



carbonenergy

Carbon Energy Limited | ABN 56 057 552 137

ASX Announcement

13 November 2013

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Carbon Energy Limited

ABN 56 057 552 137

Carbon Energy (Operations) Pty Ltd

ABN 61 105 176 967

Non renounceable Rights Issue Despatch of Shortfall Prospectus

Carbon Energy Limited ACN 057 552 137 (Carbon Energy or Company ASX: CNX, OTCQX: CNXAY) would like to advise that a prospectus for the offer of the remaining Rights Issue Shortfall has today been lodged with ASIC (**Shortfall Prospectus**) and will be despatched to selected investors in conjunction with Patersons Securities Limited as lead manager for the Rights Issue. The Offer pursuant to the Shortfall Prospectus is being made to selected investors and is not open to the general public.

Following the placement of 171,818,615 shares from the Rights Issue Shortfall to new cornerstone investor, Kam Lung Investment Development Company for \$3.4 million on 11 October 2013, there remains a Shortfall of 89,363,442 shares at \$0.02 per share and 89,363,442 attaching listed options exercisable at \$0.06 per share and expiring on 31 July 2016. The Company is seeking to place the remaining Shortfall during the offer period which closes on 19 November 2013.

The Shortfall Prospectus has also been issued to facilitate the secondary trading of certain listed options which were or are not issued pursuant to a disclosure document, so as to enable those options to be on-sold in Australia without trading restrictions, pursuant to section 708A(11) of the Corporations Act. Further details in this regard are set out in the Shortfall Prospectus.

A copy of the Shortfall Prospectus is attached to this announcement. The Prospectus may not be released into the United States.

ENDS

For and on behalf of the Board

Tracy Bragg

General Counsel & Company Secretary

**For more information please contact Jodie Springer on +61 7 3156 7712
or refer to our website at www.carbonenergy.com.au**

CARBON ENERGY LTD

PROSPECTUS



Carbon Energy Limited ACN 057 552 137 (Company)

A prospectus for the offer of the remaining Rights Issue Shortfall comprising up to 89,363,442 New Shares at an issue price of \$0.02 per New Share which if fully subscribed would raise approximately \$1,787,268, 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 Prospectus has also been issued to facilitate the secondary trading of the Placement Options so as to enable the Placement Options to be on-sold in Australia without trading restrictions, pursuant to section 708A(11) of the Corporations Act.

This Offer is not underwritten.



Lead Manager to the Offer
Paterson Securities Limited

Your Application Form must be received by the Company 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, or have any enquiries in regard 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

Important notice

This Prospectus is dated 13 November 2013 and was lodged with the ASIC on the same date. Neither 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 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 Offer is made to selected investors identified by the Company or the Lead Manager and is not open to the general public.

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. This Prospectus may not be released into the United States.

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.

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 4 for details relating to risks involved with an investment in the Company.

Definitions and Abbreviations

Defined terms and abbreviations used in this Prospectus are explained in the Glossary in section 6.

Financial Amounts

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

Prospectus

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Prospectus

1. Details of the Offer

1.1 Purpose of the Offer and Prospectus

On 25 July 2013, the Company announced 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 (exercisable at \$0.06 per share and expiring on 31 July 2016). On the same date, the Company lodged a prospectus in respect of the offer of the offer of Shares and Options to Eligible Shareholders pursuant to the Rights Issue as well as the offer to Eligible Shareholders to apply for any Rights Issue Shortfall.

In conjunction with the Rights Issue, the Company also announced that Holder East Capital Ltd had agreed to invest \$1 million in the Company through a private placement (on the same terms as the Rights Issue), subject to at least \$2 million being raised in the Rights Issue and other conditions being satisfied by 31 August 2013.

Eligible Shareholders accepted Entitlements under the Rights Issue for a total of 91,128,282 new Shares and 91,128,282 new Options (raising \$1,822,565.64) and in addition applied for a further 40,870,963 new Shares and 40,870,963 new Options (\$817,419.26). These securities were issued on 26 August 2013.

As a result of the funds raised from Eligible Shareholders, the conditions to the HEC placement were satisfied and 50,000,000 new Shares at \$0.02 per Share and 50,000,000 new Options (on the same terms as the New Options) were issued to HEC on 27 August 2013.

On 11 October 2013, the Company announced that it had secured Kam Lung Investment Development Company Limited as a cornerstone investor and that Kam Lung had agreed to subscribe for \$3.4 million of the Rights Issue Shortfall. On 15 October 2013, 171,818,615 new Shares (at \$0.02 per Share) were issued to Kam Lung and on 5 November 2013, 171,818,615 attaching Options were issued to Kam Lung.

The Company now wishes to offer the remaining Rights Issue Shortfall to selected investors and as such is issuing this Prospectus to facilitate the Offer and to enable the New Shares and New Options to be on-sold in Australia without trading restrictions.

Additionally, the Prospectus has been issued to facilitate the secondary trading of the Placement Options so as to enable the Placement Options to be on-sold in Australia without trading restrictions, for the purposes of section 708A(11) of the Corporations Act.

The issue of the Shares and Options to HEC and Kam Lung has been undertaken without disclosure to investors under Part 6D of the Corporations Act, who are considered sophisticated investors for the purposes of the Corporations Act.

Generally, section 707(3) of the Corporations Act requires that a prospectus is issued in order for a person to whom securities were issued without disclosure under Part 6D of the Corporations Act to on-sell those securities within 12 months of the date of their issue.

Section 708A(11) of the Corporations Act provides an exemption from this general requirement where:

- (a) the relevant securities are in a class of securities of the company that are already quoted on ASX;
- (b) a prospectus is lodged with ASIC either:
 - (1) on or after the day on which the relevant securities were issued; or

Prospectus

- (2) before the day on which the relevant securities are issued and offers of securities that have been made under the prospectus are still open for acceptance on the day on which the relevant securities were issued; and
- (c) the prospectus is for an offer of securities issued by the company that are in the same class of securities as the relevant securities.

Accordingly, an additional purpose of this Prospectus is to comply with section 708A(11) of the Corporations Act so that HEC and Kam Lung, if they choose to, can sell the Placement Options within the next twelve months without the issue of a prospectus. The issue of the Placement Options has not being undertaken by the Company with the purpose of HEC or Kam Lung selling or transferring the Placement Options. However, the Directors consider that HEC and Kam Lung should be able to sell the Placement Options should they wish to do so, without being required to issue a prospectus, as is the case for any Eligible Shareholders who acquired new Options pursuant to the Rights Issue and any investor who receives New Options pursuant to this Prospectus.

1.2 The Offer

This Prospectus is for the offer of 89,363,442 New Shares at an issue price of \$0.02 per New Share which if fully subscribed would raise approximately \$1,787,268, 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 on the same terms as the offer made pursuant to the Rights Issue.

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

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 Application Monies (without interest) within 28 days of giving notice of such withdrawal.

1.3 Important dates

Announcement of Offer	13 November 2013
Lodgement of Prospectus with ASIC and ASX	13 November 2013
Opening Date of Offer (9am Brisbane time)	13 November 2013
Closing Date of Offer (5pm Brisbane time)	19 November 2013
Expected date of allotment	20 November 2013
Commencement of trading of New Securities on ASX	21 November 2013
Despatch of Transaction Confirmation Statements for New Securities	21 November 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.

1.4 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 5.3.

1.5 New Option Terms

A summary of the rights attaching to the New Options is set out in section 5.4.

Prospectus

1.6 Use of Funds

The Directors intend to apply the proceeds from the Rights Issue and placement of the Shortfall (which includes 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;
- 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 (which was fully repaid on 8 October 2013);
- 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
- costs of the Rights Issue and placement of the Shortfall (including in respect of this Offer).

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 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 (which occurred during July and August 2013); and
- reassessing minimum facility and resourcing requirements for the Company's Bloodwood Creek UCG operations in preparing for the commencement of rehabilitation (with changes to the corporate structure implemented in September and November 2013).

These cost reduction initiatives have received the full support of the Board as demonstrated by 50% of directors' fees for the independent directors being foregone and all directors' fees for remaining non-executive Directors for the period from 1 June 2013 to 30 September 2013 being foregone.

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 Rights Issue and placement of the Shortfall (including funds from the Offer and assuming that the Offer is fully subscribed), that the Company intends to spend, in respect of the costs of the Capital Raising, on working capital and for other purposes.

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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%
Costs of the Capital Raising*	\$0.4	5.13%
Working Capital (including working capital necessary to deliver the services for the Inner Mongolia Project)	\$2.4	30.77%
Total	\$7.8	100%

includes an estimate of the commission that may be payable to the Lead Manager, the details of which are outlined in section 5.5.

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 Offer not be fully subscribed, then with the exception of the Credit Suisse loan facility repayment (which was repaid in full on 8 October 2013), expenditure in each category is expected to reduce on a proportionate basis to maintain a similar percentage allocation.

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.

An additional \$1,000,000 was raised pursuant to the HEC placement which completed on 27 August 2013. These funds 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.

1.7 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 5.5.

1.8 Dilution of Shareholder's Interests

The Offer is not underwritten.

The issue of New Securities under the Offer will have a dilutive effect on existing Shareholders. It is noted that the issue of New Securities represents the remaining Rights Issue Shortfall which arose from Eligible Shareholders not accepting their Entitlements in full pursuant to the Rights Issue.

Given the terms of the Offer, the interests of a Shareholder in the Company may be diluted by up to 7.2% if the Offer is fully subscribed (assuming no New Options are exercised).

The issue of New Securities under the Offer 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 New Securities under the Offer 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.

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1.9 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.

The following are some of the key risks relevant to the Company and its operations (further detail is contained in section 4):

- Government Regulation
- Counterparty Contractual Compliance Risk
- Ability to Scale Up technology and learnings to suit a commercial scale UCG operation
- Availability of ongoing market support in public markets
- Retention of Key Personnel
- Future funding

1.10 Applications for New Securities

This Prospectus is for the information of selected investors who the Company (directly or via the Lead Manager) invites to apply for the New Securities. The Offer is not being made to the general public.

Applications for New Securities can only be made by completing and lodging a paper copy of an Application Form. An Application Form may only be distributed attached to a complete and unaltered copy of this Prospectus. The Application Form included with this Prospectus contains a declaration that the investor has personally received the complete and unaltered Prospectus prior to completing the Application Form.

The Company will not accept a completed Application Form if it has reason to believe that the Applicant has not received a complete paper or electronic copy of this Prospectus or if it has reason to believe that the Application Form or electronic copy of the Prospectus has been altered or tampered with in any way.

The Offer Price of \$0.02 per New Share is payable in full on submitting an Application for New Securities.

Application Monies for the New Securities must be received by the Company by the Closing Date. Please refer to the timetable for the important dates of the Offer. Applications received after the Closing Date may not be accepted. The Company will not be responsible for postal or delivery delays.

If you elect to participate in the Offer and the Lead Manager is your broker, the Lead Manager may act as your agent in submitting your Application Form and in depositing your Application Monies into the designated account for Application Monies. If so, the Lead Manager is responsible for ensuring the availability of funds, and the Company and the Share Registry take no responsibility for any acts or omissions by the Lead Manager in connection with your Application Form and Application Monies.

If the Lead Manager does not act as your agent in submitting your Application Form and in

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depositing your Application Monies into the designated account for Application Monies, your Application Form must be accompanied by a cheque or money order in Australian dollars for the value of the New Shares applied for. Cheques or money orders should be drawn up in accordance with the instructions provided on the Application Form. Cheques should be crossed 'Not Negotiable'.

Lodgement of an Application Form constitutes an irrevocable offer by you to subscribe for New Securities on the terms and conditions as contained in the Offer and made in accordance with the provisions of the guidelines to the Application Form.

No stamp duty, brokerage or handling fees are payable by the Applicant for the New Securities offered by this Prospectus. Completed Application Forms and accompanying cheques should be forwarded to the following address (unless otherwise directed by the Lead Manager):

Carbon Energy Limited
c/- Patersons Securities Limited
Level 23
Exchange Plaza
2 The Esplanade
PERTH WA 6000

The Offer Price will not vary during the period of the Offer and no further amount is payable on allotment. Application 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 Application Monies will be retained by the Company irrespective of whether allotment takes place.

An Application for New Securities under the Offer may be accepted in full, for any lesser number or rejected by the Company. If any Application is rejected, in whole or in part, the relevant Application money will be repaid without interest.

1.11 Allotment and allocation policy

Carbon Energy will proceed to allocate New Securities (in consultation with the Lead Manager) as soon as possible after the Closing Date and receiving ASX permission for official quotation of the New Securities.

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.

1.12 ASX listing

The Company will apply to the ASX for the New Securities to be issued pursuant to this Prospectus to be listed for official quotation by the ASX, within seven days of the date of this Prospectus. If granted, quotation of the New Securities will commence as soon as practicable after allotment of the New Securities to Applicants. Official quotation of the New Securities is expected to occur on or about 21 November 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.

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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 Application Monies will be refunded without interest to Applicants within the time prescribed by the Corporations Act.

1.13 **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.

1.14 **Minimum subscription**

There is no minimum subscription to the Offer.

1.15 **Underwriting**

The Offer is not underwritten.

1.16 **Overseas 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. The Company has not made investigations as to the regulatory requirements that may prevail in the countries outside of Australia.

The distribution of this Prospectus in places outside of Australia 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.

This Prospectus may not be released into the United States.

1.17 **Electronic prospectus**

This Prospectus is available in electronic form on the Internet at www.carbonenergy.com.au. If you wish to request a free copy of this Prospectus, please contact Carbon Energy on +61 7 3156 7777 or by email at: askus@carbonenergy.com.au

Prospectus

2. Information on Carbon Energy

2.1 Summary

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.

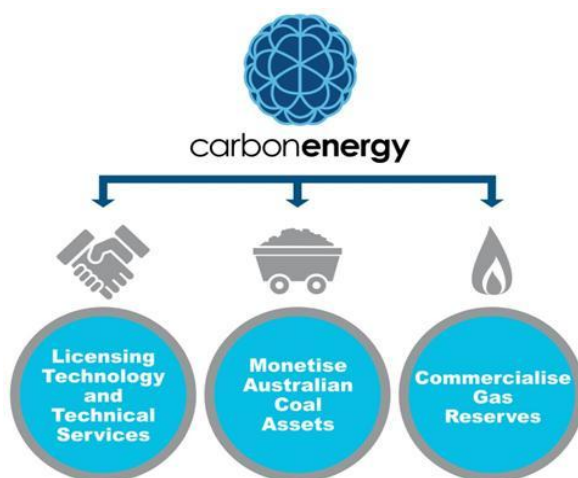
The Company's keyseam® UCG technology reached a proof of concept stage following 10 years of research by Australia's premier scientific research agency the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and more than 5 years of in-field trials.

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 2013 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. The Company expects Phase 1 of this sale process (which will culminate in the receipt of expressions of interest and indicative offers from interested parties) to complete within the next month. 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.



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2.2 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
- Mr Morné Engelbrecht – Chief Executive Officer and Managing Director, BCom (Hons), CA(SA)
- Mr Max Cozijn – Director (Non-Executive), BCom, CPA, MAICD
- Dr Helen Garnett PSM – Director (Non-Executive), BSc(Hons), PhD, FTSE, FAICD
- Mr Peter Hogan – Director (Non-Executive), BBus, ACA
- Mr Louis Rozman – Director (Non-Executive), BEng, MGeos, FAusIMM CP (Man), MAICD

Further details regarding the background and experience of the Directors is included in the Company's 2013 Annual Report. The Company's 2013 Annual Report also includes details of the Company's Executive Management Team.

Constraints on availability

Save as noted in this Prospectus, each Director has confirmed to the Company that he/she 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.

Details of the current interests of the Directors in the Company are set out in section 5.8.

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3. Effect of Offer on Carbon Energy

3.1 Financial position

To illustrate the effect of the Rights Issue and issue of the Shortfall (which includes the Offer), on the Company, the pro-forma consolidated statement of financial position has been prepared based on the audited consolidated statement of financial position as at 30 June 2013.

Pro-forma Consolidated Statement of Financial Position

	Audited Consolidated 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	1,772,562	4,471,664	6,244,226
Trade and other receivables	109,140	-	109,140
Other current assets	83,552	-	83,552
Total Current Assets	1,965,254	4,471,664	6,436,918
Non-Current Assets			
Trade and other receivables	1,702,893	-	1,702,893
Available for sale asset	449,999	-	449,999
Construction Work in Progress	2,555,334	-	2,555,334
UCG Panel assets	1,776,106	-	1,776,106
Property plant and equipment	1,083,224	-	1,083,224
Other non-current assets	1,722,723	-	1,722,723
Deferred exploration and evaluation costs	90,322,819	-	90,322,819
Intangible assets	47,623,940	-	47,623,940
Total Non-Current Assets	147,237,038	-	147,237,038
TOTAL ASSETS	149,202,292	4,471,664	153,673,956
Current Liabilities			
Trade and other payables	1,089,873	-	1,089,873
Loans and Borrowings	2,997,233	(2,997,233)	-
Derivative financial liability	266,156	-	266,156
Short-term provisions	1,334,350	-	1,334,350
Total Current Liabilities	5,687,612	(2,997,233)	2,690,379
Non-Current Liabilities			
Provisions	2,315,729	-	2,315,729
Financial Liability	6,179,304	-	6,179,304
Total Non-Current Liabilities	8,495,033	-	8,495,033

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TOTAL LIABILITIES	14,182,645	(2,997,233)	11,185,412
NET ASSETS	135,019,647	7,468,897	142,488,544
Equity			
Issued capital	227,727,927	6,908,897	234,636,824
Reserves	17,908,365	560,000	18,468,365
Accumulated losses	(110,616,645)	-	(110,616,645)
TOTAL EQUITY	135,019,647	7,468,897	142,488,544

Basis for Calculation

The Audited consolidated statement of financial position as at 30 June 2013 has been adjusted to reflect the completion of the Rights Issue and placement of Shortfall (which includes the Offer) on a fully subscribed basis to raise approximately \$7,468,897 (after costs).

The pro-forma consolidated statement of financial position shows the effect of the Offer as a non underwritten offer and as if the Rights Issue and placement of Shortfall (including under the Offer under this Prospectus) had been made on 30 June 2013. The pro-forma consolidated 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 2013.

Further, the proposed offer column shows the effect of funds arising from the Rights Issue and placement of Shortfall (which includes 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 Rights Issue and placement of the Shortfall which includes 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 \$7,468,897 (after cash expenses of the Rights Issue and placement of the Shortfall (which includes the Offer) which are estimated to be \$400,000), assuming a \$0.02 per share subscription price.
- Increase the number of Issued Ordinary Shares by 393,444,853 and increase share capital by \$6,908,897.
- Increase the number of Options on issue by 393,444,853, 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 balance of \$2,997,233 on the existing Credit Suisse loan facility (which was repaid in full on 8 October 2013).
- 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

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included in the cash receipts or issued capital above). These conditions were satisfied and the HEC \$1,000,000 private placement completed on 27 August 2013.

The increase of cash reserves of the Company as a result of the Rights Issue and placement of the Shortfall which includes the Offer (assuming it is fully subscribed) together with the receipt of the ATO R&D Grant of \$3,785,739.92 which was received on 4 October 2013 should provide the Company with sufficient working capital to proceed with its objectives outlined in this Prospectus for an estimated period of 12 months from 30 June 2013.

The Company had \$1,920,167 in cash as at 30 September 2013, with estimated net cash outflows of \$2,231,076 projected over the quarter ending 31 December 2013. Subsequent to 30 September 2013, the Company received \$3,436,372 from Kam Lung and the ATO R&D Grant of \$3,785,739.92.

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.

3.2 Capital structure

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

	Shares	
	Number	%
Ordinary Shares on issue at the date of this Prospectus ^{1,2}	1,150,931,288	92.8
Maximum number of New Shares under Prospectus	89,363,442	7.2
Total	1,240,294,730	100

	Options	
	Number	%
Options on issue at the date of this Prospectus ^{2,3}	499,751,804	84.8
Maximum number of New Options under Prospectus	89,363,442	15.2
Total	589,115,246	100

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Notes:

1. *Includes the new Shares issued upon acceptance of Entitlements by Eligible Shareholders and additional new Shares issued to Eligible Shareholders pursuant to the Rights Issue Prospectus (a total of 131,999,245 Shares). Also includes the new Shares issued to HEC (50,000,000 Shares) and to Kam Lung (171,818,615 Shares).*
2. *Excludes all Shares and Options proposed to be issued to Directors subject to Shareholder approval at the 2013 Annual General Meeting (see Section 5.8) (including a total of 263,551 new Shares and 263,551 new Options forming part of the Shortfall to be issued to Directors subject to Shareholder approval).*
3. *Includes the new Options issued upon acceptance of Entitlements by Eligible Shareholders and additional new Options issued to Eligible Shareholders pursuant to the Rights Issue Prospectus (a total of 131,999,245 Shares). Also includes the new Options issued to HEC (50,000,000 Options) and new Options issued to Kam Lung (171,818,615 Options).*

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
353,817,860	\$0.06	31 July 2016
4,600,704	\$0.026	15 October 2016
Total: 499,751,804		

Note: The Company also intends to issue additional Options to Directors subject to Shareholder approval (see Section 5.8).

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 sections 5.6 and 5.10.

The issue of New Securities under the Offer will have a dilutive impact on the interest of existing Shareholders in the Company. It is noted that the issue of New Securities represents the remaining Rights Issue Shortfall which arose from Eligible Shareholders not accepting their Entitlements in full pursuant to the Rights Issue.

Given the terms of the Offer, the maximum possible dilution to an existing Shareholder's interest in the Company would be 7.2%, assuming no Existing Options or New Options are exercised and the Convertible Loan Facility is not converted.

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4. Risk factors

4.1 Introduction

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.

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.

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.

4.2 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:

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

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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.

4.3 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

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downstream use, and a subsequent conceptual study identified economically viable commercial scale opportunities at the Company's Bloodwood Creek site in Queensland. Furthermore, in the ISP Report 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 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

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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 Panel (ISP) on the trials released the ISP Report 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.

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 mitigate 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

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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 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 it was 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

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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)).

(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

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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 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 or released to the market 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.

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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.

(t) Litigation

To the extent that the Company is the subject of any claim or proceeding by a third party against the Company, there is the potential that such claim or proceeding may be determined against the Company or may otherwise result in an outcome that is detrimental to the Company. Additionally, the Company may incur significant costs in addressing or defending such claims and proceedings which by nature may continue for extended periods of time. Accordingly, it is possible that the defence of any claim or proceeding or the outcome of any claim or proceedings may have a materially adverse impact on the Company's financial position, reputation and operations.

As previously disclosed to the market, 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. There can be no guarantee as to the outcome of this claim or any proceedings which are initiated in respect of this claim and it is possible that the defence of such claim or any related proceedings or the outcome of such claim or any related proceedings may have a materially adverse impact on the Company.

(u) 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.

(v) 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.

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(w) 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.

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, the Federal Government has announced its intention to repeal the MRRT and the carbon price mechanism and has released exposure draft legislation to this effect. Accordingly, at the date of this Prospectus, even though the recently elected Federal Government has indicated it would remove the MRRT and the Carbon Tax, the future of the MRRT and the carbon price mechanism is uncertain and therefore the potential impact of these taxes on the Company is also uncertain.

(x) 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.

(y) 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 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.

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5. Additional information

5.1 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 2013; and
- (b) 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 2013 and ending on the date of lodgement of this Prospectus with ASIC.

5.2 ASX Information and Share Information

The ASX Announcements that the Company has made since 9 September 2013 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	2.90	2.00	2.54
Three months	2.90	1.80	2.35
Six months	4.15	1.57	2.50

The last market sale price of Shares as at 12 November 2013 was \$0.029.

The Offer Price of \$0.020 represents a discount of 31.0% to the last market price of Shares on 12 November 2013, being the last trading day before lodgement of the Prospectus.

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5.3 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 Shares 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 issue of the New Shares (which requires payment of the Offer Price in full), 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.

5.4 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 Applicants who are issued 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.

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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.

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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.

5.5 **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 Rights Issue and the Offer (**Mandate Agreement**). Patersons will provide a number of services to the Company in respect of the Rights Issue and 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 Rights Issue as a result of Shareholders accepting their Entitlement pursuant to the Rights Issue (which closed on 21 August 2013) where the acceptance form contained the broker stamp of the Lead Manager and a fee of 6% of Shortfall placed (including under this Offer), apart from monies introduced by the Company (**Capital Raising Fee**). 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 Rights Issue and the Offer, and further indemnify Patersons and related persons against losses, liabilities and claims in respect of the Rights Issue and 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 the Rights Issue Prospectus.

5.6 **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.

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It is not expected that the facility will be converted into Shares during 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.

5.7 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 reports on its compliance with the recommendations made by the ASX in the Corporate Governance Principles and Recommendations in its annual report.

5.8 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:

- (a) to induce them to become, or to qualify as, a Director of the Company; or
- (b) 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 ASIC. Interest includes those securities held directly and indirectly.

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Director	Number of Shares Direct	Number of Shares Indirect	Number of Unlisted Options Vested Direct	Number of Unlisted Options Vested Indirect	Number of Listed Options Direct	Number of Listed Options Indirect
Dr Chris Rawlings	-	6,850,000	-	-	-	3,950,000
Mr Max Cozijn	18,816	1,898,695	-	-	6,272	632,899
Dr Helen Garnett ¹	-	377,101	-	-	-	-
Mr Peter Hogan	-	500,000	-	-	-	220,000
Mr Louis Rozman ^{2,3}	-	128,796	-	78,145	-	-
Mr Morné Engelbrecht ⁴	1,065,278	-	1,614,000	-	355,093	-

Notes:

1. In addition, Shareholder approval is sought at the 2013 AGM to issue 188,551 new Shares and 188,551 new Options to Helen Garnett, comprising part of the Rights Issue shortfall.
2. In addition, shareholder approval is sought at the 2013 AGM to issue 75,000 new Shares and 75,000 new Options to Louis Rozman, comprising part of the Rights Issue shortfall.
3. 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 has 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).
4. In addition, Shareholder approval is sought at the 2013 AGM to issue 3,440,831 Shares and 3,573,877 Options to Morné Engelbrecht for the achievement of Key Performance Indicators relating to the 2012-2013 Financial Year and 99,999,999 Options to Morné Engelbrecht under the terms of his appointment as Chief Executive Officer of the Company.

5.9 Directors Fees

Set out below is the remuneration paid and/or accrued 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 ^A	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

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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

1 July 2013 to 12 November 2013:

Director [^]	Director's Fees (\$)	Superannuation (\$)	Total (\$)
Dr Chris Rawlings	30,000.00	2,775.00	32,775.00
Mr Max Cozijn	10,000.00	925.00	10,925.00
Dr Helen Garnett	12,500.00	1,156.26	13,656.26
Mr Peter Hogan [#]	5,000.00	Nil	5,000.00
Mr Louis Rozman [*]	5,000.00	Nil	5,000.00
Mr Morné Engelbrecht	124,624.15	11,568.86	136,193.01

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

^{*} Amounts paid and/or accrued 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. These amounts do not include the value of Shares and Options to be received by Mr Engelbrecht as part of his remuneration package (see AGM Materials dated 23 October 2013).

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.

As part of the Company's cost reduction initiatives, 50% of directors' fees for the independent directors and all directors' fees for remaining non-executive Directors were foregone for the period from 1 June 2013 to 30 September 2013.

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

5.10 Substantial Holders

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

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Substantial Holder	Number of Shares	Current %	On completion of Offer %
Kam Lung Investment Development Company	171,818,615	14.93%	13.85%
Pacific Road Group	84,029,591	7.3%	6.77%
Incitec Pivot Limited	75,556,040	6.56%	6.09%

As at the date of this Prospectus, none of the existing substantial holders of the Company have indicated an intention to participate in the Offer.

5.11 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, including the issue of Shares and Options pursuant to short term and long term incentives (see announcement of 18 June 2013 and the 2013 Annual General Meeting Materials dated 23 October 2013);
- (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.

5.12 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;

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- (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 Rights Issue and the Offer, in respect of which it is entitled to receive fees and commission under the Mandate Agreement as set out in section 5.5 above.

HopgoodGanim are acting as solicitors to the Offer and have performed work in relation to the Prospectus and the Rights Issue 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 in respect of the Rights Issue Prospectus and approximately \$12,000 (excluding GST and disbursements) in respect of this Prospectus. 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.

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.

5.13 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

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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.

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 or potential 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 or potential 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.

5.14 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
- (c) the state of affairs of the Company.

5.15 Litigation

Other than as previously disclosed to the ASX and in the Rights Issue Prospectus, the Company is not engaged in any litigation which has or would be likely to have a material adverse effect on either the Company or its business.

As previously announced on 31 October 2013, the Company has issued a notice to Shanxi Coal Transportation and Sales Group (Shanxi Coal) demanding payment of the initial technology licensing fee which remains outstanding. If this payment is not made within the period specified by the Company, the agreement with Shanxi Coal will terminate with immediate effect, without prejudice to those provisions which are stated to survive termination of the Agreement or accrued rights.

5.16 Privacy

By submitting an Application 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

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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;
- (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.

5.17 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 \$400,000 (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)).

5.18 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 Rights Issue and 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.

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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.

5.19 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', with a stylized flourish at the end.

Dr Chris Rawlings
Chairman

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6. Definitions & glossary

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

Applicant	A person who submits an Application Form
Application Form	The application form in the form accompanying this Prospectus.
Application Monies	The Offer Price multiplied by the number of New Shares applied for.
ASIC	The 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
Capital Raising	The Rights Issue and placement of Shortfall (including the Offer)
Closing Date	5.00pm (AEST) 19 November 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)
Corporations Act	<i>Corporations Act</i> 2001 (Cth)
Directors or Board	The board of directors of Carbon Energy from time to time
Eligible Shareholder	A shareholder of the Company that held Shares in the Company at 7:00pm (AEST) on 2 August 2013, 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

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	the registration requirements of the US Securities Act of 1933 and applicable state securities laws
EPC	Exploration Permit for Coal
Entitlements	The entitlement to accept new Shares and new Options under the Rights Issue 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
Kam Lung	Kam Lung Investment Development Company 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 5.4
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
Official Quotation	Quotation on the Official List
Opening Date	9.00am (AEST), 13 November 2013

Prospectus

Option Holders	The holders of the Existing Options
Options	Options to subscribe for Shares on issue in Carbon Energy Limited from time to time
ISP Report	The Report of the Independent Scientific Panel on the commercialisation of UCG in Queensland dated 8 July 2013
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
Placement Options	<p>The following Options exercisable at \$0.06 each and expiring on 31 July 2016:</p> <ul style="list-style-type: none">- 50,000,000 Options issued to HEC on 27 August 2013 on the same terms as the New Options;- 171,818,615 Options issued to Kam Lung on 5 November 2013 on the same terms as the New Options
Prospectus	This prospectus dated 13 November 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
Rights Issue	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 (exercisable at \$0.06 per share and expiring on 31 July 2016), announced by the Company on 25 July 2013 and which closed on 21 August 2013
Rights Issue Prospectus	The prospectus of the Company dated 25 July 2013 in respect of the Rights Issue.
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

Prospectus

Shortfall or Rights Issue Shortfall Those New Securities for which the Entitlement lapsed in respect of the Rights Issue.

SNG Synthetic Natural Gas

UCG Underground coal gasification

Prospectus

Appendix A

(ASX Announcements)

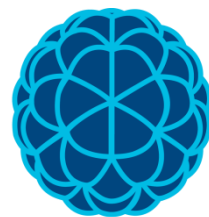
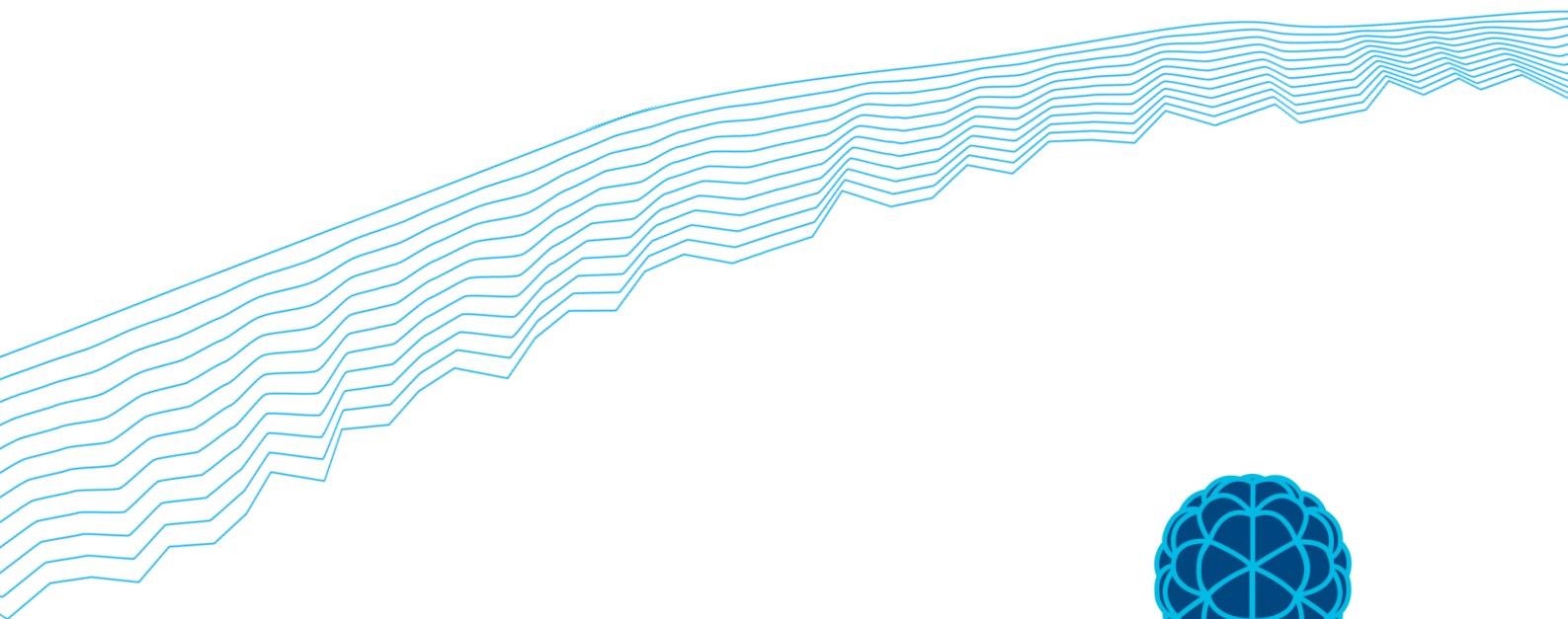
Date	Title of Announcement
11/11/2013	CNX receives trigger payment for Inner Mongolia UCG Project
07/11/2013	83% Increase in 2P UCG Gas Reserves
05/11/2013	Appendix 3B and Settlement of Legal Dispute
31/10/2013	September 2013 Quarterly Activities Report & Appendix 5B
23/10/2013	Notice of Annual General Meeting/Proxy Form
18/10/2013	Ceasing to be a substantial holder
18/10/2013	Ceasing to be a substantial holder
17/10/2013	Change in substantial holding from IPL
17/10/2013	Substantial shareholder notices
16/10/2013	Notice of Initial Substantial Holder
16/10/2013	Notice of Initial Substantial Holder
15/10/2013	CNX Company Secretary Appointment
15/10/2013	Cleansing Notice and Appendix 3B
11/10/2013	CNX Secures \$3.4 million Cornerstone Investment
09/10/2013	CNX Signs MOU with Antofagasta Minerals
04/10/2013	CNX Receives \$3.78M R&D Tax Incentive Cash Rebate

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).

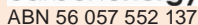
Prospectus

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</p> <p>Level 8, Waterfront Place</p> <p>1 Eagle Street</p> <p>Brisbane QLD 4000</p> <p>Telephone: + 61 7 3024 0000</p> <p>www.hopgoodganim.com.au</p>	<p>Deloitte Touche Tohmatsu</p> <p>Level 26, Riverside Centre, 123 Eagle Street, Brisbane, Qld, 4001, Australia</p> <p>Telephone: +61 7 3308 7000</p> <p>www.deloitte.com</p>
Administration and Registered Office	Share Registry	Lead Manager
<p>Level 9, 301 Coronation Drive</p> <p>MILTON QLD 4064</p> <p>Telephone: + 617 3156 7777</p> <p>Facsimile: +617 3156 7776</p> <p>Email: askus@carbonenergy.com.au</p> <p>Website: carbonenergy.com.au</p>	<p>Link Market Services Limited</p> <p>Level 12, 680 George Street</p> <p>Sydney NSW 2000</p> <p>1300 851 395 (in Australia)</p> <p>+61 1300 851 395 (outside Australia)</p>	<p>Patersons Securities Limited</p> <p>Level 23, Exchange Plaza</p> <p>2 The Esplanade</p> <p>Perth, Western Australia</p> <p>Telephone: +61 8 9263 1111</p> <p>Facsimile: +61 8 9325 5123</p> <p>www.psl.com.au</p>



carbon**energy**



Adviser Code

***CNX NR F001 ***

Your Guide to the Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the form.

The New Shares and New Options to which this Shortfall Application Form relates are Carbon Energy Limited Securities. Further details about the Securities are contained in the Prospectus 13 November 2013 issued by Carbon Energy Limited.

The Australian Securities and Investment Commission requires that a person who provides access to an electronic application form must provide access, by the same means and at the same time, to the relevant Prospectus. This Shortfall Application Form is included in the Prospectus.

The Prospectus contains important information about investing in the New Shares and New Options. You should read the Prospectus before applying for Shares. By submitting an Application Form 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 and you provide authorisation to be registered as the holder of any New Shares and New Options issued to you and if issued New Shares and New Options, agree to be bound by the Constitution of Carbon Energy Limited and the terms of issue of the New Shares and New Options as set out in the Prospectus. The Offer to which this Application Form relates is being made to selected investors only located or resident in [Australia] and is not made to the general public. The Offer is not otherwise being made to any person in the U.S or to a U.S person. The Prospectus and Application form do not constitute an offer or invitation to acquire New Shares and New Options in any place in which, or to any person to whom, it would be unlawful to make such an offer or invitation.

A Insert the number of New Shares you wish to apply for. You may be issued all of the New Shares and New Options applied for or a lesser number.

B Insert the relevant amount of Application Monies. To calculate your Application Monies, multiply the number of New Shares applied for by the issue price. Amounts should be in Australian dollars. Please make sure the amount of your cheque or bank draft equals this amount.

C Write the full name you wish to appear on the register of Shares and Options. This must be either your own name or the name of a company. Up to three joint Applicants may register. You should refer to the table below for the correct registrable title.

D Enter your Tax File Number (TFN) or exemption category. Business enterprises may alternatively quote their Australian Business Number (ABN). Where applicable, please enter the TFN or ABN for each joint Applicant. Collection of TFN(s) and ABN(s) is authorised by taxation laws. Quotation of TFN(s) and ABN(s) is not compulsory and will not affect your Application. However, if these are not provided, Carbon Energy Limited will be required to deduct tax at the highest marginal rate of tax (including the Medicare Levy) from payments.

E Please enter your postal address for all correspondence. All communications to you from Carbon Energy Limited and the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.

F If you are already a CHESS participant or sponsored by a CHESS participant, write your Holder Identification Number (HIN) here. If the name or address recorded on CHESS for this HIN is different to the details given on this form, your New Shares and New Options will be issued to Carbon Energy Limited's issuer sponsored subregister.

G Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application.

H Please complete the details of your cheque or bank draft in this section. The total amount should agree with the amount shown in section B. Make your cheque or bank draft payable to "Carbon Energy Limited" in Australian currency and cross it "Not Negotiable". Your cheque or bank draft must be drawn on an Australian bank. Sufficient cleared funds should be held in your account, as cheques returned unpaid are likely to result in your Application being rejected.

LODGEMENT INSTRUCTIONS

This Application Form and your cheque or bank draft must be mailed or delivered so that it is received before 5:00pm (AEDT) on 19 November 2013 at:

Carbon Energy Limited Shortfall
C/- Patersons Security Limited
Level 23 Exchange Plaza
2 The Esplanade
Perth WA 6000

CORRECT FORMS OF REGISTRABLE NAMES

Note that ONLY legal entities are allowed to hold New Shares and New Options. Applications must be in the name(s) of natural persons or companies. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual Use given names in full, not initials	Mrs Katherine Clare Edwards	K C Edwards
Company Use Company's full title, not abbreviations	Liz Biz Pty Ltd	Liz Biz P/L or Liz Biz Co.
Joint Holdings Use full and complete names	Mr Peter Paul Tranche & Ms Mary Orlando Tranche	Peter Paul & Mary Tranche
Trusts Use the trustee(s) personal name(s)	Mrs Alessandra Herbert Smith <Alessandra Smith A/C>	Alessandra Smith Family Trust
Deceased Estates Use the executor(s) personal name(s)	Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C>	Estate of late Harold Post or Harold Post Deceased
Minor (a person under the age of 18 years) Use the name of a responsible adult with an appropriate designation	Mrs Sally Hamilton <Henry Hamilton>	Master Henry Hamilton
Partnerships Use the partners' personal names	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
Long Names	Mr Hugh Adrian John Smith-Jones	Mr Hugh A J Smith Jones
Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s)	Mr Alistair Edward Lilley <Vintage Wine Club A/C>	Vintage Wine Club
Superannuation Funds Use the name of the trustee of the fund	XYZ Pty Ltd <Super Fund A/C>	XYZ Pty Ltd Superannuation Fund

Put the name(s) of any joint Applicant(s) and/or account description using < > as indicated above in designated spaces at section C on the Application Form.

Link Market Services Limited advises that Chapter 2C of the *Corporations Act 2001* requires information about you as a shareholder (including your name, address and details of the shares you hold) to be included in the public register of the entity in which you hold shares. Information is collected to administer your shareholding and if some or all of the information is not collected then it might not be possible to administer your shareholding. Your personal information may be disclosed to the entity in which you hold shares. You can obtain access to your personal information by contacting us at the address or telephone number shown on this form. Our privacy policy is available on our website (www.linkmarketservices.com.au).

SAMPLE

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. Ordinary fully paid shares
2. Listed options |
| 2 | Number of +securities issued or to be issued (if known) or maximum number which may be issued | 1. 89,363,442 ordinary fully paid shares
2. 89,363,442 listed options |
| 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) | Rights issue shortfall: Ordinary fully paid shares and listed options (exercise price of \$0.060 and an expiry date of 31 July 2016) to be issued pursuant to shortfall from 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 (see announcement of 25 July 2013). |

+ See chapter 19 for defined terms.

Appendix 3B

New issue announcement

4	<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 	<p>The new shares will rank pari passu with existing shares on issue.</p> <p>The new options will rank pari passu with existing listed options on issue.</p>
5	Issue price or consideration	\$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).
6	<p>Purpose of the issue</p> <p>(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. General working capital; 4. Offer costs; and 5. Shortfall placement costs
6a	<p>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>	Yes
6b	The date the security holder resolution under rule 7.1A was passed	22 November 2012
6c	Number of +securities issued without security holder approval under rule 7.1	122,212,213

+ See chapter 19 for defined terms.

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)	Nil						
6f	Number of +securities issued under an exception in rule 7.2	786,362,604 (being 393,181,302 New Shares and 393,181,302 New Listed Options)						
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	170,159,750 (assuming the shortfall is fully issued); or 147,818,890 (in the event that no further shortfall is issued)						
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.	20 November 2013						
8	Number and +class of all +securities quoted on ASX (including the +securities in section 2 if applicable)	<table><tr><th>Number</th><th>+Class</th></tr><tr><td>1,240,294,730</td><td>Ordinary fully paid shares</td></tr><tr><td>443,181,302</td><td>Listed options</td></tr></table>	Number	+Class	1,240,294,730	Ordinary fully paid shares	443,181,302	Listed options
Number	+Class							
1,240,294,730	Ordinary fully paid shares							
443,181,302	Listed options							

+ See chapter 19 for defined terms.

Appendix 3B

New issue announcement

	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 36 months from the Issue Date. Exercisable by cash settlement or physical settlement.</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> <p>4,600,704 \$0.026 Options expiring 15 October 2016.</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?	Not applicable
12	Is the issue renounceable or non-renounceable?	Not applicable

+ See chapter 19 for defined terms.

13	Ratio in which the +securities will be offered	Not applicable
14	+Class of +securities to which the offer relates	Not applicable
15	+Record date to determine entitlements	Not applicable
16	Will holdings on different registers (or subregisters) be aggregated for calculating entitlements?	Not applicable
17	Policy for deciding entitlements in relation to fractions	Not applicable
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>	Not applicable
19	Closing date for receipt of acceptances or renunciations	Not applicable

+ See chapter 19 for defined terms.

Appendix 3B
New issue announcement

20	Names of any underwriters	Not applicable
21	Amount of any underwriting fee or commission	Not applicable
22	Names of any brokers to the issue	Not applicable
23	Fee or commission payable to the broker to the issue	Not applicable
24	Amount of any handling fee payable to brokers who lodge acceptances or renunciations on behalf of security holders	Not applicable
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	Not applicable
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	Not applicable
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>	Not applicable

+ See chapter 19 for defined terms.

	of their entitlements through a broker and accept for the balance?	
32	How do security holders dispose of their entitlements (except by sale through a broker)?	Not applicable
33	⁺ Issue date	Not applicable

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)	Number	+Class
		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: 13/11/2013
Company Secretary
Print name: Tracy Bragg

== == == == ==

+ 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	776,306,556
Add the following: <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"> Include only ordinary securities here – other classes of equity securities cannot be added Include here (if applicable) the securities the subject of the Appendix 3B to which this form is annexed It may be useful to set out issues of securities on different dates as separate line items 	26/8/13 – 131,999,245 Ordinary Shares (Rights Issue and Shortfall) 15/10/13 – 171,818,615 Ordinary Shares (Shortfall) 20 November 2013 – 89,363,442 Ordinary Shares (Shortfall) (assuming the shortfall is fully issued)
Subtract the number of fully paid +ordinary securities cancelled during that 12 month period	Nil
“A”	1,169,487,858

+ See chapter 19 for defined terms.

Step 2: Calculate 15% of “A”	
“B”	0.15 <i>[Note: this value cannot be changed]</i>
Multiply “A” by 0.15	175,423,178
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>4/12/12 – 2,145,388 Ordinary Shares</p> <p>2/1/13 – 3,084,000 Unlisted Options</p> <p>7/1/13 – 1,355,368 Ordinary Shares</p> <p>28/2/13 – 2,877,033 Ordinary Shares</p> <p>30/5/13 – 4,205,350 Ordinary Shares</p> <p>27/8/13 – 50,000,000 Ordinary Shares</p> <p>27/8/13 – 50,000,000 Listed Options</p> <p>15/10/13 – 3,944,370 Ordinary Shares</p> <p>15/10/13 – 4,600,704 Unlisted Options</p>
“C”	122,212,213
Step 4: Subtract “C” from [“A” x “B”] to calculate remaining placement capacity under rule 7.1	
<p>“A” x 0.15</p> <p><i>Note: number must be same as shown in Step 2</i></p>	175,423,178
<p>Subtract “C”</p> <p><i>Note: number must be same as shown in Step 3</i></p>	122,212,213
Total [“A” x 0.15] – “C”	<p>53,210,965</p> <p><i>[Note: this is the remaining placement capacity under rule 7.1]</i></p>

+ 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>	1,169,487,858
Step 2: Calculate 10% of “A”	
“D”	0.10 <i>Note: this value cannot be changed</i>
Multiply “A” by 0.10	116,948,785
Step 3: Calculate “E”, the amount of placement capacity under rule 7.1A that has already been used	
Insert number of +equity securities issued or agreed to be issued in that 12 month period under rule 7.1A Notes: <ul style="list-style-type: none"> • This applies to equity securities – not just ordinary securities • Include here – if applicable – the securities the subject of the Appendix 3B to which this form is annexed • 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 • It may be useful to set out issues of securities on different dates as separate line items 	Nil
“E”	Nil

+ See chapter 19 for defined terms.

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>	116,948,785
Subtract “E” <i>Note: number must be same as shown in Step 3</i>	Nil
Total [“A” x 0.10] – “E”	116,948,785 <i>Note: this is the remaining placement capacity under rule 7.1A</i>

+ See chapter 19 for defined terms.