

CARBON ENERGY LIMITED

ACN 057 552 137

Entitlement Offer information booklet

3 for 11 pro rata renounceable entitlement offer at 1.3 cents per Share.

**Partially underwritten to \$1,800,000 by
APP Securities Pty Ltd ABN 45 112 871 842**

Last date for acceptance and payment: 5.00pm (AEST) on 4 April 2016

If you are an Eligible Shareholder, this is an important document that requires your immediate attention. It should be read in its entirety. If, after reading this document you have any questions about the securities being offered for issue under it or any other matter, you should contact your stockbroker, solicitor, accountant or other professional adviser.

Lead Manager and Underwriter



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IMPORTANT NOTICES

This Information Booklet is dated 11 March 2016. Capitalised terms in this section have the meaning given to them in this Information Booklet.

The Entitlement Offer is being made without a prospectus under section 708AA of the Corporations Act (as notionally modified by ASIC Class Order 08/35). This Information Booklet does not contain all of the information which a prospective investor may require to make an informed investment decision. The information in this Information Booklet does not constitute financial product advice and does not take into account your investment objectives, financial situation or particular needs.

This Information Booklet is important and should be read in its entirety before deciding to participate in the Entitlement Offer. This Information Booklet is not a prospectus under the Corporations Act and has not been lodged with ASIC.

Carbon Energy may make additional announcements after the date of this Information Booklet and throughout the period that the Entitlement Offer is open that may be relevant to your consideration about whether you should participate in the Entitlement Offer.

No party other than Carbon Energy has authorised or caused the issue of this Information Booklet, or takes any responsibility for, or makes, any statements, representations or undertakings in this Information Booklet.

By returning an Entitlement and Acceptance Form or otherwise paying for your New Shares through BPAY in accordance with the instructions on the Entitlement and Acceptance Form, you acknowledge that you have read this Information Booklet and you have acted in accordance with and agree to the terms of the Entitlement Offer detailed in this Information Booklet.

Foreign jurisdictions

This Information Booklet and the accompanying Entitlement and Acceptance Form do not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make that offer or invitation. In particular, this Information Booklet does not constitute an offer to Ineligible Shareholders and may not be distributed in the United States and the New Shares may not be offered or sold, directly or indirectly, to persons in the United States.

This Information Booklet is not to be distributed in, and no offer of New Shares is to be made in countries other than Australia, New Zealand, Hong Kong and China. The distribution of this Information Booklet (including an electronic copy) in other jurisdictions may be restricted by law and therefore persons who come into possession of this Information Booklet should seek advice on and observe these restrictions. Any failure to comply with these restrictions may constitute a violation of applicable securities laws.

No action has been taken to register or qualify the Entitlement Offer, the Entitlements or the New Shares, or otherwise permit the public offering of the New Shares, in any jurisdiction outside Australia, New Zealand, Hong Kong and China.

Foreign exchange control restrictions or restrictions on remitting funds from your country to Australia may apply. Your Application for New Shares is subject to all requisite authorities and clearances being obtained for Carbon Energy to lawfully receive your Application Monies.

New Zealand

The New Shares are not being offered or sold to the public within New Zealand other than to existing Carbon Energy shareholders with registered addresses in New Zealand to whom the offer of New Shares is being made in reliance on the Securities Act (Overseas Companies) Exemption Notice 2013 (New Zealand).

This document has not been registered, filed with or approved by a New Zealand regulatory authority under the Securities Act 1978 (New Zealand). This document is not an investment statement or prospectus under New Zealand law and is not required to, and may not, contain all the information that an investment statement or prospectus under New Zealand law is required to contain.

China

The information in this document does not constitute a public offer of the Entitlements or the New Shares, whether by way of sale or subscription, in the People's Republic of China (excluding, for purposes of this paragraph, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). The New Shares may not be offered or sold directly or indirectly in the PRC to legal or natural persons other than directly to "qualified domestic institutional investors".

Hong Kong

WARNING: The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

Definitions, currency and time

Defined terms used in this Information Booklet are contained in section 5. All references to currency are to Australian dollars and all references to time are to Australian Eastern Daylight Time (AEDT) until 3 April 2016, after which times are in Australian Eastern Standard Time (AEST), unless otherwise indicated.

Taxation

There will be tax implications associated with participating in the Entitlement Offer and receiving New Shares and transferring or selling your Entitlements (whether in whole or in part). Carbon Energy considers that it is not appropriate to give advice regarding the tax consequences of subscribing for New Shares or dealing with Entitlements under this Information Booklet or the subsequent disposal of any New Shares. Carbon Energy recommends that you consult your professional tax adviser in connection with the Entitlement Offer.

Privacy

Carbon Energy collects information about each Applicant provided on an Entitlement and Acceptance Form for the purposes of processing the Application and, if the Application is successful, to administer the Applicant's shareholding in Carbon Energy.

By submitting an Entitlement and Acceptance Form, you will be providing personal information to Carbon Energy (directly or through the Share Registry). Carbon Energy collects, holds and will use that information to assess your Application. Carbon Energy collects your personal information to process and administer your shareholding in Carbon Energy and to provide related services to you. Carbon Energy may disclose your personal information for purposes related to your shareholding in Carbon Energy, including to the Share Registry, Carbon Energy's related bodies corporate, agents, contractors and third party service providers, including mailing houses and professional advisers, and to ASX and regulatory bodies. You can obtain access to personal information that Carbon Energy holds about you. To make a request for access to your personal information held by (or on behalf of) Carbon Energy, please contact Carbon Energy through the Share Registry.

Governing law

This Information Booklet, the Entitlement Offer and the contracts formed on acceptance of the Applications are governed by the law applicable in Queensland, Australia. Each Applicant submits to the exclusive jurisdiction of the Queensland courts and courts competent to hear appeals from those courts.

No representations

No person is authorised to give any information or to make any representation in connection with the Entitlement Offer which is not contained in this Information Booklet. Any information or representation in connection with the Entitlement Offer not contained in the Information Booklet may not be relied upon as having been authorised by Carbon Energy or any of its officers.

Past performance

Investors should note that Carbon Energy's past performance, including past share price performance, cannot be relied upon as an indicator of (and provides no guidance as to) Carbon Energy's future performance including Carbon Energy's future financial position or share price performance.

Future performance

This Information Booklet contains certain forward-looking statements with respect to the financial condition, results of operations, projects and business of Carbon Energy and certain plans and objectives of the management of Carbon Energy. These forward-looking statements involve known and unknown risks, uncertainties and other factors which are subject to change without notice, and may involve significant elements of subjective judgement and assumptions as to future events which may or may not be correct.

Forward-looking statements are provided as a general guide only and there can be no assurance that actual outcomes will not differ materially from these statements. Neither Carbon Energy, nor any other person, gives any representation, warranty, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statement will actually occur. In particular, those forward-looking statements are subject to significant uncertainties and contingencies, many of which are outside the control of Carbon Energy. A number of important factors could cause actual results or performance to differ materially from the forward looking statements. Investors should consider the forward looking statements contained in this Information Booklet in light of those disclosures.

Risks

Refer to the 'Risk factors' section in section 4 of this Information Booklet for a summary of general and specific risk factors that may affect Carbon Energy.

Chairman's letter

11 March 2016

On behalf of the directors and management, I offer you the opportunity to invest in Carbon Energy Limited (**Carbon Energy**), through this partially underwritten renounceable pro rata rights issue, which will help the Company progress the opportunities presented in overseas markets.

Under the offer, Eligible Shareholders are invited to apply for 3 New Shares for every 11 Existing Shares held at an issue price of \$0.013 (1.3 cents) per New Share which if fully subscribed would raise approximately \$5.3 million. Funds raised under the Offer will be used for:

- pursuing International and Australian business development opportunities;
- progressing the activities of the work plan for the Company's mineral development licence (MDL374), that include the continuation of the Company's ground water monitoring program under its Environmental Authority which form part of its Rehabilitation Plan for the trial site near Dalby, in South East Queensland (**Trial Site**);
- meeting general working capital requirements; and
- paying offer costs.

The Offer Price represents an 18.9% discount to the Company's 5 day VWAP of \$0.01603 on Tuesday 8 March 2016, the last day CNX Shares traded before the Offer was announced, and a 10.8% discount to the theoretical ex-rights price of \$0.01457.

Any Shortfall to the Offer is partially underwritten by APP Securities Pty Ltd with the Company's major shareholder (and a related party) Kam Lung Investment Development Co. Ltd providing sub-underwriting support. I welcome the potential investment by Kam Lung as an endorsement of the Company and its international prospects and pending success. The partial underwriting and sub-underwriting were, to the extent of \$1,800,000 conditional on Kam Lung obtaining FIRB Clearance, which has been obtained.

The Offer is being managed by the Underwriter.

Update on Company's Activities

In section 2 you will find an overview of the Company and an update on its activities. I would like to highlight several of the key advances the Company has made over the last year. Carbon Energy has:

- Proven its scientific credentials by addressing all the recommendations made by an independent scientific panel. The review included an environmental assessment of the full life-cycle of utilising keyseam technology, from operations through to rehabilitation;
- Put in motion the commercialising of its keyseam technology in China with the formation of the JinHong Joint Venture (**JinHong JV**), with shareholder approval;
- Rebased its strategic focus, realigning the Company's priorities to commercialising its keyseam technology internationally with the initial focus on China through the JinHong JV;
- Developed a replicable business model for expansion to other newly industrialised countries;
- Founded, together with other Chinese parties, The China University of Mining Technology's International UCG Research Centre to help develop site selection, operational and environmental standards in China for the UCG industry;
- Gained increased support from its cornerstone investor; and
- Implemented cost reductions across the organisation including reduction of staff and management.

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

The Company's objective remains to establish keyseam as the gasification method of choice for monetising deep UCG suitable coal resources worldwide.

We are closing in on this goal. We require working capital to finalise business development opportunities focusing on downstream users that will benefit from the low cost and environmentally effective alternative keyseam syngas can provide.

Recently, we announced a strategic shift in our priorities and the establishment of the JinHong JV in China that acknowledges a future for commercialisation of keyseam in China. The joint venture has set a timetable to build its first project. As the JinHong JV progresses, the Company will be providing technical, operational and management support services to the joint venture for a fee which will commence a revenue stream needed to help progress Carbon Energy to being self-sufficient and increase shareholder value. Importantly the joint venture arrangements are structured such that the Company will be engaged on an exclusive basis to provide technical services in support of future sub-licences for all 3rd party sub-licences granted by the JinHong JV. This reflects that each project and coal deposit is unique and requires the expertise of Carbon Energy to successfully assess and design the solution for each potential client.

The business development opportunities stretch beyond the JinHong JV with Carbon Energy pursuing interests across China, (with your Company entitled to receive 90% of licence fees through the JinHong JV before exclusivity is obtained by the JinHong JV). Carbon Energy is also a foundation partner in The China University of Mining Technology's International UCG Research Centre. The Centre has been formed to align with the anticipated inclusion of UCG as a key pillar in China's future plans for cleaner energy production. As a foundation partner, Carbon Energy intends to use its knowledge of UCG and the demonstration of keyseam's technical results to pursue further opportunities to partner with the Chinese industry.

The business model being developed in China can be replicated elsewhere. Opportunities exist in other newly industrialised countries that need to address high growth energy demands in an environmentally responsible manner and priced competitively. These countries are open to innovative technologies, such as keyseam, for the environmental rigour and commercial viability they promise. India, for example, has recently approved a UCG policy and Carbon Energy was invited to make a presentation to the Minister for Power, Coal, New & Renewable Energy and his staff to ensure that participants in this newly developed industry are aware of Carbon Energy's advanced UCG technology credentials to support the establishment of this industry.

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

While our primary focus is now looking off-shore, the achievements Carbon Energy has accomplished at home in successfully completing all the recommendations of the government appointed independent scientific panel has given the Company great confidence.

On behalf of the Directors, I thank you for your continued support and I invite you to take up this investment opportunity to acquire New Shares and to apply for Additional Securities.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'C. D. Rawlings', with a stylized flourish at the end.

Dr Chris Rawlings
Chairman

Summary of the Entitlement Offer

Entitlement Offer	
Ratio	3 New Shares for every 11 existing Carbon Energy ordinary shares
Issue Price	\$0.013 (1.3 cents) per New Share
Size	Approximately 407,933,087 New Shares
Gross proceeds	Approximately \$5,303,130

Key dates

Activity	Date
Announcement of the Entitlement Offer	11 March 2016
Ex date	16 March 2016
Record Date for Entitlement Offer (7.00pm AEDT)	17 March 2016
Information Booklet and Entitlement and Acceptance Form despatched	22 March 2016
Entitlement Offer opens	22 March 2016
Entitlement trading begins	16 March 2016
Entitlements trading ends (5.00pm AEDT)	24 March 2016
New Shares quoted on a deferred settlement basis	29 March 2016
Closing date for acceptances under Entitlement Offer (5.00pm AEST)	4 April 2016
Announcement of results of Entitlement Offer and under-subscriptions	7 April 2016
Settlement of New Shares under the Entitlement Offer	11 April 2016
Allotment of New Shares issued under the Entitlement Offer	11 April 2016
Despatch of holding statements for New Shares issued under the Entitlement Offer	13 April 2016
Normal ASX trading for New Shares issued under the Entitlement Offer commences	14 April 2016

Notes: Times are in Australian Eastern Daylight Time (AEDT) until 3 April 2016, after which times are in Australian Eastern Standard Time (AEST)

This timetable is indicative only and subject to change. The Directors may vary these dates, in consultation with the Underwriter, subject to the Listing Rules. An extension of the Closing Date will delay the anticipated date for issue of the New Shares. The Directors also reserve the right not to proceed with the whole or part of the Entitlement Offer any time before the allotment and issue of the New Shares. In that event, the relevant Application Monies (without interest) will be returned in full to Applicants.

Summary of key risks

Potential investors should consider the risks that could affect the Company before deciding to apply for Shares under the Entitlement Offer. As with any share investment, the shares may not yield a return, including a return of capital. The Company is also subject to some risks including:

Key risk	Description
Technological and operational risks	Carbon Energy is yet to successfully transition its keyseam technology from a pilot project to a commercial scale operation. The Company is also dependent on obtaining access to coal resources that are both technically and commercially suitable to the application of the Company's keyseam technology.
Foreign country risks	Carbon Energy faces inherent uncertainties operating in foreign jurisdictions due to cultural, political, economic and legal differences.
Regulatory risks	The Company is required to comply with a range of regulatory authorities. Governments are in the process of developing their policies which may lead to further changes in the regulatory environment and uncertainty around development of projects.
Macro economic risks	Carbon Energy's operational and financial performance is affected by the Australian and other international economies and, in particular, the coal and gas markets within those economies. General and business conditions, commodity prices, inflation, interest rates, monetary and fiscal policy, political circumstances and currency exchange rates are all matters which may affect Carbon Energy's operating and financial performance.
Key personnel risks	Carbon Energy is highly dependent upon retaining its qualified, technical and managerial personnel.
Tenure and land related risks	Carbon Energy requires relevant government authorities to grant tenure and permits to undertake its activities. There can be no assurance that these tenures and permits will be granted or that they will be granted without delay or granted without onerous conditions. There may also be competing land usage and community opposition to projects.

The above is only a summary of some of the key risks, further analysis of risks for Eligible Shareholders to consider are included in section 4. Eligible Shareholders should carefully consider the risks in light of their personal circumstances (including financial and taxation issues) and seek professional advice from their stockbroker, accountant, lawyer or other professional adviser before making an Application.

Enquiries

For further, information, telephone 1300 761 372 (inside Australia) and +61 1300 761 372 (outside Australia) between 8.30am and 5.00pm (AEDT, until 3 April 2016, then AEST). Alternatively, contact your stockbroker, solicitor, accountant or other professional adviser. If you have lost your Entitlement and Acceptance Form and would like a replacement form, you should contact the Share Registry on 1300 761 372 (within Australia) or +61 1300 761 372 (outside Australia).

1 Description and effect of the Offer

1.1 Overview

The Entitlement Offer is a renounceable offer of 3 New Shares for every 11 Existing Shares held at \$0.013 per New Share to raise approximately \$5,302,405 (before direct offer costs including fees paid to the Underwriter, costs agreed to be paid by the Company relating to the FIRB Clearance process for the sub-underwriting by Kam Lung, fees paid to advisers and to providers of specific services to cover share registry, printing and postage costs).

The proceeds of the Entitlement Offer will be used for the following purposes:

- (a) pursuing International and Australian business development opportunities;
- (b) progressing the activities of the work plan for the Company's mineral development licence (MDL374), that include the continuation of the Company's ground water monitoring program under its Environmental Authority which form part of its Rehabilitation Plan for the trial site near Dalby, in South East Queensland (**Trial Site**);
- (c) meeting general working capital requirements for:
 - (i) ongoing costs related to defending the Summa litigation;
 - (ii) compliance costs;
 - (iii) occupancy and administrative costs; and
- (d) paying offer costs.

The Company is doing everything possible to reduce its costs at all levels within the business. The Company has introduced cost reduction measures which are aimed at reducing expenditure and minimising cash outflows on an ongoing basis to preserve capital and secure the long term success of the Company.

The Directors consider that Carbon Energy is well positioned to take advantage of further market opportunities not only in China but around the world in countries where governments are supportive of, or have indicated support for, UCG such as India, South Africa, and regions within Africa and Eastern Europe.

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

Purpose	Estimated \$ million	Estimated %
Pursuing International and Australian business development opportunities	\$0.8	14%
Progressing the activities of the work plan for the Company's mineral development licence (MDL374), that include the continuation of the Company's ground water monitoring program under its Environmental Authority which form part of its Rehabilitation Plan for the Trial Site.	\$1.4	27%
Meeting general working capital requirements (including working capital necessary to cover the legal and associated costs in defending the Summa	\$2.9	55%

litigation)		
Paying offer Costs*	\$0.2	4%
Total	\$5.3	100%

**This includes the capital raising fees that are payable to the Lead Manager, the details of which are outlined in section 1.4.*

Notwithstanding the allocations set out above, in the event that circumstances change or other beneficial opportunities arise, the Directors reserve the right to vary the proposed use of funds to maximise the benefit to Shareholders. Should the rights issue not be fully subscribed, then with the exception of progressing the activities of the work plan for MDL374 and legal fees, 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 regulatory compliance. In those circumstances, business development and general working capital will be adjusted accordingly. The extent of such adjustment may mean the Company has to raise further capital in the next 12 months.

Eligible Shareholders who are on Carbon Energy's share register on the Record Date are entitled to acquire 3 New Shares for every 11 Existing Shares held on the Record Date (**Entitlement**).

Fractional Entitlements will be rounded down to the nearest whole number of New Shares.

The issue price of \$0.013 per New Share represents a discount of 18.9% to the 5 day VWAP of Carbon Energy shares on 8 March 2016 (being the last trading day before announcement of the Entitlement Offer).

An Entitlement and Acceptance Form setting out your Entitlement accompanies this Information Booklet. Eligible Shareholders may subscribe for all or part of their Entitlement.

Eligible Shareholders should be aware that an investment in Carbon Energy involves risks. The key risks identified by Carbon Energy are summarised in section 4 of this Information Booklet.

1.2 Issue of additional Shares under the Top Up Facility

Any New Shares not taken up by the Closing Date may be made available to those Eligible Shareholders who took up their full Entitlement and applied for additional New Shares under the Top Up Facility.

There is no guarantee that those Shareholders will receive the number of New Shares applied for under the Top Up Facility, or any. The number of New Shares available under the Top Up Facility will not exceed the shortfall from the Entitlement Offer. The Directors reserve the right to allot and issue New Shares under the Top Up Facility at their discretion, however, Kam Lung or any other related party will not be allotted New Shares under the Top Up Facility.

1.3 Entitlement trading

The Entitlement Offer is renounceable, meaning that Eligible Shareholders may sell their Entitlements to third parties if they do not wish to take them up. A market will be established on ASX to facilitate this Entitlements trading.

Entitlements trading commences on ASX on 16 March 2016 and will cease trading at 5.00pm (AEDT) on 24 March 2016.

1.4 Underwriting and management

APP Securities Pty Ltd is Lead Manager to the Entitlement Offer and has partially conditionally underwritten \$1,800,000 of any Shortfall under the Entitlement Offer on the terms set out in the Underwriting Agreement. The Underwriter's obligation to underwrite \$1,800,000 of the Shortfall was conditional on Kam Lung obtaining FIRB Clearance for the acquisition of Shares in the Company, which has been obtained. Customary with these types of arrangements:

- (a) the Underwriting Agreement includes a number of termination events, including:
 - (i) market related termination events, including in the event that there is a 10% fall in the S&P/ASX 200 Index;
 - (ii) a material adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of Carbon Energy and its controlled entities; and
 - (iii) on the occurrence of a force majeure event;
- (b) the Underwriter will receive:
 - (i) an underwriting fee of up to \$36,000, being 2% of the gross proceeds of the amount underwritten under this Entitlement Offer (excluding GST); and
 - (ii) a management fee of \$70,000 (excluding GST);
- (c) the Underwriter is entitled to reimbursement of certain expenses; and
- (d) Carbon Energy has agreed to indemnify the Underwriter and others against their losses in connection with the Entitlement Offer.

Fees payable to the Underwriter in 1.4(b) will be offset against fees payable to the Underwriter under its existing mandate with the Company up to \$35,000.

1.5 Sub-underwriting

Kam Lung Investment Development Company Limited has entered into a Sub-underwriting Agreement with the Underwriter for an amount of \$1,800,000. Kam Lung's obligation to sub-underwrite this amount was conditional on Kam Lung obtaining FIRB Clearance, which has been obtained. The Company funded legal expenses incurred in obtaining the FIRB Clearance in an amount of \$13,000.

Kam Lung is the Company's largest shareholder (with 19.77% of the Existing Shares) and a related party of the Company controlled by Director, Mr Huihai Zhuang. Kam Lung will be paid a sub-underwriting fee of up to 1% (\$18,000) of the amount sub-underwritten by the Underwriter.

Under the Sub-Underwriting Agreement, Kam Lung may acquire up to 138,461,538 New Shares in addition to its Entitlement. Kam Lung is required, under the Sub-underwriting Agreement, to deposit \$1,800,000 into an account of the Company to be used for the purpose of meeting its obligations under the Sub-underwriting Agreement. These funds must be returned if Kam Lung is not required, under the Sub-underwriting Agreement, to subscribe for \$1,800,000 worth of Shares.

1.6 Effect of Entitlement Offer on control of Carbon Energy

As described above, one of the Sub-underwriters of the Entitlement Offer is Kam Lung. Kam Lung currently holds 19.77% of the Existing Shares. Kam Lung is a related party of the Company as it is controlled by Director, Mr Huihai Zhuang and currently holds 295,663,743 Shares and 171,818,615 listed options to acquire Shares (exercisable at \$0.06 per Share and expiring on 31 July 2016).

Under the Sub-underwriting agreement, Kam Lung may be issued up to 138,461,538 New Shares. In addition, Kam Lung's Entitlement will amount to 80,635,566 New Shares.

Given this, the potential effect on control under the offer will be:

- (a) if the Offer is fully subscribed, any Shareholder that does not acquire New Shares will be diluted;
- (b) if all Shareholders take up their Entitlement (including Kam Lung and all Entitlements of Ineligible Shareholders traded on ASX), there will be no effect on control and Kam Lung will continue to hold 19.77% of the Shares;
- (c) if Kam Lung does not take up any of its Entitlement but is required to apply for New Shares for the full sub-underwriting amount of \$1,800,000, and no other Eligible Shareholder takes up their Entitlement, Kam Lung's voting power will increase from 19.77% to 26.56%;
- (d) if Kam Lung takes up its full Entitlement and is required to sub-underwrite the maximum of \$1,800,000, and no other Eligible Shareholder takes up their Entitlement, Kam Lung's voting power will increase from 19.77% to 30.02%;
- (e) if Kam Lung takes up its full Entitlement, sub-underwrites the maximum of \$1,800,000 and exercises its options, and no other Eligible Shareholder takes up their Entitlement, Kam Lung's voting power will increase from 19.77% to 36.39%.

Kam Lung has indicated to the Company that it intends to take up its Entitlement. The Company considers it highly unlikely Kam Lung will exercise its options before they expire. Firstly, the exercise price of those options is, currently, a significant premium to the trading price of Shares. Secondly, Kam Lung is restricted from increasing its voting power under takeover provisions in Chapter 6 of the Corporations Act.

The Company does not expect any increase in voting power of Kam Lung to materially affect control of the Company given Kam Lung's existing holding. Kam Lung has already nominated a director on the board, Mr Huihai Zhuang.

However:

- (a) if Kam Lung's voting power increases to 25% or more, Shareholders should be aware that this will provide Kam Lung with an ability to block any special resolution proposed by the Company (including in connection with any scheme of arrangement) unless Kam Lung is excluded from the vote; and
- (b) if Kam Lung's voting power increases, particularly if it increases to 30.02%, depending on voting participation by other Shareholders, Kam Lung may have an ability to pass or block an ordinary resolution of Shareholders. At the Company's annual general meeting in 2015, the maximum number of votes cast on any resolution represented 43.31% of the Shares. If that level of participation or similar continues, Kam Lung would have an

ability to determine the outcome of an ordinary resolution, unless Kam Lung is excluded from the vote.

1.7 Shortfall facility

A shortfall may arise if applications received for New Shares under the Entitlement Offer (including after the completion of the Top Up Facility and the Entitlements of Ineligible Shareholders) are less than the number of New Shares offered and the Underwriter or Sub-underwriter does not acquire that shortfall under the Underwriting Agreement.

The Directors reserve the right, subject to the requirements of the Listing Rules and the Corporations Act, to place Shortfall Shares within three months after the Closing Date to either existing or new Shareholders at their discretion. If issued, Shortfall Shares will be issued at a price not less than the Issue Price of New Shares under the Entitlement Offer. Shareholders will not receive any payment or value for the Entitlements not taken up under the Entitlement Offer that are subsequently taken up as Shortfall Shares.

1.8 Eligibility of Shareholders

The Entitlement Offer is being offered to all Eligible Shareholders.

An Eligible Shareholder is a Shareholder on the Record Date who:

- (a) has a registered address on the Carbon Energy share register in Australia, New Zealand, Hong Kong, China (and, in respect of China, is a 'qualified domestic institutional investor') or is a Shareholder that Carbon Energy has otherwise determined is eligible to participate;
- (b) is not in the United States and is not a person (including nominee or custodian) acting for the account or benefit of a person in the United States;
- (c) is eligible under all applicable securities laws to receive an offer under the Entitlement Offer without any requirement for a prospectus to be lodged or registered.

The Entitlement Offer is not being extended to the Ineligible Shareholders because of:

- (a) the small number of those Shareholders, the number and value of the Shares they hold and the cost of complying with applicable regulations in jurisdictions outside Australia and New Zealand, Hong Kong and China.
- (b) with respect to Belgium, there is only one Shareholder based in Belgium, and that Shareholder has previously advised the Company that it would not take up any of its rights under an offer of securities.

1.9 Nominee for Ineligible Shareholders

Carbon Energy has appointed the Nominee, on normal commercial terms, as nominee for the Ineligible Shareholders to arrange for the sale of the Entitlements which would have been offered to them. The Nominee will arrange for proceeds (if any), net of expenses, to be sent proportionally to each Ineligible Shareholder. The Nominee will have the absolute and sole discretion to determine the timing and the price at which the Entitlements may be sold and the manner of any sale. Neither Carbon Energy nor the Nominee will be subject to any liability for the failure to sell the Entitlements or to sell them at a particular price.

If, in the reasonable opinion of the Nominee, there is not a viable market for the Entitlements that would have been offered to the Ineligible Shareholders or a surplus over the expenses of

sale cannot be obtained for those Entitlements, then the Entitlements will be allowed to lapse and they will form part of the Shortfall Shares.

1.10 Ranking of New Shares

The New Shares issued under the Entitlement Offer will be fully paid and rank equally with Existing Shares.

1.11 Allotment

Carbon Energy has applied for quotation of the New Shares on ASX. It is expected that allotment of the New Shares under the Entitlement Offer will take place no more than six Business Days after the close of the Entitlement Offer.

Application Monies will be held by Carbon Energy on trust for Applicants until the New Shares are allotted. No interest will be paid on Application Monies.

It is the responsibility of Applicants to determine the number of New Shares allotted and issued to them before trading the New Shares. The sale by an Applicant of New Shares before receiving their holding statement is at the Applicant's own risk.

1.12 Capital structure

Subject to the rounding down of fractional Entitlements and depending on the number of Carbon Energy options (if any) that are exercised before the Record Date, the capital structure of Carbon Energy following the issue of New Shares is expected to be as follows:

Existing Shares on issue as at 11 March 2016 (announcement of the Entitlement Offer)	1,495,754,653
Approximate new Shares issued under the Entitlement Offer	407,933,087
Approximate total number of Shares after the Entitlement Offer	1,903,687,740

The above figures assume that no existing options over Carbon Energy Shares will be exercised prior to the Record Date. There are 495,273,222 existing exercisable options, comprising:

- (a) 443,696,404 options with an exercise price of 5.94¹ cents which expire on 31 July 2016;
- (b) 7,081,738 options with an exercise price of 2.6 cents which expire on 15 October 2016;
- (c) 7,000,000 options with an exercise price of 16.72¹ cents which expire on 18 January 2017;
- (d) 28,000,000 options with an exercise price of 16.72¹ cents which expire on 25 February 2017; and
- (e) 9,495,080 options with an exercise price of 3.01 cents which expire on 25 August 2017.

¹ Repriced in accordance with terms and conditions attached to the option

In addition, it is noted the Pacific Road Group has the right under terms of the Convertible Loan Facility for \$10,000,000 to convert all of that facility to Shares. Having regard to the exercise price of the Existing Options and the Offer Price, the Directors believe that it is unlikely that any existing options or the Pacific Road Convertible Loan Facility will be exercised or converted before the Record Date. Shareholders should note that the Convertible Loan Facility has a repricing condition for the exercise price. Should the Entitlement Offer be fully subscribed the conversion price may fall from \$0.14 to \$0.134. In the event that any existing options are exercised or the Convertible Loan Facility is converted, however, any proceeds raised will be applied to the general working capital of Carbon Energy.

1.13 Effect on Carbon Energy's financial position

Set out below is the consolidated balance sheet of Carbon Energy as at 31 December 2015 and a pro-forma balance sheet assuming the total funds raised under the Entitlement Offer is \$5,303,130 and deducting costs associated with the offer of \$208,260 (being net proceeds of \$5,094,870) as at 31 December 2015.

	Reviewed Statement of Financial Position at 31 December 2015	Proposed Offer and Pro- Forma Adjustments (Unaudited)	Unaudited Pro Forma Statement of Financial Position as at 29 February 2016
	\$	\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	1,930,668	5,094,870	7,025,538
Trade and other receivables	41,626		41,626
Other Current Assets	77,613		77,613
Total Current Assets	2,049,907	5,094,870	7,144,777
Non-Current Assets			
Trade and other receivables	267,553		267,553
Construction Work In Progress	2,555,334		2,555,334
UCG Panel assets	1,785,796		1,785,796
Property, plant & equipment	765,435		765,435
Deferred exploration and evaluation costs	90,429,448		90,429,448
Intangible assets	47,961,354		47,961,354
Total Non-Current Assets	143,764,920	0	143,764,920
TOTAL ASSETS	145,814,827	5,094,870	150,909,697
LIABILITIES			
Current Liabilities			
Trade and other payables	475,547		475,547
Deferred Revenue	0		0
Loans and Borrowings	0		0
Derivative Financial Liability	0		0
Provisions	284,463		284,463
Total current liabilities	760,010	0	760,010
Non-Current Liabilities			
Provisions	3,819,627		3,819,627
Financial Liabilities	8,623,086		8,623,086
Total Non-Current Liabilities	12,442,713	0	12,442,713
TOTAL LIABILITIES	13,202,723	0	13,202,723
NET ASSETS	132,612,104	5,094,870	137,706,974
EQUITY			
Contributed Equity	240,780,103	5,094,870	245,874,973
Reserves	20,058,501		20,058,501
Accumulated losses	(128,226,500)		(128,226,500)
TOTAL EQUITY	132,612,104	5,094,870	137,706,974

1.14 Broker handling fee

No handling fees apply to the application amount of New Shares.

1.15 Information Availability

Eligible Shareholders can obtain a copy of this Information Booklet from the Carbon Energy website at www.carbonenergy.com.au or by calling the Share Registry on 1300 761 372 (within Australia) or +61 1300 761 372 (outside Australia) at any time from 8.30am to 5.00pm (AEDT, until 3 April 2016, then AEST) during the Entitlement Offer period. Persons who access the electronic version of this Information Booklet should ensure that they download and read the entire Information Booklet. The electronic version of this Information Booklet will not include an Entitlement and Acceptance Form. A replacement Entitlement and Acceptance Form can be requested by calling the Share Registry.

2 Investor presentation

The background of the slide is a photograph of industrial equipment, likely part of a carbon capture system. It features large, cylindrical metal vessels connected by a network of pipes, valves, and gauges. The scene is brightly lit, possibly from natural light, creating a high-contrast image. A semi-transparent grey banner is overlaid on the middle of the image, containing the text for the offer.

CARBON ENERGY LIMITED

**PRO-RATA
ENTITLEMENT OFFER**
MARCH 2016



carbonenergy

DISCLAIMER AND IMPORTANT NOTICE

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All Reserve and Resource estimates (**Estimates**) in this document are reported in accordance with the requirements of ASX Listing Rules 5.25 to 5.28. It is noted in particular that:

- This document refers to Estimates reported on 19 September 2014 and released to the market on 22 September 2014 (**Updated Reserves Statement**);
- All Estimates are based on the deterministic method for estimation of petroleum resources at the field and project levels and are attributable to the gross (100 percent) ownership interest of Carbon Energy in certain coal properties located in MDL374, EPC867, EPC869 and EPC1132 located in the Surat Basin of Queensland, Australia;
- All Estimates are reported using the following conversion factors as relevant:
 - UCG Energy conversion factor is 16.73 GJ of syngas per tonne of coal gasified;
 - UCG syngas to Synthetic Natural Gas (SNG) conversion factor is 38.5 to 25;
 - 1,055 Petajoule (PJ) = 1 Trillion cubic feet (Tcf); and
 - 1 barrel of oil equivalent (boe) = 6,000 cubic feet.

Further, Carbon Energy confirms that it is not aware of any new information or data that materially affects the information included in the Updated Reserves Statement and that all material assumptions and technical parameters underpinning the estimates in the Updated Reserves Statement continue to apply and have not materially changed.

keyseam[®] is a registered trademark of Carbon Energy.



OBJECTIVE & STRATEGY

To establish keyseam® as technology of choice for monetising deep coal resources worldwide.

This will be achieved through the downstream use of keyseam as a commercial and environmentally effective alternative to current gas feedstocks.

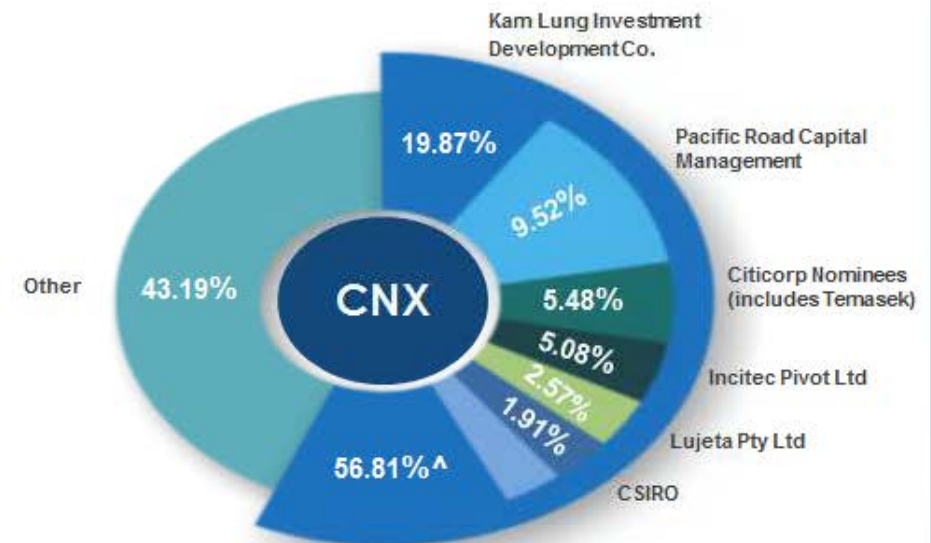


Photo: Bloodwood Creek

COMPANY OVERVIEW

- Gas technology company based in Queensland, Australia, ASX listed – CNX.
- *keyseam* technology, developed in collaboration with the Commonwealth Scientific and Industrial Research Organisation (CSIRO)
- Revenue generated from technology licensing and engineering services including site geological suitability assessments
- Focused on providing a low cost gas and energy feedstock for downstream users

Major Shareholders



^Total Top 20 Shareholders (27)

As at 8 March 2016



4

STRATEGIC PRIORITIES

Priority 1



China Joint Venture – JinHong New Energy JV

- **Joint Venture** approved by CNX shareholders
- **Leverage proven design of keyseam technology**, trial results and growing clean energy demand in China
- **Establish** keyseam as commercial technology to be licensed in China
- **Commence first project in China**

Priority 2



Further licensing of projects internationally

- **Further licensing deals** will bring additional revenue and confidence in the technology
- **Targeting newly industrialised nations** with cleaner energy demand
- **Outcomes from Queensland, Independent Scientific Panel (ISP) review** will assist further business development

Priority 3



Queensland Government approval to proceed commercially

- All requirements as recommended by the ISP met to satisfy pre-conditions to **commercialisation in QLD**
- **Awaiting further advice from QLD Government on policy direction** before can proceed.

RECENT MILESTONES

Recent Milestone	Status	Comments
CHINA JV:		
Sign JV Agreement	Completed	US\$30M to invest in the JV in establishing new project in China
CNX shareholder approval of JV at AGM	Completed	Shareholders approved the JV Agreement signed by parties
Secure suitable coal field in China	Underway	Number of coal fields around China are being assessed for suitability
Register and get approval for the JV in China	Commenced	Lodgement of 1 st round of documents with local PRC authorities - lodged end of February 2016 – Next round of documents to be lodged in March 2016
Commence revenue from JV Technical Services	Commenced	First invoice raised for Technical Services to be rendered in March 2016
Appoint appropriate JV personnel	Progressed	3 key roles have been filled
Commence early engineering works	Commenced	Early engineering works are to be completed mainly relating to drafting and agreeing division of Scope of Work with identified EPCM Contractor
Secure an appropriate in-China EPCM Contractor	Identified	Kick-off meeting to be held and contracts to be agreed
CHINA – IN GENERAL:		
Establish UCG Research Centre to ensure policy development in China is advanced	Completed	Became Foundation Partner of China's International UCG Research Institute to help form operational and environmental standards and policies in China
Licensing to other projects	Ongoing	Discussions with parties being progressed re: Licensing
QUEENSLAND:		
Certified Gas Reserve	Completed	Gas Reserve was announced on 22 September 2014*
Completion of Independent Scientific Panel (ISP) recommendations at Bloodwood Creek	Completed	As concluded by QLD government appointed, independent experts
Lodged Decommissioning Report and Rehab. Plan	Completed	keyseam and Bloodwood Creek trial full lifecycle demonstrated
Securing a policy from Queensland government	Ongoing	Continue interaction with Government

* Carbon Energy reserve and resource as at 22/9/14



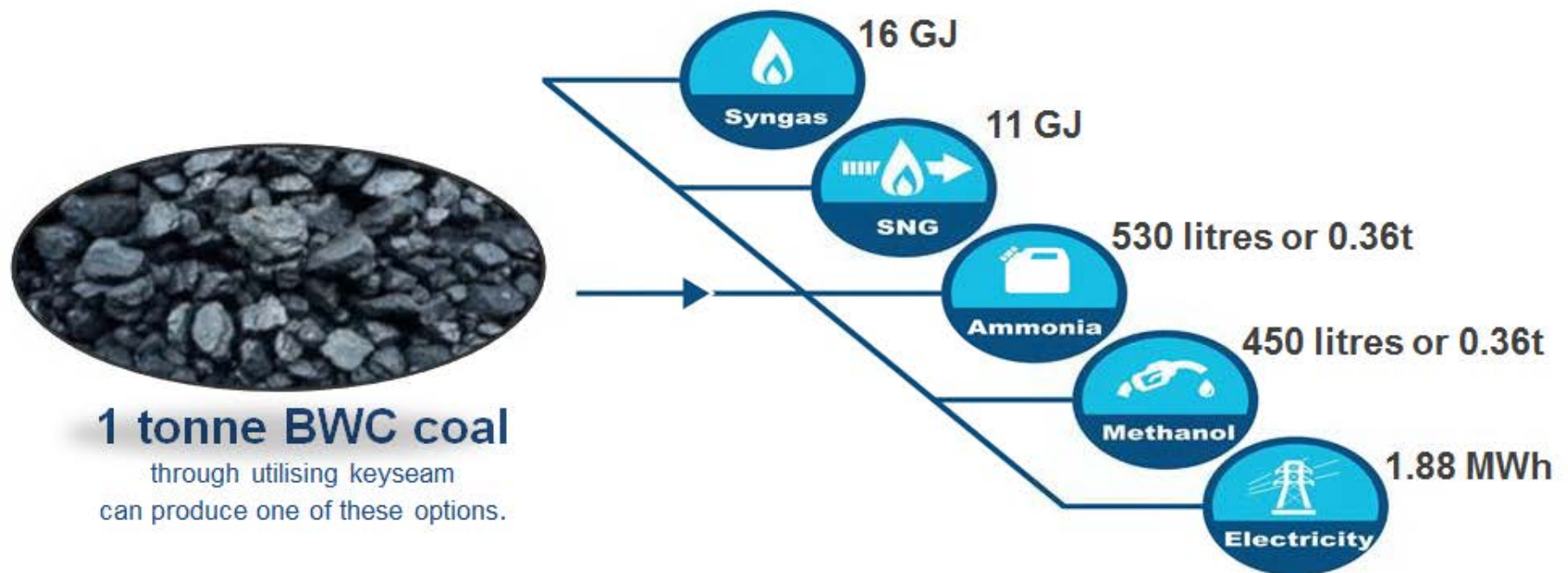
WHAT IS keyseam®?

- keyseam turns deep underground coal into energy in an environmentally and cost effective manner
- keyseam has been innovated in Queensland in conjunction with the CSIRO
- Rather than the mechanical excavation as in conventional mining, energy is extracted by gasification
- keyseam can access deep coal resources
- keyseam is completely unique. No other UCG process has achieved the results keyseam has.



"Coal is after all simply stored sunshine." Prof Robin Batterham

keyseam® - WHAT IS IT USED FOR?



BWC = Bloodwood Creek project site in Surat Basin, Queensland, Australia.
SNG = synthetic natural gas or natural gas equivalent.

keyseam[®] DIFFERENCE

Comparisons of UCG and Coal Seam Gas (CSG/CBM) are often made. The key differences between the two processes include:

keyseam:



Invented in Australia, in conjunction with the CSIRO



Delivers more than 60 times more energy from the same coal resource as CSG when compared at BWC



Minimal impact on regional groundwater use at BWC

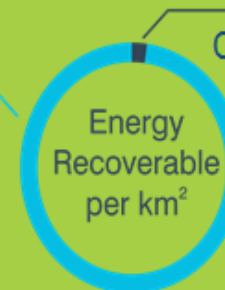


Does not involve “fracking”

ENERGY COMPARISON

keyseam vs CSG
compared on the same resource.

keyseam BWC
138 PJ



CSG – 2.1 PJ

Comparison based on Bloodwood Creek (BWC) trial site



COMMERCIAL EXECUTION PHASES

keyseam® Licensing and Gas as Feedstock to Downstream Users



Commercial Demonstration Project

Typically consists of one panel
used as a co-feed gas to an existing
downstream plant.



Mid-Scale Commercial

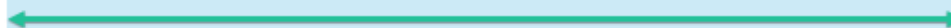
More than one panel.



Full-Scale Commercial

Expansion of mid-scale project.

Condensed timeline by utilising already established downstream plants



10

JINHONG JOINT VENTURE

Purpose:

- To develop a vertically integrated gas company utilising the keyseam technology in China.

Approvals:

- CNX Shareholder approval (AGM on 30 Nov 2015).
- China Ministry of Commerce approval being processed.
- JV becomes effective after all approvals obtained.
- Early works commencing.

JinHong Contribution & Distribution:

- JinHong is required to contribute US\$30 million over three years.
- JinHong will be entitled to 70% of dividends.

CNX Contribution & Distribution:

- CNX will only provide the JV with an exclusive technology license on successful ignition of demonstration project.
- CNX has non-dilution rights.
- CNX will be entitled to 90% of licence fees negotiated before the JV is allocated an exclusive licence and 30% following the allocation of the exclusive licence earned by the JV.
- CNX will earn Technology Services fees from the JV and its clients.



Photo: Beijing, China

JINHONG JOINT VENTURE ADVANTAGES

A Strong Partnership for Future Growth



First fully funded demonstration Project to be established outside Australia.



First mover in market to capitalise on China's supportive government environment.



Shareholder value protected. Transaction structured to reduce execution risk and maximise returns.



A source of revenue to Carbon Energy in contracted technology service and licence fees.



Support from the Company's cornerstone investor Kam Lung with experienced local business and government contacts.



Carbon Energy has equal voice in setting the strategic direction and management of the JV irrespective of its % share.

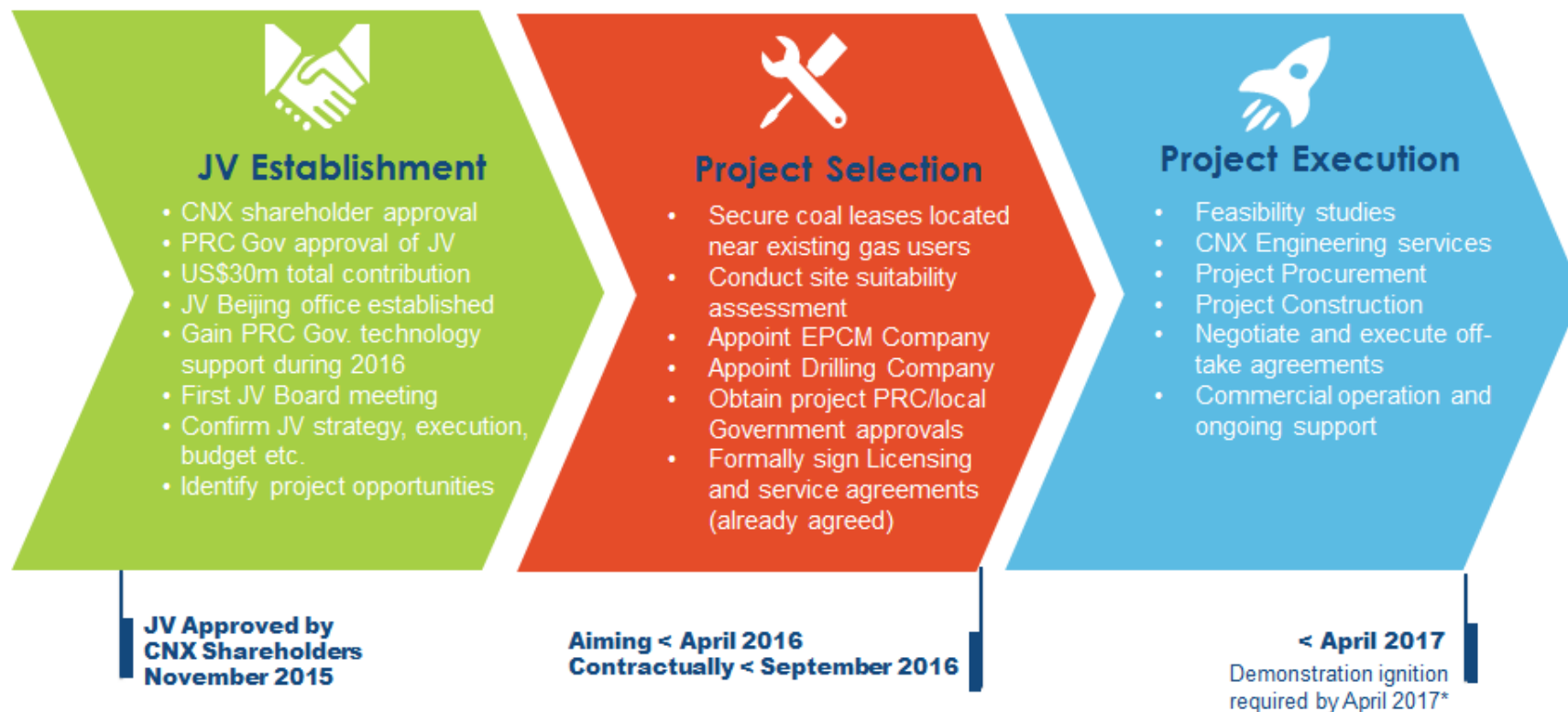


The JV allows CNX to showcase the most up to date application keyseam to attract further investors.



Independent Expert concluded: Proposed Transaction was fair and reasonable.

JINHONG JV COMMERCIALISATION STAGES*

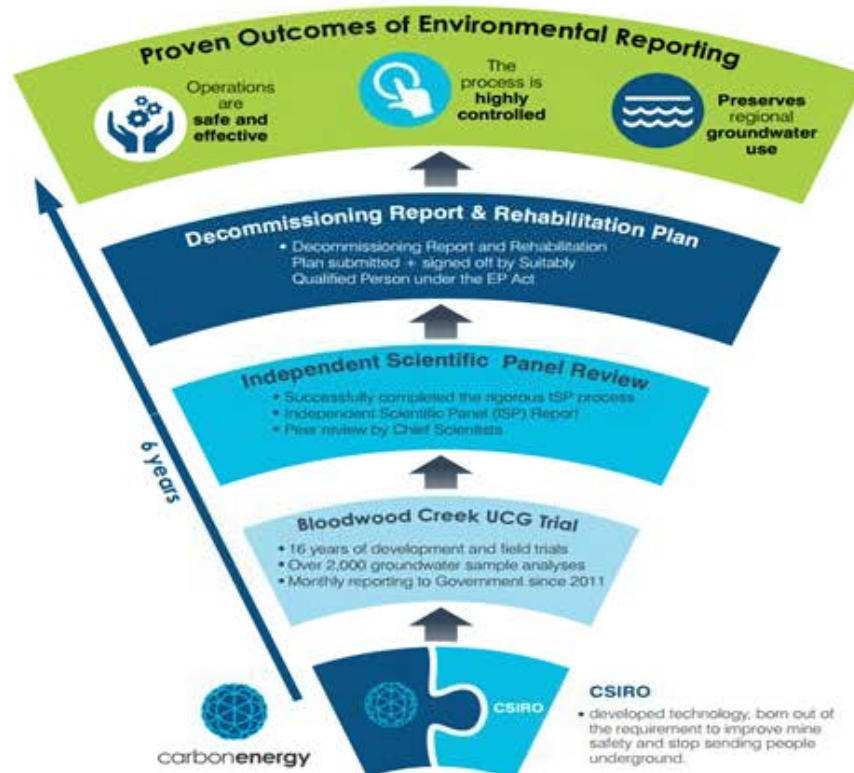


* Estimated timeline only. Subject to approval of the JV structure by the PRC, finding a suitable coal field suitable for keyseam etc.



13

STRONG SCIENTIFIC CREDENTIALS



RIGOROUS REVIEW PROCESS

General process overview:

- 6 years of rigorous scientific review of commercial scale operations
- > \$150 million spent in R&D
- Monthly groundwater samples

Overall ISP outcome:

- The only company to successfully complete the ISP recommendations and report to the QLD Government the full-life cycle of our trial under independent environmental scrutiny

Operational outcomes:

- Process is controlled
- Minimal impact on regional groundwater use at BWC

ENVIRONMENTAL BENEFITS*



1. Small footprint for amount of energy recovered



2. Maximises resource efficiency

3. Minimal impact on regional groundwater use at BWC



4. No fracking, excavating or coal transporting

5. Ash remains underground

6. Minimises surface disturbance

*Compared to conventional coal mining and CSG/CBM

INTERNATIONAL UCG RESEARCH CENTRE

Carbon Energy becomes the foundation partner of the research institute set to drive standards and innovation of UCG in China.



The World's Largest Mining University

China University of Mining Technology is one of China's top national universities as well as one of the world's largest mining universities.



NDRC Backing to be Gained

The formation of the Centre has been established to align with the anticipated inclusion of UCG as a pillar of China's next five year plan – expected to launch in March 2016.



Recognises Carbon Energy's Technology Advancement

The invitation to be a foundation partner is recognition of the Company's achievements and also provides a credible reference platform to develop further business relationships in China.



Promote China's UCG Market & Set Benchmarks

The purpose of the Centre is to establish the highest standards in developing and managing UCG in China.



Photo: China University of Mining Technology

QUEENSLAND REMAINS A PRIORITY

- CNX maintains significant gas and coal assets in Queensland
- The Company's headquarters, workforce, technical services and demonstration facilities are located in Queensland
- The Company remains committed to helping industrial users find reliable low cost gas feedstock
- CNX is well positioned to supply gas to local industry subject to Government policy, approvals and funding

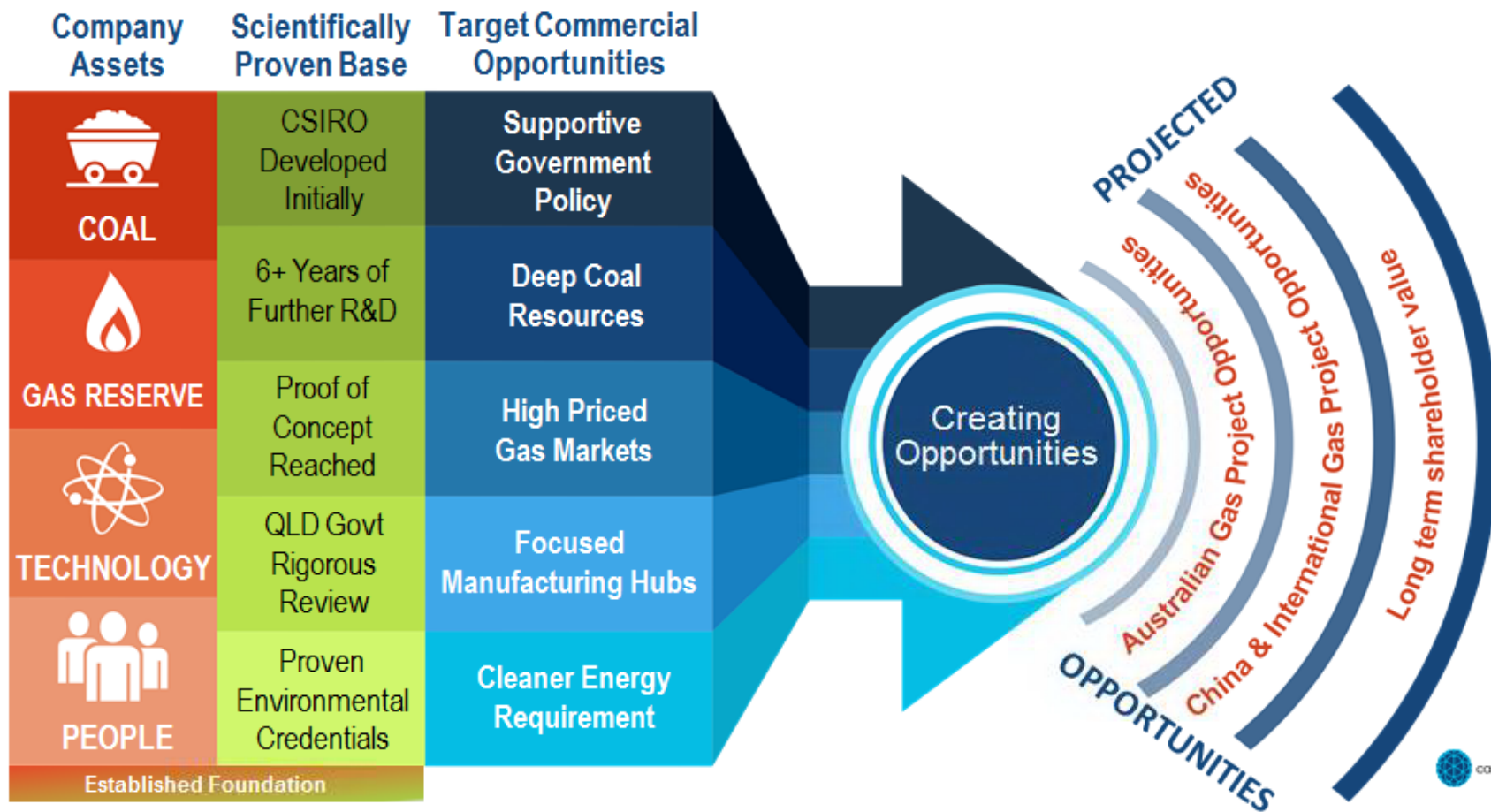
Next Steps

- Queensland government to confirm CNX has met all ISP recommendations



Photo: Bloodwood Creek

FOCUSED COMMERCIAL OPPORTUNITY



APPENDICES

Head Office Brisbane:

Carbon Energy
Level 9, 301 Coronation Drive
Milton 4064

Marina Cid

Investor Relations Manager

Email:

mcid@carbonenergy.com.au

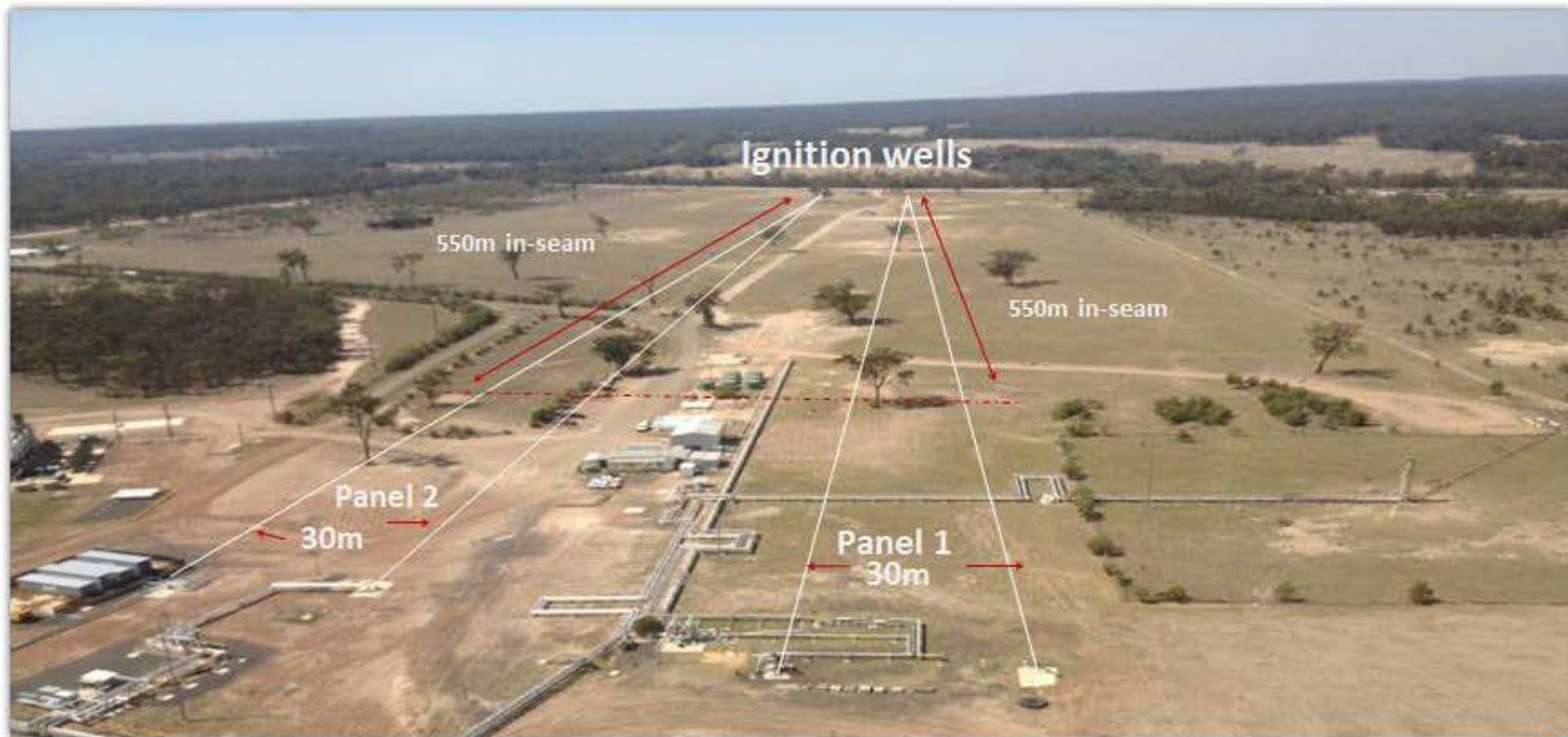
www.carbonenergy.com.au

Appendix Follows

BLOODWOOD CREEK PILOT SITE



BLOODWOOD CREEK PILOT SITE



BLOODWOOD CREEK PILOT SITE





PRO-RATA ENTITLEMENT OFFER
THANK YOU



carbonenergy

3 How to apply

3.1 Shareholder's choices

The number of New Shares to which Eligible Shareholders are entitled under the Entitlement Offer (i.e. their Entitlement) is shown on the accompanying Entitlement and Acceptance Form. Eligible Shareholders may:

- (a) take up their Entitlement in full and, if they do so, they may apply for additional New Shares under the Top Up Facility (refer to section 3.2);
- (b) take up part of their Entitlement, in which case the balance of the Entitlement lapses (refer to section 3.3);
- (c) sell their Entitlement on ASX (refer to section 3.4);
- (d) transfer their Entitlement other than on-market via ASX (refer to section 3.5); or
- (e) allow their Entitlement to lapse (refer to section 3.6).

Ineligible Shareholders may not take up any of their Entitlements.

Carbon Energy reserves the right to reject any Entitlement and Acceptance Form that is not correctly completed or that is received after the Closing Date.

The Closing Date for acceptance of the Entitlement Offer is **5.00pm (AEST) on 4 April 2016** (however, that date may be varied by Carbon Energy, in accordance with the Listing Rules and the Underwriting Agreement).

IMPORTANT: If you do not accept or sell your Entitlements in accordance with the instructions set out above, any Entitlements not accepted or sold will form part of the Shortfall Shares.

3.2 Taking up all of your Entitlement and participating in the Top Up Facility

If you wish to take up your Entitlement in full, follow the instructions set out in the Entitlement and Acceptance Form.

If you have applied to take up all of your Entitlement, you may also apply for additional New Shares under the Top Up Facility.

Please return your completed Entitlement and Acceptance Form together with your Application Monies in accordance with section 3.8 for the amount shown on the Entitlement and Acceptance Form to the Share Registry so that it is received no later than **5.00pm (AEST) on 4 April 2016** at the address set out below:

Carbon Energy Limited
C/- Link Market Services Limited
GPO Box 3560
Sydney NSW 2001

Carbon Energy Limited
C/- Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138

You may also take up all of your Entitlement by payment of the Application Monies through BPAY in accordance with the instructions on the Entitlement and Acceptance Form. If payment is being made through BPAY, you do not need to return the Entitlement and Acceptance Form. Your payment must be received by no later than **5.00pm (AEST) on 4 April 2016**.

If you do not return the Entitlement and Acceptance Form, amounts received by the Company in excess of the Issue Price multiplied by your Entitlement (**Excess Amount**) may be treated as an application to apply for as many additional New Shares under the Top Up Facility as your Excess Amount will pay for in full.

If you apply for additional New Shares under the Top Up Facility and your application is successful (in whole or in part) your New Shares will be issued at the same time that other New Shares are issued under the Entitlement Offer. There is no guarantee you will receive any New Shares under the Top Up Facility. The Directors reserve their right to allot and issue New Shares under the Top Up Facility at their discretion.

Refund amounts, if any, will be paid in Australian dollars. You will be paid either by cheque sent by ordinary post to your address as recorded on the share register (the registered address of the first-named in the case of joint holders), or by direct credit to the nominated bank account as noted on the share register as at the closing date of the offer. If you wish to advise or change your banking instructions with the Share Registry you may do so by going to <https://investorcentre.linkmarketservices.com.au/Login.aspx/Login> and following the instructions.

3.3 Taking up part of your Entitlement and allowing the balance to lapse

If you wish to take up part of your Entitlement, complete the Entitlement and Acceptance Form for the number of New Shares you wish to take up and follow the other steps required under section 3.2.

You may arrange for payment through BPAY in accordance with the instructions on the Entitlement and Acceptance Form. If payment is made through BPAY and Carbon Energy receives an amount that is less than the Issue Price multiplied by your Entitlement (**Reduced Amount**), your payment may be treated as an application for as many New Shares as your Reduced Amount will pay for in full.

3.4 Sale of your Entitlements on ASX

If you wish to sell your Entitlements on ASX, follow the instructions set out on the reverse of your Entitlement and Acceptance Form under the section marked 'Sale of your Rights in full by your Stockbroker/Agent'.

Entitlements trading commences on **16 March 2016**. You must deal with that part of your Entitlement which you do not wish to accept **by no later than 5.00pm (AEDT) on 24 March 2016**.

3.5 Transfer of Entitlements other than on-market via ASX

If you wish to transfer all or part of your Entitlements to another person or party other than on-market using ASX, then you must forward the following:

- (a) completed standard renunciation form (obtainable from your stockbroker or the Share Registry);
- (b) Entitlement and Acceptance Form completed by the transferee; and

- (c) transferee's cheque for the amount due in respect of the New Shares made payable to **'Carbon Energy Limited – Entitlement Issue'** and crossed 'not negotiable',

to the Share Registry by not later than 5.00pm (AEDT) on **24 March 2016** at:

Carbon Energy Limited
C/- Link Market Services Limited
GPO Box 3560
Sydney NSW 2001

Carbon Energy Limited
C/- Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138

3.6 Allow your Entitlement to lapse

If you do not wish to accept all or any part of your Entitlement, and do not intend to sell or transfer your Entitlement, do not take any further action and that part of your Entitlement will lapse.

3.7 Consequences of not accepting your Entitlement

If you do not accept all of your Entitlement in accordance with the instructions set out above, any New Shares that you would have otherwise been entitled to under the Entitlement Offer (or New Shares that relate to the portion of your Entitlement that has not been accepted) may be acquired by the Underwriter or sub-underwriter or under the Top Up Facility.

3.8 Payment

The consideration for the New Shares (including under the Top Up Facility) is payable in full on application by a payment of \$0.013 per New Share. The Entitlement and Acceptance Form must be accompanied by a cheque for the Application Monies. Cheques must be drawn in Australian currency on an Australian bank and made payable to **'Carbon Energy Limited – Entitlement Offer'** and crossed 'Not Negotiable'.

Alternatively, you may arrange for payment of the Application Monies through BPAY in accordance with the instructions on the Entitlement and Acceptance Form.

Eligible Shareholders must not forward cash by mail. Receipts for payment will not be issued.

3.9 Entitlement and Acceptance Form is binding

A completed and lodged Entitlement and Acceptance Form, or a payment made through BPAY, constitutes a binding offer to acquire New Shares on the terms of this Information Booklet and, once lodged or paid, cannot be withdrawn. If the Entitlement and Acceptance Form is not completed correctly it may still be treated as a valid Application for New Shares. The Directors' (or their delegates') decision whether to treat an acceptance as valid and how to construe, amend or complete the Entitlement and Acceptance Form is final.

By completing and returning your personalised Entitlement and Acceptance Form with the requisite Application Monies or making a payment by BPAY, you will also be deemed to have acknowledged, represented and warranted on behalf of each person on whose account you are acting that:

- (a) you are an Eligible Shareholder and are not in the United States and are not a person (including nominees or custodians) acting for the account or benefit of a person in the United States and are not otherwise a person to whom it would be illegal to make an offer or issue New Shares under the Entitlement Offer;

- (b) if you are in China, you are a 'qualified domestic institutional investor';
- (c) you acknowledge that the New Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended, or under the laws of any other jurisdiction outside Australia, New Zealand, Hong Kong or China; and
- (d) you have not and will not send any materials relating to the Entitlement Offer to any person in the United States or to any person (including nominees or custodians) acting for the account or benefit of a person in the United States.

3.10 Brokerage and Stamp Duty

No brokerage fee is payable by Eligible Shareholders who accept their Entitlement. No stamp duty is payable for subscribing for New Shares under the Entitlement Offer.

3.11 Notice to Nominees and Custodians

Nominees and custodians may not distribute any part of this Information Booklet or any Entitlement and Acceptance Form in any country outside Australia, except to beneficial holders of Shares in New Zealand, Hong Kong or China, and beneficial holders of Shares who are institutional or professional investors in other countries listed, and to the extent permitted, as well as any other country to the extent Carbon Energy may determine it is lawful and practical to make the Entitlement Offer.

4 Principal risk factors

References to Carbon Energy in this section include its subsidiaries.

Below is an analysis of some of the specific business risks facing Carbon Energy in the conduct of its activities. This section is intended to be a summary of the key risks to Carbon Energy's business – not an exhaustive list of all possible risks.

4.1 Technological and operational risks

Technology risk

Carbon Energy's UCG technology has been developed as a result of over ten years of research by the Commonwealth Scientific and Industrial Research Organisation and the Company. This technology has yet to be tested on a commercial scale project and, as such, there is a risk that it may take a number of years for Carbon Energy to demonstrate the technology on a commercial scale or not at all.

Reserve and resource risk

There are numerous uncertainties inherent in estimating quantities of gas reserves and resources, including many factors beyond the control of Carbon Energy. All such estimates are to some degree speculative and classifications of resources are only attempts to define the degree of speculation involved. No assurance can be given that any particular level of recovery from the reserve and resources will in fact be realised or that an identified resource will ever be legally and economically exploited.

Further, the future success of Carbon Energy will depend on its ability to obtain access to coal resources that are legally, technically and commercially suitable to the application of the Company's keyseam UCG technology.

Operating risks

Carbon Energy 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 Carbon Energy.

Carbon Energy intends to ensure that insurance is maintained within ranges of cover that the Company believes to be consistent with industry practice and having regard to the nature of activities being conducted.

4.2 Foreign country risks

There are possible political and economic instabilities or issues that may arise when dealing with foreign entities in foreign countries that may adversely impact on timelines and/or operations. Additionally, the success of international licensing is dependent upon compliance by third parties with their contractual obligations and appropriately dealing with the Carbon Energy's intellectual property. To the extent that there is a non-performance or inappropriate dealings, this may adversely impact Carbon Energy.

Cross-cultural risk

The Company may not have the necessary cultural and business relationships required to function in the countries that it seeks to operate in. To enable a more focused effort in the regions it plans to operate in, it may be required to find a strategic partner with more effective cultural and relationship building leverage to enable the Company to establish a successful UCG business in those countries.

Contractual risk

Carbon Energy'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 Carbon Energy to receive the full benefit of its business dealings is dependent upon the relevant counter-party or counter-parties complying with their contractual obligations.

4.3 Regulatory risks

UCG policy risk

In 2009 the Queensland Government released its Underground Coal Gasification Policy (**UCG Policy**). The Government appointed an Independent Scientific Panel (**Panel**) to investigate and report on the Underground Gasification Pilot trials in Queensland. The Panel 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.

While the Company has completed its decommissioning report and lodged its rehabilitation plan at the end of 2014 and is of the view that it has met all the conditions set out in the Panel's 2013 Report, the Government has not responded to the Company's request to confirm it has met all the conditions nor provided a time frame for responding. This regulatory uncertainty may impact on investor and credit provider confidence which may impact on Carbon Energy's ability to raise development capital. It may also impact on other governments in Australia and around the world regulating UCG in their country or region.

Environmental risk

All of the mining interests held by Carbon Energy in Australia are subject to laws and regulations regarding environmental matters. Carbon Energy's activities are or will be subject to National and State laws and regulations regarding potential environmental harm. Significant liability could be imposed on Carbon Energy for damages, clean up costs, or penalties in the event of unauthorised discharges into the environment and other environmental harm that may be caused by failure to comply with environmental approvals, or non compliance with environmental laws or regulations.

Potentially significant security bonds may be required to be submitted to Government to secure performance of rehabilitation obligations under environmental approvals and laws. Particularly having regard to the uncertain nature of UCG technology and its impacts, both the timing and certainty of the recoverability of these security bonds is unknown.

Non compliance can expose Carbon Energy to the risk of enforcement being taken by governmental authorities and/or third parties. Carbon Energy minimises 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.

4.4 Macro economic risks

Carbon Energy's operational and financial performance is affected by the Australian and other international economies and, in particular, the coal and gas markets within those economies. General and business conditions, commodity prices, inflation, interest rates, monetary and fiscal policy, political circumstances and currency exchange rates are all matters which may affect Carbon Energy's operating and financial performance and the value of your investment in the Company.

Investment risk

Investors should be aware that the market price of Carbon Energy's securities may be influenced by a number of factors. General movements in local and international stock markets, exchange rates, prevailing economic conditions, investor sentiment and interest rates could all affect the market price of Carbon Energy's securities. These risks apply generally to any investment on the stock market.

The market price of listed securities can be expected to rise and fall in accordance with general market conditions and factors specifically affecting the Australian resources sector and exploration companies in particular.

Changes in the general economic climate in which Carbon Energy operates may adversely affect the financial performance of the Carbon Energy. 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.

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 Carbon Energy may be adversely affected.

In addition to the general risks associated with investing in the stock market, there are risks specific to investing in any particular entity. Some risks may be outside Carbon Energy's control and not capable of mitigation. If in doubt about the general or specific risks associated with Carbon Energy's securities, you should seek advice from your professional advisers.

Gas market

The ability of Carbon Energy 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 Carbon Energy will ultimately be able to sell the syngas it produces on commercial terms. Gas is a traded commodity in Australia and its long term price may rise or fall. In other jurisdictions, gas prices may be regulated or subject to regulation, that could cause prices to be lower than the cost of production.

Taxation risks

A change to the current taxation regime in Australia or in overseas jurisdictions in which Carbon Energy operates may affect Carbon Energy and its shareholders.

Accounting standards

Australian accounting standards are set by the Australian Accounting Standards Board (**AASB**) and are outside Carbon Energy's control. Changes to accounting standards issued by AASB could materially adversely affect the financial performance and position reported in Carbon Energy's financial statements.

4.5 Reliance on key employees

Carbon Energy is highly dependent upon retaining its qualified, technical and managerial personnel. There is competition for qualified personnel in Carbon Energy's business.

Carbon Energy may not be able to attract and retain the qualified personnel necessary for the development of its business. The loss of the services of existing personnel, as well as the failure to recruit additional key technical, managerial and other personnel in a timely manner, could harm Carbon Energy's business.

4.6 Tenure and land related risks

In order to undertake UCG activities, which involves mining coal underground, extracting gasses and fluids and then processing the extracted product above ground, Carbon Energy requires tenure and approvals granted by the relevant government authorities.

Carbon Energy cannot give any assurance that the government authorities will grant the relevant tenure and approvals, when they will be granted or that they will be granted subject to satisfactory and workable conditions.

There is a significant risk of potentially lengthy project delays arising from both environmental and community impact assessment requirements and the real risk of appeal or judicial review of decisions brought about at the hands of environmental or community groups.

Non compliance with approval conditions may result in broad-ranging enforcement tools and Court penalties including fines, the requirement to pay rehabilitation costs and in some cases imprisonment or the cancellation of tenure. These matters will affect the operational and commercial viability of domestic and overseas UCG projects Carbon Energy is involved in.

Overlapping tenure

The Company's tenements in Queensland are overlapped by granted petroleum leases (**PLs**) for coal seam gas and, partially by, authorities to prospect for petroleum (**ATPs**). Under the current regime in the *Petroleum and Gas (Production and Safety) Act 2004* (Qld) (**PG Act**) and the *Mineral Resources Act 1989* (Qld) (**MR Act**), any mining lease applied for by the Company over an existing PL will not be able to proceed to grant unless the Company can negotiate a coordination arrangement with the PL holder (which must be approved by the Minister). A PL holder is not obliged to negotiate and agree to a coordination arrangement in this scenario if doing so is not commercially and technically feasible for the PL holder.

Under the MR Act, the Company is prohibited from carrying out activities on those parts of the EPCs and MDL 374 that overlap with granted PLs without the written agreement of the PL holder.

On areas of the Company's EPCs and MDL 374 that overlap ATPs only (and not PLs), the Company is permitted under the current regime to carry out its activities provided the activity does not adversely effect the activities being carried out on the overlapping ATP.

Changes are proposed to the overlapping tenure regime under the *Mineral and Energy Resources Common Provisions Act 2014* (Qld) (**MERCP Act**), which has passed but has not yet commenced. The provisions in the MERCP Act related to overlapping tenure are currently the subject of further proposed amendment by the *Mineral and Other Legislation Amendment Bill 2016* (Qld) introduced in late February 2016. Without further parliamentary intervention, the provisions of the MERCP Act (as amended) will automatically commence on 27 September 2016.

Under the terms of the MERCP Act, the current regime will continue to apply to the Company's existing mining lease application (ML 50253) and any future mining lease applications made over existing PLs, unless the PL Holder and Company jointly agree that the MERCP Act regime will apply.

The benefit of the MERCP Act regime (including proposed amendments) is that any application made for a mining lease by the Company over an existing PL would have a direct path to grant. However, the Company would be prevented from carrying out activities under that mining lease until it had agreed a joint development plan with the existing PL holder. There is the potential for the Company to be 'locked out' of its initial mining area for a period of 11 years from the date it notifies the PL holder of its ML application, unless agreement to truncate this period is reached with the overlapping PL holder. If no agreement is reached, the MERCP Act provisions permit the Company to give an acceleration notice to the PL holder to vacate the area earlier but the Company would be required to compensate the PL holder for any lost gas reserves as a result.

Community resistance to project development

There is a risk that, despite government approvals being granted, there will be ongoing resistance within the community to any commercial-scale UCG project. To address this risk, Carbon Energy consults widely with the local communities in which it operates and factors the results of such consultation into its operational decision-making.

Industrial risk

Industrial disruptions, work stoppages and incidents or emergencies in the course of Carbon Energy's operations or the projects it provides services to could result in losses and delays, which may adversely affect profitability.

Aboriginal cultural heritage

In Queensland, the *Aboriginal Cultural Heritage Act 2003* (Qld) (**ACHA**) impose duties of care which require persons, including Carbon Energy, to take all reasonable and practical measures to avoid damaging or destroying Aboriginal cultural heritage. The duty of care can be complied with in a number of ways, including by having an agreed Cultural Heritage Management Plan (**CHMP**) in place with the relevant Aboriginal party. Failure to comply with the duty of care under the ACHA could result in fines and potentially prosecution. Carbon Energy manages its cultural heritage obligations at the Bloodwood Creek site under a CHMP and will carry out "clearance surveys" prior to conducting any exploration work involving ground disturbance.

Australian native title risk

The grant (or renewal) of mining tenements constitutes a future act under the *Native Title Act 1993* (Cth) which requires proponents to address native title, where native title has not been extinguished. The full right to negotiate process applies to the grant of mining tenements that will significantly affect native title rights and interests. Generally speaking, the native title party

will receive compensation for the impact on their rights and interests. If agreement cannot be reached through the right to negotiate process, there is provision for a 'future act determination application' to be made to authorise the 'future act'. Other than risk of delay as a result of failure to negotiate a native title agreement, any risk posed by the existence of native title over the Company's tenements is minimal.

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.

Regional Planning

Where a resource activity is proposed to take place in an area that has been designated an area of regional interest under the *Regional Planning Interests Act 2014* (Qld) (**RPI Act**), a Regional Interest Development Approval (**RIDA**) may be required. Areas of regional interest regulated under the RPI Act are Priority Agricultural Areas (**PAAs**), Strategic Environmental Areas and Priority Living Areas (**PLAs**) as identified in the applicable statutory regional plan and Strategic Cropping Areas as shown on the trigger mapping. There are no PLAs within the Company's tenements, although Tara and Chinchilla PLAs are in close proximity. Parts of EPC 869 and EPC 1132 are covered by a PAA. If a priority agricultural land use is being carried out within the PAA, a RIDA will be required will need to meet certain co-existence criteria in order a the RIDA to be approved. There are small areas mapped as part of the SCA also within the Company's tenements. Carrying out a resource activity in an area of regional interest without a RIDA can result in fines or potential prosecution.

4.7 Other

Future financing

Carbon Energy 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, the obtaining of additional debt capital, the reduction of expenses and the realisation or recovery of Carbon Energy's assets (most likely a combination of some or all of these sources).

There can be no assurance that Carbon Energy 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. Any further equity funds raised may result in a dilution in your shareholding. Should Carbon Energy 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).

Legal action

On 27 November 2015 the Company advised it had been served with proceedings filed by Summa Resource Holdings LLC (**Summa**) against it in the United States District Court for the Northern District of California (**Complaint**). An update is included in the Company's Half Yearly Report for the period ended 31 December 2015, lodged with the ASX on 11 March 2016.

Carbon Energy maintains its position announced on 6 March 2013 that relevant milestones under the agreement with Summa had not been met, notwithstanding Carbon Energy having taken all required steps and having used its best endeavours. Accordingly, Carbon Energy is not obliged to issue further tranches of shares to Summa.

In response to Summa's Complaint, Carbon Energy filed motions to dismiss each of the eight claims in the Complaint and to strike out a number of the allegations. Carbon Energy's motions are scheduled to be heard in court in late March 2016. Should a judge find in favour of Summa, the Company may have a liability to pay significant damages and costs. The Company will continue to defend the Complaint and any claims made in respect of the allegations made by Summa, however, even if the Company is successful in defending the Complaint, it is unlikely the Company will be able to recover its costs of that defence.

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

5 Definitions

These definitions are provided to assist the understanding some of the expressions used in this Information Booklet.

Term	Definition
\$	means Australian dollars.
AEDT	means Australian Eastern Daylight Time.
AEST	means Australian Eastern Standard Time
Applicant	means an Eligible Shareholder who has applied to subscribe for New Shares by submitting an Entitlement and Acceptance Form or has arranged for payment through BPAY in accordance with the instructions on the Entitlement and Acceptance Form.
Application	means the submission of an Entitlement and Acceptance Form accompanied by the relevant Application Monies or arranging for payment of the relevant Application Monies through BPAY in accordance with the instructions on the Entitlement and Acceptance Form.
Application Monies	means the aggregate amount of money payable for the New Shares applied for in a duly completed Entitlement and Acceptance Form or through BPAY.
ASIC	means the Australian Securities and Investments Commission.
ASX	means ASX Limited ACN 008 624 691 or the securities exchange operated by it (as the case requires).
Business Day	means a business day as defined in the Listing Rules.
Carbon Energy or Company	means Carbon Energy Limited ACN 057 552 137.
Closing Date	means 4 April 2016, the day the Entitlement Offer closes, or any other date that the Directors in their absolute discretion determine, subject to the Listing Rules.
Corporations Act	means <i>Corporations Act 2001</i> (Cth).
Directors	means the directors of Carbon Energy.
Eligible Shareholder	means a Shareholder as at the Record Date who is not an Ineligible Shareholder.
Entitlement	means the right to subscribe for New Shares under the Entitlement Offer.
Entitlement and Acceptance Form	means the Entitlement and Acceptance Form accompanying this Information Booklet.
Entitlement Offer	means the renounceable entitlement offer to Eligible Shareholders to subscribe for 3 New Share for every 11 Shares of which the Shareholder is the registered holder on the Record Date, at the Issue Price pursuant to this Information Booklet.

Term	Definition
Existing Shares	means the Shares already on issue in Carbon Energy as at the Record Date.
FIRB Clearance	means, the Sub-underwriter obtaining unconditional written notice under the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth) (" FATA "), by or on behalf of the Treasurer of the Commonwealth of Australia stating that the Commonwealth Government does not object to the acquisition of Shares by the Sub-underwriter under the Sub-underwriting Agreement or the Entitlement Offer, or that FATA does not apply to the acquisition of Shares by the Sub-underwriter under the Sub-underwriting Agreement or the Entitlement Offer.
Ineligible Shareholder	means a Shareholder as at the Record Date whose registered address is not located in Australia or New Zealand, Hong Kong or China.
Information Booklet	means this document.
Investor Presentation	means the presentation to investors, in section 2 of this Information Booklet.
Issue Price	means \$0.013 (1.3 cents) per New Share.
Kam Lung	means Kam Lung Investment Development Company Limited, a related party of the Company.
Lead Manager	means APP Securities Pty Ltd ABN 45 112 871 842.
Listing Rules	means the official listing rules of ASX.
New Shares	means Shares to be allotted and issued under the Entitlement Offer, including (as the context requires) the shortfall from the Entitlement Offer issued under the Top Up Facility or to the Underwriter or sub-underwriter.
Nominee	means Pershing Australia Nominees Pty Ltd ACN 137 911 730 as authorised representative of Pershing Securities Australia Pty Ltd ACN 136 184 962.
Record Date	means 7.00pm (AEDT) on 17 March 2016.
Shareholders	mean holders of Shares.
Shares	means fully paid ordinary shares in the capital of Carbon Energy.
Share Registry	means Link Market Services Limited ABN 45 112 871 842.
Shortfall Shares	means those New Shares not taken up by Eligible Shareholders under the Entitlement Offer, together with those New Shares to which any Ineligible Shareholders would otherwise have been entitled.
Sub-underwriter	means Kam Lung, a related party of the Company.
Sub-underwriting Agreement	means the sub-underwriting agreement dated 4 March 2016 between the Company, the Underwriter and Sub-underwriter, regarding the sub-underwriting of Shares under the Entitlement Offer.

Term	Definition
Top Up Facility	means the facility described in section 1.2 under which certain Eligible Shareholders may apply for New Shares in excess of their Entitlement.
Top Up Shares	means extra Shares a Shareholder may apply for in excess of their Entitlement under the Top Up Facility.
UCG	Underground Coal Gasification
Underwriter	means APP Securities Pty Ltd ABN 45 112 871 842.
Underwriting Agreement	means the underwriting agreement dated 10 March 2016 between Carbon Energy and the Underwriter regarding the underwriting of Shares under the Entitlement Offer.

6 Corporate information

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