

Form 603Corporations Act 2001
Section 671B**Notice of initial substantial holder**To Company
Name/Scheme

Carbon Energy Limited

ACN/ARSN

ACN 057 552 137

1. Details of substantial holder (1)

Name

Kam Lung Investment Development Company Limited

ACN/ARSN (if
applicable)

NA

The holder became a substantial
holder on

10/10/2013

2. Details of voting power

The total number of votes attached to all the voting shares in the company or voting interests in the scheme that the substantial holder or an associate (2) had a relevant interest (3) in on the date the substantial holder became a substantial holder are as follows:

Class of securities (4)	Number of securities	Person's votes (5)	Voting power (6)
Ordinary voting shares	171,818,615	171,818,615	14.98%

3. Details of relevant interests

The nature of the relevant interest the substantial holder or an associate had in the following voting securities on the date the substantial holder became a substantial holder are as follows:

Holder of relevant interest	Nature of relevant interest (7)	Class and number of securities
Kam Lung Investment Development Company Limited	171,818,615 ordinary shares to be issued on 15 October 2013 pursuant to a subscription agreement dated 10 October 2013 and <i>attached</i> to this form.	
Mr Hai Hui Zhuang	Sole shareholder of Kam Lung Investment Development Company.	

4. Details of present registered holders

The persons registered as holders of the securities referred to in paragraph 3 above are as follows:

Holder of relevant interest	Registered holder of securities	Person entitled to be registered as holder (8)	Class and number of securities
Kam Lung Investment Development Company Limited	Kam Lung Investment Development Company Limited	Kam Lung Investment Development Company Limited	171,818,615 ordinary shares

5. Consideration

The consideration paid for each relevant interest referred to in paragraph 3 above, and acquired in the four months prior to the day that the substantial holder became a substantial holder is as follows:

Holder of relevant interest	Date of acquisition	Consideration (9)		Class and number of securities
		Cash	Non-cash	
Kam Lung Investment Development Company Limited	10 October 2013	\$0.02 per share		171,818,615 ordinary shares

6. Associates

The reasons the persons named in paragraph 3 above are associates of the substantial holder are as follows:

Name and ACN/ARSN (if applicable)	Nature of association
Mr Hai Hui Zhuang	Sole shareholder of Kam Lung Investment Development Company

7. Addresses

The addresses of persons named in this form are as follows:

Name	Address
Kam Lung Investment Development Company Limited	Flat/rm 7, block 1 4/F, Kwan Yick Building, 430-440A Des Voeux Road West, Hong Kong Special Administrative Region
Mr Hai Hui Zhuang	Rm. 711, Argyle Centre, 688 Nathan Road, Mongkok, Kowloon
Carbon Energy Limited	Level 9, 301 Coronation Drive, Milton, Queensland 4064

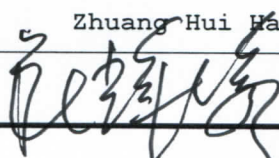
Signature

print name

Zhuang Hui Hai

capacity Sole shareholder

sign here



date 14/10/2013

DIRECTIONS

- (1) If there are a number of substantial holders with similar or related relevant interests (eg. a corporation and its related corporations, or the manager and trustee of an equity trust), the names could be included in an annexure to the form. If the relevant interests of a group of persons are essentially similar, they may be referred to throughout the form as a specifically named group if the membership of each group, with the names and addresses of members is clearly set out in paragraph 7 of the form.
- (2) See the definition of "associate" in section 9 of the Corporations Act 2001.
- (3) See the definition of "relevant interest" in sections 608 and 671B(7) of the Corporations Act 2001.
- (4) The voting shares of a company constitute one class unless divided into separate classes.
- (5) The total number of votes attached to all the voting shares in the company or voting interests in the scheme (if any) that the person or an associate has a relevant interest in.
- (6) The person's votes divided by the total votes in the body corporate or scheme multiplied by 100.
- (7) Include details of:
 - (a) any relevant agreement or other circumstances by which the relevant interest was acquired. If subsection 671B(4) applies, a copy of any document setting out the terms of any relevant agreement, and a statement by the person giving full and accurate details of any contract, scheme or arrangement, must accompany this form, together with a written statement certifying this contract, scheme or arrangement; and
 - (b) any qualification of the power of a person to exercise, control the exercise of, or influence the exercise of, the voting powers or disposal of the securities to which the relevant interest relates (indicating clearly the particular securities to which the qualification applies).

See the definition of "relevant agreement" in section 9 of the Corporations Act 2001.

- (8) If the substantial holder is unable to determine the identity of the person (eg. if the relevant interest arises because of an option) write "unknown".
- (9) Details of the consideration must include any and all benefits, money and other, that any person from whom a relevant interest was acquired has, or may, become entitled to receive in relation to that acquisition. Details must be included even if the benefit is conditional on the happening or not of a contingency. Details must be included of any benefit paid on behalf of the substantial holder or its associate in relation to the acquisitions, even if they are not paid directly to the person from whom the relevant interest was acquired.

Annexure

This is the Annexure of 19 pages referred to in the Form 603 prepared by Kam Lung Investment Development Company Limited and contains a true and correct copy of the Subscription Agreement entered into by Carbon Energy Limited and Kam Lung Investment Development Company Limited on 10 October 2013.

A handwritten signature in black ink, appearing to be 'ZHUANG HUI HAI', written over a horizontal line.

ZHUANG Hui Hai
Sole Shareholder
Kam Lung Investment Development Company Limited
15 October 2013



HopgoodGanim

Subscription Agreement

Carbon Energy Limited ACN 057 552 137 (**Company**)

Kam Lung Investment Development Company Limited
(金麟投資發展有限公司) (**Subscriber**)

Contact - Michelle Eastwell, Partner, m.eastwell@hopgoodganim.com.au

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Subscription Agreement



Date 10 October 2013

Parties

Carbon Energy Limited 057 552 137 of Level 9, 301 Coronation Drive, Milton, Qld (Company)

Kam Lung Investment Development Company Limited (金麟投資發展有限公司) of flat/rm 7, block 1 4/F, Kwan Yick Building, 430-440A Des Voeux Road West, Hong Kong Special Administrative Region (Subscriber)

Background

- A. The Subscriber has agreed to subscribe for shares and options in the Company, forming part of the shortfall arising from the rights issue undertaken by the Company which closed on 21 August 2013, on the terms and conditions set out in this agreement.

It is agreed

1. Definitions and Interpretation

1.1 In this agreement:

Allotment Date means the date of allotment of the Tranche 1 Securities or the date of allotment of the Tranche 2 Securities (as applicable);

Application Form means an application form in a form approved by the Directors;

ASX means the Australian Securities Exchange as operated by ASX Limited ABN 98 008 624 691;

Authorised Officer of a party which is a corporation means:

- (a) an employee of the party whose title contains either of the words Director or Manager;
- (b) a person performing the function of any of them;
- (c) a solicitor acting on behalf of the party; or
- (d) a person appointed by the party to act as an Authorised Officer for the purposes of this agreement and notified to the others.

Bank means a bank carrying on business under the laws of the Commonwealth of Australia or of the State of Queensland;

Bank Account means:

Full Name:	Carbon Energy Limited
Bank & Branch:	National Australia Bank, Perth WA
BSB Number:	086-455
Account Number:	623972463
Account Name:	Carbon Energy Limited
Swift Code:	NATAAU3302S

Business Days means a day on which trading banks are open for business at Brisbane in the State of Queensland but excludes Saturdays, Sundays and public holidays;

Subscription Agreement



Business shall mean the business or businesses carried on by the Company and its subsidiaries at the date of execution of this agreement;

Constitution means the Constitution from time to time of the Company;

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

Directors means the board of directors of the Company;

Existing Convertible Note means the \$10 million Convertible Note Facility Agreement between the Company and Pacific Road Capital Management Pty Ltd dated on or about 22 December 2011 (as varied);

FIRB Approval means written advice of a decision by or on behalf of the Treasurer of the Commonwealth of Australia stating unconditionally or on the basis of conditions which are reasonably acceptable to the Subscriber that there is no objection to the proposed issue of the Tranche 2 Securities to the Subscriber or the Treasurer of the Commonwealth of Australia ceasing to be empowered to make an order under Part II of the *Foreign Acquisitions and Takeovers Act 1975 (Cth)* in respect of the transactions contemplated by this agreement;

FIRB Notice means a copy of such FIRB Approval or that FIRB Approval is no longer required (and the Company is satisfied acting reasonably that FIRB Approval is no longer required).

Lien or Liens means all or any liens, mortgages, pledges, conditional sale agreements, security interests, restrictions, charges, claims, options, encumbrances, proxies or rights of third parties of every kind and nature;

Listing Rules means the listing rules of the ASX;

Option means an option to subscribe for a Share exercisable at \$0.06 and expiring on 31 July 2016 and otherwise on the terms set out in Attachment 1;

Parties means the Subscriber and the Company;

securities shall have the meaning ascribed to that term in the Corporations Act and **security** shall have a corresponding meaning, where the context permits or requires;

Share means fully paid ordinary share in the Company;

Subscription Price means \$0.02 for each Subscription Share and attached Option (meaning a total amount of \$3,436,373);

Subscription Shares means 171,818,615 Shares to be issued under this agreement;

Subscription Securities means 171,818,615 Shares and 171,818,615 Options to be issued under this agreement;

T1 Allotment Date means 3 Business Days after the date of this agreement or such other date as agreed to in writing by the Parties;

T2 Allotment Date shall have the meaning ascribed to it under clause 2.5 of this agreement;

Tranche 1 Securities means 171,818,615 Shares; and

Tranche 2 Securities means 171,818,615 Options.

1.2 In this agreement, unless the contrary intention appears:

(a) a reference to:

Subscription Agreement



- (1) this agreement or another document includes any variation or replacement of it notwithstanding any change in the identity of the parties;
- (2) any statute, ordinance, code or other law includes regulations and other statutory instruments under any of them and consolidations, amendments re-enactments or replacement of any of them;
- (3) a person, firm, corporation, association or government body includes any other of them;
- (4) a person includes the person's successors, executors, administrators, substitutes (including a person who becomes a party by novation) and assigns;
- (5) a time is a reference to Brisbane time unless otherwise specified;
- (6) a right includes a benefit, remedy, authority, discretion and power;
- (b) the singular includes the plural and vice versa;
- (c) headings shall not affect the construction;
- (d) if the day on which anything is to be done is not a Business Day, that thing shall be done on the next Business Day;
- (e) if an act is required to be done on a particular day and the act is done after 5.00pm on that day, it will be deemed to have been done on the following day;
- (f) where two or more persons are defined as a party to this agreement that term means each of the persons jointly, each of them severally and any two or more of them jointly;
- (g) an agreement, covenant, obligation, representation or warranty on the part of two or more persons binds them jointly and severally and an agreement, covenant, obligation, representation or warranty in favour of two or more persons is for the benefit of them jointly and severally.

2. Subscription Securities

2.1 Subject to the provisions of this agreement,:

- (a) by 2.00pm (Brisbane time) on the T1 Allotment Date, the Subscriber must subscribe for the Tranche 1 Securities by delivering to the Company:
 - (1) a duly completed Application Form for the Tranche 1 Securities and (subject to receipt of FIRB Approval or the parties agree that no FIRB Approval is required) for the Tranche 2 Securities; and
 - (2) payment of the Subscription Price for the Subscription Securities into the Bank Account in immediately available cleared funds (or as otherwise agreed to by the Company); and
- (b) subject to compliance by the Subscriber with its obligations pursuant to clause 2.1(a), the Company must allot and issue to the Subscriber the Tranche 1 Securities on the T1 Allotment Date. In the event that the Subscriber complies with its obligations pursuant to clause 2.1(a) on the T1 Allotment Date (but after 2.00pm (Brisbane time) on that date), the Company must allot and issue to the Subscriber the Tranche 1 Securities on the Business Day after the T1 Allotment Date.

Subscription Agreement



- 2.2 Upon execution of this agreement, the Company and the Subscriber shall cooperate in good faith and use all reasonable endeavours to procure the FIRB Approval and submit the application for FIRB Approval (the **FIRB Application**) as soon as practicable after the signing of this agreement.
- 2.3 Without limitation to clause 2.2, the Company shall promptly provide to the Subscriber or its legal representatives any information reasonably requested by the Subscriber for the purpose of obtaining the FIRB Approval as soon as practicable after the signing of this agreement.
- 2.4 Subject to lodgement of the FIRB Application, the Company and the Subscriber shall cooperate in good faith and use all reasonable endeavours to seek a waiver from the ASX as soon as practicable after such lodgement to extend the period for issue of shortfall from the rights issue undertaken by the Company which closed on 21 August 2013 pursuant to Exception 3 of Listing Rule 7.2 by sufficient time to enable written advice of a decision by or on behalf of the Treasurer of the Commonwealth of Australia to be received by the Subscriber in response to the FIRB Application.
- 2.5 Subject to compliance by the Subscriber with its obligations pursuant to clause 2.1(a), and the FIRB Approval being obtained or the parties agreeing that the FIRB Approval is not required, the Company must allot and issue to the Subscriber the Tranche 2 Securities:
- (a) if the Subscriber provides a FIRB Notice on or before 20 November 2013 (or such later date as ASX approves for the purposes of allowing the issue of the Tranche 2 Securities pursuant to Exception 3 of ASX Listing Rule 7.2) within 1 Business Day of such notice; or
 - (b) subject to clause 2.7, if the Subscriber provides a FIRB Notice after 20 November 2013 (or such later date as ASX approves for the purposes of allowing the issue of the Tranche 2 Securities pursuant to Exception 3 of ASX Listing Rule 7.2), the Company will, as soon as reasonably practicable after 20 November 2013 (or such later date as ASX approves for the purposes of allowing the issue of the Tranche 2 Securities pursuant to Exception 3 of ASX Listing Rule 7.2) and in any event within 6 months of such date, convene an extraordinary general meeting of shareholders to approve the issue of the Tranche 2 Securities pursuant to ASX Listing Rule 7.1 and will, subject to shareholder approval of the issue of the Tranche 2 Securities being obtained, issue the Tranche 2 Securities within 1 Business Day of such shareholder approval being obtained,
- (the **T2 Allotment Date**).
- 2.6 If, in accordance with clause 2.5(b), the Company is required to convene an extraordinary general meeting of shareholders to approve the issue of the Tranche 2 Securities pursuant to ASX Listing Rule 7.1, the Company agrees that it will procure that each director of the Company recommends to shareholders the approval of the resolution to issue the Tranche 2 Securities.
- 2.7 Notwithstanding any other provision of this agreement, if:
- (a) the Subscriber does not provide a FIRB Notice within 6 months of the T1 Allotment Date; or
 - (b) the shareholders of the Company do not approve the issue of the Tranche 2 Securities, where the Company has convened an extraordinary general meeting of shareholders to approve the issue of the Tranche 2 Securities pursuant to clause 2.5(b), within 6 months after 20 November 2013 (or such later date as ASX approves for the purposes of allowing the issue of the Tranche 2 Securities pursuant to Exception 3 of ASX Listing Rule 7.2),

the Company will be released from the obligation to issue, and the Subscriber will be released from the obligation to subscribe for, the Tranche 2 Securities and for the avoidance of doubt

Subscription Agreement



the Subscriber shall not be entitled to any refund of any amount of the Subscription Price due to the foregoing.

- 2.8 As soon as practicable after the Allotment Date in respect of either the Tranche 1 Securities or the Tranche 2 Securities, the Company must apply for official quotation of such securities on the ASX.
- 2.9 Within five (5) Business Days of each Allotment Date the Company shall deliver or cause to be delivered to the Subscriber a statement of holding for the Tranche 1 Securities or the Tranche 2 Securities (as applicable).
- 2.10 The Subscription Securities will be issued subject to the Constitution of the Company, the Corporations Act and the Listing Rules.
- 2.11 Within five (5) Business Days after the issue of the Tranche 1 Securities, the Company shall issue a cleansing notice in respect of such issue of the Shares forming part of the Tranche 1 Securities that complies in all respects with section 708A(5)(e) of the Corporations Act.
- 2.12 After the issue of the Tranche 2 Securities, the Company shall:
- (a) if the provisions of section 708A(5)(a) to (d) are otherwise satisfied, within five (5) Business Days issue a cleansing notice in respect of such issue of Options that complies in all respects with section 708A(5)(e) of the Corporations Act; or
 - (b) if the provisions of section 708A(5)(a) to (e) are not able to be satisfied within 5 Business Days, lodge a disclosure document with ASIC in respect of such issue of Options pursuant to section 708A(11) of the Corporations Act within 3 months of such issue.
- 2.13 After the issue of any Shares issued pursuant to the exercise by the Subscriber of an Option, the Company shall:
- (a) if the provisions of section 708A(5)(a) to (d) are otherwise satisfied, within five (5) Business Days issue a cleansing notice in respect of such issue of Shares that complies in all respects with section 708A(5)(e) of the Corporations Act; or
 - (b) if the provisions of section 708A(5)(a) to (e) are not able to be satisfied within 5 Business Days, lodge a disclosure document with ASIC in respect of such issue of Shares pursuant to section 708A(11) of the Corporations Act within 2 months of such issue.
- 2.14 The Subscriber and the Company agree that the number of Options that may be exercised at one time must be not less than 500,000.

3. Acknowledgements

- 3.1 The Subscriber acknowledges that, on the basis that the Company:
- (a) issues a cleansing statement pursuant to section 708A(5)(e) of the Corporations Act in respect of the Subscription Shares, within five (5) Business Days after the issue of the Subscription Shares; and
 - (b) either:
 - (1) lodges a disclosure document with ASIC in respect of the Options pursuant to section 708A(11) of the Corporations Act within three months of the date of issue of the Options; or

Subscription Agreement



- (2) issues a cleansing statement pursuant to section 708A(5)(e) of the Corporations Act in respect of the Tranche 2 Securities, within five (5) Business Days after the issue of the Tranche 2 Securities,

no other disclosure document will be lodged with ASIC or issued to the Subscriber in connection with the issue of the Subscription Securities to the Subscriber pursuant to this agreement.

- 3.2 The Subscriber warrants that it is a sophisticated investor for the purposes of section 708(8) of the Corporations Act or otherwise falls within an exemption to the requirement to be provided with a disclosure document pursuant to section 708 of the Corporations Act.
- 3.3 The Parties acknowledge and agree that the purpose of the issue of the Subscription Securities is to raise funds to provide working capital for the Company and that the Company is not issuing the Subscription Securities for the purpose of the Subscriber selling or transferring them or granting, issuing or transferring interests in, or options over them.
- 3.4 The Parties acknowledge that it is the Company's preference that the Subscriber acquire the Subscription Securities and remain as an investor in the Company in at least the medium term.
- 3.5 The Subscriber warrants that as at the date of this agreement the Subscriber has no intention to immediately on sell or transfer the Subscription Securities after their issue and that it is the Subscriber's present intention to be an investor in the Subscription Securities at least in the medium term.
- 3.6 For 12 months from the date of issue of the Subscription Securities or the date of issue of any Shares on exercise of the Options forming part of the Subscription Securities, the Subscriber will comply at all times with sub-sections 707(3) and 707(4) of the Corporations Act (as those sub-sections are modified, if applicable, under ASIC Class Order 04/671 or any variation of such Class Order or any further Class Order issued by ASIC relating to such Class Order) and all other provisions of the Corporations Act in respect of any subsequent resale of the Subscription Securities or any Shares issued on exercise of the Options forming part of the Subscription Securities.

4. Default

- 4.1 In the event that the Subscription Securities have not been issued and the Subscriber fails to comply with the provisions of this agreement or any of them then (in addition to any other remedy available to the Company), the Company may:
- (a) without notice to the Subscriber, terminate this agreement; or
 - (b) sue the Subscriber for breach of contract.
- 4.2 In the event that Subscription Securities have been issued to the Subscriber and the Subscriber fails to comply with the provisions of this agreement or any of them then (in addition to any other remedy available to the Company), the Company may:
- (a) without notice to the Company, terminate this agreement; and
 - (b) exercise the rights afforded to it by the Constitution against the Subscriber as a member of the Company and as holder of the Subscription Securities; or
 - (c) sue the Subscriber for breach of contract.
- 4.3 Regardless of whether the Subscription Securities have been issued, if the Company fails to comply with the provisions of this agreement the Subscriber may:
- (a) without notice to the Company, terminate this agreement; and

Subscription Agreement



- (b) sue the Company for breach of contract.

5. Warranties and Representations by the Company

5.1 Company Warranties

- (a) Subject to clause 5.1(b), the Company represents and warrants to the Subscriber the representations and warranties set out in clauses 5.2 to 5.6 inclusive (**Company Warranties**) as at the date of this agreement (unless otherwise specified), with the representations and warranties set out in clauses 5.3, 5.5 and 5.6 being repeated on each Allotment Date, in connection with the execution of this agreement and the subscription by the Subscriber of the Subscription Securities.
- (b) Without prejudice to clause 5.2, the Company Warranties are not breached and the Subscriber cannot make a claim in respect of anything disclosed in any information relating to the Company or to the Business which has been made available in written or recorded form to the Subscriber or to any related body corporate or adviser of the Subscriber by the Company or by any of the advisers of the Company before the date of this agreement, for the purpose of allowing the Subscriber in its capacity as a potential buyer to obtain relevant information about the Company and the Business or which has been publically disclosed including the prospectus which was released by the Company on 25 July 2013 (**Disclosed Information**).

5.2 Disclosure

- (a) No disclosure document is required to be lodged under the Corporations Act in respect of the issue of the Subscription Shares, and the Company does, and will do all things necessary to ensure that the Company will upon issue of the Subscription Shares, be in a position to comply with each of the requirements of sections 708A(5)(a) to (e) of the Corporations Act.
- (b) The Company will either:
 - (1) if the provisions of section 708A(5)(a) to (d) are otherwise satisfied, within five (5) Business Days issue a cleansing notice in respect of such issue of Options that complies in all respects with section 708A(5)(e) of the Corporations Act; or
 - (2) be in a position to comply with section 708A(11) of the Corporations Act in respect of the Options and will, on or before the date being three months after issue of the Tranche 2 Securities, lodge a prospectus with ASIC in respect of the offer of options in the same class (**Options Prospectus**) as the Options that complies with section 708A(11) of the Corporations Act.
- (c) On each of:
 - (1) the date of this agreement;
 - (2) the T1 Allotment Date,

there is nothing in addition to Disclosed Information that would be required to be disclosed by the Company pursuant to sections 713 or 711 of the Corporations Act if the Company issued a further prospectus in respect of the Subscription Securities on each of those dates.

Subscription Agreement



- (d) The Company at all times has complied with:
- (1) its periodic disclosure obligations under the ASX Listing Rules and the Corporations Act in all respects, and as at the date of this agreement, is not withholding any information in accordance with the exception contained in Rule 3.1 of the ASX Listing Rules; and
 - (2) its constitution, the ASX Listing Rules and the Corporations Act in all material respects.
- (e) To the best of the Company's knowledge and belief (after due and careful enquiry), all written information provided by the Company or its agents or representatives to the Subscriber's agents or representatives, or released to the ASX, in relation to the Company or the rights issue undertaken by the Company which closed on 21 August 2013 is accurate, complete and not misleading in all material respects.

5.3 Standing

- (a) The Company is a corporation duly organised, validly existing and in good standing under the laws of the Commonwealth of Australia.
- (b) The Company has full power and authority to enter into this agreement, consummate the transactions contemplated hereby and perform its obligations under this agreement and in doing so will comply with and will not breach its constitution, the Australian Stock Exchange Limited Listing Rules (**ASX Listing Rules**), the Corporations Act or any security interest or document binding on the Company or its Shares.
- (c) The Company and the Directors have taken all necessary action to authorise the signing, delivery and execution of this agreement in accordance with its terms, and upon signing by the parties hereto, this agreement constitutes the binding and valid obligations of the Company and is enforceable in accordance with its terms.
- (d) The Subscription Securities will be issued free of any security interest, liens or any other encumbrances and the Subscription Shares and Shares issued upon exercise of the Options will, upon allotment, rank *pari passu* with all other listed Shares.

5.4 Issued Capital

- (a) The following table is a true, complete and accurate description of the share and option capital of the Company as at the date of this agreement and following issuance of the Subscription Shares and all other Shares and Options constituting the shortfall arising from the rights issue undertaken by the Company which closed on 21 August 2013 to other investors:

Issued capital	Number currently on issue	Number on issue after issue of shortfall
Fully-paid ordinary shares	975,168,303	1,236,613,911
Listed options	181,999,245	443,444,853
Unlisted options	141,333,240	141,333,240

- (b) The conversion of all amounts outstanding (including principal and interest) owed by the Company under the Existing Convertible Note into Shares as at the date of this agreement in accordance with its terms would, if so converted on the date of this agreement and assuming a conversion price of \$0.15 for principal and \$0.02 for interest, result in the issue of 125,666,667 new Shares to Pacific Road Capital Management Pty Ltd, PRCM Nominees Pty Limited and Pacific Road Holdings NV. It is acknowledged by the Subscriber that the actual number of Shares issued on

Subscription Agreement



conversion of amounts now and in the future outstanding (including principal and interest) owed by the Company under the Existing Convertible Note will be dependent on a number of factors under the terms of the Existing Convertible Note, including the Share price prior to conversion and issues of securities, and may materially differ from that set out above.

(c) Except for:

- (1) the issue of 99,999,999 unlisted options to subscribe for Shares to Morné Engelbrecht (subject to approval of shareholders of the Company) and the issue of Shares on exercise of those options;
- (2) the issue of 7,383,200 Shares and 8,174,581 unlisted options to subscribe for Shares (and any Shares issued on exercise of those options) to employees of the Company and its subsidiaries as part of the Company's short and long term incentive programs; and
- (3) the issue of Shares upon:
 - (A) the exercise of the Options or any other options to subscribe for Shares or performance rights already on issue as at the date of this agreement; and
 - (B) conversion of the Existing Convertible Note or in payment of interest pursuant to the terms of the Existing Convertible Note,

each of which are reflected in paragraphs (a) and (b) above,

the Company is not obliged to issue or allot any Shares or other financial products or other equity interests in or of the Company, and has not granted any person the right to call for the issue or allotment of any Shares or other financial products or other equity interests in or of the Company.

5.5 Title to the Shares, Consents and Binding Effect

- (a) Upon the issue and allotment of the Subscription Securities, the Subscription Securities will be free and clear of any and all Liens.
- (b) Subject to the provisions of this agreement, the Company now has and will at each Allotment Date the full right, power and authority to issue and allot the Subscription Securities to the Subscriber.

5.6 Solvency

- (a) No:
 - (1) meeting has been convened, resolution proposed, petition presented or order made for the winding up of the Company or any subsidiary of the Company;
 - (2) receiver, receiver and manager, provisional liquidator, liquidator or other officer of the Court has been appointed in relation to all or any material asset of the Company or any subsidiary of the Company; or
 - (3) mortgagee or chargee has taken, attempted or indicated an intention to exercise its rights under any security of which the Company or any subsidiary of the Company is the mortgagor or chargor.
- (b) The Company and any subsidiary of the Company:

Subscription Agreement



- (1) is not insolvent within the meaning of section 95A of the Corporations Act;
- (2) has not stopped paying their debts as and when they fall due; and
- (3) is not subject to administration under Part 5.3A of the Corporations Act.

6. Representations and Warranties by the Subscriber

- 6.1 The Subscriber represents and warrants to the Company as at the date of this agreement as follows:
- (a) It has had the opportunity to ask and have answered any and all questions which it wished to ask with respect to the business affairs of the Company and the nature of its activities, the proposed use of the proceeds, the Subscription Securities and the subscription made under this agreement.
 - (b) It acknowledges that it is aware of the characteristics of the Subscription Securities and the risks relating to investment through the acquisition of the Subscription Securities under this agreement.
 - (c) It will execute all such documentation as may be required by the ASX for the purposes of listing the Subscription Securities subscribed for pursuant to this agreement on ASX.
 - (d) Where the Subscriber is a company it is duly incorporated:
 - (1) The Subscriber is duly authorised to enter into this agreement and empowered to do so.
 - (2) No other corporate act or proceeding on the part of the Subscriber or its members is necessary to authorise this agreement.
 - (3) This agreement constitutes a valid and binding agreement of the Subscriber enforceable in accordance with its terms.
 - (4) Neither the execution and delivery of this agreement nor the consummation by the Subscriber of the transactions contemplated by this agreement will conflict with or constitute a default under any term or provision of the Constitution of the Subscriber or of any agreement, arrangement, commitment, understanding or restriction of any kind or character to which the Subscriber is a party or by which the Subscriber is bound.

7. Notices

- 7.1 Any notice or other communication to or by any party shall be:
- (a) in writing and in the English language;
 - (b) addressed to the address of the recipient shown in this agreement or to such other address as it may have notified the sender; and
 - (c) signed by the party or by an Authorised Officer of the sender.
- 7.2 In addition to any means authorised by law any communication may be given by:
- (a) being personally served on a party;
 - (b) being left at the party's current address for service;

Subscription Agreement



- (c) being sent to the party's current address for service by prepaid ordinary mail or if the address is outside Australia by prepaid airmail;
- (d) facsimile to the party's current numbers for service; or
- (e) sent by electronic mail to the party's electronic mail address.

7.3 A communication shall be deemed duly given or made in the case of:

- (a) delivery in person, when delivered;
- (b) delivery by post:
 - (1) in Australia to an Australian address the second Business Day after posting; or
 - (2) in any other case on the tenth Business Day after posting; or
- (c) a facsimile upon a transmission report being printed by the sender's facsimile machine stating that the document has been sent to the recipient's facsimile number;
- (d) electronic mail, when the sender's computer reports that the message has been delivered to the electronic mail address of the addressee,

but if delivery is not made before 5.00pm on a Business Day it shall be deemed to be received on the next Business Day in that place.

7.4 The addresses and numbers for service are initially:

Subscriber

Address: Flat/rm 7, block 1 4/F
Email: '何焕学' hehx@jhid.com.cn; and
13661371371@163.com
Facsimile: 8610-52816088
Attention: Mr He

Company

Address: Level 9, 301 Coronation Drive, Milton, Qld
Facsimile: +61 7 3156 7776
Email: mengelbrecht@carbonenergy.com.au
Attention: Morné Engelbrecht

With a copy to:

HopgoodGanim
Level 8, Waterfront Place
1 Eagle Street
BRISBANE QLD 4000

Attention: Michelle Eastwell

7.5 A party may from time to time change its address or numbers for service by notice to the other party.

8. GST

8.1 Unless expressly stated to the contrary:

Subscription Agreement



- (a) all amounts expressed in this agreement are exclusive of GST; and
- (b) all terms in this clause 8, unless otherwise defined, have the same meaning as those terms have in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) or associated Commonwealth legislation, regulations and publicly available rulings (**GST Law**).

8.2 If a party (**Supplier**) is obliged pursuant to the GST Law to pay an amount of GST in respect of a Taxable Supply made by the Supplier to another party (**Recipient**) pursuant to the provisions of this agreement, the Recipient shall pay the Supplier on demand that amount of GST upon production of a valid Tax Invoice by the Supplier in addition to the moneys otherwise payable by the Recipient to the Supplier on account of that Taxable Supply.

9. Miscellaneous

9.1 Assignment

The parties shall not deal with any part of their rights or obligations under this agreement without the prior written consent of the other.

9.2 Waivers

- (a) A right in favour of a party under this agreement, subject to any express provision of this agreement to the contrary, may be waived prospectively or retrospectively by writing signed by that party.
- (b) No other act, omission or delay by a party will constitute a waiver of a right.

9.3 Exercise Rights

A single or partial exercise or waiver by a party of any right relating to this agreement will not prevent any other exercise of that right or the exercise of any other right.

9.4 Remedies cumulative

The rights provided under this agreement are cumulative and not exclusive of any rights provided by law.

9.5 Merger

If the liability of a party to pay to another party any moneys payable under this agreement becomes merged in any deed, judgment, order or other thing that party shall pay interest on the amount owing from time to time under that deed, judgment, order or other thing at the higher of the rate payable under this agreement and that fixed by or payable under that deed, judgment, order or other thing.

9.6 Time

Time is of the essence in respect of any obligation of a party under this agreement.

9.7 Counterparts

This agreement may be executed in any number of counterparts each of which will be considered an original but all of which will constitute one and the same instrument. A party who has executed a counterpart of this agreement may deliver it to, or exchange it with, another party by:

- (a) faxing; or

Subscription Agreement



- (b) emailing a pdf (portable document format) copy of,
the executed counterpart to that other party.

9.8 Confidentiality

A party may not disclose the contents or terms of this agreement or any information or documents received by it in connection with the negotiation of this agreement or pursuant to the provisions of this agreement without the prior consent of the other party except to the extent that:

- (a) disclosure is permitted by the express terms of this agreement;
- (b) the information is available to the public generally (except as a result of a previous breach of this clause);
- (c) that party is required to make the disclosure by law or the Listing Rules;
- (d) the disclosure is made on a confidential basis to the representatives or professional advisers of that party for the purpose of obtaining professional advice.

9.9 Costs

Each party shall be responsible for all its own costs incurred in the negotiation of, and the performance of its obligations pursuant to, this agreement including, without limitation, legal costs.

9.10 Whole Agreement

- (a) This agreement and the voluntary restriction deed entered into by the Company and the Subscriber on or about the date of this agreement (**Voluntary Restriction Deed**) supersede all prior representations, arrangements, understandings and agreements between the parties and represent the entire complete and exclusive understanding and agreement between the parties relating to the subject matter of this agreement and the Voluntary Restriction Deed; and
- (b) the parties acknowledge and agree that they have not relied on any written or oral representation, arrangement, understanding or agreement not expressly set out or referred to in this agreement or the Voluntary Restriction Deed.

9.11 Severance

If any provision of this agreement shall be or be determined to be illegal, invalid, void or voidable the legality or validity of the remainder of this agreement will not be affected and will continue in full force and effect.

9.12 Governing Law

- (a) This agreement shall be governed by and construed in accordance with the laws of Queensland.
- (b) The parties each irrevocably and unconditionally submit to the non exclusive jurisdiction of the courts of Queensland whether State or Federal and each waives any immunity or any objection it may have to any action in those courts and to a claim that any action has been brought in an inconvenient forum or to those courts not having jurisdiction.

Subscription Agreement



Attachment 1

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

Consideration

The Options are issued on the basis of 1 Option for each Share issued. No further consideration other than the payment of the Subscription Price will be payable for the Options.

Terms of Exercise

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

The 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 Option entitles the holder to subscribe for one fully paid share upon payment of the exercise price prior to the expiry date.

The 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 Option to the Company at any time on or after the date of issue and allotment of the Options, on or before the Expiry Date.

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

Transferability

The Options are transferable.

Rights to participate

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 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 Options, in accordance with the requirements of the Listing Rules.

Option holders do not participate in any dividends unless the 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 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 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 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:

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

Where:

O^n = the new exercise price of the Option;

O = the old exercise price of the Option;

E = the number of underlying securities into which one Option is exercisable;

Subscription Agreement



- 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.

Bonus issues

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

The terms of the 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 Options must not be changed to reduce the Exercise Price, increase the number of Options or change any period for exercise of the Options.

Quotation

The Company will make an application to ASX for quotation of the Options. Application will be made for quotation of the Shares issued upon exercise of Options.

Subscription Agreement



Signing page

Executed by Carbon Energy Limited 057 552
137

A handwritten signature in cursive script.

Director

CHRISTOPHER DAVID RAWLINGS

Print full name of Director

A handwritten signature in cursive script.

Director

MORNE ENGELBRECHT

Print full name of Director

Executed by Kam Lung Investment
Development Company Limited
(金麟投資發展有限公司)

Sole Director

ZHUANG Hui Hai

Print full name of Sole Director

Subscription Agreement



Signing page

Executed by Carbon Energy Limited 057 552
137

Director

Director

Print full name of Director

Print full name of Director

Executed by Kam Lung Investment
Development Company Limited
(金麟投資發展有限公司)

Sole Director

ZHUANG Hui Hai

Print full name of Sole Director