights Issue. This number may have to be increased by 70,666,620 new shares and options if all existing option holders exercise their options prior to the Record Date. However, having regard to the exercise price of the existing options, the Directors believe that it is unlikely that any existing options will be exercised prior to the record date. This number will be unaffected by the existing Convertible Note Facility as the Company has been advised that this will not be converted prior to the Record Date or during the Rights Issue.

The Company anticipates that approximately 50,000,000 new shares and 50,000,000 new listed options will be issued pursuant to the Placement on or about 31 August 2013 subject to satisfaction of waiver of applicable conditions precedent.

On completion of the Rights Issue, and assuming it is fully subscribed, existing options are not exercised and the existing Convertible Note Facility is not converted and assuming that the Placement completes, the issued capital of Carbon Energy will comprise of approximately 1,230,334,558 shares, 141,333,240 unlisted options exercisable at prices ranging from \$0.081 to \$1.60 each with expiry dates ranging from 10 December 2013 to 25 February 2017 (further details of which are set out in the Prospectus and Appendix 3B), and 443,444,853 listed options with an exercise price of \$0.060 and expiring on 31 July 2016.

The new shares will rank equally in all respects with Carbon Energy's existing shares. The terms of the new options are set out in the Prospectus. If an Eligible Shareholder's entitlement results in a fraction of a new share and a new option, the entitlement will be rounded up to the nearest whole number. There will be no change to the dividend policy of the Company as a result of the Rights Issue.

Entitlements to New Securities pursuant to the Rights Issue are non-renounceable and accordingly will not be traded on the ASX.

Trading in the New Securities is expected to commence on 28 August 2013.

An Appendix 3B applying for quotation of the New Securities was lodged with ASX on 25 July 2013. As stated in that Appendix 3B, the Company has previously obtained shareholder approval under

ASX Listing Rule 7.1A on 22 November 2012. The Company currently has capacity to issue 2,778,846 equity securities pursuant to ASX Listing Rule 7.1 and 77,630,657 equity securities pursuant to ASX Listing Rule 7.1A.

The Rights Issue is being made in accordance with section 713 of the Corporations Act 2001 (Cth). Accordingly, the Company will prepare and send a prospectus for the Rights Issue to all eligible shareholders on Tuesday, 6 August 2013.

ENDS

For and on behalf of the Board

Morné Engelbrecht
Chief Executive Officer

*This Prospectus is available in electronic form on the Internet at www.carbonenergy.com.au. If you wish to obtain a free copy of this Prospectus, please contact the Shareholder Information line on **1300 851 395** (toll free within Australia) or **+61 1300 851 395** (outside Australia). You may also contact Carbon Energy on **+61 7 3156 7777** or by email at: **askus@carbonenergy.com.au***

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