

Address Block



**CarbonEnergy**

**CARBON ENERGY LIMITED**  
**ABN 56 057 552 137**

**NOTICE OF GENERAL MEETING  
OF SHAREHOLDERS**

**To be held on**

**MONDAY, 20 JULY 2009**  
**At 9.30AM AEST**

**AT THE CATALINA ROOM,**  
**ROYAL ON THE PARK HOTEL, 152 ALICE STREET, BRISBANE**

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

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



**CarbonEnergy**

Carbon Energy Limited  
ABN 56 057 552 137

Level 12, 301 Coronation Drive,  
Milton QLD 4064

PO Box 2118,  
Toowong DC, QLD 4066  
AUSTRALIA

Tel: +61 7 3337 9944  
Fax: +61 7 3337 9945  
[www.carbonenergy.com.au](http://www.carbonenergy.com.au)

## NOTICE OF GENERAL MEETING

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

**NOTICE IS HEREBY GIVEN** that a general meeting of Shareholders of Carbon Energy Limited ABN 56 057 552 137 'Company' will be held **at the Catalina Room, Royal On The Park Hotel, 152 Alice Street, Brisbane** on Monday, **20 July 2009 at 9.30am AEST**.

### ORDINARY BUSINESS – RESOLUTIONS

#### 1. Ratification of placement of 50 million Shares

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

"That, for the purpose of Listing Rule 7.4 and for all other purposes, Shareholders approve and ratify the issue and allotment to participants in the placement on 15 June 2009 of 50 million Shares at an issue price of 43 cents per Share and otherwise on the terms and conditions set out in the Explanatory Memorandum."

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 1 by a person who participated in the issue and any associates of those persons.

However the Company will not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

#### 2. Issue of up to 24.42 million Shares

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

"That, for the purpose of Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of up to 24.42 million Shares at an issue price of 43 cents per Share, predominantly to sophisticated and professional investor clients of Southern Cross Equities on such terms and conditions as set out in the Explanatory Memorandum."

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 2 by any person who may participate in the proposed issue and any other person who may obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the proposed resolution is passed, and any associate of any of those persons.

However the Company will not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### 3. Issue of Shares to a Related Party – Dr Clifford Mallett

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

“That, for the purposes of Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of up to 4,629,630 Shares to Dr Clifford Mallett (or his nominee) pursuant to the Carbon Energy Share Sale Deed, on the terms and conditions set out in the Explanatory Memorandum.”

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 3 by Dr Clifford Mallett and any associate of Dr Clifford Mallett.

However, the Company will not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

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

#### **By Order of the Board**



Prem Nair  
**Company Secretary**  
17 June 2009

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## PROXIES

1. A Proxy Form is enclosed with this Notice of Meeting.
2. A member may appoint not more than 2 proxies. A proxy need not be a member.
3. Where a member appoints 2 proxies and does not specify the proportion or number of the member's votes each proxy may exercise half of the member's rights.
4. An instrument appointing a proxy may not be treated as valid unless the instrument, and the power of attorney or other authority (if any) under which the instrument is signed or proof of the power or authority to the satisfaction of the Directors is or are deposited at the Company's registered office or at the Company's Share registry not less than 24 hours before the time for the holding of the particular meeting or adjourned meeting as the case may be at which the person named in the instrument proposes to vote.
5. Proxy Forms (and the power of attorney, if any, under which the Proxy Form is signed) must be received at Level 12, 301 Coronation Street, Milton, Queensland or on fax number (07) 3337 9945 no later than 24 hours before the time fixed for holding the meeting.
6. An instrument appointing a proxy must be in writing under the hand of the appointer or the appointer's attorney duly authorised in writing or, if the appointer is a body corporate, by a Director jointly with either another Director or Company Secretary or if the Company has only a Sole Director by the Sole Director, or by the Company's duly authorised attorney.
7. In accordance with regulation 7.11.37 of the *Corporations Regulations 2001*, the Company has determined that the Shareholding of each person for the purposes of determining entitlements to attend and vote at the meeting will be the entitlement of that person set out in the Company's register as at 9.30am AEST on 19 July 2009. Accordingly, transactions registered after this time will be disregarded in determining entitlements to attend and vote at the meeting.

## EXPLANATORY MEMORANDUM

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

The Explanatory Memorandum has been prepared for the information of Shareholders in connection with the business to be conducted at the general meeting of Shareholders to be held on Monday, 20 July at 9.30am (**"the meeting"**).

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

### **ORDINARY BUSINESS – RESOLUTIONS**

#### **1. Ratification of placement of 50 million Shares**

##### **Background to Resolution 1**

On 15 June 2009, the Company issued 50 million Shares to sophisticated and professional investor clients of Southern Cross Equities as part of an overall placement of up to 74.42 million Shares at an issue price of 43 cents per Share, further details of which are included in notes to Resolution 2 below. The allottees were not related parties.

Under Resolution 1, the Company seeks Shareholder approval to ratify the issue and allotment of the 50 million Shares referred to above.

This is to limit the restrictive effect of Listing Rule 7.1 on any further issues of equity securities in the next 12 months and restore the Company's ability to issue equity securities within the 15% annual limit under that Listing Rule, to the extent of the 50 million Shares.

##### **Listing Rule 7.4**

Listing Rule 7.1 provides, in summary, that a listed Company may not issue equity securities in any 12 month period which, when aggregated with the number of the equity securities issued within that 12 month period, exceeds 15% of the number of ordinary fully paid Shares on issue at the beginning of the 12 month period, unless the issue falls within one of the nominated exceptions or the prior approval of members of the Company in general meeting is obtained.

Listing Rule 7.4 provides that an issue by a Company that was made without approval under Listing Rule 7.1 is treated as having been made with approval for the purposes of Listing Rule 7.1 if the issue did not breach Listing Rule 7.1 and the Company's members subsequently approve it.

Whilst the outcome of Resolution 1 will have no effect on the issue of 50 million Shares to participants in the placement, Shareholder approval will restore the Company's ability to issue further equity securities under Listing Rule 7.1 in the next 12 months from the date of issue, to the extent of the 50 million Shares.

For the purposes of Listing Rule 7.4, and in compliance with Listing Rule 7.5, Shareholders are advised as follows:

- 1) The number of securities issued and allotted was 50 million Shares;
- 2) The Shares were issued at an issue price of 43 cents per Share;
- 3) The Shares issued are fully paid ordinary Shares in the capital of the Company and rank pari passu in all respects with the Company's existing fully paid ordinary Shares;
- 4) The Shares were issued to persons who were sophisticated and professional investors for the purposes of sections 708(8) and 708(11) of the Corporations Act respectively, or who were otherwise exempt investors under another exemption in section 708 of the Corporations Act, who were clients of Southern Cross Equities and who were not related parties of the Company]; and
- 5) The funds raised will be used as detailed in the notes to Resolution 2 below.

## **2. Issue of up to 24.42 million Shares**

### **Background to Resolution 2**

The Company seeks Shareholder approval to allot and issue up to 24.42 million Shares at 43 cents per Share to sophisticated and professional investors who are clients of Southern Cross Equities which, combined with the issue of 50 million Shares for which ratification is sought under Resolution 1, will raise gross funds of up to approximately A\$32 million. The proposed allottees are not related parties of the Company.

The funds raised will be applied to the further development of the existing Underground Coal Gasification project at Bloodwood Creek near Dalby in Queensland and the wider commercial advancement of the Company's UCG technology. This funding is proposed to support installation of a 5MW power generation unit and associated facilities with operations to commence in late 2009. This is intended to be followed by front end engineering and design for the development of a 20MW of power generation facility and associated field development in late 2010. These facilities will generate cash flow for the Company and demonstrate longer term viability of commercial scale gas production to potential major off-take partners, while providing ongoing detailed process data. In addition funds will be allocated for exploratory activities in Queensland, Mid-West WA and market development initiatives in North America.

In addition the Company will also use some of the funds raised to provide additional working capital and for paying costs associated with the placement.

### **Listing Rule 7.1**

Listing Rule 7.1 provides, in summary, that a listed Company may not issue equity securities in any 12 month period which, when aggregated with the number of the equity securities issued within that 12 month period, exceeds 15% of the number of ordinary fully paid Shares on issue at the beginning of the 12 month period, unless the issue falls within one of the nominated exceptions or the prior approval of members of the Company in general meeting is obtained.

The issue of up to 24.42 million Shares as contemplated by Resolution 2 will result in the Company's 15% capacity under Listing Rule 7.1 being exceeded and accordingly Shareholder approval is sought for the purposes of this Listing Rule.

Listing Rule 7.3 requires that the following information be provided to Shareholders for the purpose of obtaining Shareholder approval pursuant to Listing Rule 7.1:

- 1) The maximum number of securities to be issues by the Company under Resolution 2 is up to 24.42 million Shares;
- 2) The Shares will be issued as soon as practicable after the meeting but in any event no later than 3 months after the date of the meeting (or such later date as is permitted by ASX waiver or modification of the Listing Rules) and it is anticipated that allotment will occur on one date rather than on a progressive basis;
- 3) The issue price of the Shares will be 43 cents per Share;
- 4) The Shares will be issued to persons who are sophisticated and professional investors for the purposes of sections 708(8) and 708(11) of the Corporations Act respectively, or who are otherwise exempt investors under another exemption in section 708 of the Corporations Act, who are clients of Southern Cross Equities and who were not related parties of the Company;
- 5) The Shares will rank pari passu in all respects with the Company's existing fully paid ordinary Shares; and
- 6) The funds raised by the issue will be used as set out above.

### 3. Issue of Shares to a related party – Dr Clifford Mallett

#### Background to Resolution 3

The purpose of Resolution 3 is to refresh Shareholder approval obtained previously on 23 June 2008 for the purposes of Listing Rule 10.11, and all other purposes, of the issue of Shares to Dr Mallett described below.

On 31 December 2008, as part of the Carbon Energy Acquisition, the Company entered into the Carbon Energy Share Sale Deed with Dr Clifford Mallett, who is now a Director of the Company.

Prior to the Carbon Energy Acquisition, Dr Mallett was employed by Carbon Energy (Operations) Pty Ltd under an executive service agreement dated 10 July 2006 which entitled him to receive, in certain circumstances, up to 250,000 options to acquire Shares in Carbon Energy (Operations) Pty Ltd, with an exercise price of \$1.00 per option.

On 31 January 2008, in order to address the residual rights of Dr Mallett to be issued with these options the Company entered into the Carbon Energy Share Sale Deed under which it was agreed that, subject to Shareholder approval, Dr Clifford Mallett would be issued with:

- a) 125,000 options to subscribe for Shares (on the basis of 1 Share for each option) in Carbon Energy (Operations) Pty Ltd (with each option exercisable for \$1) within 5 business days of Shareholder approval being obtained (**First Tranche Options**); and
- b) 125,000 options to subscribe for Shares (on the basis of 1 Share for each option) in Carbon Energy (Operations) Pty Ltd (with each option exercisable for \$1) within 5 business days of the successful completion of a trial burn (**Second Tranche Options**).

Under the Carbon Energy Share Sale Deed, Dr Mallett agreed to exercise the First Tranche Options and the Second Tranche Options once received and the Company agreed to acquire the resulting Shares in Carbon Energy (Operations) Pty Ltd to be issued to Dr Mallett and in consideration to pay to Dr Mallett:

- a) \$115,740.50 and 4,629,630 Shares in respect of the Carbon Energy (Operations) Pty Ltd Shares to be issued upon exercise of the First Tranche Options (**First Tranche Consideration**); and
- b) a further \$115,740.50 and 4,629,630 Shares in respect of the Carbon Energy (Operations) Pty Ltd Shares to be issued upon exercise of the Second Tranche Options (**Second Tranche Consideration**).

At its general meeting held on 23 June 2008, Shareholders approved, for the purposes of Listing Rule 10.11 and all other purposes, payment of the First Tranche Consideration and the Second Tranche Consideration to Dr Mallett described above. Following that general meeting Dr Mallett was issued with the First Tranche Options, which he exercised. In accordance with the Carbon Energy Share Sale Deed he then assigned the resulting Shares in Carbon Energy (Operations) Pty to the Company in consideration for payment of the First Tranche Consideration.

As announced to ASX on 3 February 2009 a successful trial burn at Bloodwood Creek has now been conducted. Accordingly, pursuant to the Carbon Energy Sale Deed, Dr Mallett is entitled to be issued with the Second Tranche Options by Carbon Energy (Operations) Pty Ltd and to exercise the Second Tranche Options to acquire Shares in Carbon Energy (Operations) Pty Ltd, by paying the total exercise price of \$125,000. He is then required to assign the resulting Shares in Carbon Energy (Operations) Pty Ltd to the Company in consideration for the Company paying Dr Mallett the Second Tranche Consideration comprising \$115,740.50 and 4,629,630 Shares.

Shareholder approval for the purposes of Listing Rule 10.11 expires if the securities to which the approval relates are not issued within one month of the approval being obtained. Accordingly, Shareholder approval in respect of the Second Tranche Consideration obtained at the general meeting of the Company held on 23 June 2008 has expired and it is necessary to obtain fresh Shareholder approval, before the Share component of the Second Tranche Consideration referred to above can be issued to Dr Mallett.

As the terms of the options to be issued to Dr Mallett, the number of Shares to be issued and the amount of cash to be paid to Dr Mallett for his Shares in Carbon Energy (Operations) Pty Ltd was determined on the same basis as the other parties to the Carbon Energy Acquisition, the Directors (other than Dr Mallett) consider that the consideration would be reasonable in the circumstances if the parties were dealing at arm's length.

## **Listing Rule 10.11**

Listing Rule 10.11 requires a listed Company to obtain Shareholder approval by ordinary resolution prior to the issue of securities (including Shares) to a related party of the Company. Dr Mallett is a related party of the Company pursuant to section 228(2) of the Corporations Act, as he is a Director of the Company. As Dr Mallett is a related party of the Company, Shareholder approval for the issue to him of Shares is required under the Listing Rule 10.11.

Approval pursuant to Listing Rule 7.1 (which restricts the number of equity securities the Company can issue in any 12 month period without Shareholder approval to 15% of the number of Shares on issue, unless exceptions apply) is not required in order to issue the Shares to Dr Mallett if approval is obtained under Listing Rule 10.11) and the Shares will not be included in calculating the number of Shares which can be issued within the 15% limit.

Listing Rule 10.13 sets out a number of matters which must be included in a notice of meeting proposing an approval under Listing Rule 10.11. For the purposes of Listing Rule 10.13, the following information is provided in relation to Resolution 3:

- a) The Shares will be issued to Dr Mallett, or his nominee;
- b) The maximum number of Shares to be issued by the Company to Dr Mallett pursuant to Resolution 3 is 4,629,630 Shares;
- c) The Shares will be issued by the 31 July 2009 and in any event within 1 month after Shareholder approval being obtained;
- d) The deemed issue price of the Shares will be the closing price of the Shares on the day the Shares are issued. The Shares to be issued are fully paid ordinary Shares which will rank equally with all Shares on issue; and
- e) The Shares will be issued in consideration for the acquisition of Dr Mallett's Shares in Carbon Energy (Operations) Pty Ltd pursuant to the Carbon Energy Share Sale Deed. Accordingly, no funds will be raised from the issue of the Shares.

## GLOSSARY

**ASX** means ASX Limited and the market operated by it, as the context requires.

**Carbon Energy Acquisition** means the acquisition by the Company on 30 June 2008 of Shares in Carbon Energy (Operations) Pty Ltd such that on completion of the acquisition, the Company held 100% of the issued Share capital of Carbon Energy (Operations) Pty Ltd.

**Carbon Energy (Operations) Pty Ltd** means (formerly Carbon Energy Pty Ltd) ABN 61 105 176 967, a wholly owned subsidiary of Carbon Energy Limited.

**Carbon Energy Share Sale Deed** means the deed dated 31 December 2008 between Dr Clifford Mallett, Mr Marion Russell Mark, Carbon Energy (Operations) Pty Ltd, CSIRO and the Company.

**Company** means Carbon Energy Limited (formerly Metex Resources Limited) ABN 56 057 552 137.

**Corporations Act** means the *Corporations Act 2001 (Cth)*.

**Director** means a Director of the Company from time to time.

**Explanatory Memorandum** means the explanatory memorandum set out in Annexure A to this Notice of Meeting.

**Listing Rules** means the listing rules of the ASX.

**Meeting** means the general meeting of Shareholders to be held on Monday, 20 July 2009 at 9.30 am AEST.

**Notice or Notice of Meeting** means this notice of general meeting dated Tuesday, 16 June 2009.

**Proxy Form** means the proxy form accompanying this notice.

**Shares** means fully paid ordinary Shares in the Company.

**Shareholder** means the holder of one or more Shares.

**Southern Cross Equities** means Southern Cross Equities Limited ABN 87 071 935 441.



**CARBON ENERGY LIMITED**  
**ABN 56 057 552 137**

**GENERAL MEETING PROXY FORM**

To: The Secretary  
Carbon Energy Limited  
PO Box 2118  
TOOWONG DC, QLD 4066  
Fax: 07 3337 9945

I / We \_\_\_\_\_ of \_\_\_\_\_  
*Full name in block letters* *address*

Being a member / members of Carbon Energy Limited, hereby appoint

\_\_\_\_\_ of \_\_\_\_\_

Or failing him/her \_\_\_\_\_

Or failing him/her, the Chairman of the Meeting, as my/our proxy to vote for me on my/our behalf in accordance with the directions indicated below or in the absence of indication, as he/she/they think fit at the General Meeting of the Company to be held **at the Catalina Room, Royal on the Park Hotel, 152 Alice Street, Brisbane on Monday, 20 July 2009 at 9.30 am AEST** and at any adjournment thereof.

Instructions as to voting:

**IMPORTANT NOTICE**

The Chairman intends to vote all undirected proxies in favour of the resolutions.

If you do not wish to direct your proxy how to vote, please place a mark in the box. ☐

By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as a proxyholder will be disregarded because of that interest.

If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called on a resolution.

**BUSINESS:**

**As Ordinary Resolutions**

	For	Against	Abstain
1. Ratification of placement of 50 million Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Issue of up to 24.42 million Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Issue of Shares to a Related Party – Dr Clifford Mallett	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**If the member is a Company with more than one Director, then it must have 2 Directors or a Director and Company Secretary execute this proxy form in accordance with section 127 of the Corporations Act.**

EXECUTED by \_\_\_\_\_  
ACN / ABN \_\_\_\_\_ In accordance with section 127 of the Corporations Act.

\_\_\_\_\_  
Director / Company Secretary

\_\_\_\_\_  
Director

\_\_\_\_\_  
Date / /09

\_\_\_\_\_  
Name of Director/Company Secretary  
(BLOCK LETTERS)

\_\_\_\_\_  
Name of Director  
(BLOCK LETTERS)

**If a member is a Sole Director Company, then this proxy form must be executed by the Sole Director of the Company.**

EXECUTED by \_\_\_\_\_  
ACN / ABN \_\_\_\_\_ .

\_\_\_\_\_  
Name of Sole Director

\_\_\_\_\_  
Signature of Sole Director

\_\_\_\_\_  
Date / /09

**OR**

**If the member is an individual or joint holders:**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date / /09

## **PROXIES**

1. A member may appoint not more than 2 proxies. A proxy need not be a member.
2. Where a member appoints 2 proxies and does not specify the proportion or number of the member's votes each proxy may exercise half of the member's rights.
3. An instrument appointing a proxy may not be treated as valid unless the instrument, and the power of attorney or other authority (if any) under which the instrument is signed or proof of the power or authority to the satisfaction of the Directors is or are deposited at the Company's registered office or at the Company's Share registry not less than 24 hours before the time for the holding of the particular meeting or adjourned meeting as the case may be at which the person named in the instrument proposes to vote.
4. Proxy Forms (and the power of attorney, if any under which the Proxy Form is signed) must be received at Level 12, 301 Coronation Street, Milton, Queensland or on fax number (07) 3337 9945 no later than 24 hours before the time fixed for holding the meeting.
5. An instrument appointing a proxy must be in writing under the hand of the appointer or of the appointer's attorney duly authorised in writing or, if the appointer is a body corporate, by a Director jointly with either another Director or Company Secretary or if the company has only a Sole Director by the Sole Director, or by the Company's duly authorised attorney.
6. As permitted by the Corporations Act 2001, the Company has determined that all securities of the Company registered as at 24 hours before the time appointed for the meeting will be taken for purposes of the meeting, to be held by the persons who are registered holders thereof at 9.30 am AEST on 19 July 2009. Accordingly, transactions registered after time will be disregarded in determining entitlements to attend and vote at the meeting.