



carbonenergy

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Carbon Energy Limited

ABN 56 057 552 137

Carbon Energy (Operations) Pty Ltd

ABN 61 105 176 967

ASX / Media Announcement

25 July 2013

Not for release in the United States

Carbon Energy Announces New Cornerstone Investor and Rights Issue to raise up to approximately A\$8.8M

- **Carbon Energy announces a 1 for 2 non-renounceable rights issue to eligible shareholders at 2 cents per share, with an attaching 6 cent option expiring 31 July 2016, to raise up to approximately A\$7.8 million (before costs).**
- **Carbon Energy also secures new cornerstone investor, Holder East Capital Ltd (“HEC”). HEC will invest A\$1 million in Carbon Energy through a private placement, pending the outcome of the Company’s rights issue.**

Carbon Energy Limited ACN 057 552 137 (Carbon Energy or Company ASX:CNX, OTCQX: CNXAY) is pleased to announce it has secured a new cornerstone investor Holder East Capital Ltd (“**HEC**”) to invest A\$1 million in Carbon Energy through a private placement, subject to at least A\$2 million being raised in the Rights Issue and other conditions being satisfied by 31 August 2013. Terms of the private placement (“**Placement**”) are the same terms as the Rights Issue.

The Company is also pleased to announce a 1 for 2 non-renounceable rights issue to eligible shareholders at 2 cents per share together with a 1 for 1 attaching listed 6 cent option expiring 31 July 2016, to raise up to approximately A\$7.8 million (before costs) based on Carbon Energy’s undiluted share capital (“**Rights Issue**”) (assuming the Rights Issue is fully subscribed). Together, the Rights Issue and Placement will raise up to approximately A\$8.8 million (before costs and assuming the Rights Issue is fully subscribed).

HEC, a privately owned investment company, is a principal partner in the Zhengzhou UCG project in China whereby Carbon Energy is the exclusive UCG technology partner for the project (see ASX announcement 17 June 2013). This latest agreement further cements the relationship between Carbon Energy and HEC and reinforces the confidence HEC has in Carbon Energy and the future prospects of the Inner Mongolia project and keyseam® UCG in China generally.

“We are pleased that HEC recognises Carbon Energy’s strengths and opportunities and the confidence it has shown in the Company and its management team,” said Managing

Director Morne Engelbrecht. “We believe the stability of Carbon Energy’s business model, focusing around the licensing of Carbon Energy’s keyseam UCG technology will provide an increasingly important contribution towards the Company’s future cash inflows, and growth prospects around the world.”

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

Funds raised will ensure Carbon Energy’s continued international expansion and allows the Company to move forward with the rehabilitation plans for Bloodwood Creek and the commercialisation of the operations as per the ISP report recommendations (see ASX announcement on 8 July 2013). Specifically, 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 demonstration of rehabilitation of the UCG panel at Bloodwood Creek in the Surat Basin, as recommended in the ISP report;
- the repayment of all of the outstanding balance of the Credit Suisse Facility;
- the marketing of the Company’s 2 Billion tonne thermal coal Inferred Resource in the Surat Basin for the purposes of monetisation of the asset;
- general working capital (should the conditions precedent to the HEC placement agreement be satisfied then the additional \$1 million raised will be applied to general working capital which includes the necessary working capital required to support the provision of services for the Inner Mongolia UCG project.); and
- cover the costs of the Rights Issue.

Further information in relation to the Rights Issue will be set out in a prospectus which the Company intends to lodge shortly with ASX and which will be made available to eligible shareholders when the securities are offered. An Appendix 3B applying for quotation of the new shares and new options under the Rights Issue and Placement will be lodged with ASX shortly.

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

Event	Date
Announcement of Issue	Thursday, 25 July 2013
Lodgement of Prospectus with ASIC	Thursday, 25 July 2013
Notice to Option Holders	Thursday, 25 July 2013
Notice to Shareholders containing Appendix 3B information	Friday, 26 July 2013
Shares commence trading on an ex rights basis	Monday, 29 July 2013
Record Date for the Offer (7:00pm AEST)	Friday, 2 August 2013
Prospectus and Entitlement and Acceptance Form despatched to Shareholders	Tuesday, 6 August 2013
Opening Date of Offer (9:00 am AEST time)	Tuesday, 6 August 2013
Closing Date of Offer (5:00pm AEST time)	Wednesday, 21 August 2013
Advise ASX of any shortfall	Monday, 26 August 2013
Expected date of allotment	Tuesday, 27 August 2013
Commencement of trading of New Securities on ASX	Wednesday, 28 August 2013
Despatch of Transaction Confirmation Statements for New Securities	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 being made in accordance with section 713 of the Corporations Act. Carbon Energy will prepare and send a prospectus to all eligible shareholders on 6 August 2013, as set out in the timetable above.

The Rights Issue will be available to all registered shareholders who hold shares at 7pm AEDT on 2 August 2013 ("**Record Date**") with registered addresses in Australia, New Zealand, Belgium and Switzerland and those who are institutional investors in the United States who purchase the new shares and new options 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. Fractional entitlements will be rounded up.

Shares issued pursuant to the Rights Issue will rank equally with all shares on issue. The terms of the attaching options are set out in the Prospectus. Option holders need to exercise their options and be an Eligible Shareholder on the Record Date if they wish to participate in the Rights Issue.

The Company anticipates that approximately 393,444,853 new shares and 393,444,853 new options will be issued pursuant to the Rights Issue with 50,000,000 New Shares and 50,000,000 New Options being issued pursuant to the Placement.

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

ENDS

For and on behalf of the Board

Morné Engelbrecht
Chief Executive Officer and Managing Director

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.

CARBON ENERGY LTD

PROSPECTUS



Carbon Energy Limited ACN 057 552 137 (Company)

A non-renounceable pro rata rights issue to Eligible Shareholders of 1 New Share for every 2 Shares held at an issue price of \$0.02 per New Share which if fully subscribed would raise approximately \$7,868,897, with 1 New Option for every 1 New Share allotted. Each New Option is exercisable at \$0.06 per share and expires on 31 July 2016.

This Offer is not underwritten.



Lead Manager to the Offer
Paterson Securities Limited

Your Entitlement and Acceptance Form must be received by the Share Registry with your payment no later than 5.00pm (AEST) on the Closing Date. Please refer to the timetable set out in this Prospectus for the Important Dates.

If you are in any doubt as to the contents of this document, you should consult your stockbroker, solicitor, banker, financial advisor or accountant as soon as possible. The securities offered by this Prospectus are considered to be speculative.



Prospectus

Offer Statistics

Number of New Shares to be issued*	393,444,853
Number of New Options to be issued*	393,444,853
Offer Price:	\$0.020

**Excludes any New Securities which may be issued in the event that any Existing Options are exercised prior to the Record Date or the Convertible Note Facility is converted.*

Timetable for important dates

Announcement of Issue	Thursday, 25 July 2013
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Despatch of Transaction Confirmation Statements for New Securities	Thursday, 29 August 2013

These dates are indicative only and subject to change without notice. The Company, in consultation with the Lead Manager, may extend the period of the Offer or bring forward the Closing Date at its discretion. This may have a consequential effect on the other dates.

Important notice

This Prospectus is dated Thursday, 25 July 2013 and was lodged with the ASIC on the same date. Neither the ASIC nor the ASX takes any responsibility as to the contents of this Prospectus. No securities will be issued on the basis of this Prospectus any later than 13 months after the date of issue of this Prospectus.

This Prospectus contains an offer to Eligible Shareholders of continuously quoted securities (as defined in the Corporations Act), and options to acquire continuously quoted securities, and has been prepared in accordance with section 713 of the Corporations Act.

The information provided in this Prospectus is not financial product advice and has been prepared without taking into account your investment objectives, financial circumstances or particular needs. If you have any questions you should seek professional advice before deciding to invest. An investment in New Shares and New Options that are offered under this Prospectus should be considered speculative.

Please refer to section 5 for details relating to risks involved with an investment in the Company.

Prospectus

Disclaimer

No person is authorised to give any information or to make any representation in connection with the Offer that is not contained in this Prospectus. Any information or representation not contained in this Prospectus may not be relied on as having been authorised by the Company in connection with the Offer. Neither the Company nor any other person warrants the future performance of the Company or any return on any investment made under this Prospectus, except as required by law and then only to the extent so required.

Forward Looking Statements

Some of the information contained in this Prospectus constitutes forward-looking statements that are subject to various risks and uncertainties. Forward-looking statements include those containing such words as 'anticipate', 'estimate', 'should', 'will', 'expects', 'plans' or similar expressions. These statements discuss future objectives or expectations concerning results of operations or financial conditions or provide other forward-looking information. The Company's actual results, performance or achievements could be significantly different from the results or objectives expressed in, or implied by, those forward-looking statements. This Prospectus details some important factors that could cause the Company's actual results to differ from the forward-looking statements made in this Prospectus.

Foreign Shareholders

This document does not constitute an offer of New Securities in any jurisdiction in which it would be unlawful. New Securities may not be offered or sold in any country outside Australia except to the extent permitted below and section 2.13 of this Prospectus.

The New Securities may only be offered to those Eligible Shareholders with registered addresses in Australia, New Zealand, Belgium, Switzerland and those who are institutional investors in the United States who purchase the New Securities in transactions exempt from the registration requirements of the US Securities Act of 1933 and applicable state securities laws.

The Company has not made investigation as to the regulatory requirements that may prevail in the countries, outside of Australia, New Zealand, Belgium, Switzerland and the United States. The distribution of this Prospectus in other countries may be restricted by law and persons who come into possession of this Prospectus should observe any such restrictions. Any failure to comply with restrictions might constitute a violation of applicable securities laws.

This Prospectus may not be released into the United States and may be distributed in the United States only by the Company to persons who are Eligible Shareholders.

See section 2.13 for further information on Offer restrictions with respect to shareholders who do not have registered addresses in Australia.

Competent Persons Statement

The information in this Prospectus that relates to mineral resources in respect of the Company's Surat Basin assets (Exploration Permit for Coal (**EPC**) 867, 868, 869 and 1132 and Mineral Development Licence (**MDL**) 374) is based on information compiled by GeoConsult Pty Ltd and Adrian Buck and reviewed by Warwick Smyth, who is a member of the Australasian Institute of Mining and Metallurgy (CP) Geology; and the Australian Institute of Geoscientists.

Warwick Smyth is a qualified geologist (BSc Geol, Grad Dip AF&I, MAusIMM (CP) MGSA, MAIG), and a Principal Consultant for GeoConsult Pty Ltd and has over 20 years experience which is relevant to the style of mineralisation, the type of deposit under consideration and to the activity which has been undertaken to qualify as a Competent Person as defined by the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

Warwick Smyth of GeoConsult Pty Ltd has no material interest or entitlement, direct or indirect, in the securities of Carbon Energy or the Projects. GeoConsult has been commissioned to provide

Prospectus

geological services to Carbon Energy since late 2012. Fees for the preparation of this information are on a time and materials basis.

Warwick Smyth and GeoConsult Pty Ltd consent to the use of the resource statement and references to it and extracts from it, in the form and context in which they are included.

Definitions and Abbreviations

Defined terms and abbreviations used in this Prospectus are explained in the Glossary in section 7.

Financial Amounts

The financial amounts in this Prospectus are expressed in Australian dollars (\$) unless otherwise stated.

How to accept Entitlement to New Securities

Entitlements to New Securities can be accepted in full, in part or in excess of Entitlements by completing and returning the Entitlement and Acceptance Form which is accompanying this Prospectus or making payment of Acceptance Monies by BPAY® in accordance with the instructions set out in this Prospectus and on the Entitlement and Acceptance Form.

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

Enquiries

If you are an Eligible Shareholder and have any questions in relation to the Entitlement Offer, please contact your stockbroker or professional adviser. If you have questions in relation to the Shares upon which your Entitlement has been calculated, or how to complete the Entitlement and Acceptance Form, take up your Entitlement or apply for Additional Securities, please call the Share Registry on:

- 1300 851 395 for callers within Australia; or
- +61 1300 851 395 for overseas callers.

Deciding to Accept the Offer

No person named in this Prospectus, nor any other person, guarantees the performance of Carbon Energy, the repayment of capital or the payment of a return on the New Securities.

Please read this Prospectus carefully before you make a decision to invest. An investment in the Company has a number of specific risks which you should consider before making a decision to invest. Some of these risks are summarised in section 5 of this Prospectus. This Prospectus is an important document and you should read it in full before deciding whether to invest pursuant to the Offer. You should also have regard to other publicly available information about the Company, including ASX announcements, which can be found at the Company's website: www.carbonenergy.com.au.

Prospectus

TABLE OF CONTENTS

- Chairman’s letter6
- 1. Investment summary8
- 2. Details of the Offer16
- 3. Information on Carbon Energy24
- 4. Effect of Offer on Carbon Energy33
- 5. Risk factors.....38
- 6. Additional information.....47
- 7. Definitions & glossary60

Prospectus

Chairman's letter

25 July 2013

Dear fellow Shareholder,

Carbon Energy's advanced coal technology produces UCG syngas, a valuable product gas which can be used in the production of high value commodities such as electricity, pipeline quality gas, fertilisers and liquid fuels. UCG can allow certain deep or low quality coal that will never be economic to mine to be commercialised.

During this past year Carbon Energy has received a number of Underground Coal Gasification (**UCG**) related enquires for the supply of the Company's keyseam® UCG technology. It has been a defining year as we establish ourselves as an emerging global energy services company.

Recently, we announced a strategically important partnership to become the underground coal gasification technology and technology services provider for a large scale project in Inner Mongolia, China. When this project commences, the Company will be providing these services for a fee, which represents a significant milestone in the commercialisation of our technology. All of our technology services agreements are being structured in this way.

Upon the successful development of projects using the Company's keyseam UCG technology the Company will receive success payments and a production royalty.

In addition to this large scale project in China, we continue to pursue further opportunities to partner our unique technology with other groups, as we seek to further commercialise our technology, with the objective of growing your Company. The most recent achievement in this regard was to be selected by Delmo Group as the technology provider for its Argentina UCG project as announced on 23 July 2013.

Your Directors consider these recently announced milestones as endorsement of our strategic priority to become the preferred partner of choice for the development of international UCG projects.

The Company has secured a private placement of \$1,000,000 from HEC, a substantial shareholder in the project delivery vehicle for the Inner Mongolia UCG project. I welcome this investment as an endorsement of the Company and its UCG prospects. The \$1,000,000 will be available to the Company upon raising \$2,000,000 of additional capital.

The Company has also achieved recent success locally with a clear path for UCG commercialisation in Queensland being defined by the Queensland Government. This will enable the Company to continue to work with the Queensland Government to satisfy all prerequisites to the granting of approval to proceed with a commercial scale project, including demonstration of a suitable remediation plan for the UCG panel.

The independent scientific panel (**ISP**) appointed by the Queensland Government to assess the future UCG industry in Queensland noted in its report that Carbon Energy's keyseam UCG technology was considered to be an advancement on previous technologies.

The Board of Carbon Energy is pleased to offer you, at this defining time for the Company, the opportunity to increase your investment in Carbon Energy, to help realise the opportunities presented in overseas markets and secure the Company's future in the local market.

It is your Directors pleasure to introduce this Prospectus and invite you to take up your Entitlement of New Securities and apply for Additional Securities in Carbon Energy (**the Offer**).

As announced today the Directors wish to provide the opportunity for Eligible Shareholders to invest in New Securities under the Offer. The Offer is a non-renounceable pro rata rights issue of 1 New Share for every 2 Shares held at an issue price of \$0.02 per New Share which if fully subscribed would raise approximately \$7,868,897 (before Offer costs), with 1 New Option for every 1 New Share allotted. Each New Option is exercisable at \$0.06 per share and expires on 31 July 2016.

Prospectus

Under the Offer, as Eligible Shareholders you are entitled to subscribe for the number of New Securities (**Entitlement**) set out in your personalised Entitlement and Acceptance Form enclosed with this Prospectus. The issue price of \$0.020 per New Share represents a 36% discount to the 30 day volume-weighted average Share price (being \$0.0312) as at market close on Tuesday, 23 July 2013.

Entitlements to New Securities can be accepted in full, in part or in excess of your Entitlement by completing and returning the Entitlement and Acceptance Form which accompanies this Prospectus or making payment of Acceptance Monies by BPAY in accordance with the instructions set out below and on the Entitlement and Acceptance Form. Under the Offer, Eligible Shareholders may also apply for additional New Securities over their Entitlement subject to scale back and which will be allocated at the Directors' discretion.

Subscription moneys for the New Securities must be received by the Company at its Share Registry by the Closing Date. Please refer to the timetable for the important dates of the Offer.

Patersons Securities Limited has been appointed as Lead Manager to the Offer.

The Offer is not underwritten, however the Company will work with the Lead Manager to place any shortfall of New Securities not subscribed for by Eligible Shareholders. The Offer is non-renounceable and therefore your Entitlements will not be tradeable on the ASX or otherwise transferable.

On behalf of the Directors, I thank you for your continued support and I invite you to consider this investment opportunity.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'C.D. Rawlings', written in a cursive style.

Dr Chris Rawlings
Chairman
Carbon Energy Limited

Prospectus

1. Investment summary

The information set out in this section is not intended to be comprehensive and should be read in conjunction with the full text of this Prospectus.

1.1 The Offer

This Prospectus is for the non-renounceable pro rata rights issue to Eligible Shareholders of 1 New Share for every 2 Shares held at an issue price of \$0.02 per New Share which if fully subscribed would raise approximately \$7,868,897, with 1 New Option for every 1 New Share allotted. Each New Option is exercisable at \$0.06 per share and expires on 31 July 2016.

The Offer is not underwritten. There is no minimum subscription to the Offer.

On the same date as announcing the Offer, the Company applied to the ASX for the New Shares and New Options to be granted Official Quotation on the ASX. Official quotation of the New Securities is expected to occur on or about Wednesday, 28 August 2013.

The Directors may at any time decide to withdraw this Prospectus and the offer of New Securities made under this Prospectus, in which case the Company will return all applications moneys (without interest) within 28 days of giving notice of such withdrawal.

1.2 New Share terms

Upon issue, each New Share will rank equally with all existing Shares then on issue. A summary of the rights attaching to the New Shares is set out in section 6.3.

1.3 New Option Terms

A summary of the rights attaching to the New Options is set out in section 6.4.

1.4 Acceptance of Entitlement to New Securities

The number of New Securities to which an Eligible Shareholder is entitled and the total amount an Eligible Shareholder would have to pay if they choose to take up all of their rights to subscribe for the New Securities is shown on the Entitlement and Acceptance Form accompanying this Prospectus. This Prospectus is for the information of Eligible Shareholders who are entitled and may wish to apply for the New Securities. Fractional entitlements will be rounded up to the nearest whole number.

Entitlements to New Securities can be accepted in full, in part or in excess of your Entitlement by completing and returning the Entitlement and Acceptance Form which accompanies this Prospectus or making payment of Acceptance Monies by BPAY in accordance with the instructions set out below and on the Entitlement and Acceptance Form. Acceptance Monies should be rounded up to the nearest cent.

Subscription moneys for the New Securities must be received by the Company at its Share Registry by the Closing Date. Please refer to the timetable for the important dates of the Offer.

1.5 Purpose of the Offer

The Directors intend to apply the proceeds from the Offer to:

- the Australian and international business development (Technology Licensing and Technical Services) of Carbon Energy's keyseam Underground Coal Gasification (UCG) technology;

Prospectus

- the implementation of a rehabilitation plan for the UCG panel at Bloodwood Creek in the Surat Basin, as recommended in the ISP report;
- 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
- Offer costs.

The Company is doing everything possible to reduce its costs at all levels within the business. The Company has introduced cost reduction measures which are aimed at reducing expenditure and minimising cash outflows not only over the coming months but on an ongoing basis to preserve capital and secure the long term success of the Company.

A recent review of business expenses identified a range of achievable cost savings within all areas of the business including:

- limiting non-essential expenditure;
- obtaining the agreement from its employees to reduce working hours for a commensurate reduction in salary; and
- reassessing minimum facility and resourcing requirements for the Company's Bloodwood Creek UCG operations in preparing for the commencement of rehabilitation.

This cost reduction initiative is fully supported by the Board as demonstrated by the suspension of 50% of directors' fees for the independent directors and the suspension of all directors' fees for remaining non-executive Directors over the coming months.

The Directors consider that Carbon Energy is well positioned to take advantage of further market opportunities not only in Asia but around the world.

The table below identifies the estimated allocation of the funds raised from the Offer (assuming that the rights issue is fully subscribed) that the Company intends to spend, in respect of the costs of the Offer, on working capital and for other purposes.

Purpose	Estimated \$ million	Estimated %
Australian and International Business Development (including marketing of the Surat Basin coal assets)	\$1.0	12.82%
Completion of a rehabilitation plan of the UCG panel at Bloodwood Creek in the Surat Basin	\$1.0	12.82%
Repayment of the outstanding balance of the Credit Suisse Facility	\$3.0	38.46%
Offer Costs*	\$0.6	7.69%
Working Capital (including working capital necessary to deliver the services for the Inner Mongolia Project)	\$2.2	28.21%
Total	\$7.8	100%

**This includes an estimate of the commission that may be payable to the Lead Manager, the details of which are outlined in section 6.5.*

Prospectus

Notwithstanding the allocations set out above, in the event that circumstances change or other beneficial opportunities arise, the Directors reserve the right to vary the proposed use of funds to maximise the benefit to Shareholders. Should the rights issue not be fully subscribed, then with the exception of the Credit Suisse loan facility repayment, expenditure in each category is expected to reduce on a proportionate basis to maintain a similar percentage allocation. Credit Suisse is expected to require payment of the outstanding balance in full from the funds raised, unless the Offer raises less than \$5,000,000 in which case the Company will only be required to repay \$1,200,000 immediately following the Offer. Further details are set out in section 3.2.

Where necessary, business expenditure will be prioritised to ensure contract delivery and regulatory compliance. In those circumstances, business development and general working capital will be adjusted accordingly. The extent of such adjustment will be dependent on factors including (without limitation) ongoing discussions with the Queensland Government regarding Bloodwood Creek rehabilitation and the timetable and schedule of works for the Inner Mongolia Project once agreed.

Should the conditions precedent to the HEC placement agreement be satisfied (as detailed in section 3.2), then the additional \$1,000,000 raised will be applied to general working capital which includes the necessary working capital required to support the provision of services for the Inner Mongolia UCG project.

1.6 Directors Intentions in respect of Entitlements

As at the date of this Prospectus, some of the Directors of Carbon Energy have either a direct or indirect interest in Shares. Set out below is a table summarising the Entitlement of each Director (based on their current holding) and how they intend to treat their Entitlement.

Director#	Shares	New Share Entitlement	New Option Entitlement	Intentions
Dr Chris Rawlings	2,900,000	1,450,000	1,450,000	Take up full Entitlement
Mr Max Cozijn	1,278,340	639,170	639,170	Take up full Entitlement
Dr Helen Garnett	377,101	188,551	188,551	Take up full Entitlement from Shortfall (if any)^
Mr Peter Hogan	280,000	140,000	140,000	Take up full Entitlement
Mr Louis Rozman*	128,796	64,398	64,398	Take up at least full Entitlement from Shortfall (if any)^
Mr Morné Engelbrecht	710,185	355,093	355,093	Take up full Entitlement

Note:

Details of Options in which Directors have a direct or indirect interest are set out in section 6.7.

* As an ultimate beneficiary of the Pacific Road Resources Fund A and the Pacific Road Resources Fund B (the registered holder of these Shares is PRCM Nominees Pty Limited). Mr Louis Rozman is also a director of Pacific Road Capital Management Pty Ltd and the entity Pacific Road Capital B Pty Ltd. The Pacific Road Group currently have a relevant interest in 73,583,572 Shares (of which these Shares form part) and 54,645,845 Options.

^Take up will be in personal capacity subject to shareholder approval.

Prospectus

1.7 Investment Highlights

The Company

Carbon Energy is an emerging global energy services company with expertise in unconventional syngas extraction through utilising its proprietary underground coal gasification (UCG) technology.

Carbon Energy works with international partners to unlock new energy sources by converting deep, stranded, or otherwise uneconomical coal into a high-value gas, known as syngas, while it is still in-situ underground. Carbon Energy's market advantage lies in its proprietary keyseam UCG technology and its UCG technical and UCG engineering expertise.

The Company's keyseam UCG technology reached a proof of concept stage following 10 years of research by Australia's premier scientific research agency the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and more than 5 years of in-field trials.

keyseam produces a high-quality syngas which can be used for many purposes including power generation, fertilisers and production of pipeline-quality gas. keyseam also maximises resource efficiency, while minimising surface disturbance and preserving groundwater quality.

Business Model and Growth Strategies

Since the start of the year Carbon Energy has made significant progress on its strategic objective of generating long-term cash flows by entering into two further licensing deals in China and Argentina, and made progress into commercialising the Bloodwood Creek site. The Company has also made significant advancements of its proprietary keyseam technology. Carbon Energy has extensive mining tenements in the Surat Basin with potentially large coal deposits which the Company is marketing for sale. These tenements will provide the Company with long term funding if and when it is monetised.

The following sets out the main growth strategies of the Company.



Prospectus

Progress Made Since 31 December 2012

The following is a summary of the progress made against the above stated key objectives of the Company:

- Signed a Memorandum of Understanding (MOU) and a Definitive Technology Services Agreement to become the exclusive underground coal gasification (UCG) technology partner to Zhengzhou Coal Industry Group Co Ltd (Zhengmei Group) for an Inner Mongolian UCG Project.
- Secured HEC as a new investor subject to the Offer raising \$2,000,000. Both parties have also agreed that HEC will become Carbon Energy's UCG business development agent for the Chinese market (excluding Shanxi Province). Under the terms of the agreement, HEC has agreed to secure two commercially-viable UCG projects for Carbon Energy in China by 31 December 2015. For the agency agreement to remain binding, HEC must continue to procure two projects in each subsequent year, with terms no less favourable than the current Zhengzhou Group agreement.
- Announced that a site characterisation study assessing the geology, hydrogeology and geotechnical information of the Haoqin Coalfield in Inner Mongolia had confirmed favourable conditions for keyseam UCG and identified three possible project areas.
- Signed a Memorandum of Understanding (MOU) to become the exclusive UCG technology partner to the Delmo Group for an Argentinean UCG Project.
- The Queensland Government announced the pathway to commercialisation of the UCG industry in Queensland through the release of the overarching recommendations of the ISP Report.
- Announced the conclusion of the Conceptual Study identifying attractive, commercial scale opportunities for the Company's wholly owned syngas assets at Bloodwood Creek in the Surat Basin, South East Queensland.
- Completed an independent geophysical survey reinforcing the Company's technically advanced UCG technology through confirming the location and size of the UCG reactor.
- Announced a 48% increase in its JORC Inferred Coal Resource to 2.0 billion tonnes within its wholly-owned Surat Basin exploration tenements.
- Agreed a variation to the terms of the existing Credit Suisse facility which reduces the amount the Company must repay to Credit Suisse from the proceeds of the Offer and the HEC private placement from the full \$3,000,000 loan balance to \$1,200,000 to the extent that less than \$5,000,000 is raised, with the balance payable from the 2012-13 ATO R&D rebate.
- Sold the Company's investment in Energia Minerals Limited for total cash sale proceeds of \$449,999.
- Appointed Mr Morné Engelbrecht as Chief Executive Officer and Managing Director of Carbon Energy Limited.
- Announced that the Company's Technical Director Dr Cliff Mallett has been appointed Chairman of the International Association for Underground Coal Gasification (UCGA).
- Settlement of the outstanding legal matter with the Department of Environment and Heritage Protection.

Prospectus

Continued Cost Reduction

The Company has introduced cost reduction measures which are aimed at reducing expenditure and minimising cash outflows to preserve capital and secure the long term success of the Company while still progressing with the overall strategic objectives of the Company.

Key Current Activities

Furthermore the Company is focusing its efforts on furthering the following key initiatives in line with its strategic objectives over the next 12 months:

- finalisation of the scope of works for the Inner Mongolia Project, agreement on the final fee structure for UCG technology services and commencement of those services thereafter;
- continuation of the Australian and international business development (Technology Licensing and Technical Services) of Carbon Energy's keyseam underground coal gasification (UCG) technology;
- drafting and finalisation of the rehabilitation plan with the Queensland Government for the UCG panels at Bloodwood Creek in the Surat Basin, as recommended in the ISP report;
- 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 with the formal appointment of an exclusive selling agent;
- the drafting and lodgement of an application for the 2012/2013 ATO R&D cash rebate amounting to an estimated \$3,800,000;
- assisting Delmo Group with its site suitability assessment and feasibility studies for the Argentina UCG Project.

1.8 Applying for Additional Securities

Entitlements not taken up may become available as Additional Securities. Eligible Shareholders may, in addition to their Entitlements, apply for New Securities over and above their Entitlement at the Offer Price (**Additional Securities**) regardless of the size of their present holding.

It is an express term of the Offer that applicants for Additional Securities will be bound to accept a lesser number of Additional Securities allocated to them than applied for. If a lesser number is allocated to them, excess Application Money will be refunded without interest. The Company reserves the right to scale back any applications for Additional Securities in their absolute discretion.

The Directors also reserve the right to issue any New Shares and New Options not allocated under the Offer within 3 months following the Closing Date at a price not less than the Offer Price.

1.9 Lead Manager

Patersons Securities Limited has been appointed as the Lead Manager to the Offer. Further details of the terms of appointment of the Lead Manager are set out in section 6.5.

1.10 Shortfall and Dilution of Shareholder's Interests

The Offer is not underwritten.

Prospectus

In addition to the process outlined in section 1.8, the Company intends to actively work during, and after, the Offer in order to secure commitments to place, and subsequently to place, any Shortfall not subscribed for by Eligible Shareholders.

Shareholders should be aware that to the extent that they do not accept their Entitlements in full, a Shortfall will arise and all or part of any Shortfall may be placed by the Company, in consultation with the Lead Manager, to other parties in which case their interest in the Company may be diluted (see section 4.4 for further details). Further, the Offer is not being extended to Shareholders with registered addresses outside of Australia, New Zealand, Belgium, Switzerland and the US and the holdings of those Shareholders in the Company will be diluted by the Offer. Given the terms of the Offer, the interests of a Shareholder in the Company may be diluted by up to 33% in the event that they are not eligible to participate or elect not to accept their Entitlement in full if the Offer is fully subscribed or alternatively, any Shortfall is fully placed (this does not take into consideration any dilution which may arise as a result of the issue of Shares and Options pursuant to the placement agreement with HEC, details of which are set out in section 3.2).

Acceptance of Entitlements or the placement of any Shortfall may also result in existing Shareholders or new investors significantly increasing their interest in the Company or obtaining a substantial interest in the Company. However, the Shortfall will only be placed to the extent that such placement is in compliance with the takeover provisions of the Corporations Act, which restrict a person and their associates from having a relevant interest in the Company of not more than 20%, subject to a number of exemptions.

1.11 Pacific Road Capital Convertible Loan Facility

Pacific Road Resources Fund entities managed or advised by Pacific Road Capital Management Pty Ltd provided the Company with a five year Convertible Loan Facility for \$10,000,000 on terms and conditions announced to the ASX on 6 October 2011 which has been fully drawn down. Pacific Road Resources Fund entities have the right, under the terms of the Convertible Loan Facility, to convert the facility into Shares. Further, until the facility is converted or repaid in full, Shares in lieu of payment of interest on the facility are issued on a quarterly basis in arrears as provided by the terms of the Convertible Loan Facility.

It is not expected that the facility will be converted into Shares prior to the Record Date or during the Offer. It is also understood that the relevant Pacific Road Resources Fund has committed all of its capital and has no follow on capital available and as such is unable to take up its Entitlement under the Offer. However, it should be noted that the conversion rights are ongoing and, accordingly, the facility could be converted into Shares at any time subsequent to the Offer which would materially increase Pacific Road Group's percentage shareholding in the Company.

The provisions under the Converting Loan Facility which gave the Pacific Road entities the right to be issued with additional shares on conversion only applied in respect of the issue of equity within 18 months of financial close under the Converting Loan Facility, which date has now passed. Accordingly, those provisions will not be triggered by the Offer or any future equity issues (other than in respect of the conversion of existing options issued to Credit Suisse as announced on 16 November 2012).

1.12 Risk Factors

Investing in the Company involves risk. There are factors, both specific to the Company and of a general nature, which may affect the future operating and financial performance of the Company. Some of these factors can be mitigated by appropriate commercial action. However, many are outside the control of the Company, dependent on the policies adopted and approaches taken by regulatory authorities, or cannot otherwise be mitigated. If you are unsure about subscribing for New Securities, you should first seek advice from your stockbroker, accountant, financial or other professional adviser.

Prospectus

The following sets out a summary of some of the key risks relevant to the Company and its operations (further detail is contained in section 5):

Risk	Details
Government Regulation	As an emerging industry, the success of UCG depends to a large extent on the approach taken by government with respect to both the granting of approval to develop a commercial scale project and the ongoing regulation of the industry. This risk exists in both the domestic and international context.
Counterparty Contractual Compliance Risk	Carbon Energy's success (with respect to its position in the market as with respect to becoming self funding) is dependent on the extent of contractual compliance by its partners, particularly with respect to payment obligations and limitations on use of the keyseam UCG technology.
Ability to Scale Up	Having achieved Proof of Concept at Bloodwood Creek trial site, the success of the Company is dependent upon the extent to which Carbon Energy can adapt its technology and learnings from the Bloodwood Creek pilot site to suit a commercial scale UCG operation.
Public Markets	As a development stage company which has relied on investor support, Carbon Energy's success may continue to be dependent upon the availability of ongoing market support in an uncertain market.
Retention of Key Personnel	The ability for the Company to successfully pursue and negotiate further licensing opportunities, deliver new projects as they are secured and ensure the ongoing development and integrity of the Company's knowledge management system is dependent upon acquisition and retention of key staff.
Future Funding	The Company will require funds from various sources in order to allow it to continue as a going concern and finance its exploration, development and commercialisation activities. There can be no assurance that the Company will be able to receive such funds on acceptable terms or in a timely manner or at all.

Further details regarding risks which may affect the Company in the future are set out in section 5.

The New Securities offered under this Prospectus carry no guarantee of profitability, dividends, return of capital or the price at which they may trade on ASX. The past performance of the Company should not necessarily be considered a guide to their future performance.

Prospectus

2. Details of the Offer

2.1 Offer to Eligible Shareholders

The Directors of Carbon Energy have approved a non-renounceable pro rata rights issue of approximately 393,444,853 New Shares at \$0.02 per New Share which if fully subscribed would raise approximately \$7,868,897 (before Offer costs), with one attaching New Option for each New Share received exercisable at \$0.06 per share and expiring on 31 July 2016. Eligible Shareholders are entitled to subscribe for 1 New Share for every 2 Shares held. For each New Share received by an Eligible Shareholder, they will also receive 1 New Option. Only those Shareholders shown on the share register at 7.00 pm (AEST) on the Record Date with a registered address in Australia, New Zealand, Belgium, Switzerland and United States will be entitled to participate in the Offer.

There are currently 141,333,240 Existing Options on issue in the Company. If any of the Existing Options are exercised prior to the Record Date, additional New Securities will be offered under this Prospectus. If all Existing Options on issue at the date of this Prospectus were exercised prior to the Record Date, the Company's issued shares would increase by 141,333,240 Shares, resulting in a further 70,666,620 New Shares being offered pursuant to this Prospectus. This would increase the Company's total Shares on issue after completion of the Offer to 1,392,334,417 Shares (assuming the Offer is fully subscribed). However, having regard to the exercise price of the Existing Options and the Offer Price, the Directors believe that it is unlikely that any Existing Options will be exercised prior to the Record Date.

Carbon Energy has applied to the ASX for the Official Quotation of the New Securities on ASX. Official quotation of the New Securities is expected to occur on or about Wednesday, 28 August 2013. ASX Participating Organisations (as defined in the ASX Business Rules) cannot deal in the New Securities either as principal or agent until official quotation is granted.

2.2 Important dates

Announcement of Issue	Thursday, 25 July 2013
Lodgement of Prospectus with ASIC	Thursday, 25 July 2013
Notice to Option Holders	Thursday, 25 July 2013
Notice to security holders containing Appendix 3B information	Friday, 26 July 2013
Shares commence trading on an ex rights basis	Monday, 29 July 2013
Record Date for the Offer	Friday, 2 August 2013
Prospectus and Entitlement and Acceptance Form despatched to Shareholders	Tuesday, 6 August 2013
Opening Date of Offer (9am AEST)	Tuesday, 6 August 2013
Closing Date of Offer (5pm AEST)	Wednesday, 21 August 2013
Advise ASX of any shortfall	Monday, 26 August 2013
Expected date of allotment	Tuesday, 27 August 2013
Commencement of trading of New Securities on ASX	Wednesday, 28 August 2013
Despatch of Transaction Confirmation Statements for New Securities	Thursday, 29 August 2013

The dates set out in this table are subject to change and are indicative only. The Company, in consultation with the Lead Manager, reserves the right to alter this timetable at any time.

Prospectus

2.3 Shortfall

In the event that there is a Shortfall in subscriptions under the Offer the Directors reserve the right as contemplated within the ASX Listing Rules, to allocate any Shortfall in their discretion so as to ensure a maximum amount of funds are raised, in consultation with the Lead Manager. Any Shortfall will be issued within 3 months after the Closing Date at an issue price being not less than the Offer Price.

2.4 How to accept your entitlement

Eligible Shareholders may accept their Entitlement either in whole, in part or in excess of your entitlement. The number of New Securities which Eligible Shareholders are entitled to is shown on the Entitlement and Acceptance Form which accompanies this Prospectus.

Eligible Shareholders may participate in the Entitlement Offer as follows:

(a) Take up your Entitlement in full and apply for Additional Securities

If you are an Eligible Shareholder and you wish to take up all of your Entitlement and apply for Additional Securities in excess of your Entitlement, please:

- complete the Entitlement and Acceptance Form, which accompanies this Prospectus, by inserting the number of New Securities for which you wish to accept the Entitlement Offer under this Prospectus plus the number of Additional Securities (being more than your Entitlement as specified on the Entitlement and Acceptance Form); and
- forward the completed Entitlement and Acceptance Form together with your cheque or bank draft for the total amount payable (including the amount payable for the Additional Securities) to reach the Company's Share Registry,

so that it is received by no later than 5.00pm (AEST) on the Closing Date or such later date as the Directors determine.

Cheques and bank drafts, in **Australian currency**, should be made payable to Carbon Energy Limited and crossed "not negotiable".

If you intend to pay for the New Securities by BPAY, there is no need to return the Entitlement and Acceptance Form (but you must ensure that your payment is received by no later than 5:00pm (AEST) on the Closing Date or such later date as the Directors' determine (keeping in mind that payments made by BPAY may take 1 or more Business Days to clear). Please refer to the information below regarding payment by BPAY.

(b) Take up your Entitlement in full

If you are an Eligible Shareholder and wish to take up all of your Entitlement, please:

- complete the Entitlement and Acceptance Form, which accompanies this Prospectus, in accordance with the instructions set out on the form; and
- forward your completed Entitlement and Acceptance Form, together with your cheque or bank draft for the amount shown on your Entitlement and Acceptance Form, in the reply paid envelope to reach the Company's Share Registry,

so that it is received by no later than 5:00pm (AEST) on the Closing Date or such later date as the Directors' determine.

Cheques and bank drafts, in **Australian currency** should be made payable to Carbon Energy Limited and crossed "not negotiable".

Prospectus

You should ensure that sufficient funds are held in the relevant account(s) to cover the Acceptance Monies. If the amount of your cheque for Acceptance Monies is insufficient to pay in full for the number of whole New Securities you have applied for in your Entitlement and Acceptance Form, you will be taken to have applied for such lower number of New Securities as your cleared Acceptance Monies will pay for (and to have that number of New Securities on your Entitlement and Acceptance Form). Alternatively, your Application will be rejected. If your cheque does not clear due to insufficient funds in your account, your Application will be rejected.

If you intend to pay for the New Securities by BPAY, there is no need to return the Entitlement and Acceptance Form (but you must ensure that your payment is received by no later than 5:00pm (AEST) on the Closing Date or such later date as the Directors' determine, keeping in mind that payments made by BPAY may take 1 or more Business Days to clear. Please refer to the information below regarding payment by BPAY.

(c) **Take up some of your Entitlement**

If you are an Eligible Shareholder and wish to take up only some of your Entitlement, please:

- complete the Entitlement and Acceptance Form, which accompanies this Prospectus, by inserting the number of New Shares for which you wish to accept the Entitlement Offer under this Prospectus (being less than your Entitlement as specified on the Entitlement and Acceptance Form); and
- forward the completed Entitlement and Acceptance Form together with your cheque or bank draft for the total amount payable to reach the Company's Share Registry,

so that it is received by no later than 5.00pm (AEST) on the Closing Date or such later date as the Directors determine.

Cheques and bank drafts, in **Australian currency**, should be made payable to Carbon Energy Limited and crossed "not negotiable".

If you intend to pay for the New Securities by BPAY, there is no need to return the Entitlement and Acceptance Form (but you must ensure that your payment is received by no later than 5:00pm (AEST) on the Closing Date or such later date as the Directors' determine, keeping in mind that payments made by BPAY may take 1 or more Business Days to clear. Please refer to the information below regarding payment by BPAY.

(d) **Do nothing**

You may do nothing, in which case you will have no right to subscribe for New Securities and no New Securities will be issued to you. However, if you are an Eligible Shareholder and you do nothing, then New Securities representing your Entitlement may be sold to an Eligible Shareholder who applies for Additional Shares or other third parties procured by the Directors in exercising their discretion in placing any Shortfall.

You should also note that, if you do not take up your Entitlement, then although you will continue to own the same number of Shares, your percentage shareholding in the Company will decrease.

(e) **General**

If you have any queries concerning your Entitlement, please contact the Share Registry on 1300 851 395 (within Australia) or +61 1300 851 395 (outside Australia) or contact your stockbroker or professional adviser.

Prospectus

Entitlement and Acceptance Forms and accompanying cheques or bank drafts may be lodged at any time before the Closing Date. Applications received after the Closing Date may not be accepted. The Company will not be responsible for postal or delivery delays.

The Offer Price of \$0.02 per New Share is payable in full on acceptance of part or all of your Entitlement.

If an Eligible Shareholder elects to make payment using BPAY, they must contact their bank, credit union or building society to make payment of the Acceptance Monies from their cheque or savings account. Refer to the Entitlement and Acceptance Form for the Biller Code and Customer Reference Number. Eligible Shareholders who have multiple holdings will have multiple Customer Reference Numbers.

Payment will only be accepted in Australian currency and cheques, bank drafts, money orders and BPAY payments must be drawn on an Australian bank.

No stamp duty, brokerage or handling fees are payable by the Applicant for the New Securities offered by this Prospectus. Completed Entitlement and Acceptance Forms and accompanying cheques should be forwarded to the following address:

Carbon Energy Limited
c/- Link Market Services Limited
Locked Bag 3415
Brisbane QLD 4001

The amount payable on acceptance will not vary during the period of the Offer and no further amount is payable on allotment. Acceptance Monies will be held in trust in a subscription account until allotment of the New Securities. The subscription account will be established and kept by Carbon Energy on behalf of the Applicants. Any interest earned on the Acceptance Monies will be retained by the Company irrespective of whether allotment takes place.

2.5 Allotment and allocation policy

Carbon Energy will proceed to allocate New Securities as soon as possible after the Closing Date and receiving ASX permission for official quotation of the New Securities.

In the case that there is less than full subscription by Shareholders of their Entitlements under this Prospectus, the Directors will assess the amount raised and the adequacy of funds prior to allotment, and reserve the right to issue any Shortfall at their discretion, in consultation with the Lead Manager (see section 2.3).

Successful Applicants will be notified in writing of the number of New Securities allocated to them as soon as possible following the allocation being made.

It is the responsibility of Applicants to confirm the number of New Securities allocated to them prior to trading in New Securities. Applicants who sell New Securities before they receive notice of the number of New Securities allocated to them do so at their own risk. No New Securities will be allotted or issued on the basis of this Prospectus later than 13 months after the date of issue of this Prospectus.

2.6 ASX listing

On the same date as announcing the Offer, the Company applied to the ASX for the New Securities to be issued pursuant to this Prospectus to be listed for official quotation by the ASX. If granted, quotation of the New Securities will commence as soon as practicable after allotment of the New Securities to Applicants.

Prospectus

Should the New Securities not be granted official quotation on the ASX within 3 months after the date of this Prospectus, none of the New Securities offered under this Prospectus will be issued and all acceptance and application money will be refunded without interest to Applicants within the time prescribed by the Corporations Act.

2.7 **CHESS**

Carbon Energy will apply to the ASX Settlement and Transfer Corporation Pty Ltd (**ASTC**) for the New Securities to participate in the Securities Clearing House Electronic Subregister System known as CHESS. After allotment of the New Securities, those who are issuer sponsored holders will receive an issuer sponsored statement and those who are CHESS holders will receive an allotment advice.

The CHESS statements, which are similar in style to bank account statements, will set out the number of New Shares allotted to each successful applicant pursuant to this Prospectus. The statement will also advise holders of their Holder Identification Number. Further statements will be provided to holders which reflect any changes in their holding in Carbon Energy during a particular month.

2.8 **No rights trading**

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

2.9 **Minimum subscription**

There is no minimum subscription to the Offer.

2.10 **Lead Manager**

Patersons Securities Limited has been appointed as Lead Manager to the Offer. Further details of the appointment of the Lead Manager are set out in section 6.5.

2.11 **Underwriting**

The Offer is not underwritten.

2.12 **Option Holders**

Option Holders will not be entitled to participate in the Offer unless they:

- (a) have become entitled to exercise their Existing Options under the terms of their issue and do so prior to the Record Date; and
- (b) participate in the Offer as a result of being an Eligible Shareholder at 7.00pm (AEST) on the Record Date.

If all holders of Existing Options elect to exercise their Options prior to the Record Date, and are eligible to participate in the Offer, a further 70,666,620 (approximately) New Securities may be issued under this Prospectus. Details of the Existing Options are set out in section 4.4. However, having regard to the exercise price of the Existing Options and the Offer Price, the Directors believe that it is unlikely that any Existing Options will be exercised prior to the Record Date.

2.13 **Overseas shareholders**

The Company has not made investigations as to the regulatory requirements that may prevail in the countries outside of Australia, New Zealand, Belgium, Switzerland and the United States.

Prospectus

The distribution of this Prospectus in places outside of Australia, New Zealand, Belgium, Switzerland and the United States may be restricted by law and persons who come into possession of this Prospectus should observe any such restrictions. Any failure to comply with those restrictions may violate applicable securities laws.

The Company has decided that it is unreasonable to make offers under this Prospectus to Shareholders with registered addresses outside Australia, New Zealand, Belgium, Switzerland and the United States (to the extent they are institutional investors) having regard to the number of Shareholders in those places, the number and value of the New Shares they would be offered and the legal and regulatory requirements in those places and costs of complying with those requirements. Accordingly, the Offer is not being extended to, and does not qualify for distribution or sale, and no New Shares will be issued, to Shareholders having a registered address outside Australia, New Zealand, Belgium, Switzerland and the United States.

New Zealand

In making this offer to Eligible Shareholders in New Zealand, the Company is relying on the Securities Act (Overseas Companies) Exemption Notice 2013 (NZ), by virtue of which this Prospectus is not required to be registered in New Zealand.

Belgium

The information in this document has been prepared on the basis that all offers of New Securities will be made pursuant to an exemption under the Directive 2003/71/EC ("Prospectus Directive"), as amended and implemented in Member States of the European Economic Area (each, a "Relevant Member State"), from the requirement to produce a prospectus for offers of securities.

An offer to the public of New Securities has not been made, and shall not be made, in a Relevant Member State except pursuant to one of the following exemptions under the Prospectus Directive as implemented in that Relevant Member State:

- to any legal entity that is authorized or regulated to operate in the financial markets or whose main business is to invest in financial instruments;
- to any legal entity that satisfies two of the following three criteria: (i) balance sheet total of at least €20,000,000; (ii) annual net turnover of at least €40,000,000 and (iii) own funds of at least €2,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);
- to any person or entity who has requested to be treated as a professional client in accordance with the EU Markets in Financial Instruments Directive (Directive 2004/39/EC, "MiFID");
- to any person or entity who is recognised as an eligible counterparty in accordance with Article 24 of the MiFID;
- to fewer than 150 natural or legal persons (other than qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive) subject to obtaining the prior consent of the Company or any underwriter for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of New Securities shall result in a requirement for the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

Switzerland

The New Securities may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("SIX") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the

Prospectus

disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the New Securities may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the New Securities have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Shares will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA).

This document is personal to the recipient only and not for general circulation in Switzerland.

United States

The New Securities may not be offered or sold in the United States absent registration or in a transaction not subject to, or exempt from registration under the US Securities Act and applicable state securities laws. The New Securities have not been and will not be registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United States. Any purchaser of New Securities in the United States must make customary representations regarding US securities law matters.

Notice to nominees and custodians

Nominees and custodians may not distribute any part of this document in the United States or in any other country outside Australia and New Zealand, except to beneficial shareholders in another country (other than the United States) where the Company may determine it is lawful and practical to make the Offer. Any person in the United States with a holding through a nominee may not participate in the Offer.

2.14 **Additional Securities**

Eligible Shareholders are entitled to apply for Additional Securities over and above their Entitlement at the Offer Price.

Any Entitlements not taken up may become available as Additional Securities. Eligible Shareholders wishing to apply for Additional Securities in addition to the Entitlement as shown on the Entitlement and Acceptance Form may indicate on their Entitlement and Acceptance Form the Additional Securities they wish to apply for.

Eligible Shareholders may, in addition to their Entitlement, apply for Additional Securities regardless of the size of their present holding. It is possible that there may be few or no Additional Securities available for issue, depending on the level of take up of Entitlements by Shareholders. There is also no guarantee that in the event Additional Securities are available for issue, they will be allocated to all or any of the Eligible Shareholders who have applied for them. The Company reserves the right to scale back any applications for Additional Securities in its absolute discretion and it is an express term of the Offer that applicants for Additional Securities will be bound to accept a lesser number of Additional Securities allocated to them than applied for. If a lesser number is allocated to them, excess application money will be refunded without interest as soon as practicable after all Additional Securities have been issued.

The Company will not allocate or issue Additional Shares where it is aware that to do so would result in a breach of the Corporations Act, the Listing Rules or any other relevant legislation or law. Eligible Shareholders wishing to apply for Additional Shares must consider whether or not the issue of the Additional New Shares applied for would breach the Corporations Act or the Listing Rules having regard to their own circumstances.

Prospectus

2.15 Electronic prospectus

An electronic version of this Prospectus is available on the Internet at www.carbonenergy.com.au.

The Entitlement and Acceptance Form may only be distributed together with a complete and unaltered copy of the Prospectus. The Company will not accept a completed Entitlement and Acceptance Form if it has reason to believe that the investor has not received a complete paper copy or electronic copy of the Prospectus or if it has reason to believe that the Entitlement and Acceptance Form or electronic copy of the Prospectus has been altered or tampered with in any way.

While the Company believes that it is extremely unlikely that in the Offer period the electronic version of the Prospectus will be tampered with or altered in any way, the Company cannot give any absolute assurance that it will not be the case. Any investor in doubt concerning the validity or integrity of an electronic copy of the Prospectus should immediately request a paper copy of the Prospectus directly from the Company, the Share Registry or a financial adviser.

Prospectus

3. Information on Carbon Energy

3.1 Introduction

Licensing keyseam UCG Technology

With Proof of Concept achieved for the Company's proprietary keyseam UCG technology, Carbon Energy has built a strong platform to collaborate with domestic and global energy partners with a view to becoming the preferred provider of UCG technology worldwide.

Carbon Energy's global expansion plans are underpinned by the Company's core strategy of licensing its proprietary keyseam UCG technology along with its expertise in technical and engineering services - including site selection and geological modelling.

Carbon Energy's advanced clean coal technology produces UCG syngas, a valuable product gas which can be used in the production of high value commodities such as electricity, pipeline quality gas, fertilisers and liquid fuels. UCG offers potential partners a cleaner, safer energy alternative without the need for the huge capital requirements of traditional mining and surface gasification methods.

Carbon Energy is one of the few companies in the world to achieve Proof of Concept for its UCG technology. The Company's test site at Bloodwood Creek in Queensland has produced some of the most consistent and highest quality UCG syngas levels ever published. Carbon Energy has the flexibility to deploy this technology for the supply of syngas to a range of downstream markets, specific to local requirements, wherever in the world it may be required.

Carbon Energy has received international recognition for its keyseam UCG technology, winning the Advanced Clean Coal Technology Award at the 10th Clean Coal Forum in Beijing in June this year.

Carbon Energy's global expansion strategy is making significant headway, particularly in China. In October 2012 the Company signed its first international technology licence agreement with Chinese coal giant Shanxi Coal. Terms of the agreement include a \$10,000,000 technology fee, technology services fees, and ongoing royalties. Due to changes in the Chinese Government, the project has been delayed (including payment of the extracted technology fee), however, Carbon Energy is continuing discussions with Shanxi who remain committed to the project.

In May 2013 the Company signed its second international technology licence agreement and signed an MOU to be the exclusive UCG technology provider to a Government approved UCG project in Inner Mongolia, China. Further milestones were achieved with Carbon Energy executing the Master Technology Licensing Agreement in June 2013 with the project partner Zhengzhou group. The site of the UCG project has subsequently been proven to be suitable for utilising the Company's UCG keyseam technology.

The Company expanded its international interests further on 23 July 2013 when it signed an MOU with Delmo Group Pty Limited to become the exclusive UCG technology partner for a commercial scale UCG project in the Claromeco Coal Basin in Argentina, South America. The MOU provides the parameters for the terms of the technology services and licensing agreements to be documented and entered into by the Company and Delmo Group Pty Limited.

A site characterisation study of the main target coal field has confirmed favourable conditions for keyseam UCG and three target areas at the Inner Mongolia project.

Carbon Energy will earn \$10,000,000 in technology licensing fees (to be paid in tranches on achievement of milestones) for this project as well as technical service fees, plus ongoing royalties once first revenues are generated.

Prospectus

Meanwhile, Carbon Energy remains committed to its relationship with Shanxi Coal Transportation and Sales Group (Shanxi Coal) and to becoming its UCG technology partner of choice in the Shanxi Province. Carbon Energy executed a licensing agreement with Shanxi Coal in October 2012 with similar terms to the Zhengzhou Coal agreement. Due to a number of governmental changes in China immediately following the signing of the agreement, the project was unfortunately delayed. Shanxi Coal continues to engage with the Provincial and Local governments. Approval is needed from these government departments for payment of the contracted technology licence fee to the Company before any work is commenced by Carbon Energy.

Monetise UCG Syngas at Bloodwood Creek

The second pillar to Carbon Energy's business growth strategy is to commercialise the Company's syngas interest at Bloodwood Creek, Queensland by securing a joint venture development partner. Bloodwood Creek is sufficient to support the production of approximately 2,200 tonnes of ammonia per day or 25PJ of SNG per annum continuously for 25 years, with the potential to provide long term returns for the Company and its shareholders.

The Company's UCG syngas creates a low-cost, low-emission and low impact pathway for delivering a new generation of commercial-scale energy projects. The production of UCG syngas delivers significant economic and environmental advantages when compared with traditional energy sources.

These include:

- Maximising resource efficiency by extracting up to 20 times more energy from the same resource when compared to coal seam gas (coal bed methane) production.
- Minimising surface disturbance by extracting the energy from coal through a series of boreholes rather than mechanical excavation used in conventional mining methods.
- Preserving groundwater by operating the gasification process below the hydrostatic pressure.
- Leaving rock and ash, originally mixed with the coal, underground in the coal seam.
- Cutting carbon emissions by producing syngas-fuelled electricity with 10-20% less CO₂ emissions than traditional coal-fired power plants.
- UCG does not involve fracking.

Carbon Energy-produced UCG syngas is an economical feedstock to downstream markets including low-emissions electricity, pipeline quality gas, fertiliser and industrial explosives and liquid fuels.

Bloodwood Creek is well placed for full commercialisation with nearby infrastructure including major power lines, the Roma-Brisbane Gas Pipeline, industrial-grade water supply, roads and rail as well as skilled labour adding to the appeal for any future joint venture development partners.

Commercialise Surat Basin Coal Resource

Carbon Energy owns significant coal assets in South East Queensland's world-class Surat Basin coal precinct. In April 2013 the Company announced a 48% increase in its JORC Inferred Coal Resource to 2.0 billion tonnes within these wholly-owned tenements. The newly defined resource relates to tonnage increases at EPC 867 (excluding MDL 374), EPC 869 and EPC 1132 in the Macalister Seam. A JORC Inferred Resource of 244 million tonnes within MDL374 has been allocated by the Company for UCG activities and has been excluded from the coal exploration tenement Resources reported.

Prospectus

Carbon Energy has managed to prove up this very large Surat Basin resource at minimum cost by using publicly available information in combination with historic Company exploration and drilling data. There is significant potential for further definition of resources in other Walloon Coal Measure seams in these same leases, subject to obtaining further coal quality data within these seams.

In November 2012, Carbon Energy announced the finalisation of a Conceptual Study on conventional coal mining at its Surat Basin tenements that identified at least three longwall mining areas each with the potential of mining 5 million product tonnes per annum of thermal coal.

Coal quality within Carbon Energy's resources is expected to be consistent with the published coal qualities of the Macalister Seam at the Wilkie Creek and Kogan operating coal mines. These mines produce a thermal coal product of around 11% ash, 9% moisture and Gross Calorific Value of 6,200 kCal/kg.

Carbon Energy is seeking the monetisation of its large 100%-owned thermal coal resource. The Company is actively advancing this third pillar of its strategy and is preparing MDL applications over five key resource areas and seeking to secure access to ports and transport infrastructure for expected coal production. As previously stated, Carbon Energy plans to utilise any funds generated from the monetisation of its Surat Basin to further develop its core business licensing its keyseam UCG technology and providing associated technical services.

3.2 Company Update

Environmental Performance & Approvals

Carbon Energy's operations are subject to significant environmental regulation under the Laws of the Commonwealth and State.

As reported in last year's Annual Report, the Company withdrew its application for a Level 1 Environmental Authority at its Bloodwood Creek Site as proof of concept for the trial had been achieved. Carbon Energy continues to operate the site under the Level 2 Environmental Authority, where the company's focus has moved to planning for cavity rehabilitation upon cessation of gasification in Panel 2 at the end of October 2012.

Carbon Energy continues to provide monthly groundwater quality reports to the Department of Environment and Heritage Protection (DEHP formerly known as DERM) and no issues relating to water quality have been raised.

As reported previously, on 12 July 2011, DEHP advised Carbon Energy of charges laid against the Company in relation to release of process water that occurred during 2009. The affected area had since been remediated and a subsequent and independent environmental evaluation was conducted and provided to the department. The report, which demonstrated there was no environmental harm, was accepted by DEHP at the time; however a prosecution was formerly lodged at a later date. An agreement on this matter was reached with DEHP in December 2012. The low level of fines and no recording of a conviction reflected the fact that no environmental harm was caused by the release of the process water.

On 12 June 2012, DEHP issued a service of complaint and summons to Carbon Energy in relation to waste tracking documentation and of a quantity of process water to a waste disposal facility in June 2011. This was unintentional and occurred as a result of reliance on coding information provided to the Company that was incorrect. As announced on 22 July 2013, agreement has been reached with DEHP on this matter, avoiding the need to proceed with a court hearing that had been scheduled for 22 July 2013. The fines accepted by the Company of \$114,000 are considered low level and the Company has 90 days within which to pay. Once again no conviction has been recorded.

Prospectus

Queensland Government UCG Policy

The Queensland Government's UCG Policy, announced in February 2009, provided for a trial period to assess the technical, environmental and commercial performance of UCG, after which the Government would set essential policy decisions about this technology.

On 8 July 2013, the Department of Natural Resources and Mines (DNRM) issued the Independent Scientific Panel (**ISP**) Report. The Report outlines a commercial pathway for a UCG industry in Queensland and confirmed that Queensland is a world leader in the development of UCG technology, and there is no reason, in principle, that a UCG project cannot be safely developed and operated to produce more gas for Queensland. The Report recognised Carbon Energy's parallel CRIP UCG technology as current, state of the art technology significantly advanced from alternative UCG technologies. The report stated that until decommissioning can be demonstrated, no commercial UCG facility should be commenced.

Carbon Energy has commenced decommissioning and ceased all gasification at the Bloodwood Creek trial site. The Company has also engaged with the Department of Environment and Heritage Protection (DEHP) on the draft framework for decommissioning produced by the Department and continues to work constructively with the Government to progress Carbon Energy's rehabilitation plans.

Coal Exploration

Carbon Energy has embarked upon a process to value-add and monetise its wholly owned Exploration Permits for Coal (EPCs) in the eastern Surat Basin of South East Queensland for use as a conventional coal resource.

The Company intends to appoint a corporate adviser to assist the Company to identify parties interested in the purchase of, or investment in, the Surat Basin thermal coal assets.

While the key focus for Carbon Energy remains on exporting its technology world-wide, the Company has significant Australian coal assets which the Company intends to monetise.

In April 2013 the Company announced a 48% increase in its JORC Inferred Coal Resource to 2 billion tonnes within its wholly-owned Surat Basin exploration tenements.

The value of Carbon Energy's Australian coal resources were further strengthened with the announcement in November 2012 of the conclusion of a conceptual mining study that the Company had identified at least three longwall mining areas each with the potential of mining 5 million product tonnes per annum of thermal coal.

These results of the conceptual mining study across Carbon Energy's coal tenements along with access to nearby infrastructure including major power lines, the Roma-Brisbane Gas Pipeline, industrial-grade water supply, roads and rail as well as skilled labour, confirms the Company holds significant coal assets with the potential for development into substantial mining operations.

It is Carbon Energy's goal to monetise these coal assets and utilise funds to further develop the core business of providing underground coal gasification technology and services.

UCG Technology

Carbon Energy has commenced decommissioning of its pilot UCG site at Bloodwood Creek near the Queensland township of Dalby.

Carbon Energy has now embarked on the next important phase in the UCG process of planning for and rehabilitating redundant cavities and thus demonstrating to the people and the Government of Queensland its capacity to achieve full life cycle of the UCG process.

Prospectus

Carbon Energy is committed to the successful development and implementation of a rehabilitation plan, which will add to the Company's Proof of Concept and further promote UCG as a safe and environmentally sound energy source.

On April 29 2013, Carbon Energy announced the findings of an independent electro-seismic survey. This innovative geophysical technique confirmed the location and size of Carbon Energy's second UCG reactor and validated the modelling and operating parameters of the Company's patented keyseam UCG technology.

Utilisation of Bloodwood Creek Syngas

In June 2013 Carbon Energy announced the results of a comprehensive concept study based on independent data which identified economically viable, commercial scale UCG opportunities at the Company's Bloodwood Creek site. This study was completed to advance commercialisation of the Company's syngas at Bloodwood Creek which will facilitate discussions in securing a joint venture development partner.

Ammonia and Synthetic Natural Gas (**SNG**) production were identified as the most economically attractive downstream products. The Company's wholly owned substantial syngas assets in Queensland offers the potential of over 25 years of continuous production of SNG or Ammonia, with the potential to provide long term returns for the Company and its shareholders.

With the Queensland Government's announcement regarding the way ahead for the UCG industry, Carbon Energy is moving forward with the next steps in the pathway of commercialisation.

HEC Placement

The Company executed a subscription agreement with Holder East Capital Limited (**HEC**) on 23 July 2013, pursuant to which HEC will subscribe for \$1,000,000 worth of Shares in the Company on terms equivalent to the terms of the Offer. HEC has a significant shareholding in the Haoqin joint venture responsible for delivering the Inner Mongolia Project. This investment demonstrates the commitment of HEC to making the Inner Mongolia Project a success and to securing further licensing opportunities for Carbon Energy in China. The subscription is dependent upon the Company raising at least \$2,000,000 from the Offer (including the placement of any Shortfall) by the end of August 2013, and the participation of the Directors and Senior Management in the Offer for a specified minimum amount. The \$1,000,000 consideration has been remitted by HEC and will be held in escrow until these conditions are satisfied.

Credit Suisse Variation

The Company executed a Syndicated Facility Agreement with Credit Suisse on 15 November 2012, pursuant to which the Company borrowed \$10,000,000, \$7,000,000 of which has since been repaid. Under the current terms, the raising of additional capital from the Offer would trigger a discretion for Credit Suisse to require repayment of the \$2,997,233 balance in full, irrespective of the amount raised from the Offer. For a \$200,000 variation fee, Credit Suisse has agreed to vary the facility terms such that the Company is required to raise at least \$2,000,000 by 31 August 2013 and repays \$1,200,000 by that date. Credit Suisse has further agreed that it will not request full repayment unless the Company raises in excess of \$5,000,000 (from equity issuances (which would include the Offer and the HEC private placement) or receipt of specified licensing fees.

Prospectus

Sale of Energia Shares

The Company has accepted an offer for the purchase of its 29,000,005 shares in Energia Minerals Limited. The Company realised cash proceeds of \$0.0155 per share, for a total consideration of \$449,999.

3.3 The Directors

The Directors of Carbon Energy bring to the Board relevant expertise and skills, including industry and business knowledge, financial management and corporate governance experience.

The following persons are directors of the Company as at the date of this Prospectus:

Dr Chris Rawlings - Director (Non-Executive) – Chairman BSc (Hons), PhD, FAICD, FAusIMM

Dr Rawlings was appointed to the Board on 1 July 2011 and elected as Chairman on 26 July 2011.

Dr Chris Rawlings graduated from the University of Newcastle in 1976 with a Bachelor of Science (Honours) in Geology; he then went on to complete a PhD in Structural Geology and Rock Mechanics in 1983. Dr Rawlings has extensive experience managing and operating mining operations and mining companies. He has been a Non Executive Director of ASX-listed and non-listed public companies for over 10 years. His strong industry knowledge backed by a pragmatic, results-driven approach is a great advantage to the Company. Dr Rawlings is a Fellow of the Australasian Institute of Mining and Metallurgy, the Geological Society of Australia and the Institute of Company Directors. Dr Rawlings is also Chairman of Queensland Energy Resources.

During the past three years, Dr Rawlings has held the following other listed company Directorships:

- Northern Energy Corporation Limited (February 2005 to February 2011) Non-Executive Chairman.

Dr Rawlings is also a member of the Remuneration committee.

Mr Morne Engelbrecht – Chief Executive Officer and Managing Director

BCom (Hons), CA(SA)

Mr Engelbrecht was appointed to the role of Chief Executive Officer of Carbon Energy on 18 June 2013 after serving as Acting Chief Executive Officer from 22 December 2012. Mr Engelbrecht was appointed to the Board of Carbon Energy on 23 July 2013. Offering over 13 years' Australian and international oil & gas and resources industry experience, Mr Engelbrecht provides leadership across all facets of the business as well as defining the strategic direction and managing the rapid expansion plans of the Company. He is critical in shaping the future direction of Carbon Energy's efforts around the globe, most notably in setting the base for the commercialisation of the technology. Prior to joining Carbon Energy, Mr Engelbrecht held several senior financial and commercial management roles. Mr Engelbrecht is a chartered accountant by profession and member of the South African Institute of Chartered Accounts.

Prospectus

Mr Max Cozijn – Director (Non-Executive)

BCom, CPA, MAICD

Mr Cozijn was appointed to the Board in September 1992.

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. During the past three years, Mr Cozijn has held 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) Non-Executive Chairman
- Energia Minerals Limited (from May 1997) Non-Executive Director

Max Cozijn is also the Chairman of the Remuneration Committee.

Dr Helen Garnett PSM – Director (Non-Executive)

BSc(Hons), PhD, FTSE, FAICD

Dr Garnett was appointed to the Board on 6 September 2010.

Dr Helen Garnett has 30 years experience in transforming technical innovation into practical commercial outcomes. She has 15 years experience as a Chief Executive and over 20 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 chair of Delta Electricity and a non executive director of a number of other non-listed entities. During the past three years Dr Garnett has held the following other listed company Directorships:

- Energy Resources of Australia Limited (from Jan 2005) Non-Executive and Chair ERA Audit and Risk Committee

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

Mr Peter Hogan – Director (Non-Executive)

BBus, ACA

Mr Hogan was appointed to the Board on 29 August 2008.

Mr Hogan is a Chartered Accountant, and is currently a Strategy and Development Executive with Incitec Pivot Ltd. Prior to joining Incitec Pivot in early 2008, Mr Hogan worked with PricewaterhouseCoopers for 23 years, including 17 years as Partner. He has extensive experience in providing business advisory services to Australian and overseas listed public companies and large private companies. He has particular experience with companies in the consumer and industrial product sectors and the mining sector.

Prospectus

During the past three years Mr Hogan has held the following other listed company Directorships:

- Fabchem China Ltd (Singapore Stock Exchange listed) (from July 2008) Non-Executive Director

Mr Hogan is a member of both the Audit and Remuneration Committees.

Mr Louis Rozman – Director (Non-Executive)

BEng, MGeos, FAusIMM CP (Man), MAICD

Mr Rozman was appointed to the Board on 7 April 2010.

Mr Rozman holds degrees in mining engineering and mineral economics and has 30 years experience in mining operations, joint ventures and corporate management in Australasia and Africa. He was previously Chief Operating Officer of major gold producer, AurionGold and Chief Executive Officer of coal seam gas producer, CH4 Gas Limited.

During the past three years Mr Rozman has held the following other listed company Directorships:

- TSXV listed Timmins Gold Corp; (September 2008 to November 2010) Non-Executive Director;
- ASX listed Pacific Energy Limited; (from May 2009) Non-Executive Director;
- ASX listed Kula Gold Limited; (from November 2010); and
- TSX listed Mawson West Limited; (from February 2011).

Mr Rozman is also a Director of some Pacific Road Capital entities and has held a number of other non-listed directorships.

Constraints on availability

Save as noted in this Prospectus, each Director has confirmed to the Company that he anticipates being available to perform his/her duties as Director of the Company without constraint from other commitments.

Independence of Directors

Other than as noted below, no Directors are nominees or representatives of a substantial shareholder.

Mr Peter Hogan is also currently a Strategy and Development Executive with Incitec Pivot Limited and is the representative of Incitec Pivot Limited on the Board. Incitec Pivot Limited is a substantial shareholder of the Company.

Mr Louis Rozman is also currently a director of Pacific Road Capital Management Pty Ltd and the entity Pacific Road Capital B Pty Ltd and is the representative of the Pacific Road Group on the Board. The Pacific Road Group is a substantial shareholder of the Company. The Board considers that Dr Chris Rawlings, Dr Helen Garnett and Mr Max Cozijn are free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the independent exercise of their judgment and are able to fulfil the role of an Independent Director for the purposes of the Corporate Governance Principles and Recommendations.

Prospectus

Details of the current interests of the Directors in the Company and their intentions in respect of the Entitlement Offer are set out in section 1.6.

3.4 Senior Management

The following persons form the senior management of the Company as at the date of this Prospectus:

Dr Cliff Mallett – Technical Director

MSC, PhD

Dr Mallett is one of Australia's most highly regarded UCG experts with over 30 years of coal mining research experience including over 15 years dedicated to advancing the development of UCG process technology. He is Chairman of the Board of Trustees of the UCG Association, the international industry group for promotion and education of underground coal gasification. He is responsible for the ongoing development of Carbon Energy's UCG technology. Additionally, Dr Mallett undertakes assessment of potential coal deposits and their suitability for keyseam and our expanding portfolio of projects both in Australia and around the world. Dr Mallett has degrees in Geology from the University of Queensland and the University of Melbourne.

Mr Justin Haines - General Manager Technical Services

B.App.Sc, Grad, Dip Sc (Honours), M.Min.Eng, M.AusIMM, M.AIG, RPEQ

Mr Haines has 23 years' experience as geologist, project manager and contract geological services provider for exploration and mining operations. His expertise extends to geological and resource modelling and valuation, geophysics and mine development and appraisal. Mr Haines joined Carbon Energy in 2011 as a member of the Carbon Energy management team and is responsible for the implementation of our proprietary technology across our global projects and management of the Technical Services Group within the Company. This group delivers engineering, modelling, geological, hydrogeological and project management services.

Mr Terry Moore - General Manager Operations

Mr Moore is responsible for development and ongoing operations of Carbon Energy's global projects. Mr Moore brings more than 15 years experience as a senior manager in the engineering sector including roles at Ausenco Operations and Downer EDI Mining. His experience includes electrical, mechanical, and civil engineering, design and construction projects from concept to commissioning and operational readiness. Mr Moore's solid track record incorporates management of projects including plant utilisation, cost control and business process. He leads a growing team of project, environment and safety professionals.

Prospectus

4. Effect of Offer on Carbon Energy

4.1 Financial position

To illustrate the effect of the issue on the Company, the pro-forma consolidated statement of financial position has been prepared based on the unaudited statement of financial position as at 30 June 2013.

Pro-forma Consolidated Statement of Financial Position

	Reviewed Statement of Financial Position at 31 December 2012	Unaudited Statement of Financial Position as at 30 June 2013	Proposed Offer and Pro-Forma Adjustments (Unaudited)	Unaudited Pro Forma Statement of Financial Position as at 30 June 2013
	\$	\$	\$	\$
Current Assets				
Cash and cash equivalents	7,825,352	1,772,562	4,271,664	6,044,226
Trade and other receivables	439,482	163,130	-	163,130
Total Current Assets	8,264,834	1,935,692	4,271,664	6,207,356
Non-Current Assets				
Trade and other receivables	1,681,765	1,702,893	-	1,702,893
Available for sale asset	986,000	449,999	-	449,999
Construction Work in Progress	2,555,334	2,555,334	-	2,555,334
UCG Panel assets	1,733,640	1,689,395	-	1,689,395
Property plant and equipment	674,921	1,083,224	-	1,083,224
Other non-current assets	1,656,408	1,722,723	-	1,722,723
Deferred exploration and evaluation costs	91,939,337	90,372,818	-	90,372,818
Intangible assets	47,827,715	47,802,861	-	47,802,861
Total Non-Current Assets	149,055,120	147,379,247	-	147,379,247
TOTAL ASSETS	157,319,954	149,314,939	4,271,664	153,586,603
Current Liabilities				
Trade and other payables	785,633	939,461	-	939,461
Loans and Borrowings	2,366,581	2,997,233	(2,997,233)	-
Derivative financial liability	1,318,437	419,886	-	419,886
Short-term provisions	313,771	1,256,000	-	1,256,000
Total Current Liabilities	4,784,422	5,612,580	(2,997,233)	2,615,347
Non-Current Liabilities				
Provisions	3,474,924	2,486,981	-	2,486,981
Financial Liability	5,854,058	6,179,304	-	6,179,304
Total Non-Current Liabilities	9,328,982	8,666,285	-	8,666,285

Prospectus

TOTAL LIABILITIES	14,113,404	14,278,865	(2,997,233)	11,281,632
NET ASSETS	143,206,550	135,036,074	7,268,897	142,304,971
Equity				
Issued capital	227,422,169	227,727,927	6,708,897	234,436,824
Reserves	17,856,975	17,907,915	560,000	18,467,915
Accumulated losses	(102,072,594)	(110,599,768)	-	(110,599,768)
TOTAL EQUITY	143,206,550	135,036,074	7,268,897	142,304,971

Basis for Calculation

The unaudited consolidated statement of financial position as at 30 June 2013 has been adjusted to reflect the completion of the Offer on a fully subscribed basis to raise approximately \$7,268,897 (after costs). Details of the Company's reviewed balance sheet as at 31 December 2012 are also included for reference.

The pro-forma statement of financial position shows the effect of the Offer as a non underwritten offer and as if the Offer (under this Prospectus) had been made on 30 June 2013. The pro-forma statement of financial position assumes that the Offer is fully subscribed.

The accounting policies adopted in preparation of the pro-forma consolidated statement of financial position are consistent with the policies adopted and as described in the Company's financial statements for the year ended 30 June 2012 and the half year ended 31 December 2012.

Further, the proposed offer column shows the effect of funds arising from the Offer.

The unaudited pro forma consolidated statement of financial position has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

The significant effects of the Offer (assuming the Offer is fully subscribed and no Existing Options are exercised and the Convertible Loan Facility is not converted) will be to:

- Increase cash reserves by approximately \$7,268,897 (after cash expenses of the Offer which are estimated to be \$600,000), assuming a \$0.02 per share subscription price.
- Increase the number of Issued Ordinary Shares by 393,444,853 to 1,180,334,558 and increase share capital by \$6,708,897.
- Increase the number of Options on issue by 393,444,853 to 533,203,093, assuming 1 New Option is issued for each 1 New Share and increase reserves by \$560,000 being the assumed fair value of the New Options.
- Repay the outstanding capital balance of \$2,997,233 on the existing Credit Suisse loan facility.
- Satisfy the primary condition precedent to the HEC \$1,000,000 private placement assuming that at least \$2,000,000 is raised from the Offer (these funds are not included in the cash receipts or issued capital above).

The increase of cash reserves of the Company as a result of the Offer (assuming it is fully subscribed) together with the receipt of the ATO R&D Grant of approximately \$3,800,000

Prospectus

anticipated within the next 6 months (refer to section 4.3) should provide the Company with sufficient working capital to proceed with its objectives outlined in this Prospectus for an estimated period of 12 months.

The Company had \$1,772,562 in cash as at 30 June 2013, with estimated net cash outflows of \$2,179,718 projected over the quarter ending 30 September 2013 (the cash proceeds from the sale of the Energia shares having been taken into account in the calculation of the net cash outflows).

If an Eligible Shareholder does not take up their Entitlement in full it will result in their percentage holding in the Company being diluted by the Offer.

The fundraising which is the subject of this Prospectus is not underwritten. Accordingly, it is possible that the Company only raises a portion of the funds it seeks to raise pursuant to this Prospectus.

Should this fundraising be undersubscribed, it may be necessary for the Company to seek to obtain funds from other sources in order to continue its commercial operations. There are a number of other funding sources that are potentially available to the Company to raise the funds it requires for the commercial operations it proposes to undertake in the following months. Amongst other things, it may be able to fund its commercial operations from monies received from Zhengmei or Shanxi Coal under the respective licensing agreements, the monetisation of its coal assets and/or the recovery of monies due to it by third parties.

The Company is unable to know with certainty what funds it is able to receive from these sources (if any) and the timing as to when such monies will be received. Nor can it determine, in advance, how much it will receive from subscribers (if any) pursuant to this Offer and whether (and how much) it will need to obtain from other sources in order to continue to fund its commercial operations in the coming months.

The failure to raise sufficient monies from this fundraising could potentially result in the inability of the Company to continue to operate as a going concern. That would depend on the extent of the under-subscription, the ability of the Company to raise sufficient funds from alternative sources and the timing of the receipt of those funds.

4.2 Subsequent Events

The following material events have occurred after 30 June 2013:

- (a) Queensland Government announced the path to commercialisation of the UCG industry in Queensland through the release of the overarching recommendations of the ISP Report.
- (b) Announced that it elected not to enter into any further contractual commitments in relation to projects in Wyoming (USA) and North Dakota/Montana (USA), thereby relinquishing the rights to explore or lease those tenements. As a result, an amount of \$ 1,820,986 has been written off in relation to those assets.
- (c) Signed a Memorandum of Understanding with the Delmo Group to provide keyseam technology and related services for a commercial scale UCG project in Argentina.
- (d) Agreed a variation to the terms of the existing Credit Suisse facility which reduces the amount the Company must repay to Credit Suisse from the proceeds of the Offer and the HEC private placement from the full \$2,997,000 loan balance to \$1,200,000 to the extent that less than \$5,000,000 is raised, with the balance payable from the anticipated 2012-13 ATO R&D rebate (see section 4.3).
- (e) Realised the Company's investment in Energia Minerals Limited for total gross cash sale proceeds of \$449,999.

Prospectus

- (f) Executed a subscription agreement with HEC for a \$1,000,000 private placement subject to raising a minimum of \$2,000,000 from the Offer (see conditions of placement outlined in section 3.2).
- (g) Settled the outstanding legal matter with the Department of Environment and Heritage Protection.
- (h) Confirmed Morné Engelbrecht as Chief Executive Officer and Managing Director.

For further information regarding these matters, refer to the Company's ASX announcements available at the Company's website www.carbonenergy.com.au or www.asx.com.au.

4.3 ATO R&D Cash Rebate

On 17 December 2012, the Company received \$7,002,767 as R&D tax incentive cash rebate for eligible 2011/2012 R&D expenditure in relation to the development of its keyseam UCG Technology at Bloodwood Creek.

Changes to the Federal R&D legislation were introduced for 2011/2012 and resulted in a tax cash rebate for eligible R&D being paid to the Company.

The keyseam R&D activities continued during the 2012/2013 financial year and were focused on ensuring that the Company remains at the forefront of UCG technology development. As a result of these R&D activities in 2012/13 the Company is in the process of finalising an application for an estimated \$3,800,000 R&D tax incentive rebate.

4.4 Capital structure

The capital structure of Carbon Energy immediately following the Offer, on the basis that the Offer is fully subscribed (excluding rounding of Entitlements), will be as follows:

	Shares	
	Number	%
Ordinary Shares on issue at the date of this Prospectus	786,889,705	64
Maximum number of New Shares under Prospectus ^{1, 2}	393,444,853	32
Subtotal	1,180,334,558	96
Number of Shares under HEC private placement	50,000,000	4
Total	1,230,334,558	100

	Options	
	Number	%
Options on issue at the date of this Prospectus	141,333,240	24
Maximum number of New Options under Prospectus ^{1, 2}	393,444,853	67
Subtotal	534,778,093	91
Number of options under HEC private placement	50,000,000	9
Total	584,778,093	100

Notes:

1. *If any of the Existing Options are exercised prior to the Record Date, additional New Securities will be issued under the Offer under this Prospectus. If all Existing Options on*

Prospectus

issue as at the date of this Prospectus were exercised prior to the Record Date, the Company's issued shares would increase by 141,333,240 resulting in a further 70,666,620 New Shares and 70,666,620 New Options being issued pursuant to this Prospectus. This would increase the Company's total Shares on issue after completion of the Offer to 1,392,334,418 Shares and the total Options on issue after completion of the Offer to 605,444,713 Options (this excludes the Shares and Options that may be issued to HEC).

2. *This assumes that there is no conversion of the Convertible Loan Facility prior to the Record Date (refer to section 1.11 for further details).*

As at the date of this Prospectus, the Company has Options on issue as follows:

No of options Vested	Exercise price	Expiry date
5,000,000	\$0.250	10 December 2013
1,400,000	\$0.350	10 December 2013
5,600,000	\$0.700	10 December 2013
7,250,000	\$0.800	10 December 2013
10,000,000	\$1.000	10 December 2014
875,000	\$1.200	10 December 2013
1,750,000	\$1.600	10 December 2013
61,728,395	\$0.081	15 November 2014
9,645,845	\$0.081	15 November 2014
3,084,000	\$0.120	31 December 2015
7,000,000	\$0.1875	18 January 2017
28,000,000	\$0.1875	25 February 2017
141,333,240		

In addition, it is noted the Pacific Road Group has the right under the terms of the Convertible Loan Facility to convert all of that facility to Shares. Further details regarding the interest of the Pacific Road Group are set out in section 1.11.

If an Eligible Shareholder does not take up their Entitlement in full it will result in their percentage holding in the Company being diluted by the Offer. Given the terms of the Offer, the maximum possible dilution to an Eligible Shareholder's interest in the Company would be 33%, assuming no Existing Options are issued and the Convertible Loan Facility is not converted.

Additionally, the Offer is not being extended to Shareholders with registered addresses outside of Australia, New Zealand, Belgium, Switzerland and the United States and the holdings of those Shareholders in the Company will be diluted by a maximum of 33% in the event that the Offer is fully subscribed assuming no Existing Options are issued and the Convertible Loan Facility is not converted.

The comments regarding possible dilution above do not take into consideration any dilution which may arise as a result of the issue of Shares and Options pursuant to the placement agreement with Holder East Capital Limited details of which are set out in section 3.2.

Prospectus

5. Risk factors

5.1 Introduction

There are risks which may impact on the operating and financial performance of the Group and, therefore, on the value of the New Securities offered under this Prospectus. Some of these risks can be mitigated by the Group's systems and internal controls, but many are outside of the control of the Group and the Board. There can be no guarantee that the Company will achieve its stated objectives or that any forward-looking statements will eventuate. An investment in a business with limited operating history, such as Carbon Energy, is considered speculative and an investor could lose most or all of any investment. There are also general risks associated with any investment in shares.

More specifically, the risks are that:

- (a) the price at which the Applicant is able to sell the New Securities is less than the price paid due to changes in market circumstances;
- (b) the Applicant is unable to sell the New Securities;
- (c) the Company is placed in receivership or liquidation making it reasonably foreseeable that Shareholders could receive none, or only some of their initial investment; and
- (d) the Company fails to generate sufficient profit in order to pay dividends.

In the event of insolvency, the holders of fully paid ordinary Shares would not normally be liable to pay money to any person. An exception could occur where a distribution, such as a dividend, has been made to Shareholders in circumstances where the Company was unable at that time to meet the solvency test set out in the Corporations Act. In that case, a liquidator may call for a return of such distributions.

Potential investors should therefore carefully consider all associated risks before applying for New Securities under this Prospectus and should consider their personal circumstances (including financial and taxation issues) and seek advice from their stockbroker, accountant, solicitor or other professional advisers before deciding whether to invest.

A number of material risk factors which may adversely affect the Group and the value of the New Securities offered under this Prospectus are set out in this section. This is not an exhaustive list and there may be other factors which have an adverse effect on the Group and the value of the Shares and Options offered under this Prospectus.

5.2 General Risks

The New Securities that are to be issued pursuant to this Prospectus are speculative because of the nature of the business of the Company. The Company has interests in the underground coal gasification industry which is highly speculative and no assurances can be made that the Company's particular interests or projects will be successful. A summary of the major general risks are described below:

Dilution

Shareholders should be aware that to the extent that they do not accept their Entitlements in full, a Shortfall will arise and all or part of any Shortfall may be placed by the Company, in consultation with the Lead Manager, to other parties in which case their interest in the Company may be significantly diluted (see section 4.8 for further details). Further the Offer is not being extended to Shareholders with registered addresses outside of Australia, New Zealand, Belgium, Switzerland and the United States and the holdings of those Shareholders in the Company will be diluted by the Offer. Given the terms of the Offer, the interests of a

Prospectus

Shareholder in the Company may be diluted by up to 33% in the event that they are not eligible to participate or elect not to accept their Entitlement in full if the Offer is fully subscribed or alternatively, any Shortfall is fully placed (this does not take into consideration any dilution which may arise as a result of the issue of Shares and Options pursuant to the placement agreement with Holder East Capital Limited details of which are set out in section 3.2).

Acceptance of Entitlements or the placement of any Shortfall may also result in existing Shareholders or new investors significantly increasing their interest in the Company or obtaining a substantial interest in the Company. However, the Shortfall will only be placed to the extent that such placement is in compliance with the takeover provisions of the Corporations Act, which restrict a person and their associates from having a relevant interest in the Company of not more than 20.0%, subject to a number of exemptions and otherwise in compliance with the Corporations Act, the Listing Rules and other applicable laws.

The Company intends to actively work during, and after, the Offer in order to secure commitments to place, and subsequently to place, any Shortfall of New Securities not subscribed for by Eligible Shareholders.

Share Market Risk

The market price of listed securities can be expected to rise and fall in accordance with general market conditions and factors specifically affecting the Australian resources sector and exploration companies in particular. The New Securities carry no guarantee in respect of profitability, dividends, return on capital, or the price at which they may trade on the ASX.

There are a number of factors (both national and international) that may affect the share market price of Shares and Options and neither the Company nor its Directors have control of those factors.

General Economic Conditions

Changes in the general economic climate in which the Company operates may adversely affect the financial performance of the Company. Factors that may contribute to that economic climate include the general level of economic activity, interest rates, inflation, supply and demand, industrial disruption, changes in government policies, natural disasters, social unrest or war on a local or global scale and other economic factors. The price of commodities will also be of particular relevance to the Company. These factors are beyond the control of the Company and the Company cannot, with any degree of certainty, predict how they will impact on the Company.

Share price fluctuations

The market price of the Company's securities will be subject to varied and often unpredictable influences in the stock market. Both domestic and world economic conditions may affect the performance of the Company. Factors such as the level of industrial production, inflation and interest rates impact all commodity prices.

Policy and Legislative Change

Changes in government laws, regulations, policies and administrative regimes both in Australia and overseas, may adversely affect the financial performance or the current and proposed operations generally of the Company. These changes may increase operating costs and may have a material adverse effect on the Company.

Unforeseen Expenses

While Carbon Energy is not aware of any expenses that may need to be incurred that have not been taken into account, if such expenses were subsequently incurred, the expenditure proposals of the Company may be adversely affected.

Prospectus

5.3 Risks Specific to an Investment in the Company

Introduction

Investors should be aware that an investment in the Company involves many risks and these risks may be higher than the risks associated with an investment in other companies. Prior to making any decision to accept or apply for New Securities pursuant to the Offer, investors should carefully consider the risk factors set out below applicable to the Company. Careful consideration should be given to these risk factors, as well as the other information contained in this Prospectus and the Eligible Shareholders own knowledge and enquiries, before an investment decision is made.

Some of the risks may be mitigated by the Company using safeguards and appropriate systems and taking certain actions. Some of the risks may be outside the control of the Company and are not capable of mitigation.

(a) Technology Risk

The Company's UCG technology has been developed as a result of over ten years of research by the CSIRO. An independent report has found that the Company's UCG technology can produce consistently high quality syngas in suitable quantity to support a commercially viable downstream use, and a subsequent conceptual study identified economically viable commercial scale opportunities at the Company's Bloodwood Creek site in Queensland. Furthermore, in a report released on 8 July 2013 the Queensland Government's Independent Scientific Panel (ISP) found that Queensland may be a world leader in the development of UCG technology. However the ISP also recommended that the final decommissioning phase in the UCG lifecycle be demonstrated before the commencement of a commercial operation in Queensland (refer paragraph 5.3(e) below)). Whilst prospects are being pursued internationally, no other commercial scale project has yet been demonstrated in practice using the Company's UCG technology. As such, there is a risk that it may take a number of years for the Company to demonstrate the technology on a commercial scale.

(b) Uncertainty of Development of Projects and Exploration Risk

The Company's projects are currently either in the exploration or development stage. Exploration and development of projects to exploit coal resources generally involves a high degree of risk including hazards and risks associated with unusual and unexpected geological conditions. As a result, the quantities of coal targeted by the Company may not be delineated by exploration and development work and projects may take longer and/or cost more to develop than planned. Also expected syngas production rates and/or quality may not be achieved.

Ability to successfully scale up operations and the number of UCG panels required to provide the quantum of syngas required for significant commercial scale economic projects.

Successful commodity development and production is dependent on obtaining all necessary consent and approvals and the successful design, construction and operation of efficient gathering, processing and transportation facilities. No assurance can be given that the Company will be able to obtain all necessary consents and approvals in a timely manner, or at all.

(c) Environmental Risk

All of the mining interests held by the Company in Australia and overseas are subject to laws and regulations regarding environmental matters. There is potential for the Company's operations and projects to have an impact on the environment, particularly where advanced exploration or UCG development proceeds. The Company's activities are or will be subject to National and State laws and regulations regarding potential environmental hazards. The day to day operations of the Company at its Bloodwood projects in Queensland are governed by the

Prospectus

Environmental Protection Act 1994 (Qld) (EP Act). The EP Act requires the Company's activities authorised by mining legislation to also be approved under an environmental authority. If the project proceeds to commercial production, environmental approval by the Federal Government under the Environmental Protection and Biodiversity Conservation Act (Cth) may also be required. Each of these environmental approvals may be time-consuming and add to the cost of the project.

In addition, applicable environmental laws and regulations set various standards regulating certain aspects of health and environmental quality and provide for penalties and other liabilities for the violation of such standards. In certain circumstances, they establish obligations to remediate current and former facilities and locations where operations are or were conducted.

Significant liability could be imposed on the Company for damages, clean up costs, or penalties in the event of certain discharges into the environment, environmental damage that is caused, or non compliance with environmental laws or regulations. Additionally, non compliance can expose the Company to risk of action being taken by governmental authorities and/or third parties. The Company proposes to minimise these risks by conducting its activities in an environmentally responsible manner, in accordance with applicable laws and regulations, and where possible, by carrying appropriate insurance coverage. Nevertheless, there are certain environmental risks inherent in the Company's activities which could subject it to extensive liability.

As mentioned above, the Company is currently required to adequately demonstrate the decommissioning and rehabilitation aspects of its Bloodwood Creek site before the Queensland Government will further consider granting approval for commercial scale UCG production. Demonstrating such environmental compliance will have costs to the Company and, once proven, will be a relevant cost for the completion of any UCG project by the Company in Queensland. Where necessary, the Regulator may request that the Company provide security (typically in the form of a Company guarantee) for the rehabilitation stage of a project.

(d) Health and Safety Risk

As with any mining or industrial project, there are health and safety risks associated with the Company's UCG operations in Australia and overseas. The Company manages these risks, through the application of structured health and safety management systems. As the operator of plant and equipment, the Company has specific legislative obligations to ensure that its personnel and contractors operate in a safe working environment.

(e) Independent Scientific Report for Government on UCG

In February 2009 the Queensland Government released its Underground Coal Gasification Policy (UCG Policy). Under the UCG policy, the Company has been able to continue with the pilot phase of its Queensland project at Bloodwood Creek. The Government-appointed Independent Scientific Report (ISP) on the trials was released on 8 July 2013. The ISP found that whilst "UCG could in principle be conducted in a manner that is acceptable socially and is environmentally safe when compared to a wide range of other existing resource-using activities", "in practice first decommissioning must be demonstrated and then acceptable design for commercial operations must be achieved within an integrated risk-management framework" before a commercial facility can be commenced in Queensland.

The Queensland Government has supported these recommendations in principle. Whilst the Company sees no insurmountable hurdles to achieving the Government's rehabilitation requirements, the Government has not set out any period for their satisfaction by the Company. This regulatory uncertainty may impact on investor and credit provider confidence which may impact on the Company's ability to raise development capital.

Prospectus

Notwithstanding the position of the Queensland Government on UCG, other commercial opportunities are being explored internationally where these types of restrictions and risks may not apply to the Company (refer to (h) Foreign Country Risks).

(f) Community Resistance to Project Development

Just as there is a need to demonstrate to Government that in practice UCG can be operated in a manner that is environmentally safe and without harm to people, there is a risk that despite Government approvals being granted, there will be resistance within the community to any commercial-scale UCG project. The Company appreciates that where it lacks this community support, that it may not have a 'social licence to operate' in the communities in which it operates. To address this risk, the Company intends to consult widely with the local communities in which it operates and factor the results of such consultation into its operational decision-making.

(g) Gas Market

The ability of the Company to successfully enter the commercialisation phase of its UCG activities will depend upon its ability to sell syngas on commercial terms. There can be no assurance that the Company will ultimately be able to sell the syngas it produces on commercial terms. Gas is a traded commodity in Australia and its long term price may rise or fall. In other jurisdictions, gas prices may be regulated or subject to regulation, that could cause prices to be lower than the cost of production.

(h) Foreign Country Risks

In addition to exploration rights in Queensland, the Company has project interests in Chile, China and Argentina (subject to certain conditions being met). The Company has also entered agreements with respect to the licensing of its UCG technology and provision of services in respect to projects located in China and Argentina and is seeking further such opportunities in foreign jurisdictions.

The Company will be required to comply with the laws and policies that operate in each of these jurisdictions, including those laws which regulate land access and ownership, mining and exploration, foreign investment, taxation and environmental practices (**Foreign Laws**).

Additionally, the Company has projects or agreements with respect to the licensing of its UCG technology in foreign jurisdictions which are developing countries. Their legal and political systems are emerging when compared to those in operation in Australia. Consequently, possible political or economic instability in these jurisdictions may adversely impact the operations of the Company and future revenue streams of the Company.

(i) Foreign Exchange

The revenues, expenses, earnings, assets and liabilities of the Company may be exposed adversely to exchange rate fluctuations. The Company does not presently engage in currency hedging to offset any risk of currency fluctuations.

(j) Future Financing

The Company will require funds from various sources in order to allow it to continue as a going concern and thereby finance its exploration, development and commercialisation activities. Those funds can potentially be raised through the issue of further shares (including pursuant to this Prospectus), the obtaining of additional debt capital, the reduction of expenses and the realisation or recovery of the Company's assets (most likely a combination of some or all of these sources). There can be no assurance that the Company will be able to raise sufficient funds from any of these or other sources on acceptable terms or in a timely manner or at all. Should the Company experience an endemic shortage of funds to pay its debts as and when they fall due, it could become insolvent and this may result in it becoming subject to some form

Prospectus

of insolvency administration (such as administration, liquidation and/or receivership and management).

(k) Strategic Cropping Land and other Environmental Offset Legislation

The Strategic Cropping Land Act (Qld) (SCL Act) commenced on 30 January 2012 and is designed to protect land in Queensland that is highly suitable for cropping, called strategic cropping land (SCL) from developments that will permanently alienate or temporarily diminish productivity of SCL resources. This is so that the productivity of the land is preserved for future generations. Carbon Energy has no projects in SCL. The Company's MDL374, which contains the Bloodwood Creek project, is not in a designated Protection Area, however parts of EPC 868, EPC 869 and EPC 1132 are within these areas. This may impact on the Company's ability to obtain necessary environmental approval if there were to proceed to apply for an MDL over any of these areas.

(l) Statutory Regional Planning

The Queensland Government is developing statutory regional plans for each of twelve statutory regional areas. This process is currently in its preliminary stages, and the plans are not expected to be developed and finalised by regional planning committees until late 2013. The major objective of the planning process is to deal with the interaction between resource activities and urban areas, and also further explore land use conflicts such as those arising between agricultural and mining activities.

Nevertheless, until the plans are finalised and endorsed by Government, the full impact on the Company's planned activities is unknown.

(m) Operating Risks

The Company and its operations in Australia and overseas will be subject to operating risks as would any other industry, for example force majeure events, power outages, critical equipment or pipe failures, and environmental hazards such as noise, odours, gas leaks, hazardous substances spills, and UCG by-product releases into groundwater. Whilst engineering controls, risk management practices and standard operating procedures will significantly reduce these risks, the occurrence of any of them could result in liability being incurred by the Company.

The Company intends to ensure that insurance is maintained within ranges of coverage that the Company believes to be consistent with industry practice and having regard to the nature of activities being conducted. Insurance cover may not be available for every risk faced by the Company and no assurance can be given that the Company will be able to obtain such insurance coverage at reasonable rates or that any coverage it arranges will be adequate and available to cover any claims that are made against the Company. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company.

(n) Co-existence with Coal Seam Gas (CSG)

CSG companies operating in the same basins and targeting the same coal seams as UCG will reduce the target operating pressure of the UCG panel, potentially impacting on syngas composition and compromising UCG operations. Whilst the Company is working toward a solution for this issue, there is no guarantee that a solution will be found that will negate this impact of CSG companies operating in the same areas as the Company.

All of the Company's tenements for the Bloodwood project are in some part overlapped by CSG tenements (the impact of these overlaps is explained below at paragraph 5.3(p)).

Prospectus

(o) Reliance on Key Personnel

The success of the Company will significantly depend on the Company's managerial and technical personnel, whose expertise is vital in such a small industry. In the event that the management of the Company or other key personnel become unable or unwilling to continue to direct or contribute to the operations of the Company, the Company and its financial position could be adversely affected.

(p) Tenure Risk

Queensland Tenements

It is illegal in Queensland (and carries significant fines) to carry out mining or petroleum related activities without an appropriate authorisation granted by the Queensland Government under, as applicable, the *Mineral and Resources Act 1989 (Qld)* (Mining Act) or the *Petroleum and Gas (Production and Safety) Act 2004* (Petroleum Act). The type of authorisation that is required under either statute will depend on the nature of the activity to be conducted.

Because Underground Coal Gasification (UCG) involves mining coal underground, extracting gasses and fluids and then processing the extracted product above ground, the Company requires authorisations under both the Mining Act and Petroleum Act. For its Bloodwood pilot UCG project near Dalby, the company presently holds under the Mining Act four Exploration Permits for Coal (EPCs) (to explore for suitable coal seams) and one Mineral Development Licence (MDL) (to extract gases and liquids from identified coal seams) and, under the Petroleum Act will require a Petroleum Facilities Licence (PFL) (to construct a processing facility) and possibly a petroleum pipeline licence (PPL) (to transport syngas). The Company also has a Mining Lease application (MLA) over part of the MDL, however as mentioned above the commercialisation of the project is presently subject to a moratorium over production until the decommissioning and rehabilitation of the project is further investigated by the Company (refer paragraph 5.3(e) above).

Each of these resource authorities have inherent risks for the Company. The grant of the authorities are also subject to a wide range of conditions that if not complied with by the Company may result in the loss of the authority. The authorities are also generally granted for a fixed term, the expiry of which will require the Company to apply for renewal. The Government has a wide discretion about whether to grant renewals and may not do so where the Company has not complied with conditions or legislation, or otherwise acted deleteriously.

A basic right of the tenement authorities is that the Company may conduct the activities that are authorised under the tenement, despite the rights of underlying owners and occupiers of land covered by the tenement. However, this basic right is subject to strict provisos that the Company notify such persons regarding access and adequately compensate them for the activities which will interfere with their use and enjoyment of the land. Where the Company fails to do this, it will jeopardise the ownership of the tenements required for the project.

The tenement authorities will also generally require the Company to meet certain minimum expenditure commitments for the development of the coal resource (which may be substantial) and other prescribed rental payments. Finally, the Government can reduce the size of the area of exploration tenements at certain points during their term, to incentivise the Company to continue exploring the areas which it has rights for.

All of the Company's tenements in Queensland are overlapped by petroleum exploration permits or 'Authorities to Prospect' (ATPs) under the Petroleum Act. Some of these ATPs have subsequently had petroleum lease applications (PLAs) lodged over part of their area. These areas of 'overlapping tenure' between the Company's tenements and the ATPs / PLAs introduce an additional layer of risks for the Company's operations.

Under the Mining Act, the MLA (or any other Mining Lease application by the Company) requires the consent of ATP-holders to be granted. Given that the ATP-holders overlapping the

Prospectus

Company's tenements are coal seam gas companies this consent is unlikely to be forthcoming. Where consent cannot be obtained ultimately the Government must decide which project is best placed to proceed in the interests of the State. In 2009, the Government released a policy statement which provided that this preference would be given to the Company's UCG project, however since production for the project is now subject to the moratorium the preference is redundant.

(q) Access to Infrastructure

Depending on the downstream use of the syngas, access to infrastructure to transport the end product to market, or to service an on-site processing facility, may be an issue that the project needs to address to ensure the viability of the project. This may add significantly to the costs of the project impacting on profitability.

(r) Resources and Reserves Risk

There are numerous uncertainties inherent in estimating quantities of Indicated and Inferred Coal and UCG Resources and Reserves, including many factors beyond the control of the Company and its Directors. Any resource and reserve data in this Prospectus represents estimates only. All such estimates are to some degree speculative and classifications of resources are only attempts to define the degree of speculation involved.

Further, the future success of the Company will depend on its ability to find or acquire UCG resource and reserves that are economically recoverable. There can be no assurance that the Company's planned development projects and exploration activities will result in significant resources and reserves. Reserve and resource estimates are estimates only and no assurance can be given that any particular level of recovery from UCG reserves will in fact be realised or that an identified UCG resource will ever be legally and economically exploited.

(s) Contractual Risk

The Company's ability to grow its business depends on the strength of its due diligence processes and contractual arrangements for each project. There may be more risk in international business projects, where relevant laws, customs and language may provide additional barriers. As in any contractual relationship, the ability for the Company to receive the full benefit of its business dealings is dependent upon the relevant third party or parties complying with their contractual obligations. To the extent that such third parties default in their obligations, it may be necessary for the Company to pursue or defend legal action. Such legal action may be costly and no guarantee can be given by the Company that a legal remedy will ultimately be granted on appropriate terms. Management Actions

The Directors will, to the best of their knowledge, experience and ability (in conjunction with their management) endeavour to anticipate, identify and manage the risks inherent in the activities of the Company with the aim of eliminating, avoiding and mitigating the impact of risks on the performance of the Company and its securities. However, as is customary, no personal liability is accepted by the directors of the Company for such risks.

(t) Industrial Risk

Industrial disruptions, work stoppages and incidents or emergencies in the course of the Company's operations could result in losses and delays, which may adversely affect profitability.

(u) Taxation

In all places where the Company has operations in addition to the normal level of income tax imposed on all industries, the Company may be required to pay government royalties, indirect taxes, goods and services tax and other imposts which generally relate to revenue or cash flows. Industry profitability can be affected by changes in government taxation policies.

Prospectus

In Australia, the Federal Government introduced a Mineral Resource Rent Tax (MRRT) on coal and iron ore projects from July 2012. This would apply to UCG projects because the legislation applies to anything produced from a process that results in coal being consumed or destroyed. The MRRT applies at a rate of 22.5% (nominal rate of 30% less 25% extraction allowance), for companies whose profits exceed \$75M with further offsets up to \$125M profit. There are other conditions such as the ability for immediate write-off for new investments which mean that the MRRT does not need to be paid if this reduces the profit below the nominated thresholds, and full credits for state royalties paid.

Carbon pricing was also introduced from July 2012 under the Clean Energy Act 2011, and applies to companies that emit more than 25,000 tonnes of carbon dioxide equivalent per annum (and companies that supply or use natural gas). A commercial-scale UCG facility including a downstream user (e.g., an ammonia plant, SNG or methanol plant) would significantly exceed these emissions and thus be liable for the carbon tax, at a cost of millions of dollars per annum (depending on the size of the commercial facility). Under the current policy, from July 2015, it is proposed to move to an emissions trading scheme linked to the European Union emissions scheme, where the current carbon price is under \$AUD6 (compared to the current \$24.15 in Australia), which would significantly reduce this impost.

It is possible that both the introduction of the MRRT and the Clean Energy Act may adversely impact on the Company in the event that the Company commences commercial underground coal gasification operations in Australia. However it is also possible that these policies will be overturned or restructured by any new government to either reduce or increase the impacts of the legislation leaving the impact of these taxes on the Company uncertain at the time of writing this Prospectus.

(v) Australian Native Title Risk

The effect of the *Native Title Act 1993* (Cth) (**NTA**) is that existing and new tenements held by the Company may be affected by native title claims and procedures. The Company has not undertaken the historical, legal or anthropological research and investigations at the date of this Prospectus that would be required to form an opinion as to whether any existing or future claim for native title could be upheld over a particular parcel of land covered by a tenement.

The Company believes that the impact of Native Title with respect to land access on the project for the purpose of exploration, other than causing delays, is likely to be minimal.

(w) Aboriginal Cultural Heritage

In Queensland, the *Aboriginal Cultural Heritage Act 2003* (Qld) and the *Torres Strait Islander Cultural Heritage Act 2003* (Qld) (which commenced on 16 April 2004) impose duties of care which require persons, including the Company, to take all reasonable and practical measures to avoid damaging or destroying Aboriginal cultural heritage.

At the Company's Bloodwood Creek site in Queensland, Australia, a Cultural Heritage Management Plan has been agreed with the indigenous people which provides an agreed mechanism for managing cultural heritage. On other tenements and project areas, both in Australia, the Company proposes to carry out "clearance surveys" prior to conducting any exploration work that would cause a disturbance to the land surface.

Prospectus

6. Additional information

6.1 Transaction specific prospectus

Carbon Energy is a disclosing entity and therefore subject to regular reporting and disclosure obligations under the Corporations Act. Under those obligations, Carbon Energy is obliged to comply with all applicable continuous disclosure and reporting requirements in the ASX Listing Rules.

This Prospectus is issued under section 713 of the Corporations Act. This section enables disclosing entities to issue a prospectus in relation to securities in a class of securities which has been quoted by ASX at all times during the 3 months before the date of the Prospectus or options to acquire such securities. Apart from formal matters this Prospectus need only contain information relating to the terms and conditions of the Offer, the effect of the Offer on the Company and the rights and liabilities attaching to the New Shares.

Copies of the documents lodged by Carbon Energy with ASIC may be obtained from, or inspected at an office of ASIC.

The Company will provide a copy of any of the following documents, free of charge, to any person who asks for a copy of the document before the Closing Date in relation to this Prospectus:

- (a) annual financial report for the period ending 30 June 2012;
- (b) reviewed half-yearly financial statements for the Company for the period ending 31 December 2012; and
- (c) any other financial statements lodged in relation to Carbon Energy with ASIC and any continuous disclosure notices given by Carbon Energy to ASX, in the period starting immediately after lodgement of the annual financial report for the Company for the period ended 30 June 2012 and ending on the date of lodgement of this Prospectus with ASIC.

6.2 ASX Information and Share Information

The ASX Announcements that the Company has made since 20 September 2012 are set out in Appendix A of this Prospectus. Copies of ASX announcement made by the Company may be obtained on the ASX website or the Company's website: www.carbonenergy.com.au

The highest and lowest prices of shares in the Company on the ASX in the 6 month period before the date of this Prospectus and the respective dates of those sales are set out below.

	High	Low	Volume Weighted Average
	(cents)	(cents)	(cents)
One month	4.50	2.60	3.66
Three months	4.50	1.70	3.05
Six months	5.50	1.70	3.42

The last market sale price of Shares as at Tuesday, 23 July 2013 was \$0.038.

The Offer Price of \$0.020 represents a discount of 47% to the last market price of Shares on Tuesday, 23 July 2013, being the last trading day before lodgement of this Prospectus.

Prospectus

6.3 Rights and liabilities attaching to New Shares

The rights attaching to ownership of the New Shares are set out in the Company's Constitution, a copy of which is available for inspection at the registered office of the Company during business hours. The following is a summary of the principal rights of holders of the New Shares, subject to any special rights attaching to any class of share at a future time. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of the Company's Shareholders.

Voting

At a general meeting of the Company on a show of hands, every member present in person, or by proxy, attorney or representative has one vote and upon a poll, every member present in person, or by proxy, attorney or representative has one vote for every Share held by them.

Dividends

The New Shares will rank equally with all other issued shares in the capital of the Company and will participate in dividend out of profits earned by the Company from time to time. Subject to the rights of holders of shares with any special preferential or qualified rights attaching to them, the profits of the Company are divisible amongst the holders of Shares paid proportionately to the amounts paid on the Shares. The Directors may from time to time pay to Shareholders such interim dividends as in their judgment the position of the Company justifies.

Transfer of the Shares

Uncertificated System

Transfer of Shares may be effected by an instrument of transfer in accordance with any system recognised by the ASX Listing Rules and effected in accordance with the Securities Clearing House Business Rules approved under the Corporations Act or by an instrument of transfer in any usual form or by another form approved by the Directors or recognised by the Corporations Act or the ASX Listing Rules.

Certificated System

Subject to the Constitution and the Corporations Act, a Shareholder's share may be transferred by instrument in writing in any form authorised by the Corporations Act and the ASX Listing Rules or in any other form authorised by the Corporations Act and the ASX Listing Rules or in any other form that the Directors approve. No fee shall be charged by the Company on the transfer of any Shares.

Refusal to Register

The Directors, may, in their absolute discretion, refuse to register any transfer of Share or other securities where permitted to do so by the Corporations Act, the ASX Listing Rules or the SCH Business Rules. The Directors must refuse to register any transfer of Shares or other securities when required to do so by the Corporations Act or the ASX Listing Rules. If the Directors decline to register a transfer, the Company must within 5 business days after the date of lodgement of such transfer give to the lodging party written notice of the refusal and the reasons for it.

Winding up

Upon accepting the Entitlement to New Shares and paying the Acceptance Monies, Shareholders will have no further liability to make payments to the Company in the event of the Company being wound up pursuant to the provisions of the Corporations Act.

Prospectus

Future increases in Capital

The allotment and issue of any new shares is under the control of the Directors. Subject to the Listing Rules, the Company's Constitution and the Corporations Act, the Directors may allot or otherwise dispose of new shares on such terms and conditions as they see fit.

Variation of Rights

At present, the Company has only ordinary shares on issue. If the shares of another class were issued, the rights and privileges attaching to ordinary shares could only be altered with the approval of a resolution passed at a separate general meeting of the holders of ordinary shares by a three quarter majority of such holders or the written consent of the holders of at least three quarters of the ordinary shares.

General Meeting

Each holder of Shares will be entitled to receive notice of and to attend and vote at general meetings of the Company and to receive notices, accounts and other documents required to be furnished to Shareholders under the Company's Constitution, the Corporations Act and the Listing Rules.

For more particular details of the rights attaching to ordinary shares in the Company, investors should refer to the Constitution of the Company.

6.4 **Rights and liabilities of the New Options**

The New Options will be issued on the following terms and conditions:

Consideration

The New Options are issued as part of the Offer on the basis of 1 New Option for each New Share issued. No further consideration other than the payment of the Offer Price will be payable by Eligible Shareholders for the New Options.

Terms of Exercise

The exercise price of each New Option is \$0.06 (**Exercise Price**).

The New Options will expire on 31 July 2016 (**Expiry Date**).

Subject to and conditional upon any adjustment in accordance with the conditions set out below, each New Option entitles the holder to subscribe for one fully paid share upon payment of the exercise price prior to the expiry date.

The New Options may be exercised at any time wholly or in part by delivering a duly completed form of notice of exercise together with a cheque for the Exercise Price per New Option to the Company at any time on or after the date of issue and allotment of the New Options, on or before the Expiry Date.

On the valid exercise of the New Options and payment of the Exercise Price, the Company will issue Shares ranking pari passu with the then issued Shares.

Transferability

The New Options are transferable.

Prospectus

Rights to participate

New Option holders do not have any right to participate in new issues of securities in the Company made to Shareholders generally. The Company will, where required pursuant to the Listing Rules, provide New Option holders with notice prior to the books record date (to determine entitlements to any new issue of securities made to shareholders generally) to exercise the New Options, in accordance with the requirements of the Listing Rules.

New Option holders do not participate in any dividends unless the New Options have been exercised and the resultant Shares are issued prior to the record date to determine entitlements to the dividend.

Reconstructions

In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company:

- (a) the number of New Options, the Exercise Price, or both will be reconstructed (as appropriate) in a manner consistent with the Listing Rules as applicable at the time of reconstruction, but with the intention that such reconstruction will not result in any benefits being conferred on the holders of the New Options which are not conferred on shareholders; and
- (b) subject to the provisions with respect to rounding of entitlements as sanctioned by a meeting of Shareholders approving a reconstruction of capital, in all other respects the terms for the exercise of the New Options will remain unchanged.

Pro rata issues

If there is a pro rata issue (except a bonus issue), the Exercise Price may be reduced according to the following formula:

$$O^n = O - \frac{E [P - (S + D)]}{N + 1}$$

Where:

- O^n = the new exercise price of the New Option;
- O = the old exercise price of the New Option;
- E = the number of underlying securities into which one New Option is exercisable;
- P = the average market price per security (weighted by reference to volume) of the underlying securities during the five trading days ending on the day before the ex right date or the ex entitlements date;
- S = the subscription price for a security under the pro rata issue;
- D = dividend due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue);
- N = the number of securities with rights or entitlements that must be held to receive a right to one new security.

Prospectus

Bonus issues

If there is a bonus issue to the holders of Shares in the Company, the number of Shares over which the New Option is exercisable may be increased by the number of Shares which the New Option holder would have received if the New Option had been exercised before the record date for the bonus issue.

The terms of the New Options may only be changed if holders (whose votes are not to be disregarded) of Shares in the Company approve of such a change. However, the terms of the New Options must not be changed to reduce the Exercise Price, increase the number of New Options or change any period for exercise of the New Options.

Quotation

The Company will make an application to ASX for quotation of the New Options.

Application will be made for quotation of the Shares issued upon exercise of New Options.

6.5 **Lead Manager Mandate Agreement**

The Company has entered a mandate with Patersons Securities Limited (**Patersons**) pursuant to which Patersons has been appointed as lead manager to the Offer (**Mandate Agreement**). Patersons will provide a number of services to the Company in respect of the Offer and has the right (but not the obligation) to allocate any Shortfall in consultation with and subject to the agreement of the Company

The Company has agreed to pay the Lead Manager a broker stamping fee of 6% of the funds raised under the Offer as a result of Shareholders accepting their Entitlement where the Acceptance Form contains the broker stamp of the Lead Manager and a Shortfall placement fee of 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 (Capital Raising Fee). The Capital Raising Fee shall only be payable by the Company in the event that the Offer proceeds. In addition, the Company has agreed to pay the Lead Manager a corporate advisory fee of \$75,000, \$25,000 of which has been paid with the balance \$50,000 to be paid on completion of the Offer.

The Company has agreed to reimburse Patersons in respect of expenses incurred incidental to the Offer, and further indemnify Patersons and related persons against losses, liabilities and claims in respect of the Offer.

The Mandate Agreement makes provisions (inter alia) for certain covenants to be observed by the Company.

Patersons may terminate the Mandate Agreement upon the occurrence of specified events (such as a decrease in the All Ordinaries Index or the Small Ordinaries Index by 7.5% or more, the Company's shares trade at less than \$0.02, breach by the Company, insolvency events, misleading or deceptive information or conduct, contravention of law by the Company, a material adverse change occurs to the Company and adverse changes to market conditions). The Company does not have any right to terminate the Mandate Agreement after lodgement of this Prospectus.

6.6 **Corporate Governance**

The Company has adopted a Corporate Governance Charter which can be obtained, at no cost, from the Company's registered office and is also available on the Company's website: www.carbonenergy.com.au. The Company has not established any board committees to assist the board in exercising its authority.

Prospectus

The Company reports on its compliance with the recommendations made by the Corporate Governance Principles and Recommendations in its annual report. Where the Company's corporate governance practices do not correlate with the practices recommended by the ASX Corporate Governance Council, the Company is working towards compliance however it does not consider that all practices are appropriate for the Company due to the size and scale of the Company operations.

6.7 Directors' interests

The nature and extent of the interest (if any) that any of the Directors of the Company holds, or held at any time during the last 2 years in:

- (a) the formation or promotion of the Company;
- (b) property acquired or to be acquired by the company in connection with:
 - (1) its formation or promotion; or
 - (2) the Offer; or
- (c) the Offer,

is set out below or elsewhere in this Prospectus.

Other than as set out below or elsewhere in this Prospectus, no one has paid or agreed to pay any amount, and no one has given or agreed to give any benefit to any director or proposed director:

- (d) to induce them to become, or to qualify as, a Director of the Company; or
- (e) for services provided by a director in connection with:
 - (1) the formation or promotion of the Company; or
 - (2) the Offer.

Set out below are details of the interest of the Directors in the securities of the Company immediately prior to lodgement of the Prospectus with the ASIC. Interest includes those securities held directly and indirectly. The table does not take into account any New Securities the Directors may acquire under the Offer.

Director	Number of Shares Direct	Number of Shares Indirect	Number of Unlisted Options Vested Direct	Number of Unlisted Options Vested Indirect
Dr Chris Rawlings	1,900,000	1,000,000	-	-
Mr Max Cozijn	12,544	1,265,796	-	-
Dr Helen Garnett	-	377,101	-	-
Mr Peter Hogan	-	280,000	-	-
Mr Louis Rozman*	-	128,796	-	78,145
Mr Morné Engelbrecht	710,185	-	1,614,000	-

Prospectus

** As an ultimate beneficiary of the Pacific Road Resources Fund A and the Pacific Road Resources Fund B (the registered holder of these Shares and Options is PRCM Nominees Pty Limited). Mr Louis Rozman is also a director of Pacific Road Capital Management Pty Ltd and the entity Pacific Road Capital B Pty Ltd. The Pacific Road Group currently have a relevant interest in 73,583,572 Shares (of which these Shares form part) and 54,645,845 Options (of which these Options form part).*

6.8 Directors Fees

Set out below is the remuneration paid to the current Directors of the Company and their associated entities in each of the previous two financial years.

1 July 2011 to 30 June 2012:

Director[^]	Director's Fees (\$)	Superannuation (\$)	Total (\$)
Dr Chris Rawlings	120,000	10,800	130,800
Mr Max Cozijn	40,000	3,600	43,600
Dr Helen Garnett	50,000	4,500	54,500
Mr Peter Hogan [#]	40,000	-	40,000
Mr Louis Rozman [*]	40,000	-	40,000

1 July 2012 to 30 June 2013:

Director[^]	Director's Fees (\$)	Superannuation (\$)	Total (\$)
Dr Chris Rawlings	120,000	10,800	130,800
Mr Max Cozijn	40,000	3,600	43,600
Dr Helen Garnett	50,000	4,500	54,500
Mr Peter Hogan [#]	40,000	-	40,000
Mr Louis Rozman [*]	40,000	-	40,000

[#] Amounts paid to Incitec Pivot Limited for Mr Hogan's services.

^{*} Amounts paid to Pacific Road Capital Management Holdings Pty Limited for Mr Rozman's services.

[^]Mr Engelbrecht's appointment as a Director became effective on 23 July 2013 and therefore he received no director's fees during the relevant period. In his capacity as an Executive of the Company from 24 October 2011, Mr Engelbrecht received base salary payments of \$200,185 together with superannuation payments of \$10,517 to 30 June 2012, and base salary payments of \$342,719 together with superannuation payments of \$25,000 between 1 July 2012 and 30 June 2013 and base salary payments of \$20,025 together with superannuation payments of \$1,852 between 1 July 2013 and 24 July 2013. These amounts do not include the value of Shares and Options received by Mr Engelbrecht as part of his remuneration package (see section 6.7).

For the current financial year, each of the Non-Executive Directors of the Company (being Mr Max Cozijn, Mr Peter Hogan and Mr Louis Rozman) are entitled to be paid directors' fees in the amount of \$40,000 plus superannuation per annum. The Non-Executive Chairman of the Board is entitled to be paid directors' fees of \$120,000 plus superannuation per annum and the Non-Executive Chair of the Audit and Risk Committee is entitled to be paid directors' fees of \$50,000 plus superannuation per annum. No payments were made to Directors for the period 1 July 2013 to 24 July 2013.

Prospectus

As part of the Company's cost reduction initiatives, 50% of directors' fees for the independent directors have been suspended, together with the suspension of all directors' fees for remaining non-executive Directors for the coming months.

The Board considers that these fees are reasonable remuneration pursuant to section 211 of the Corporations Act and accordingly, member approval is not required.

Details of the intention of Directors to participate in the Offer is set out in section 1.6.

6.9 Substantial Holders

The following are details of those Shareholders who hold more than 5% of the Shares prior to the date of this Prospectus:

Substantial Holder	Number of Shares	%
Pacific Road Group	77,750,238	9.88%
Incitec Pivot Limited	75,556,040	9.60%
Lujeta Pty Limited	40,426,874	5.14%

Pacific Road Group Resources Fund is unable to take up its Entitlement under the Offer due to funding constraints.

6.10 Related Party Transactions

From time to time the Company may be party to transactions with related parties including:

- (a) employment and service arrangements; and
- (b) payment of directors fees.

The Company believes that it has made appropriate disclosure of past related party transactions and other than any further disclosure specifically set out below or made elsewhere in this Prospectus does not intend to make any further disclosure of such transactions which transactions will have either proceeded on an "arms length" basis, reasonable remuneration basis or been approved by shareholders in general meeting.

The Company discloses the following transactions with related parties which have either proceeded on an "arms length" or reasonable remuneration basis or have been approved by shareholders in general meeting. The transactions are:

- (a) employment agreement with Morné Engelbrecht, Chief Executive Officer and Managing Director, and payment of remuneration to Morné Engelbrecht pursuant to this agreement;
- (b) non-executive director agreements with Dr Chris Rawlings, Max Cozijn, Dr Helen Garnett, Peter Hogan and Louis Rozman and payment of directors fees to non-executive directors; and
- (c) issue of Shares and Options to Directors pursuant to offers made available to the public or existing shareholders.

Employment Agreement with Mr Engelbrecht

Details regarding the material terms of appointment of Mr Engelbrecht as Chief Executive Officer and Managing Director were announced to the ASX on 18 June 2013, including details of remuneration and benefits. In summary, Mr Engelbrecht is entitled to a total fixed

Prospectus

remuneration comprising \$398,000 including superannuation. In addition, Mr Engelbrecht has the potential to receive both short and long term incentives subject to the achievement of agreed key performance indicators. The options comprising the long term incentive are subject to shareholder approval at the Company's next annual general meeting. Further details are set out in the abovementioned announcement of 18 June 2013.

The Board considers that the remuneration and benefits of Mr Engelbrecht are reasonable remuneration pursuant to section 211 of the Corporations Act and accordingly, member approval is not required. As noted above, the Options forming part of the remuneration package for Mr Engelbrecht are subject to approval by the members of the Company.

6.11 Interests of experts and advisers

This section applies to persons named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, promoters of the Company and stockbrokers or arrangers to the Offer (collectively **Prescribed Persons**).

Other than as set out below or elsewhere in this Prospectus, no Prescribed Person has, or has had in the last 2 years, any interest in:

- (a) the formation or promotion of the Company;
- (b) any property acquired or proposed to be acquired in connection with the formation or promotion of the Company or the Offer; or
- (c) the Offer of New Shares under this Prospectus.

Other than that as set out below or elsewhere in this Prospectus, no benefit has been given or agreed to be given to any Prescribed Person for services provided by a Prescribed Person in connection with the:

- (a) formation or promotion of the Company; or
- (b) offer of New Shares under this Prospectus.

Patersons Securities Limited is the Lead Manager to the Offer, in respect of which it is entitled to receive fees and commission under the Mandate Agreement as set out in section 6.5 above.

Hopgood Ganim are acting as solicitors to the Offer and have performed work in relation to the Prospectus. In doing so, HopgoodGanim have placed reasonable reliance upon information provided to them by the Company. HopgoodGanim does not make any statement in this Prospectus. In respect of this work, the Company estimates that it will pay approximately \$35,000 (excluding disbursements and GST) to HopgoodGanim. HopgoodGanim are the Company's Australian lawyers and are engaged from time to time by the Company on a variety of matters. Further amounts may be paid to HopgoodGanim in accordance with its normal time based charges.

Deloitte Touche Tohmatsu are auditors to the Company. Deloitte Touche Tohmatsu does not make any statement in this Prospectus. Amounts may be paid to Deloitte Touche Tohmatsu in accordance with its normal time based charges.

Prospectus

The Share Registry (Link Market Services Limited) is providing investor communications, transaction processing management and related services in relation to the Offer, in respect of which it is entitled to receive fees over and above its Share Registry fees. In respect of this work, the Company estimates that it will pay approximately \$20,000 - \$40,000 (excluding GST) to the Share Registry. Further amounts may be paid to the Share Registry in accordance with its normal time based charges.

6.12 Limitation on foreign ownership

The Foreign Acquisitions and Takeovers Act (the **FATA**) sets limitations on the ability of foreign persons to hold shares or other securities convertible into shares (such as options) in an Australian company. Foreign persons whom are controlled by a foreign government may also be subject to further requirements under Australia's Foreign Investment Policy as published by the Foreign Investment Review Board from time to time.

The FATA regulates acquisitions giving rise to ownership of substantial amounts of a company's shares.

The FATA prohibits:

- any natural person not ordinarily resident in Australia; or
- any corporation in which either a natural person not ordinarily resident in Australia or a foreign corporation (as defined in the FATA) holds a controlling interest; or
- two or more such persons or corporations,

from acquiring or entering into an agreement to acquire an interests in an existing Australian corporation if after the acquisition such person or corporation would hold a substantial interest in a corporation, or where two or more persons or corporations would hold an aggregate substantial interest (defined below), without first applying in the prescribed form for approval by the Australian Treasurer and receiving such approval or receiving no response in the 40 days after such application was made.

A foreign shareholder will not be required to seek approval by the Australian Treasurer where they are acquiring their entitlement under a pro-rata entitlement offer.

Acquisitions of interests may include the acquisition of shares, options or any other instrument which may be converted to shares, as well as any other type of arrangement which results in control of the corporation.

A holder will be deemed to hold a substantial interest in a corporation if the holder alone or together with any associates (as defined in the FATA) is in a position to control not less than 15 percent of the voting power in the corporation or holds interests in not less than 15 percent of the issued shares in that corporation. Two or more holders hold an aggregate substantial interest in a corporation if they, together with any associates (as so defined), are in a position to control not less than 40 percent of the voting power in that corporation or hold not less than 40 percent of the issued Shares in that corporation. The Constitution of the Company contains no limitations on a non resident's right to hold or vote the Company's Shares.

6.13 Subsequent events

There has not arisen, at the date of this Prospectus any item, transaction or event of a material or unusual nature not already disclosed in this Prospectus or to the ASX which is likely, in the opinion of the Directors of the Company to affect substantially:

- (a) the operations of the Company,
- (b) the results of those operations; or

Prospectus

- (c) the state of affairs of the Company.

6.14 Litigation

Whilst Carbon Energy is fully focussed on delivering its strategic objective as demonstrated below, there are a number of legal matters in progress of which we wish to ensure shareholders are aware as follows:

- (a) Carbon Energy Limited and Carbon Energy (Operations) Pty Ltd v Alexware Consulting Pty Ltd and Laura Eugenie Jael Fett and John Martin Wedgewood trading as Pangea Partners

This was a claim for damages initiated by Carbon Energy for breach of contract, breach of fiduciary duty and the knowing assistance in the breach of fiduciary duties. The matter is still in progress and the pleadings have closed. Attempts to resolve the matter have been attempted through settlement and mediation. The matter therefore is likely to proceed to trial and the outcome of this matter is unknown at this stage.

- (b) Summa Resources Holdings LLC

As announced to the market on 30 May 2013, Summa Resource Holdings LLC advised that it was proceeding to formal dispute resolution under the share sale agreement dated February 2011 in relation to its claim that contractual milestones have been achieved triggering an entitlement to two further tranches of US\$4.5 million worth of shares in Carbon Energy, being a total of US\$9 million (based on a specified 30 day VWAP). The mandatory dispute resolution steps have now been completed and the dispute has not been resolved. Carbon Energy maintains that it is not obliged to issue the two further tranches of Shares and is defending this claim. The parties are considering whether they will engage in further dispute resolution steps including mediation. However, this has not yet been agreed.

The Company is not engaged in any other litigation which has or would be likely to have a material adverse effect on either the Company or its business.

6.15 Privacy

By submitting an Entitlement and Acceptance Form for New Securities you are providing to the Company personal information about yourself. If you do not provide complete and accurate personal information, your application may not be able to be processed.

The Company maintains the register of members of the Company through Link Market Services Limited an external service provider. The Company requires Link Market Services Limited to comply with the National Privacy Principles with performing these services. The Company's register is required under the Corporations Act to contain certain personal information about you such as your name and address and number of shares and options held. In addition the Company collects personal information from members such as, but not limited to, contact details, bank accounts and membership details and tax file numbers.

This information is used to carry out registry functions such as payment of dividends, sending annual and half yearly reports, notices of meetings, newsletters and notifications to the Australian Taxation Office. In addition, contact information will be used from time to time to inform members of new initiatives concerning the Company.

The Company understands how important it is to keep your personal information private. The Company will only disclose personal information we have about you:

- (a) when you agree to the disclosure;
- (b) when used for the purposes for which it was collected;

Prospectus

- (c) when disclosure is required or authorised by law;
- (d) to other members in the Carbon Energy group of companies;
- (e) to your broker;
- (f) to external service suppliers who supply services in connection with the administration of the Company's register such as mailing houses and printers, Australia Post and financial institutions.

You have the right to access, update and correct your personal information held by the Company and Link Market Services Limited, except in limited circumstances. If you wish to access, update or correct your personal information held by Link Market Services Limited or by the Company please contact our respective offices.

If you have any questions concerning how the Company handles your personal information please contact the Company.

6.16 Expenses of the offer

All expenses connected with the Offer are being borne by the Company. Total expenses of the Offer are estimated to be in the order of \$600,000 (including an estimate of the commission that may be payable to the Lead Manager as detailed in section 6.5 (assuming the payment of a commission on the total maximum raising)).

6.17 Consents and disclaimers

Written consents to the issue of this Prospectus have been given and at the time of this Prospectus have not been withdrawn by the following parties:

Patersons Securities Limited has given, and at the time of lodgement of this Prospectus has not withdrawn its consent to be named in this Prospectus as the Lead Manager to the Offer, in the form and context in which it is named. It takes no responsibility for any part of the Prospectus other than references to its name. Patersons Securities Limited was not involved in the preparation of any part of this Prospectus and did not authorise or cause the issue of this Prospectus. Patersons Securities Limited makes no express or implied representation or warranty in relation to Carbon Energy Limited, this Prospectus or the offer and does not make any statement in this Prospectus, nor is any statement in it based on any statement made by Patersons Securities Limited. To the maximum extent permitted by law, Patersons Securities Limited expressly disclaims and takes no responsibility for any material in, or omission from, this Prospectus other than the reference to its name.

HopgoodGanim has given and has not withdrawn its consent to be named in this Prospectus as solicitors to the Offer in the form and context in which it is named. It takes no responsibility for any part of the Prospectus other than references to its name.

Deloitte Touche Tohmatsu has given and has not withdrawn its consent to be named in this Prospectus as auditors of the Company in the form and context in which it is named. It takes no responsibility for any part of the Prospectus other than references to its name.

Link Market Services Limited has given and, at the date of this Prospectus, has not withdrawn, its written consent to be named as Share Registrar in the form and context in which it is named. Link Market Services Limited has had no involvement in the preparation of any part of the Prospectus other than being named as Share Registrar to the Company. Link Market Services Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Prospectus.

Prospectus

6.18 Directors' statement

This Prospectus is issued by Carbon Energy Limited. Each director has consented to the lodgement of the Prospectus with ASIC.

Signed on the date of this Prospectus on behalf of Carbon Energy Limited by

A handwritten signature in black ink, appearing to read 'C. D. Rawlings'. The signature is written in a cursive style with a large, sweeping flourish at the end.

Dr Chris Rawlings
Chairman

Prospectus

7. Definitions & glossary

Terms and abbreviations used in this Prospectus have the following meaning:

Acceptance	An acceptance of Entitlements
Acceptance Monies	The Offer Price multiplied by the number of New Shares accepted for
Additional Securities	Has the meaning given in section 1.8
Applicant	A person who submits an Entitlement and Acceptance Form
ASIC	Australian Securities & Investments Commission
ASX	ASX Limited and the Australian Securities Exchange
ASX Listing Rules	The official listing rules of the ASX
ATO	Australian Taxation Office
Board	The board of directors of Carbon Energy Limited
Business Day	A day, other than a Saturday, Sunday or public holiday, on which banks are open for general banking business in Brisbane
Closing Date	5.00pm (AEST) Wednesday, 21 August 2013 or such other date determined by the Board, in consultation with the Lead Manager
Company or Carbon Energy	Carbon Energy Limited ACN 057 552 137
Constitution	The Constitution of the Company
Convertible Loan Facility	The convertible loan facility with PRCM Nominees Pty Limited and Pacific Road Holdings NV entered on 22 December 2011 (as varied)
Corporate Governance Principles and Recommendation	Corporate Governance Principles and Recommendation 2nd Edition released by the ASX Corporate Governance Council in August 2007 (as amended).
Corporations Act	<i>Corporations Act</i> 2001 (Cth)
DEHP	Department of Environment and Heritage Protection
Directors or Board	The board of directors of Carbon Energy from time to time

Prospectus

Eligible Shareholder	A shareholder of the Company that holds Shares in the Company on the Record Date, with a registered address in Australia, New Zealand, Belgium, Switzerland or are institutional investors in the United States who purchase the New Securities in transactions exempt from the registration requirements of the US Securities Act of 1933 and applicable state securities laws.
EPC	Exploration Permit for Coal
Entitlement and Acceptance Form or Form	An entitlement and acceptance form in the form accompanying this Prospectus
Entitlements	The entitlement to accept New Shares and New Options under this Prospectus
Existing Options	All existing options to subscribe for Shares currently on issue as at the date of this Prospectus
FATA	<i>Foreign Acquisitions and Takeovers Act 1975 (Cth)</i>
Group	The Company and each of its wholly owned subsidiaries
HEC	Holder East Capital Limited
Law	The Corporations Act or any relevant and applicable law in Australia
Lead Manager	Patersons Securities Limited ABN 69 008 896 311
MDL	Mineral Development Licence
New Options	The new Options being offered under this Prospectus on the basis of one new Option for each New Share issued, exercisable at \$0.06 each and expiring on 31 July 2016. Further details of the New Options are set out in section 6.4
New Securities	The New Shares and New Options to be issued pursuant to this Prospectus
New Shares	The Shares offered under this Prospectus
Offer	The offer and issue of New Shares and New Options in accordance with this Prospectus
Offer Price	\$0.020 for each New Share applied for
Official List	The official list of entities that ASX has admitted and not removed

Prospectus

Official Quotation	Quotation on the Official List
Opening Date	9.00am (AEST), Tuesday, 6 August 2013
Option Holders	The holders of the Existing Options
Options	Options on issue in Carbon Energy Limited from time to time
Pacific Road Group	Pacific Road Carbon Energy NV, PRCM Nominees Pty Limited and Pacific Road Capital Management Pty Ltd, further details of which are included in the change in substantial holding notices lodged with ASX on 11 March 2013
Prospectus	This prospectus dated 25 July 2013 as modified or varied by any supplementary prospectus made by the Company and lodged with the ASIC from time to time and any electronic copy of this prospectus and supplementary prospectus
Record Date	7:00pm (AEST), Friday, 2 August 2013
Register	Company Register of Carbon Energy
SCH	Means a securities clearing house approved by the ASIC
SCH Business Rules	The business rule of the SCH
Securities	Has the same meaning as in section 92 of the Corporations Act
Share Registry	Link Market Services Limited
Shares	The ordinary shares on issue in Carbon Energy from time to time
Shareholders	The holders of Shares from time to time
Shortfall	Those New Securities for which the Entitlement lapses
SNG	Synthetic Natural Gas
UCG	Underground coal gasification
US	United States

Prospectus

Appendix A

(ASX Announcements)

Date	Title of Announcement
24 July 2013	Trading Halt
24 July 2013	Appendix 3X – Initial Director’s Interest Notice
24 July 2013	Form 605 – Notice of Ceasing to be Substantial Shareholder
23 July 2013	Carbon Energy Signs MOU for UCG Project in Argentina
22 July 2013	Agreed Outcome Reached Over DEHP Matter
17 July 2013	Appendix 3Y Corrections
08 July 2013	CNX Welcomes Clarity on Path to UCG Commercialisation
08 July 2013	Trading Halt
05 July 2013	Summa Resources Share Sale Agreement Update
24 June 2013	Dr Cliff Mallett Appointed Chairman of UCGA
20 June 2013	Suitable UCG Sites Confirmed at Inner Mongolia Project
18 June 2013	Carbon Energy announces CEO appointment
17 June 2013	CNX Executes UCG Licensing Agreement
14 June 2013	Study Identifies Commercial Scale UCG Opportunities
13 June 2013	Clean Coal Technology Award & Forum Presentation
30 May 2013	Appendix 3B & Cleansing Statement
30 May 2013	Summa Resource Update
14 May 2013	ASX Conference Presentation
08 May 2013	CNX signs MOU for Inner Mongolian Project
07 May 2013	Shareholder Update & Quarterly Webcast
30 April 2013	March 2013 Quarterly Activities Report and Appendix 5B
29 April 2013	Cavity Survey Reinforces CNX Advanced UCG Technology
11 April 2013	Carbon Energy Shareholder Update
02 April 2013	48% Increase in Coal Resource to 2 Billion tonnes
25 March 2013	Summa Resources Share Sale Agreement Update

Prospectus

Date	Title of Announcement
18 March 2013	Change of Registered Address
14 March 2013	Half Year Accounts - December 2012
11 March 2013	Change in substantial holding
11 March 2013	Change in substantial holding
11 March 2013	Change in substantial holding
07 March 2013	Appendix 3B & Cleansing Statement
06 March 2013	Summa Resources Share Sale Agreement Update
01 March 2013	S&P DJ Indices Announces March Quarterly Rebalance
06 February 2013	Results of EGM
05 February 2013	Response to ASX Appendix 3Z Query
31 January 2013	December 2012 Quarterly Activities Report and Appendix 5B
29 January 2013	Appendix 3Z
23 January 2013	Wyoming - JORC Inferred Resource of 910Mt
07 January 2013	Appendix 3B & Cleansing Statement
07 January 2013	Notice of Extraordinary General Meeting/Proxy Form
17 December 12	Appointment of Acting Chief Executive Officer
17 December 2012	\$7 million ATO R&D tax incentive cash rebate received
13 December 2012	Change in substantial holding for EMX
05 December 2012	Agreed Outcome reached over DEHP allegations
05 December 2012	Appendix 3 Y - Change of Director's Interest Notice
04 December 2012	Appendix 3B and Cleansing Statement
28 November 2012	Appendix 3Y - Change of Director's Interest Notice
23 November 2012	Amended Concept Study Announcement
22 November 2012	Results of Annual General Meeting
22 November 2012	Chairman's Address to Shareholders and MD Presentation
21 November 2012	Concept Study Identifies Significant Mining Opportunities
19 November 2012	Shanxi Coal Project Update

Prospectus

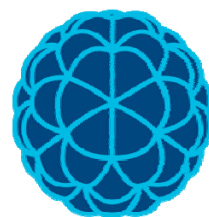
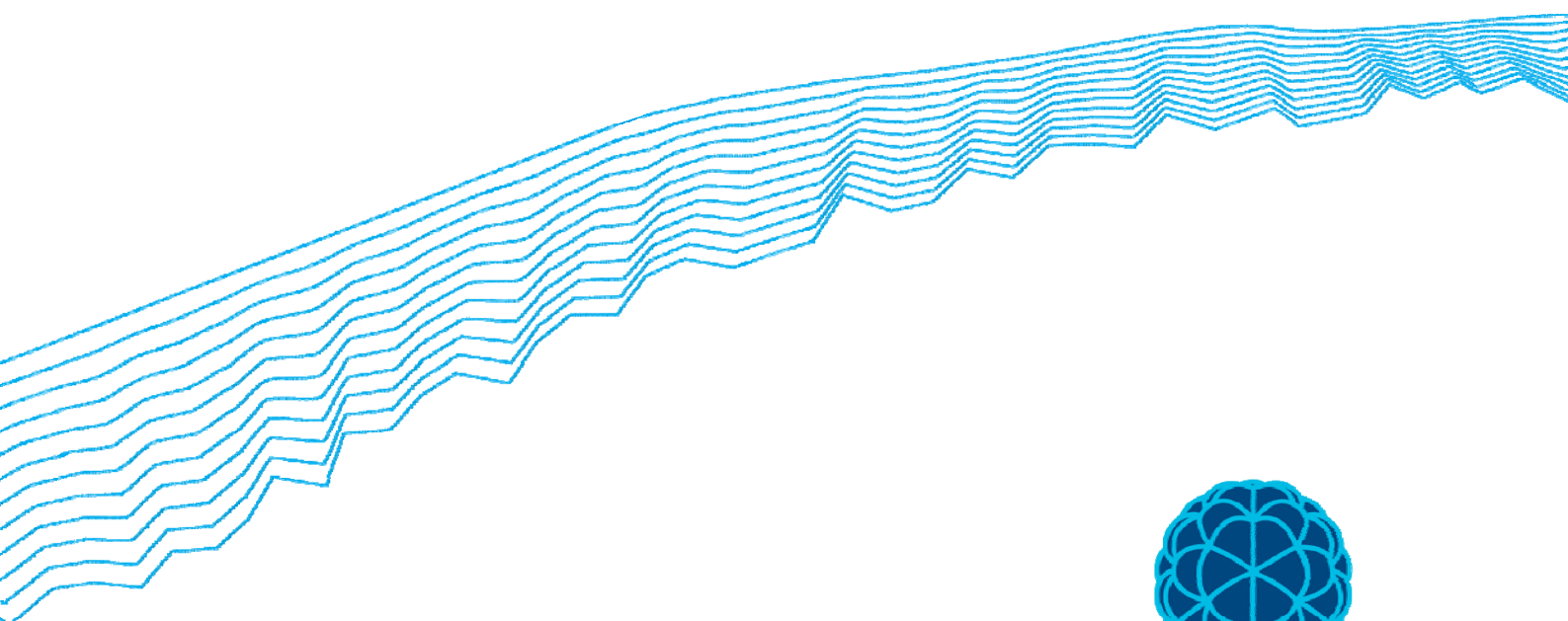
Date	Title of Announcement
16 November 2012	Appendix 3B
16 November 2012	Credit Suisse - \$10 million Senior Secured Funding Facility
31 October 2012	Shareholder Update & Quarterly Webcast
31 October 2012	September 2012 Quarterly Activities Report & Appendix 5B
23 October 2012	Market Update Presentation
19 October 2012	Notice of 2012 Annual General Meeting
18 October 2012	CNX executes Definitive Agreement with Shanxi Coal
04 October 2012	Release of securities from escrow
20 September 2012	2012 CNX Annual Report to shareholders

In addition, information on Carbon Energy's recent activities is available from the Company's ASX announcements which can be accessed on the Company's website www.carbonenergy.com.au and on the ASX website at www.asx.com.au (ASX code: CNX).

Prospectus

Corporate Directory

Directors	Solicitors to the Offer	Auditors
<p>Dr Chris Rawlings - BSc (Hons), PhD. FAICD, FAusIMM – Chairman (Non-Executive)</p> <p>Mr Max Cozijn – BCom, CPA, MAICD Director (Non-Executive)</p> <p>Dr Helen Garnett PSM – BSc (Hons), PhD, FTSE, FAICD - Director (Non-Executive)</p> <p>Mr Peter Hogan – BBus, CPA - Director (Non-Executive)</p> <p>Mr Louis Rozman – BEng, MGeos, FAusIMM CP (Man), MAICD - Director (Non-Executive)</p> <p>Mr Morné Engelbrecht – BCom (Hons), CA(SA) - Director (Executive)</p>	<p>HopgoodGanim Level 8, Waterfront Place 1 Eagle Street Brisbane QLD 4000 Telephone: + 61 7 3024 0000 www.hopgoodganim.com.au</p>	<p>Deloitte Touche Tohmatsu Level 26, Riverside Centre, 123 Eagle Street, Brisbane, Qld, 4001, Australia</p> <p>Telephone: +61 7 3308 7000 www.deloitte.com</p>
Administration and Registered Office	Share Registry	Lead Manager
<p>Level 9, 301 Coronation Drive MILTON QLD 4064</p> <p>Telephone: + 617 3156 7777 Facsimile: +617 3156 7776 Email: askus@carbonenergy.com.au Website: carbonenergy.com.au</p>	<p>Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000 1300 851 395 (in Australia) +61 1300 851 395 (outside Australia)</p>	<p>Patersons Securities Limited Level 23, Exchange Plaza 2 The Esplanade Perth, Western Australia Telephone: +61 8 9263 1111 Facsimile: +61 8 9325 5123 www.psl.com.au</p>



carbonenergy



carbonenergy
resource. technology. markets.

ABN 56 057 552 137

All Registry communications to:
Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia
Telephone: 1300 554 474
ASX Code: CNX
Website: www.linkmarketservices.com.au

SRN/HIN:

Entitlement Number:

Number of Eligible Shares held as at the Record Date, 7:00pm (AEST) on 2 August 2013:

Entitlement to New Shares (on a 1 New Share for 2 Shares held basis with 1 attaching New Option):

Amount payable on full acceptance at A\$0.02 per Share:

Offer Closes 5:00pm (AEST):	21 August 2013
------------------------------------	-----------------------

ENTITLEMENT AND ACCEPTANCE FORM

As an Eligible Shareholder you are entitled to acquire 1 New Share for every 2 Existing Shares that you hold on the Record Date, at an Offer Price of A\$0.02 per New Share with 1 New Option for every 1 New Share allotted (**New Securities**). Each New Option is exercisable at \$0.060 per Share and expires on 31 July 2016. You may also apply for New Securities in excess of your Entitlement, at the Offer Price (**Offer**). This is an important document and requires your immediate attention. If you do not understand it or you are in doubt as how to deal with it, you should contact your accountant, stockbroker, solicitor or other professional adviser.

IMPORTANT: The Offer is being made under the Prospectus dated 25 July 2013. The Prospectus contains information about investing in the New Securities. Before applying for New Securities, you should carefully read the Prospectus. This Entitlement and Acceptance Form should be read in conjunction with the Prospectus.

If you do not have a paper copy of the Prospectus, you can obtain a paper copy at no charge, by calling the Carbon Energy Limited Offer Information Line on 1300 851 395 (within Australia) or +61 1300 851 395 (from outside Australia).

PAYMENT OPTIONS

If you wish to take up all or part of your Entitlement (as shown above), or take up all of your Entitlement and apply for additional New Securities, you have two payment options detailed below.

OPTION 1: PAYING BY BPAY®

If paying by BPAY®, refer to the instructions overleaf. **You do NOT need to return the acceptance slip below if you elect to make payment by BPAY®.** Payment must be received via BPAY® before 5:00pm (AEST) on 21 August 2013. You should check the processing cut off-time for BPAY® transactions with your bank, credit union or building society to ensure your payment will be received by the Registry in time. By paying by BPAY® you will have deemed to have completed an Entitlement and Acceptance Form for the number of Shares subject of your application payment.

OPTION 2: PAYING BY CHEQUE, BANK DRAFT OR MONEY ORDER

If paying by cheque, bank draft or money order, complete and return the Acceptance Slip below with your Application Monies. No signature is required on the Acceptance Slip. The Acceptance Slip with your Application Monies must be received by the Registry before 5:00pm (AEST) on 21 August 2013.



Billers Code: [XXXXXX]

Ref:

Telephone & Internet Banking – BPAY®

Contact your bank or financial institution to make this payment from your cheque, savings, debit or transaction account. More info: www.bpay.com.au

© Registered to BPAY Pty Ltd ABN 69 079 137 518

See overleaf for details and further instructions on how to complete and lodge a payment under this Entitlement and Acceptance Form.

THIS IS A PERSONALISED FORM FOR THE SOLE USE OF THE SHAREHOLDER AND HOLDING RECORDED ABOVE.

Please detach and enclose with payment



SRN/HIN:

Entitlement Number:

A Number of New Shares accepted (being not more than your Entitlement shown above)

B Number of additional New Shares

C Total number of New Shares accepted (add Boxes A and B)

<input type="text"/>	+	<input type="text"/>	=	<input type="text"/>
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Note: 1 New Option will be issued for every 1 New Share allotted (exercisable at \$0.060 and expiring on 31 July 2016)

D PLEASE INSERT CHEQUE, BANK DRAFT OR MONEY ORDER DETAILS – Cheques, bank drafts or money orders must be drawn on an Australian branch of a financial institution in Australian currency, made payable to “Carbon Energy Limited” and crossed “Not Negotiable”.

Drawer	Cheque Number	BSB Number	Account Number	Amount of Cheque
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	A\$ <input type="text"/>

E CONTACT DETAILS – Telephone Number

Telephone Number – After Hours

Contact Name

<input type="text"/>	<input type="text"/>	<input type="text"/>
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CARBON ENERGY LIMITED

The Offer to which this Entitlement and Acceptance Form relates is not being made to investors located or resident outside of Australia, New Zealand, Belgium, Switzerland or are institutional investors in the United States who purchase the New Securities in transactions exempt from the registration requirements of the US Securities Act of 1933 and applicable state securities laws. The Offer is not otherwise being made to any person in the U.S or to a U.S person. The Prospectus and Entitlement and Acceptance Form do not constitute an offer or invitation to acquire Shares in any place in which, or to any person to whom, it would be unlawful to make such an offer or invitation.

ACCEPTANCE OF ENTITLEMENT OFFER

By either returning the Acceptance Slip with payment to the Registry, or making payment received by BPAY®:

- you represent and warrant that you have read and understood the Prospectus and that you acknowledge the matters, and make the warranties and representations contained in the Prospectus;
- you provide authorisation to be registered as the holder of New Securities acquired by you and agree to be bound by the Constitution of Carbon Energy Limited and the terms of issue of the New Securities as set out in the Prospectus.

HOW TO APPLY FOR NEW SECURITIES

1. IF PAYING BY BPAY® (AVAILABLE TO SHAREHOLDERS WITH AN AUSTRALIAN BANK ACCOUNT ONLY)

If you elect to make payment using BPAY® you must contact your bank or financial institution to make this payment from your cheque, savings, debit or transaction account. For more information on paying by BPAY®: www.bpay.com.au

Work out the total amount payable by you. To calculate the total amount, multiply the number of New Shares you wish to apply for by A\$0.02.

Refer overleaf for the Biller Code and Reference Number. The Reference Number is used to identify your holding. If you have multiple holdings you will have multiple Reference Numbers. You must use the Reference Number shown on each personalised Entitlement and Acceptance Form when paying for any New Securities that you wish to apply for in respect of that holding.

2. IF PAYING BY CHEQUE, BANK DRAFT OR MONEY ORDER

Complete all relevant sections of the Acceptance Slip USING BLOCK LETTERS. These instructions are cross referenced to each section of the Entitlement and Acceptance Form.

A. Acceptance of New Securities

Enter into section A the number of New Shares you wish to apply for. The number of New Shares must be equal to or less than your Entitlement, which is set out overleaf, 1 New Option will be issued for every 1 New Share allotted.

B. Application for Additional New Securities

You can apply for more New Securities than your Entitlement. Please enter the number of **additional** New Securities above your Entitlement for which you wish to apply into Box B, 1 New Option will be issued for every 1 New Share allotted. Your Application for additional New Securities may not be successful (wholly or partially). The decision of Carbon Energy Limited on the number of New Securities to be allocated to you will be final. No interest will be paid on any Application Monies received or returned.

C. Total Number of New Securities Subscribed for

To calculate total number of New Shares subscribed for, add Box A and Box B and enter this in Box C, 1 New Option will be issued for every 1 New Share allotted.

D. Cheque, bank draft or money order details

Enter your cheque, bank draft or money order details in section D. Cheques, bank drafts or money orders must be drawn on an Australian branch of a financial institution in Australian currency, made payable to "Carbon Energy Limited" and crossed "Not Negotiable". Please ensure sufficient cleared funds are held in your account, as your cheque will be banked as soon as it is received. If you provide a cheque or money order for the incorrect amount, Carbon Energy Limited may treat you as applying for as many New Securities and Additional New Securities as your cheque, bank draft or money order will pay for.

E. Contact details

Enter your contact telephone number where we may contact you regarding your acceptance of New Shares, if necessary.

3. HOW TO LODGE YOUR ENTITLEMENT AND ACCEPTANCE FORM

A reply paid envelope is enclosed for your use. No postage stamp is required if it is posted in Australia. Alternatively, if you have lost the reply paid envelope, or you have obtained the Prospectus electronically, your completed Acceptance Slip with the payment for New Securities may be mailed to the postal address, or delivered by hand to the delivery address, set out below. **If paying by BPAY® you do not need to complete or return the Acceptance Slip.** You should check the processing cut off-time for BPAY® transactions with your bank, credit union or building society to ensure your payment will be received by the Registry by the close of the offer.

Mailing Address

Carbon Energy Limited
C/- Link Market Services Limited
Locked Bag 3415
Brisbane QLD 4001

Hand Delivery

Carbon Energy Limited
C/- Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138 **(Please do not use this address for mailing purposes)**

Make sure you send your Acceptance Slip and application payment allowing enough time for mail delivery, so Link Market Services Limited receives them no later than 5:00pm (AEST) on 21 August 2013. Please ensure sufficient cleared funds are held in your account, as your cheque will be banked as soon as it is received. Carbon Energy Limited reserves the right not to process any Acceptance Slips and cheques received after the Closing Date.

If you require further information on how to complete this Entitlement and Acceptance Form, please contact the Carbon Energy Limited Offer Information Line on 1300 851 395 (within Australia) or +61 1300 851 395 (from outside Australia) between 8:30am and 5:30pm (AEST) Monday to Friday.

Rule 2.7, 3.10.3, 3.10.4, 3.10.5

Appendix 3B

New issue announcement, application for quotation of additional securities and agreement

Information or documents not available now must be given to ASX as soon as available. Information and documents given to ASX become ASX's property and may be made public.

Introduced 01/07/96 Origin: Appendix 5 Amended 01/07/98, 01/09/99, 01/07/00, 30/09/01, 11/03/02, 01/01/03, 24/10/05, 01/08/12, 04/03/13

Name of entity

Carbon Energy Limited

ABN

56 057 552 137

We (the entity) give ASX the following information.

Part 1 - All issues

You must complete the relevant sections (attach sheets if there is not enough space).

1 +Class of +securities issued or to be issued

1. Non renounceable rights issue:
 - a. Ordinary fully paid shares
 - b. Listed options
2. Share Subscription Agreement:
 - a. Ordinary fully paid shares
 - b. Listed options

2 Number of +securities issued or to be issued (if known) or maximum number which may be issued

1. Non renounceable rights issue:
 - a. 393,444,853 ordinary fully paid shares
 - b. 393,444,853 listed options
2. Share Subscription Agreement:
 - a. 50,000,000 ordinary fully paid shares
 - b. 50,000,000 listed options

+ See chapter 19 for defined terms.

Appendix 3B

New issue announcement

3 Principal terms of the +securities (e.g. if options, exercise price and expiry date; if partly paid +securities, the amount outstanding and due dates for payment; if +convertible securities, the conversion price and dates for conversion)

1. **Non renounceable right issue:**
Ordinary fully paid shares and listed options to be issued pursuant to a non renounceable rights to eligible shareholders issued on the basis of 1 new share for every 2 shares held with 1 attaching listed option for each new share allotted with an exercise price of \$0.060 and an expiry date of 31 July 2016.
2. **Share Subscription Agreement**
with Holder East Capital Ltd (HEC) pursuant to which the Company is required to issue 50,000,000 ordinary fully paid shares and 50,000,000 listed options with an exercise price of \$0.060 and an expiry date of 31 July 2016 (subject to the Company raising a total minimum amount of \$2,000,000 on or before 31 August 2013 and other conditions).

+ See chapter 19 for defined terms.

<p>4 Do the +securities rank equally in all respects from the +issue date with an existing +class of quoted +securities?</p> <p>If the additional +securities do not rank equally, please state:</p> <ul style="list-style-type: none"> • the date from which they do • the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment • the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment 	<p>The new shares will rank pari passu with existing shares on issue.</p> <p>The new options will be a new class of quoted securities.</p>
<p>5 Issue price or consideration</p>	<p>\$0.020 per new share (with 1 attaching listed option for each new share allotted with an exercise price of \$0.060 and an expiry date of 31 July 2016).</p>
<p>6 Purpose of the issue (If issued as consideration for the acquisition of assets, clearly identify those assets)</p>	<ol style="list-style-type: none"> 1. Business Development (including marketing of the Surat Basin coal assets); 2. Continuing a rehabilitation plan of the UCG panel at Bloodwood Creek in the Surat Basin; 3. Repayment of some or all of the outstanding balance of the Credit Suisse Facility; 4. General working capital; and 5. Offer costs
<p>6a Is the entity an +eligible entity that has obtained security holder approval under rule 7.1A?</p> <p>If Yes, complete sections 6b – 6h in relation to the +securities the subject of this Appendix 3B, and comply with section 6i</p>	<p>Yes</p>
<p>6b The date the security holder resolution under rule 7.1A was passed</p>	<p>22 November 2012</p>

+ See chapter 19 for defined terms.

Appendix 3B
New issue announcement

6c	Number of +securities issued without security holder approval under rule 7.1	113,667,139						
6d	Number of +securities issued with security holder approval under rule 7.1A	Nil						
6e	Number of +securities issued with security holder approval under rule 7.3, or another specific security holder approval (specify date of meeting)	2,306,795						
6f	Number of +securities issued under an exception in rule 7.2	Nil						
6g	If +securities issued under rule 7.1A, was issue price at least 75% of 15 day VWAP as calculated under rule 7.1A.3? Include the +issue date and both values. Include the source of the VWAP calculation.	Not applicable						
6h	If +securities were issued under rule 7.1A for non-cash consideration, state date on which valuation of consideration was released to ASX Market Announcements	Not applicable						
6i	Calculate the entity's remaining issue capacity under rule 7.1 and rule 7.1A – complete Annexure 1 and release to ASX Market Announcements	80,409,503						
7	+Issue dates Note: The issue date may be prescribed by ASX (refer to the definition of issue date in rule 19.12). For example, the issue date for a pro rata entitlement issue must comply with the applicable timetable in Appendix 7A. Cross reference: item 33 of Appendix 3B.	<ol style="list-style-type: none"> 1. Non renounceable right issue: 27 August 2013 2. Share Subscription Agreement: subject to the satisfaction or waiver of the applicable condition precedents, on or about 31 August 2013 						
8	Number and +class of all +securities quoted on ASX (including the +securities in section 2 if applicable)	<table border="1"> <thead> <tr> <th>Number</th> <th>+Class</th> </tr> </thead> <tbody> <tr> <td>1,230,334,558</td> <td>Ordinary fully paid shares</td> </tr> <tr> <td>443,444,853</td> <td>Listed options</td> </tr> </tbody> </table>	Number	+Class	1,230,334,558	Ordinary fully paid shares	443,444,853	Listed options
Number	+Class							
1,230,334,558	Ordinary fully paid shares							
443,444,853	Listed options							

+ See chapter 19 for defined terms.

	Number	+Class
9	Number and +class of all +securities not quoted on ASX (including the +securities in section 2 if applicable)	<p>5,000,000, 25c Options expiring 10 Dec 2013</p> <p>1,400,000, 35c Options expiring 10 Dec 2013</p> <p>5,600,000, 70c Options expiring 10 Dec 2013</p> <p>7,250,000, 80c Options expiring 10 Dec 2013</p> <p>875,000, \$1.20 Options expiring 10 Dec 2013</p> <p>1,750,000, \$1.60 Options expiring 10 Dec 2013</p> <p>3,084,000, 12c Options expiring 31 Dec 2015</p> <p>10,000,000, \$1.00 Options with vesting date of 30 June 2012 expiring 10 Dec 2014.</p> <p>7,000,000, 18.75c Options (subject to adjustments as provided for under the Option Subscription Deed relating to Pro-rata issues, Bonus issues and reorganisations), expiring 18 January 2017.</p> <p>28,000,000, 18.75c Options (subject to adjustments as provided for under the Option Subscription Deed relating to Pro-rata issues, Bonus issues and reorganisations), expiring 25 February 2017.</p> <p>61,728,395, 8.1c Options (subject to adjustments as provided for under the Credit Suisse Senior Secured Loan Facility Agreement), expiring 24 months from the Issue Date if the Facility is prepaid in full prior to the date falling 6 months after the Utilisation Date, otherwise 36 months from the Issue Date. Exercisable by cash settlement or physical settlement (subject to shareholder approvals being obtained)</p> <p>9,645,845, 8.1c Options (subject to adjustments as provided for under the Pacific Road Convertible Note Facility Agreement), under the same terms and conditions as the Credit Suisse options issued under the Credit Suisse Senior Secured Funding Facility.</p>
10	Dividend policy (in the case of a trust, distribution policy) on the increased capital (interests)	Not applicable

Part 2 - Pro rata issue

11	Is security holder approval required?	No
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+ See chapter 19 for defined terms.

Appendix 3B
New issue announcement

12	Is the issue renounceable or non-renounceable?	Non renounceable
13	Ratio in which the +securities will be offered	1:2
14	+Class of +securities to which the offer relates	Ordinary fully paid shares
15	+Record date to determine entitlements	2 August 2013
16	Will holdings on different registers (or subregisters) be aggregated for calculating entitlements?	Not applicable
17	Policy for deciding entitlements in relation to fractions	Rounded-up
18	Names of countries in which the entity has security holders who will not be sent new offer documents <small>Note: Security holders must be told how their entitlements are to be dealt with. Cross reference: rule 7.7.</small>	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 Taiwan
19	Closing date for receipt of acceptances or renunciations	21 August 2013

+ See chapter 19 for defined terms.

20	Names of any underwriters	The offer is not underwritten
21	Amount of any underwriting fee or commission	Not applicable
22	Names of any brokers to the issue	Patersons Securities Limited
23	Fee or commission payable to the broker to the issue	\$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.
24	Amount of any handling fee payable to brokers who lodge acceptances or renunciations on behalf of security holders	Nil
25	If the issue is contingent on security holders' approval, the date of the meeting	Not applicable
26	Date entitlement and acceptance form and offer documents will be sent to persons entitled	6 August 2013
27	If the entity has issued options, and the terms entitle option holders to participate on exercise, the date on which notices will be sent to option holders	25 July 2013
28	Date rights trading will begin (if applicable)	Not applicable
29	Date rights trading will end (if applicable)	Not applicable
30	How do security holders sell their entitlements <i>in full</i> through a broker?	Not applicable
31	How do security holders sell <i>part</i> of their entitlements through a	Not applicable

+ See chapter 19 for defined terms.

Appendix 3B
New issue announcement

- broker and accept for the balance?
- 32 How do security holders dispose of their entitlements (except by sale through a broker)?
- 33 ⁺Issue date

Part 3 - Quotation of securities

You need only complete this section if you are applying for quotation of securities

- 34 Type of ⁺securities
(tick one)
- (a) ⁺Securities described in Part 1
- (b) All other ⁺securities
Example: restricted securities at the end of the escrowed period, partly paid securities that become fully paid, employee incentive share securities when restriction ends, securities issued on expiry or conversion of convertible securities

Entities that have ticked box 34(a)

Additional securities forming a new class of securities

Tick to indicate you are providing the information or documents

- 35 If the ⁺securities are ⁺equity securities, the names of the 20 largest holders of the additional ⁺securities, and the number and percentage of additional ⁺securities held by those holders
- 36 If the ⁺securities are ⁺equity securities, a distribution schedule of the additional ⁺securities setting out the number of holders in the categories
1 - 1,000
1,001 - 5,000
5,001 - 10,000
10,001 - 100,000
100,001 and over
- 37 A copy of any trust deed for the additional ⁺securities

⁺ See chapter 19 for defined terms.

Entities that have ticked box 34(b)

38	Number of +securities for which +quotation is sought	Not applicable
39	+Class of +securities for which quotation is sought	Not applicable
40	<p>Do the +securities rank equally in all respects from the +issue date with an existing +class of quoted +securities?</p> <p>If the additional +securities do not rank equally, please state:</p> <ul style="list-style-type: none"> • the date from which they do • the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment • the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment 	Not applicable
41	<p>Reason for request for quotation now</p> <p>Example: In the case of restricted securities, end of restriction period</p> <p>(if issued upon conversion of another +security, clearly identify that other +security)</p>	Not applicable
42	Number and +class of all +securities quoted on ASX (including the +securities in clause 38)	Not applicable

+ See chapter 19 for defined terms.

Quotation agreement

1 +Quotation of our additional +securities is in ASX's absolute discretion. ASX may quote the +securities on any conditions it decides.

2 We warrant the following to ASX.

- The issue of the +securities to be quoted complies with the law and is not for an illegal purpose.
- There is no reason why those +securities should not be granted +quotation.
- An offer of the +securities for sale within 12 months after their issue will not require disclosure under section 707(3) or section 1012C(6) of the Corporations Act.

Note: An entity may need to obtain appropriate warranties from subscribers for the securities in order to be able to give this warranty

- Section 724 or section 1016E of the Corporations Act does not apply to any applications received by us in relation to any +securities to be quoted and that no-one has any right to return any +securities to be quoted under sections 737, 738 or 1016F of the Corporations Act at the time that we request that the +securities be quoted.
- If we are a trust, we warrant that no person has the right to return the +securities to be quoted under section 1019B of the Corporations Act at the time that we request that the +securities be quoted.

3 We will indemnify ASX to the fullest extent permitted by law in respect of any claim, action or expense arising from or connected with any breach of the warranties in this agreement.

4 We give ASX the information and documents required by this form. If any information or document is not available now, we will give it to ASX before +quotation of the +securities begins. We acknowledge that ASX is relying on the information and documents. We warrant that they are (will be) true and complete.



Sign here: _____ Date: 25/7/2013

Company secretary

Print name: Morne Engelbrecht

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+ See chapter 19 for defined terms.

Appendix 3B – Annexure 1

Calculation of placement capacity under rule 7.1 and rule 7.1A for eligible entities

Introduced 01/08/12 Amended 04/03/13

Part 1

Rule 7.1 – Issues exceeding 15% of capital	
Step 1: Calculate “A”, the base figure from which the placement capacity is calculated	
Insert number of fully paid +ordinary securities on issue 12 months before the +issue date or date of agreement to issue	773,999,771
<p>Add the following:</p> <ul style="list-style-type: none"> • Number of fully paid +ordinary securities issued in that 12 month period under an exception in rule 7.2 • Number of fully paid +ordinary securities issued in that 12 month period with shareholder approval • Number of partly paid +ordinary securities that became fully paid in that 12 month period <p><i>Note:</i></p> <ul style="list-style-type: none"> • <i>Include only ordinary securities here – other classes of equity securities cannot be added</i> • <i>Include here (if applicable) the securities the subject of the Appendix 3B to which this form is annexed</i> • <i>It may be useful to set out issues of securities on different dates as separate line items</i> 	4/9/12 – 2,306,795 Ordinary Shares
Subtract the number of fully paid +ordinary securities cancelled during that 12 month period	Nil
“A”	776,306,566

+ See chapter 19 for defined terms.

Appendix 3B
New issue announcement

Step 2: Calculate 15% of “A”	
“B”	0.15 <i>[Note: this value cannot be changed]</i>
Multiply “A” by 0.15	116,445,985
Step 3: Calculate “C”, the amount of placement capacity under rule 7.1 that has already been used	
<p>Insert number of +equity securities issued or agreed to be issued in that 12 month period <i>not counting</i> those issued:</p> <ul style="list-style-type: none"> • Under an exception in rule 7.2 • Under rule 7.1A • With security holder approval under rule 7.1 or rule 7.4 <p><i>Note:</i></p> <ul style="list-style-type: none"> • <i>This applies to equity securities, unless specifically excluded – not just ordinary securities</i> • <i>Include here (if applicable) the securities the subject of the Appendix 3B to which this form is annexed</i> • <i>It may be useful to set out issues of securities on different dates as separate line items</i> 	<p>2/1/13 – 3,084,000 unlisted options 4/12/12 – 2,145,388 ordinary shares 7/1/13 – 1,355,368 ordinary shares 28/2/13 - 2,877,033 ordinary shares 28/5/13 - 4,205,350 ordinary shares</p> <p>Share Subscription Agreement: - 50,000,000 ordinary shares - 50,000,000 listed options</p>
“C”	113,667,139
Step 4: Subtract “C” from [“A” x “B”] to calculate remaining placement capacity under rule 7.1	
“A” x 0.15 <i>Note: number must be same as shown in Step 2</i>	116,445,985
Subtract “C” <i>Note: number must be same as shown in Step 3</i>	113,667,139
Total [“A” x 0.15] – “C”	2,778,846 <i>[Note: this is the remaining placement capacity under rule 7.1]</i>

+ See chapter 19 for defined terms.

Part 2

Rule 7.1A – Additional placement capacity for eligible entities	
Step 1: Calculate “A”, the base figure from which the placement capacity is calculated	
“A” <i>Note: number must be same as shown in Step 1 of Part 1</i>	776,306,566
Step 2: Calculate 10% of “A”	
“D”	0.10 <i>Note: this value cannot be changed</i>
Multiply “A” by 0.10	77,630,657
Step 3: Calculate “E”, the amount of placement capacity under rule 7.1A that has already been used	
<i>Insert</i> number of +equity securities issued or agreed to be issued in that 12 month period under rule 7.1A <i>Notes:</i> <ul style="list-style-type: none"> • <i>This applies to equity securities – not just ordinary securities</i> • <i>Include here – if applicable – the securities the subject of the Appendix 3B to which this form is annexed</i> • <i>Do not include equity securities issued under rule 7.1 (they must be dealt with in Part 1), or for which specific security holder approval has been obtained</i> • <i>It may be useful to set out issues of securities on different dates as separate line items</i> 	Nil
“E”	Nil

+ See chapter 19 for defined terms.

Appendix 3B
New issue announcement

Step 4: Subtract "E" from ["A" x "D"] to calculate remaining placement capacity under rule 7.1A	
"A" x 0.10 <i>Note: number must be same as shown in Step 2</i>	77,630,657
Subtract "E" <i>Note: number must be same as shown in Step 3</i>	Nil
Total ["A" x 0.10] – "E"	77,630,657 <i>Note: this is the remaining placement capacity under rule 7.1A</i>

+ See chapter 19 for defined terms.