



**carbonenergy**

Carbon Energy Limited | ABN 56 057 552 137

## **ASX Announcement**

7 January 2013

Level 12, 301 Coronation Drive,  
Milton QLD 4064 Australia  
PO Box 2118, Toowong DC  
QLD 4066 Australia  
**phone** + 61 (0) 7 3337 9944  
**fax** + 61 (0) 7 3337 9945

[www.carbonenergy.com.au](http://www.carbonenergy.com.au)

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

## **Notice of Extraordinary General Meeting – 6 February 2013**

Carbon Energy Limited (ASX:CNX; OTCQX:CNXAY) will hold an Extraordinary General Meeting at Clayton Utz, Level 28 Riparian Plaza, 71 Eagle Street, Brisbane, Queensland, 4000 on Wednesday 6 February 2013 at 11.00am (Brisbane Time).

The Notice of Extraordinary General Meeting, Explanatory Memorandum and Voting Form was mailed and/or emailed to shareholders on 4 January 2013. Copies of these documents follow this announcement and are available on Carbon Energy's website at [www.carbonenergy.com.au](http://www.carbonenergy.com.au).

For and on behalf of the Board

Morné Engelbrecht  
Acting Chief Executive Officer

## About Carbon Energy

Carbon energy specialises in underground coal gasification (UCG). Our proprietary keyseam technology is the key to unlocking new energy sources, transforming stranded, deep coal resources into high-value fuels with lower carbon emissions.

Carbon Energy's complete end-to-end UCG services deliver world-class gas projects from initial project assessment through to commercial project development, operations, site decommissioning and rehabilitation.

Carbon Energy achieved Proof of Concept of its technology following 10 years of research with Australia's premier scientific research agency, the Commonwealth Scientific and Industrial Research organisation (CSIRO), 5 years of in-field trials and over \$100 million investment in technology development.

By successfully proving our keyseam technology, we have earned a reputation for delivering consistent, high quality product gas which can be used to produce power, fertilisers and pipeline quality gas. keyseam maximises resource efficiency, extracting up to 20 times more energy from the same resource than coal seam gas (CSG), whilst minimising surface disturbance and preserving groundwater quality.

Carbon Energy also has previously announced two wholly-owned assets in southeast Queensland's Surat Basin:

- 1.4 billion tonnes<sup>1</sup> of coal JORC Inferred Resource which is part of a 4 to 8 billion tonnes of coal Exploration target; and
- 743PJ<sup>2</sup> of Certified 2P syngas reserves.

The Company is headquartered in Brisbane, Australia, listed on the Australian securities Exchange (ASX) as CNX and is quoted on the OTCQX International Exchange as CNXAY in the united states. Carbon Energy has UCG projects in Australia, China, Chile, Turkey and the United States.

---

<sup>1</sup> See CNX ASX/Media Announcement 10 September 2012. CNX is not aware of any new information that would materially affect the Resources stated.

<sup>2</sup> See CNX ASX/Media Announcement 8 December 2009. CNX is not aware of any new information that would materially affect the Reserves stated.

# CARBON ENERGY LIMITED

ABN 56 057 552 137

## NOTICE OF EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

TO BE HELD

ON WEDNESDAY 6 FEBRUARY 2013

AT 11.00AM (BRISBANE TIME)

AT

CLAYTON UTZ

LEVEL 28

RIPARIAN PLAZA

71 EAGLE STREET

BRISBANE QUEENSLAND



**carbonenergy**  
resource. technology. markets.

This Notice of Extraordinary General Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Extraordinary General Meeting please do not hesitate to contact the Company Secretary on +61 7 3337 9944.

## NOTICE OF EXTRAORDINARY GENERAL MEETING

This Notice of Extraordinary General Meeting should be read in conjunction with the attached Explanatory Memorandum.

**NOTICE IS HEREBY GIVEN** that the Extraordinary General Meeting of members of Carbon Energy Limited ABN 56 057 552 137 'Company' will be held at Clayton Utz, Level 28 Riparian Plaza, 71 Eagle Street, Brisbane, Queensland, 4000 on Wednesday 6 February 2013 at 11.00am (Brisbane Time).

### Business of the Meeting

#### Resolutions

##### 1) Resolution 1 - Ratification of issue of Options to Credit Suisse

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

"That for the purpose of Listing Rule 7.4 and for all other purposes, Shareholders ratify the previous issue and allotment of 61,728,395 options in the Company to Credit Suisse AG, Sydney Branch (**Credit Suisse**), on the terms and conditions set out in the Option Deed (**CS Options**) and the issue of Shares upon exercise of the CS Options."

#### **Voting Exclusion Statement**

The Company will disregard any votes cast on Resolution 1 by CS and any associate of CS.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

## 2) Resolution 2 - Approval of provision of Financial Assistance

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

“That for the purpose of and in accordance with Part 2J.3 of the Corporations Act, Shareholders approve any financial assistance provided by the Company or by any Subsidiary in connection with the issue of the CS Options and the issue of Shares upon exercise of any of the CS Options on the terms set out in the Option Deed.”

### Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 2 by CS and any associate of CS.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

## 3) Ratification of issue of Options to PRCM Nominees Pty Limited and Pacific Road Holdings NV

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

“That for the purpose of Listing Rule 7.4 and for all other purposes, Shareholders ratify the previous issue and allotment of 9,645,845 options in the Company to PRCM Nominees Pty Limited (1,915,665 options) and Pacific Road Holdings NV (7,730,180 options), on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice (**Pacific Road Options**) pursuant to the Convertible Note Facility Agreement announced on 5 January 2012.”

### Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 3 by PRCM Nominees Pty Limited and Pacific Road Holdings NV and any associate of those persons.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

## **GENERAL BUSINESS**

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

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

**By Order of the Board**

A handwritten signature in black ink, appearing to read 'M. Engelbrecht', with a stylized flourish at the end.

Morné Engelbrecht

**Acting Chief Executive Officer,**

**Chief Financial Officer & Company Secretary**

4 January 2013

## EXPLANATORY MEMORANDUM

This Explanatory Memorandum should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their Accountant, Solicitor or other professional adviser prior to voting.

The Explanatory Memorandum has been prepared for the information of Shareholders in connection with the business to be conducted at the Extraordinary General Meeting of Shareholders to be held on 6 February 2013 at 11.00am (Brisbane time) ("the Meeting").

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

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

### Business of the meeting

#### Issue of CS Options

##### **Background to Resolution 1 and Resolution 2**

The Company announced on 16 November 2012 that Credit Suisse AG, Sydney Branch (**Credit Suisse**) had provided a \$10 million (**Loan Amount**) bridging loan facility to the Company (**Loan**). The Loan Amount has been fully drawn down. On 16 November 2012 the Company also announced that it had issued the CS Options to Credit Suisse on the terms set out in this Resolution.

In conjunction with the Loan, the Company executed on 15 November 2012 an Option Deed between Credit Suisse and the Company together with other associated documents (**Loan Documents**). Under the terms of the Option Deed the Company issued the CS Options to Credit Suisse as an incentive for providing the Loan Amount and entering the Loan.

The key terms of the Loan and the CS Options are set out in the table below. Further details regarding the terms of the CS Options are set out in Schedule 1:

|                         |                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Facility Amount:</b> | \$10 million                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Interest rate:</b>   | 8% per annum                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Facility fee:</b>    | 5% of Facility Amount                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Maturity date:</b>   | 12 months from the utilisation date, subject to certain early mandatory prepayment requirements including where the Company receives any of the ATO Research and Development tax incentive cash rebate (expected to be in an amount of \$6.9 million) or payments under the arrangements with Shanxi Coal Transportation & Sales Group Inc which includes an initial licensing fee of \$7.5 million. |
| <b>Security</b>         | To secure the obligations of the Company in respect of the Loan and the transactions contemplated by it, the following have been granted:<br><br>(i) Guarantee and indemnities from each Guarantor; and<br>(ii) General security interests and fixed charges over the Company's and each                                                                                                             |



|                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                             | Subsidiaries' present and after-acquired property (excluding certain specified property).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>CS Options:</b>          | Issued as an incentive for Credit Suisse offering the Loan.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Issue Date</b>           | Date of Facility Agreement (15 November 2012)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Term</b>                 | 24 months from the Issue Date (15 November 2014) if the amount owing under the Loan is prepaid in full prior to the date falling 6 months after the Utilisation Date (16 May 2013), otherwise 36 months from the Issue Date (15 November 2015).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Exercise period</b>      | CS Options may be exercised at any time during the Term (other than as noted below).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Number of CS Options</b> | 61,728,395                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Strike Price</b>         | \$0.081 per CS Option                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Method of Exercise</b>   | <p>At the election of the Company, Cash Settlement or Physical Settlement (subject to the Approvals set out below).</p> <p>Physical Settlement requires the option holder to pay to the Company the Strike Price per CS Option in exchange for which it will be issued one Share per exercised CS Option (such Shares ranking pari passu with all other Shares on issue).</p> <p>Cash Settlement requires the Company to pay to the option holder an amount equal to the 5 day VWAP of Shares on the day prior to issue of an exercise notice less the Strike Price per CS Option exercised.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Approvals:</b>           | <p>The Company's right to issue Shares on exercise of the CS Options (<b>Physical Settlement</b>) is conditional on:</p> <ol style="list-style-type: none"> <li>1. the issue of the CS Options and the issue of Shares upon exercise of the CS Options being approved by the Shareholders in accordance with the requirements of its constitution and Listing Rule 7.4; and</li> <li>2. any financial assistance provided by the Company and each of the Guarantors to Credit Suisse to acquire the CS Options and the Shares to be issued on exercise of the CS Options being approved by the Shareholders in accordance with Part 2J.3 of the Corporations Act; and</li> <li>3. any financial assistance provided by the Guarantors to Credit Suisse to acquire the CS Options and the Shares to be issued on exercise of the CS Options being approved by the relevant shareholder of each Guarantor in accordance with Part 2J.3 of the Corporations Act;</li> </ol> <p>and 14 days has elapsed after the Company and the Guarantors have notified ASIC that the requisite approvals under (2) and (3) have been obtained.</p> <p>To enable this approval to be sought, the option holder has agreed not to exercise the CS Options within 3 months and 14 days of issue (unless such conditions are satisfied earlier).</p> |

If all of the abovementioned conditions to Physical Settlement are not met within 3 months and 14 days of the issue of the CS Options, being 1 March 2013, the CS Options will not be capable of Physical Settlement and will be subject to Cash Settlement only. If this is the case and the CS Options are exercised by the holder, the Company will need to pay the amount of the Cash Settlement to the holder of the CS Options in accordance with the terms on which the CS Options were granted (which amount is determined by the

difference between the exercise price (being 5 day VWAP of Shares prior to issue of an exercise notice) and the Strike Price of \$0.081 multiplied by the number of CS Options exercised). If Cash Settlement of the CS Options occurs, this will reduce the amount of cash flow available to or otherwise place cash flow constraints on the Company. Alternatively, if Physical Settlement of the Options occurs, this would result in the Company receiving the Strike Price per CS Option exercised and result in less cash flow constraints for the Company. It is the Company's preference to have the ability to elect whether Cash Settlement or Physical Settlement will apply on exercise of the CS Options, which can only occur if Resolutions 1 and 2 are passed.

## **Resolution 1 (Ordinary Resolution) - Ratification of the issue of CS Options**

### **Listing Rule 7.4**

In accordance with Listing Rule 7.4, Shareholder approval is sought to ratify the issue of the CS Options (to the extent that they are capable of Physical Settlement), being issues of securities made by the Company during the previous 12 months for which Shareholder approval has not already been obtained.

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

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

If Resolution 1 is approved it will have the effect of refreshing the Company's ability, to the extent of the CS Options, to issue further capital during the next 12 months pursuant to Listing Rule 7.1 without the need to obtain further Shareholder approval (subject to the Listing Rules and the Corporations Act). If Resolutions 1 and 2 are not passed, the CS Options will not be capable of Physical Settlement and will only be subject to Cash Settlement and as such, will not be counted toward the 15% limit pursuant to Listing Rule 7.1.

For the purposes of Listing Rule 7.5 the Company advises as follows in respect of the CS Options:

- 1) 61,728,395 options with a Strike Price of \$0.08125 per CS Option were issued to Credit Suisse AG, Sydney branch for nil cash consideration as the CS Options were issued as an incentive for Credit Suisse offering the Loan;
- 2) if Resolutions 1 and 2 are passed and Physical Settlement is available, these options may be converted into Shares on a 1 for 1 basis resulting in a maximum of 61,728,395 Shares being issued on exercise of all CS Options. If Resolutions 1 and 2 are not passed and Physical Settlement is not available, the CS Options will not be able to be exercised into Shares;

- 3) any amounts raised by the Company on Physical Settlement of the CS Options are currently proposed to be applied for the further development of the Company's assets and business and general working capital requirements;
- 4) the date of issue of the CS Options was 15 November 2012; and
- 5) upon exercise of the CS Options via Physical Settlement, the underlying Shares issued shall rank pari passu with existing Shares on issue.

## **Resolution 2 (Special Resolution) – Approval of provision of financial assistance**

### **Part 2J.3 of the Corporations Act – Provision of Financial Assistance**

Section 260A(1) of the Corporations Act provides that a company may only financially assist a person to acquire shares (or units of shares) in that company or the holding company of that company if the giving of the financial assistance:

- 1) does not materially prejudice the interests of the company or its shareholders, or the company's ability to pay its creditors; or
- 2) is approved by a special resolution at a general meeting of the company (with no votes being cast in favour of the resolution by a person acquiring the shares, or units of shares, or by their Associates) or by a resolution agreed to at a general meeting by all of the shareholders; or
- 3) is exempted under the Corporations Act.

Section 260A(3) states that the acquisition of share (or units of shares) includes the company issuing shares to a person.

As stated above, the Company has issued Credit Suisse with the CS Options and is seeking Shareholder under Part 2J.3 to permit the Company and any of its Subsidiaries giving financial assistance in respect to the issue of CS Options (which are capable of Physical Settlement) and the issue of Shares upon Physical Settlement of the CS Options pursuant to Part 2J.3 of the Corporations Act. If Resolutions 1 and 2 are not passed, the CS Options will not be capable of Physical Settlement and as such, no financial assistance issues will arise.

What constitutes providing 'financially assistance' to a person to acquire shares in a company is not defined in the Corporations Act. However the Corporations Act clarifies that financial assistance may be given before or after the acquisition of shares and may take the form of paying a dividend. Case authority indicates that the phrase 'financial assistance' does not have a technical meaning and must be determined by reference to the language of ordinary commerce. Given there is no legislative guidance to the contrary, it has been suggested that the term 'financial assistance' is intended to be given a wide meaning.

As noted in the table above:

1. the Company and its Subsidiaries have granted various securities in favour of Credit Suisse to secure the obligations of, and any payment of money by, the Company pursuant to the Loan Documents (including under the Option Deed and CS Options), which include a general security agreement provided by the Company and each of the Subsidiaries over all their assets (excluding certain UCG technology intellectual property rights and other specified property); and
2. the Subsidiaries have provided guarantees and indemnities for the performance of obligations, and repayment of money that may become owing, under the Loan Agreement and related documents (including the Option Deed and CS Options),

(together the **CS Security**).

If a broad interpretation of what may constitute 'financial assistance' is taken, it is possible that the various actions of the Company and the Subsidiaries as set out above, including the CS Security, may be considered to be the giving of financial assistance to Credit Suisse in respect of the acquisition of the CS Options and Shares (in the event that the CS Options are capable of Physical Settlement and are subsequently exercised). Accordingly, the Company believes it is prudent to obtain the approval of Shareholders pursuant to section 260A of the Corporations Act to the extent that any financial assistance is provided by the Company or any Subsidiary in respect of the acquisition of the CS Options (which are capable of Physical Settlement) and Shares on exercise of the CS Options arising from the Loan and associated transactions, including as a result of the CS Security.

The Company provides the following information to Shareholders to enable Shareholders to consider the proposed financial assistance and, if thought fit, approve the financial assistance for the purposes of Part 2J.3 of the Corporations Act.

**(a) Effects of financial assistance**

Set out below are details of the potential adverse effects on the Company and the Subsidiaries in entering the Loan Documents and providing the CS Security:

1. if, as a result of the Company failing to perform its obligations under the Loan Documents (including paying amounts due), Credit Suisse seeks to enforce the CS Security and other Loan Documents, this may have an adverse effect on the position of the Company and its Subsidiaries;
2. as a result of the CS Security granted, if the Company or the Subsidiaries were to be subject to a winding up, Credit Suisse would rank ahead of the members of the Company and the Subsidiaries with respect to any amounts payable in connection with the Loan Documents; and
3. as a result of the existence of the CS Security, the ability of the Company and the Subsidiaries to borrow money during the term of the loan may be adversely effected if financiers are deterred by the existence of the CS Security from making finance available.

The Board has considered the Company's financial position and cash flow projections and does not consider that the Company will have any cause to default on any of its obligations under the Loan Documents that may cause the CS Security and other Loan Documents to be enforced against the Company or any of its Subsidiaries.

Further, the Board considers that the Company may benefit from being able to issue Shares on Physical Settlement of the CS Options (which requires the Strike Price to be paid to the Company) because it will present the Company with greater cash flow flexibility as compared with cash settling the CS Options. The Company notes that in the event of Physical Settlement of the CS Options, this would result in the issue of Shares which will have a dilutionary effect on other Shareholders.

Additionally, as noted in the Company's announcement on 16 November 2012, where the CS Options have been exercised and the existing Pacific Road Convertible Note is converted into Shares, Pacific Road Capital has the right to be issued with additional Shares on the terms provided in the Pacific Road Convertible Note (which would further dilute existing Shareholders). By way of example, in the event that both of these conditions are satisfied, the Pacific Road Convertible Note is fully converted into Shares and there are no additional issues of equity in the Company on or prior to 26 July 2013, Pacific Road Capital would have the right to be issued approximately an additional 14,784,078 Shares.

Accordingly, the Board has concluded that:

- 1) the giving of any financial assistance and entry into the Loan Documents will not materially prejudice the interests of the Company, its Subsidiaries or its members; and
- 2) the giving of any financial assistance and entry into the Loan Documents is in the best interests, and for the corporate benefit, of the Company, its Subsidiaries and its members because (among other things):
  - (A) the Loan Amount is being used to assist in funding the Company's short term working capital requirements as a bridging facility in anticipation of the receipt by the Company of the cash inflows from the recently announced Shanxi Coal Transportation & Sales Group Inc. licensing fee of \$7.5 million and the Australian Tax Office, Research and Development tax incentive cash rebate amounting to \$6.9 million. Although the Research and Development tax incentive cash rebate was received on 17 December 2012, the Shanxi Coal Transportation & Sales Group Inc. Licensing fee is expected to be received in the near term, however, the precise timing of the cash inflows remain uncertain; and
  - (B) if the CS Options are to be settled by Cash Settlement rather than Physical Settlement, the amount of cash flow available to the Company and the Subsidiaries to develop their assets and business will be reduced.



**(b) Key terms of the Loan and CS Options**

The key terms of the Loan (and associated transactions) and the CS Options are set out above.

**(c) Additional information**

In accordance with section 260B of the Corporations Act, the Company will not count any votes cast by Credit Suisse and its associates in favour of Resolution 2.

The Directors believe that the Notice and this Explanatory Statement contain all of the information that known to the Company that is material to the decision on how to vote on Resolution 2.

**(d) Recommendation of Directors**

Accordingly, the Directors recommend that the Shareholders vote in favour of this Resolution 2.

The Directors note that if Resolutions 1 and 2 are not passed the CS Options will only be subject to Cash Settlement and if this is the case and the CS Options are exercised by the holder, the Company will need to pay the amount of the Cash Settlement to the holder of the CS Options in accordance with the terms on which the CS Options were granted will reduce the amount of cash flow available to or otherwise place cash flow constraints on the Company. Alternatively, if Physical Settlement of the Options occurs, this would result in the Company receiving the Strike Price per CS Option exercised and result in less cash flow constraints for the Company.

**Resolution 3 (Ordinary) - Ratification of issue of Options to PRCM Nominees Pty Limited and Pacific Road Holdings NV**

**Background to Resolution 3**

In November 2011 Shareholders approved the Convertible Note Facility Agreement with Pacific Road Capital (**Pacific Road Convertible Note**). The execution of the Loan agreement with Credit Suisse (as described in more detail above under Resolutions 1 and 2) triggers certain rights and obligations under the existing Pacific Road Convertible Note. This includes the issue of the Pacific Road Options (being 9,645,845 options) which were issued to PRCM Nominees Pty Limited (1,915,665 options) and Pacific Road Holdings NV (7,730,180 options) on 15 November 2012 on the same terms as the CS Options (subject to Physical Settlement only and that the exercise of the Pacific Road Options is conditional on the prior exercise of the CS Options into Shares on a proportionate basis). Additionally, Pacific Road Capital has the right to be issued with additional Shares under conditions where the CS Options have been exercised and the Pacific Road Convertible Note is converted into Shares, on the terms provided in the Pacific Road Convertible Note. In the

event that both of these conditions are satisfied, the CS Options are fully exercised by Physical Settlement, the Pacific Road Convertible Note is fully converted into Shares and

there are no additional issues of equity on or prior to 26 July 2013, Pacific Road Capital would have the right to be issued an additional 14,7894,078 Shares.

The Pacific Road Options are issued on the same terms as the CS Options, subject to only Physical Settlement being available (that is there is no ability for Cash Settlement of the Pacific Road Options) and exercise of the Pacific Road Options being subject to Credit Suisse exercising a proportionate number of CS Options. Further details regarding the terms of the Pacific Road Options are set out in Schedule 2.

The Company is now seeking to ratify the issue of the Pacific Road Options.

#### **Listing Rule 7.4**

In accordance with Listing Rule 7.4, Shareholder approval is sought to ratify the issue of the Pacific Road Options being issues of securities made by the Company during the previous 12 months for which shareholder approval has not already been obtained.

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

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

If Resolution 3 is approved it will have the effect of refreshing the Company's ability, to the extent of the Pacific Road Options, to issue further capital during the next 12 months pursuant to Listing Rule 7.1 without the need to obtain further Shareholder approval (subject to the Listing Rules and the Corporations Act). If Resolutions 1 and 2 are passed, but Resolution 2 is not passed, the Pacific Road Options will be counted toward the 15% limit pursuant to Listing Rule 7.1 for a period of 12 months from the date of issue. If Resolutions 1 and 2 are not passed, the CS Options will not be capable of Physical Settlement and as such, Pacific Road Options will not be able to be exercised into Shares and the Pacific Road Options will not be counted toward the 15% limit pursuant to Listing Rule 7.1.

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

- 1) For the purposes of the Pacific Road Options:
  - a. A total of 9,645,845 Options with a Strike Price of \$0.081 per Pacific Road Option were issued for nil cash consideration as they were issued under the terms of the Pacific Road Convertible Note of which 1,915,665 options were

issued to PRCM Nominees Pty Limited and 7,730,180 options were issued to Pacific Road Holdings NV;

- b. if Resolutions 1 and 2 are passed (and Physical Settlement of the CS Options is approved) the Pacific Road Options may be converted into Shares on a 1 for 1 basis resulting in a maximum of 9,645,845 Shares being issued, subject to the CS Options being exercised via Physical Settlement on a proportionate basis. If Resolutions 1 and 2 are not passed, the CS Options will not be capable of Physical Settlement and as such, Pacific Road Options will not be able to be exercised into Shares. Likewise, if the CS Options are not exercised via Physical Settlement prior to their expiry, the Pacific Road Options will not be able to be exercised;
- c. any amounts raised by the Company on exercise of the Pacific Road Options are currently proposed to be applied for the further development of the Company's assets and business and general working capital requirements;
- d. the date of issue of the Pacific Road Options was 15 November 2012; and
- e. Upon exercise of the Pacific Road Options, the underlying Shares shall rank pari passu with existing Shares on issue.

**Recommendation of Directors:**

The Directors recommend that the Shareholders vote in favour of this Resolution 3.



## Interpretation

**ASX** means the ASX Limited ABN 98 008 624 691;

**Board** means the board of directors of the Company;

**Cash Settlement** means the exercise of the CS Options by way of cash settlement which requires the Company to pay to the CS Option holder an amount equal to the 5 day VWAP of Shares prior to the issue of an exercise notice less the Strike Price (\$0.081) per CS Option exercised;

**Company** means Carbon Energy Limited ABN 56 057 552 137;

**Convertible Note Facility Agreement** or **Pacific Road Convertible Note** means the Convertible Note Facility Agreement between the Company and Pacific Road Capital dated 22 December 2011 (as varied);

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

**CS Options** means the 61,728,395 options in the Company issued to Credit Suisse AG, Sydney Branch (**Credit Suisse**), on the terms and conditions set out in the Option Deed;

**Directors** mean directors of the Company;

**Explanatory Memorandum** means this explanatory memorandum accompanying the Notice of Meeting;

**Guarantors** means Carbon Energy Holdings Pty Ltd ACN 120 429 209, Carbon Energy (Galilee) Pty Ltd ACN 141 880 757, Coronation Drive (Energy) Pty Ltd ACN 141 880 775, Carbon Energy (Operations) Pty Ltd ACN 105 176 967 and Carbon Energy (Latin America) Pty Ltd ACN 150 798 324;

**Listing Rules** means the official listing rules of the ASX as amended from time to time;

**Loan Agreement** means the Syndicated Loan Agreement between the Company, the Guarantors, Credit Suisse AG, Sydney Branch and Credit Suisse AG, Singapore Branch dated 15 November 2012;

**Loan Documents** means each of the Loan Agreement, the Option Deed, the CS Options, the general security agreement between the Company, the Guarantors and Credit Suisse AG, Singapore Branch and related documents;

**Meeting** or **Extraordinary General Meeting** or **EGM** means the Extraordinary General Meeting of Shareholders to be held at Clayton Utz, Level 28 Riparian Plaza, 71 Eagle Street, Brisbane, Queensland, 4000 on Wednesday 6 February 2013 at 11.00am (Brisbane time).

**Notice of Meeting** or **Notice** means the notice of meeting convening the Meeting and the Explanatory Memorandum;

**Option Deed** means the option deed between the Company and Credit Suisse AG, Sydney Branch dated 15 November 2012 which provides for the issue of the CS Options;

**Ordinary Resolution** means a resolution passed by more than 50% of the votes cast at a general meeting of shareholders;

**Pacific Road Capital** means Pacific Road Capital Management Pty Ltd ACN 117 934 586;

**Pacific Road Options** means 9,645,845 options in the Company issued to PRCM Nominees Pty Limited (1,915,665 options) and Pacific Road Holdings NV (7,730,180 options), on the terms and conditions set out in the Convertible Note Facility Agreement and the Explanatory Memorandum accompanying this Notice;

**Physical Settlement** means the exercise of the CS Options by way of physical settlement which requires the CS Option holder to pay to the Company the Strike Price (\$0.081) per CS Option in exchange for which it will be issued one Share per exercised CS Option (such Shares ranking pari passu with all other Shares on issue). Physical Settlement is subject to Resolutions 1 and 2 being passed;

**Resolution** means a resolution to be proposed at the Meeting;

**Securities** has the meaning given to that term in the Listing Rules;

**Shares** means fully paid ordinary shares in the Company;

**Shareholder** means a holder of Shares in the Company;

**Special Resolution** means a resolution:

- 1) of which notice has been given as set out in paragraph 249L(1)(c) of the Corporations Act; and
- 2) that has been passed by at least 75% of the votes cast by members entitled to vote on the resolutions.

**Subsidiary** means each wholly-owned subsidiary of the Company;

**VWAP** means volume weighted average price.

## SCHEDULE 1

### CS Option Terms

Set out below is a summary of the key terms of the CS Options:

1. The following definitions apply:

**Cash Settlement** means, in relation to an Option, the settlement method set out in clause 8 below.

**Cash Settlement Amount** means, in relation to a CS Option, the greater of:

- a) the Exercise Price less the Strike Price; and
- b) zero.

**Cash Settlement Payment Date** means, in relation a CS Option:

- a) if the Conditions Precedent in clause 2 are not satisfied at the time of issue of the applicable Exercise Notice, the date being 2 Business Days after the applicable Exercise Notice has been received by the Company; or
- b) in any other case, 7 Business Days after the applicable Exercise Notice has been received by the Company.

**Exercise Period** means, in relation to a CS Option, the period commencing on (and including) the date of issue of the CS Option and ending at 5.00 pm (Sydney time) on the Expiry Date.

**Exercise Price** means, in respect of a CS Option, the 5 day volume weighted average trading price of Shares on the ASX ending on the day immediately before the date of an Exercise Notice in respect of that CS Option as noted on the Bloomberg page CNX AU Equity VAP or, if that data is not available from that source, another appropriate information source as determined by the Credit Suisse.

**Expiry Date** means:

- a) if all of the Amount Owing (as defined in the Loan Documents) is repaid or prepaid in full prior to the date being 6 months after the Utilisation Date (as defined in the Loan Documents, being 16 May 2013), twenty four (24) months after commencement of the Exercise Period (being 15 November 2014); and
- b) otherwise, thirty six (36) months after commencement of the Exercise Period (being 15 November 2015).

**Physical Settlement** means, in relation to an Option, the settlement method set out in clause 9 below.

2. The Physical Settlement of the CS Options is subject to satisfaction of the following conditions precedents:
  - a) the Shareholders of the Company must pass a resolution to approve the CS Options being issued by the Company, and Shares being issued on the exercise of those Options, to Credit Suisse in accordance with the requirements of its Constitution and the requirements of rules 7.1 or 7.4 of the ASX Listing Rules; and
  - b) the Shareholders of the Company and each of the Guarantors must pass a resolution approving financial assistance by the Company and each Guarantor being given to Credit Suisse to acquire the CS Options and the Shares to be issued on the exercise of those CS Options in accordance with the requirements of Part 2J.3 of the Corporations Act and 14 days must pass after the Company and each of the Guarantors lodges with ASIC a notice relating to the approval in accordance with section 260B(6) of the Corporations Act,

**(Conditions Precedents)**

3. The Conditions Precedents must be satisfied within 3 months and 14 days after the issue of the CS Options otherwise the CS Options will not be capable of Physical Settlement.
4. Each CS Option entitles its holder, subject to these terms and conditions, upon exercise to:
  - a) under a Cash Settlement, receive the Cash Settlement Amount; or
  - b) subject to the Conditions Precedent being satisfied, under a Physical Settlement, subscribe for and be issued one Share upon the payment to the Company of the Strike Price.
5. The CS Options may be exercised at any time wholly or in part (subject to clause 6 below) by delivering a duly completed form of notice of exercise (**Exercise Notice**). Upon receipt of an Exercise Notice the Company must notify the holder within 5 Business Days, in its sole discretion, whether the relevant CS Options will be subject to Cash Settlement or, subject to satisfaction of the Conditions Precedent, Physical Settlement. If the Company does not provide such notice to the holder within the required time, the CS Options will be subject to Cash Settlement.
6. The number of CS Options that may be exercised at one time must be at least the lower of 100,000 CS Options or the entire number of Options that are registered in the name of the holder;

7. To the extent Physical Settlement of any CS Option which is the subject of an Exercise Notice would cause the holder or the Company to contravene any law or regulation, including under Chapter 6 of the Corporations Act, the relevant CS Option will be subject to Cash Settlement, subject to:
  - a) in the event that Physical Settlement of any CS Option which is the subject of an Exercise Notice would cause the holder or the Company to contravene Chapter 6 of the Corporations Act where the holder of the CS Options has acquired a relevant interest in Shares other than pursuant to exercise of the CS Options, at the election of the Company, the Company (in consultation with the holder of the Option) may convene and hold a meeting of its Shareholders to approve the Physical Settlement of the relevant Options for the purposes of Item 7 of section 611 of the Corporations Act. If the Company has elected to seek shareholder approval and such approval is not obtained within 6 months of receipt of the relevant Exercise Notice, the relevant CS Options will be subject to Cash Settlement; and
  - b) in the event that Physical Settlement of any CS Option which is the subject of an Exercise Notice would cause the holder or the Company to contravene the *Foreign Acquisitions and Takeovers Act 1975* (Cth) (**FATA**), the holder of the Options must, within 10 Business Days of issuing the Exercise Notice, give the Treasurer of Australia a notice under section 26A (or where applicable, sections 25 or 26) of FATA relating to the Physical Settlement. If the Treasurer advises Credit Suisse that the Commonwealth Government has an objection to Physical Settlement of the relevant CS Options which is not resolved within the period in which the Treasurer is empowered to make orders under Part II of FATA, the relevant CS Options will be subject to Cash Settlement.
8. If Cash Settlement applies to a CS Option, the Company must pay the full amount of the Cash Settlement Amount for each CS Option in cash or cleared funds on the applicable Cash Settlement Payment Date.
9. If Physical Settlement applies to a CS Options, the holder must pay the Strike Price per CS Option for each CS Option exercised to the Company in cash or cleared funds within 5 Business Days after receiving notice from the Company of its chosen settlement method. Within 3 Business Days after receipt of the Strike Price, the Company must issue to the holder the number of Shares for which the Options are exercised at the Strike Price which Shares will rank pari passu with the then issued ordinary shares of the Company and will be held subject to the constitution of the Company.
10. The CS Options will not be quoted on any stock exchange, however, if the Shares are quoted on ASX at the time of exercise of the CS Options, the Company must make an application to ASX for the number of Shares issued upon exercise of CS Options on Physical Settlement within 10 Business Days after the issue of those Shares.
11. A holder cannot participate in a new issue of securities in the Company or dividends unless the CS Options are exercised via Physical Settlement and the resultant Shares are issued prior to the record date to determine entitlements in respect of the new issue of securities or dividends.

12. If there is a Bonus Issue (as defined in the ASX Listing Rules) to the holders of Shares in the Company, then:

- a) subject to the Conditions Precedent being satisfied, under a Physical Settlement, the number of Shares over which each CS Option is exercisable will be increased by the number of Shares which the holder would have received under the Bonus Issue if each CS Option had been exercised before the record date for the Bonus Issue; and
- b) under a Cash Settlement, the Cash Settlement Amount will be increased by multiplying the Cash Settlement Amount by the increased number of Shares that would be allotted to a holder under clause 12a) if the relevant Options were subject to Physical Settlement.

13. If there is a pro rata issue (except a bonus issue) to the holders of Shares, the Strike Price of a CS Option shall be reduced according to the following formula:

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

Where:

- $O^1$  = the new Strike Price of the CS Option;
- $O$  = the old Strike Price of the CS Option;
- $E$  = the number of Shares into which one CS Option is exercisable;
- $P$  = the value of a Share at the time the pro-rata rights issue is made as determined by an accountant independent of the Company, or if the Shares are listed on the ASX, the average closing trading price per Share (weighted by reference to volume) during the five (5) trading days ending on the day immediately before the relevant record date for that pro-rata Issue;
- $S$  = the subscription price for a Share under the pro rata issue;
- $D$  = dividend due but not yet paid on the existing Shares (except those to be issued under the pro rata issue);
- $N$  = the number of Shares with rights or entitlements that must be held to receive a right to one new Share.

14. Subject to clause 15:

- a) if the Company consolidates its Shares, the number of CS Options shall be consolidated in the same ratio as the Shares and the Strike Price shall be amended in the inverse proportion to that ratio;
- b) if the Company subdivides its Shares, the number of CS Options shall be subdivided in the same ratio as the Shares and the Strike Price must be amended in inverse proportion to that ratio;



- c) if the Company returns any capital to the holders of Shares in cash or in kind (including any cash dividend, any distribution pursuant to a reduction or buy-back of share capital or any in specie distribution of the cash assets of the Company or otherwise), the number of CS Options must remain the same, and the Strike Price must be reduced by the same amount as the amount returned in relation to each Share;
  - d) if the Company reduces its capital by a cancellation of paid up capital that is lost or not represented by available assets and there is no cancellation of Shares, the number of CS Options and the Strike Price must remain unaltered;
  - e) if the Company cancels Shares on a pro rata basis, the number of CS Options shall be reduced in the same ratio as the Shares and the Strike Price of each CS Option shall be amended in inverse proportion to that ratio; and
  - f) in the event of any other reconstruction of the issued capital of the Company, the number of CS Options or the Strike Price, or both, must be reorganised so that the holder does not receive a benefit that holders of Shares will not receive.
15. In the event of any reorganisation including subdivision, consolidation, reduction, return or cancellation of the issued capital of the Company on or prior to the Expiry Date, the rights of a holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules governing reorganisations in force at the time of the reorganisation:
- a) but with the intention that such reconstruction will not result in any benefits being conferred on the holder which are not conferred on holders of Shares; 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 CS Options will remain unchanged.
16. Subject to the ASX Listing Rules:
- a) the terms of the CS Options shall only be changed if holders (whose votes are not to be disregarded) of Shares approve of such a change; and
  - b) the terms of the CS Options shall not be changed to reduce the Exercise Price, increase the number of CS Options or change any period for exercise of the CS Options (except as provided in these terms and conditions).
17. Subject to the Constitution of the Company, the ASX Listing Rules, ASTC Settlement Rules, all CS Options are transferrable to the extent permitted by the Loan Documents.

## SCHEDULE 2

### Pacific Road Option Terms

Set out below is a summary of the key terms of the Pacific Road Options:

1. The following definitions apply:

**Exercise Period** means, in relation to a Pacific Road Option, the period commencing on (and including) the date of issue of the Pacific Road Option and ending at 5.00 pm (Sydney time) on the Expiry Date.

**Expiry Date** means:

- a) if all of the Amount Owing (as defined in the Loan Documents) is repaid or prepaid in full prior to the date being 6 months after the Utilisation Date (as defined in the Loan Documents, being 16 May 2013), twenty four (24) months after commencement of the Exercise Period (being 15 November 2014); and
- b) otherwise, thirty six (36) months after commencement of the Exercise Period (being 15 November 2015).

**Physical Settlement** means Physical Settlement of the CS Options as provided for in the terms and conditions of the CS Options.

**Strike Price** means \$0.081 per Pacific Road Option.

2. The exercise of the Pacific Road Options is subject to satisfaction of the Conditions Precedents to Physical Settlement of the CS Options being satisfied within 3 months and 14 days after the issue of the CS Options otherwise the Pacific Road Options will not be capable of exercise.
3. Each Pacific Road Option entitles its holder, subject to these terms and conditions, upon exercise to subscribe for and be issued one Share upon the payment to the Company of the Strike Price.
4. Subject to the Company's constitution, ASX Listing Rules and ASTC Settlement Rules, the Pacific Road Options will be transferable in whole or in part to:
  - a) an entity:
    - who is managed or advised by the Pacific Road entity who was issued the relevant Option, or a related body corporate (as defined in the Pacific Road Convertible Note) of that entity; or
    - with the prior written consent of the Company, such consent not be unreasonably withheld; and
  - b) a person to whom the Option may be transferred lawfully and without disclosure under Part 6D.2 of the Corporations Act or any equivalent disclosure under any law of any foreign jurisdiction.

5. The Pacific Road Options may be exercised at any time wholly or in part (subject to clause 6 below) by delivering a duly completed form of notice of exercise (**Exercise Notice**).
6. The holder will only be entitled to exercise any of the Pacific Road Options and issue an Exercise Notice where:
  - a) the holder of the CS Options has exercised the CS Options by Physical Settlement; and
  - b) any such Exercise Notice shall only be in respect of the same proportion of Pacific Road Options as the proportion of CS Options exercised by Physical Settlement.
7. The holder must pay the Strike Price per Pacific Road Option for each Pacific Road Option exercised to the Company in cash or cleared funds within 5 Business Days of issuing an Exercise Notice. Within 3 Business Days after receipt of the Strike Price, the Company must issue to the holder the number of Shares for which the Pacific Road Options are exercised at the Strike Price which Shares will rank pari passu with the then issued ordinary shares of the Company and will be held subject to the constitution of the Company.
8. The Pacific Road Options will not be quoted on any stock exchange, however, if the Shares are quoted on ASX at the time of exercise of the Pacific Road Options, the Company must make an application to ASX for the number of Shares issued upon exercise of Pacific Road Options within 10 Business Days after the issue of those Shares.
9. A holder cannot participate in a new issue of securities in the Company or dividends unless the Pacific Road Options are exercised and the resultant Shares are issued prior to the record date to determine entitlements in respect of the new issue of securities or dividends.
10. If there is a Bonus Issue (as defined in the ASX Listing Rules) to the holders of Shares in the Company, then the number of Shares over which each Pacific Road Option is exercisable will be increased by the number of Shares which the holder would have received under the Bonus Issue if each CS Option had been exercised before the record date for the Bonus Issue.
11. If there is a pro rata issue (except a bonus issue) to the holders of Shares, the Strike Price of a Pacific Road Option shall be reduced according to the following formula:

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

Where:

- |                |   |                                                                         |
|----------------|---|-------------------------------------------------------------------------|
| O <sup>1</sup> | = | the new Strike Price of the Pacific Road Option;                        |
| O              | = | the old Strike Price of the Pacific Road Option;                        |
| E              | = | the number of Shares into which one Pacific Road Option is exercisable; |

- P = the value of a Share at the time the pro-rata rights issue is made as determined by an accountant independent of the Company, or if the Shares are listed on the ASX, the average closing trading price per Share (weighted by reference to volume) during the five (5) trading days ending on the day immediately before the relevant record date for that pro-rata Issue;
- S = the subscription price for a Share under the pro rata issue;
- D = dividend due but not yet paid on the existing Shares (except those to be issued under the pro rata issue);
- N = the number of Shares with rights or entitlements that must be held to receive a right to one new Share.

12. Subject to clause 13:

- a) if the Company consolidates its Shares, the number of Pacific Road Options shall be consolidated in the same ratio as the Shares and the Strike Price shall be amended in the inverse proportion to that ratio;
- b) if the Company subdivides its Shares, the number of Pacific Road Options shall be subdivided in the same ratio as the Shares and the Strike Price must be amended in inverse proportion to that ratio;
- c) if the Company returns any capital to the holders of Shares in cash or in kind (including any cash dividend, any distribution pursuant to a reduction or buy-back of share capital or any in specie distribution of the cash assets of the Company or otherwise), the number of Pacific Road Options must remain the same, and the Strike Price must be reduced by the same amount as the amount returned in relation to each Share;
- d) if the Company reduces its capital by a cancellation of paid up capital that is lost or not represented by available assets and there is no cancellation of Shares, the number of Pacific Road Options and the Strike Price must remain unaltered;
- e) if the Company cancels Shares on a pro rata basis, the number of Pacific Road Options shall be reduced in the same ratio as the Shares and the Strike Price of each Pacific Road Option shall be amended in inverse proportion to that ratio; and
- f) in the event of any other reconstruction of the issued capital of the Company, the number of Pacific Road Options or the Strike Price, or both, must be reorganised so that the holder does not receive a benefit that holders of Shares will not receive.

13. In the event of any reorganisation including subdivision, consolidation, reduction, return or cancellation of the issued capital of the Company on or prior to the Expiry Date, the rights of a holder will be changed to the extent necessary to comply with

the applicable ASX Listing Rules governing reorganisations in force at the time of the reorganisation:

- a) but with the intention that such reconstruction will not result in any benefits being conferred on the holder which are not conferred on holders of Shares; 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 CS Options will remain unchanged.

14. Subject to the ASX Listing Rules:

- a) the terms of the Pacific Road Options shall only be changed if holders (whose votes are not to be disregarded) of Shares approve of such a change; and
- b) the terms of the Pacific Road Options shall not be changed to reduce the Exercise Price, increase the number of Pacific Road Options or change any period for exercise of the Pacific Road Options (except as provided in these terms and conditions).

## Proxies and representatives

Shareholders are entitled to appoint a proxy to attend and vote on their behalf. Where a shareholder is entitled to cast two or more votes at the meeting, they may appoint two proxies. Where more than one proxy is appointed, each proxy may be appointed to represent a specific proportion or number of votes the shareholder may exercise. If the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes. The proxy may, but need not, be a shareholder of the Company.

Shareholders who are a body corporate are able to appoint representatives to attend and vote at the meeting under Section 250D of the Corporations Act 2001 (Cth).

The proxy form must be signed by the shareholder or his/her attorney duly authorised in writing or, if the shareholder is a corporation, in a manner permitted by the Corporations Act.

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be **deposited at, posted to, or sent by facsimile transmission to the Share Registry at the address listed below** not less than 48 hours before the time for holding the meeting, or adjourned meeting as the case may be, at which the individual named in the proxy form proposes to vote.

LINK MARKET SERVICES LIMITED

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

Tel: (02) 8280 7454

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the Company's share registry.

A proxy form is attached to this Notice.

## Voting entitlement

For the purposes of determining voting entitlements at the Meeting, shares will be taken to be held by the persons who are registered as holding the shares at 7pm on 4 February 2013. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

## Signing instructions

You must sign the proxy form as follows in the spaces provided:

**Individual:** Where the holding is in one name, the holder must sign.

**Joint Holding:** Where the holding is in more than one name, any security holder may sign.



**Power of Attorney:** To sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone.

Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary.

Please indicate the office held by signing in the appropriate place.



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



**By fax:** +61 2 9287 0309



**All enquiries to:** Telephone: 1300 554 474



**X99999999999**

## SHAREHOLDER VOTING FORM

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

### STEP 1

#### APPOINT A PROXY

☐

**the Chairman  
of the Meeting  
(mark box)**

**OR** if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy and to vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company to be held at **11:00am on Wednesday, 6 February 2013, at Clayton Utz, Level 28, Riparian Plaza 71 Eagle Street, Brisbane QLD 4000 Australia** and at any adjournment or postponement of the meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting. Please read the voting instructions overleaf before marking any boxes with an **X**

### STEP 2

#### VOTING DIRECTIONS

|                                                                                                                   | For                      | Against                  | Abstain*                 |
|-------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|--------------------------|
| <b>Resolution 1</b><br>Ratification of issue of Options to Credit Suisse                                          | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>Resolution 2</b><br>Approval of provision of Financial Assistance                                              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>Resolution 3</b><br>Ratification of issue of Options to PRCM Nominees Pty Limited and Pacific Road Holdings NV | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

**i** \* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

### STEP 3

#### SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Shareholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Shareholder 3 (Individual)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

**CNX PRX201**



## HOW TO COMPLETE THIS PROXY FORM

### Your Name and Address

This is your name and address as it appears on the company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

### Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the company. A proxy may be an individual or a body corporate.

### Votes on Items of Business - Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

### Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- return both forms together.

### Signing Instructions

You must sign this form as follows in the spaces provided:

**Individual:** where the holding is in one name, the holder must sign.

**Joint Holding:** where the holding is in more than one name, either shareholder may sign.

**Power of Attorney:** to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

### Corporate Representatives

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the company's share registry.

## Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **11:00am on Monday, 4 February 2013**, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy Forms may be lodged using the reply paid envelope or:



**ONLINE**

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Login to the Link website using the holding details as shown on the proxy form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the proxy form).



**by mail:**

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



**by fax:**

+61 2 9287 0309



**by hand:**

delivering it to Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138 or Level 12, 680 George Street, Sydney NSW 2000.

If you would like to attend and vote at the Extraordinary General Meeting, please bring this form with you.  
This will assist in registering your attendance.