



carbonenergy

Carbon Energy Limited | ABN 56 057 552 137

ASX Announcement

15 June 2017

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Carbon Energy Limited

ABN 56 057 552 137

Carbon Energy (Operations) Pty Ltd

ABN 61 105 176 967

Notice of 2016 Annual General Meeting

Carbon Energy's 2016 Annual General Meeting will be held on **Tuesday, 18 July 2017 at 10:00am** (Brisbane Time) at:

McCullough Robertson Lawyers
Level 11, Central Plaza 2
66 Eagle Street, Brisbane.

The Notice of Meeting and Explanatory Memorandum and Voting Form is being mailed to all shareholders. A copy of these documents follows this announcement and they can be viewed on the Carbon Energy website at www.carbonenergy.com.au

A copy of The Carbon Energy 2016 Annual Report was lodged with the ASX on 5 August 2016 and is available on the Carbon Energy website at www.carbonenergy.com.au.

ENDS

For and on behalf of the Board

Catherine Costello
Chief Financial Officer & Company Secretary



carbon**energy**

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

TO BE HELD ON

18 JULY 2017 AT 10.00AM AEST

**AT THE OFFICES OF MCCULLOUGH ROBERTSON LAWYERS, LEVEL 11 CENTRAL PLAZA
TWO, 66 EAGLE STREET, BRISBANE, QUEENSLAND**

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 3156 7777.

THIS NOTICE OF MEETING SHOULD BE READ IN CONJUNCTION WITH THE ATTACHED EXPLANATORY MEMORANDUM.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of members of Carbon Energy Limited ABN 56 057 552 137 (the **Company** or **Carbon Energy**) will be held at the offices of McCullough Robertson Lawyers, Level 11 Central Plaza Two, 66 Eagle Street, Brisbane, Queensland on 18 July 2017 at 10.00am AEST.

Terms and abbreviations used in this Notice, including the Explanatory Memorandum are defined in Schedule 1 of the Explanatory Memorandum.

CHAIRMAN'S LETTER

15 June 2017

Dear Shareholders

Annual general meeting of Shareholders

The annual general meeting ("AGM") for Carbon Energy Limited ("Carbon Energy" or the "Company") will be held at 10.00am AEST on 18 July 2017 at the offices of McCullough Robertson Lawyers, Level 11 Central Plaza Two, 66 Eagle Street, Brisbane, Queensland. This is a very important meeting for the future of the Company and I strongly encourage you to attend, either in person or by proxy.

Business of the AGM

In summary, the business at the AGM is as follows:

- to re-elect Mr Peter Hogan as a Director (resolution 1);
- to elect Mr George Su as a Director (resolution 2);
- to approve the Company having an additional 10% placement capacity (resolution 3);
- to approve the adoption of an employee incentive plan (resolution 4);
- to appoint Grant Thornton Audit Pty Limited as the auditor of the Company (resolution 5);
- to adopt the remuneration report (resolution 6);
- to approve the proposed recapitalisation transaction (resolution 7) – this is discussed in further detail below;
- to approve the consolidation of the Company's share capital on the basis that every 100 Shares will be converted into 1 Share (resolution 8); and
- to approve the Company's entry into the Escrow Deed as part of the proposed recapitalisation transaction (resolution 9).

The recapitalisation proposal

On 22 November 2016, the Company announced that it had appointed Tim Michael and Will Colwell of Ferrier Hodgson as joint and several administrators ("Administrators") of the Company, Carbon Holdings and Carbon Operations (together, the "Deed Companies").

On 9 March 2017, the Creditors of the Deed Companies approved a deed of company arrangement (as amended, "DOCA") proposed by the Company's major Shareholder, Kam Lung, to recapitalise the Deed Companies. Following certain events that prevented the satisfaction of a condition precedent under the DOCA, the parties entered into further negotiations and on 23 May 2017 the Creditors of the Deed Companies approved certain amendments to the DOCA. Copies of the DOCA and the amending deed to the DOCA are included as Schedule 5 to the Explanatory Memorandum. The DOCA is conditional on, among other things, the approval of Shareholders (this is the reason why resolutions 7 and 9 are being put to Shareholders for approval at the AGM).

In summary, the key terms of the recapitalisation proposal (as amended) provide for the following:

- the Deed Companies to continue operations as going concerns;
- the Company to relist on the ASX, subject to necessary ASX approvals;
- Kam Lung will subscribe for, and the Company will issue to Kam Lung, secured convertible notes issued under a facility agreement between, amongst others, Kam Lung and the Company ("Kam Lung Facility") with an aggregate principal amount equal to the Subscription Amount (being \$8.3 million (to be advanced by Kam Lung at completion of the DOCA) plus the total of any Kam Lung Expenses at completion that are capitalised by the Company as described below in section 7.7);
- the Company will pay \$6.85 million to the relevant Pacific Road Group entities in consideration of the release and discharge of the debt under the Pacific Road Convertible Facility and the associated securities, being the amount of \$7 million less a costs contribution amount of \$150,000;
- Pacific Road will provide a \$1 million unsecured, interest-free loan ("Pacific Road Loan Facility") to the Company, which shall be repayable upon:
 - the Company or any Group Company, the JinHong Joint Venture, or (if the Intellectual Property Rights or any material part of the Intellectual Property Rights are acquired by Kam Lung or any affiliate of it) Kam Lung or any affiliate of it, achieving continuous gasification of underground coal for not less than three consecutive days, unless, in the case of gasification by (i) the JinHong Joint Venture (without the involvement of the Company or any Group Company); or (ii) Kam Lung or any affiliate of it, Kam Lung has demonstrated that such gasification

CHAIRMAN'S LETTER

was achieved without use of the Intellectual Property Rights any material part of the Intellectual Property Rights or any derivation of the Intellectual Property Rights which would infringe the Intellectual Property Rights if done by a person who is not the owner of the Intellectual Property Rights ("Successful Ignition"), or

- the date of any sale or other disposal (other than certain excluded disposals) of the Intellectual Property Rights or a material part of the Intellectual Property Rights by the Company or another Group Member or the JinHong Joint Venture ("Disposal of IP Rights"), or
- the date of any sale or other voluntary disposal by Kam Lung of shares in the Company which results in Kam Lung and its affiliates (taken together) holding less than 50% of the ordinary share capital of the Company ("Kam Lung Disposal of Shares").

The repayment of this loan is guaranteed by Kam Lung. Pacific Road will direct the Company to withhold \$1 million from the \$6.85 million payable to Pacific Road with respect to repayment of the Pacific Road Convertible Facility in satisfaction of Pacific Road's obligation to advance the principal amount of the Pacific Road Loan Facility at completion;

- Kam Lung will provide \$3.85 million in capital to the Company in exchange for a placement of Shares to Kam Lung which will result in Kam Lung holding 80% of all Shares immediately following completion of the recapitalisation; and
- Kam Lung has also made available to the Company \$1.94 million in interim funding to be used to fund the operating costs of the Deed Companies during the period through to completion of the recapitalisation. \$1.3 million of the interim funding will be repaid to Kam Lung from the proceeds of the Kam Lung Facility, the remaining \$640,000 will be repaid to Kam Lung from the proceeds of the Pacific Road Loan Facility.

Further details of the recapitalisation proposal are set out in section 7 of the Explanatory Memorandum.

The Non-Interested Director recommends that Shareholders vote in favour of resolutions 7 and 9. In considering how to vote on resolutions 7 and 9, it is important for Shareholders to keep in mind that:

- the Non-Interested Director considers that there are no feasible alternatives to the recapitalisation proposal which will allow the Company to continue as a going concern and give Shareholders the potential to retain some value;
- the Non-Interested Director considers that if the recapitalisation proposal is not approved, the Deed Companies will be placed into liquidation; and
- the Deed Administrators have advised that if the Deed Companies are placed into liquidation and subsequently wound up, they do not anticipate that any distribution will be made to Shareholders.

Independent Expert's conclusion

The Company has commissioned an Independent Expert's Report on certain aspects of the recapitalisation proposal. The Independent Expert has concluded that, in relation to each of those aspects, the Relevant Interest Acquisition and the Security Transaction are fair and reasonable to the Non-Interested Shareholders. A copy of the Independent Expert's Report is included in Schedule 7 to the Explanatory Memorandum.

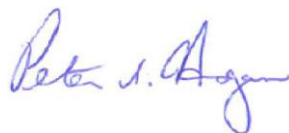
Further information and next steps

I encourage you to read the Explanatory Memorandum in full (including the enclosed Independent Expert's Report) before deciding how to vote at the AGM. If you are in any doubt as to what to do, I would encourage you to seek advice from independent and appropriately licensed financial, legal and taxation advisers.

The Board strongly encourages all Shareholders to vote at the AGM either in person or by proxy. A proxy form is enclosed for those Shareholders who will not be able to attend the AGM in person.

On behalf of the Board, I would like to take this opportunity to thank you for your continued support of the Company.

Yours sincerely



Peter Hogan
Chairman

NOTICE OF MEETING

BUSINESS OF THE MEETING

Financial Statements and Reports

To receive and consider the Company's financial statements and the reports of the Directors and the Auditor for the year ended 30 June 2016.

RESOLUTIONS

1) To Re-Elect Mr Peter Hogan as a Director

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

"That Mr Peter Hogan, who retires by rotation in accordance with Rule 17.2 of the Company's Constitution, and being eligible, be re-elected as a Director of the Company."

2) To Elect Mr George Su as a Director

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

"That, Mr George Su, who was appointed to the Board since the last annual general meeting by the Administrators under section 442A(b) of the Corporations Act and who ceases to hold office in accordance with Listing Rule 14.4, and being eligible, be elected as a Director of the Company."

3) Approval of 10% Placement Capacity

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

"That, for the purposes of Listing Rule 7.1A, and for all other purposes, approval is given for the issue of Equity Securities of up to 10% of the Shares on issue (at the time of the issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2, at a price not less than that determined pursuant to Listing Rule 7.1A.3 and on the terms and conditions in the Explanatory Memorandum."

Voting Exclusion Statement for resolution 3:

In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this Special Resolution by a person and any Associates of that person who:

- (a) may participate in the issue of the Placement Securities; or
- (b) might obtain a benefit if this Special Resolution is passed, except a benefit solely in their capacity as a holder of Shares if the resolution is passed.

However, the Company need not disregard a vote cast on resolution 3 if:

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

Note: under Listing Rule 14.11.1 and the notes under that rule about Rule 7.1A, as at the date of this Notice of Meeting it is not known who may participate in the proposed issue (if any). On that basis, no security holders are currently excluded.

4) Approval of the Omnibus Incentive Plan

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

"Whereas on 17 May 2017 the Board of Directors of the Company approved the adoption of an omnibus incentive plan of the Company (the "Incentive Plan") in the form attached as Schedule 3 to the Explanatory Memorandum;

And whereas there will be a maximum number of Equity Securities of the Company issuable as awards under the Incentive Plan as is equal to 5% of the number of issued and outstanding shares of the Company at the time of granting such awards;

That for the purpose of Listing Rule 7.2 exception 9(b), sections 200B and 200E of the Corporations Act and for all other purposes, the Company's Incentive Plan, the terms of which are summarised in the Explanatory Memorandum, is hereby approved and adopted as the incentive plan of the Company, and any director or officer of the Company is hereby authorised to do such things and to sign, execute and deliver all documents that such director or officer may, in their discretion, determine to be necessary in order to give full effect to the intent and purpose of this resolution and that for the purposes of Exception 9(b) of Listing Rule 7.2, sections 200B and 200E of the Corporations Act and for all other purposes, the issue of Equity Securities under the Incentive Plan within three (3) years from the date of this resolution be an exception to Listing Rules 7.1 and 7.1A."

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Voting Exclusion Statement for resolution 4 – Listing Rule 14.11:

The Company will disregard any votes cast on resolution 4 by:

- (a) a person who is an Eligible Participant (as that term is defined in the Explanatory Memorandum); and
- (b) any Associate of that person (or those persons).

However, the Company need not disregard a vote cast on resolution 4 if:

- (c) it is cast by the person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (d) 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.

Voting Exclusion Statement for resolution 4 – Section 250BD:

Pursuant to section 250BD of the Corporations Act a vote on resolution 4 must not be cast by:

- (a) any member of Key Management Personnel of the Company or if the Company is part of a consolidated entity, of the entity; or
- (b) a Closely Related Party of such a member,

who is appointed as a Shareholder's proxy, on the basis of that appointment, where the Shareholder does not specify in writing the way the proxy is to vote on the resolution. However, the Company need not disregard a vote if it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, where the Shareholder does not specify in writing the way the proxy is to vote on the resolution, if the appointment of proxy expressly authorises the chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel of the Company or if the Company is part of a consolidated entity, of the entity.

5) Appointment of Auditor

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

"That, pursuant to and in accordance with section 327B of the Corporations Act and for all other purposes, Grant Thornton Audit Pty Ltd, having consented to act as the Company's auditor, is appointed as the Company's auditor on the terms and conditions in the Explanatory Memorandum."

6) To Adopt the Remuneration Report

To consider and, if thought fit, to pass the following non-binding resolution as an Ordinary Resolution:

"That for the purpose of section 250R(2) of the Corporations Act and for all other purposes, the Remuneration Report for the period ended 30 June 2016 and contained in the Annual Report (as set out on pages 22 to 36 of the Directors' Report) for the Company be adopted."

Advisory Resolution

The vote on this resolution 6 is advisory only and does not bind the Directors of the Company.

Voting Restriction pursuant to Section 250R(4) of the Corporations Act

A vote on resolution 6 must not be cast (in any capacity) by or on behalf of either of the following persons:

- (a) a member of the Key Management Personnel ("KMP") whose remuneration details are included in the Remuneration Report; and
- (b) a Closely Related Party of such a KMP (including close family members and companies the KMP controls).

However, a person described above may cast a vote on resolution 6 as a proxy if the vote is not cast on behalf of a person described above and either:

- (a) the proxy appointment is in writing that specifies the way the proxy is to vote (e.g. for, against, abstain) on the resolution; or
- (b) the vote is cast by the chair of the Meeting and the appointment of the chair as proxy:
 - does not specify the way the proxy is to vote on the resolution; and
 - expressly authorises the chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company or, if the Company is part of a consolidated entity, for the entity.

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Shareholders should be aware that any undirected proxies given to the Chair will be cast by the Chair and counted in favour of the Resolutions the subject of this Meeting, including resolution 6, subject to compliance with the Corporations Act. In exceptional circumstances, the Chair of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

7) Approval of the Proposed Transaction

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

"That, subject to resolution 9 being passed, for the purposes of item 7 of section 611 and section 208 of the Corporations Act, Listing Rules 10.1 and 10.11, and for all other purposes, approval is given for the Company to enter into and give effect to the Proposed Transaction (as that term is defined in the Explanatory Memorandum), including:

- the issue to Kam Lung of 4,679,911,281 Shares at Completion (which will result in Kam Lung having a Relevant Interest in and Voting Power of, in aggregate, 80% of the Shares on issue at Completion); and*
- the issue of the secured Kam Lung Convertible Notes (with an aggregate principal amount equal to the Subscription Amount) to Kam Lung at Completion and the issue of Shares as a result of the conversion (if any) of those Kam Lung Convertible Notes. Under the terms of the Convertible Notes, the maximum number of Shares that the Convertible Notes held by Kam Lung can be converted into at any time is such number of Shares as would cause Kam Lung to hold the minimum number of Shares that would cause it to become a "90% holder" such that it would be entitled to compulsorily acquire the Marketable Securities of the Company under Part 6A.2 of the Corporations Act; and*
- the issue of Interest Shares to Kam Lung (if any) under the terms of the Kam Lung Convertible Notes; and*
- the granting of the Security by the Company and the Guarantors in favour of Kam Lung,*

each as more particularly summarised in the Explanatory Memorandum."

Notes

For the purposes of item 7 of section 611 of the Corporations Act and Listing Rule 10.1, an Independent Expert's Report prepared by BDO Corporate Finance (Qld) Ltd ("Independent Expert") is included as Schedule 7 to this Notice of Meeting.

BDO has concluded that the Relevant Interest Acquisition and the Security Transaction (as those terms are defined in the Independent Expert's Report) are fair and reasonable to the Non-Interested Shareholders.

Further details regarding the Relevant Interest Acquisition and the Security Transaction are set out in the Independent Expert's Report and (to the extent they form part of the Proposed Transaction) in the accompanying Explanatory Memorandum. The Non-Interested Director recommends that Shareholders read the Explanatory Memorandum and Independent Expert's Report in full before making any decision on how to vote on resolutions 7 and 9. If Shareholders have any queries regarding the Proposed Transaction or how to vote on resolution 7 or 9, they should contact their professional adviser.

A copy of this Notice of Meeting, together with the accompanying Explanatory Memorandum and other included documents, has been lodged with ASIC in accordance with section 218 of the Corporations Act. A copy of this Notice of Meeting has also been provided to ASX. None of ASIC or ASX or their officers take any responsibility for the contents of the Explanatory Memorandum.

Voting Exclusion Statement for resolution 7:

The Company will disregard any votes cast on resolution 7 by:

- (a) Kam Lung and the Pacific Road Group; and
- (b) any Associate of Kam Lung or the Pacific Road Group.

However, the Company need not disregard a vote cast on resolution 7 if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) 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.

8) Consolidation of share capital

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

"That, subject to resolution 7 and resolution 9 being passed, for the purpose of section 254H of the Corporations Act and for all other purposes, approval is given for the consolidation of the issued share capital of the Company on the basis that every one hundred (100) Shares be consolidated into one (1) Share, and where this results in a fraction of a Share being held by a Shareholder, the fraction being rounded up or down to the nearest whole Share (with fractions of exactly one half to be rounded up). The consolidation will take effect immediately after Completion."

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9) Approval of the Company acquiring a Relevant Interest in its own Shares as a result of entering into the Escrow Deed

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

“That, subject to resolution 7 being passed, for the purpose of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition by the Company of a Relevant Interest in and Voting Power of, a number of its own Shares equal to 72.1% of the total Shares on issue as a result of entering into the Escrow Deed (as that term is defined in the Explanatory Memorandum).”

Notes

For the purposes of item 7 of section 611 of the Corporations Act (and, in respect of resolution 7, Listing Rule 10.1), an Independent Expert's Report prepared by BDO Corporate Finance (Qld) Ltd (“Independent Expert”) is included as Schedule 7 to this Notice of Meeting. The Independent Expert's Report prepared for the purpose of resolution 7 also considers resolution 9 in order to satisfy the requirements for Shareholder approval under item 7 of section 611 of the Corporations Act

BDO has concluded that the Relevant Interest Acquisition and the Security Transaction (as those terms are defined in the Independent Expert's Report) are fair and reasonable to the Non-Interested Shareholders.

Further details regarding the Relevant Interest Acquisition and the Security Transaction are set out in the accompanying Independent Expert's Report and (to the extent they form part of the Proposed Transaction) in the Explanatory Memorandum. The Non-Interested Director recommends that Shareholders read the Explanatory Memorandum and Independent Expert's Report in full before making any decision on how to vote on resolutions 7 and 9. If Shareholders have any queries regarding the Proposed Transaction, the Escrow Deed or how to vote on resolution 7 or 9, they should contact their professional adviser.

Voting Exclusion Statement for resolution 9:

The Company will disregard any votes cast on resolution 9 by:

- (a) the Company and Kam Lung; and
- (b) any Associate of the Company or Kam Lung.

However, the Company need not disregard a vote cast on resolution 9 if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) 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 and forms a part of this Notice.

By order of the Board

Catherine Costello
Company Secretary
15 June 2017

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 Annual General Meeting of Shareholders to be held on 18 July 2017 at 10.00am AEST at the offices of McCullough Robertson Lawyers, Level 11 Central Plaza Two, 66 Eagle Street, Brisbane, Queensland.

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

Terms used in this Explanatory Memorandum are defined in the Interpretation section. Where figures regarding the number of Shares are stated to be on a post-Share Consolidation basis, these figures are subject to rounding of individual holdings and are subject to change.

BUSINESS OF THE MEETING

Financial Statements and Reports

Section 317 of the Corporations Act requires the Directors of the Company to lay before the Annual General Meeting the Financial Report, Director's Report and the Auditor's Report for the last financial year that ended before the AGM.

In light of the appointment of the Administrators to the Company on 22 November 2016, the Company has not yet held an AGM to consider the Financial Report Director's Report and the Auditors Report for the financial year ended 30 June 2016. While the AGM will occur following the end of the financial year ending 30 June 2017, the relevant reports for the period ending on that date will not be considered at the AGM but will be laid before a subsequent Annual General Meeting proposed to be held on or before 30 November 2017.

In accordance with section 250S of the Corporations Act, Shareholders will be provided with a reasonable opportunity to ask questions or make statements in relation to those reports but no formal resolution to adopt the reports will be put to Shareholders at the AGM (save for resolution 6 for the adoption of the Remuneration Report).

Shareholders will be given a reasonable opportunity to ask the auditor questions about the conduct of the audit and the preparation and content of the Auditor's Report. In addition to taking questions at the AGM, written questions to the Chairman about the management of the Company, or the Company's Auditor regarding:

- the preparation and content of the Auditor's Report;
- the conduct of the audit;
- accounting policies adopted by the Company in relation to the preparation of the financial statements; and
- the independence of the Auditor in relation to the conduct of the audit,

may be submitted by 5pm AEST no later than 5 business days before the AGM, i.e. no later than 5pm AEST on Tuesday, 11 July 2017, to the registered office of the Company.

A copy of the 2016 Annual Report is available at www.carbonenergy.com.au within the Announcements & Reports section of the website.

RESOLUTIONS

The following matters should be noted in respect of the various items of business:

RESOLUTION 1 (ORDINARY) – TO RE-ELECT MR PETER HOGAN AS A DIRECTOR

1.1 Background

In accordance with Rule 17.2 of the Constitution, one third of the Directors need to retire by rotation each year. The Directors to retire under Rule 17.2 are those who have been in office the longest since being appointed. As between Directors who were elected on the same day, the Directors to retire are (in default of agreement between them) determined by ballot.

Accordingly, Mr Peter Hogan is required to retire at the end of the forthcoming AGM, and being eligible, offers himself for re-election as a Director of the Company.

Mr Hogan was appointed to the Board on 29 August 2008 and was most recently re-elected as a Director at the 2014 annual general meeting.

EXPLANATORY MEMORANDUM

Mr Hogan is a Chartered Accountant providing business advisory services to a diverse range of clients. Mr Hogan was previously a Strategy and Development Executive with Incitec Pivot Ltd. Mr Hogan continues to provide some financial and commercial advisory services to Incitec Pivot on an arm's length, fee for service basis.

Prior to joining Incitec Pivot in early 2008, Mr Hogan worked with PricewaterhouseCoopers for 23 years, including 17 years as Partner. He has extensive experience in providing business advisory services to Australian and overseas listed public companies and large private companies. He has particular experience with companies in the consumer and industrial product sectors and the mining sector.

During the past three years Mr Hogan has held the following other listed company Directorships:

- OneAll International Ltd (from December 2015) Non-Executive Director
- SGX listed Fabchem China Ltd (from July 2008 to November 2013) Non-Executive Director

Mr Hogan is a member of the Audit & Risk, Remuneration and Nomination Committees.

1.2 Recommendation of Directors:

The Directors (apart from Mr Hogan) recommend that the Shareholders vote in favour of the resolution to appoint Mr Hogan as a Director of the Company.

RESOLUTION 2 – TO ELECT MR GEORGE SU AS A DIRECTOR

2.1 Background

On 4 December 2015, Mr George Su was appointed as Alternate Director to Mr Huihai Zhuang. Following the departure of Non-Executive Directors Dr Chris Rawlings and Mr Louis Rozman at the end of 2016, on 9 March 2017, the Administrators appointed Mr Su as a Director in accordance with their powers under section 442A(b) of the Corporations Act.

Listing Rule 14.4 provides that a director appointed to fill a casual vacancy or as an addition to the board must not hold office (without re-election) past the next annual general meeting of the company. Accordingly, Mr Su retires and is eligible for re-election.

Mr Su has over 30 years' business experience in the Asia Pacific region and is currently based in Sydney. Mr Su was formerly head of the Australian operations of CITIC Securities, China's largest investment bank, between 2009 and 2013. During that time he specialised in cross border transactions between Australia and China. He continues to work with CITIC Securities as their business partner for Australia through Silk Road Corporate Finance Pty Ltd, providing corporate advisory services.

Mr Su currently serves as a Non-Executive Director on two ASX listed Company boards, YPB Group Limited (ASX: YPB) and Oriental Technologies Investment Limited (ASX: OTI). Mr Su also served as an independent director on the board of Macquarie Bank's China property fund between 2006 and 2014. Born in China, Mr Su was educated in China and USA and holds a Bachelor of Arts degree in Business Administration from Hamline University, Saint Paul, USA.

2.2 Recommendation of Directors:

The Directors (apart from Mr Su) recommend that the Shareholders vote in favour of the resolution to appoint Mr Su as a Director of the Company.

RESOLUTION 3 (SPECIAL) – APPROVAL OF 10% PLACEMENT CAPACITY

3.1 Introduction

Pursuant to resolution 3, the Company is seeking Shareholder approval to issue up to 10% of issued capital over a 12 month period after the annual general meeting, in addition to the 15% annual placement capacity pursuant to Listing Rule 7.1A. If passed, this resolution will allow the Company to allot and issue up to the number of new Equity Securities calculated in accordance with Listing Rule 7.1A.2 ("Placement Securities") each at an issue price calculated in accordance with Listing Rule 7.1A.3 ("Issue Price").

This approval is sought pursuant to Listing Rule 7.1A. Under Listing Rule 7.1A small and mid- cap listed entities that meet the eligibility threshold and have obtained the approval of their ordinary shareholders by special resolution at an annual general meeting, are permitted to issue an additional 10% of issued capital over a 12 month period after the date of the annual general meeting ("Additional 10% Placement").

The Additional 10% Placement under Listing Rule 7.1A is in addition to the ability of the Company to issue 15% of its issued capital without shareholder approval over a 12 month period pursuant to Listing Rule 7.1. The Company may issue the Placement Securities to raise funds for the Company and as non-cash consideration (further details of which are set out below). Funds raised from the issue of Placement Securities, if any, would be applied towards delivering on the Company's

EXPLANATORY MEMORANDUM

strategic priorities, the highest of which being to secure project commencement in China and to continue to progress international business development opportunities. Additionally funds raised may be used for expenses associated with the issue of Placement Securities as well as for general working capital.

3.2 Listing Rule 7.1A

Eligibility

An entity is eligible to undertake an Additional 10% Placement if at the time of the relevant annual general meeting it has a market capitalisation of \$300 million or less and it is not included in the S&P/ASX300 Index.

For illustrative purposes only, on 7 November 2016 (being the date the Company's Shares last traded on the ASX) the Company's market capitalisation was \$23.57 million based on the Closing Market Price of the Company's Shares on that date. The calculation of market capitalisation will be based on the Closing Market Price of the Shares on the last Trading Day on which trades in the Shares were recorded before the date of the AGM, multiplied by the number of Shares on issue (excluding restricted securities and securities quoted on a deferred settlement basis). As the Shares of the Company are currently suspended from trading (and will remain at the date of the AGM), the Company's market capitalisation (calculated in the manner discussed above) is expected to remain as \$23.57 million.

The Company is also not included in the S&P/ASX300 Index as at the time of this AGM, however, it should be noted that the S&P/ASX300 Index is rebalanced twice a year in March and September.

The Company is therefore an Eligible Entity and able to undertake an Additional 10% Placement under Listing Rule 7.1A.

In the event that the Company for any reason ceases to be an Eligible Entity after the Company has already obtained Shareholders' approval pursuant to this resolution 3, the approval obtained will not lapse and the Company will still be entitled to issue the Placement Securities.

Shareholder Approval

The ability to issue the Placement Securities is conditional upon the Company obtaining Shareholder approval by way of a Special Resolution at the Meeting (which means that it must be passed by at least 75% of the votes cast by members entitled to vote on the resolution).

3.3 10% Placement Period – Listing Rule 7.1A.1

Assuming resolution 3 is passed, Shareholder approval of the Additional 10% Placement under Listing Rule 7.1A is valid from the date of the AGM and expires on the earlier to occur of:

- the date that is 12 months after the date of the AGM; or
- the date of the approval by Shareholders of a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking),

or such longer period if allowed by ASX.

If approval is given for the issue of the Placement Securities then the approval will expire on 18 July 2018, unless Shareholder approval is granted pursuant to Listing Rules 11.1.2 or 11.2 prior to that date.

3.4 Calculation for Additional 10% Placement – Listing Rule 7.1A.2

Listing Rule 7.1A.2 provides that Eligible Entities which have obtained shareholder approval at an annual general meeting may issue or agree to issue, during the 12 month period after the date of the annual general meeting, a number of Equity Securities calculated in accordance with the following formula:

(A x D) – E

where:

- (a) **A** is the number of ordinary securities on issue 12 months before the date of issue or agreement:
- plus the number of fully paid ordinary securities issued in the 12 months under an exception in Listing Rule 7.2;
 - plus the number of partly paid ordinary securities that became fully paid in the 12 months;
 - plus the number of fully paid ordinary securities issued in the 12 months with approval of holders of ordinary securities under Listing Rules 7.1 or 7.4.;
 - less the number of fully paid ordinary securities cancelled in the 12 months;
- (b) **D** is 10 percent; and

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- (c) **E** is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with the approval of shareholders under Listing Rules 7.1 or 7.4.

Listing Rule 7.1A.3

Equity Securities

Any Equity Securities issued under the Additional 10% Placement must be in the same class as an existing quoted class of Equity Securities of the Company.

As at the date of this Notice of Meeting, the only class of Equity Securities which are quoted on the ASX are Shares. As at the date of this Notice of Meeting, the Company has 1,813,428,879 Shares on issue, which will equate to approximately 18,134,289 Shares assuming the Share Consolidation is approved and implemented.

3.5 Information to be given to ASX – Listing Rule 7.1A.4

If resolution 3 is passed and the Company issues any Placement Securities under Listing Rule 7.1A, the Company will give to ASX:

- (a) a list of allottees of the Placement Securities and the number of Placement Securities allotted to each (this list will not be released to the market); and
- (b) the following information required by rule 3.10.5A, which will be released to the market on the date of issue:
 - details of the dilution to the existing holders of ordinary securities caused by the issue;
 - where the Equity Securities are issued for cash consideration, a statement of the reasons why the Company issued the Equity Securities as a placement under rule 7.1A and not as (or in addition to) a pro rata issue or other type of issue in which existing Shareholders would have been eligible to participate;
 - details of any underwriting arrangements, including any fees payable to the underwriter; and
 - any other fees or costs incurred in connection with the issue.

3.6 Listing Rule 7.1 and 7.1A

The ability of an entity to issue Equity Securities under Listing Rule 7.1A is in addition to the entity's 15% placement capacity under Listing Rule 7.1.

At the date of this Notice, the Company has on issue 1,813,428,879 Shares (which will equate to approximately 18,134,289 Shares assuming the Share Consolidation is approved and implemented). Assuming no further Equity Securities are issued prior to the Meeting, the Company will have the capacity to issue the following Equity Securities (presented on the basis the Share Consolidation is approved and implemented) assuming resolution 3 is passed:

- (a) 2,501,693 Equity Securities under Listing Rule 7.1; and
- (b) 1,794,433 Equity Securities under Listing Rule 7.1A .

The actual number of Equity Securities that the Company will have the capacity to issue under Listing Rule 7.1A will be calculated at the date of issue of the Equity Securities in accordance with the formula prescribed in Listing Rule 7.1A.2 (as described above).

3.7 Specific Information required by Listing Rule 7.3A

Minimum Price of securities issued under Listing Rule 7.1A – Listing Rule 7.3A.1

Pursuant to and in accordance with Listing Rule 7.1A.3, any Placement Securities issued pursuant to approval under Listing Rule 7.1A must have an issue price of not less than 75% of the Volume Weighted Average Market Price for the Equity Securities in that class over the 15 Trading Days immediately before:

- (a) the date on which the price at which the Placement Securities are to be issued is agreed; or
- (b) if the Placement Securities are not issued within 5 Trading Days of the date in paragraph (a) above, the date on which the Placement Securities are issued.

The minimum price cannot be determined at this stage, however, the Company will, if it decides to issue any Placement Securities, disclose to the ASX the issue price on the proposed date of issue of such Placement Securities.

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Risk of economic and voting dilution – Listing Rule 7.3A.2

Any issue of Equity Securities under the Additional 10% Placement will dilute the voting interests and may dilute the economic interests of Shareholders who do not receive Equity Securities under the issue.

In particular, in relation to the issue of any Placement Securities, there is a risk that:

- (a) the Market Price for the Company's Equity Securities may be significantly lower on the date of the issue of any Placement Securities than it is on the date of the Meeting; and
- (b) the Placement Securities may be issued at a price that is at a discount to the Market Price for the Company's Equity Securities on the issue date,

which may have an effect on the amount of funds raised by the issue or the value of the Placement Securities.

As required by Listing Rule 7.3A.2, Table 1 below shows the potential economic and voting dilution effect, in circumstances where the issued share capital has doubled and the Market Price of the Shares has halved. Table 1 also shows additional scenarios in which the number of issued Shares have increased (by both 50% and 100%) and the Market Price of the Shares has decreased by 50% and increased by 100%. The figures in Table 1 are presented on the basis that the Share Consolidation is approved by Shareholders and implemented.

Table 1

Issued Share Capital	50% decrease in Market Price (\$0.650)		Current Market Price \$(1.300)		100% increase in Market Price \$(2.600)	
	10 % Voting Dilution	Funds Raised	10 % Voting Dilution	Funds Raised	10 % Voting Dilution	Funds Raised
Present Issued Share Capital = 18,134,289 Shares	1,813,429	\$1,178,729	1,813,429	\$2,357,458	1,813,429	\$4,714,915
50% Increase in Share Capital = 27,201,434 Shares	2,720,143	\$1,768,093	2,720,143	\$3,536,186	2,720,143	\$7,072,372
100% Increase in Share Capital = 36,268,578 Shares	3,626,858	\$2,357,458	3,626,858	\$4,714,915	3,626,858	\$9,429,831

Assumptions and explanations

- Resolution 3 is approved.
- The Market Price is \$0.013 based on the Closing Market Price of the Shares on ASX on 7 November 2016 (being the last day Shares were traded on the ASX), multiplied by 100 (to take account of the Share Consolidation).
- Table 1 only shows the dilutionary effect based on the issue of the maximum amount of Placement Securities under the Additional 10% Placement (assuming only Shares are issued), that is it does not include any Shares issued under the Company's annual 15% capacity under Listing Rule 7.1.
- Table 1 does not show examples of dilution that may be caused to any particular Shareholder by reason of issues of Equity Security under the Additional 10% Placement. Shareholders should consider the dilution caused to their own shareholding depending on their specific circumstances.
- The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue.
- Table 1 assumes the Company issues the maximum number of Placement Securities.
- Table 1 assumes that no Options (including any Options issued following approval of resolution 3) are exercised before the date of the issue of the equity securities under Listing Rule 7.1A.
- The Issued Share Capital has been calculated in accordance with the formula in Listing Rule 7.1A(2) as at 29 March 2017.
- The issue price of the Placement Securities used in Table 1 is the same as the Market Price and does not take into account the discount to the Market Price (if any).

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3.8 Final date for issue – Listing Rule 7.3A.3

As required by Listing Rule 7.3A.3, the Company will only issue and allot the Placement Securities (if any) during the period of up to and including 12 months after the date of the Meeting, being 18 July 2018. The approval under resolution 3 for the issue of the Placement Securities will cease to be valid in the event that Shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities of the Company) or Listing Rule 11.2 (the disposal of the main undertaking of the Company) before the anniversary of the AGM.

3.9 Purpose – Listing Rule 7.3A.4

As noted above, the purpose for which the Placement Securities may be issued includes to raise funds for the Company and as non-cash consideration (further details of which are set out below). Funds raised from the issue of Placement Securities, if issued, would be applied towards delivering on the Company's strategic priorities, the highest of which being to secure project commencement in China and to continue to progress international business development opportunities. Additionally, funds raised would be used for expenses associated with the issue of Placement Securities as well as being used for general working capital.

3.10 Shares Issued for Non-cash consideration – Listing Rule 7.3A.4

The Company may issue Placement Securities for non-cash consideration, such as the acquisition of new assets or investments or the payment of interest or other expenses of the Company. If the Company issues Placement Securities for non-cash consideration, the Company will release to the market a valuation of the non-cash consideration that demonstrates that the issue price of the Placement Securities complies with Listing Rule 7.1A.3.

3.11 Company's Allocation Policy – Listing Rule 7.3A.5

The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue of the Placement Securities. The identity of the allottees of Placement Securities will be determined on a case-by-case basis having regard to a number of factors including but not limited to the following:

- (a) the purpose of the issue;
- (b) the methods of raising funds that are available to the Company, including but not limited to, rights issue or other issue in which existing Shareholders can participate;
- (c) the effect of the issue of the Placement Securities on the control of the Company;
- (d) the financial situation and solvency of the Company and its projected need for working capital at any given time; and
- (e) advice from corporate, financial and broking advisers (if applicable).

The allottees of the Placement Securities have not been determined as at the date of this Notice but may include existing substantial shareholders and/or new Shareholders who are not related parties or Associates of a related party of the Company.

Further, if the Company is successful in acquiring new assets or investments for which Placement Securities are issued as consideration, it is likely that the allottees of some of the Placement Securities will be the vendors of the new assets or investments.

3.12 Company has previously obtained shareholder approval under Listing Rule 7.1A – Listing Rule 7.3A.6

The Company previously obtained Shareholder approval under Listing Rule 7.1A at the 2015 AGM but has not issued any Equity Securities under this authority.

As the Company has previously obtained Shareholder approval under Listing Rule 7.1A, the following information is provided to Shareholders, in accordance with Listing Rule 7.3A.6, regarding the Equity Securities issued in the previous 12 months preceding the date of the AGM (that is, since 19 July 2016):

Listing Rule 7.3A.6(a): Total Equity Securities issued in previous 12 months are set out in Table 2 below. The figures in Table 2 are presented on the basis that the Share Consolidation is approved by Shareholders and implemented (including, for comparative purposes, for historical figures).

Table 2

	Pre-Share Consolidation	Post Share Consolidation [#]
Number of Equity Securities on issue at commencement of 12 month period	1,806,500,280 Shares 443,695,476 Listed Options 87,994,151 unlisted Options	18,065,003 Shares 4,436,955 Listed Options 879,9412 unlisted Options

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Equity Securities issued in prior 12 month period	6,928,599 Shares nil Options	69,286 Shares nil Options
Current number of Equity Securities on issue	1,813,428,879 Shares nil Listed Options 9,495,080 unlisted Options ^{##}	18,234,289 Shares nil Listed Options 94,9501 unlisted Options ^{##}
New Equity Securities as a proportion of Shares on issue at the commencement of the 12 month period	0.4%	0.4%
New Equity Securities as a proportion of total Equity Securities on issue at the commencement of the 12 month period	0.3%	0.3%

[#] As the Share Consolidation is subject to rounding these numbers are estimates only.

^{##} These unlisted Options will be cancelled for nil consideration as part of Completion of the DOCA.

Listing Rule 7.3A.6(b): Details of Equity Securities issued in the 12 months prior to the date of the AGM are set out in Schedule 2.

3.13 Voting Exclusion Statement

A voting exclusion statement is included in the Notice of Meeting. At the date of the Notice of Meeting, the proposed allottees of any Placement Securities are not as yet known or identified. In these circumstances (and in accordance with the note set out in Listing Rule 14.11.1 relating to Listing Rules 7.1 and 7.1A), for a person's vote to be excluded, it must be known that that person will participate in the proposed issue. Where it is not known who will participate in the proposed issue (as is the case in respect of the Placement Securities), Shareholders must consider the proposal on the basis that they may or may not get a benefit and that it is possible that their holding will be diluted and there is no reason to exclude their votes.

RESOLUTION 4 (ORDINARY) - APPROVAL OF THE OMNIBUS INCENTIVE PLAN

4.1 Background

Listing Rule 7.1 prohibits the Company issuing Equity Securities which, in aggregate, exceed 15% of the fully paid ordinary share capital of the Company in any 12 month period without shareholder approval.

Listing Rule 7.2 exception 9 (b) provides that the 15% limit in Listing Rule 7.1 or the Additional 10% Placement Capacity under Listing Rule 7.1A will not apply to the issue of securities by the Company under an employee incentive scheme if the scheme (and issues of Equity Securities under the scheme) has been approved by shareholders within three years before the date of the issue.

The purpose of resolution 4 is to consider and approve the implementation of an omnibus incentive plan for the Company in the form attached as Schedule 3 to this Explanatory Memorandum ("Incentive Plan"), and for the issue of Equity Securities under the Incentive Plan, in accordance with Listing Rule 7.2, exception 9. If the Incentive Plan is approved, any Equity Securities issued under the Incentive Plan in the course of the next three years will be excluded from the Company's 15% limit for the purpose of Listing Rule 7.1 and for the purposes of the Additional 10% Placement capacity under Listing Rule 7.1A.

No previous issue of Equity Securities has been made under the Incentive Plan. The Board considers the Incentive Plan to be a key part of the Company's remuneration strategy going forward and to assist in the alignment of Shareholder, director, employee and contractors interests.

No issues of Equity Securities to directors or other related parties can be made under the Incentive Plan without separate Shareholder approval under the Listing Rules.

4.2 Previous incentive program

The Company has previously operated a securities incentive program. The terms and conditions of the incentive plan offers made to eligible employees (participants) over this duration have been agreed in letters between the Company and the relevant participant, disclosed annually in the remuneration report and, where required, the issue thereof approved by Shareholders at the relevant annual general meeting. However, the Company has not previously has a formal group incentive plan documented.

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Remuneration governance practice is for incentive plan to be documented setting out the parameters for the Remuneration Committee to work within. A documented plan provides clarity and transparency to Shareholders and participants on the operation of the Company's incentive plan.

On 17 May 2017, the Directors approved the adoption of the Incentive Plan, subject to approval by the Shareholders at the Meeting. At the Meeting, the Shareholders will be asked to consider and, if deemed advisable, to approve the adoption by the Company of the Incentive Plan and the issue of Equity Securities under the Incentive Plan, the full text of which is included in the Notice of Meeting attached hereto.

The Incentive Plan has been drafted to comply with the policies of the ASX as they exist at the date of this Explanatory Memorandum. The following information is intended as a summary of the Incentive Plan, and is qualified in its entirety by the more detailed provisions of the Incentive Plan in the form attached as Schedule 3 to this Explanatory Memorandum.

A summary of the terms of the Incentive Plan is as follows.

4.3 Purpose and Administration of the Incentive Plan

The Incentive Plan is intended to furnish an incentive to directors, officers, senior executives and other employees of the Company, as well as consultants and service providers providing ongoing services to the Company ("**Eligible Participants**", and when such Eligible Participants are granted Awards (as defined below), the "**Participants**") to continue their services for the Company and to encourage such Eligible Participants whose skills, performance and loyalty to the objectives and interests of the Company are necessary to its success.

The Incentive Plan will permit the granting of Options, bonus Shares ("**Bonus Shares**"), and performance rights ("**Performance Rights**" and together with the Options, the Bonus Shares and the Performance Rights, the "**Awards**") to Eligible Participants of the Company. The Incentive Plan will be administered by the Board or by a committee appointed by a resolution of the Board (the "**Committee**").

The purpose of the Incentive Plan is to permit the Company to grant Awards to Participants, subject to certain conditions, for the following purposes:

- (a) to increase the interest in the Company's welfare of those Participants, who share responsibility for the management, growth and protection of the business of the Company or a Group Company;
- (b) to provide an incentive to such Participants to continue their services for the Company or Group Company and to encourage such Participants whose skills, performance and loyalty to the objectives and interests of the Company or Group Company are necessary or essential to its success, image, reputation or activities;
- (c) to reward the Participants for their performance of services while working for the Company or Group Company; and
- (d) to provide a means through which the Company or Group Company may attract and retain able persons to enter its employment.

The Plan provides flexibility for the Board to invite participants that the Board feels can have a significant impact on the Company's long-term results.

4.4 Eligibility/Participation

Participation is limited to an Eligible Participant (or their approved 'permitted nominee') who is determined by the Board to be eligible to participate in the Incentive Plan. A permitted nominee includes a company controlled by an Eligible Participant, a trust in which the Eligible Participant has, or may have entitlements or such other entity as approved by the Board.

4.5 General Terms Applicable to Awards

If approved, the total number of Shares reserved and available for grant and issuance shall not exceed a number of Shares equal to five percent (5%) of the total issued and outstanding Shares of the Company at the time of granting of such Awards (on a non-diluted basis) (presently being 2,835,241 Shares (assuming Completion occurs and the Share Consolidation is approved and implemented), based on the number of Shares being approximately 56,506,810 following the Share Consolidation and the Share Placement) where the grant or proposed offer is to be made in reliance of ASIC Class Order 14/1000. Shares issued other than in reliance on ASIC Class Order 14/1000 are not subject to this 5% cap, however, the grant of any awards under the Incentive Plan must not result in an Eligible Participant (together with its Associates) holding or gaining the ability to control more than 10% of the voting power in the Company.

The Incentive Plan is considered an "evergreen plan" since: (i) any increase in the issued and outstanding Shares from time to time (whether as a result of exercise of Awards or otherwise) will result in an increase in the number of Shares that may be issued in respect of Awards; and (ii) any Shares issued under Awards which have been exercised will be available for subsequent grants of Awards under the Incentive Plan.

The Incentive Plan provides that the aggregate number of Shares: (a) issued to insiders under the Incentive Plan or any other proposed or established share compensation arrangement within any one-year period; and (b) issuable to insiders at any time under the Incentive Plan or any other proposed or established share compensation arrangement, shall not in each case exceed five percent (5%) of the issued and outstanding Shares (on a non-diluted basis). The Incentive Plan does not

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otherwise provide for a maximum number of Shares which may be issued or issuable to an individual pursuant to the Incentive Plan or any other share compensation arrangement (expressed as a percentage or otherwise).

Unless the Board determines otherwise, where a Participant ceases to be an Eligible Participant:

- (a) by reason of resignation, termination for poor performance or termination for cause, all the Awards held by the Participant, or on the Participant's behalf, will lapse or be forfeited (as the case may be); or
- (b) for any other reason, including (but not limited to): (i) his or her death; (ii) total and permanent disablement; (iii) redundancy; (iv) retirement; or (v) termination by agreement, in each case all the Participant's Awards will continue to be held by, or on behalf of, the Participant (or his or her estate as representative) subject to this Plan and any relevant agreement.

However, the Board, in its discretion, may determine within 4 months of a Participant ceasing to be an Eligible Participant that some or all of a Participant's Awards: (a) lapse or are forfeited, as the case may be; (b) vest; (c) are only exercisable for a prescribed period and will otherwise lapse; and/or (d) are no longer subject to some of the restrictions (including any vesting conditions) that previously applied, as a result of the Participant ceasing employment. In the event of a change in control of the Company or a person acquiring a relevant interest in 90% or more of Shares, unless the Board determines otherwise, all of a Participant's Awards vest on a pro-rata basis and Awards are no longer subject to some or all of the restrictions that applied upon grant. Further, if the Directors consider a change in control of the Company may occur or a person may acquire a relevant interest in 90% or more of the Company, the Directors in their discretion may determine that all or a specified number (including nil) of a Participant's Awards may vest or cease to be subject to any restrictions (and those unvested Awards will lapse).

The Corporations Act provides that the Company may only give a person a benefit in connection with their ceasing to hold a managerial or executive office in the Company or its related bodies corporate if it is approved by Shareholders or an exemption applies (for example, where the benefit together with other benefits does not exceed the base salary of the relevant person as set out in section 200H).

The term 'benefit' has a wide operation and may include (for example) the accelerated vesting of the Awards. As outlined above, the Board has the discretion to determine that some or all of those Awards that are not exercisable at the time an Eligible Participant ceases employment with the Company either vest, become exercisable or otherwise waive restrictions on the Awards. If an Eligible Participant who holds, or has held, a managerial or executive office within the meaning of section 200B ceases employment with the Company, that Eligible Participant may be entitled to have any Awards issued to them vest, or otherwise become exercisable where the Awards were not otherwise (in the discretion of the Board). This constitutes a 'benefit' for the purposes of section 200B.

The value of any consequent termination benefit that may be received as a result of early exercise of the Awards upon cessation of employment cannot be ascertained at the present time. Apart from the future share price being unknown, the following matters which will or are likely to affect the value of the benefit are the:

- (a) number of unvested or unexercisable Awards held by the relevant Eligible Participant prior to cessation of employment;
- (b) reasons for cessation of employment; and
- (c) exercise of the Board's discretion at the relevant time.

Other information that is reasonably required by members in order to decide whether or not it is in the Company's interest to pass the proposed resolution 4 and that is known to the Company or its Directors is set out elsewhere in section 5.

Awards granted or awarded under the Incentive Plan may be transferable or assignable only to a "permitted assign" and shall be exercisable only by the Participant or his or her permitted assign. Under the Incentive Plan, "permitted assigns" include, but are not limited to, a trustee, custodian or administrator acting on behalf of, or for the benefit of, the Participant, a holding entity of the Participant, a registered retirement savings plan or registered retirement income fund of the Participant or a Participant's spouse.

The Board or the Committee, as the case may be, may in its sole discretion, appoint from time to time one or more entities to act as administrative agent to administer the Awards under the Incentive Plan.

The Company may provide financial assistance to Participants in connection with the granting of Loan Shares to assist them in acquiring such Loan Shares, by the Company granting a loan to Participants. Unless the Board determines otherwise, such Loan Shares issued to Participants pursuant to the Incentive Plan will be pledged as collateral for the Participant's obligations under the loan until it has been fully repaid or forgiven, as applicable.

4.6 Specific Terms Related to the Options

The Board or the Committee will: (i) set the term of the Options granted under the Incentive Plan; and (ii) fix the vesting terms of Options as it deems appropriate at the time of the grant of such Options. Should the expiration date for an Option fall within a period during which designated persons cannot trade in any Equity Securities of the Company pursuant to the Company's share trading policy (a "**Black-Out Period**"), the expiration date may be extended by the Board to a date outside of a Black-Out Period.

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The exercise price of any Options granted pursuant to the Incentive Plan will be determined by the Board or the Committee at the time of the grant, provided that the exercise price shall not be less than the volume weighted average trading price of the Shares for the last five trading days prior to the date of grant on the principal stock exchange on which the Company's Shares are listed (the "**Market Value**").

With the consent of the Board or the Committee, a Participant may, rather than exercise the Options which the Participant is entitled to exercise under the Incentive Plan, elect to exercise such Options, in whole or in part and, in lieu of receiving the Shares to which the exercised Options relate, receive the number of Shares, disregarding fractions, which, when multiplied by the Market Value of the Shares to which the exercised Options relate, have a value equal to the product of the number of Shares to which the exercised Options relate multiplied by the difference between the Market Value of such Shares and the price of such Options. The Board may also, in its absolute discretion, allow the Participant to elect to receive a cash payment from the Company of the Market Value of the Shares that would otherwise be issued instead of receiving the Shares.

4.7 Specific Terms Related to the Performance Rights

The Board or the Committee, as the case may be, will from time to time by resolution, in its sole discretion: (i) designate the Participants who may receive Performance Rights under the Incentive Plan; (ii) fix the number of Performance Rights, if any, to be granted to each Participant; and (iii) determine the relevant conditions and vesting provisions (the "Performance Right Restriction Conditions") (including performance criteria, the applicable period in which any performance criteria and other vesting conditions, if any, must be met), and provide such terms to the Participant under a separate agreement. On a vesting determination date ("Performance Right Vesting Determination Date") the Board will determine if the Performance Right Restriction Conditions with respect to a Performance Right have been met and, as a result, establish the number of Performance Rights that become vested, if any.

Each Performance Right will entitle the Participant to one Share upon confirmation by the Board that the vesting conditions, including the Performance Right Restriction Conditions, if any, have been met. The issue price per Share issuable upon vesting of a Performance Right shall be determined by the Board or the Committee at the time the Performance Rights are issued, and such issue price may be zero. All Shares issued to Participants pursuant to Performance Rights under the Incentive Plan may be certificated or uncertificated. The Board may, in its absolute discretion, determine to satisfy a Participant's entitlement on satisfaction of the Performance Right Vesting Conditions through a cash payment in lieu of an allocation of Shares.

4.8 Specific Terms Related to the Bonus Shares

The Board or the Committee, as the case may be, will fix the number of Bonus Shares that will be granted to Eligible Participants and will determine the restrictions and conditions that will be applicable to such Bonus Shares. Bonus Shares issued under the Incentive Plan will vest after all conditions imposed by the Board in its sole discretion have been met (the "Bonus Share Restricted Period"). Unless restricted by the Board, holders of Bonus Shares will be entitled to exercise the voting rights attached to such Bonus Shares upon issuance of the Bonus Shares, regardless of any Bonus Share Restricted Period. The issue price per Bonus Share issued under the Incentive Plan shall be determined by the Board or the Committee at the time the Bonus Shares are issued, but such issue price shall not be less than the Market Value for the Shares.

Shares are to be awarded based on the Issue Price.

All Bonus Shares granted under the Incentive Plan may be certificated or uncertificated. Certificated Bonus Shares shall bear a legend outlining the restrictions thereto and such certificates shall remain in the possession of the Company until such Bonus Shares have vested. A Participant may not sell, transfer, assign, mortgage or charge or otherwise encumber any Bonus Share during any Bonus Share Restricted Period.

Subject to the Board determining otherwise or as set forth in any Bonus Share agreement, upon a Participant ceasing to be an Eligible Participant for any reason, the Participant will be deemed to have agreed to dispose of any Bonus Shares that have not vested at such time to the Company or its nominee for nominal consideration.

4.9 Amendment

The Board has the discretion to make amendments to the Incentive Plan which it may deem necessary, without the consent of the Participants, provided that such amendments shall:

- (a) not adversely alter or impair any Award previously granted except as permitted by the provisions of the Incentive Plan;
- (b) be subject to any regulatory approvals including, where required, the approval of the ASX; and
- (c) be subject to Shareholder approval, where required, by law or the requirements of the ASX, provided that Shareholder approval shall not be required for the following amendments, which may be made by the Board without Shareholder approval:

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- (i) amendments of a “housekeeping” nature or ministerial nature, including without limitation, any amendment for the purpose of curing any ambiguity, error or omission in the Incentive Plan or to correct or supplement any provision of the Incentive Plan that is inconsistent with any other provision of the Incentive Plan;
- (ii) a change to the vesting provisions of any Award, including a determination that the some or all of the Awards have vested;
- (iii) a change to the Eligible Participants of the Plan;
- (iv) for the purpose of enabling the Participants generally (but not necessarily each Participant) to receive a more favourable taxation treatment in respect of their participation in the Incentive Plan;
- (v) to enable the Incentive Plan or any Group Company to comply with the Corporations Act, the Listing Rules and requirements of the ASX or its constitution; or
- (vi) any other amendment, whether fundamental or otherwise, not requiring Shareholder approval under applicable law (including, without limitation, the rules, regulations and policies of the ASX).

The Board shall be required to obtain Shareholder approval to make the following amendments:

- (a) any change to the maximum number of Shares of the Company issuable under the Incentive Plan, except such increase resulting from any increase in the issued and outstanding Shares of the Company (whether as a result of exercise of Awards or otherwise) and in the event of an adjustment pursuant to the Incentive Plan;
- (b) any amendment which reduces the exercise price of any Award after such Awards have been granted;
- (c) any amendment which extends the term of an Award held by an insider beyond the original expiry date, except as otherwise permitted by the Incentive Plan; and
- (d) amendments required to be approved by Shareholders under applicable law or ASX requirements.

4.10 Grant of Equity Securities

All Equity Securities are to be offered to Eligible Participants for no consideration. The offer must be in writing and specify, amongst other things, the number of securities for which the Eligible Participants may apply, the period within which the Awards may be exercised, any conditions to be satisfied before exercise, the Award expiry date and the exercise price of the Awards, as determined by the Board. The Board can impose any restrictions on the exercise of the Awards as it see fit.

4.11 Recommendation of Directors:

The Directors abstain, in the interests of corporate governance, from making a recommendation in relation to this resolution.

RESOLUTION 5 (ORDINARY) - APPOINTMENT OF AUDITOR

5.1 Background

Deloitte Touche Tohmatsu (“Deloitte”) received consent from the Australian Securities & Investments Commission (“ASIC”) to resign from the office of auditor of the Company effective from 28 June 2016 and the Board appointed Grant Thornton Audit Pty Ltd (“Grant Thornton”) as auditor, pursuant to section 327C(1) of the Corporations Act. In accordance with section 327C(2), an auditor appointed under section 327C(1) holds office until the company’s next annual general meeting. The ongoing appointment of the auditor must then be approved by shareholders under section 327B of the Corporations Act.

As required, the Company has received a written notice of nomination from a Shareholder of the Company for Grant Thornton to be appointed as the Company’s auditor. A copy of the notice is attached to this Notice of Annual General Meeting in Schedule 4.

Resolution 5 relates to the appointment of Grant Thornton as auditor of the Company.

5.2 Recommendation of Directors:

The Directors unanimously recommend Shareholders vote in favour of resolution 5.

RESOLUTION 6 (ADVISORY) – TO ADOPT THE REMUNERATION REPORT

6.1 Remuneration Report

The Board has submitted its Remuneration Report to Shareholders for consideration and adoption by way of a non-binding Advisory Resolution.

If there is a vote of 25% or more against the Remuneration Report at the Meeting, and another vote of 25% or more at the next AGM (“Second Strike”), then a resolution will be put to Shareholders at the next AGM to put the Board (other than the Managing Director) up for re-election (“Spill Resolution”). If the Spill Resolution passes, then the Company must hold an

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extraordinary general meeting within 90 days at which all Directors (other than the Managing Director) who were Directors at the time the Remuneration Report that received the Second Strike will retire and may resubmit themselves for re-election.

The Remuneration Report is set out in the Directors' Report section of the Annual Report. The Remuneration Report, amongst other things:

- (a) explains the Board's policy for determining the nature and amount of remuneration of Key Management Personnel of the Company;
- (b) explains the relationship between the Board's remuneration policy and the Company's performance;
- (c) sets out remuneration details for each Key Management Personnel of the Company, including details of performance related remuneration and options granted as part of remuneration; and
- (d) details and explains any performance conditions applicable to the remuneration of Key Management Personnel of the Company.

The Director's Report is available on pages 22 to 36 in the Company's Annual Report and is available at www.carbonenergy.com.au within the Announcements and Reports section of the website.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the Meeting.

6.2 Voting restrictions on Key Management Personnel and their proxies and Closely Related Parties

A voting exclusion statement is set out under resolution 6 in the Notice of Meeting.

6.3 Recommendation of Directors:

The Directors abstain, in the interests of corporate governance, from making a recommendation in relation to resolution 6.

RESOLUTION 7 (ORDINARY) – APPROVAL OF THE PROPOSED TRANSACTION

7.1 Background

Further to the Company's previous ASX announcements, on 22 November 2016 the Company announced that it had appointed Tim Michael and Will Colwell of Ferrier Hodgson as joint and several administrators ("Administrators") of the Company, Carbon Holdings and Carbon Operations (together, the "Deed Companies") under section 436A of the Corporations Act ("Voluntary Administration").

On 15 February 2017, following negotiations between the Pacific Road Group entities, being the Company's largest creditors, and Kam Lung (which currently has 28.39% Voting Power in the Company), the parties entered into a commitment deed to give effect to a proposed recapitalisation ("Commitment Deed"). The proposed recapitalisation was contemplated to be implemented by way of a deed of company arrangement and was subject to various conditions including approval by creditors of the Deed Companies and Shareholder approval being obtained.

7.2 Overview of the DOCA

On 9 March 2017, at the second creditors' meeting in the Voluntary Administration of each Deed Company ("Second Creditors' Meetings"), a deed of company arrangement proposed by Kam Lung ("DOCA") was approved by creditors of the Deed Companies and entered into by the Deed Companies on the same day.

The DOCA, in its original form, included a condition precedent to completion that the employment or other contracts of certain key employees and key contractors of the Deed Companies would continue on terms satisfactory to Kam Lung (acting reasonably). Despite extensive negotiations, the key employees were unable to reach agreement as to their ongoing employment on terms which were acceptable to the Deed Companies or to Kam Lung. On 10 April 2017, Kam Lung gave notice under the Commitment Deed of the occurrence of an event that would or does prevent a condition precedent in the DOCA from being satisfied.

Following further negotiations between the Company, Kam Lung and the Pacific Road Group, the parties agreed to amend the DOCA to provide an alternative way forward for the Deed Companies (including by removing the relevant condition precedent). The proposed amendments to the DOCA were approved at a further meeting of creditors on 23 May 2017. Copies of the DOCA and the amending deed to the DOCA are included as Schedule 5 and the key terms of the DOCA (as amended) are set out below:

- (a) on completion of the DOCA, Kam Lung will provide \$3.85 million in capital to the Company in exchange for a private placement of the Placement Shares to Kam Lung ("Share Placement"), which, following issue, will be subject to the restrictions set out in the Escrow Deed (as described in section 9). The funds raised under the Share Placement will be used as follows:
 - (i) \$300,000 will be paid into a creditors' trust for the benefit of eligible creditors of the Deed Companies whose claims will be released by the DOCA ("Creditors' Trust");

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- (ii) the remaining \$3.55 million will be retained by the Company for general working capital and to pay any unpaid fees and expenses of the Administrators (both in their role of administrators of the Deed Companies and as deed administrators under the DOCA) (“Deed Administrators”);
- (b) Kam Lung has made available to the Company \$1.94 million in interim funding (“Interim Funding Amount”) as follows:
 - (i) Kam Lung has provided an interim unsecured \$1.74 million loan facility to the Company to be used to fund the operating costs of the Deed Companies during the period to Completion (“Interim Facility”). As at the date of this Explanatory Memorandum, \$1.28 million has been drawn down under the Interim Facility; and
 - (ii) Kam Lung provided an indemnity to the Administrators in respect of their expenses and approved remuneration in the aggregate amount of up to \$200,000, which indemnity was called on by the Administrators following the execution of the DOCA;
- (c) on completion of the DOCA, the Pacific Road Lenders will provide a \$1 million interest free¹, unsecured loan facility to the Company (“Pacific Road Loan Facility”). The Pacific Road Loan Facility will be repayable upon Successful Ignition, Disposal of IP Rights or a Kam Lung Disposal of Shares. Repayment of the loan will be guaranteed by Kam Lung;
- (d) on completion of the DOCA, Kam Lung will subscribe for, and the Company will issue to Kam Lung, secured convertible notes issued under a facility agreement between, amongst others, Kam Lung and the Company (“Kam Lung Facility”), with an aggregate principal amount equal to the Subscription Amount.² Under the terms of the DOCA, the Company must apply the Subscription Amount it receives as follows:
 - (i) the Company will pay \$6.85 million to the relevant Pacific Road Group entities in consideration of the release and discharge of the debt under the Pacific Road Convertible Facility and the associated securities, being the amount of \$7,000,000 less a costs contribution amount of \$150,000 that the Pacific Road Group entities have directed the Company to pay to Kam Lung as a partial reimbursement of the costs incurred by Kam Lung in connection with the recapitalisation of the Company (“Costs Contribution”). Kam Lung has directed the Company to retain the Costs Contribution in partial satisfaction of Kam Lung’s \$3.85 million funding contribution under the DOCA. The Pacific Road Group will direct the Company to apply \$1 million of the amount payable to them as a draw down under the Pacific Road Loan Facility;
 - (ii) the Company will repay to Kam Lung any outstanding amounts under the Interim Facility and will reimburse Kam Lung in respect of the \$200,000 indemnity payment made to the Administrators under the indemnity described in section 9.1(b)(ii) above; and
 - (iii) the Company will retain any balance remaining for the Company’s general corporate purposes.

The DOCA is subject to various conditions precedent (including the Shareholder approval sought by this resolution 7). These conditions precedent are summarised below in section 7.5.

7.3 The Proposed Transaction for which Shareholder approval is sought

The following transactions under the DOCA require approval from Shareholders:

- (a) the issue of the Placement Shares to Kam Lung under the Share Placement;
 - (b) the issue of Shares to Kam Lung pursuant to the terms of the Kam Lung Convertible Notes, being:
 - (i) the issue of Shares on conversion of the Kam Lung Convertible Notes issued under the Kam Lung Facility (if any), and
 - (ii) the issue of Interest Shares to Kam Lung;
 - (c) entry into and performance of the Company’s obligations under the Kam Lung Facility; and
 - (d) the granting of the Security by the Company and the Guarantors in favour of Kam Lung to secure the any advances made by Kam Lung to the Company under the Kam Lung Facility (including the Kam Lung Convertible Notes),
- (together, the “Proposed Transaction”).

¹ The loan will be provided on an interest-free basis. However, if an obligor fails to pay an amount payable under a finance document for the Pacific Road Loan Facility on its due date, interest will accrue on the overdue amount from the due date up to the date of actual payment (both before and after judgment) at a rate of 8% p.a.

² The Subscription Amount will be equal to \$8.3 million (to be advanced by Kam Lung at completion of the DOCA) plus the total of any Kam Lung Expenses at completion that are capitalised by the Company as described below in sections 7.7.

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Each the of approvals sought as part of the Proposed Transaction are Conditions Precedent to the implementation of the DOCA, meaning that if resolution 7 is not approved by Shareholders, the DOCA will not be implemented. The potential consequences if Shareholder approval is not obtained for the Proposed Transaction are summarised in section 7.15. The information required to be given to Shareholders in respect of each of the approvals sought is set out below. The specific purposes for each of the above approvals are set out in section 7.8.

7.4 Rationale for the Proposed Transaction

The Non-Interested Director has given detailed consideration to the Proposed Transaction. The Non-Interested Director believes the key rationale for the Proposed Transaction is as follows:

- (a) the Proposed Transaction will allow the Company to continue to operate as a going concern, preserving some value for Shareholders, as opposed to placing the Deed Companies into liquidation, which the Administrators estimate will result in a nil return for Shareholders;
- (b) there are no feasible alternatives to the Proposed Transaction which will allow the Company to continue as a going concern and give Shareholders the potential to retain some value;
- (c) ASX has confirmed that, should the Proposed Transaction be approved and completed on the terms set out in this Explanatory Memorandum, the suspension on trading of Shares will be lifted and the ASX listing of the Company will be restored. The Non-Interest Director reasonably believes that this offers a better opportunity for Shareholders to realise some value in their Shares; and
- (d) the Proposed Transaction represents a substantial commitment by a cornerstone investor (Kam Lung), which demonstrates an alignment of interests with the Company and its strategic direction, with the potential to build further value for all Shareholders.

A summary of the key advantages and disadvantages of the Proposed Transaction are set out in sections 7.13 and 7.14. Shareholders are also encouraged to read the Independent Expert's Report in full before making a decision as to how to vote on resolution 7. The Independent Expert's Report is included as Schedule 7 to this Explanatory Memorandum.

The Non-Interested Director notes that the Independent Expert has valued the Keyseam Technology in the range of \$10 million and \$17 million. For completeness, the Non-Interested Director notes that this valuation is entirely dependent on the continued operation of the JinHong Joint Venture. If the Proposed Transaction does not complete, the Non-Interested Director considers that the Deed Companies will be placed into liquidation in which case the JinHong Joint Venture will terminate. The value of the Keyseam Technology as derived by the Independent Expert will not be realised in that circumstance. Further, a liquidator would need to determine if an alternative buyer for the Keyseam Technology could be identified and value realised.

7.5 The DOCA

Under the terms of the DOCA, all debts and claims against each Deed Company that would have been admissible to proof against a Deed Company if that Deed Company had been wound up and the winding up was taken to commence on the date of the appointment of the Administrators, will be released, other than certain excluded claims which are described in the DOCA. In summary, the claims which will be released under the DOCA in exchange for the right to participate in a distribution from the Creditors' Trust are all claims other than the following:

- (a) claims of the continuing employees (other than in respect of options or performance rights held by continuing employees, which will be cancelled pursuant to the terms of the DOCA, if completed);
- (b) claims of certain contractors, which are set out in schedule 1 to the DOCA, subject to those contractors not having terminated their contractual arrangements with the Carbon Energy Group prior to Completion;
- (c) claims in respect of Excluded Contracts (as that term is defined in the DOCA), which the Deed Companies will continue to be liable for after Completion. These include the JinHong Joint Venture, all contractual arrangements of the Carbon Energy Group with the CSIRO and the lease and sublease of the Company's head office;
- (d) any present or future claims of Government authorities arising under or in connection with the mining tenements held by the Carbon Energy Group;
- (e) Insured Claims (as that term is defined in the DOCA), being claims which a creditor has against a Deed Company for which the creditor would be entitled to priority in a liquidation of that Deed Company under section 562 of the Corporations Act, to the extent that the claim is discharged by an insurer to the Deed Company; and
- (f) intra-group claims between the Company and other members of the Carbon Energy Group.

The claims held by the Pacific Road Group entities and by Kam Lung and its related bodies corporate against the Deed Companies will also be released under the DOCA, but those entities will not participate in any distribution under the Creditors' Trust.

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Creditors' Trust

\$300,000 of the funds contributed by Kam Lung under the DOCA will be paid into the Creditors' Trust for the benefit of creditors of the Deed Companies whose claims constitute Participating Claims. The \$300,000 (and any interest earned on it) will be the only assets available to satisfy the Participating Claims.

The assets of the Creditors' Trust will be distributed in the manner set out in section 3 of the Creditors' Trust Deed. In summary, the funds will be distributed in the following order of priority:

- (a) first, to cover the remuneration and costs of the trustees of the Creditors' Trust;
- (b) next, to employee creditors with Participating Claims which would have priority under section 556(1)(e), (g) or (h) of the Corporations Act if the Deed Companies were taken to be in liquidation on the date the Administrators were appointed;
- (c) next, the funds will be used to satisfy the first \$5,000 of each remaining creditor with a Participating Claim (other than a Subordinate Claim, as that term is defined in section 563A of the Corporations Act), or the whole amount of the claim if it is less than \$5,000;
- (d) next, pro rata to each creditor who is owed any amount in respect of a Participating Claim (other than a Subordinate Claim) which has not yet been paid;
- (e) next, to each creditor who is owed an amount in respect of a Participating Claim that is a Subordinate Claim; and
- (f) if any funds remain, to the Company.

Pacific Road Loan Facility

On Completion, the Pacific Road Lenders will provide a \$1 million unsecured loan to the Company under an unsecured loan agreement ("Unsecured Loan Agreement"). The Pacific Road Loan Facility will be repayable upon Successful Ignition, Disposal of IP Rights or a Kam Lung Disposal of Shares. Kam Lung will guarantee the punctual performance by the Company of all its obligations under the Unsecured Loan Agreement.

The loan provided under the Pacific Road Loan Facility will be provided on an interest-free basis. However, if an obligor (being the Company or Kam Lung as guarantor) fails to pay an amount payable under a finance document for the Pacific Road Loan Facility on its due date, interest will accrue on the overdue amount from the due date up to the date of actual payment (both before and after judgment) at a rate of 8% p.a. The Unsecured Loan Agreement includes representations and undertakings given by the Company which are customary for an agreement of this nature.

Conditions Precedent to completion of the DOCA

Completion of the DOCA is subject to a number of conditions precedent, some of which have already been satisfied ("Conditions Precedent"). The Conditions Precedent are set out in full in section 4 of the DOCA. A summary of the Conditions Precedent (including an indication of when each Condition Precedent is anticipated to be satisfied (if not already satisfied)) is set out in Table 3 below.

Table 3

	Condition Precedent	Status
(a)	The relevant Pacific Road Group entities voting in favour of the DOCA at the Second Creditors' Meetings.	Satisfied – the relevant Pacific Road Group entities approved the DOCA at the Second Creditors' Meetings. The relevant Pacific Road Group entities also approved the relevant amendments to the DOCA at the Third Creditors' Meetings.
(b)	All necessary regulatory approvals, waivers and exemptions required in connection with the transactions contemplated by the DOCA (including ASX agreeing to lift the suspension for the trading of the Shares if the DOCA is completed according to its terms).	Please see section 7.6 below for further details.
(c)	All necessary Shareholder approvals required in connection with the Proposed Transaction being obtained.	All necessary Shareholder approvals are to be sought at the Meeting, including the approval of the Share Consolidation sought under resolution 8 and the approvals sought under this resolution 7.
(d)	Execution of the Creditors' Trust Deed.	Satisfied – the Creditors' Trust Deed was executed on 9 March 2017.

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	Condition Precedent	Status
(e)	There being no loss, termination or expiry of the Deed Companies' patent rights or rights to exploit and commercialise the Keyseam Technology under the COSFLOW Agreement and no event has occurred or subsists which causes to exist a right of termination in respect of the COSFLOW Agreement immediately following Completion.	As at the date of this Notice, the Company is not aware of any circumstances which would reasonably affect the intellectual property rights of the Carbon Energy Group in respect of the Keyseam Technology.
(f)	The Keyseam Technology and the Deed Companies' patent rights being free from any encumbrance (other than any encumbrances to be released on Completion of the DOCA).	As at the date of this Notice, the Company is not aware of any encumbrance (other than encumbrances to be released on Completion) affecting the Keyseam Technology or the Deed Companies' patent rights.
(g)	There being no material change in circumstances outside the reasonable control of Kam Lung or the Deed Companies after 13 February 2017 which results in an increase of 50% or more to the estimated rehabilitation costs for the Bloodwood Creek site as provided in the Company's 2016 Annual Report.	As at the date of this Notice, the Company is not aware of any circumstances which would reasonably be expected to give rise to a material change in circumstances for the purpose of this condition.
(h)	The Commitment Deed having not been terminated in accordance with its terms.	As at the date of this Notice, the Company is not aware of any termination or purported termination of the Commitment Deed by any party to that deed.

The Company currently anticipates that, subject to Shareholders approving resolution 7, resolution 8 and resolution 9, the other Conditions Precedent will be satisfied before or at Completion.

7.6 Regulatory approvals, waivers and exemptions

ASX waivers

The Company has applied for, and obtained, waivers from the following Listing Rules. Set out below are descriptions of the effect of the relevant waivers that have been obtained:

- **Listing Rule 7.40:** Listing Rule 7.40 requires a listed company to comply with the timetable prescribed in Appendix 7A of the Listing Rules for certain corporate reconstructions. The Company has obtained a waiver from this Listing Rule so that it does not need to comply with Appendix 7A to the extent it applies to the steps required under the DOCA, including the proposed share consolidation outlined in resolution 8.
- **Listing Rule 10.13.3:** Listing Rule 10.13.3 requires that a listed company issue any securities subject of a Listing Rule 10.11 approval within 1 month after the date of the meeting on which such approval was provided. The Company has obtained a waiver from this Listing Rule to permit it to issue the Interest Shares in respect of each interest period under the Kam Lung Facility up to one week after the date which is five years from the date of issue of the Kam Lung Convertible Notes, provided the Company sets out the terms of the waiver, details of the Interest Shares and any conditions which must be satisfied prior to the issue of the Interest Shares in this Notice and provided that, for any annual reporting period during which any Interest Shares have been issued or any Interest Shares remain to be issued, the Company's annual report sets out the basis on which the Interest Shares have been or may be issued.
- **Confirmation that the Kam Lung Convertible Notes are not "options" for the purposes of the Listing Rules:** ASX has also confirmed that the Kam Lung Convertible Notes are not "options" for the purposes of the Listing Rules.

7.7 Kam Lung Facility

The Kam Lung Facility will be a facility for the subscription of secured convertible notes issued by the Company ("Kam Lung Convertible Notes") together with an uncommitted cash advance facility where the principal outstanding under the uncommitted cash advance facility must not exceed \$5,000,000. The Kam Lung Facility will be established by way of a:

- Facility Agreement entered into by the Company, Kam Lung and Carbon Energy and Carbon Holdings as guarantors ("Guarantors");
- Note Deed Poll entered into by the Company as issuer of the Kam Lung Convertible Notes and the Guarantors, executed as a deed poll in favour of the holders of the Kam Lung Convertible Notes from time to time;
- General Security Agreement between the Company, the Guarantors and Kam Lung for the granting of the Security;

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- (d) a Cosflow licence agreement transfer deed between Carbon Operations, Kam Lung and the CSIRO, whereby the parties agree to novate the COSFLOW Agreement to Kam Lung in the event that Kam Lung gives CSIRO written notice that an event of default (as that term is defined under the Facility Agreement) has occurred ("Cosflow Agreement Transfer Deed"); and
 - (e) a software escrow agreement between Carbon Operations, Kam Lung and HopgoodGanim Lawyers ("Escrow Agent") under which the Escrow Agent agrees to act as escrow agent in respect of a copy of the source and object code relating to the Keyseam Technology ("Deposit Package"), and release the Deposit package to Kam Lung in the event it receives a release notice from Kam Lung stating that an event of default (as that term is defined in the General Security Agreement) has occurred ("Software Escrow Agreement"),
- (together, the "Facility Documents").

The Company must use the net proceeds of any advance under the uncommitted cash advance facility only for general corporate purposes, or any other purpose which Kam Lung may agree in writing. The interest rate that would apply in respect of any advance made under the uncommitted cash facility is 8% per annum or, if the parties so agree, the aggregate of BBSY in relation to the interest period for that advance and 5.5% per annum.

The following is a summary of the key terms of the Facility Documents in so far as they relate to the Kam Lung Convertible Notes. A more complete summary of the terms of the Facility Documents is included in Schedule 6.

Facility, facility limit and use of funds

The limit of the Kam Lung Facility will be an amount equal to the Subscription Amount, plus interest which is capitalised in accordance with the terms of the Facility Documents.

The funds drawn down on the Kam Lung Facility will be used in the manner summarised in section 7.2.

The Kam Lung Facility will not be available for drawdown until certain conditions are satisfied. These conditions are summarised in Schedule 6.

Capitalisation of costs and expenses

Under the Kam Lung Facility, the Company is required to pay all costs and expenses of Kam Lung in relation to the negotiation, preparation, execution, delivery, stamping, registration, completion, variation and discharge of the Facility Documents and the DOCA ("Kam Lung Expenses").

The Company may elect to capitalise all or part of any Kam Lung Expenses incurred in the period up to Completion, in which case the Subscription Amount shall be increased by an amount equal to the total amount which the Company elects to capitalise. Kam Lung's obligation to pay the portion of the Subscription Amount referable to the increase shall be set off against the Company's obligation to pay those Kam Lung Expenses.

The Company may elect to capitalise as much as \$1,000,000 of Kam Lung Expenses. This is not an estimate of the likely total amount of all Kam Lung Expenses. By way of background for Shareholders, the total amount of Kam Lung Expenses as at the date of this Explanatory Memorandum is approximately \$840,000.

Maturity date

The Kam Lung Facility will terminate on the fifth anniversary of the Completion Date (unless terminated earlier in accordance with the Facility Documents).

Interest

Interest for each interest period will accrue on amounts drawn down on the Kam Lung Facility at 8% per annum and must, subject to the capitalisation and conversion options outlined below, be paid in cash in arrears on the relevant interest payment date.

Accrued interest may, at the Noteholder's option at the end of each interest period, be either, in whole or in part:

- (a) paid by way of a conversion into Shares ("Interest Conversion"), such number to be determined by dividing the applicable interest payable by the conversion price (to be calculated as the average of the volume-weighted average price of the Company's Shares for the five consecutive dealing days ending on the applicable interest payment date or conversion date); or
- (b) capitalised and added to the outstanding principal on the Kam Lung Convertible Notes,

or a combination of both. To the extent that the accrued interest in respect of an interest period is not the subject of such an election by the Noteholder, the Company may elect for the accrued interest that is not the subject of such an election to be capitalised and added to the outstanding on the relevant interest payment date. Capitalised interest may subsequently be converted into Shares at the option of the Noteholder in accordance with the conversion terms of the Kam Lung Convertible Notes described below.

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The maximum number of Shares that the Kam Lung Convertible Notes held by Kam Lung can be converted into at any time is such number of Shares as would, at the time of such conversion, cause Kam Lung to hold the minimum number of Shares that would cause it to become a “90% holder” such that it would be entitled to compulsorily acquire any outstanding Marketable Securities of the Company under Part 6A.2 of the Corporations Act (“90% Holder Limitation”). At such time, Kam Lung would have a Relevant Interest in, and Voting Power of, approximately 90% of the Shares (depending on the number of other securities on issue at that point). For the avoidance of doubt, if any interest is converted in part into Shares, the balance of the interest owing under the Kam Lung Convertible Notes will not be converted and shall be paid in cash in arrears on the following interest payment date unless the Noteholder or the Company elects for such interest to be capitalised on the relevant interest payment date.

Security

The Company and each Guarantor will provide a first ranking security over its assets on the terms of the General Security Agreement. The Security will include the registration of a PPS Security Interest over all present and after acquired property of the Company and the Guarantors.

Conversion

The Kam Lung Convertible Notes will be convertible in whole or in part into Shares (“Notes Conversion”) at the option of the Noteholder at any time and from time to time on or after the first anniversary of the Completion Date up to and including the maturity date of the Kam Lung Facility, which is five years from the issue of the Notes. The conversion price will be calculated using the following formula:

Conversion Price = 125% x VWAP

where **VWAP** means the volume-weighted average price of the Company’s Shares traded on the ASX in the 20 dealing days immediately preceding (but not including) the first anniversary of the Completion Date.

At any relevant time on which Shares are issued under the terms of the Kam Lung Convertible Notes, the maximum number of Shares that the Kam Lung Convertible Notes held by Kam Lung can be converted into at any time is subject to the 90% Holder Limitation. At this point, Kam Lung would have a Relevant Interest in, and Voting Power of, approximately 90% of the Shares (depending on the number of other securities on issue at that point). For the avoidance of doubt, if the Kam Lung Convertible Notes are converted in part into Shares, the balance of the amount owing under the Kam Lung Convertible Notes shall remain outstanding in accordance with the terms of the Kam Lung Convertible Notes.

Arrangement Fee

A \$1 million arrangement fee is payable to Kam Lung by the Company on the maturity of the Kam Lung Facility (“Arrangement Fee”).

7.8 Shareholder approval sought

As discussed above, the Proposed Transaction requires Shareholder approval for various purposes. In particular, Shareholder approval is sought under:

- (a) item 7 of section 611 of the Corporations Act, for the acquisition by Kam Lung of a Relevant Interest in Shares on:
 - (i) completion of the Share Placement;
 - (ii) conversion of the Kam Lung Convertible Notes (if any); and
 - (iii) issue of the Interest Shares (if any),
(together, the “Share Acquisition Approval”);
- (b) section 208 of the Corporations Act, for the giving of a “financial benefit” by the Company to Kam Lung, (being a Related Party) as a result of the matters referred to in section 7.10;
- (c) Listing Rule 10.1, for the disposal of a substantial asset (by way of the granting of the Security) by the Company and the Guarantors to Kam Lung (being a Related Party and Substantial Holder); and
- (d) Listing Rule 10.11, for the issue of Placement Shares to Kam Lung (being a Related Party) under the Share Placement, the issue of Kam Lung Convertible Notes to Kam Lung and the potential issue of Interest Shares to Kam Lung under the terms of the Kam Lung Convertible Notes.

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If the Proposed Transaction is approved and implemented, Mr Zhuang will obtain a Relevant Interest in the same number of Shares as Kam Lung, pursuant to section 608 of the Corporations Act.

The Share Acquisition Approval is discussed below in section 7.9. The Shareholder approvals sought under section 208 of the Corporations Act and Listing Rules 10.1 and 10.11 (together, the “Related Party Transaction Approval”) are discussed below in section 7.10.

Listing Rule 7.2 provides that Shareholder approval under Listing Rule 7.1 is not required for the issue of securities to Related Parties which are approved under Listing Rule 10.11 (Exception 14). Accordingly, the following will not be included in the 15% calculation of the Company’s annual placement capacity pursuant to Listing Rules 7.1:

- (a) issue of Placement Shares to Kam Lung under the Share Placement;
- (b) issue of an amount equal to the Subscription Amount of the Kam Lung Convertible Notes to Kam Lung under the Kam Lung Facility; and
- (c) potential issue of Interest Shares (if any) to Kam Lung under the terms of the Kam Lung Convertible Notes.

Any future conversion of Kam Lung Convertible Notes to Shares will, if approval of resolution 7 is obtained, fall under exception 4 of Listing Rule 7.2 (being an issue of Shares upon the conversion of the Kam Lung Convertible Notes) and exception 16 of Listing Rule 7.2 (being an issue of securities approved for the purposes of item 7 of Section 611) and accordingly, no further Shareholder approval is required under the Listing Rules.

7.9 Share Acquisition Approval

Section 606 of the Corporations Act prohibits a person from acquiring a Relevant Interest in issued voting shares in a listed company if the acquisition would result in that person or someone else’s Voting Power increasing:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% and below 90%.

There are several exemptions to the prohibition in section 606 set out in section 611 of the Corporations Act. In particular, item 7 of section 611 allows shareholders to approve an acquisition of Relevant Interests in voting shares that would otherwise contravene the prohibitions in section 606 of the Corporations Act. Accordingly, approval of resolution 7 is being sought from Shareholders.

As part of the Proposed Transaction, at Completion, Kam Lung will provide \$3.85 million in capital to the Company in exchange for the issue of the Placement Shares under the Share Placement.

As at the date of this Explanatory Memorandum, Kam Lung has Voting Power in the Company of 28.39%. Following completion of the issue of the Placement Shares to Kam, Kam Lung will have Voting Power of 80% in the Company.

In addition, Kam Lung may increase its Voting Power after Completion as a result of the potential conversion of the Kam Lung Convertible Notes to Shares and the issue of Interest Shares under the terms of the Kam Lung Convertible Notes.

Table 4 summarises the Relevant Interest of Kam Lung, the Pacific Road Group and the Non-Interested Shareholders in Shares as at the date of this Explanatory Memorandum (pre-Share Consolidation).

Table 4

Shareholder	Relevant Interest in Shares (pre-Share Consolidation)	Voting Power
Kam Lung	514,760,847	28.39%
Pacific Road Group	168,531,831	9.29%
Non-Interested Shareholders	1,130,136,201	62.32%
Total	1,813,428,879	100%

Share Placement

The Share Placement will involve the issue of the Placement Shares to Kam Lung, at an issue price of approximately \$0.000823 per Placement Share (\$0.08227 on a post Share Consolidation basis), raising \$3.85 million (before costs). The Share Placement will increase Kam Lung’s Voting Power in the Company. Table 6 and Table 7 below set out the number of Shares that will be held by Kam Lung and Kam Lung’s Voting Power in the Company following the Share Placement (on a pre- and post Share Consolidation basis).

The Placement Shares will be issued on the same terms as other ordinary shares on issue and will be fully paid.

The funds raised under the Share Placement will be used for purposes described in section 7.1.

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Conversion of the Kam Lung Convertible Notes into Shares

The terms of the Kam Lung Convertible Notes allows Kam Lung to convert some or all of the Kam Lung Convertible Notes into a number of Shares at any time on or after the first anniversary of the Completion Date up to and including the maturity date of the Kam Lung Facility.

Shareholder approval is sought for the acquisition by Kam Lung of a Relevant Interest in Shares issued on conversion of the Kam Lung Convertible Notes for the purposes of item 7 of section 611 of the Corporation Act.

The number of Shares to be issued depends on the principal amount of Kam Lung Convertible Notes (including, if the Noteholder elects to convert the accrued interest in respect of that principal amount, the amount of that accrued interest) that is converted and the conversion price of Shares at that time (the calculation of the conversion price is described section 7.7). The principal amount of Kam Lung Convertible Shares depends on the final amount of the Subscription Amount after any Kam Lung Expenses at Completion have been capitalised as described in section 7.7 above. The Shares issued upon conversion will be fully paid and will be issued on the same terms as other ordinary shares on issue.

Under the terms of the Kam Lung Convertible Notes, at any relevant time on which Shares are issued under the terms of the Kam Lung Convertible Notes on conversion of the Kam Lung Convertible Notes issued under the Kam Lung Facility, the maximum number of Shares that the Kam Lung Convertible Notes held by Kam Lung can be converted into at any time is such number of Shares as would, at the time of such conversion, cause Kam Lung to become a "90% holder" such that it would be entitled to compulsorily acquire any Marketable Securities of the Company under Part 6A.2 of the Corporations Act. For the avoidance of doubt, if the Kam Lung Convertible Notes are converted in part into Shares, the balance of the amount owing under the Kam Lung Convertible Notes shall remain outstanding in accordance with the terms of the Kam Lung Convertible Notes.

If Kam Lung acquires a full beneficial interest in 90% or more of the Shares, Kam Lung will be entitled to compulsorily acquire the remaining Shares under Part 6A.2 of the Corporations Act.

Interest Shares

Interest will accrue on amounts drawn under the Kam Lung Convertible Notes at 8% per annum. Accrued interest in respect of any interest period may, at the Noteholder's election, in whole or in part, be paid by way of a conversion into Shares using the formula set out in section 7.7 or capitalised, or a combination of both, or otherwise paid in cash to the extent it is not the subject of such an election and the Company does not itself elect to capitalise such interest. As noted in section 7.7, capitalised interest may subsequently be converted into Shares at the option of the Noteholder in accordance with the Notes Conversion terms summarised in section 7.7 and 7.9 above.

In order to provide Shareholders with an indication of the maximum number of Interest Shares that could be issued to Kam Lung, the following assumptions have been made:

- (a) the total amount of Kam Lung Expenses that the Company elects to capitalise as described in section 7.7 is \$1,000,000 (and accordingly the Subscription Amount is increased to up to \$9.3 million);
- (b) no Kam Lung Convertible Notes are converted into Shares by way of a Notes Conversion at any time prior to the maturity date of the Kam Lung Convertible Notes;
- (c) the interest accruing on the Kam Lung Convertible Notes and payable at the end of each interest period is converted in full into Shares by way of an Interest Conversion; and
- (d) the conversion price applicable to each Interest Conversion is \$0.001 per Share, being the lowest price at which and ASX-listed security can trade.

Based on the above assumptions:

- (a) the total interest that would accrue on the Kam Lung Convertible Notes and be converted into Shares by way of an Interest Conversion would be \$3,720,000;
- (b) the total number of Shares that could be issued on conversion of such accrued interest would not exceed 3,720,000,000 (and would be subject to the 90% Holder Limitation); and
- (c) despite the above, as a result of the operation of the 90% Holder Limitation, the maximum Voting Power that Kam Lung could hold as a result of the issue of the Interest Shares is 90%.

While a theoretical conversion price for the Interest Shares of \$0.001 per Share has been used for illustrative purposes, the Non-Interested Director believes that there are good reasons why the Share price may not be trading at that price, including because:

- (a) if resolution 8 is passed, the Shares will be consolidated at a ratio of 100:1, noting that the Share price was trading at \$0.013 prior to the Company's suspension on the ASX; and
- (b) if the Proposed Transaction is completed, the Company will be on better financial footing compared to its position immediately prior to the Company's suspension from trading on the ASX when the Company appointed the Administrators.

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Please note that the Non-Interested Director does not make any representation or warranty in respect of the Company's future Share price and the above statement is not a forecast.

For illustrative purposes only, set out below in Table 5 is a number of possible scenarios assuming a maximum interest amount of \$3,720,000 and based on hypothetical conversion prices of \$1.00, \$0.10 and \$0.01. Table 5 illustrates the difference in the number of Interest Shares that will be issued, depending on the actual conversion price applicable at the relevant time. The figures in Table 5 are presented on a post-Share Consolidation basis.

Table 5

Conversion price	Number of Interest Shares to be issued [#]	Number of Shares held by Kam Lung following issue of Interest Shares [#]	Total number of Shares following issue of Interest Shares [#]	Kam Lung's Voting Power ^{##}
\$0.01	64,933,408 ^{###}	116,880,129	129,866,810	90%
\$0.10	36,800,000	88,746,721	101,733,402	87.23%
\$1.00	3,720,000	55,626,721	68,613,402	81.07%

[#] Taking into account the assumptions set out above.

^{##} Based on there being 64,933,402 Shares on issue at the relevant time before issue of Interest Shares. This is the number of Shares that will be on issue immediately following Completion (subject to rounding due to the Share Consolidation). Please see Table 11 for further details regarding these calculations.

^{###} This is the maximum number of Interest Shares that could be issued on the initial interest payment date so that Kam Lung's holding remains within the 90% Holder Limitation. However, it is possible for a higher number of Interest Shares to be issued to Kam Lung over time through conversion of accrued interest on subsequent interest payment dates. If Kam Lung is unable to convert all of its accrued interest into Interest Shares at the end of any Interest Period because of the 90% Holder Limitation, Kam Lung may nevertheless be able to convert its accrued interest for the next interest period if, for whatever reason, Kam Lung's holding falls below 90% (for example because the Company has undertaken a placement of shares to a third party or Kam Lung has sold down some Shares).

Dilutionary effect of the Share Placement, conversion of the Kam Lung Convertible Notes and issue of the Interest Shares

Table 6 and Table 7 below illustrate the maximum extent of the change in Voting Power of Kam Lung and its Associates following the completion of the Share Placement (on a pre- and post Share Consolidation basis). Kam Lung's Associates in relation to the Company are:

- (a) its controller and sole owner, Mr Huihai Zhuang (who is also a Director of the Company);
- (b) Beijing Haigang Investment and Development Co., Ltd; and
- (c) Beijing Jinhong Investment and Development Co., Ltd

Each of Kam Lung's Associates will have the same Voting Power in the Company as Kam Lung as a result of the share issuances and other arrangements referred in this Explanatory Memorandum.

Table 6 – Pre-Share Consolidation

Event	Number of Shares held by Kam Lung	Total number of Shares on issue	Maximum extent of increase in Voting Power	Percentage (i.e. Voting Power)
Current shareholding	514,760,847	1,813,428,879	N/A	28.4%
Following Share Placement	5,194,672,128	6,493,340,160	51.6%	80.0%

Table 7 – Post Share Consolidation

Event	Number of Shares held by Kam Lung	Total number of Shares on issue	Maximum extent of increase in Voting Power	Percentage (i.e. Voting Power)
Current shareholding	5,147,608	18,134,289	N/A	28.4%

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Following Share Placement	51,946,721	64,933,402	51.6%	80.0%
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The Share Placement will increase Kam Lung's Voting Power in the Company by approximately 51.6%. Following the Share Placement, the Non-Interested Shareholders will hold approximately 17.4% of the Shares on issue and Pacific Road will hold approximately 2.6% of Shares on issue. The dilutionary effect of the Share Placement on the Non-Interested Shareholders is approximately 72.1% (i.e. Non-Interested Shareholders who currently hold 62.3% of the Company will have their holdings diluted to approximately 17.4% immediately following Completion).

As the 90% Holder Limitation³ applies to:

- (a) the number of Interest Shares that can be issued to Kam Lung at any relevant time; and
- (b) the number of Shares that can be issued to Kam Lung at any time as a result of a conversion of the Kam Lung Convertible Notes,

the maximum Voting Power that Kam Lung could hold as a result of either of the above is 90%. Assuming that Kam Lung holds 80% Voting Power prior to the issue of any Interest Shares or the conversion of any Kam Lung Convertible Notes, the maximum extent of the increase in Kam Lung's voting power as a result of either of the above is 10%.

As a result of the 90% Holder Limitation, the maximum dilutionary effect to Non-Interested Shareholders caused by (1) the conversion by Kam Lung of Kam Lung Convertible Notes into Shares or (2) the issue of Interest Shares to Kam Lung is 50% (i.e. Non-Interested Shareholders who would hold approximately 17.4% at the relevant time would be diluted to approximately 8.7%).

Table 8 includes a summary of information required to be given to Shareholders under the Corporations Act or recommended to be provided to Shareholders under ASIC's regulatory guide 74 for the purposes of the Share Acquisition Approval.

Table 8

Required information	Information
The identity of the person who will acquire a Relevant Interest in the Shares and the extent of its Relevant Interest	<p>Kam Lung will acquire the Shares subject of the approvals contemplated in this Explanatory Memorandum.</p> <p>Kam Lung is a Hong Kong based private investment company and is 100% owned and controlled by Mr Huihai Zhuang.</p> <p>Kam Lung has been a substantial shareholder of the Company since 2014 and Mr Zhuang has been a director of the Company since 29 October 2015.</p> <p>As at the date of this Explanatory Memorandum and as set out above, Kam Lung holds 28.39% of the Voting Power in the Company.</p>
An explanation of the reasons for the Share Acquisition Approval.	A summary of the rationale for the Proposed Transaction is included in section 7.4. In addition, the key advantages and disadvantages of the Proposed Transaction are set out in sections 7.13 and 7.14.
When the acquisition of Shares is to occur.	If resolution 7 is approved and the other conditions precedent to the DOCA are satisfied or waived, the Share Placement is contemplated to be completed on the second business day following the Meeting. The conversion of the Kam Lung Convertible Notes to Shares may happen at any time on or after the date that is 12 months after the Completion Date up to and including the fifth anniversary of the Completion Date and Interest accrued on the Convertible Notes during any interest period up to the maturity date may be converted into Interest Shares at the election of Kam Lung not later than 5 business days before the end of that interest period.
The material terms of the Share Placement and the Kam Lung Convertible Notes.	The material terms of the Share Placement are set out in section 7.9. The material terms of the Kam Lung Convertible Notes and the interest Shares are set out in section 7.7. Further details regarding the terms regarding the Kam Lung Convertible Notes are set out in Schedule 6.

³ See section 7.7 for a more detailed explanation of 90% Holder Limitation.

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Required information	Information
Details of the terms of any other relevant agreement between Kam Lung, the Company and the Pacific Road Group (or their Associates) that is conditional on the Share Acquisition Approval.	The Share Acquisition Approval is part of the Proposed Transaction. Details regarding other agreements relevant to the Proposed Transaction (including the Share Placement) are included in section 9 of this Explanatory Memorandum. Resolution 7 (which includes the Share Acquisition Approval) is conditional upon the approval by Shareholders of resolution 9. Resolution 9 seeks approval from Shareholders for the Company acquiring a Relevant Interest in the Placement Shares as a result of entering into the Escrow Deed. Further details regarding resolution 9 are set out in section 9.
Kam Lung's intentions regarding the future of the Company.	A summary of Kam Lung's intentions for the Company is included in section 7.16.
Kam Lung's intentions regarding the financial or dividend policy of the Company.	A summary of Kam Lung's intentions for the Company is included in section 7.16.
The interests that any Director has in the Proposed Transaction.	As detailed in section 7.10, Mr Huihai Zhuang has an interest in the Proposed Transaction as the sole owner and controller of Kam Lung. Mr George Su, who has been nominated for re-election as a Director under resolution 2, is also a nominee of Kam Lung. Both Mr Zhuang and Mr Su (in his capacity as alternate Director of Mr Zhuang or Director following execution of the DOCA) have not been present at Board meetings to consider the Proposed Transaction. In addition, Mr Zhuang and Mr Su have both abstained from making a recommendation in respect of this resolution 7.
Details of persons to be appointed as a Director as part of the Proposed Transaction.	As part of the terms of the DOCA, Mr George Su was elected as a Director of the Company following execution of the DOCA. Mr Su has been nominated for re-election as a Director under resolution 2 and further details regarding Mr Su are included in section 2.

Further details which are relevant to the Share Acquisition Approval are set out in the Independent Expert's Report (to the extent that it relates to the Relevant Interest Acquisition). Shareholders are encouraged to read the Independent Expert's Report in full before making a decision on how to vote on resolution 7. The Independent Expert's Report is included as Schedule 7 to this Explanatory Memorandum.

7.10 Related Party Transaction Approval

Chapter 2E of the Corporations Act regulates the provision of "financial benefits" to related parties of a public company. Section 208 of the Corporations Act provides that, for a public company to give a "financial benefit" to a Related Party of the company, the company must obtain the approval of the company's shareholders in the manner set out in Chapter 2E of the Corporations Act and give the benefit within 15 months following such approval, unless:

- (a) the giving of the financial benefit falls within one of the exemptions set out in Chapter 2E of the Corporations Act; or
- (b) the giving of the financial benefit is required under a contract that was approved by the company's shareholders in the manner set out in Chapter 2E.

For the purposes of Chapter 2E of the Corporations Act:

- (a) Kam Lung is currently a Related Party of the Company because Mr Huihai Zhuang, who is the sole owner and controller of Kam Lung is also a director of the Company; and
- (b) various aspects of the Proposed Transaction (outlined below), if completed, will involve the "giving a financial benefit" to Kam Lung.

As Mr Zhuang is the sole owner and controller of Kam Lung and, if the Proposed Transaction is approved and implemented, Mr Zhuang will obtain a Relevant Interest in the same number of Shares as, and Voting Power in the Company equal to that of, Kam Lung.

Taking into account that these financial benefits form part of the overall Proposed Transaction, The Non-Interested Director considers that the financial benefits to be given to Kam Lung are reasonable in the circumstances.

However, considering the complex nature of the Proposed Transaction and the lack of comparable transactions, the Non-Interested Director believes that it is prudent to seek Shareholder approval for the purposes of section 208 of the Corporations Act.

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Giving a financial benefit to a Related Party

The following aspects of the Proposed Transaction constitute the giving of a “financial benefit” to Kam Lung for the purposes of Chapter 2E of the Corporations Act:

- (a) the issue by the Company of the Placement Shares to Kam Lung under the Share Placement;
- (b) the Company entering into and performing its obligations under the Kam Lung Facility (including payment of the Arrangement Fee);
- (c) the issue by the Company of the Kam Lung Convertible Notes under the Kam Lung Facility and potential issue of Interest Shares under the terms of the Kam Lung Convertible Notes; and
- (d) the granting of the Security in favour Kam Lung under the terms of the Kam Lung Facility.

Details regarding the Placement Shares to be issued as part of the Share Placement, including the number and issue price, are set out above in section 7.8.

The obligations of the Company under the Kam Lung Facility (including the fees, interests and other charges payable by the Company) are summarised in Schedule 6. The key terms of the Security are also summarised in section 7.7.

Disposal of a substantial asset

In addition to seeking Shareholder approval under Chapter 2E of the Corporations Act, the Company is also seeking Shareholder approval for the granting of the Security to Kam Lung under Listing Rule 10.1.

Listing Rule 10.1 requires a listed company to seek shareholder approval for the “disposal” of a substantial asset to a:

- (a) Related Party; or
- (b) Substantial Holder in the company.

For the purposes of the Listing Rules, ‘Dispose’ includes using an asset as collateral and accordingly the granting of the Security by the Company and the Guarantors will constitute a “disposal” of an asset for these purposes. Further details regarding the nature and scope of the Security are summarised above in section 7.6 and set out in Schedule 6.

Listing Rule 10.2 defines a substantial asset as an asset the value of which is 5% or more of the equity interests of the company as set out in the company’s latest statutory accounts. As the Security encompasses all of the assets of the Company, and those assets represent a value greater than 5% of the equity interests of the Company, the granting of the Security constitutes a substantial asset for the purpose of Listing Rule 10.1.

As Kam Lung is both a Related Party of, and a Substantial Holder in, the Company, the Company is required to seek Shareholder approval for the granting of the Security to Kam Lung for the purposes of Listing Rule 10.1.

The Company is required to obtain an Independent Expert’s Report for the purposes of seeking Shareholder approval under Listing Rule 10.1. The Independent Expert has concluded that the granting of the Security, in the context of the Proposed Transaction, is fair and reasonable to the Non-Interested Shareholders. Shareholders are encouraged to read the Independent Expert’s Report in full before deciding on how to vote on resolution 7. The Independent Expert’s Report is included as Schedule 7 to this Explanatory Memorandum.

Issue of Shares to a Related Party

As Kam Lung is a Related Party of the Company, the issue of securities to Kam Lung requires Shareholder approval for the purposes of Listing Rule 10.11.

The securities proposed to be issued to Kam Lung by the Company are the Placement Shares, the Kam Lung Convertible Notes and the Interest Shares.

Table 9 sets out the information required to be given to Shareholders under Listing Rule 10.13.

Table 9

Required information	Summary
Name of the person to whom Shares will be issued	Kam Lung
Maximum number of securities to be issued	4,679,911,281 Shares (46,799,113 on a post Share Consolidation basis), being the Placement Shares. 9,300 Kam Lung Convertible Notes with a principal amount of \$1,000 each (assuming a Subscription Amount of \$9.3 million comprising a facility limit of \$8.3 million plus \$1,000,000 of capitalised Kam Lung Expenses). Not exceeding 3,720,000,000 Interest Shares* to be issued on the

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	basis of the assumptions set out in section 7.9.
Date by which the Company will issue the Shares to Kam Lung	<p>It is currently contemplated that the Kam Lung Convertible Notes and the Placement Shares will be issued on or around 20 July 2017.</p> <p>The Interest Shares will be issued on or before the date that is one week after the final maturity date of the Kam Lung Convertible Notes. The maturity date on the Kam Lung Convertible Notes is five years from the date of issue of the notes. As noted in section 7.6 of this Explanatory Memorandum, the Company has obtained an ASX waiver of Listing Rule 10.13.3 such that the Company is permitted to issue the Interest Shares up to this date.</p>
Relationship of Kam Lung with Company	Kam Lung is wholly owned and controlled by Mr Huihai Zhuang, a Director of the Company.
Terms of issue	<p>The Placement Shares will be issued at the price of \$0.000823 per Share (\$0.082267 per Share on a post Share Consolidation basis).</p> <p>The Placement Shares will be issued on the same terms as other ordinary shares on issue and will be fully paid and will rank equally with all other ordinary shares.</p> <p>The Kam Lung Convertible Notes will be issued on terms including those as summarised in section 7.7 of this Explanatory Memorandum.</p> <p>The Interest Shares will be issued (if any) on the terms as summarised in section 7.7 of this Explanatory Memorandum.</p>
Intended use of funds raised	Funds raised will be used for the purposes outlined in section 7.1 of this Explanatory Memorandum and, in particular, to complete the transactions contemplated by the DOCA and for any balance to be used for general working capital purposes.

[#] To the extent Kam Lung would hold more than 90% as a result of an issue of Interest Shares, the number of Interest Shares that can be issued to Kam Lung would be subject to the 90% Holder Limitation. See section 7.7 for a more detailed explanation on the 90% Holder Limitation.

Further details of the Share Placement, including the number and price of the Shares to be issued and the anticipated date of issue, are set out above in section 7.5. Further details of the Kam Lung Convertible Notes and the Interest Shares are set out above in section 7.7.

7.11 Pro Forma Statement of Financial Position

The information included in this section is pro forma financial information for the Company on the basis that resolutions 7 and 9 are approved by Shareholders and the Proposed Transaction is implemented ("Pro Forma Statement of Financial Position").

The Pro Forma Statement of Financial Position has been prepared using audited statutory accounts as at 30 June 2016, adjusted to show the effect of implementing the Proposed Transaction as at that date.

The information included in the Pro Forma Statement of Financial Position is presented for illustrative purposes only. The Pro Forma Statement of Financial Position is based on numerous assumptions regarding the implementation of the Proposed Transaction, which are summarised in the notes to the Pro Forma Statement of Financial Position. The Pro Forma Statement of Financial Position is presented in a summary format that does not contain all of the disclosure required under the Corporations Act or the Australian Accounting Standards.

The Company has sought relief from ASIC for its reporting requirements under the Corporations Act. In particular, it has been granted relief to defer the reporting of its half yearly results for the six months ended 31 December 2016 and for the financial year ended 30 June 2017 until no later than 22 October 2017, as announced to them market on 29 May 2017.

Except as required by law, neither the Company nor its respective officers, employees agents or advisers make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in the Pro Forma Statement of Financial Position, including (without limitation) any representation as to the accuracy or likelihood of fulfilment of the forward looking statement or any of the assumptions which they are based and disclaim any obligation or undertaking to make any revision to the information, whether as a result of new information, future event or otherwise.

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Pro Forma Statement of Financial Position

Assets	Audited position as at 30 June 2016	Assuming Proposed Transaction implemented as at 30 June 2016 ^{###}
Current assets		
Cash and cash equivalents	2,208,071	7,583,071 ^{1,2,3,4,5,7,8}
Trade and other receivables	177,821	177,821
Other current assets	78,027	78,027
Total current assets	2,463,919	7,838,919
Non-current assets		
Trade and other receivables	267,553	267,553
Property, plant and equipment	692,707	692,707
Intangible assets	47,968,814	13,500,000 ⁹
Total non-current assets	48,929,074	14,460,260
Total assets	51,392,993	22,299,179
Liabilities		
Current liabilities		
Trade and other payables	643,270	475,109 ^{5,6}
Financial liabilities	9,210,047	1,000,000 ^{1,3}
Provisions	864,031	832,192 ⁶
Total current liabilities	10,717,348	2,307,301
Non-current liabilities		
Provisions	2,898,203	2,898,203
Financial liabilities	-	6,740,000 ¹⁰
Total non-current liabilities	-	9,638,203
Total liabilities	13,615,551	11,945,504
Net assets	37,777,442	10,353,675
Equity		
Contributed equity	244,226,148	248,076,148 ⁴
Reserves	20,003,609	22,563,609 ¹⁰
Accumulated losses	(226,452,315)	(260,286,082) ^{1,5,7,9}
Total equity	37,777,442	10,353,675

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Notes:

1. The Kam Lung Convertible Note of \$9.3 million with \$7 million utilised as full and final settlement of amounts owing under the Pacific Road Convertible Facility and \$1.3 million used to partially repay the Interim Facility (refer to section 7.2(b)(i) for further details). An additional \$1 million has been assumed to be capitalised into the Kam Lung Convertible Note (refer to note 8 below). Kam Lung has directed Pacific Road to pay the \$150,000 costs contribution to the Company to be counted towards the \$3.85 million to be received by the Company for the Share Placement.
2. Repayment of the \$1.94 million owed under the Interim Facility.
3. Advance of \$1 million under the Pacific Road Loan Facility. \$640,000 of this amount will be used to repay the balance of the Interim Facility (refer to note 1 above).
4. \$3.85 million to be received from the Share Placement at Completion.
5. \$300,000 Creditors' Trust established by the Company, less an estimated \$100,000 payable to the Administrators as remuneration for acting as trustees of the Creditors' Trust. Employee termination benefits take priority to payment of unsecured creditors. The balance of claims of unsecured creditors owing at 22 November 2016 will be written off in accordance with the terms of the DOCA (refer to section 7.5).
6. Employee termination liabilities of \$31,839 for employees that resigned or were terminated during the period of Administration (22 November 2016 to 9 March 2017).
7. Based on the amount of \$475,000 for Administrators' fees as approved by creditors.
8. Assuming a total of \$1 million of Kam Lung's costs are capitalised under the Kam Lung Facility (capitalised costs are capped at \$1 million under the terms of the Kam Lung Facility).
9. Assuming the Keyseam Technology assets are impaired to \$13.5 million, being the mid-point of the valuation range ascribed by the Independent Expert (refer to section 6.2.1 of the Independent Expert's Report).
10. Based on the value of the debt and equity components of the Convertible Note as determined by the Independent Expert (refer to Section 7.2.3 of the Independent Expert's Report).

7.12 Independent Expert's Report

The Independent's Expert Report includes an assessment of whether certain aspects of the Proposed Transaction are fair and reasonable to the Non-Interested Shareholders. Specifically, the Independent Expert has assessed whether the proposal to:

- (a) allow Kam Lung to increase its Relevant Interest in the Company from 28.39% to an amount up to and including 90%, as set out in section 3.3 of the Independent Expert's Report, and the acquisition by the Company of a Relevant Interest in, and Voting Power of, a number of its own Shares equal to 72.1% of the total Shares on issue as a result of entering into the Escrow Deed, as set out in section 3.2.1 of the Independent Expert's Report ("Relevant Interest Acquisition"); and
- (b) grant the Security to Kam Lung, as set out in section 3.2.2 of the Independent Expert's Report ("Security Transaction"),

are fair and reasonable to the Non-Interested Shareholders, including for the purposes of seeking Shareholder approval under item 7 of section 611 of the Corporations Act and Listing Rule 10.1.

The Independent Expert has concluded that the Relevant Interest Acquisition and the Security Transaction are fair and reasonable to the Non-Interested Shareholders.

Shareholders should read the Independent Expert's Report in full before making a decision on how to vote on resolution 7.

The Independent Expert's Report is included as Schedule 7 to this Explanatory Memorandum. An electronic copy of this Notice of Meeting and the Independent Expert's Report is available on the Company's website: www.carbonenergy.com.au. Shareholders may also obtain a hard copy of the Independent Expert's Report, at no cost, by contacting the Company Secretary by email at accounts@carbonenergy.com.au or by calling +61 7 3156 7777 (between 9.00am and 5.00pm on business days).

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7.13 Key advantages

The Non-Interested Director believes the key advantages of the Proposed Transaction to the Non-Interested Shareholders are as follows:

(a) Repayment of Pacific Road Convertible Facility

The existing Pacific Road Convertible Facility with the Pacific Road Group was due for repayment in on 18 January 2017.

Based on the Company's cash position, the Company did not have the capacity to repay the Pacific Road Convertible Facility when it became due and payable. The repayment of the Pacific Road Convertible Facility as part of the Proposed Transaction resolves this cash shortfall and provides a further five year term for the repayment of the proposed amounts outstanding under the Kam Lung Facility.

(b) Alternative to liquidation

If the Proposed Transaction is not approved and completed, the Company will not have the financial resources to meet its liabilities as and when they fall due. In particular, the Company does not have the existing financial resources to repay the Pacific Road Convertible Facility. The Non-Interested Director considers that if the Proposed Transaction is not approved, the Deed Companies will be placed into liquidation. The Administrators have advised (in their creditors' report dated 28 February 2017)⁰ that if the Deed Companies are placed into liquidation and subsequently wound up, they do not anticipate that any distribution will be made to Shareholders. A copy of the creditors' report was released to the ASX on 1 March 2017 and a copy can be obtained from the ASX's website (www.asx.com.au).

(c) More opportunity to commercialise Keyseam and establish revenue streams

The additional capital proposed to be injected into the Company will give the Company more time to identify and develop commercial projects in targeted regions including China, Asia, and South America, to establish new revenue streams.

(d) Long term Shareholder value

As noted in the Administrators' creditors' report dated 28 February 2017, the Administrators do not expect a distribution to be made to Shareholders if the Deed Companies are placed into liquidation and wound up. In addition, the Non-Interested Director is not aware of any other feasible transactions available to the Company as an alternative to the Proposed Transaction. In the circumstances, the Non-Interested Director believes that the Proposed Transaction is the only feasible option to preserve any Shareholder value.

In addition, for the reasons discussed above, the Proposed Transaction will provide the Company with more time to commercialise projects and develop revenue streams in other markets. The Non-Interested Director believes that if the Company is able to commercialise these projects, then there is a likelihood that the price of the Company's Shares will increase, offering the best opportunity to increase Shareholder value.

(e) Re-instatement of trading of Company's Shares on ASX

The Company has received in-principle advice from the ASX to the effect that if the Proposed Transaction is approved and completed, the Company's listing on the ASX will be reinstated. If the Company's listing on the ASX is reinstated, Shareholders may be able to sell their Shares on the ASX, subject to there being liquidity at the relevant time.

(f) Independent Expert

The Independent Expert has concluded that the certain aspects of the Proposed Transaction, being the Relevant Interest Acquisition and the Security Transaction, are fair and reasonable to the Non-Interested Shareholders, for the purposes of item 7 of section 611 of the Corporations Act and Listing Rule 10.1.

A transaction is considered fair if the value of the securities after the transaction is equal to or greater than the value of those securities before the transaction. A transaction is considered reasonable if, after considering the potential advantages and disadvantages of the transaction, the Independent Expert determines that the potential advantages of the transaction outweigh the potential disadvantages.

The Independent Expert has concluded that the value of the Shares of the Non-Interested Shareholders following the Relevant Interest Acquisition will be equal to or greater than their value before the Relevant Interest Acquisition (as set out in section 8 of the Independent Expert's Report). Therefore, the Relevant Interest Acquisition is fair to the Non-Interested Shareholders. In addition, taking into account the potential advantages, disadvantages and of the Relevant Interest Acquisition (as they are set out in section 9 of the Independent Expert's Report) the Independent Expert has concluded that the Relevant Interest Acquisition is reasonable to the Non-Interested Shareholders.

The Independent Expert has concluded that the financial benefit to be provided to Kam Lung in an event of default under the Security Transaction is equal to or less than the value of the consideration being provided to Kam Lung (as set out in section 10 of the Independent Expert's Report). Therefore, the Independent Expert has concluded that the Security Transaction is fair to the Non-Interested Shareholders. In addition, taking into account the advantages, disadvantages and other considerations of the Security Transaction (as they are set out in section 11 of the

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Independent Expert's Report) the Independent Expert has concluded that the Security Transaction is reasonable to the Non-Interested Shareholders.

Taking into account the conclusion of the Independent Expert, the Non-Interested Director has recommended that Shareholders vote in favour of this resolution 7. The Independent Expert's Report is included as Schedule 7 to this Explanatory Memorandum.

(g) Strategic alignment with cornerstone investor

The Non-Interested Director believes that the Proposed Transaction aligns the long-term interests of Kam Lung with those of the Company. In particular, the Non-Interested Director considers that the increase in the Relevant Interest of Kam Lung in the Company, combined with the five year term of the Kam Lung Facility, will provide an alignment of long-term strategic interests in building long-term Shareholder value through the commercialisation and development of further projects.

(h) Resource appropriately for growth

Completing the Proposed Transaction will allow the Company to appropriately resource growth functions. Currently the Company is operating on a skeleton staff and has been working on reducing costs. With the injection of capital contemplated by the Proposed Transaction, the Company will be able to focus on executing its growth strategy with appropriate resources and plans in place.

7.14 Key disadvantages

The Non-Interested Director believes the key disadvantages of the Proposed Transaction to the Non-Interested Shareholders are as set out in this section.

In considering the following key disadvantages, it is important for Shareholders to keep in mind that:

- the Non-Interested Director considers that if the Proposed Transaction is not approved by Shareholders, the Deed Companies will be placed into liquidation; and
- the Administrators have advised (in their creditors' report dated 28 February 2017 – a copy of which can be obtained from the ASX website www.asx.com.au) that if the Deed Companies are placed into liquidation and subsequently wound up, they do not anticipate that any distribution will be made to Shareholders.

(a) Dilution of Shareholders' interests

Non-Interested Shareholders currently hold 62.30% of the Shares on issue. Following Completion of the Share Placement Non-Interested Shareholders will hold approximately 17.4% of the Shares on issue – a dilution of approximately 72.1%.

In addition, under the terms of the Kam Lung Facility, Kam Lung will be able to increase its Relevant Interest in the Company upon the conversion of the Kam Lung Convertible Notes. Approval is sought for the conversion of the Kam Lung Convertible Notes, which will allow Kam Lung to increase its Voting Power up to a maximum of 90%. If Kam Lung acquires a full beneficial interest in 90% or more of the Shares, Kam Lung will be entitled to compulsorily acquire the remaining Shares under Part 6A.2 of the Corporations Act.

Further details regarding the dilutionary effects of the Proposed Transaction on Non-Interested Shareholders and the potential for compulsory acquisition are set out in section 7.5.

(b) Kam Lung will have control of the Company

Following Completion of the Share Placement Kam Lung will have Voting Power of 80% in the Company, giving it effective control over the Company.

In particular, following Completion of the Proposed Transaction, Kam Lung will be able to unilaterally:

- (i) pass any Ordinary Resolution on which it is not excluded from voting;
- (ii) pass any Special Resolution on which it is not excluded from voting; and
- (iii) appoint a majority of directors to the Board,
- (iv) giving it effective control of the Company. For a summary of Kam Lung's future intentions for the Company, please see section 7.16.
- (v) In addition, if Kam Lung acquires full beneficial interest in 90% or more of the Shares (for example, through the conversion of the Kam Lung Convertible Notes), Kam Lung will be entitled to compulsorily acquire all remaining Shares on issue under the Corporations Act, as described in section 7.5.

(c) Influence on the strategic direction of the Company

The Non-Interested Director has no intention to change the strategic direction of the Company.

Kam Lung has also confirmed that it does not currently have any intention to change the strategic direction of the Company – see section 7.16.

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However, despite not currently having any intention to do so, following Completion, Kam Lung would have the ability to influence the strategic direction of the Company, for example by appointing additional nominee Directors to the Board or removing existing Directors at general meeting.

(d) Takeover bid may become more difficult

Following Completion, Kam Lung will have a Relevant Interest in 80% of the Shares on issue. Accordingly, any takeover bid for 100% of the Shares in the Company will require the support of Kam Lung. This may reduce the likelihood of the Company receiving a takeover bid in the foreseeable future.

(e) Security over assets

As part of the Proposed Transaction, the Company and the Guarantors are required to grant Security over all or substantially all of the assets of the Company and the Guarantors, including security over all shares in certain other members of the Carbon Energy Group held by the Company or any Guarantor. This potentially limits the Company's ability to secure additional third party debt financing, such as the research & development financing previously utilised, or in the event that debt financing can be sourced it is likely to be at a higher cost to reflect the risk of providing unsecured funds to the Company.

(f) Grant of indemnity

As part of the Facility Documents, the Company and the Guarantors provide an indemnity against any costs, losses or liabilities incurred by Kam Lung in respect of, amongst other things, any event of default under the Kam Lung Facility. While such an indemnity is customary for facilities of this nature, the indemnity may be relied upon by Kam Lung to demand payment of all monies owed under a Facility Document as a debt, not just amounts owing in respect of outstanding principal and interest under the Kam Lung Facility.

7.15 Alternatives to the Proposed Transaction

As at the date of this Notice, the Non-Interested Director is not aware of any alternative transactions available to the Company to enable it to continue as a going concern, noting that the DOCA has been passed by creditors of the Deed Companies and executed by the relevant parties.

In particular, taking into account the financial situation of the Company and the fact that its Shares are suspended from trading on the ASX, the Non-Interested Director considers that it is unlikely that the Company will be able to raise sufficient funds by way of a capital raising, or borrow sufficient funds on acceptable terms, to enable the Company to repay the Pacific Road Convertible Facility and have sufficient capital to continue to trade.

As such, the Non-Interested Director does not consider that there are any feasible alternatives to the Proposed Transaction which allow the Company to continue as a going concern or that will provide a superior outcome for Shareholders.

Accordingly, the Non-Interested Director considers that if the Proposed Transaction is not approved by Shareholders the Deed Companies will likely be placed into liquidation in which case it is not anticipated that any distribution will be made to Shareholders.

7.16 Kam Lung's future intentions for the Company

The intentions of Kam Lung as set out in this section 7.16 have been formed on the basis of facts and information concerning the Company and its subsidiaries, and the general business environment, which are known to Kam Lung at the time of preparing this Explanatory Memorandum. Final decisions will only be reached by Kam Lung in light of material information and circumstances at the relevant time. Accordingly, the statements set out in this section are statements of current intention only and accordingly may vary as new information becomes available or circumstances change. Kam Lung reserves the right to depart from any of the stated intentions below.

Kam Lung has indicated that, if the Proposed Transaction is approved and completed, Kam Lung intends for the Company to continue to execute its current growth strategy, including through the commercialisation of projects and the development of subsequent revenue streams in additional markets. In particular, Kam Lung has no current intention to:

- (a) change the business of the Company;
- (b) inject further capital into the Company, noting that as described in section 7.7 of this Explanatory Memorandum, the Kam Lung Facility includes a strictly uncommitted revolving facility for a maximum outstanding principal amount of \$5 million at any time that can be utilised by the Company for general corporate purposes;
- (c) change the future employment of employees;
- (d) undertake proposals where assets will be transferred between the Company and Kam Lung or its associates;
- (e) otherwise redeploy the fixed assets of the Company;
- (f) delist the Company (assuming the Company is relisted following Completion);
- (g) make any further changes to the composition of the Board, noting that Mr George Su who was previously an alternate director of Mr Zhuang has now been appointed as a Director following execution of the DOCA; and

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- (h) significantly change the financial or dividend distribution policies of the Company.

7.17 Recommendation of the Non-Interested Director

Mr Peter Hogan, the Non-executive Chairman, recommends that you vote in favour of resolution 7.

In making his recommendation, Mr Hogan has had consideration of:

- (a) the rationale for the Proposed Transaction summarised above in section 7.4;
- (b) the advantages and disadvantages of the Proposed Transaction set out above in sections 7.13 and 7.14;
- (c) the conclusion of the Independent Expert that the Relevant Interest Acquisition and the Security Transaction are fair and reasonable to the Non-Interested Shareholders;
- (d) the nature of the financial benefits given to Related Parties as part of the Proposed Transaction; and
- (e) the alternative courses of action to the Proposed Transaction summarised above in section 7.15.

In summary, Mr Hogan considers that the rationale for and benefits of the Proposed Transaction outweigh any disadvantages of the Proposed Transaction, and other reasons why Mr Hogan would consider voting against resolution 7.

On 5 April 2017 the Company announced that Mr Kerry Parker had tendered his resignation as Managing Director. The Company also announced that Mr Kerry Parker will continue on as Chief Executive Officer employed on a part-time basis until his resignation takes effect on 31 May 2017. Mr Parker notes that no superior offers have been received and that the Independent Expert has indicated that the Relevant Interest Acquisition and the Security Transaction are fair and reasonable to the Non-Interested Shareholders.

Each other Director of the Company (being Mr Huihai Zhuang and Mr George Su have an interest in the Proposed Transaction (as described in section 7.18) and therefore do not make a recommendation in relation to voting on resolution 7.

7.18 Interests of the Directors

The Non-Interested Director does not have a material personal interest in the outcome of resolution 7.

Mr Huihai Zhuang is an owner and controller of Kam Lung and as such will indirectly benefit from the Proposed Transaction. Accordingly, Mr Huihai Zhuang does not provide a recommendation in respect of the Proposed Transaction or resolution 7. Mr Zhuang has also been absent from any Board meetings (or part thereof) where the Board considered, and abstained from voting on resolutions in connection with, the Proposed Transaction.

Mr George Su is a nominee of Kam Lung and accordingly does not provide a recommendation in respect of the Proposed Transaction or resolution 7. Mr Su has also been absent from any Board meetings (or part thereof) where the Board considered, and abstained from voting on resolutions in connection with, the Proposed Transaction.

The Directors' Relevant Interests in Shares and Voting Power as at the date of this Explanatory Memorandum are set out in Table 10.

Table 10

Director	Relevant Interest in Shares (pre-Share Consolidation)	Relevant Interest in Shares (post Share Consolidation)	Voting Power	Voting Power upon Completion of the Proposed Transaction
Mr Huihai Zhuang	514,760,847	5,147,608	28.39%	80% [#]
Mr George Su	nil	nil	nil	nil
Mr Peter Hogan	750,000	7,500	0.04%	0.01%

[#] As Mr Zhuang is the sole owner and controller of Kam Lung, Mr Zhuang will have a Relevant Interest in the same number of Shares as, and Voting Power in the Company equal to that of, Kam Lung – see section 7.10 for further details. Mr Zhuang's Voting Power in the Company may increase upon the issue of Interest Shares to Kam Lung, as discussed in section 7.9.

7.19 Resolutions 7 and 9 are interconditional

Resolutions 7 and 9 are conditional upon each other. This means that if either resolution 7 or 9 is not approved by Shareholders, then the other resolution will be taken not to have been approved by Shareholders.

7.20 Tax consequences

The Company had \$237,484,137 of carry forward tax losses as at 30 June 2016.

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In order for the Company to utilise these tax losses in future income years' Australian income tax law requires the Company to retain more than 50% common ownership from the beginning of the income year in which the tax losses were incurred until the end of the income year in which the losses are sought to be used (the "COT", or Continuity of Ownership test).

Under the Proposed Transaction, Kam Lung will own 80% of the issued capital of the Company and the Company will fail the COT. There is an alternative Same Business Test ("SBT") that can be applied when the COT fails. Broadly, the SBT requires the Company to undertake the same business (which has a special technical meaning under tax law) at the time just before COT failure as it does in the income year the losses are sought to be used.

As the Company will fail the COT then the Company will need to satisfy the SBT on an ongoing basis in order to utilise its carry forward tax losses.

7.21 Changes in circumstances

If there is a change the circumstances after dispatch of this Notice of Meeting but before the date for the Meeting which may result in non-disclosure of material information required to be given to Shareholders for the purposes of approving resolution 7, the Company will issue a supplementary Notice of Meeting, including any updated documents which accompany this Notice of Meeting.

RESOLUTION 8 (ORDINARY) – CONSOLIDATION OF SHARE CAPITAL

8.1 Background

Section 254H of the Corporations Act provides that a company may convert any or all of its shares into a smaller or larger number of shares by an ordinary resolution at a general meeting.

Taking into account the number of Shares on issue and the most recent Market Price of the Shares, the Company considers it prudent to undertake a consolidation of the Shares on the basis of one (1) Share for every one hundred (100) Shares held. Assuming the Proposed Transaction is approved and is completed, the Company will have 18,134,289 Shares on issue. The effect of the proposed Share Consolidation is set out in Table 11 below.

Table 11

Number of Shares currently on issue	1,813,428,879
Number of Shares on issue following the Share Consolidation[#]	18,134,289 ^{##}
Number of Shares on issue following completion of the Proposed Transaction[#]	64,933,402 ^{##}

[#] Not including any Shares to be issued under the Company's Listing Rule 7.1 or Additional 10% Placement capacity, or Shares which may be issued on conversion of the Kam Lung Convertible Notes (or interest payable on these notes).

^{##} These figures are subject to rounding of individual holdings and may be subject to change.

Following the Share Consolidation, all holding statements will cease to have affect, other than as evidence of a Shareholder's entitlement to a particular Share parcel prior to the Share Consolidation. Once the Share Consolidation has been implemented, the Company will arrange for new holding statements to be issued to Shareholders. It is the responsibility of each Shareholder to confirm the number of Shares that they hold prior to their disposal.

If resolution 8 is passed, the Share Consolidation will take effect immediately following Completion.

Where a Shareholder's parcel of Shares cannot be evenly divided by 100, thereby causing a fractional entitlement, the Company will round that fraction up or down to the nearest whole Share. Where a fractional entitlement is equal to half of a Share, the Company will round the entitlement up to the nearest whole Share.

The Company does not anticipate there to be any taxation implications for Shareholders arising from the Share Consolidation. However, Shareholders are strongly advised to seek their own independent advice on the taxation effects of the Share Consolidation (if any), as individual circumstances may vary. In particular, the cost base of a holding of Shares may be affected by the Share Consolidation. Neither the Company nor any of its officers, employees or advisers assume any liability or responsibility for advising shareholders about the tax consequences (if any) of the Share Consolidation.

Please note that, if the Company forms the view that a Shareholder has been party to a shareholding splitting or division in an attempt to obtain an advantage from the rounding of fractional entitlements, the Company will take appropriate action which may include disregarding the splitting or division for the purposes of dealing with fractions.

8.2 Recommendation

The Non-Interested Director recommends you vote in favour of this resolution.

Resolution 8 is conditional upon the approval of resolution 7 and 9. This means that if resolution 7 or 9 is not approved by Shareholders, then resolution 8 will be taken not to have been approved.

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RESOLUTION 9 (ORDINARY) – APPROVAL OF THE COMPANY ACQUIRING A RELEVANT INTEREST IN ITS OWN SHARES AS A RESULT OF ENTERING INTO THE ESCROW DEED

9.1 Background

As part of the transactions contemplated by the DOCA, Kam Lung and the Company will enter into a voluntary escrow deed under which Kam Lung is prevented from offering for sale any Placement Shares for a period of 12 months from the date that the Placement Shares are issued (**Escrow Deed**). The Escrow Deed is attached as Schedule 5 to the DOCA (which is included as Schedule 7 to this Explanatory Memorandum).

Under section 608(1) of the Corporations Act, a person is taken to have a Relevant Interest in securities if the person (among other things) has the power to dispose of, or control the exercise of a power to dispose of, the securities. In addition, section 608(9) provides that a body corporate may have a Relevant Interest in its own securities.

Therefore, as a result of entering into the Escrow Deed, the Company will technically be taken to have a Relevant Interest in the Placement Shares once they are issued. In addition, section 610 of the Corporations Act provides that a person's Voting Power is based on the number of voting shares that the person (or their associate) has a Relevant Interest in, even if the person's Relevant Interest in voting shares is based on control over disposal of the shares (rather than control over voting rights attached to the shares). Therefore, as a result of entering into the Escrow Deed, the Company will also technically acquire Voting Power equal to the number of the Placement Shares (despite having no power to exercise voting rights over the Placement Shares).⁴

9.2 The Escrow Deed

Under the terms of the Escrow Deed, the Placement Shares will be registered and held for Kam Lung on the Company's issuer sponsored subregister and the Company will apply a Holding Lock to the Shares as soon as practicable after registration. The Placement Shares will be subject to the Holding Lock until the 12 month anniversary of the issue of the Placement Shares, unless one of the following events occurs:

- (a) Kam Lung accepts a bona fide takeover bid made under Chapter 6 of the Corporations Act in respect of the Placement Shares; or
- (b) the Placement Shares are transferred or cancelled as part of a scheme of arrangement relating to the Company under Part 5.1 of the Corporations Act; or
- (c) Kam Lung is required to offer the Placement Shares for sale under an applicable law (including an order of a court of competent jurisdiction); or
- (d) the offer of the Placement Shares for sale is permitted in writing by the Board.

The Escrow Deed does not affect Kam Lung's power to exercise its voting rights in respect of the Placement Shares. In particular, the Escrow Deed does not give the Company (or any Associate of the Company) power to exercise, or control the exercise of, the voting rights attached to the Placement Shares.

9.3 Shareholder approval required

As discussed above in section 7.9, section 606 of the Corporations Act prohibits a person from acquiring a Relevant Interest in issued voting shares in a listed company if the acquisition would result in that person or someone else's Voting Power increasing from 20% or below to more than 20% or from a starting point that is above 20% and below 90%.

As discussed above, the effect of section 608 of the Corporations Act on the Company in entering into the Escrow Deed is that the Company would acquire a Relevant Interest in the Placement Shares at the time of their issue, which would result in the Company acquiring a Relevant Interest in voting shares in breach of section 606.

Table 12 below sets out the number of Placement Shares to be issued and the proportion of total Shares which the Placement Shares represent following completion of the Share Placement.

Table 12

	Pre-Share Consolidation	Post Share Consolidation [#]
Number of Shares currently on issue	1,813,428,879	18,134,289
Number of Placement Shares to be issued	4,679,911,281	46,799,113

⁴ See section 9.2 for further details regarding the terms of the Escrow Deed.

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Number of Shares on issue following the Share Placement	6,493,340,160	64,933,402
Placement Shares as a proportion of total Shares on issue immediately following Share Placement	72.1%	72.1%

[#] These figures are subject to rounding of individual holdings and may be subject to change.

As a result of entering into the Escrow Deed, the Company will acquire a Relevant Interest in all Placement Shares, which will be equal to 72.1% of the total number of Shares on issue immediately following completion of the Share Placement.

As discussed above in section 7.9, Shareholder approval may be sought under item 7 of section 611 of the Corporations Act for the acquisition of a Relevant Interest in securities which would otherwise contravene section 606 of the Corporations Act. Resolution 9 therefore seeks Shareholder approval for the acquisition by the Company of a Relevant Interest in the Placement Shares for the purpose of item 7 of section 611 of the Corporations Act.

Subject to Shareholders approving resolution 7 and resolution 9, the Share Placement is contemplated to be completed on the day following the Meeting. The material terms of the Share Placement are set out above in section 7.9. As discussed above, the Company will apply a Holding Lock to the Placement Shares as soon as possible following issue. The approval by Shareholders of resolution 9 is a condition precedent of Completion, as discussed above in section 7.5, so that if resolution 9 is not approved by Shareholders and the condition is not waived, Completion will not occur.

9.4 Independent Expert's Report

The Independent Expert's Report includes an assessment of whether the Relevant Interest Acquisition (including the entering into the Escrow Deed by the Company) and the Security Transaction are fair and reasonable to the Non-Interested Shareholders, including for the purposes of seeking Shareholder approval under item 7 of section 611 of the Corporations Act and Listing Rule 10.1.⁵

The Independent Expert has concluded that the Relevant Interest Acquisition and the Security Transaction are fair and reasonable to the Non-Interested Shareholders.

Shareholders should read the Independent Expert's Report in full before making a decision on how to vote on resolution 9.

The Independent Expert's Report is included as Schedule 7 to this Explanatory Memorandum. An electronic copy of this Notice of Meeting and the Independent Expert's Report is available on the Company's website: www.carbonenergy.com.au. Shareholders may also obtain a hard copy of the Independent Expert's Report, at no cost, by contacting the Company Secretary by email at accounts@carbonenergy.com.au or by calling +61 7 3156 7777 (between 9.00am and 5.00pm on business days).

9.5 Resolutions 7 and 9 are interconditional

Resolutions 7 and 9 are conditional upon each other. This means that if either resolution 7 or 9 is not approved by Shareholders, then the other resolution will be taken not to have been approved by Shareholders.

9.6 Recommendation

The Non-Interested Director recommends you vote in favour of this resolution 9. The approval of resolution 9 by Shareholders is required in order for the Proposed Transaction to proceed. As such, the Non-Interested Director's reasons for recommending Shareholders vote in favour of this resolution 9 are the same as those for resolution 7, as set out above in section 7.17.

The remaining Directors abstain from making a recommendation on how Shareholders should vote on resolution 9. The remaining Directors' reasons for abstaining on making a recommendation on this resolution are the same as those set out above in section 7.18 in relation to their abstention on making a recommendation on how to vote on resolution 7.

⁵ Please see section 7.11 for further details regarding the Relevant Interest Acquisition and the Security Transaction.

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SCHEDULE 1 - INTERPRETATION

The following terms used in the Notice of Meeting and the Explanatory Memorandum are defined as follows:

90% Holder Limitation has the meaning given to it in section 7.7.

Administrators means Tim Michael and Will Colwell of Ferrier Hodgson in their capacity as joint and several administrators of the Company, Carbon Holdings and Carbon Operations under Part 5.3A of the Corporations Act.

Annual Report means the consolidated annual report for the Company for the financial year ended 30 June 2016.

Arrangement Fee has the meaning given to it in section 7.7.

ASIC means the Australian Securities Investments Commission.

Associate has the meaning set out in section 12 of the Corporations Act, as if subsection 12(1) of the Corporations Act included a reference to this Explanatory Memorandum and the Company was the designated body, unless that term is being used in the context of an approval under the Listing Rules in which case that term has the meaning given in the Listing Rules..

ASX means ASX Limited ABN 98 008 624 691 and, where the context requires, the financial market that it operates.

BBSY means the rate designated as the 'average bid rate' for the relevant period displayed on the Reuters screen BBSY page, subject to customary procedures in the event that such rate is not available or the basis on which that rate is calculated or displayed is changed.

Board means the board of directors of the Company.

Carbon Energy Group means the Company and each of its controlled entities (as set out in the 2016 Annual Report).

Carbon Holdings means Carbon Energy (Holdings) Pty Ltd ACN 120 429 209.

Carbon Operations means Carbon Energy (Operations) Pty Ltd ACN 105 176 967.

Closely Related Party (as defined in the Corporations Act) of a member of the Key Management Personnel for an entity means:

- (a) a spouse or child of the member; or
- (b) a child of the member's spouse; or
- (c) a dependant of the member or the member's spouse; or
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the entity; or
- (e) a company the member controls; or
- (f) a person prescribed by the regulations for the purposes of this paragraph.

Closing Market Price has the meaning given to that term in the Listing Rules.

Commitment Deed means the commitment deed between Kam Lung and the Pacific Road Group entities dated 15 February 2017, as amended.

Company means Carbon Energy Limited ABN 56 057 552 137.

Completion has the meaning given in the DOCA.

Completion Date has the meaning given in the DOCA.

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

COSFLOW Agreement means the Technology Assignment and Licence Agreement between Carbon Energy and the CSIRO dated 10 July 2006.

Cosflow Agreement Transfer Deed has the meaning given to that term in section 7.7.

Creditors' Trust has the meaning given in section 7.1.

Creditors' Trust Deed means the creditors' trust deed dated 9 March 2017 between the Deed Companies and the trustees of the Creditors' Trust.

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CSIRO means the Commonwealth Scientific and Industrial Research Organisation.

Deed Administrators means Tim Michael and Will Colwell of Ferrier Hodgson in their capacity as joint and several administrators of the DOCA.

Deed Companies means the Company, Carbon Holdings and Carbon Operations.

Directors mean directors of the Company.

Disposal of IP Rights means the date of any sale or other disposal (other than certain excluded disposals) of the Intellectual Property Rights or a material part of the Intellectual Property Rights by the Company or another Group Member or the JinHong Joint Venture.

DOCA means the deed of company arrangement in respect of the Deed Companies dated 9 March 2017, as amended on 26 May 2017 (a copy of which is set out, together with its amending deed, in Schedule 5).

Eligible Entity has the meaning given to that term in the Listing Rules.

Equity Securities has the meaning given to that term in the Listing Rules.

Escrow Deed means the voluntary escrow deed which is attached as Schedule 4 to the DOCA.

Explanatory Memorandum means this explanatory memorandum accompanying, and forming part of, the Notice of Meeting.

Facility Agreement means the facility agreement entered into by Kam Lung, the Company and the Guarantors for the purposes of establishing the Kam Lung Facility.

Facility Documents has the meaning given to that term in section 7.7.

General Security Agreement means the general security agreement to be entered into by the Company and the Guarantors for the purposes of granting the Security.

Group Company means a company forming part of the consolidated entity (as that term is defined in the Corporations Act) which includes the Company.

Guarantors has the meaning given in section 7.7.

Holding Lock has the meaning in section 2 of the ASX Settlement Operating Rules.

Incentive Plan or **Omnibus Incentive Plan** means an incentive plan for eligible participants who provide on-going services to the Company as set out in Schedule 3.

Independent Expert means BDO Corporate Finance (Qld) Ltd in its capacity as the author of the Independent Expert's Report.

Independent Expert's Report means the report included as Schedule 7 to this Explanatory Memorandum.

Intellectual Property Rights means the rights of Company, each other Group Member, and the JinHong Joint Venture in respect of the Keyseam Technology and Patent Rights.

Interest Conversion has the meaning given in section 7.7.

Interest Shares means Shares that may be issued to Kam Lung under the terms of the Kam Lung Convertible Notes as a result of a conversion of accrued interest to Shares, as described in section 7.9.

Interim Facility has the meaning given in section 7.2(b)(i).

Interim Funding Amount has the meaning given in section 7.2(b).

JinHong Joint Venture means Beijing Jinhong New Energy Development Co being the joint venture registered in Beijing between Beijing JinHong Investment Development Company Ltd and Carbon Operations.

Kam Lung means Kam Lung Investment Development Company Limited, a company incorporated in the People's Republic of China (or, where applicable, its nominee).

Kam Lung Convertible Notes means convertible notes issued by the Company under the Kam Lung Facility with a principal amount of \$1,000 each.

Kam Lung Disposal of Shares means the date of sale or other voluntary disposal by Kam Lung of shares in the Company which results in Kam Lung and its affiliates (taken together) holding less than 50% of the ordinary share capital of the Company.

EXPLANATORY MEMORANDUM

Kam Lung Expenses means all costs and expenses of Kam Lung in relation to the negotiation, preparation, execution, delivery, stamping, registration, completion, variation and discharge of the Facility Documents and the DOCA, which the Company is required to pay under the Kam Lung Facility as described in section 7.7.

Kam Lung Facility means the secured convertible note facility to be provided to the Company by Kam Lung, as contemplated in the DOCA.

Keyseam Technology has the meaning given in the DOCA.

Key Management Personnel are (in respect of an entity) those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any director (whether executive or otherwise) of that entity.

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

Market Price has the meaning given to that term in the Listing Rules.

Marketable Securities any securities, performance rights or other rights to subscribe for or purchase or acquire or be issued Ordinary Shares including, without limitation, Shares, or options, or warrants.

Meeting or **Annual General Meeting** or **AGM** means the Annual General Meeting of Shareholders to be held at the offices of McCullough Robertson Lawyers, Level 11 Central Plaza Two, 66 Eagle Street, Brisbane, Queensland on 18 July 2017 at 10.00am AEST.

Non-Dilution Undertaking has the meaning given in section 7.6.

Non-Interested Director means Peter Hogan.

Non-Interested Shareholders means all Shareholders other than any Pacific Road Entity or Kam Lung.

Note Deed Poll means the deed poll to be entered into by the Company and the Guarantors in favour of the holders of the convertible notes the subject of the Kam Lung Facility from time to time.

Noteholder means the holder of Kam Lung Convertible Notes from time to time.

Notes Conversion has the meaning given in section 7.7.

Notice of Meeting means the notice of meeting convening the Meeting.

Option means an option to subscribe for a Share.

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

Pacific Road Convertible Facility means the \$10,000,000 facility provided to the Company pursuant to the Pacific Road Convertible Facility Agreement.

Pacific Road Convertible Facility Agreement means the agreement titled "A\$10,000,000 Convertible Facility Agreement" dated 22 December 2011 between the Company and each of the entities in the Pacific Road Group.

Pacific Road Group means PRCM Nominees Pty Limited as trustee of the Pacific Road CE Trust, Pacific Road Holdings S.a.r.l. (a company registered with the Luxembourg Register of Commerce and Companies under number B 133.143), Pacific Road Resources Fund L.P. (a limited partnership established under the laws of England and Wales and with registered number LP011774) represented by Pacific Road Capital Management GP Limited, and PRCM Nominees Pty Ltd as trustee of the Carbon Energy Security Trust and Pacific Road Capital Management Pty Ltd ACN 117 934 586.

Pacific Road Lenders means Pacific Road Capital A Pty Limited ACN 123 091 976, Pacific Road Capital B Pty Limited ACN 234 091 930 and Pacific Road Capital Management G.P Limited (a company situated in the Cayman Islands) in their respective proportions, as set out in the Unsecured Loan Agreement.

Pacific Road Loan Facility means the \$1 million unsecured, interest free loan facility to be provided by the Pacific Road Lenders to the Company upon Completion in accordance with the terms of the Unsecured Loan Agreement.

Participating Claims means all debts and claims against each Deed Company that are compromised under the DOCA, as described in section 7.5, other than any claims held by the Pacific Road Group entities or Kam Lung and its related bodies corporate.

Patent Rights has the meaning given in the DOCA.

Performance Right means a right to subscribe for a Share.

EXPLANATORY MEMORANDUM

Placement Shares means 4,679,911,281 Shares (on a pre-Share Consolidation basis) to be issued to Kam Lung for an aggregate consideration from Kam Lung of \$3.85 million.

PPS Security Interest means a security interest as that term is defined in the PPSA.

PPSA means the *Personal Properties Securities Act 2009* (Cth).

Proposed Transaction is defined in section 7.3.

Related Party has the meaning given to that term in section 228 of the Corporations Act.

Related Party Transaction Approval has the meaning given in section 7.8.

Relevant Interest has the meaning given to it in sections 608 and 609 of the Corporations Act.

Relevant Interest Acquisition has the meaning given to it the glossary and in section 1.0 of the Independent Expert's Report

Resolution means a resolution to be proposed at the Meeting.

Second Creditors' Meetings means the second creditors' meetings in the Voluntary Administration of each Deed Company which were held on Thursday, 9 March 2017.

Security means the security to be granted by the Company and the Guarantors to Kam Lung to secure the indebtedness associated with the Kam Lung Facility, as summarised in section 7.7.

Security Transaction has the meaning given to it in the glossary and in section 1.0 of the Independent Expert's Report.

Share Acquisition Approval has the meaning given in section 7.8.

Share Consolidation means the share consolidation contemplated by resolution 8.

Share Placement means the issuance of the Placement Shares to Kam Lung.

Shareholder means a holder of Shares in the Company.

Shares means fully paid ordinary shares in the Company.

Software Escrow Agreement has the meaning given to that term in section 7.7.

Special Resolution means a resolution:

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

Subscription Amount means the amount of \$8.3 million (to be advanced by Kam Lung at completion of the DOCA) plus the total of any Kam Lung Expenses at Completion that are capitalised by the Company as described in section 7.7 and section 7.9.

Subordinate Claims has the meaning given to it in section 563A of the Corporations Act.

Substantial Holder has the meaning given to that term in Chapter 19 of the Listing Rules.

Successful Ignition means the Company or any Group Company, the JinHong Joint Venture, or (if the Intellectual Property Rights or any material part of the Intellectual Property Rights are acquired by Kam Lung or any affiliate of it) Kam Lung or any affiliate of it, achieving continuous gasification of underground coal for not less than three consecutive days, unless, in the case of gasification by: (i) the JinHong Joint Venture (without the involvement of the Company or any Group Company); or (ii) Kam Lung or any affiliate of it, Kam Lung has demonstrated that such gasification was achieved without use of the Intellectual Property Rights, any material part of the Intellectual Property Rights or any derivation of the Intellectual Property Rights which would infringe the Intellectual Property Rights if done by a person who is not the owner of the Intellectual Property Rights

Third Creditors' Meetings means the third creditors' meetings in the Voluntary Administration of each Deed Company which were held on Tuesday 23 May 2017.

Trading Day has the meaning given to that term in the Listing Rules.

Unsecured Loan Agreement means the facility agreement between the Company, Kam Lung and the Pacific Road Lenders establishing the Pacific Road Loan Facility.

Voting Power has the meaning given to it by section 610 of the Corporations Act.

Volume Weighted Average Market Price has the meaning given to that term in the Listing Rules.

EXPLANATORY **MEMORANDUM**

SCHEDULE 2 – EQUITY SECURITIES ISSUED IN LAST 12 MONTHS PRIOR TO THE DATE OF THE AGM

Date of Issue	Number Issued	Class/ Type of equity security	Summary of terms	Names of persons who received securities or basis on which those persons was determined	Price at which equity securities were issued	Discount to Market Price (if any)	For cash issues:				For non-cash issues:	
							Total cash consideration received	Amount of cash consideration spent	Use of cash consideration	Intended use for remaining amount of cash (if any)	Non-cash consideration paid	Current value of that non-cash consideration
28/07/2016	4,017	Fully paid ordinary shares	Shares rank pari passu with all other fully paid ordinary shares on issue in the Company.	Listed Options attached to each new share allocated in the Prospectus dated 13 November 2013.	\$0.05941	Nil	\$239	\$239	General working capital	N/A	N/A	N/A
30/08/2016	6,924,852	Fully paid ordinary shares	Shares rank pari passu with all other fully paid ordinary shares on issue in the Company.	PRCM Nominees Pty Ltd (1,375,220 shares) and Pacific Road Holdings NV (5,549,362 shares)	\$0.0182 per share (deemed issue price)	30% premium	Nil	N/A	N/A	N/A	In consideration of the interest costs, payable quarterly in arrears, in relation to the \$10M Pacific Road Convertible Note Facility	\$126,027

EXPLANATORY **MEMORANDUM**

SCHEDULE 3 – OMNIBUS INCENTIVE PLAN



CARBON ENERGY LIMITED

OMNIBUS INCENTIVE PLAN

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CARBON ENERGY LIMITED

OMNIBUS INCENTIVE PLAN

Carbon Energy Limited (the “**Company**”) hereby establishes an Omnibus Incentive Plan for eligible participants providing ongoing services to the Company or any Group Company (as defined herein) that can have a significant impact on the Company’s long-term results.

The purpose of the Plan is to permit the Company to grant Awards to Participants, subject to certain conditions, for the following purposes:

- (a) to increase the interest in the Company’s welfare of those Participants, who share responsibility for the management, growth and protection of the business of the Company or a Group Company;
- (b) to provide an incentive to such Participants to continue their services for the Company or Group Company and to encourage such Participants whose skills, performance and loyalty to the objectives and interests of the Company or Group Company are necessary or essential to its success, image, reputation or activities;
- (c) to reward the Participants for their performance of services while working for the Company or Group Company; and
- (d) to provide a means through which the Company or Group Company may attract and retain able Persons to enter its employment.

ARTICLE 1 — DEFINITIONS

Section 1.1 *Definitions.*

The following terms shall have the following meanings, respectively, unless the context otherwise requires:

“**Act**” means the *Corporations Act 2001* (Cth);

“**Associate**” has the meaning given to this term in the Act;

“**ASX**” means ASX Limited ACN 008 624 691 or the Australian Securities Exchange, as the context requires.

“**Award**” means an Option, a Performance Right or Bonus Share granted to a Participant pursuant to the terms of the Plan;

“**Black-Out Period**” means a period of time when pursuant to any self-imposed policy of the Company, any securities of the Company may not be traded by certain Persons designated by the Company;

“**Board**” has the meaning ascribed to it in Section 2.1(1) hereof;

“**Bonus Share Agreement**” means a written letter agreement or Employment Agreement between the Company and a Participant evidencing the grant of Bonus Shares and the terms and conditions thereof;

“**Bonus Shares**” means the Shares issuable as bonus Shares pursuant to Section 5.1(1) hereof;

“Bonus Shares Issue Price” has the meaning ascribed to it in Section 5.1(2) hereof;

“Bonus Share Restricted Period” means, in respect of any Bonus Shares the period prior to the satisfaction of any Vesting Conditions specified by the Board at the time of issuance of the Bonus Shares;

“Bonus Share Restrictions” means, in respect of any Bonus Shares issued on a particular date, such restrictions and procedures the Board may determine are necessary to prevent a Participant from Dealing with a Bonus Share during the Bonus Share Restricted Period (including placing the Bonus Shares in a holding lock), as evidenced in the applicable Bonus Share Agreement;

“Business Day” means a day other than a Saturday, Sunday or statutory holiday, when banks are generally open for business in Queensland, Australia;

“Change of Control Event” has the meaning given in rule 6.5(1).

“Control” has the meaning given in section 50AA of the Act;

“Committee” has the meaning ascribed to it in Section 2.1(1) hereof;

“Company” means Carbon Energy Limited (ABN 56 057 552 137) of Level 9, 301 Coronation Drive, Milton Queensland;

“Deal” or **“Dealing”** in relation to an Award (as the case may be), any dealing including but not limited to:

- (a) a sale, transfer, mortgage, charge, assignment, encumbrance, option, swap, or any other alienation of all or any part of the rights attaching to the Award;
- (a) any attempt to do any of the actions identified in item (a) of this definition; or
- (b) any hedging (including any dealing with a derivative instrument intended to ‘lock in’ a profit relating to the Award) or other transactions in financial products that operate to limit the economic risks associated with holding the Award.

“Eligible Participants” has the meaning ascribed to it in Section 2.2(1) hereof;

“Employment Agreement” means, with respect to any Participant, any written employment agreement between the Company or a Group Company and such Participant;

“Exchange” means any such stock exchange or other organized markets on which the Shares are listed and posted for trading;

“Exercise Notice” means a notice in writing signed by a Participant and stating the Participant’s intention to exercise a particular Award, if applicable;

“Exercise Period” means the period, determined by the Board in its sole discretion, during which an Option or a Performance Right is exercisable, commencing on the date such Option or Performance Right is granted to the Participant and ending on the Expiry Date;

“Exercise Price” means:

- (a) in relation to a Performance Right, the amount payable on exercise of that Performance Right, as determined by the Board and specified in the Performance Right Agreement and adjusted in accordance with Article 7. If no determination is made, the applicable Exercise Price is nil; or
- (b) in relation to an Option, the amount payable on exercise of that Option, as specified in the

Option Agreement and adjusted in accordance with Article 7.

“Expiry Date” means the date determined by the Board and specified in the Grant Agreement, but in no event on a date which is later than fifteen (15) years from the date the Option or Performance Right is granted;

“Grant Agreement” means an agreement evidencing the grant to a Participant of an Award, including an Option, a Performance Right and a Bonus Share, including an Option Agreement, Performance Right Agreement or Bonus Share Agreement;

“Group” means the Company and its “subsidiaries” (as that term is defined in the Act), and a Group Company means any member of the Group;

“Listing Rules” means the official listing rules of the ASX and any other exchange on which the Company is listed as they apply to the Company from time to time.

“Market Value” means, at any date when the market value of Shares of the Company is to be determined, the volume weighted average trading price of the Shares for the last five Trading Days prior to such date on the principal Exchange on which the Shares are listed, or if the Shares of the Company are not listed on any Exchange, the value as is determined solely by the Board, acting reasonably and in good faith;

“Option” means an option granted by the Company to a Participant entitling such Participant to acquire a designated number of Shares at the Exercise Price, but subject to the provisions hereof;

“Option Agreement” means a written letter agreement or Employment Agreement between the Company and a Participant evidencing the grant of Options and the terms and conditions thereof;

“Participants” means Eligible Participants that are granted Awards under the Plan;

“Performance Right” has the meaning ascribed to it in Section 4.1 hereof;

“Performance Right Agreement” means a written letter agreement or Employment Agreement between the Company and a Participant evidencing the grant of Performance Rights and the terms and conditions thereof;

“Permitted Nominee” means:

- (a) an immediate family member of the Participant;
- (b) a company whose members comprise no Persons other than the Participant or immediate family members of the Participant;
- (c) a trustee of a self-managed superannuation fund (within the meaning of the *Superannuation Industry (Supervision) Act 1993* (Cth), where the Participant is a director of the trustee,

“Person” means an individual, corporation, company, cooperative, partnership, trust, unincorporated association, entity with juridical personality or governmental authority or body, and pronouns which refer to a Person shall have a similarly extended meaning;

“Plan” means this Omnibus Incentive Plan, including any amendments or supplements hereto made after the date hereof;

“Relevant Interest” has the meaning given in sections 608 and 609 of the Act.

“Shares” means the ordinary shares in the share capital of the Company;

“Share Trading Policy” means the Company’s trading policy, as may be amended from time to

time, with respect to Shares;

“Termination Date” means:

- (a) in the event of a Participant’s resignation, the date on which such Participant ceases to be a director, officer, employee or contractor of the Company or a Group Company; or
- (b) in the event of the termination of the Participant’s employment or services by the Company or a Group Company, the effective date of the termination as specified in the notice of termination provided to the Participant by the Company or the Group Company, as the case may be;

“Trading Day” means any day on which the principal stock exchange on which the Shares are listed is opened for trading;

“Vest”, “Vesting” or “Vested” means the process by which the holder of an Award becomes entitled to:

- (a) in the case of an Option, exercise the Option in accordance with Section 3.5;
- (b) in the case of Performance Rights, exercise the Performance Right in accordance with Section 4.5;
- (c) in the case of Bonus Shares, Deal with the Shares in accordance with Section 5.3,

following the satisfaction or waiver of all Vesting Conditions that apply to the relevant Award;

“Vesting Conditions” means conditions established on a case by case basis by the Board which, without limitation, may include conditions based on the Participant’s personal performance, periods of service and/or the financial/operational performance of the Company and/or of its Group Companies, that must be satisfied or waived by the Board or circumstances which must exist before the Awards will Vest; and

“Vesting Determination Date” means the date established by the Board to determine if the Vesting Conditions have been met as of that date, and as a result, establish the number of Awards that are to Vest, if any; and

“Voting Power” has the meaning given to it in section 610 of the Act.

ARTICLE 2 —ADMINISTRATION OF THE PLAN

Section 2.1 *Implementation and Administration of the Plan.*

- (1) The Plan shall be administered and interpreted by the Board of Directors of the Company (the “**Board**”) or, if the Board by resolution so decides, by a committee appointed by the Board (the “**Committee**”) as constituted from time to time. If a Committee is appointed for this purpose, all references to the term “Board” will be deemed to be references to the Committee as applicable.
- (2) The Board may, from time to time, as it may deem expedient, adopt, amend and rescind rules and regulations for carrying out the provisions and purposes of the Plan, subject to any applicable rules of the Exchange and the provisions of the Plan.
- (3) Subject to the provisions of the Plan, the Board is authorized, in its sole discretion, to make such determinations under and such interpretations of, and take such steps and actions in connection with, the proper administration of the Plan as it may deem necessary or advisable. The interpretation, construction and application of the Plan by the Board shall be final and binding on all Participants.
- (4) No member of the Board or of the Committee shall be liable for any action or determination taken or made in good faith in the administration, interpretation, construction or application of the Plan or any Award granted hereunder.
- (5) Any determination approved by a majority of the Board shall be deemed to be a determination of that matter by the Board.

Section 2.2 *Participants.*

- (1) The Persons who shall be eligible to receive Awards (“**Eligible Participants**”) shall be the directors, officers and other employees of the Company or a Group Company and contractors providing ongoing services to the Company or any Group Company, who the Board may determine from time to time is to participate under the Plan. Casual employees and contractors must work a pro-rata equivalent of at least 40% of a comparable full-time position to be considered an Eligible Participant.
- (2) An Eligible Participant may nominate a Permitted Nominee to whom the Eligible Participant wishes to be granted some or all of the Awards. The Board may, in its absolute discretion, determine not to allow the grant of the Awards to the Nominee, without being required to give any reason for such decision.
- (3) As from any relevant Termination Date, a Person will cease to be eligible to receive Awards under the Plan.
- (4) Participation in the Plan shall be entirely voluntary and any decision not to participate shall not affect an Eligible Participant’s relationship or employment with the Company.
- (5) Notwithstanding any express or implied term of this Plan to the contrary, the granting of an Award pursuant to the Plan shall in no way be construed as a guarantee of employment or retainer by the Company to the Participant.

Section 2.3 *Shares Subject to the Plan.*

- (1) If an Award is proposed to be made in reliance on ASIC Class Order 14/1000, the Company must not make any offer if, at the time of the proposed offer, the sum of the number of Shares:
 - (a) to be issued, the subject of the proposed offer;
 - (b) that may be issued on exercise of Performance Rights or Options the subject of the proposed offer; and
 - (c) issued or which may be issued as a result of offers made at any time during the previous 3 year period under an employee incentive scheme:
 - (i) covered by ASIC Class Order 14/1000;
 - (ii) previously covered by ASIC Class Order 03/184; or
 - (iii) covered or previously covered by an ASIC instrument granting specific relief similar to ASIC Class Order 03/184,exceeds 5% of the total number of issued Shares.
- (2) Any Award made:
 - (a) to a Person situated at the time of receipt of the offer outside Australia;
 - (b) that did not require disclosure to the Participant because of an exemption to disclosure contained in Chapter 6D of the Act; or
 - (c) under a disclosure document,is disregarded for the purpose of calculating the limit in Section 2.3(1).
- (3) The aggregate number of Awards that may be issued under the Plan to an Eligible Participant must not result in that Eligible Participant, together with their Associates, holding or gaining the ability to control more than 10% of the Voting Power in the Company

Section 2.4 *Granting of Awards.*

- (1) Any Award granted under the Plan shall be subject to the requirement that, if at any time counsel to the Company determines the consent or approval of shareholders, any Exchange or any governmental or regulatory body is necessary as a condition of any grant or exercise of an Award, such Award may not be accepted or exercised unless such consent or approval has been obtained on conditions acceptable to the Board.
- (2) Any Shares issued under the Plan will rank equally in all respects with other Shares for the time being on issue by the Company except as regards any rights attaching to such Shares by reference to a record date prior to the date of their issue.
- (3) If Shares of the same class as those issued on the Vesting or exercise of an Award are quoted on an Exchange, the Company will apply for quotation of Shares issued under the Plan within the period required by the Exchange.

- (4) Any Award granted under the Plan shall be subject to the requirement that the Company has the right to place any restriction or legend on any securities issued pursuant to this Plan, including as may be required by applicable law.
- (5) The granting of Performance Rights and Options under the Plan are tax deferred rights under 83A-C of the Income Tax Assessment Act 1997 and must not be sold or transferred to another party other than in accordance with the terms of the Plan.

ARTICLE 3 — OPTIONS

Section 3.1 *Nature of Options.*

An Option is an option granted by the Company to a Participant entitling such Participant to acquire a designated number of Shares at the Exercise Price, subject to the terms contained within the Plan.

Section 3.2 *Option Awards.*

The Board may, from time to time by resolution, in its sole discretion:

- (a) designate the Participants who may receive Options under the Plan;
- (a) fix the number of Options, if any, to be granted to each Participant and the date or dates on which such Options shall be granted; and
- (b) determine the Exercise Price per Share (if any) to be payable upon the exercise of each Option;
- (c) determine any Vesting Conditions and the Vesting Determination Date; and
- (d) determine the Exercise Period during which the Options may be exercised,

subject to the terms and conditions prescribed in this Plan, in any Option Agreement, the Company's Constitution, the rules of any Exchange and any shareholder or regulatory approvals.

Section 3.3 *Exercise Price.*

The Exercise Price for Shares the subject of any Option shall be determined by the Board when such Option is granted.

Section 3.4 *Exercise Period.*

- (1) The Board shall determine the Exercise Period at the time of granting the particular Option.
- (2) The Options will lapse, unless they have lapsed earlier in accordance with this Plan, on the date of expiry of the Exercise Period.

Section 3.5 *Exercise of Options.*

- (1) Subject to the provisions of this Plan and the achievement of any relevant Vesting Conditions, a Participant shall be entitled to exercise an Option granted to such Participant at any time during the Exercise Period.

- (2) No Option may be exercised by a Participant during a Black-Out Period, other than in accordance with the Company's Share Trading Policy.

Section 3.6 *Method of Exercise and Payment of Exercise Price.*

- (1) Subject to the provisions of the Plan, an Option granted under the Plan shall be exercisable (from time to time as provided in Section 3.5 hereof) by the Participant by:
- (a) delivering a fully completed Exercise Notice to the Company at its registered office to the attention of the Corporate Secretary of the Company or such other individual the Board may from time to time designate; or
- (b) giving notice in such other manner as the Company may from time to time designate,

which notice must specify the number of Shares in respect of which the Options are being exercised and, if applicable, must be accompanied by full payment by cash, cheque or bank draft of the Exercise Price for the number of Options to be exercised. Unless otherwise determined by the Board, the Company shall not offer financial assistance in regards to the exercise of an Option.

- (2) The Board may decide in its absolute discretion that a Participant will not be required to provide payment for the Exercise Price of Options by cheque or bank draft or otherwise in immediately available funds, but that on exercise of the Options, the Participant may elect that the Company instead allot and issue the number of Shares (disregarding fractions) which, when multiplied by the Market Value of the Shares to which the exercised Options relate, have a value equal to the product of the number of Shares to which the exercised Options relate multiplied by the difference between the Market Value of such Shares and the Exercise Price of such Options.

Section 3.7 *Option Vesting Conditions.*

Subject to the Board's determination, any Vested Options may be exercised in accordance with Section 3.6. Unless otherwise determined by the Board, all Options which have not Vested as at the Vesting Determination Date will lapse.

Section 3.8 *Issuance of Shares*

Subject to these Rules, upon exercise of the Option the Company shall as soon as practicable transfer (or procure the transfer) or issue the number of Shares specified in the Exercise Notice to the Participant.

Section 3.9 *Option Agreements.*

Options shall be evidenced by an Option Agreement, in such form not inconsistent with the Plan as the Board may from time to time determine.

ARTICLE 4 – PERFORMANCE RIGHTS

Section 4.1 *Nature of Performance Rights.*

A performance right (“**Performance Right**”) is an Award entitling the recipient to acquire Shares, subject to the terms contained within the Plan.

Section 4.2 *Performance Right Awards.*

- (1) The Board may, from time to time by resolution, in its sole discretion:
 - (a) designate the Participants who may receive Performance Rights under the Plan;
 - (b) fix the number of Performance Rights, if any, to be granted to each Participant and the date or dates on which such Performance Rights shall be granted; and
 - (c) determine the Exercise Price per Share (if any) to be payable upon the exercise of each Performance Right;
 - (d) determine any Vesting Conditions and the Vesting Determination Date; and
 - (e) determine the Exercise Period during which the Performance Rights may be exercised,subject to the terms and conditions prescribed in this Plan, in any Performance Right Agreement, the Company’s Constitution, the rules of any Exchange and any shareholder or regulatory approvals.

Section 4.3 *Exercise Price.*

Any Exercise Price for Shares the subject of any Performance Right shall be determined by the Board when such Performance Right is granted.

Section 4.4 *Exercise Period.*

- (1) The Board shall determine the Exercise Period at the time of granting the Performance Right.
- (2) The Performance Rights will lapse, unless they have lapsed earlier in accordance with this Plan, on the date of expiry of the Exercise Period.

Section 4.5 *Exercise of Performance Rights.*

- (1) Subject to the provisions of this Plan and the achievement of any relevant Vesting Conditions, a Participant shall be entitled to exercise Performance Right granted to such Participant at any time during the Exercise Period.
- (2) No Performance Right may be exercised by a Participant during a Black-Out Period, other than in accordance with the Company’s Share Trading Policy.

Section 4.6 *Method of Exercise.*

- (1) Subject to the provisions of the Plan, Performance Right granted under the Plan shall be exercisable (from time to time as provided in Section 4.5 hereof) by the Participant by:

(f) delivering a fully completed Exercise Notice to the Company at its registered office to the attention of the Corporate Secretary of the Company or such other individual the Board may from time to time designate; or

(g) giving notice in such other manner as the Company may from time to time designate,

which notice must specify the number of Shares in respect of which the Performance Rights are being exercised and, if applicable, must be accompanied by full payment by cash, cheque or bank draft of the Exercise Price for the number of Performance Rights to be exercised. Unless otherwise determined by the Board, the Company shall not offer financial assistance in regards to the exercise of a Performance Right.

(2) The Board may decide in its absolute discretion that a Participant will not be required to provide payment for the Exercise Price of Performance Rights by cheque or bank draft or otherwise in immediately available funds, but that on exercise of the Performance Rights, the Participant may elect that the Company instead allot and issue the number of Shares (disregarding fractions) which, when multiplied by the Market Value of the Shares to which the exercised Performance Rights relate, have a value equal to the product of the number of Shares to which the exercised Performance Rights relate multiplied by the difference between the Market Value of such Shares and the Exercise Price of such Performance Rights.

Section 4.7 *Performance Right Vesting Conditions.*

Subject to the Board's determination, any Vested Performance Rights may be exercised in accordance with Section 4.6. Unless otherwise determined by the Board, all Performance Rights which have not Vested as at the Vesting Determination Date will lapse.

Section 4.8 *Issuance of Shares.*

Subject to these Rules, upon exercise of the Performance Right the Company shall as soon as practicable transfer (or procure the transfer) or issue the number of Shares specified in the Exercise Notice to the Participant.

Section 4.9 *Performance Right Agreements.*

Performance Rights shall be evidenced by a Performance Right Agreement, in such form not inconsistent with the Plan as the Board may from time to time determine.

ARTICLE 5 — BONUS SHARES

Section 5.1 *Issuance of Bonus Shares.*

(1) Subject to the provisions of this Plan, the Company may issue for no cash consideration to any Participant any number of Shares as a discretionary bonus ("**Bonus Shares**"), or grant entitlements to be issued such Bonus Shares, at such times in such amounts and on such terms and Vesting Conditions as the Board may determine and impose.

(2) The issue price per Share for any Bonus Share ("**Bonus Share Issue Price**") issued under this Plan shall be determined by the Board at the time the Bonus Shares are issued, but such issue price shall not be less than the Market Value.

Section 5.2 *Bonus Share Awards.*

- (1) The Board may, from time to time by resolution, in its sole discretion:
 - (a) designate the Participants who may receive Bonus Shares under the Plan;
 - (b) fix the number of Bonus Shares, if any, to be granted to each Participant and the date or dates on which such Bonus Shares shall be granted; and
 - (h) determine any Vesting Conditions and the Vesting Determination Date,subject to the terms and conditions prescribed in this Plan, in any Bonus Share Agreement, the Company's Constitution, the rules of any Exchange and any shareholder or regulatory approvals.

Section 5.3 *Bonus Share Transfer Restrictions.*

- (1) The Company shall, as soon as practicable after the grant of the Bonus Shares, transfer (or procure the transfer) or issue to the Participant the number of Bonus Shares the Participant is entitled to receive;
- (2) The Company may implement any Bonus Share Restrictions it considers appropriate to restrict the Participant from Dealing with the Shares during the Bonus Share Restricted Period.
- (3) The Company may do all things necessary or desirable to protect or give effect to any right or restriction under this Plan, but without abrogating any other rights of the holder of the Bonus Shares.
- (4) Unless the Board shall otherwise determine, certificated Bonus Shares shall remain in the possession of the Company until such Bonus Shares have Vested as provided in Bonus Share Agreement, and the Participant shall be required, as a condition of the grant of such Bonus Shares, to deliver to the Company such instruments of transfer as the Board may prescribe.
- (5) Subject to these Rules, if the Bonus Shares are subject to any Bonus Share Restrictions, as soon as practicable after the Bonus Shares have Vested the Company shall remove any Bonus Share Restrictions.

Section 5.4 *Bonus Share Agreements.*

Bonus Shares shall be evidenced by a Bonus Share Agreement, in such form not inconsistent with the Plan, as the Board may from time to time determine. The Bonus Share Agreement shall be subject to the terms and conditions prescribed in this Plan, in any Performance Right Agreement, the Company's Constitution, the rules of any Exchange and any shareholder or regulatory approvals.

Section 5.5 *Rights as Shareholder.*

Upon execution of a Bonus Share Agreement and the issuance of the Bonus Shares, the Participant to whom Bonus Shares have been awarded shall have all the rights of a shareholder of the Company, including with respect to voting of the Bonus Shares, subject to the conditions contained in the Bonus Share Agreement.

Section 5.6 *Forfeiture if Cease to be a Eligible Participant*

- (1) Subject to the Board determining otherwise or as set forth in any Bonus Share Agreement, upon:
 - (a) a Participant ceasing to be an Eligible Participant for any reason; or
 - (b) the Bonus Shares not Vesting as at the Vesting Determination Date,any Bonus Shares that remain subject to a Bonus Share Restricted Period shall be forfeited.
- (2) Upon such forfeiture, the Participant will automatically and without any requirement of notice to or from such Participant, or other action by or on behalf of the Participant or Company, be deemed to have agreed to dispose of his or her legal and beneficial interest in the Bonus Shares at an aggregate price equal to one dollar (\$1.00), and thereafter the Bonus Shares shall cease to represent any ownership in the Company by the Participant or rights of the Participant as a shareholder of the Company.
- (3) Following such deemed agreement, the Bonus Shares will be transferred to the Company's nominee and the Participant shall surrender any certificates representing Bonus Shares which may be in the Participant's possession to the Company or its nominee upon request without consideration.
- (4) In consideration of the issue of the Bonus Shares, each Participant will irrevocably appoint the Company as its attorney and agent to so transfer his or her Bonus Shares to the Company's nominee, and any director or officer of the Company is authorised by the Participant to complete and execute any documents, including share transfers, and to do all acts or things in the Participant's name and on his or her behalf that may be necessary or convenient to give effect to such transfer.

ARTICLE 6 GENERAL CONDITIONS

Section 6.1 *General Conditions applicable to Awards.*

Each Award, as applicable, shall be subject to the following conditions:

- (1) **Employment** - The granting of an Award to an Eligible Participant shall not impose upon the Company or a Group Company any obligation to retain the Participant in its employ in any capacity. For greater certainty, the granting of Awards to an Eligible Participant shall not impose any obligation on the Company to grant any Awards in the future nor shall it entitle the Participant to receive future grants.
- (2) **Rights as a Shareholder** - Subject to Section 5.5, the Participant shall not have any rights as shareholder in respect of any Shares covered by such Participant's Awards until the date of issuance of a share certificate or other evidence of ownership to such Participant. Without limiting the generality of the foregoing, no adjustment shall be made for dividends or other rights for which the record date is prior to the date such share certificate is issued.
- (3) **Conformity to Plan** – In the event that an Award is granted or a Grant Agreement is executed which does not conform in all particulars with the provisions of the Plan, or purports to grant Awards on terms different from those set out in the Plan, the Award or the grant of such Award

shall not be in any way void or invalidated, but the Award so granted shall be adjusted in such manner as the Board determines necessary to become, in all respects, in conformity with the Plan.

- (4) **Transferrable Awards** – Options, Performance Rights and Bonus Shares subject to Bonus Share Restrictions granted under this Plan shall, subject to approval of the Board in its sole discretion, be transferrable or assignable only to a Permitted Nominee and shall be exercisable only by the Participant or his or her Permitted Nominee.
- (5) **Permitted Nominee bound by Plan** - If Options, Performance Rights or Bonus Shares subject to Bonus Share Restrictions are issued to a Permitted Nominee, the Participant must also procure and ensure that the Permitted Nominee complies with this Plan as if the Permitted Nominee were the Participant.
- (6) **Dealing with Awards** - Other than in accordance with this Plan, a Participant may not Deal with Awards granted to the Participant. The Awards will lapse immediately on any purported Dealing, unless the Board in its absolute discretion approves the Dealing or the transfer or transmission is effected by force of law on death or legal incapacity to the Participant's legal personal representative

Section 6.2 *Cessation of Eligible Participation.*

- (1) Unless the Board determines otherwise pursuant to Section 6.2(2) and subject to Section 5.6, where a Participant ceases to be an Eligible Participant:
 - (a) by reason of resignation, termination for poor performance or termination for cause, all Awards held by the Participant, or on the Participant's behalf, which have not Vested will lapse or be forfeited (as the case may be) as at the Termination Date; or
 - (b) for any other reason, including (but not limited to):
 - (i) death;
 - (ii) total and permanent disablement;
 - (iii) retirement; or
 - (iv) termination by agreement,

in each case all the Participant's Awards will continue to be held by, or on behalf of, the Participant (or his or her estate as representative) subject to this Plan and the relevant Grant Agreement.
- (2) The Board, in its discretion, may determine within 4 months of a Participant ceasing to be an Eligible Participant that some or all of a Participant's Awards:
 - (a) lapse or are forfeited, as the case may be;
 - (b) Vest, subject to any restrictions imposed by the Board;
 - (c) are only exercisable for a prescribed period and will otherwise lapse; and/or

- (d) are no longer subject to some of the restrictions (including any Vesting Condition) that previously applied, as a result of the Participant ceasing to be an Eligible Participant.

Section 6.3 *Approved Leave of Absence.*

Subject to applicable laws, at the discretion of the Board, a Participant who is granted an approved leave of absence and who exercises their right to return to work under any applicable award, enterprise agreement, other agreement, statute or regulation may be treated as not having ceased to be an employee for the purposes of this Plan. Whether a Participant who is granted leave without pay is deemed to have ceased employment will be determined with reference to the Group's policies and any applicable laws.

Section 6.4 *Redundancy.*

- (1) Notwithstanding anything contained to the contrary in the Plan or in a Grant Agreement contemplated herein, in the event of a Participant ceasing to be an Eligible participant for the reason of redundancy:
 - (a) all of a Participant's Awards Vest;
 - (b) Awards are no longer subject to any of the restrictions on Dealings that applied upon grant; and
 - (c) Options or Performance Rights may be exercised by the Participant at any time during the Exercise Period.

Section 6.5 *Change of Control*

- (1) Notwithstanding anything contained to the contrary in the Plan or in a Grant Agreement contemplated herein but subject to rule 6.5(2), where there is a:
 - (a) takeover bid for Shares; or
 - (b) other transaction, event or state of affairs or an arrangement (including a scheme of arrangement),that, in the Board's opinion:
 - (c) is likely to result in a change in the Control of the Company;
 - (d) is likely to result in a person acquiring a Relevant Interest in 90% or more of the Shares; or
 - (e) should otherwise be treated in accordance with this rule,

(Change of Control Event), the Board may, in its absolute discretion, determine that all or a specified number (including zero) of a Participant's Awards Vest or cease to be subject to any restrictions (as applicable). For the avoidance of doubt:

- (f) a Change of Control Event does not include an internal reorganisation of the structure, business and/or assets of the Group; and

- (g) subject to rule 6.5(2), if the Board does not make a determination pursuant to this rule 6.5(1), then all of a Participant's Awards will remain on foot subject to the original terms of grant.
- (2) Without limiting rule 6.5(1), where there is an actual change in the Control of the Company or where a person actually acquires a Relevant Interest in 90% of the Shares then, unless the Board determines otherwise, all unvested Awards will immediately Vest or cease to be subject to restrictions (as applicable) on a pro rata basis based on the portion of the Exercise Period that has elapsed.
- (3) If only some or none of a Participant's unvested Awards will Vest or cease to be subject to restrictions (as applicable) under rule 6.5(1) or rule 6.5(2), all Awards that remain unvested or that remain subject to restrictions (as applicable) will immediately lapse, unless the Board determines a different treatment.
- (4) The Board has the discretion to determine the treatment of all Vested Awards (including those that Vest in accordance with rule 6.5) where a Change of Control Event occurs or where there is an actual change in the Control of the Company or where a person actually requires a Relevant Interest in 90% of the Shares.
- (5) Without limiting rule 6.5(4), where there is an actual change in the Control of the Company or where a person actually acquires a Relevant Interest in 90% of the Shares (the relevant date on which either such event occurs being the **Relevant Date**) then, unless the Board determines otherwise:
 - (a) all Vested Awards will be exercisable for a period of 30 days from the Relevant Date (or such longer period as the Board may determine) and will lapse if not exercised within that period; and
 - (b) any restrictions on Dealing imposed by the Board on Vested Awards will cease to have effect.
- (6) If:
 - (a) a company (**Acquiring Company**) obtains Control of the Company as a result of a Change of Control Event; and
 - (b) the Company, the Acquiring Company and the Participant agree,

subject to applicable laws (including taxation laws, the Act and the Listing Rules) a Participant may, upon Vesting of Awards (as applicable) be provided with shares of the Acquiring Company or its parent in lieu of Shares in such manner as the parties may agree (including by a replacement security or exchange of Shares issued on vesting or exercise) and on substantially the same terms and on substantially the same conditions but with any necessary or appropriate adjustments to the number and kind of shares.

ARTICLE 7 — ADJUSTMENTS AND AMENDMENTS

Section 7.1 *Adjustment to Shares Subject to Outstanding Awards.*

- (1) A Participant is only entitled to participate (in respect of a Performance Right or an Option granted under the Plan) in a new issue of Shares to existing shareholders generally if the Participant has validly exercised his or her Performance Rights or Options within the relevant Exercise Period and become a shareholder of the Company prior to the relevant record date, and is then only entitled to participate in relation to Shares of which the Participant is the registered holder
- (2) If there is a pro rata issue of Shares for no consideration to the holders of Shares (other than in lieu or in satisfaction of dividends or by way of dividend reinvestment), the number of Shares over which a Performance Right or an Option is exercisable will be increased by the number of Shares which the holder of the Performance Right or Option would have received if the Performance Right or Option had been exercised before the record date for the pro rata issue.
- (3) If Shares are offered pro rata for subscription by the Company's shareholders generally by way of a rights issue and prior to the Vesting or exercise of any Awards (as applicable), the Board may, in its discretion, adjust the number of Awards granted to a Participant, the number of Shares to which each Participant is entitled upon exercise or Vesting of the Awards, or the Exercise Price to take account of the rights issue.
- (4) In the event that, prior to the exercise of a Performance Right or an Option, there is a reconstruction (including a consolidation, subdivision, reduction or return) of the issued capital of the Company, then the rights of the Participant including the number of Performance Rights or Options that each Participant is entitled and/or the Exercise Price (if any), will be reconstructed as determined by the Board in its sole discretion.
- (5) The provisions of this Section 7.1 are subject to the Act and the listing rules and requirements of the Exchange as they apply to the Company and the Awards from time to time.

Section 7.2 *Amendment or Discontinuance of the Plan.*

- (1) The Board may amend the Plan or any Award at any time without the consent of the Participants provided that such amendment shall:
 - (c) not adversely alter or impair any Award previously granted except as permitted by the provisions of this Article 7;
 - (d) be subject to any regulatory approvals including, where required, the approval of the Exchange; and
 - (e) be subject to shareholder approval, where required, by law or the requirements of the Exchange, provided that shareholder approval shall not be required for the following amendments and the Board may make any changes which may include but are not limited to:
 - (i) amendments of a "housekeeping" nature or ministerial nature, including without limitation, any amendment for the purpose of curing any ambiguity,

error or omission in this Plan or to correct or supplement any provision of this Plan that is inconsistent with any other provision of this Plan;

- (ii) a change to the Vesting provisions of any Award, including a determination that the some or all of the Awards have Vested;
 - (iii) a change to the Eligible Participants of the Plan;
 - (iv) for the purpose of enabling the Participants generally (but not necessarily each Participant) to receive a more favourable taxation treatment in respect of their participation in the Plan;
 - (v) to enable the Plan or any Group Company to comply with the Act, the listing rules and requirements of the Exchange or its Constitution; or
 - (vi) any other amendment, whether fundamental or otherwise, not requiring shareholder approval under applicable law (including, without limitation, the rules, regulations and policies of the Exchange).
- (2) The Board may, subject to regulatory approval, discontinue the Plan at any time without the consent of the Participants provided that such discontinuance shall not materially and adversely affect any Awards previously granted to a Participant under the Plan.

ARTICLE 8 - MISCELLANEOUS

Section 8.1 *Use of an Administrative Agent and Trustee.*

The Board may in its sole discretion appoint from time to time one or more entities to act as administrative agent to administer the Awards granted under the Plan and to act as trustee to hold and administer the assets that may be held in respect of Awards granted under the Plan, the whole in accordance with the terms and conditions determined by the Board in its sole discretion. The Company and the administrative agent will maintain records showing the number of Awards granted to each Participant under the Plan.

Section 8.2 *Tax Withholding.*

- (1) If the Company or the Group is obliged, or reasonably believes it may have an obligation, as a result of or in connection with any Awards granted or Shares allocated under this Plan, to account for:
- (a) income tax or employment taxes under any wage, withholding or other arrangements; or
 - (a) any other tax, stamp duties, social security contributions or levy or charge of a similar nature,
- then the relevant Group Company is entitled to be reimbursed by the Participant for the amount or amounts so paid or payable.
- (2) Where Section 8.2(1) applies, the relevant Group Company may make arrangements for payment or reimbursement of the amounts referred to in Section 8.2(1). Those arrangements may include, without limitation:

- (a) the provision by the Participant of sufficient funds to reimburse the Group Company for the amount (by salary deduction, reduction of any amount owed by the Group to the Participant or otherwise);
- (b) the sale on behalf of the Participant of Shares allocated pursuant to this Plan for payment or reimbursement of these amounts, as well as the costs of any such sale;
- (c) the Vesting of Awards and the exercise of Options or Performance Rights (even if the applicable Vesting Conditions have not been satisfied) and the sale of the resulting Shares for payment and reimbursement of these amounts, as well as the Exercise Price and any other costs of any such exercise and sale; or
- (d) a reduction in any amount payable to the Participant in lieu of an allocation of Shares under this Plan.

Section 8.3 *Reorganisation of the Company.*

The existence of any Awards shall not affect in any way the right or power of the Company or its shareholders to:

- (a) make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, or any amalgamation, combination, merger or consolidation involving the Company;
- (b) create or issue any bonds, debentures, Shares or other securities of the Company or the rights and conditions attaching to them; or
- (c) affect the dissolution or liquidation of the Company or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar nature or otherwise.

Section 8.4 *Governing Laws.*

The Plan and all matters to which reference is made herein shall be governed by and interpreted in accordance with the laws of the State of Queensland.

Section 8.5 *Data Protection.*

By participating in the Plan, the Participant consents to the holding and processing of personal data provided by the Participant to the Company for all purposes relating to the operation of the Plan.

Section 8.6 *Non-Australian Residents.*

The Board may adopt additional rules of the Plan that will apply to a grant of an incentive award that is made to an Eligible Participant who is a resident in a jurisdiction other than Australia, subject to whatever alterations or additions the Board may determine having regard to any securities, exchange control, taxation or other laws and regulations or any other matter that the Board considers directly or indirectly relevant.

Section 8.7 *Severability.*

The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision and any invalid or unenforceable provision shall be severed from the Plan.

Section 8.8 *Commencement, Suspension or Cancellation of the Plan.*

- (1) The Plan was approved by the Board and shall take effect on 9 June 2016, subject to any necessary acceptance of the Plan by the shareholders of the Company, the Exchange and any other applicable regulatory authorities.
- (2) The Board may from time to time suspend the operation of the Plan and may at any time cancel the Plan. The suspension or cancellation of the Plan must not prejudice the existing rights (if any) of Participants.

EXPLANATORY **MEMORANDUM**

SCHEDULE 4 – LETTER NOMINATING APPOINTMENT OF GRANT THORNTON

13 October 2016

The Directors
Carbon Energy Limited
9/301 Coronation Drive
Milton, QLD, 4066

Dear Directors

Re: Notice of Nomination of Auditor in accordance with section 328B of the Corporations Act 2001 (Cth)

The undersigned, being a shareholder of Carbon Energy Limited ('the Company'), hereby gives written notice pursuant to Section 328B(1) of the Corporations Act 2001(Cth) of the nomination of Grant Thornton Audit Pty Ltd for appointment as auditor of the Company at the forthcoming Annual General Meeting.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Dr Cliff Mallett', with a stylized flourish at the end.

Dr Cliff Mallett
Shareholder

EXPLANATORY **MEMORANDUM**

SCHEDULE 5 – DEED OF COMPANY ARRANGEMENT

Deed

Execution version

Amending deed to Deed of Company Arrangement and Implementation Deed

Tim Michael and Will Colwell in their capacity as
joint and several deed administrators of CNX, CEH
and CEO (**Deed Administrators**)

Carbon Energy Limited (subject to deed of company
arrangement) (**CNX**)

Carbon Energy (Holdings) Pty Ltd (subject to deed
of company arrangement) (**CEH**)

Carbon Energy (Operations) Pty Ltd (subject to
deed of company arrangement) (**CEO**)

Kam Lung Investment Development Co Ltd
(**Kam Lung**)

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Attachment 1

Amended DOCA

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Amending deed to Deed of Company Arrangement and Implementation Deed

Date ►

Between the parties

Deed Administrators	Tim Michael and Will Colwell in their capacity as joint and several deed administrators of CNX, CEH and CEO of c/- Ferrier Hodgson Level 7, 145 Eagle Street Brisbane, QLD 7000
---------------------	---

CNX	Carbon Energy Limited (subject to deed of company arrangement) ACN 057 552 137 of Level 12, 301 Coronation Drive, Milton, QLD 4064
-----	---

CEH	Carbon Energy (Holdings) Pty Ltd (subject to deed of company arrangement) ACN 120 429 209 of Level 12, 301 Coronation Drive, Milton, QLD 4064
-----	--

CEO	Carbon Energy (Operations) Pty Ltd (subject to deed of company arrangement) ACN 105 176 967 of Level 12, 301 Coronation Drive, Milton, QLD 4064
-----	--

Kam Lung	Kam Lung Investment Development Co Ltd of FI 19, World Financial Centre 1 Central East 3rd Ring Road Chaoyang District, Beijing China
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Recitals

- 1 The parties are party to:
 - an Implementation Deed dated 16 February 2017, as amended on 6 March 2017 (**Implementation Deed**), and
 - a deed of company arrangement dated 9 March 2017 (**DOCA**, and together with the Implementation Deed, **Principal Agreements**).
- 2 Subject to the satisfaction of the conditions set out in this deed, the parties wish to amend the Principal Agreements in the manner set out in this deed.

This deed witnesses as follows:

1 Definitions, interpretation and deed components

1.1 Definitions

In this deed:

- (a) **Amended DOCA** means the DOCA in the amended form set out in Attachment 1;
- (b) **Effective Date** has the meaning given to it in clause 2;
- (c) **Pacific Road Loan Agreement** has the meaning given to it in the Amended DOCA; and
- (d) a word or phrase defined in the DOCA has the same meaning as in the DOCA.

1.2 Interpretation

Clause 1.2 of the DOCA applies to this deed.

1.3 Deed components

This deed includes any schedule.

2 Effective Date

The amendments to the Principal Agreements set out in clause 3 will take effect on the date (**Effective Date**) on which each of the following conditions is satisfied:

- (a) the amendments to the DOCA set out in Attachment 1 have been approved by the creditors of each Deed Company at meetings convened by the Deed Administrators pursuant to s 445F of the Corporations Act;
- (b) the second amending deed in respect of the Commitment Deed, to be dated on or about the date of this deed, has been executed by the Pacific Road Entities, PCRM and Kam Lung; and
- (c) the Pacific Road Loan Agreement has been executed by all parties to it.

3 Amendments to Principal Agreements

3.1 Amendment to DOCA

With effect on and from the Effective Date, the DOCA is amended as set out in Attachment 1.

3.2 Amendment to Implementation Deed

With effect on and from the Effective Date, clause 2.2 of the Implementation Deed is amended by replacing the date "31 May 2017" with "21 July 2017".

3.3 Amendments not to affect validity, rights, obligations

- (a) This deed is intended only to amend the Principal Agreements and not to terminate, discharge, rescind or replace them.
- (b) The amendments to the Principal Agreements do not affect the validity or enforceability of the Principal Agreements (as amended by this deed).

3.4 Confirmation

On and with effect from the Effective Date, each party is bound by the Principal Agreements as amended by this deed.

3.5 Acknowledgement

Each party acknowledges that this deed is issued in accordance with the Principal Agreements.

4 Acknowledgement that no termination

As at the date of this deed and the Effective Date, each party acknowledges that the Principal Agreements have not been terminated and continue to bind each party.

5 General

5.1 Governing law and jurisdiction

- (a) This deed is governed by the law in force in Queensland.
- (b) Each party irrevocably submits to the non-exclusive jurisdiction of courts exercising jurisdiction in Queensland and courts of appeal from them in respect of any proceedings arising out of or in connection with this deed.
- (c) Each party irrevocably waives any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

5.2 Further action to be taken at each party's own expense

Each party must, at its own expense, do all things and execute all documents necessary to give full effect to this deed and the transactions contemplated by it.

5.3 Counterparts

- (a) This deed may be executed in any number of counterparts.
- (b) All counterparts, taken together, constitute one instrument.
- (c) A party may execute this deed by signing any counterpart.

5.4 Attorneys

Each of the attorneys executing this deed states that the attorney has no notice of the revocation of the power of attorney appointing that attorney.

Signing page

Executed as a deed

Deed Administrators

Signed sealed and delivered by
Tim Michael

in the presence of

sign here ► _____

sign here ► _____
Witness

print name _____

print name _____

Signed sealed and delivered by
Will Colwell

in the presence of

sign here ► _____

sign here ► _____
Witness

print name _____

print name _____

Deed Companies

Signed sealed and delivered for
**Carbon Energy Limited (subject
to deed of company
arrangement)**
by

sign here ► _____
Director

sign here ► _____
Director/Secretary

print name _____

print name _____



Signed sealed and delivered for
**Carbon Energy (Holdings) Pty
Ltd (subject to deed of company
arrangement)**
by

sign here ► _____
Director

sign here ► _____
Director/Secretary

print name _____

print name _____

Signed sealed and delivered for
**Carbon Energy (Operations) Pty
Ltd (subject to deed of company
arrangement)**
by

sign here ► _____
Director

sign here ► _____
Director/Secretary

print name _____

print name _____

Kam Lung

Signed sealed and delivered and
executed as a deed by
**Kam Lung Investment
Development Co Ltd** by



sign here ► _____
Sole Director

sign here ► _____
Witness

print name _____

print name _____

Attachment 1

Amended DOCA

Deed

Execution version

Deed of Company Arrangement

Tim Michael and Will Colwell in their capacity as
joint and several administrators of the Deed
Companies

Carbon Energy Limited (administrators appointed)

Carbon Energy (Holdings) Pty Ltd (administrators
appointed)

Carbon Energy (Operations) Pty Ltd (administrators
appointed)

Kam Lung Investment Development Co Ltd



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Deed of Company Arrangement

Date ► 2017

Between the parties

Deed Administrators **Tim Michael and Will Colwell** in their capacity as joint and several administrators of the Deed Companies
of Ferrier Hodgson, Level 7, 145 Eagle Street, Brisbane QLD 4000
Telephone: +61 7 3831 4833
Email: tim.michael@fh.com.au
Attention: Tim Michael

CNX **Carbon Energy Limited (administrators appointed)**
ACN 057 552 137 c/- Ferrier Hodgson, Level 7, 145 Eagle Street,
Brisbane QLD 4000
Telephone: +61 7 3831 4833
Email: tim.michael@fh.com.au
Attention: Tim Michael

CEH **Carbon Energy (Holdings) Pty Ltd (administrators appointed)**
ACN 120 429 209 c/- Ferrier Hodgson, Level 7, 145 Eagle Street,
Brisbane QLD 4000
Telephone: +61 7 3831 4833
Email: tim.michael@fh.com.au
Attention: Tim Michael

CEO **Carbon Energy (Operations) Pty Ltd (administrators appointed)**
ACN 105 176 967 c/- Ferrier Hodgson, Level 7, 145 Eagle Street,
Brisbane QLD 4000
Telephone: +61 7 3831 4833
Email: tim.michael@fh.com.au
Attention: Tim Michael

Deed Proponent **Kam Lung Investment Development Co Ltd**



of FI 19, World Financial Centre, 1 Central East 3rd Ring Road,
Chaoyang District, Beijing China

Email: hehx@ghid.com.cn, gsu@srcg.com.au and George Su -
george_su@yahoo.com

Attention: He Huanxue and George Su

with a copy to:

Herbert Smith Freehills
161 Castlereagh St, Sydney NSW 2000

Email: mark.clifton@hsf.com and andrew.rich@hsf.com

Attention: Mark Clifton / Andrew Rich

Recitals

- 1 On the Appointment Date, Tim Michael and Will Colwell were appointed as administrators of the Deed Companies pursuant to Part 5.3A of the Corporations Act.
- 2 At meetings held on 9 March 2017 and convened pursuant to section 439A of the Corporations Act, the Creditors of each of the Deed Companies resolved that the Deed Companies execute the deed of company arrangement proposed by the Deed Proponent under section 444B(2)(b) of the Corporations Act.
- 3 The Deed Companies, the Deed Administrators and the Deed Proponent have agreed to execute this Deed to give effect to the resolutions referred to in recital 2.
- 4 The Deed Administrators have consented to be the administrators of this Deed.
- 5 Subject to the terms of this Deed, this Deed binds all creditors of the Deed Companies, in accordance with section 444D of the Corporations Act and also binds the Deed Companies, and their Officers and Members in accordance with section 444G of the Corporations Act.

This Deed witnesses as follows:

1 Definitions and interpretation

1.1 Definitions

The meanings of the terms used in this Deed are set out below.

Term	Meaning
Administration Debt	any: <ol style="list-style-type: none"> 1 debt referred to in section 443A(1) of the Corporations Act which was incurred by the Administrators during the Administration Period; and 2 liability to the Commissioner of Taxation referred to in section 443BA(1), in respect of which the Administrators are entitled to be indemnified under section 443D of the Corporations Act.
Administration Period	the period of time commencing on the Appointment Date and concluding on the Commencement Date.
Administrators	jointly and severally, Tim Michael and Will Colwell in their capacity as administrators of the Deed Companies and any successor to that office appointed pursuant to the Corporations Act.
Administrators Indemnity Amount	the sum of \$200,000 paid or to be paid to the Administrators pursuant to the Indemnity Deed.
<u>Amendment Date</u>	<u>the date of the second amending deed to the Commitment Deed.</u>
Appointment Date	22 November 2016.
Approved Remuneration and Costs	the amount payable to the Administrators or Deed Administrators in respect of their Remuneration and Costs up to the Completion Date which remains unpaid at the Completion Date (subject in the case of Remuneration to prior approval having been obtained under section 449E of the Corporations Act)
ASIC	the Australian Securities and Investment Commission.
ASX	ASX Limited ABN 98 008 624 691 and, where the context



Term	Meaning
	requires, the financial market that it operates.
Bloodwood Creek Site	Bloodwood Creek, Bellbee Road, Kogan Qld 4406.
Business Day	any day other than a Saturday, Sunday or public holiday in Brisbane, Sydney or Beijing.
Capital Contribution	\$3,850,000 inclusive of the Costs Contribution Amount.
Claim	<p>a debt payable by, and all claims against, a Deed Company (present or future, certain or contingent, ascertained or sounding only in damages or by way of fine or penalty), being a debt or claim any of the circumstances giving rise to which occurred on or before the Appointment Date that would be admissible to proof against any Deed Company in accordance with Division 6 of Part 5.6 of the Corporations Act, if that Deed Company had been wound up and the winding up was taken to commence on the Appointment Date:</p> <ol style="list-style-type: none">1 including a Claim of a Secured Creditor; and2 including any Claim in relation to Share Rights;3 including a Subordinate Claim; but4 excluding any Excluded Claim.
Commencement Date	the date that this Deed is executed by all parties to this Deed.
Commitment Deed	<p>the Commitment Deed between the Deed Proponent and the Pacific Road Entities dated on or about 15 February 2017, <u>2017 as amended</u>, pursuant to which, in consideration of the payment of the Pacific Road Repayment Amount, each Pacific Road Entity and PRCM (as applicable):</p> <ol style="list-style-type: none">1 consents to and approves the Deed Administrators transferring all of the Pacific Road Shares to the Deed Proponent (or its nominee) on Completion for all purposes, including for the purposes of CNX's constitution and section 444CA of the Corporations Act <u>agrees to advance the Pacific Road Loan Amount to CNX on Completion in accordance with the terms of the Pacific Road Loan Agreement;</u>2 agrees to do all things reasonably requested by the Deed Administrators or the Deed Proponent to give effect to the transfer <u>release</u> of the Pacific Road Shares and the release of the Pacific Road Security contemplated by this Deed; and3 directs CNX to deduct the Costs Contribution Amount from the Pacific Road Repayment Amount, for the account of the Deed



Term	Meaning
	Proponent.
Completion	completion of the Completion Steps.
Completion Steps	has the meaning given in clause 11.2.
Completion Date	the date on which Completion is required to take place under clause 11.1.
Conditions Precedent	each of the conditions in clause 4.1.
Continuing Employee	each employee of a Deed Company as at the Completion Date and, for the avoidance of doubt, excludes any Terminated Employee.
Convertible Note Deed Poll	a deed poll executed by CNX and the Guarantors in favour of the holders of the Convertible Notes from time to time.
Convertible Note Facility	<p>a secured facility for the:</p> <ol style="list-style-type: none">1 subscription for \$10.38.3 million of secured convertible notes to be issued under the Convertible Note Deed Poll and guaranteed by the Guarantors; and2 provision of further secured cash advances on an uncommitted basis, <p>as contemplated by the Implementation Deed.</p>
Convertible Note Facility Agreement	a facility agreement between the Deed Proponent (or its nominee), CNX and the Guarantors governing the Convertible Note Facility as contemplated by the Implementation Deed.
Convertible Note Subscription Amount	\$10.38.3 million.
Convertible Notes	Convertible notes with a subscription price of \$10.38.3 million to be issued pursuant to the Convertible Note Facility.
Corporations Act	the <i>Corporations Act 2001</i> (Cth).



Term	Meaning
<u>COSFLOW Licence Agreement</u>	<u>Technology Assignment and Licence Agreement dated 10 July 2006 between CEO (formerly Coal Gas Corporation Pty Limited) and Commonwealth Scientific and Industrial Research Organisation.</u>
Costs	includes costs, charges, fees, government charges, taxes and expenses, including those incurred in connection with advisers, incurred in connection with the performance of the Administrators and Deed Administrators' duties, obligations and responsibilities under the Corporations Act and this Deed during the Administration Period and the Deed Period and includes any Administration Debt but does not include any Cost incurred by the Deed Administrators except to the extent that the Deed Administrators are personally liable for those Costs.
Costs Contribution Amount	\$150,000.
Court	the Supreme Court of Queensland.
Creditor	any person who has a debt or claim against a Deed Company which would be admissible to proof in accordance with Division 6 of Part 5.6 of the Corporations Act, if that Deed Company had been wound up and the winding up was taken to commence on the Appointment Date.
Deed	this deed of company arrangement as amended from time to time.
Deed Administrators	jointly and severally, Tim Michael and Will Colwell in their capacity as administrators of the Deed and any successor to that office appointed pursuant to the Corporations Act.
Deed Companies	CNX, CEH and CEO.
Deed Period	means the period commencing on the Commencement Date and ending on the Termination Date.
Directors	in respect of a Deed Company, the directors of that company from time to time.
Encumbrance	any:



Term	Meaning
	<ol style="list-style-type: none">1 security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power, or title retention or flawed deposit arrangement and any 'security interest' as defined in sections 12(1) or (2) of the PPSA; or2 right, interest or arrangement which has the effect of giving another person a preference, priority or advantage over creditors including any right of set-off; or3 right that a person (other than the owner) has to remove something from land (known as a profit à prendre), easement, public right of way, restrictive or positive covenant, lease, or licence to use or occupy; or4 any other third party right or interest or any right arising as a consequence of the enforcement of a judgment, or any agreement to create any of them or allow them to exist.
End Date	has the meaning given in clause 4.3.
Enforcement Process	has the same meaning as in the Corporations Act.
Escrow Deed	an escrow deed between CNX and the Deed Proponent or its nominee (as the case may be) in substantially the form set out in Schedule 5.4 .
Excluded Claim	any: <ol style="list-style-type: none">1 Claim of a Continuing Employee in respect of an amount referred to in section 556(1)(e), (g) or (h) of the Corporations Act other than a Claim in respect of Share Rights;2 Insured Claim;3 Mining Tenement Claim;4 Intra-Group Claim; or5 Claim arising under an Excluded Contract.
Excluded Contract	means any contract set out in Schedule 1 provided that: <ol style="list-style-type: none">1 the Creditor has not exercised:<ol style="list-style-type: none">a) any right to terminate the relevant contract; orb) any other default right arising as a consequence of the appointment of the Administrators to a Deed Company or any other insolvency event in respect of the Deed Company; and2 if the Creditor has a right to terminate the relevant contract,



Term	Meaning
	the Creditor has waived or waives any such right or event of default or breach by the relevant Deed Company which occurred on or prior to the Commencement Date or which may occur during the Deed Period insofar as the Creditor would be entitled to terminate the contract.
Excluded Creditor	a Creditor who has an Excluded Claim but only to the extent of that Excluded Claim.
Excluded Superannuation Debt	a Superannuation Debt (as defined in clause 11.11(b) of this Deed) in respect of which the Deed Administrators make a determination under clause 11.11(b) of this Deed.
Fund Amount	\$300,000.
GOC	a GOC or a GOC Act entity as defined in the <i>Government Owned Corporations Act 1993</i> (Qld).
Government Authority	a government or a government instrumentality, agency, authority or department or a division, branch or other part of a government instrumentality, agency, authority or department but for the avoidance of doubt does not include a GOC.
Guarantors	CEH, CEO and each other Subsidiary of CNX specified by the Deed Proponent.
Immediately Available Funds	<ol style="list-style-type: none">1 cash;2 bank cheque payable to the payee (or as the payee directs); or3 electronic transfers of cleared funds into the bank account nominated or directed by the payee.
Implementation Deed	the Implementation Deed between the Administrators, each Deed Company and the Deed Proponent dated on or about 16 February 2017 <u>2017, as amended</u> .
Indemnity Deed	the Deed of Indemnity between the Administrators and the Deed Proponent dated on or about the date of this Deed in respect of the Administrators' Remuneration.
Insured Claim	a Claim which a Creditor has against a Deed Company which



Term	Meaning
	<p>would have been entitled to priority in a liquidation of that Deed Company under section 562 of the Corporations Act, being a Claim where:</p> <ol style="list-style-type: none">1 the Deed Company is insured against the Claim under a contract of insurance entered into before the Appointment Date; and2 an amount in respect of that Claim would be payable by the insurer to the Deed Company under the contract of insurance, <p>but only to the extent of such part of the Claim as would be discharged by the payment from the insurer, and provided the Creditor provides the Deed Company with an indemnity in the form of Schedule 43 in respect of all costs and expenses incurred by the Deed Company in connection with such Claim.</p>
Intellectual Property Rights	patents, trade marks, service marks, designs, copyright, business names, trade secrets, know how and other intellectual property rights and interests (in each case whether registered under any statute or not), and any right or licence in relation to any of the foregoing.
Interim Facility	the \$1.1 million loan facility to be provided to CNX as borrower by the Deed Proponent or its nominee as lender as contemplated by the Implementation Deed under which funding is provided for the purpose of meeting the operational costs of the Deed Companies during the Deed Period, <u>as amended</u> .
Interim Funding Amount	the sum of the Administrators Indemnity Amount and the outstanding balance of the Interim Facility.
Intra-Group Claim	any Claim against a Deed Company held by another Deed Company or any Related Body Corporate of a Deed Company.
Key Contractors	each person listed in paragraph (b) of Schedule 2.
Key Employees	each person listed in paragraph (a) of Schedule 2.
Keyseam Technology	the Keyseam technology as referred to in the information memorandum issued by the Administrators dated 7 December 2016, including the right to continue to use the COSFLOW software and other licensed technology pursuant to the Technology Assignment and <u>COSFLOW</u> Licence Agreement dated 10 July 2006 between CEO (formerly Coal Gas Corporation Pty Limited) and Commonwealth Scientific and Industrial Research Organisation.



Term	Meaning
Legal Personal Representative	a trustee or executor appointed to the Deed Administrators upon death, incapacity, insanity or any combination of them.
Member	has the meaning as defined in section 9 of the Corporations Act.
Mining Tenement Claim	<p>any Claim of a Government Authority against a Deed Company arising under or in respect of any:</p> <ol style="list-style-type: none">1 mining lease;2 exploration permit;3 environmental authority;4 mineral development license;5 other permit, licence or authority from a Government Authority in connection with mining activities; or6 application for any of the above, <p>as renewed or varied from time to time.</p>
New Shares	<p>3,837,252,126 <u>4,679,911,281</u> fully paid ordinary shares in CNX quoted on the ASX or such other number of fully paid ordinary shares in CNX such that, when aggregated with the Pacific Road Shares to be transferred to the Deed Proponent (and/or its nominee), the Deed Proponent (and/or its nominee) will hold 80% of the issued shares in CNX.</p>
Officer	has the meaning as defined in section 9 of the Corporations Act.
Owner	any person who is the legal or beneficial owner (including a lessor) of property in the possession of a Deed Company as at the Appointment Date.
Pacific Road Debt	the existing secured debt owed by the Deed Companies under the A\$10,000,000 convertible facility agreement dated 22 December 2011 originally between CNX, Pacific Road Holdings NV and PRCM Nominees Pty Limited in its own capacity and in its capacity as trustee of the Pacific Road CE Trust.
Pacific Road Entities	<ol style="list-style-type: none">1 PRCM Nominees Pty Limited (in its capacity as trustee of the Pacific Road CE Trust);2 Pacific Road Holdings S.a.r.l.;3 Pacific Road Capital Management GP Limited (as general partner of Pacific Road Resources Fund LP); and4 PRCM Nominees Pty Limited (in its capacity as trustee of the



Term	Meaning
	Carbon Energy Security Trust).
<u>Pacific Road Lenders</u>	<u>Pacific Road Capital A Pty Limited ACN 123 091 976 as trustee for the Pacific Road Resources Fund A, Pacific Road Capital B Pty Limited ACN 123 091 930 as trustee for the Pacific Road Resources Fund B and Pacific Road Capital Management GP Limited (as general partner of Pacific Road Resources Fund LP).</u>
<u>Pacific Road Loan Agreement</u>	<u>the loan agreement between CNX and the Pacific Road Lenders dated on or around the Amendment Date pursuant to which the Pacific Road Lenders have agreed to advance the Pacific Road Loan Amount to CNX on Completion.</u>
<u>Pacific Road Loan Amount</u>	<u>\$1,000,000.</u>
Pacific Road PPSR Registrations	The security registrations made by the Pacific Road Entities under the PPSA in connection with the Pacific Road Security, with registration numbers 201603020014898, 201603020015116 and 201201190052357.
Pacific Road Repayment Amount	\$9,000,000. <u>7,000,000.</u>
Pacific Road Security	<ol style="list-style-type: none"> the Deed of Mortgage of Securities in respect of the shares in CEO dated 23 February 2016 between CEH, CNX and PRCM Nominees Pty Limited; and the Deed of Mortgage in respect of certain intellectual property rights of CEO dated 22 December 2011 between CEO and PRCM Nominees Pty Limited.
Pacific Road Shares <u>Patent Rights</u>	<p>all of the shares in CNX held by the Pacific Road Entities, PRCM and their associated entities as at Completion, being in aggregate as at the date of this Deed 168,531,831 ordinary shares in CNX; the rights of the Deed Companies in respect of which <u>any patent or patent application, including:</u></p> <ul style="list-style-type: none"> PRCM Nominees Pty Limited (in its capacity as trustee of the Pacific Road CE Trust), is the registered and legal owner of 32,642,892 of those shares; PRCM, is the registered and legal owner of 4,166,666 of those shares <p><u>1 Australian patent 2013280776 in the name of Carbon Energy Limited;</u></p>



Term	Meaning
	<p>2 Australian patent 2013280775 in the name of Caron Energy Limited;</p> <p>3 Australian patent application 2016244343 in the name of Carbon Energy Limited; and</p> <p>4 • Pacific Road Holdings Sarl, is the registered and legal owner of 131,722,273 of these sharesAustralian patent application 2016244342 in the name of Carbon Energy Limited.</p>
PPSA	the <i>Personal Property Securities Act 2009</i> (Cth).
PRCM	Pacific Road Capital Management Pty Limited.
Regulations	the <i>Corporations Regulations 2001</i> (Cth).
Related Body Corporate	has the meaning that 'related body corporate' has in the Corporations Act.
Remuneration	<p>the remuneration payable to the Administrators and Deed Administrators for acting as:</p> <ol style="list-style-type: none">1 the Administrators of the Deed Companies under Part 5.3A of the Corporations Act; and2 the Deed Administrators of the Deed Companies under this Deed.
Section 439C Resolution	the resolution referred to in recital 2.
Secured Creditor	<ol style="list-style-type: none">1 each Pacific Road Entity which has a legal or beneficial interest in the Pacific Road Debt or Pacific Road Security; and2 any Creditor with the benefit of a Security Interest at the Commencement Date over all or any property of a Deed Company securing all or any part of the Creditor's Claim.
Security Documents	the security documents (including any security trust deed, tripartite agreements or other related documents) required by the Convertible Note Facility Agreement.
Security Interest	any mortgage, chattel mortgage, pledge, charge, agreement, encumbrance, lien, right of set-off (arising otherwise than by



Term	Meaning
	operation of law or as a result of a banker's right to combine accounts) and assignment which provides for and secures the payment of any debt or monetary liability or the performance of any obligation and any 'security interest' as defined in sections 12(1) or (2) of the PPSA, each in respect of a Deed Company.
Share Rights	any option or performance right which confers on the holder thereof the rights to be issued shares in CNX whether or not in consideration of the payment of any subscription price for those shares.
Shareholder Approvals	has the meaning given to it in clause 4.1(c).
Subordinate Claim	a Claim that meets the criteria of a "subordinate claim" as that term is defined by section 563A(2) of the Corporations Act.
Subordinate Creditor	a Creditor that has a Subordinate Claim.
Subsidiary	has the meaning that 'subsidiary' has in the Corporations Act.
Terminated Employee	any employee of a Deed Company who has resigned from his or her employment or whose employment with that Deed Company has been terminated either prior to the Commencement Date or prior to Completion and any person who made an advance of money to a Deed Company to which s 560 of the Corporations Act would apply if that company were taken to be in liquidation on the Appointment Date.
Termination Date	the date upon which the Deed is terminated pursuant to clause 17 of this Deed.
Trust	the Creditors' Trust to be established under the Trust Deed.
Trust Creditor	each Creditor who has a Claim other than a Claim in respect of an Excluded Superannuation Debt, but excluding any Creditor that is prohibited from making a claim against the Trust Fund under clause 7.7(b).



Term	Meaning
Trust Deed	the trust deed to be entered into between the Deed Companies, and the Trustees substantially in the form of that contained in Schedule 3 <u>2</u> , which creates the Trust.
Trust Fund	has the same meaning as under the Trust Deed.
Trustees	Tim Michael and Will Colwell as trustees of the CNX Creditors' Trust established under the Trust Deed.

1.2 Interpretation

In the Deed, unless the subject or context otherwise requires:

- (a) headings and bold type are for convenience only and do not affect the interpretation of this Deed;
- (b) the singular includes the plural and the plural includes the singular;
- (c) words of any gender include all genders;
- (d) other parts of speech and grammatical forms of a word or phrase defined in this Deed have a corresponding meaning;
- (e) a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and any government agency as well as an individual;
- (f) a reference to a clause, party, part, schedule, attachment or exhibit is a reference to a clause or part of, and a party, schedule, attachment or exhibit to, this Deed;
- (g) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them;
- (h) a reference to a document (including this Deed) includes all amendments or supplements to, or replacements or novations of, that document;
- (i) a reference to '\$', 'A\$' or 'dollar' is to Australian currency unless denominated otherwise;
- (j) a reference to any time is, unless otherwise indicated, a reference to that time in Sydney;
- (k) a term defined in or for the purposes of the Corporations Act has the same meaning when used in this Deed;



- (l) a reference to a party to a document includes that party's successors and permitted assignees;
- (m) no provision of this Deed will be construed adversely to a party because that party was responsible for the preparation of this Deed or that provision;
- (n) any agreement, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) binds them jointly and severally;
- (o) any agreement, representation, warranty or indemnity in favour of two or more parties (including where two or more persons are included in the same defined term) is for the benefit of them jointly and severally; and
- (p) a reference to a body, other than a party to this Deed (including an institute, association or authority), whether statutory or not:
 - (1) which ceases to exist; or
 - (2) whose powers or functions are transferred to another body,is a reference to the body which replaces it or which substantially succeeds to its powers or functions.

1.3 **Inconsistency with Act or Regulations**

If there is any inconsistency between the provisions of this Deed and the Corporations Act or Regulations, this Deed prevails to the extent permitted by law.

1.4 **Other inconsistencies**

If there is any inconsistency between the provisions of this Deed and the constitution of the Deed Companies and any other obligation binding on the Deed Companies, the provisions of this Deed prevail to the extent of the inconsistency, and all persons bound by this Deed agree to sign all documents and do all things necessary to remove such inconsistency, the costs of which will be borne by the Deed Companies.

1.5 **Business Days**

Except where otherwise expressly provided, if the day on or by which any act, matter or thing is to be done as required by this Deed is a day other than a Business Day, that act, matter or thing must be done on or by the next Business Day.

1.6 **Bar to Claims**

This Deed may be pleaded and tendered by:

- (a) the Deed Companies against any person having or asserting a Claim released, discharged and extinguished by clause 7.4; and
- (b) the recipient of any release or covenant contained in this Deed, as an absolute bar and defence to any legal proceeding brought or made at any time in respect of a claim, release or covenant as the case may be.



1.7 **Exclusion of Prescribed Provisions**

Except as provided in clause 13.1, the prescribed provisions contained in Schedule 8A of the Regulations do not apply to this Deed.

1.8 **Required Provisions**

To the extent that the Corporations Act requires any provision to be included in this Deed which is not expressly included in this Deed, such provision will be deemed to be included in this Deed.

1.9 **Interpretation of inclusive expressions**

Specifying anything in this Deed after the words 'include' or 'for example' or similar expressions does not limit what else is included.

2 **Operation**

2.1 **Commencement Date**

Subject to clause 3(a), this Deed will commence and take effect on the Commencement Date.

2.2 **Interim Effect**

To the extent that a person would be bound by this Deed if it had already been executed, the person must not, at any time after the Section 439C Resolution is passed but before this Deed is executed, do anything inconsistent with the terms of this Deed, except with the leave of the Court.

3 **Conditions to commencement of Deed**

(a) This Deed, other than clause 2.2, is subject to and conditional upon the execution of this Deed by each person named as a party to it.

(b) If as a result of clause 3(a), this Deed has not come into full force and effect on or prior to the expiration of 15 Business Days (or such further period as the Court allows) after the Section 439C Resolution is passed, then this Deed will terminate automatically.



4 Conditions Precedent to Completion

4.1 Conditions Precedent

The operation of clause 11 is conditional upon all of the following ~~events taking place~~:

- (a) each Pacific Road Entity, with respect to its interest in the Pacific Road Debt, voting or procuring that its interest is voted in favour of this Deed at the meetings of Creditors convened by the Administrators under s 439A of the Corporations Act;
- (b) ~~all~~ necessary regulatory approvals, waivers and exemptions required in connection with the transactions contemplated by this Deed (including the ASX agreeing to lift the suspension and restore CNX's ASX listing if the DOCA is completed in accordance with its terms);
- (c) all necessary shareholder approvals (including, to the extent required, under s208(1)(a), s254H and item 7 of s611 of the Corporations Act and under ASX Listing Rules 7.1, 10.1 and 10.11) required in connection with the Convertible Note Facility (including for the conversion of the Convertible Notes into CNX shares), the issue of the New Shares and a share consolidation (if, and on the terms, required by the Deed Proponent) (the **Shareholder Approvals**);
- (d) execution of the Trust Deed;
- (e)
- (f) ~~the employment or other contracts of the Key Employees and Key Contractors continuing on terms satisfactory to the Deed Proponent (acting reasonably);~~
[clause not used]
- (g) there being no loss, termination or expiry of the Deed Companies' ~~Intellectual Property~~ Patent Rights or rights to exploit and commercialise the Keyseam Technology ~~prior to under the COSFLOW Licence Agreement and no event has occurred or subsists which causes to exist a right of termination in respect of the COSFLOW Licence Agreement immediately following~~ Completion;
- (h) ~~the Deed Proponent being satisfied that no right of termination in respect of the Keyseam Technology or related Intellectual Property Rights will exist immediately following Completion; [clause not used];~~
- (i) the Keyseam Technology and the ~~Deed Companies' related Intellectual Property~~ Patent Rights being free from Encumbrances (except for any Encumbrances to be released on Completion);
- (j) there being no material change in circumstances outside the reasonable control of the Deed Proponent or the Deed Companies after 13 February 2017 which results in an increase of 50% or more to the estimated rehabilitation costs for the Bloodwood Creek Site provided for in the 2016 CNX Annual Report; and
- (k) between the Amendment Date and Completion, the Commitment Deed has not been terminated in accordance with its terms.

4.2 **Obligation to satisfy Conditions Precedent**

To the extent that it is within their control, each party must use reasonable endeavours to ensure that the Conditions Precedent are satisfied, provided that nothing in this Deed will prevent the Deed Proponent from exercising any right under the Commitment Deed.

4.3 **Consequence of non-satisfaction of the Conditions Precedent**

If each of the Conditions Precedent are not satisfied or waived by the Deed Proponent on or before 30 September 2017 (or such later date as may be agreed in writing by the Deed Proponent and the Deed Administrators) (**End Date**), the Deed Proponent will cease to be bound by this Deed and the Deed Administrators will convene a meeting of creditors under clause 16(a) to determine the future of the Deed Companies.

5 **Control of the Deed Companies and the Trust Fund**

5.1 **Control of the Deed Companies**

From the Commencement Date:

- (a) control and stewardship of each Deed Company will revert to its Directors;
- (b) the Directors may exercise all of their powers as directors, including their powers of management and the power to conduct the business of each Deed Company, as applicable; and
- (c) the role of the Deed Administrators is to:
 - (1) monitor and enforce compliance with the terms of this Deed;
 - (2) exercise their powers as Deed Administrators to the extent necessary and desirable to give effect to this Deed.

5.2 **Obligations of the Directors**

During the Deed Period, the Directors must:

- (a) co-operate with and assist the Deed Administrators in discharging their obligations arising in relation to the Administration Period;
- (b) co-operate with and assist the Deed Administrators in the performance by the Deed Administrators of their obligations under this Deed; and
- (c) to the extent that it is within their power to do so, take all steps necessary and desirable to ensure that the Deed Companies perform their obligations pursuant to the Deed.



6 Effect of this Deed on Members

Until this Deed terminates, any Member of the Deed Companies and any Creditor holding any Encumbrance over any shares must not deal with shares or exercise shareholder rights that are contrary to the terms of this Deed.

7 Moratorium and Release

7.1 Binding Effect

The Deed binds:

- (a) in accordance with section 444D of the Corporations Act, all Creditors; and
- (b) in accordance with section 444G of the Corporations Act, the Deed Companies, their Officers and Members and the Deed Administrators.

7.2 No Limitation

Nothing in the Deed limits the rights in law or equity of the Deed Administrators:

- (a) to make an application under section 444F of the Corporations Act; or
- (b) to apply for orders or directions pursuant to the Corporations Act (including, without limitation, section 447A(1) or section 447D of the Corporations Act).

7.3 Moratorium

Upon and following the execution of the Deed no Creditor may, in relation to that Creditor's Claim:

- (a) make or proceed with an application for an order to wind up a Deed Company;
- (b) institute, revive or continue any action, suit, arbitration, mediation or proceeding against a Deed Companies or in relation to the property of a Deed Company;
- (c) institute, revive or continue with any Enforcement Process against the property of a Deed Company;
- (d) take any action whatsoever to seek to recover any part of its Claim;
- (e) exercise any right of set off or defence, cross claim or cross action to which that Creditor would not have been entitled had the Deed Companies been wound up on the Appointment Date;



- (f) commence or take any further step in any arbitration against the Deed Companies or to which the Deed Companies are a party in relation to any matter arising or occurring before the Appointment Date;
- (g) subject to clause 8, in the case of a Secured Creditor, enforce its Security Interest or take possession, sell or otherwise recover property subject to its Security Interest; or
- (h) otherwise enforce any right it may have or acquire.

7.4 Release of Claims

Subject to clause 7.7, each Creditor agrees that upon Completion, its Claims are extinguished and released.

7.5 Execution of all necessary documents

Each Creditor must, if required by the Deed Companies or the Deed Administrators, execute any document that the Deed Companies or a Deed Administrator may require from time to time to give effect to the releases in clause 7.4.

7.6 Bar to Claims

Subject to section 444D of the Corporations Act, this Deed may be pleaded by the Deed Companies or the Deed Administrators against any person having a Claim against the Deed Companies as an absolute bar and defence to any legal proceeding brought at any time in respect of that Claim.

7.7 Conversion of Claims

- (a) Subject to clause 7.7(b), the Deed Administrators and the Creditors agree that, upon all Claims being released pursuant to clause 7.4, each Creditor who had a Claim, will be entitled to make a claim against the Trust Fund, in accordance with the Trust Deed, which is equal in amount to their released Claim.
- (b) The following Creditors will not be entitled to make a claim against the Trust Fund:
 - (1) Excluded Creditors;
 - (2) the Pacific Road Entities and PRCM; and
 - (3) the Deed Proponent and its Related Bodies Corporate.

7.8 Priority of Claims

The proceeds of the Trust Fund will be applied in the order of priority set out in the Trust Deed.



8 Secured Creditors

- (a) Nothing in this Deed will restrict the right of a Secured Creditor to realise or otherwise deal with its Security Interest to the extent permitted by section ~~444D(2) of the Corporations Act.~~

- (b) Subject to clause 8(c), if a Secured Creditor votes in favour of the Section 439C Resolution:
 - (1) it will be subject to the restrictions in clause 7.3 and must not do anything, or permit, procure or facilitate any security trustee for that Secured Creditor to do anything, inconsistent with the restrictions in clause 7.3; and
 - (2) its Claim against the Deed Companies will be extinguished and released pursuant to clause 7.4 and (except in the case of Creditors referred to in clause 7.7(b)) converted, pursuant to clause 7.7, into an entitlement to claim against the Trust Fund.
- (c) The restrictions in clause 7.3 will cease to apply to a Secured Creditor who votes in favour of the Section 439C Resolution on the earliest to occur of the following:
 - (1) the conditions in clause 4.1 are not satisfied or waived on or before the End Date; and
 - (2) the termination of this Deed for any reason prior to Completion.

9 Insured Claims

9.1 Rights of Creditors who have Claims covered by insurance

If insurance is held by or on behalf of a Deed Company in respect of an Insured Claim:

- (a) the Creditor may, in relation to its Insured Claim and notwithstanding that Completion has occurred, take action to recover the amount due in respect of the Claim against the Deed Company, but such action must not exceed what is necessary to obtain payment from the insurer;
- (b) to the extent that the Creditor is able, by settlement, arbitral award or judgment, to obtain payment from the insurer on account of the Claim, the Creditor may do so;
- (c) no Deed Company is required to provide assistance to a Creditor in relation to a Claim under this clause or take any action in response to enforcement action taken by a Creditor in accordance with this clause; and



- (d) where a Creditor intends to take enforcement action in relation to a Claim under this clause:
- (1) the Creditor must, prior to taking any enforcement action in relation to the Claim, provide the Deed Company with an indemnity in the form of Schedule 43 (**Creditor Indemnity**) prior to, or during, any enforcement action in relation to the Claim;
 - (2) if requested by a Deed Company, provide that Deed Company with evidence, to the reasonable satisfaction of the Deed Company, that the Creditor will be (and will continue to be) in a financial position, or have access to sufficient funds, to enable it to satisfy the Creditor Indemnity; and
 - (3) a Deed Company may plead this Deed as a bar to any enforcement action taken by a Creditor in relation to the Claim in circumstances where the Creditor has not, prior to commencing that enforcement action, given the Creditor Indemnity referred to in clause 9.1(d)(1) to the Deed Company.

9.2 Release of Insured Claims where payment not obtained from insurer

To the extent that the Creditor is unable to seek or obtain payment on account of its Insured Claim from the insurer (including, without limitation, by reason of any excess or deductible applicable to the insurance policy, or failure by a Deed Company to take action) this Deed operates as a complete release and bar to that part of the Creditor's claim which has not been met by the insurer.

10 Owners of Property in the possession of a Deed Company

- (a) Nothing in this Deed will restrict a right that an Owner who does not vote in favour of the Section 439C Resolution has in relation to the property of that Owner under section 444D(3) of the Corporations Act.
-
- (b) An Owner of property in the possession of a Deed Company who is an Excluded Creditor in relation to the lease or other agreement affecting the relevant property and who votes in favour of the Section 439C Resolution waives any event of default or breach by the relevant Deed Company of any agreement to which that Deed Company and the Owner is a party which occurred on or prior to the Commencement Date or which may occur during the DOCA Period, insofar as the Owner would be entitled to terminate the agreement or take possession of or otherwise recover the property the subject of the agreement.



11 Completion

11.1 Completion Date

Completion will occur on the Business Day after the ~~satisfaction or waiver of~~ first date on which all Conditions Precedent are satisfied or waived or such other date as may be agreed in writing by the Deed Administrators and the Deed Proponent.

11.2 Completion Steps

On the Completion Date, each party must take the steps specified in clauses 11.3 to 11.7 (**Completion Steps**).

11.3 Payments by Deed Proponent

- (a) In consideration of the issue of the New Shares ~~and the transfer of the Pacific Road Shares~~ to the Deed Proponent, the Deed Proponent must pay or procure the payment of the Capital Contribution to be applied as follows:
 - (1) to the Deed Administrators, their Approved Remuneration and Costs; and
 - (2) to the Trustees, the Fund Amount; and
 - (3) to CNX, the balance of the Capital Contribution.
- (b) The Deed Administrators must hold the Fund Amount in their capacity as Trustees for the Trust Creditors on the terms of the Trust Deed.

11.4 Issuance, ~~transfer~~ of shares

- (a) CNX must issue the New Shares to the Deed Proponent (or its nominee) and must update its register of members to reflect this.
- ~~(b) The Deed Administrators must transfer the Pacific Road Shares, free from Encumbrances, to the Deed Proponent (or its nominee) pursuant to section 444GA of the Corporations Act in accordance with the consent of the holders of the Pacific Road Shares provided in the Commitment Deed and CNX must update its register of members to reflect this.~~
- (b) ~~(c)~~ The Deed Proponent (or its nominee) as applicable must deliver an executed counterpart of the Escrow Deed to CNX.

11.5 Issue of Convertible Notes and granting of New Security

- (a) CNX and each Guarantor must execute and deliver its counterparts of the Convertible Note Facility Agreement, the Convertible Note Deed Poll and the



Security Documents to the Deed Proponent and satisfy any drawdown conditions under the Convertible Note Facility Agreement that have not been satisfied prior to Completion.

- (b) The Deed Proponent (or its nominee) must execute and deliver its counterparts of the Convertible Note Facility Agreement and the Security Documents to CNX.
- (c) The Deed Proponent (or its nominee) must pay the Convertible Note Subscription Amount to CNX.
- (d) CNX must apply the Convertible Note Subscription Amount to the subscription by the Deed Proponent (or its nominee) for the Convertible Notes and CNX must issue the Convertible Notes and shall use the Convertible Note Subscription Amount as follows:
 - (1) subject to the deduction of the Costs Contribution Amount and the Pacific Road Loan Amount (which will be drawn down under the Pacific Road Loan Agreement by CNX withholding such amount at the direction of the Pacific Road Entities), by paying the Pacific Road Repayment Amount to the relevant Pacific Road Entities in Immediately Available Funds, in consideration of the release and discharge of the Pacific Road Debt, the Pacific Road Security and the Pacific Road PPSR Registrations;
 - (2) by paying the Interim Funding Amount to the Deed Proponent (or its nominee) in repayment of the funds advanced by the Deed Proponent (or its nominee) to CNX under the Interim Facility and reimbursement of the Administrators Indemnity Amount;
 - (3) by retaining any balance remaining of the Convertible Note Facility Amount for its general corporate purposes.

11.6 Direction by Deed Proponent

The Deed Proponent directs CNX to retain the Costs Contribution Amount payable to it by the Pacific Road Entities in partial satisfaction of the Capital Contribution.

11.7 Release of Security Interests

- (a) Immediately following the occurrence of each of the Completion Steps in clauses 11.3 to 11.6,
 - (1) the Pacific Road Security; and
 - (2) each other Security Interest held by a Secured Creditor who votes in favour of the Section 439C Resolution,will be immediately and automatically released without any further action of any person (except, in the case of a Security Interest referred to in clause 11.7(a)(2), to the extent that the Security Interest secures an Excluded Claim of that Secured Creditor).



- (b) The Deed Administrators must deliver to the Deed Proponent executed deed polls of release of each Pacific Road Security.

11.8 **Completion Steps are interdependent**

- (a) The Completion Steps are interdependent and must (unless the Deed Administrators and the Deed Proponent agree otherwise) take place, as nearly as possible, simultaneously.
- (b) If any of the Completion Steps is not completed, each party must take such actions and steps as are necessary to put each of the parties in the same position as if none of the Completion Steps had occurred and the release in clause 11.7 not effected.

11.9 **Trust Creditors' Available Assets**

The only property that is available to pay the Trust Creditors' Claims is the assets of the Trust Fund comprising:

- (a) the Fund Amount; and
- (b) such interest as may be earned in relation to the Trust Fund.

11.10 **Removal of PPSA Registrations**

Each holder of a Security Interest which is released by clause 11.7 must, as soon as reasonably practicable and in any event within 10 Business Days after Completion, remove or procure the removal of all PPSA registrations in favour of that party or any security trustee on behalf of that Secured Creditor for the relevant Security Interest including, in respect of the Pacific Road Debt, the Pacific Road Security and the Pacific Road PPSR Registrations.

11.11 **Consistency with the Corporations Act**

- (a) For the purposes of section 444DA of the Corporations Act, any Claims of any Terminated Employee will retain a priority:
 - (1) until Completion, in respect of the assets of the Deed Companies under the Deed Administrators' control; and
 - (2) after Completion, in respect of the assets of the Trust Fund at least equal to that they would have been entitled to if the property of the Deed Companies had been applied in accordance with sections 556, 560 and 561 of the Corporations Act.
- (b) For the purposes of section 444DB of the Corporations Act, the Deed Administrators (in their capacity as Trustees) must determine that a debt (or part thereof) by way of superannuation contribution (**Superannuation Debt**) is not admissible to proof as a Claim or a claim against the Trust Fund if:



- (1) that debt (or that part of the debt) by way of superannuation guarantee charge:
 - (A) has been paid; or
 - (B) is, or is to be admissible against the Deed Companies; and
- (2) the Deed Administrators are satisfied that the superannuation guarantee charge is attributable to the Superannuation Debt.
- (c) If the Deed Administrators make a determination in accordance with clause 11.11(b), the Superannuation Debt is to be treated as extinguished as against the Deed Companies.

12 Deed Administrators' Appointment

12.1 Appointment

The Deed Administrators are appointed joint and several administrators of the Deed.

12.2 Acceptance of Appointment

The Deed Administrators:

- (a) accept the appointment as administrators of the Deed; and
- (b) agree to act as administrators of the Deed during the Deed Period or until the Deed Administrators retire or are removed from office in accordance with the Deed or the Corporations Act.

12.3 Deed Administrators are agents

In exercising the powers conferred by the Deed and carrying out the duties arising under the Deed, the Deed Administrators will act as agent for and on behalf of the Deed Companies.

12.4 Joint and several

The rights, powers and privileges of the Deed Administrators may be exercised by them jointly and severally.

12.5 Deed Administrators' resignation

Any Deed Administrator may resign at any time by giving not less than 28 days' prior written notice to the Deed Companies unless that resignation would result in there being no remaining Deed Administrator in which event the Deed Administrator must:

- (a) convene meetings of Creditors of each of the Deed Companies in accordance with clause 16(a) for the purpose of nominating a replacement deed administrator;

- (b) assign to a replacement deed administrator nominated by the Creditors the Deed Administrators' rights, title and benefit under this Deed; and
- (c) do all things reasonably necessary to effect the assignment referred to in clause 12.5(b).

13 Powers of the Deed Administrators

13.1 General Powers

Subject to clause 5.1, the Deed Administrators are entitled to exercise all the powers set out in paragraph 2 of Schedule 8A of the Corporations Act, during the Deed Period.

13.2 Solicitors and Consultants

The Deed Administrators may engage solicitors and consultants, and the Deed Companies will pay all costs of any solicitors and consultants engaged by the Deed Administrators.

13.3 No Personal Liability

During the Deed Period, the Deed Administrators are acting as the agent of the Deed Companies and are not personally liable for any acts, matters or omissions relating to things done or not done in that capacity, including (without limitation) any liability relating to any amounts payable by the Deed Administrators for services rendered, goods bought or property hired, leased, used or occupied by or on behalf of the Deed Companies.

14 Reporting

Except as required by law, the Deed Administrators are not required to report to Creditors. However, the Deed Administrators may, in their absolute discretion, report to Creditors during the Deed Period at such times as the Deed Administrators consider appropriate and on matters which the Deed Administrators consider ought to be brought to the attention of the Creditors.

15 Deed Administrators' remuneration and indemnity

15.1 Remuneration

- (a) The Deed Administrators are entitled to their Remuneration and their Costs on the basis of the time spent by the Deed Administrators, their partners and staff in the performance of services in connection with or in relation to the administration of the Deed Companies under Part 5.3A of the Corporations Act



and this Deed and such time will be charged at the Deed Administrators' standard rates, from time to time, for work of that nature.

- (b) The Deed Administrators acknowledge that their Remuneration and Costs will be paid by the Deed Companies and will not be payable from the Trust Fund.

15.2 Indemnity

The Deed Administrators and Administrators (whether or not they are still acting in either capacity) are entitled to be indemnified by the Deed Companies from the assets of the Deed Companies, for:

- (a) all debts, liabilities, actions, suits, proceedings, accounts, claims, damages, awards and judgments whatsoever arising out of or in any way connected to the administration of the Deed Companies or their role as Administrators and incurred or sustained in good faith and without negligence;
- (b) any amount which the Administrators are entitled to be indemnified out of the assets of the Deed Companies for, in accordance with the Corporations Act, at law or in equity, including any amounts payable pursuant to section 443A, section 443B or section 443BA of the Corporations Act;
- (c) any debts, liabilities, damages, losses and remuneration to which the statutory indemnity under section 443D of the Corporations Act applies;
- (d) any amount for which the Deed Administrators are entitled to exercise a lien at law or in equity on the property of the Deed Companies;
- (e) the Deed Administrators' Remuneration and Costs; and
- (f) all debts, liabilities, actions, suits, proceedings, accounts, claims, damages, awards and judgments arising out of or in the course of the Deed and incurred or sustained in good faith and without negligence.

15.3 Continuing Indemnity

The indemnity in the Deed is a continuing indemnity and will endure for the benefit of the Legal Personal Representatives despite the removal of the Deed Administrators and the appointment of new Deed Administrators or the termination of the Deed for any reason whatsoever.

15.4 Indemnity not to be affected or prejudiced

The indemnity under clauses 15.2 and 15.3 will not:

- (a) be affected, limited or prejudiced in any way by any irregularity, defect or invalidity in the appointment of the Deed Administrators and extends to cover any actions, suits, proceedings, accounts, liabilities, claims and demands arising in any way out of any defect in the appointment of the Deed Administrators or defect in the approval or execution of the Deed or otherwise; or
- (b) affect or prejudice any rights that the Deed Administrators may have against the Deed Companies or any other person to be indemnified against the Costs, and

liabilities incurred by the Deed Administrators in the performance of, or incidental to, any of the powers or authorities conferred on the Deed Administrators by the Deed or otherwise.

16 Application of the Corporations Act and Regulations to Creditors' Meetings

-
- (a) The Deed Administrators may convene a meeting or meetings of Creditors at any time in accordance with section 445F of the Corporations Act, and must convene such a meeting or meetings when required to do so under section 445F(1)(b) of the Corporations Act.
 - (b) Regulations 5.6.11A to 5.6.36A of the Regulations apply with such modifications as are necessary, to meetings of Creditors held under this Deed as if the references to 'the liquidator', 'the liquidator or provisional liquidator', 'the liquidator, provisional liquidator or chairman' or 'the liquidator, provisional liquidator or trustee for debenture holders', as the case may be, were references to the Deed Administrators.

17 Termination of the Deed

17.1 Termination on effectuation of Deed

The Deed will terminate immediately after Completion.

17.2 Termination on failure of Deed

This Deed automatically terminates in respect of the Deed Companies upon the happening of any one of the following events:

- (a) the court makes an order terminating this Deed under section 445D of the Corporations Act;
- (b) this Deed is varied by a resolution of creditors under section 445A and the terms of the proposed resolution have not been approved in writing by the Deed Proponent; or
- (c) the Creditors of the Deed Companies pass a resolution terminating this Deed in accordance with sections 445C(b) and 445CA of the Corporations Act.

17.3 Notice of Effectuation of Deed

Upon termination in accordance with the provisions of clause 17.1, the Deed Administrators or one of them must immediately certify, in writing that the terms of this Deed have been fulfilled and, within 1 Business Day, must lodge with ASIC a notice substantially in the following form in respect of each of the Deed Companies:



'We, **[name of administrators]** of **[address]** as administrators of the deed of company arrangement executed on **[date]**, CERTIFY that the deed has been wholly effectuated in respect to **[insert relevant Deed Company]**.'

and the execution of each of the notices (in respect of each Deed Company) terminates, in respect of that Deed Company, this Deed and all Claims of Creditors of the Deed Companies will be extinguished, discharged and released if not extinguished or released earlier under the Deed.

17.4 **Effect of Termination**

In accordance with section 445H of the Corporations Act, the termination or avoidance, in whole or in part, of this Deed does not affect the previous operation of this Deed.

17.5 **Consequences of Termination of the Deed for non-performance**

Upon termination of the Deed under clause 17.2:

- (a) the Deed Companies will be taken to have passed special resolutions under section 491 of the Corporations Act that each of the Deed Companies (respectively) be voluntarily wound up and that the Deed Administrators be the Deed Companies' liquidators;
- (b) Regulation 5.3A.07 of the Regulations will apply; and
- (c) the Deed Companies will be wound up.

17.6 **Survival of clauses**

Despite any other provision of this Deed, clauses 1, 4.3, 7, 8, 9, 11.10, 15, 17, 18 and 19 survive the termination of this Deed under clause 17.1 or 17.2.

18 **General**

18.1 **Variation**

Subject to the provisions of the Corporations Act, a variation of any term of this Deed must be in writing and signed by all parties to this Deed.

18.2 **Assignment**

Rights arising out of or under this Deed are not assignable by a party without the prior written consent of the other parties.

18.3 **Further Assurances**

Each party and each person bound by this deed must, at its own expense, do all things and execute all documents necessary to give full effect to this Deed and the transactions contemplated by it.



18.4 **Governing Law**

This deed is governed by the law in force in the State of Queensland.

18.5 **Waiver**

No party to this Deed may rely on the words or conduct of any other party as a waiver of any right unless the waiver is in writing and signed by the party granting the waiver.

The meanings of the terms used in this clause 18.5 are set out below.

Term	Meaning
conduct	includes delay in the exercise of a right.
right	any right arising under or in connection with this Deed and includes the right to rely on this clause.
waiver	includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

18.6 **Counterparts**

- (a) This Deed may be executed in any number of counterparts.
- (b) All counterparts, taken together, constitute one instrument.
- (c) A party may execute this Deed by signing any counterpart.
- (d) Counterparts may be exchanged by email or other electronic means.

19 **Notices**

19.1 **Form of notice**

A notice or document required to be given to or served upon any party pursuant to or in connection with the Deed must be:

- (a) in writing and in English and signed by or on behalf of the sending party by a director, secretary or other duly authorised person thereof; and
- (b) addressed to that party in accordance with the details nominated on page 1 of this document (or any alternative details nominated to the sending party by notice).



19.2 How notice must be given and when notice is received

- (a) Any notice or document must be given by one of the methods set out in the table below.
- (b) A notice or document is regarded as given and received at the time set out in the table below.

However, if this means the notice or document would be regarded as given and received outside the period between 9.00am and 5.00pm (addressee's time) on a Business Day (**business hours period**), then the notice or document will instead be regarded as given and received at the start of the following business hours period.

Method of giving Notice	When Notice is regarded as given and received
By hand to the nominated address	When delivered to the nominated address
By pre-paid post	When it would have been delivered in the ordinary course of post
By email to the nominated email address (set out in the details for each party to this Deed)	When the email (including any attachment) has been sent to the addressee's email address (unless the sender receives a delivery failure notification indicating that the email has not been addressed to the addressee)

19.3 Notice must not be given by electronic communication

A notice or document must not be given by electronic means of communication (other than email in accordance with clause 19.2).



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Schedule 1

Excluded Contracts

- (a) Sino-Foreign Contractual Joint Venture Contract dated 25 September 2015 between Beijing Jinhong Investment Co., Ltd. and CEO

- (b) Technical Services Agreement between Beijing Jinhong New Energy Co., Ltd and CEO in respect of the Keyseam technology
- (c) License Agreement (undated) between CEO as licensor and Beijing Jinhong New Energy Co., Ltd as licensee in respect of the Keyseam technology
- (d) Any other agreement, arrangement or understanding between, on the one hand, Beijing Jinhong New Energy Co., Ltd or any of its Related Bodies Corporate and, on the other hand, a Deed Company, relating to the joint venture which is the subject of the contract referred to in paragraph (a)
- (e) Technology Assignment and Licence Agreement dated 10 July 2006 between CEO (formerly Coal Gas Corporation Pty Limited) and Commonwealth Scientific and Industrial Research Organisation
- (f) Head lease of premises constituting part of the 9th floor of the building located at 301 Coronation Drive, Milton (**Head Office Premises**) between HA Bachrach (Nom) Pty Limited as lessor and CEO as lessee
- (g) Sublease in respect of Head Office Premises between CEO as sub-lessor and Admedus Ltd as sub-lessee
- (h) Agreement for the Provision of Consulting Services between Promech Pty Ltd & CEO dated 2 July 2015
- (i) Agreement for the Provision of Services between Anne Ernst and CEO dated 21 January 2015
- (j) Agreement for the Provision of Services between Xtrac Tech Pty Ltd and CEO dated 4 July 2016



Schedule 2

Key Employees and Key Contractors

(a) **Key Employees**

Cliff Mallett

Jianmin Zhang

(b) **Key Contractors**

Promech Pty Ltd Schedule 32

Trust Deed

[\[Note: Trust Deed not amended.\]](#)



Schedule **43**

Creditor Indemnity

To: (Company)

INDEMNITY IN RELATION TO INSURANCE CLAIM

I/We **[insert creditor name]** refer to the deed of company arrangement in respect of the Company (**DOCA**) dated **[insert date]**.

I/We wish to take legal proceedings to enforce a Claim under clause 9 of the DOCA (**Insurance Claim**) against the Company. The Insured Claim is **[insert full description]**.

I/We irrevocably and unconditionally indemnify the Company against any costs, expenses, judgments (including but not limited to any judgment or order obtained by me/us against the Company, or any amounts required to be paid by the Company in connection with any judgment or order), suits or actions incurred directly or indirectly as a consequence of commencing legal proceedings in relation to the Insured Claim (**Costs**) to the extent that the Company is not indemnified for such costs pursuant to a contract of insurance entered into before 22 November 2016 or such Costs are not otherwise paid by the Company's insurer.

I/We confirm our agreement to be bound by the terms of clause 9 of the DOCA in respect of the Insured Claim.

Dated: **[insert date]**

Executed as a deed poll in favour of **[Deed Company]**.

Signed sealed and delivered for and on behalf of

[Creditor name]

by its duly authorised representative
in the presence of:

Signature of witness

Signature of authorised representative

Name of witness (please print)

Name of authorised representative
(please print)



Schedule 54

Escrow Deed

[Note: Escrow Deed not amended.]



Signing page

Executed as a deed

Deed Administrator

Signed sealed and delivered by

Tim Michael

sign here ► _____

print name _____

in the presence of

sign here ► _____

Witness

print name _____

Deed Administrator

Signed sealed and delivered by

Will Colwell

sign here ► _____

print name _____

in the presence of

sign here ► _____

Witness

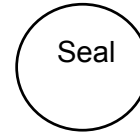
print name _____



HERBERT
SMITH
FREEHILLS

CNX

Signed sealed and delivered for
Carbon Energy Limited
by its joint and several administrator



sign here ► _____
Administrator

print name _____

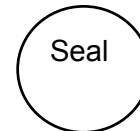
in the presence of

sign here ► _____
Witness

print name _____

CEH

Signed sealed and delivered for
Carbon Energy (Holdings) Pty Ltd
by its joint and several administrator



sign here ► _____
Administrator

print name _____

in the presence of

sign here ► _____
Witness

print name _____



HERBERT
SMITH
FREEHILLS

CEO

Signed sealed and delivered for
Carbon Energy (Operations) Pty Ltd
by its joint and several administrator

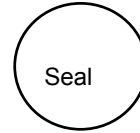
sign here ► _____
Administrator

print name _____

in the presence of

sign here ► _____
Witness

print name _____



Deed Proponent

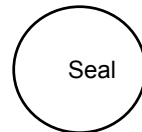
Signed, sealed and delivered and executed as a deed by **Kam
Lung Investment Development Company Limited** by

Sole Director

Witness

Print full name of Sole Director

Print full name of Witness



EXPLANATORY **MEMORANDUM**

SCHEDULE 6 – SUMMARY OF FACILITY DOCUMENTS

EXPLANATORY **MEMORANDUM**

SCHEDULE 6 – SUMMARY OF FACILITY DOCUMENTS

Facility Agreement

The following is a summary of the key terms of the Facility Agreement.

A reference to Kam Lung includes its successors and permitted assignees.

General description

A facility agreement between the Company, Kam Lung, Carbon Holdings and Carbon Operations (as guarantors) under which Kam Lung agrees to make available to the Company a facility for the subscription at Completion \$8,300,000 (as that amount may be increased by the amount of any costs and expenses which are capitalised by the Company in accordance with the provisions summarised below) in aggregate principal amount of Notes.

Conditions precedent

Kam Lung is not obliged to pay the subscription amount or subscribe for Notes unless the following conditions are satisfied on or by the date that Completion occurs (**Completion Date**):

- (a) an officer's certificate in respect of each of the Company, Carbon Holdings and Carbon Operations (each a **Transaction Party**) and dated no more than 5 business days before the Completion Date;
- (b) originals of each Facility Document, along with any other document or agreement required to be given under the Facility Documents (together, the **Transaction Documents**) which can be executed on or before the Completion Date, duly executed by all parties to them other than Kam Lung and, where applicable:
 - (1) duly stamped or, if not duly stamped, evidence satisfactory to Kam Lung that they will be duly stamped; and
 - (2) in registrable form together with all executed documents necessary to register them or the Security created by them;
- (c) evidence that the Security created under each Security Document (as defined) has been perfected in a manner satisfactory to Kam Lung;
- (d) each title document and chattel paper required to be lodged with Kam Lung under any Transaction Document including share certificates and blank transfers of any Marketable Securities forming part of the property subject to a Security (**Secured Property**);
- (e) results of searches, enquiries and requisitions in respect of each Transaction Party and the secured Property (including evidence of the release and discharge of all security interests in or over the Secured Property of each Transaction Party);
- (f) an opinion from McCullough Robertson in respect of each Transaction Party and the Transaction Documents confirming due authorisation, due execution, enforceability and other customary matters;
- (g) each of the representations and warranties of the Company under the Transaction Agreement being true and correct in all material respects as at Completion;
- (h) Kam Lung being satisfied that all conditions to Completion specified in the DOCA have been satisfied and that upon provision of the subscription amount all steps required under the DOCA to be completed at Completion will have occurred.

Uncommitted cash advance facility

Under the Facility Agreement, Kam Lung may make revolving cash advances available to the Company on a strictly uncommitted basis for general corporate purposes or any other purpose Kam Lung may agree in writing, up to an aggregate limit of \$5,000,000.

If Kam Lung is required to make any payment in its capacity as "Guarantor" under the Pacific Roads Loan Facility, that payment will be a deemed advance under uncommitted cash advance facility agreement.

Under the uncommitted cash advance facility, the Company must select an interest period which is to apply to each advance of 1, 2, 3, 4 or 6 months and may have up to four advances outstanding at any one time. Each advance is repayable at the sooner of the end of the applicable interest period or the maturity date. Prepayments are not permitted unless otherwise agreed.

Events of default

If an event of default occurs Kam Lung may declare all money secured under the Transaction Documents immediately due and payable. An 'event of default' has the meaning given to it in the terms and conditions of the Notes. At any time while an event of default is subsisting Kam Lung may appoint, at the cost of the Company, an investigating account to review and report to Kam Lung on the affairs, financial position and business of the Company.

Representations and warranties

Each Transaction Party represents and warrants to and for the benefit of Kam Lung that:

- (a) it is a corporation duly incorporated or registered (or taken to be registered) and validly existing under the Corporations Act;
- (b) it has the corporate power to own its assets and to carry on its business as it is now being conducted;
- (c) it has power and authority to enter into and perform its obligations under the Transaction Documents to which it is expressed to be a party;
- (d) it has taken all necessary action to authorise the execution, delivery and performance of the Transaction Documents to which it is expressed to be a party;
- (e) the Transaction Documents to which it is expressed to be a party constitute its legal, valid and binding obligations and, subject to any necessary stamping and registration, are enforceable in accordance with their terms subject to laws generally affecting creditors' rights and to principles of equity;
- (f) the execution, delivery and performance by it of the Transaction Documents to which it is expressed to be a party will not breach, or result in a contravention of:
 - (i) any law, regulation or authorisation;
 - (ii) its constitution or other constituent documents; or
 - (iii) any encumbrance or agreement which is binding it, and will not result in:
 - (iv) the creation or imposition of any encumbrance on any of its assets other than as permitted under a Transaction Document; or
 - (v) the acceleration of the date for payment of any obligation under any agreement which is binding on it.
- (g) it is the legal and beneficial owner of its Secured Property subject to any permitted encumbrance (as that term is defined in the conditions to the Notes);
- (h) no other interests:
 - (i) no person holds or has the benefit of an encumbrance or other interest in its Secured Property other than under a permitted encumbrance; and;
 - (ii) there is no agreement, filing or registration that would enable another party to obtain priority over a Security which is inconsistent with the priority contemplated by the security documents, being the General Security Agreement, any encumbrance granted by an additional guarantor and any other Transaction Document under which an encumbrance is created or expressed to be created in favour of Kam Lung (**Security Document**);
- (i) Security:
 - (i) each Security Document creates the encumbrance purported to be created by it over the assets purported to be encumbered by it;
 - (ii) each Security has been, or in the case of property acquired after the date of the Facility Agreement, on its acquisition will be, perfected; and
 - (iii) each Security has the priority it is intended to have.
- (j) except as fully disclosed to Kam Lung in writing, nothing has occurred which constitutes a default;
- (k) there has been no loss, termination or expiry of the Deed Companies' intellectual property rights to exploit and commercialise the Keyseam Technology prior to Completion;
- (l) no right of termination in respect of the Keyseam Technology or related intellectual property rights will exist immediately following Completion;
- (m) the Keyseam Technology and the Deed Companies' related intellectual property rights are free from encumbrances and any other third party interests (except for any encumbrances to be released on Completion); and

- (n) there has been no material change in circumstances outside the reasonable control of Kam Lung or the Deed Companies after 13 February 2017 which results in an increase of 50% or more to the estimated rehabilitation costs for the Bloodwood Creek Site provided for in the 2016 CNX Annual Report.

Undertaking

Each Transaction Party must provide to Kam Lung any information, reports or documentation which Kam Lung reasonably request in relation to it or any of its assets; or any documentation and other evidence requested by Kam Lung which is required to satisfy or comply with the 'know your customer', 'know your client' or 'client vetting' procedures of Kam Lung or any potential assignee or any other person who is considering contracting with Kam Lung in connection with a Transaction Document.

Guarantee and indemnity

The guarantors jointly and severally and unconditionally and irrevocably guarantee to Kam Lung the payment of all debts and monetary liabilities of the Transaction Parties to Kam Lung (or a security trustee for the account of Kam Lung) under or in relation to any Transaction Document and in any capacity, other than such debts and liabilities owing under or in connection with the Notes.

In the event any such debts or monetary liabilities are irrecoverable from any Transaction Party, the guarantors indemnify Kam Lung against any loss suffered in relation to the non payment of that money.

Costs and expenses

The Company must pay all costs and expenses of Kam Lung in relation to:

- (a) the negotiation, preparation, execution, delivery, stamping, registration, completion, variation and discharge of any Transaction Document;
 - (b) the enforcement, protection or waiver of any rights under any Transaction Document;
 - (c) the consent or approval of Kam Lung given under any Transaction Document; and
 - (d) any enquiry by a government agency involving a Transaction Party,
- including:
- (e) any administration costs of Kam Lung in relation to the matters described in paragraphs (c) and (d) above; and
 - (f) any legal costs and expenses and any professional consultant's fees, on a full indemnity basis.

The Company may, by notice to Kam Lung in the funding notice for the Notes, elect to capitalise all or part of any costs and expenses referred to above incurred in the period up to Completion, in which case the Subscription Amount shall be increased by an amount equal to the total amount which the Company elects to capitalise. The parties agree that Kam Lung's obligation to pay the portion of the Subscription Amount referable to that increase may be set off against the Company's obligation to pay those costs and expenses to Kam Lung.

Tax and indemnities

The Company provides customary broad indemnities to Kam Lung in respect of the Transaction Documents and the transactions under them.

Arrangement fee

The Company must pay to Kam Lung a non-refundable arrangement fee equal to \$1 million on the final maturity date.

Confidentiality

The Transaction Documents are subject to customary confidentiality provisions, which include exceptions for disclosure required to be made under an applicable law, regulation or the rules of any recognised stock exchange and the party to whom the information relates has consented in writing (among other things).

Assignment

Kam Lung may assign or novate any of its rights and obligations under a Transaction Document to any person, provided any necessary authorisations are obtained and, in the case of a novation, where the novation is in a form and substance reasonably satisfactory to the Transaction Parties.

Each Transaction Party must not assign or novate any of its rights or obligations under a Transaction Document without Kam Lung's prior written consent.

General Security Agreement

The following is a summary of the key terms of the General Security Agreement.

General description

A general security agreement between the Company, Carbon Holdings and Carbon Operations (together, the **Grantors**) and Kam Lung (as the secured party) for the grant of security in favour of Kam Lung over certain property to secure payment of all debts and monetary liabilities of a Grantor and each other Transaction Party to Kam Lung arising under a Transaction Document.

Secured Property

The Secured Property, in respect of each Grantor, is all of the Grantor's present and after-acquired property (including anything in respect of which the Grantor has at any time sufficient right, interest or power to grant a security interest) including certain mortgaged property.

The mortgaged property, in respect of a Grantor, is all of that Grantor's present and future interest in any shares in Carbon Operations, Carbon Holdings or any other company, corporation, body corporate or other entity registered in the name of a Grantor (other than, subject to certain other conditions, certain other subsidiaries of the Company, which have no substantial assets and are intended to be wound up, and Carbon Energy Chile Limitada), as well as all present and future rights and property interests attaching to or arising out of or otherwise in respect of the holding of an interest in such shares, such as (for example) distributions paid or payable, or the proceeds of, or from the disposal of or other dealing with, any such shares.

Priority

The Security takes priority over all other encumbrances and other interests in the Secured Property at any time other than a permitted encumbrance mandatorily preferred by law or approved by Kam Lung. Permitted encumbrances include every lien created by operation of law (other than under the *Personal Properties Securities Act 2009* (Cth)), every lien or retention of title arrangement securing the unpaid balance of purchase money for property acquired in the ordinary course of business under an instalment contract on the supplier's standard terms where such unpaid balance is not yet due and every lien for the unpaid balance of money owing for repairs where such unpaid balance is not yet due.

Collection of proceeds of debts

A Grantor may collect as agent for Kam Lung for this purpose the proceeds of any debts or other amounts now or in the future payable to the Grantor subject to using those proceeds as permitted under the Transaction Documents.

Controlled account

Kam Lung may require a Grantor to open and maintain a bank account at a bank and branch approved by Kam Lung, under the control of Kam Lung and from which funds may be disposed at Kam Lung's direction. Upon the occurrence of certain control events (which, broadly, involves inventory, a negotiable instrument, money or low value machinery, plant and equipment, ceasing to be a revolving asset), each Grantor must deposit all amounts received in respect of any book debt, insurance policy in relation to its Secured Property, or any other debts or other amounts now or in the future payable, into the controlled account. While a control event is not subsisting, each Grantor may dispose of, part with possession of or allow the creation of security interests over revolving assets.

Authorisations

Each Grantor must ensure that it obtains all authorisations (including relevant shareholder approvals) necessary to permit the grant of the Security in respect of any asset which forms part of the Secured Property of that Grantor before it acquires any rights in that asset.

Discharge

Kam Lung must discharge the Security if all secured moneys are paid in full and each Grantor has fully observed and performed its obligations under each Transaction Document. Kam Lung is not required to discharge the Security while any Grantor owes further secured moneys contingently or otherwise.

Representations and warranties

The General Security Agreement includes representations and warranties given by the Grantors which are customary for an agreement of this nature.

Intellectual property

The General Security Agreement includes certain obligations of each Grantor pertaining the Grantor's intellectual property rights, such as obligations to prevent third parties infringing on, and not abandoning, its intellectual property rights.

Enforcement

If an event of default occurs, Kam Lung may take actions customarily provided to a secured party under an agreement of this nature, including appointing a receiver over the Secured Property. Kam Lung may, at any time that the Security is enforceable, apply any money received in any order it sees fit. The Grantors each appoint Kam Lung as an attorney to do anything required to be done by them under a Transaction Document. The Grantors are not entitled to claim any competition to moneys, including claiming or receiving the benefit of any moneys held by Kam Lung, until the secured moneys have been fully paid and the Security discharged.

The powers conferred on Kam Lung under the General Security Agreement in an event of default include the power to seek a novation of the Cosflow Licence under the Cosflow Agreement Transfer Deed. Kam Lung is only able to exercise its power to novate the Cosflow Licence in the following circumstances: to better assure or secure the Cosflow Licence, or to the extent that it is entitled to retain those rights pursuant to section 136(1) of the *Personal Property Securities Act 2009* (Cth) (for which purpose the exercise of the power under such rights will be treated as the taking of steps to have title to the Cosflow Licence pass to Kam Lung under that section), or in connection with the exercise of a power of sale in respect of the Cosflow Licence.

Note Deed Poll

The following is a summary of the key terms of the Note Deed Poll.

General description

A note deed poll titled 'Carbon Energy Limited Convertible Notes due 2022 – Note Deed Poll' entered into by the Company (as issuer) and Carbon Holdings and Carbon Operations (as initial guarantors) for the creation and issue of the Notes on the conditions set out in attachment A to the Note Deed Poll (**Conditions**). The key terms of the Notes are set out in the Conditions,

Notes

The Notes are denominated in Australian dollars and in principle amounts of \$1,000. The Notes are to be registered in accordance with the Note Deed Poll and certificates will not be issued unless otherwise determined by the Company.

Transferability

Notes may be transferred in whole or in part to any party to whom disclosure is not required under Chapter 6D.2 or Chapter 7 of the Corporations Act.

Interest

Interest accrues daily at the rate of 8% per annum on the basis of a 360 day year consisting of 12 months of 30 days each. Interest is paid quarterly in cash unless the Noteholder elects that interest be (in whole or in part):

- (a) capitalised on the relevant date for payment and added to the outstanding principal; or
- (b) converted into Shares on the relevant date for payment, with the number of shares to be issued determined by dividing the amount of applicable interest payable by current market price (as defined below) as at the relevant interest payment date;

or a combination of both. To the extent that the accrued interest in respect of the relevant period is not the subject of an election by the Noteholder, the Company may, provided there is no event of default subsisting, elect for the portion of the accrued interest that is not the subject of such election by the Noteholder to be capitalised and added to the outstanding principal amount in respect of the Note.

The maximum number of Shares that the accrued interest in respect of the Notes of any holder can be converted into at any time is such number of Shares as would, at the time of such conversion, cause the holder to hold the minimum number of Shares that would cause the holder to become a "90% holder" under Part 6A.2 of the Corporations Act such that it would be entitled to compulsorily acquire any outstanding Marketable Securities in the Company under Part 6A.2 of the Corporations Act.

Conversion

The Notes may be converted upon election by the Noteholder at any time on or after the first anniversary of the issue date (**Earliest Conversion Date**) into a number of Shares determined by dividing the applicable conversion amount by the conversion price (as defined below).

The maximum number of Shares that the Notes of any holder can be converted into at any time is such number of Shares as would, at the time of such conversion, cause the holder to hold the minimum number of Shares that would cause the holder to become a "90% holder" under Part 6A.2 of the Corporations Act such that it would be entitled to compulsorily acquire any outstanding Marketable Securities in the Company under Part 6A.2 of the Corporations Act.

Conversion price

The conversion price for the Notes is the initial conversion price, adjusted to take account of certain events (summarised below).

The initial conversion price is 125% of the average of the volume weighted average prices of a Share for the 20 consecutive Trading Days immediately preceding (but not including) the Earliest Conversion Date, provided that:

- (a) if on any such Trading Day the volume weighted average price is based on a price cum-dividend (or cum- any other entitlement), the volume weighted average price of a Share on that day is deemed to be the actual amount thereof reduced by an amount equal to the fair market value of that dividend (or entitlement) per Share as at the date of first public announcement of that dividend (or entitlement);
- (b) if any such Trading Day falls more than 1 month prior to the Earliest Conversion Date, then the initial conversion price is 125% of the average of such volume weighted average prices which are available for such Trading Days as fall not more than 1 month prior to the Earliest Conversion Date or, if so determined by the Noteholders by ordinary resolution, the price determined in good faith by a financial adviser appointed by the Noteholders at the Company's expense to be the price that would have been determined had trading occurred in Shares taken place and a volume weighted average price been available for at least 20 Trading Days falling within 1 month prior to the Earliest Conversion Date.

The initial conversion price shall be adjusted upon the occurrence of certain events, including a consolidation, reclassification or subdivision of Shares, payment of a dividend, a rights issue conducted by the Company, an issue of Marketable Securities by the Company or a modification of rights (including rights of conversion) of Marketable Securities. The adjustment shall be made in accordance with specified formulas set out in the Conditions. Such an adjustment shall not be made for an issue of Marketable Securities under the Incentive Plan of up to 5% of the total number of Shares on issue at the issue date for the Notes.

Shareholder approval

The Company is required to do all things within its control to ensure that all requisite shareholder approvals required for the issue of Shares upon conversion and the enforcement of the Security are promptly obtained. This obligation extends to seeking periodic approval from Shareholders (where required).

The Company must use its best endeavours (and to that extent do all things within its control) to procure that the Directors unanimously recommend that Shareholders vote in favour of the relevant resolutions, unless the independent expert (where an independent expert's report is required to be obtained for the relevant approval) concludes that the matters required to be the subject of the report are not fair and not reasonable or a majority of directors, acting reasonably and in the interests of the Company, determines after receiving written financial advice from its financial advisers and written legal advice from its legal advisers, that the directors, by virtue of their directors' duties to the Company, must not recommend that Shareholders vote in favour of the relevant resolutions.

Redemption

The Company must redeem each Note on the maturity date (being the date that is five years from the issue of the Notes) by paying the principal amount of the Note (and any accrued interest) on that date.

The Company is not entitled to redeem a note before this date (unless required by law or under the Conditions). The Notes are cancelled upon redemption.

Events of default

The following are events of default:

- (a) default is made in the payment on the due date of any amount payable in respect of the Notes, and the default in the payment is not remedied within 2 business days; or
- (b) default is made in the satisfaction of the conversion of any Note on the due date for such satisfaction following the exercise of the right of conversion, and the default in the satisfaction of the conversion right is not remedied within 2 business days; or
- (c) the Company or any subsidiary of the Company does not perform or comply with any one or more of its other obligations under the Notes or any Transaction Document and the default is incapable of remedy or not remedied within 14 days after the Company shall have received from any Noteholder written notice of such default requiring it to be remedied; or
- (d) the Company or any subsidiary of the Company breaches any of its obligations to a Noteholder under any agreement pursuant to which the Noteholder subscribed for its Notes, or any representation made by the Company in such agreement or deed proves to have been incorrect when made or repeated, and in either case such breach or circumstance is incapable of remedy or not remedied within 14 days after the Company shall have received from any Noteholder written notice of such default or circumstances and requiring it to be remedied; or
- (e) any of the following apply:
 - (i) any other present or future indebtedness for borrowed money of the Company or any subsidiary becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of an actual or potential default, event of default or the like (however described); or
 - (ii) any such indebtedness is not paid when due or within any originally applicable grace period; or
 - (iii) any commitment for any indebtedness of the Company or any subsidiary is cancelled or suspended by a creditor of the Company or the subsidiary by reason of any actual or potential default, event of default or the like (however described);
 - (iv) the Company or any subsidiary fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money; or
 - (v) any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Company or any subsidiary for any indebtedness for borrowed money (or any guarantee of, or indemnity in respect of, indebtedness for borrowed money) that has become payable becomes enforceable and steps are taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator manager, judicial manager, controller or other similar person),

and the aggregate amount of the indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (e) have occurred equals or exceeds \$10,000 (or its equivalent in other currencies); or

- (f) a final judgment or judgments of a court or courts of competent jurisdiction for the payment of money aggregating in excess of \$10,000 (or its equivalent in the relevant currency of payment) are rendered against the Company or any subsidiary and not bonded, discharged or stayed pending appeal within 14 days after entry thereof, or are not discharged within 14 days after the later of the expiration of such stay;
- (g) a distress, attachment, execution or other legal process is levied or enforced on or against any of the property, assets or revenues of the Company or any subsidiary (individually or in the aggregate) which is not discharged, removed, stayed or paid within 10 days or a receiver, receiver and manager, administrative receiver or similar officer is appointed to the Company or a subsidiary or any of their respective assets of undertakings; or
- (h) the Company or any subsidiary:
 - (i) is or states that it is insolvent or unable to pay its debts; or
 - (ii) is or may be presumed under the Corporations Act to be insolvent; or
 - (iii) stops, suspends or threatens to stop or suspend payment of its debts generally; or
 - (iv) makes or enters into a general assignment or an arrangement or composition or compromise with or for the benefit of its creditors (other than in connection with a reconstruction, amalgamation, reorganisation, merger or consolidation permitted under paragraph (i)); or
- (i) an administrator (as defined in the Corporations Act) or liquidator or a like or similar officer is appointed in respect of the Company or any subsidiary (other than an excluded subsidiary (being certain subsidiaries which have no substantial assets and are intended to be wound up) where the appointment is in connection with a voluntary winding up of the excluded subsidiary whilst solvent) or any of their respective assets or undertakings or a court order is made or a resolution passed for the winding-up or dissolution of the Company or any subsidiary (other than a resolution for the voluntary winding up of an excluded subsidiary whilst solvent), or proceedings are commenced or an application is made for the winding up of the Company or any subsidiary and not withdrawn or dismissed within 10 business days, or the Company or any subsidiary (other than an excluded subsidiary) ceases or threatens to cease to carry on business, except in any such case for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an extraordinary resolution of the Noteholders; or
- (j) the Shares cease to be quoted on the ASX, or trading in Shares on the ASX is suspended for 20 consecutive Trading Days or more;
- (k) any of the following apply:
 - (i) all or any material part of a Transaction Document or these Conditions is terminated or is or becomes void, illegal, invalid, unenforceable or (other than because of equitable principles or laws affecting creditors' rights generally) of limited force and effect; or
 - (ii) any Security is not or ceases to be in full force and effect with its intended priority; or
 - (iii) the Company or a subsidiary becomes entitled to terminate, rescind or avoid all or a material part of a Transaction Document; or
 - (iv) the Company or a subsidiary ceases for any reason to be lawfully able to perform its obligations under a Transaction Document; or
- (l) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (a) to enable the Company lawfully to enter into, exercise their respective rights and perform and comply with its obligations under the Notes and (b) to ensure that those obligations are legally binding and enforceable is not taken, fulfilled or done; or
- (m) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (e) to (g) above, provided that the applicable grace period and cure right, if any, which shall apply shall be the one applicable to the relevant proceeding which most closely corresponds to the proceeding described in the relevant paragraph; or
- (n) any litigation commenced against the Company or any of its subsidiaries which is likely to have a Material Adverse Effect (as defined); or
- (o) any Security Document does not create the Security it purports to create or any custody or escrow arrangement required to be maintained under a Security Document ceases to be in effect or is terminated and not replaced within the time required by the Security Document.

Undertakings

The Company and each Guarantor provide certain affirmative and negative undertakings which are customary to be given for the issue of notes of this nature.

Software Escrow Agreement

The following is a summary of the terms of the Software Escrow Agreement.

General description

A software escrow agreement between 'HopgoodGanim Lawyers (**Escrow Agent**), Carbon Operations and Kam Lung, whereby Carbon Operations agrees to deposit with the Escrow Agent a copy of the Material (as that term is defined below) to enable Kam Lung to obtain access to the Material in circumstances specified in the deed.

Material

The Material to be held in escrow is the source and object code for the existing UCG technology, as described in Schedule 4 of the Software Escrow Agreement. A copy of the relevant source and object code will be deposited with the escrow agent (**Deposit Package**).

Release of Material

Kam Lung may issue a written release notice (**Release Notice**) to both other parties stating that an event of default has occurred under the General Security Agreement (**Demand Condition**). Upon receipt of a release notice, Carbon Operations may issue a written notice to both other parties stating that it does not consider that the Demand Condition to have been satisfied as at the date of the notice given by Kam Lung (**Dispute Notice**). If Carbon Operations gives such a notice, Kam Lung must, for a period of 20 business days following the date of the dispute notice given by Carbon Operations, to consult with Carbon Operations on the basis on which Carbon Operations considers the Demand Condition has not been satisfied. Kam Lung shall, if in its discretion it agrees that the Demand Condition was not satisfied, issue a retraction notice (**Retraction Notice**) to the escrow agent.

The Escrow Agent will (1) release the Deposit Package to Kam Lung on the fifth business day following receipt of the release notice if no Dispute Notice is lodged; or (2) where a Dispute Notice has been received by the Escrow Agent, subject to any order of a court of competent jurisdiction, either (a) release the Deposit Package to Kam Lung on the 21st business day following receipt of the release notice if no Retraction Notice has been received by it on or before the 20th business day following receipt of the release notice, or (b) retain custody of the Deposit Package if a Retraction Notice is issued on or before the 20th business day following receipt of the release notice; or (3) release the Deposit Package or retain custody of it, as applicable, in accordance with, and otherwise comply with the terms of, any order of a court of competent jurisdiction notified to the Escrow Agent.

Indemnity

Carbon Operations and Kam Lung agree to indemnify the Escrow Agent in respect of any claim, cost, expense or liability however arising, in connection with the Escrow Agent so acting, except where the claim arising from the Escrow Agent's own gross negligence or wilful misconduct. Carbon Operations indemnifies Kam Lung against any liability it suffers or incurs under the indemnity it provides in the Software Escrow Agreement.

Fees

The fee for the services provided by the Escrow Agent will, as against the Escrow Agent, be borne jointly and severally by Kam Lung and Carbon Operations. As between Kam Lung and Carbon Operations, the fees will be for the account of Carbon Operations.

Cosflow Agreement Transfer Deed

The following is a summary of the terms of the Cosflow Agreement Transfer Deed.

General description

An agreement entered into by the parties to the deed entitled "COSFLOW Licence Agreement Transfer Deed" dated on or about 23 February 2013 (**Previous COSFLOW Agreement**) and Kam Lung pursuant to which the parties agree to novate the COSFLOW Agreement from Carbon Operations to Kam Lung following the occurrence of an event of default (as that term is defined in the Facility Agreement).

Novation

In the event that CSIRO receives a written notice from Kam Lung which states that an event of default has occurred, CSIRO agrees that the COSFLOW Agreement shall be deemed to have been novated to Kam Lung or its nominee and will be effective as between CSIRO and Kam Lung or its nominee and not CSIRO and Carbon Operations. Kam Lung shall not give such a notice unless an event of default has occurred and Kam Lung has given Carbon Operations at least seven days' prior written notice of its intention to do so.

Sub-licence

In the event that the COSFLOW Agreement is novated to Kam Lung, CSIRO consents to Kam Lung (or its nominee) entering into a sublicense agreement with Carbon Operations for the purposes of using and exploiting the COSFLOW technology in accordance with the terms of the COSFLOW Agreement.

Termination of COSFLOW Agreement

The parties agree that on and from Completion the Previous COSFLOW Agreement is terminated and each party is released from its obligations under the Previous COSFLOW Agreement.

EXPLANATORY **MEMORANDUM**

SCHEDULE 7 – INDEPENDENT EXPERT'S REPORT



Carbon Energy Limited Independent Expert's Report

24 May 2017

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Financial Services Guide

The Financial Services Guide ('FSG') is provided to comply with the legal requirements imposed by the Corporations Act 2001 ('the Corporations Act') and includes important information regarding the general financial product advice contained in this report ('this Report'). The FSG also includes general information about BDO Corporate Finance (QLD) Ltd ('BDO CFQ' or 'we', 'us' or 'our'), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDO CFQ holds an Australian Financial Services Licence to provide the following services:

- (a) Financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, derivatives, managed investments schemes, superannuation, and government debentures, stocks and bonds; and
- (b) Arranging to deal in financial products mentioned in a) above, with the exception of derivatives.

General Financial Product Advice

This Report sets out what is described as general financial product advice. This Report does not consider personal objectives, individual financial position or needs and therefore does not represent personal financial product advice. Consequently any person using this Report must consider their own objectives, financial situation and needs. They may wish to obtain professional advice to assist in this assessment.

The Assignment

BDO Corporate Finance (QLD) Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 has been engaged to provide general financial product advice in the form of a report in relation to a financial product. Specifically, BDO CFQ has been engaged to provide an independent expert's report to the non-interested shareholders of Carbon Energy Limited ('CNX' or 'the Company') in relation to certain elements of the broader transaction referred to in Resolutions 7 and 9 ('the Conditional Resolutions') of the Notice of Meeting as follows:

- The proposal to allow Kam Lung to increase their relevant interest in CNX from 28.39% to an amount up to 90% ('the Relevant Interest Acquisition') as set out in Section 3.3 of this Report; and
- The Proposal to grant security over the Deed Companies' (the Company, Carbon Holdings and Carbon Operations) assets (referred to as 'the Security Transaction') to Kam Lung.

The above elements form part of the Conditional Resolutions of the Notice of Meeting and further details are set out in Section 3.0 of this Report.

This Report provides an opinion as to whether or not the Relevant Interest Acquisition is 'fair' and 'reasonable' to the non-interested shareholders of CNX and an opinion as to whether or not the Security Transaction is 'fair' and 'reasonable' to the non-interested shareholders of CNX. This Report has been prepared to provide information to non-interested shareholders of CNX to assist them to make an informed decision on whether to vote for or against the Conditional Resolutions at the Annual General Meeting. The scope of this Report is set out in more detail in Section 4.0.

This Report cannot be relied upon for any purpose other than the purpose mentioned above and cannot be relied upon by any person or entity other than those mentioned above, unless we have provided our express consent in writing to do so. A shareholder's decision to vote in favour of or against the Conditional Resolutions are likely to be influenced by their particular circumstances, for example, their taxation considerations and risk profile. Each shareholder should obtain their own professional advice in relation to their own circumstances.

Fees, commissions and other benefits we may receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate the fee for the preparation of this Report will be approximately \$85,000 plus GST. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party. Our fees for this Report are not contingent on the outcome of the transaction.

In addition to the fee charged for this Report, we note that prior to CNX entering voluntary administration, CNX had engaged BDO CFQ to commence work on an Independent Expert's Report in relation to an alternative refinancing proposal that was never finalised. BDO CFQ invoiced an amount of approximately \$107,000 inclusive of GST for this work, of which \$40,700 remained outstanding at the time the voluntary administrator was appointed.

If the Conditional Resolutions are approved by the non-interested shareholders of CNX and the Deed of Company Arrangement, as amended ('DOCA') takes effect, we estimate that BDO CFQ will receive an amount of approximately \$9,000 to \$11,000 in settlement of the invoice owing. If the DOCA does not take effect the Voluntary Administrators have estimated that there will be no return to unsecured creditors including BDO CFQ. We do not consider any amounts that may be received by BDO CFQ under the DOCA to represent a material financial interest in the transactions set out in the Conditional Resolutions.

Except for the fees referred to above, neither BDO CFQ, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of this Report.

Directors of BDO CFQ may receive a share in the profits of BDO Group Holdings (QLD) Pty Ltd, a parent entity of BDO CFQ. All directors and employees of BDO Group Holdings (QLD) Pty Ltd and its subsidiaries (including BDO CFQ) are entitled to receive a salary. Where a director of BDO CFQ is a shareholder of BDO Group Holdings (QLD) Pty Ltd, the person is entitled to share in the profits of BDO Group Holdings (QLD) Pty Ltd.

Associations and relationships

From time to time BDO CFQ or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. BDO CFQ provided an independent valuation of performance rights to CNX in 2015. Neither BDO CFQ nor any other BDO entities have provided any other services to CNX in the past two years.

BDO CFQ is not an associate of CNX. The signatories to the Report do not hold any shares in CNX and no such shares have ever been held by the signatories.

To prepare our reports, including this Report, we may use researched information provided by research facilities to which we subscribe or which is publicly available. Reference has been made to the sources of information in this Report, where applicable. Research fees are not included in the fee details provided in this Report.

Complaints

We are members of the Financial Ombudsman Service. Any complaint about our service should be in writing and sent to BDO Corporate Finance (QLD) Ltd, GPO Box 457, Brisbane QLD 4001.

We will endeavour to resolve the complaint quickly and fairly. If the complaint cannot be satisfactorily resolved within 45 days of written notification, there is a right to lodge a complaint with the Financial Ombudsman Service. They can be contacted on 1300 780 808. This service is provided free of charge.

If the complaint involves ethical conduct, a complaint may be lodged in writing with the Chartered Accountants Australia and New Zealand, Queensland Branch, GPO Box 2054, Brisbane QLD 4001. The Australian Securities and Investments Commission (ASIC) also has an Infoline on 1300 300 630 which can be used to make a complaint and obtain information about investor rights.

Contact Details

BDO Corporate Finance (QLD) Ltd

Location Address:	Postal Address:
Level 10 12 Creek Street BRISBANE QLD 4000	GPO Box 457 BRISBANE QLD 4001
Phone: (07) 3237 5999 Fax: (07) 3221 9227	Email: cf.brisbane@bdo.com.au

Glossary

Reference	Definition
\$, A\$ or AUD	Australian dollars
AASB	Australian Accounting Standards Board
ABV	Asset-based valuation
Administrators, the	The administrators, Tim Michael and Will Colwell of Ferrier Hodgson appointed by the Company on the 22 November 2016
Administrator's Report, the	The report to the Creditors prepared by Tim Michael and Will Colwell of Ferrier Hodgson
ADRs	American Depositary Receipts
APES 225	APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board
Arranger's Fee, the	The \$1 million transaction fee payable in cash to Kam Lung by CNX on the Final Maturity Date of the Convertible Note
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited and, where the context requires, the financial market that it operates
ATO	Australian Taxation Office
BDO CFQ	BDO Corporate Finance (QLD) Ltd
BDO Persons	BDO CFQ, BDO (QLD) Pty Ltd, BDO Audit Pty Ltd or any of its partners, directors, agents or associates
Bill, the	Strong and Sustainable Resource Communities Bill 2016
CAPM	Capital Asset Pricing Model
Carbon Holdings	Carbon Energy (Holdings) Pty Ltd
Carbon Operations	Carbon Energy (Operations) Pty Ltd
CEH	Carbon Energy (Holdings) Pty Ltd
CEO	Chief Executive Officer
CEOPL	Carbon Energy (Operations) Pty Ltd
CFA	Convertible Facility Agreement dated 22 December 2011 between Pacific Road and the Company
CME	Capitalisation of maintainable earnings
CNX	Carbon Energy Limited
CNX Shareholders	Holders of ordinary CNX shares
Company, the	Carbon Energy Limited
Commercialisation Projects	The First and Second Commercialisation Projects
Conditional Resolutions, the	Resolutions 7 and 9 of the NoM, which are conditional upon each other, in which the Non-Interested Shareholders' approval is being sought
Convertible Note, the	The convertible notes proposed to be issued to Kam Lung by the Company as set out in Schedule 6 of the NoM

Reference	Definition
Corporations Act, the	The Corporations Act 2001
CPI	Consumer Price Index/Indices
Creditors, the	The creditors of the Company
CSG	Coal Seam Gas
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DCF	Discounted cash flow
Deed Companies, the	The Company, Carbon Holdings and Carbon Operations
Deposit Package, the	A copy of the source and object code relating to the Keyseam Technology
Directors, the	The directors of CNX from 14 March 2017
Demonstration Projects, the	The First and Second Demonstration Projects
DOCA	The amended deed of company arrangement approved by the Creditors at the meeting on 23 May 2017
EBITDA	Earnings before interest, tax, depreciation and amortisation
Escrow Deed	The voluntary escrow deed under which Kam Lung is prevented from offering for sale any shares obtained under the Share Placement for a period of 12 months from the date that the shares are issued.
EV	Enterprise value
Financial Model, the	The financial model provided by CNX which sets out the forecast financial information relating to the Keyseam Technology
Financier, the	Kam Lung or its nominee
First Commercialisation Project, the	The First Commercialisation Project
First Demonstration Project, the	The First JinHong Demonstration Project
FSG	Financial Services Guide
FY	Financial year
Interim Funding, the	The \$1.94 million in interim funding provided by Kam Lung to the Company as part of the DOCA
International Projects, the	The international projects CNX expects to undertake in Asia and Europe
ISP	Independent Scientific Panel
JinHong	Beijing JinHong Investment Development Co.
JinHong JV, the	The joint venture between JinHong and Carbon Operations. Carbon Operations has an interest in 30% of the profits from the JinHong JV.
Kam Lung	Kam Lung Investment Development Company Limited

Reference	Definition
Kam Lung Facility	The \$8.3 million (plus capitalised costs and expenses, capped at \$1 million) facility provided by Kam Lung to the Company by way of an issue of the Convertible Note
Keyseam Technology, the	CNX's proprietary UCG technology
m	Millions
MBV	Market-based valuation
MOU	Memorandum of Understanding
MRL	Metex Resources Limited
MRP	Market Risk Premium
Mt	Million tonnes
MW	Megawatts
NPV	Net Present Value
NoM, EM	The Notice of Meeting and Explanatory Statement dated on or about 2 June 2017 for the meeting to be held on or about 18 July 2017
Non-Interested Director, the	Peter Hogan
Non-Interested Shareholders, the	The holders of fully paid ordinary shares in the Company that do not have an interest in or are associated with the Conditional Resolutions
Other Equity Instruments	CNX equity instruments on issue prior to the Relevant Interest Acquisition
Pacific Road	The Pacific Road Group
Pacific Road Loan Facility	A \$1 million loan facility advance by Pacific Road to the Company, repayable on Successful Ignition of the UCG panel, expected to occur in Jun/July 2018.
Previous Rights Issue, the	The three-for-eleven rights issue completed by the Company to raise \$3.48 million at an offer price of \$0.013 in April 2016
QLD Government	Queensland State Government
Relevant Interest Acquisition, the	Kam Lung potentially increasing their relevant interest in CNX shares from 28.39% to an amount up to 90% and CNX obtaining a relevant interest in its own shares equal to 72.1% of the total number of shares on issue immediately following completion of the Share Placement
R&D	Research and Development
Regulations, the	The Corporation Regulations 2001
Report, this	This independent expert's report prepared by BDO CFQ and dated 24 May 2017
RG 111	Regulatory Guide 111: Content of Expert Report, issued by ASIC
RGs	Regulatory guides published by ASIC
S&P	Standard & Poors
Second Commercialisation Project, the	The Second Commercialisation Project

Reference	Definition
Second Demonstration Project, the	The Second JinHong Demonstration Project
Security Transaction, the	The proposal to grant security over all the Deed Companies' assets to Kam Lung as part of the Conditional Resolutions
Share Placement, the	The issue of 4,679,911,281 CNX shares to Kam Lung at an issue price of \$0.000823 for a total funding of \$3.85 million to the Company as part of the DOCA.
SOTP	Sum of the Parts
Successful Ignition	The continuous gasification of underground coal for not less than three consecutive days
UCG	Underground Coal Gasification
Voluntary Administrators, the	The voluntary administrators, Tim Michael and Will Colwell of Ferrier Hodgson appointed by the Company on the 22 November 2016
VWAP	Volume weighted average price
WACC	Weighted Average Cost of Capital
We, us, our	BDO Corporate Finance (QLD) Ltd

The Non-Interested Shareholders
c/- The Non-Interested Director
Carbon Energy Limited
PO Box 2118
Toowong DC Q
Australia, 4066

24 May 2017

Dear Non-Interested Shareholders,

Independent Expert's Report

1.0 Introduction

BDO Corporate Finance (QLD) Ltd ('BDO CFQ', 'we', 'us' or 'our') has been engaged by the non-interested director ('the Non-Interested Director') of Carbon Energy Limited ('CNX' or 'the Company') to prepare an independent expert's report ('this Report') addressed to the non-interested shareholders ('the Non-Interested Shareholders') in relation to certain elements of a broader transaction that the Non-Interested Shareholders are able to vote in favour of or against as part of Resolutions 7 and 9, which are conditional upon each other, in the Notice of Meeting ('the Conditional Resolutions'). Specifically, the elements of the Conditional Resolutions that we provide an opinion on in this Report are:

- Kam Lung Investment Development Company Limited ('Kam Lung') potentially increasing their relevant interest in CNX ('the Relevant Interest Acquisition') from 28.39% up to 90% through:
 - The issue of CNX shares to Kam Lung by the Company under the Share Placement¹ or upon conversion of accrued interest under the Kam Lung Facility to CNX shares; and
 - The conversion of a convertible note and interest (including capitalised interest) into CNX shares; and
- The proposal to grant security over all assets of the Company, Carbon Holdings and Carbon Operations (collectively 'Deed Companies') to Kam Lung ('the Security Transaction').

A more detailed discussion of the transactions comprising the Conditional Resolutions, including the Relevant Interest Acquisition and the Security Transaction is set out in Section 3.0 of this Report. The scope of this Report and the basis for assessing the Relevant Interest Acquisition and the Security Transaction is set out in detail in Section 4.0.

This Report has been prepared to provide information to the Non-Interested Shareholders to assist them to make an informed decision on whether to vote for or against the Conditional Resolutions at the Annual General Meeting ('AGM') to be held on or about 18 July 2017. Apart from the purpose stated directly above, this Report cannot be used or relied on for any other purpose or by any other person or entity.

¹ As part of the transactions contemplated by the DOCA, Kam Lung and the Company will enter into a voluntary escrow deed ('Escrow Deed') under which Kam Lung is prevented from offering for sale any shares obtained from the Share Placement for a period of 12 months from the date that the shares are issued. The Relevant Interest Acquisition is conditional on the Escrow Deed being entered into. As a result of entering into the Escrow Deed, the Company will acquire a relevant interest (equal to 72.1% of the total number of shares on issue immediately following completion of the Share Placement) in all shares to be issued under the Share Placement. Given the conditionality of the Company's relevant interest acquisition, we have considered this as part of the Relevant Interest Acquisition.

This Report should be read in full, including the assumptions underpinning our work together with the other information provided to the Non-Interested Shareholders in conjunction with this Report, including the Notice of Annual General Meeting and Explanatory Memorandum prepared by CNX and dated on or about 2 June 2017 ('the NoM', 'the EM').

This Report does not address circumstances specific to individual Non-Interested Shareholders. A CNX shareholder's decision to vote for or against the Conditional Resolutions are likely to be influenced by their own particular circumstances including, for example, their taxation considerations and risk profile. The Non-Interested Shareholders should obtain their own professional advice in relation to their own circumstances

APES 225 'Valuation Services' issued by the Accounting Professional & Ethical Standards Board sets out mandatory requirements for the provision of quality and ethical valuation services. BDO CFQ has complied with this standard in the preparation of this Report.

All dollar ('\$') references in this Report are in Australian dollars unless otherwise stated.

2.0 Summary of Opinion

This section is a summary of our opinion and cannot substitute for a complete reading of this Report.

We strongly recommend that the Non-Interested Shareholders consult their own professional advisers, carefully read all relevant documentation provided, including the Notice of Meeting and the Explanatory Memorandum, and consider their own specific circumstances before voting for or against the Conditional Resolutions.

2.1 The Relevant Interest Acquisition

2.1.1 Fairness of the Relevant Interest Acquisition

Our assessment of the fairness of the Relevant Interest Acquisition is set out in detail in Section 8.0 of this Report. In summary, to assess whether the Relevant Interest Acquisition is fair to the Non-Interested Shareholders, we have:

- a) Calculated the value of a share in CNX on a controlling interest basis prior to the Relevant Interest Acquisition to be \$Nominal (refer to Section 6.0 of this Report for our valuation of CNX prior to the Relevant Interest Acquisition);
- b) Calculated the value of a share in CNX on a minority interest basis post the Relevant Interest Acquisition to be in the range of \$Nominal to \$0.0006 (refer to Section 7.0 of this Report for our valuation of CNX following the Relevant Interest Acquisition); and
- c) Compared the value of a CNX share determined in (a) above (i.e. prior to the Relevant Interest Acquisition on a controlling interest basis) to the value of a CNX share determined in (b) above (i.e. following the Relevant Interest Acquisition on a minority interest basis). Our fairness assessment is set out in Section 8.0 of this Report.

The Relevant Interest Acquisition is considered to be fair if the value of a CNX share following the Relevant Interest Acquisition is equal to or greater than the value of a CNX share prior to the Relevant Interest Acquisition. Table 2.1 below summarises our assessment of the fairness of the Relevant Interest Acquisition.

Table 2.1: Assessment of the fairness of the Relevant Interest Acquisition

	Section Reference	Low Value (\$)	High Value (\$)
Value per CNX share prior to the Relevant Interest Acquisition - Controlling Interest	6.4	\$Nominal	\$Nominal
Value per CNX share following the Relevant Interest Acquisition - Minority Interest	7.4	\$Nominal	\$0.0006

Source: BDO CFQ analysis

In addition to the values set out in Table 2.1 above, we note:

- If the Conditional Resolutions are not approved, the DOCA will not take effect and the Non-Interested Director expects that CNX will be placed into liquidation. If CNX is placed into liquidation, it is not anticipated that any distribution will be made to shareholders;
- The net asset deficiency at the low end of the ABV range has improved from a net asset deficiency of \$9.3 million prior to the Relevant Interest Acquisition to a net asset deficiency of \$4.3 million following the Relevant Interest Acquisition. The improvement in the net asset deficiency is caused by factors including:
 - The \$3.85 million share placement;
 - Debt to CNX creditors being cleared at a discount to the original face value of the debt (as set out in Section 10 of the Administrator's Report); and
 - A reduction in the face value of the convertible note facility from \$10 million to \$8.3 million (plus capitalised costs and expenses, capped at \$1 million);

- At the high end of our ABV range, the net asset value has improved from a net asset deficiency of \$0.3 million prior to the Relevant Interest Acquisition to \$7.8 million following the Relevant Interest Acquisition; and
- While there is significant dilution as a result of the issue of the Convertible Notes and the Share Placement, post the Relevant Interest Acquisition, there is some positive value which can be attributed to the CNX shareholders at the high end of our valuation range.

Having regard to the above assessment of the Relevant Interest Acquisition and the information set out in detail in the balance of this Report, it is our view that in the absence of any other information or a superior offer, the Relevant Interest Acquisition is **Fair** to the Non-Interested Shareholders as at the date of this Report.

The Non-Interested Shareholders should also consider the information set out in Sections 2.1.2 to 2.1.3 below which sets out additional matters on the Relevant Interest Acquisition that the Non-Interested Shareholders should consider when deciding whether to vote in favour of or against the Conditional Resolutions.

2.1.2 Reasonableness of the Relevant Interest Acquisition

Advantages and Disadvantages

Our assessment of the reasonableness of the Relevant Interest Acquisition is set out in detail in Section 9.0 of this Report.

Table 2.2 below summarises our view of the advantages and disadvantages to the Non-Interested Shareholders of the Relevant Interest Acquisition. Non-Interested Shareholders should refer to Sections 9.0 of this Report for a more detailed discussion of the advantages and disadvantages associated with the Relevant Interest Acquisition.

Table 2.2: Summary of Potential Advantages and Disadvantages of the Relevant Interest Acquisition

Advantages	Disadvantages
<ul style="list-style-type: none">Enables CNX to operate as a going concern and avoid liquidation	<ul style="list-style-type: none">Kam Lung will gain a significant influence on the strategic directions of the Company
<ul style="list-style-type: none">The Relevant Interest Acquisition is fair	<ul style="list-style-type: none">The Relevant Interest Acquisition results in significant dilution of interest held by the Non-Interested Shareholders and loss of control
<ul style="list-style-type: none">There are no alternatives available to CNX in securing alternative funding	<ul style="list-style-type: none">Kam Lung is unilaterally able to pass or block any ordinary and special resolutions
<ul style="list-style-type: none">Provides funding to continue the development and commercialisation of the Company's business operations for longer term shareholder value	<ul style="list-style-type: none">There is a reduced likelihood of a takeover of the Company
<ul style="list-style-type: none">More highly aligned interest and support of the cornerstone investor with the Company	<ul style="list-style-type: none">Potential option for Kam Lung to compulsorily acquire the remaining CNX shares
<ul style="list-style-type: none">The Company has the potential to settle its debt and interest in CNX shares instead of cash	<ul style="list-style-type: none">Conversion price under the Convertible Note is uncertain as at the date of this Report
<ul style="list-style-type: none">Potential reinstatement of the Company's shares on the ASX	<ul style="list-style-type: none">Potential for a significant number of CNX shares to be sold on the open market
<ul style="list-style-type: none">The Company will be cleared of historical debts to creditors under the DOCA	<ul style="list-style-type: none">Availability of income tax losses carried forward

Source: BDO CFQ Analysis

Other Matters Not Specific to the Relevant Interest Acquisition

We have not been requested to, and we do not, provide an opinion or recommendation on other matters beyond the Relevant Interest Acquisition and Security Transaction in this Report, including but not limited to the other Resolutions set out in the NoM. While we have not considered these other matters in our assessment of reasonableness, we have included detail on a range of other matters for shareholders to consider, including:

- CNX repaying its existing CFA with Pacific Road using funds raised from the Kam Lung Facility;
- Grant of indemnity provided to Kam Lung in the event of default under the Kam Lung Facility;
- Until such time as the Convertible Note is converted into equity or are otherwise settled, CNX will have significant debt on its balance sheet; and
- The granting of security in favour of Kam Lung by the Deed Companies.

The above factors are further discussed in Section 9.3 of this Report.

Potential Position of the Non-Interested Shareholders if the Conditional Resolutions are Not Approved

If the Conditional Resolutions are not approved, the potential position of the Non-Interested Shareholders include:

- The Non-Interested Director expects CNX to be liquidated in which case it is not anticipated that any distribution will be made to shareholders;
- CNX shares will not come out of suspension of trading on the ASX; and
- The Non-Interested Shareholders will, in aggregate, retain a controlling interest in CNX, albeit the Company may be liquidated in which case it is not anticipated that any distribution will be made to Shareholders.

The above factors are discussed in Section 9.4 of this Report.

2.1.3 Conclusion on Reasonableness of the Relevant Interest Acquisition

After considering the advantages, disadvantages and other considerations summarised above and set out in further detail in the balance of this Report, it is our view that, in the absence of any other information or a superior offer, the Relevant Interest Acquisition is **Reasonable** to the Non-Interested Shareholders as at the date of this Report.

2.1.4 Expert's Opinion on the Relevant Interest Acquisition

In our opinion, in the absence of a superior offer or any other information, the Relevant Interest Acquisition is **Fair and Reasonable** to the Non-Interested Shareholders as at the date of this Report.

Notwithstanding our view on the Relevant Interest Acquisition, we strongly recommend that the Non-Interested Shareholders also have regard to the information set out in the balance of this Report before deciding whether to vote in favour of or against the Conditional Resolutions.

2.1.5 Other Considerations for the Non-Interested Shareholders

Before forming a view on whether or not to approve the Conditional Resolutions, we strongly recommend that the Non-Interested Shareholders:

- Consult their own professional advisers;
- Carefully read all relevant documentation provided, including this Report and the NoM; and
- Consider their specific circumstances and assess the way in which those circumstances might impact their decision to vote for or against the Conditional Resolutions.

The analysis set out in this Report has relied on certain economic, market and other conditions prevailing as at the date of this Report. We note that changes in these conditions may have material impact on the information presented in this Report within a short period. BDO CFQ is not responsible for updating this Report in the event that those circumstances change.

2.2 The Security Transaction

2.2.1 Fairness of the Security Transaction

Our assessment of the fairness of the Security Transaction is set out in detail in Section 10.0 of this Report. In summary, to assess whether the Security Transaction is fair we have compared the value of:

- The proceeds flowing to Kam Lung from the sale of the Company's assets in the event of a default on the Convertible Note; and
- The outstanding amount (including principal, interest and enforcement costs) on the Convertible Note owing to Kam Lung in the event of default on the Convertible Note.

After considering the information summarised above and set out in further detail in Section 10.0 of this Report, it is our view that in the absence of any further information, the Security Transaction is **Fair** to the Non-Interested Shareholders as at the date of this Report.

2.2.2 Reasonableness of the Security Transaction

Our assessment of the reasonableness of the Security Transaction is set out in detail in Section 11.0 of this Report.

To assess whether or not the advantages of the Security Transaction outweigh the disadvantages, we have considered a number of quantitative and qualitative factors. Having regard to those matters, we have formed a view as to whether the advantages of the Security Transaction outweigh the disadvantages and whether the Security Transaction is 'reasonable' to the Non-Interested Shareholders.

Table 2.3 below summarises our view of the advantages and disadvantages associated with the Security Transaction.

Table 2.3: Summary of Potential Advantages and Disadvantages of the Security Transaction

Advantages	Disadvantages
<ul style="list-style-type: none"> The Security Transaction is Fair 	<ul style="list-style-type: none"> There will be a limited ability to secure alternative sources of funding from non-related third parties
<ul style="list-style-type: none"> It is not unusual for companies to grant security over their assets when raising debt finance 	<ul style="list-style-type: none"> CNX may lose control over its assets

Source: BDO CFQ Analysis

After considering the information summarised above and set out in further detail in the balance of this Report, it is our view that in the absence of any further information, the Security Transaction is **Reasonable** to the Non-Interested Shareholders as at the date of this Report.

2.2.3 Expert's Opinion on the Proposed Security Transaction

In our opinion, in the absence of a superior offer or any other information, the Security Transaction is **Fair and Reasonable** to the CNX non-interested shareholders as at the date of this Report.

Notwithstanding our view on the Security Transaction, before forming a view on the Security Transaction, we strongly recommend that the Non-Interested Shareholders have regard to the information set out in the balance of this Report and consider the same factors noted in Section 2.1.5 of this Report above for the Relevant Interest Acquisition and their position in circumstances that the Conditional Resolutions are not approved.

3.0 Background of the Relevant Interest Acquisition and the Security Transaction²

As outlined in Section 1.0, this Report provides information to the Non-Interested Shareholders to assist them to form an opinion on whether to vote for or against the Conditional Resolutions.

This section is set out as follows:

- Section 3.1 provides a brief background and summary of the funding facilities;
- Section 3.2 provides an overview of the transactions assessed in this Report;
- Section 3.3 sets out a comparison of the shareholdings in the Company prior to the Relevant Interest Acquisition and post the Relevant Interest Acquisition; and
- Section 3.4 summarises the CNX directors' ('Directors') strategic rationale for the transaction.

This section is a summary only. It should not be treated as a complete description of the Relevant Interest Acquisition and the Security Transaction. The Non-Interested Shareholders should refer to the NoM and EM for detailed and additional information relating to the Relevant Interest Acquisition and the Security Transaction.

3.1 Background

3.1.1 Background of the Funding Arrangements

On 25 October 2016, CNX announced that it had entered into an agreement with Kam Lung to repay the \$10 million Pacific Road Convertible Facility Agreement ('CFA') held by Pacific Road and which was due to mature on 18 January 2017. During the negotiations relating to the CFA, various irregularities regarding the internal restructuring of Pacific Road were discovered, specifically the liquidation of a Belgium company which formed part of the Pacific Road Group and was a party to the CFA.

The parties to the CFA and Kam Lung were unable to agree on a workaround to the refinancing of the CFA, and on 22 November 2016, the Company, Carbon Holdings and Carbon Operations (together, the 'Deed Companies') were placed in administration under section 436A of the Corporations Act ('Voluntary Administration'). Tim Michael and Will Colwell of Ferrier Hodgson were appointed as joint and several administrators ('Administrators') of the Deed Companies.

Upon entering Voluntary Administration, the Administrators considered a number of recapitalisation proposals. These proposals are set out in Section 7 of the administrator's report (the 'Administrator's Report'). Ultimately the Kam Lung recapitalisation proposal was the preferred option and allowed Pacific Road and the Administrators to formulate a solution to allow the Company to satisfy its obligations under the CFA and continue trading as a going concern. On 14 February 2017, a deed of company arrangement was proposed as the potential way forward for CNX in seeking alternative funding and meeting its debt obligations as and when they fall due. The deed of company arrangement was approved by the creditors of the Deed Companies ('Creditors') on 9 March 2017 and was entered into by the Deed Companies on the same day (although remains subject to conditions including Shareholder approval).

Funding arrangements included in the deed of company arrangement that are provided by Kam Lung include an interim funding arrangement, private share placement, secured convertible notes and a secured uncommitted cash advance facility (collectively 'Funding Arrangements').

On 15 May 2017, CNX announced amendments to the deed of company arrangement previously approved by Creditors on 9 March 2017. During this intervening period, Kam Lung and Pacific Road had been working towards satisfying the relevant conditions precedent that formed part of the deed of company arrangement. These conditions precedent included specific employment and other contracts with key employees to be continued on terms satisfactory to Kam Lung. A mutually satisfactory agreement was not able to be reached and Kam Lung and Pacific Road have subsequently agreed to seek an alternative path forward to find a mechanism to waive the key employee condition precedent. As a result of these developments, the deed of company arrangement of company arrangement was amended on 5 May 2017. The amended deed of company arrangement ('DOCA') sets out the amended funding arrangements (the 'Amended Funding Arrangements'). The DOCA is included as part of the Administrator's Report as Schedule 5 of the EM. The amended terms specifically include:

² Information in this section of this Report is sourced from the NoM, the EM, the Terms Sheet, other relevant agreements between CNX, Pacific Road, Kam Lung and JinHong and the CNX website (www.carbonenergy.com.au)

- \$1.94 million in interim funding ('Interim Funding') made available to the Company by Kam Lung. We note that on 13 March 2017, subsequent to Creditors' approval of the DOCA, the Company drew down \$450,000 of the Interim Funding to fund the Company's budgeted expenses and the Administrators called upon the \$200,000 of indemnity funding to cover their fees approved under s449E of the Corporations Act. On 8 May 2017, the Company had drawn down a total of \$1,100,000 to continue funding the Company's budgeted expenses. As at 23 May 2017, \$640,000 of the Interim Funding is still available for the working capital requirements of the Company;
- \$3.85 million in funding through a private placement ('Share Placement') of CNX shares to Kam Lung. In relation to shares to be obtained under the Share Placement, Kam Lung and the Company will enter into a voluntary escrow deed ('Escrow Deed') under which Kam Lung is prevented from offering for sale any shares obtained for a period of 12 months from the date that the shares are issued;
- \$8.3 million (plus capitalised costs and expenses, capped at \$1 million) in funding provided by Kam Lung ('Kam Lung Facility') by way of the secured convertible notes ('Convertible Note');
- \$1 million in funding provided by the Pacific Road loan facility (the 'Pacific Road Loan Facility') provided by Pacific Road and guaranteed by Kam Lung; and
- A strictly uncommitted revolving cash advance facility subject to a \$5,000,000 limit on outstanding advances at any time.

Details and terms of the funding facilities are further discussed in Section 3.1.3 of this Report.

Having regard to the above, we note that funding from the Share Placement and Kam Lung Facility will be made available to the Company following shareholders' approval of the Conditional Resolutions and at completion of the DOCA. On completion of the DOCA, funds drawn down from the Interim Funding will be repaid with funds drawn down from the Kam Lung Facility and Pacific Road Facility.

Readers of this Report should refer to the DOCA attached as Schedule 5 of the EM and Section 9 of the EM for more details.

3.1.2 Summary of the Related Parties

In this section, we have provided background information regarding the parties to the Relevant Interest Acquisition. Further detail is provided in Section 10 of the EM.

Pacific Road Group

Pacific Road is a Sydney-based private equity manager investing in the global mining industry. Pacific Road provided funding to the Company in 2011, with revised terms agreed in 2012, in the form of a \$10 million convertible note inclusive of a coupon rate of 5% per annum, which was convertible at any time until expiry in five years³.

The CFA with Pacific Road expired on 18 January 2017, however has been extended to align with the timeframe for completing the Relevant Interest Acquisition. The convertible note under the CFA will be repaid by Kam Lung and a new facility put in place.

Kam Lung Investment Development Company Limited

Kam Lung is a Hong Kong based investment holding company. Currently, Mr HuiHai Zhuang ('Mr Zhuang') wholly owns Kam Lung. Mr Zhuang was appointed as non-executive director of CNX in October 2015 and is an associate of JinHong Investment Development Company ('JinHong').

Kam Lung currently has a 28.39% equity interest in CNX, having invested over \$8.2 million across three tranches in the Company between 2013 and 2016. If the Relevant Interest Acquisition is approved, Kam Lung will provide funding by way of the Convertible Note (which will, in turn, be used to fund repayment of the Pacific Road CFA) on the terms outlined in Section 3.2 and provide other funding arrangements as set out in Section 3.1.1 above.

³ The convertible note was convertible at a price of \$0.15 (which was repriced to \$0.14) per CNX share. CNX had the right to require Pacific Road to convert if the share price of the Company reached \$0.40 prior to expiry.

3.1.3 Summary of the Amended Funding Arrangement Terms

This section sets out a summary of the terms associated with the Funding Facilities that the Non-Interested Shareholders are being asked to vote in favour of or against as part of the Conditional Resolutions.

Interim Funding

Post the Creditor's meeting, Kam Lung made available \$1.94 million in Interim Funding to the Company. A summary of the terms of the Interim Funding is set out in Table 3.1 below (refer to Section 7.2 and Schedule 5 of the EM for more information).

Table 3.1: Summary of the Terms of the Interim Funding

Item	Description
Total principal amount	\$1.94 million
Approved use of funds	<ul style="list-style-type: none"> \$1.74 million for the Company to be used as operating costs; and Up to \$200,000 as an indemnity in respect of the Administrators' fee, subject to the approval of their fees under section 449E of the Corporations Act. We note that the on 13 March 2017 the Administrators called upon the \$200,000 of indemnity funding to cover their fees approved under s449E of the Corporations Act
Commencement Date	9 March 2017

Source: Interim Funding Deed and NoM

Share Placement

Subject to shareholder approval being obtained, the Company will issue ordinary CNX shares to Kam Lung in a Share Placement for consideration of \$3.85 million (before costs). A summary of the terms of the Share Placement is set out in Table 3.2 below (refer to Section 7.2 and Schedule 5 of the EM for more information).

Table 3.2: Summary of the Terms of the Share Placement

Item	Description
Total principal amount	\$3.85 million (before costs)
Issue price	\$0.000823
Issued shares	4,679,911,281
Approved use of funds	<ul style="list-style-type: none"> \$300,000 paid into a creditors' trust for claims of the creditors of the Deed Company; The remaining \$3.55 million will be retained by the Company for: <ul style="list-style-type: none"> General working capital purposes; Pay any unpaid fees and expenses of the Administrators; and Legal and other professional costs for the Company related to the Relevant Interest Acquisition and the Security Transaction.

Source: DOCA and NoM

Pacific Road Loan Facility

Subject to shareholder approval being obtained, the Company will be advanced \$1 million from the Pacific Road Loan Facility. A summary of the terms of the Pacific Road Loan Facility is set out in Table 3.3 below (refer to Section 7.2 and Schedule 5 of the EM for more information).

Table 3.3: Summary of the Terms of the Pacific Road Loan Facility

Item	Description
Total principal amount	\$1 million
Interest Rate	0% (interest free) ⁴
Guarantor	Kam Lung
Term	Repayable to Pacific Road upon Successful Ignition of the UCG panel by the JinHong JV, expected to occur be in Jun/July 2018.
Approved use of funds	<ul style="list-style-type: none"> General working capital purposes

Source: DOCA and NoM

Kam Lung Facility

Subject to shareholder approval being obtained, the Company will issue Kam Lung the Convertible Note, which may be converted into CNX shares in accordance with the conversion formula at any time from one year after the issue of the Convertible Note until the maturity date (as defined below). The funding provided by Kam Lung under the Kam Lung Facility will be considered borrowings until the Convertible Note is converted or repaid.

A summary of the terms of the Convertible Note proposed to be issued to Kam Lung is set out in Table 3.4 below (refer to Section 7.7 and Schedule 5 of the EM for further details).

Table 3.4: Summary of the Terms of the Convertible Note under the Kam Lung Facility

Item	Description
Total principal amount	\$8.3 million plus the total of any costs and expenses capitalised by the Company up to a maximum of \$1.0 million
Approved use of funds	<ul style="list-style-type: none"> \$6.85 million will be drawn down by the Company for the repayment in full of the CFA, being the amount of \$7 million less a costs contribution amount of \$150,000 that the relevant Pacific Road Group entities have directed CNX to pay to Kam Lung as a partial reimbursement of the costs incurred by Kam Lung in connection with the recapitalisation of CNX ('Costs Contribution'). Kam Lung has directed CNX to retain the Costs Contribution in partial satisfaction of Kam Lung's \$3.85 million funding contribution under the DOCA; and The remaining \$1.3 million of funding will be first applied to repay the Interim Funding. The additional \$640,000 of the \$1.94 million Interim Funding will be repaid via Pacific Road Loan Facility.
Commencement date	On or about 18 July 2017
Conversion formula	<p>$N = CA / CP$ Where:</p> <ul style="list-style-type: none"> N is the number of conversion shares to be issued in CNX; CA is the conversion amount; and CP is the conversion price

⁴ The loan will be provided on an interest-free basis. However, if an obligor fails to pay an amount payable under a finance document for the Pacific Road Loan Facility on its due date, interest will accrue on the overdue amount from the due date up to the date of actual payment (both before and after judgment) at a rate of 8% p.a.

Item	Description
Conversion price	<p>Conversion price = 125% x VWAP</p> <p>Where VWAP is the volume-weighted average price of the Company's shares on the ASX in the 20 dealing days immediately preceding (but not including) the first anniversary of the completion date.</p>
Interest	<p>Interest will accrue on amounts drawn down on the Kam Lung Facility at 8% per annum, paid in cash in arrears. Accrued interest may, at the noteholder's option, be either:</p> <ul style="list-style-type: none"> Capitalised (we note CNX will also have an option to capitalise interest if Kam Lung does not make an election to capitalise or convert); or Payable by way of conversion and issue of CNX shares, calculated by the Conversion formula (using as the conversion price the average of the volume-weighted average of the CNX Shares for the five consecutive dealing days ending on the applicable interest payment date or conversion date).
Maturity date	The Kam Lung Facility will terminate on or about 18 July 2022, being the fifth anniversary of the commencement date (unless terminated earlier).
Arrangement Fee	A \$1 million arrangement fee is payable to Kam Lung by the Company on termination, maturity or early repayment of the Kam Lung Facility.
Security	Subject to shareholder approval, the Deed Companies will provide a first ranking security over all present and after acquired property of the Deed Companies as set out in the General Security Agreement dated on or about 18 July 2017 (refer to Schedule 6 of the EM).

Source: Convertible Note Conditions and NoM

3.2 Overview of the Transactions Assessed in this Report

This section sets out an overview of the transactions being assessed in this Report. This section is a summary only. CNX shareholders should refer to the NoM for more information in relation to the Conditional Resolutions, of which the transactions assessed in this Report are part of.

3.2.1 The Relevant Interest Acquisition

The Relevant Interest Acquisition relates to Kam Lung potentially increasing their relevant interest in CNX from 28.39% to a maximum of 90% (based on assumptions set out in Section 3.3 below) through:

- The issue of CNX shares to Kam Lung under the Share Placement;
- The issue of CNX shares to Kam Lung upon conversion of the Convertible Note; and
- The issue of CNX shares to Kam Lung upon conversion of accrued interest under the Kam Lung Facility.

The Relevant Interest Acquisition also relates to the relevant interest that CNX will acquire in its own shares as a result of the Escrow Deed (refer to Section 9 of the EM for further information) given the conditionality that exists between Kam Lung's relevant interest acquisition and CNX's relevant interest acquisition. The relevant interest that CNX will obtain in its own shares is equal to 72.1% of the total number of shares on issue immediately following completion of the Share Placement.

3.2.2 The Security Transaction

The Security Transaction relates to the granting of security in favour of Kam Lung as part of the Kam Lung Facility including:

- First ranking security over the Company's assets on the terms of the General Security Agreement dated on or about 18 July 2017;

- b) A COSLFOW licence agreement transfer deed between Carbon Operations, Kam Lung and the CSIRO, whereby the parties agree to novate certain rights under the Technology Assignment and Licence Agreement dated 10 July 2006 from Carbon Operations to Kam Lung in the event that Kam Lung gives CSIRO written notice that an event of default (as that term is defined under the Kam Lung Facility) has occurred;
- c) A software escrow agreement between Carbon Operations, Kam Lung and an escrow agent under which the escrow agent agrees to act as escrow agent in respect of a copy of the source and object code relating to the Keyseam Technology (as defined in the DOCA) ('Deposit Package'), and release the Deposit package to Kam Lung in the event it receives a release notice from Kam Lung stating that an event of default (as that term is defined in the Kam Lung Facility) has occurred; and
- d) Registration of a PPS Security Interest (as defined in the Personal Properties Securities Act 2009 (Cth)) over all present and after acquired property of the Deed Companies.

We have discussed the COSLFOW licence agreement and software escrow agreement referred to in points b) and c) above with one of the legal adviser's retained by CNX. We are advised that these agreements are common where security is held over intangible assets with the purpose of these agreements to assist to better secure the assets for the secured party.

For more information relating to the above, refer to Schedule 6 of the EM.

3.3 Potential Shareholding in CNX Prior and Post the Relevant Interest Acquisition

Table 3.5 sets out the potential increase in holdings of CNX that may be obtained by Kam Lung if the Conditional Resolutions are approved by the Non-Interested Shareholders. As the price that CNX shares will be issued to Kam Lung in the event of conversion for the Convertible Note is not currently known (refer to Table 3.4 above), we have set out the minimum and maximum sensitivity from the NoM below. Specifically:

- The minimum relevant interest scenario assumes that the Convertible Note is not converted to CNX shares, and that the increase in relevant interest of CNX for Kam Lung is due to the Share Placement; and
- The maximum relevant interest scenario assumes that the Convertible Note will be converted at a conversion price of \$0.001 whilst having regard to the maximum number of shares.

Table 3.5: Illustrative Maximum Potential Shareholding of Kam Lung

Transaction ¹	Kam Lung		Pacific Road		Other Shareholders	
	Shares ('000)	Relevant Interest	Shares ('000)	Relevant Interest	Shares ('000)	Relevant Interest
Existing shareholding	514,761	28.39%	168,532	9.29%	1,130,136	62.32%
Following the Share Placement	5,194,672	80.00% ²	168,532	2.60%	1,130,136	17.40%
Following Conversion of the Convertible Note	11,688,012	90.00% ³	168,532	1.30%	1,130,136	8.70%

Source: Section 7.9 of the EM

¹ The figures set out in this table are pre-consolidated numbers.

² This is the minimum interest in CNX that Kam Lung will hold after the Relevant Interest Acquisition.

³ This is the maximum interest in CNX that Kam Lung can hold after the Relevant Interest Acquisition assuming the Convertible Note and any capitalised interest on the Convertible Note are converted into ordinary shares in CNX at maturity.

With reference to Table 3.5 above, we note that the total relevant interest of Kam Lung will increase from 28.39% before the Relevant Interest Acquisition to a maximum of 90% assuming the Relevant Interest Acquisition.

3.4 Non-Interested Director's Strategic Rationale

The Non-Interest Director of CNX ('the Non-Interest Director') has outlined his strategic rationale in Section 7.4 and Section 7.12 of the EM. A summary of the rationale includes:

- The Non-Interested Director is of the view that approval of the Conditional Resolutions and completion of the DOCA will provide the Company with the necessary funding in order for the Company to operate as a going concern. It is the view of the Non-Interested Director that without immediate funding, the Deed Companies will be placed into liquidation, where the Administrators have estimated that there will be no economic interest remaining for the Non-Interested Shareholders (refer to the DOCA in Schedule 5);
- The Relevant Interest Acquisition will provide funding to allow the Company to continue the development and commercialisation of its Keyseam Technology (see Section 5.1.2 of this Report);
- The Relevant Interest Acquisition will further align the interest of the Company's cornerstone investor, Kam Lung, with the Company's strategic decisions;
- It is the Non-Interested Director's view that with the completion of the Relevant Interest Acquisition, CNX will be able to operate as a going concern and be reinstated on the ASX. If CNX's listing is reinstated on the ASX, shareholders may be able to sell their CNX shares on the ASX, subject to there being liquidity at the relevant time; and
- The Company is currently working on a skeleton staff and has been working on reducing costs. With the completion of the Relevant Interest Acquisition and capital injection into the Company, the Company will be able to focus on executing its growth strategy.

4.0 Scope of Report and Methodology for Assessment

4.1 Scope of Report

An independent expert, in certain circumstances, must be appointed to meet the requirements set out in the Corporations Act 2001 ('the Act'), the Corporation Regulations 2001 ('the Regulations'), the regulatory guides ('RGs') published by the Australian Securities and Investments Commission ('ASIC') and the listing requirements of the relevant exchanges. We have summarised the requirements of the Corporations Act and the Regulations in Section 4.2 below and the requirements of the listing rules in Section 4.3 below.

The sole purpose of this Report is to express BDO CFQ's opinion on whether the Relevant Interest Acquisition is fair and reasonable to the Non-Interested Shareholders and whether the Security Transaction is fair and reasonable to the Non-Interested Shareholders. This Report cannot be used by any other person for any other reason or for any other purpose. We understand that this Report will be distributed to the Non-Interested Shareholders together with the NoM and EM.

This Report is general financial product advice only and has been prepared without taking into account the objectives, risk profile, financial situation or needs of individual CNX shareholders. Before deciding whether to vote in favour of or against the Conditional Resolutions, individual CNX shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs, including their own taxation consequences. CNX shareholders should read in full the NoM and EM issued by the Company.

The decision to vote in favour of or against the Conditional Resolutions is a matter for individual CNX shareholders based on their expectations as to value and future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. CNX shareholders who are in doubt as to the action they should take in relation to the Conditional Resolutions should consult their own professional advisers.

4.2 Requirements of the Corporations Act and Regulations

Section 606 of the Corporations Act states that, subject to the exceptions set out in Section 611, a 'relevant interest' in issued voting shares in a listed company or an unlisted public company with more than 50 members cannot be increased from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%. Broadly, a 'relevant interest' is defined as an interest giving the holder the power to control the right to vote or dispose of shares.

If the Conditional Resolutions are approved, Kam Lung may hold a maximum of 90% which, assuming there are 11.3 billion CNX ordinary shares means that Kam Lung would hold up to 10.2 billion CNX ordinary shares (assuming the Convertible Note and interest able to be converted, is converted into the maximum allowable CNX shares). This would mean an increase from 28.39% to up to 90% (refer Section 3.3 for further information in relation to the relevant interests that may eventuate). As a result of the Escrow Deed, CNX will also obtain a relevant interest in its own shares equal to 72.1% of the total number of shares on issue immediately following completion of the Share Placement.

Section 606 would prevent the Relevant Interest Acquisition unless it met one of the exemptions set out in Section 611 of the Corporations Act. Item 7 of Section 611 allows a party to gain a relevant interest in shares of a public company that would otherwise be prohibited under Section 606 of the Corporations Act if the proposed transaction is approved by a requisite majority of shareholders not associated with the parties making the proposal or their associates by passing a resolution at a general meeting.

Non-Interested shareholders voting pursuant to Item 7 of Section 611 of the Act are to be provided with all information known to the related parties of the proposed transaction, or the Company, that is material to the decision on how to vote on the resolution.

Regulatory Guide 74 'Acquisitions agreed to by Shareholders' states that the obligation to supply shareholders with all information that is material can be satisfied by the Non-Interested Director by either:

- Undertaking a detailed examination of the proposed transaction themselves, if they consider that they have sufficient expertise; or
- Commissioning an independent expert's report.

We have been requested by the Non-Interested Director to prepare this independent expert's report to provide additional information to the Non-Interested Shareholders to assist them to form a view on whether to vote in favour of or against the Conditional Resolutions.

4.3 Requirements of the Listing Rules

ASX Listing Rule 10.1

ASX Listing Rule 10.1 of Chapter 10: *Transactions with persons in a position of influence* states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, a substantial holder or a related party without the approval of holders of the entity's ordinary securities. Pursuant to ASX Listing Rule 19, the definition of 'dispose' includes using an asset as collateral.

ASX Listing Rule 10.2 defines an asset as 'substantial' if its value or the consideration for it is, or in ASX's opinion is, 5% or more of the value of the equity interests of the entity, as set out in the latest accounts given to the ASX in accordance with the listing rules.

Having regard to the Security Transaction and the definitions contained in ASX Listing Rules 10.1 and 10.2:

- The granting of security to Kam Lung as part of the Conditional Resolutions and completion of the DOCA is considered to be a disposal of an asset of the Company for the purposes of ASX Listing Rule 10.1; and
- The grant by the Company to Kam Lung of security over all of its (and the Deed Companies') assets constitutes the disposal of a substantial asset for the purposes of ASX Listing Rule 10.2.

ASX Listing Rule 10.10.2

Under ASX Listing Rule 10.10.2, where shareholder approval is sought for the purpose of complying with Listing Rule 10.1, the notice of meeting distributed to shareholders in relation to the transaction must include a report prepared by an independent expert, which states the expert's opinion as to whether the transaction is fair and reasonable to the non-interested shareholders.

This Report has been prepared to comply with the requirements of ASX Listing Rules 10.1, 10.2 and 10.10.2.

4.4 Assessment Methodology - The Relevant Interest Acquisition

The Corporations Act does not provide any specific guidance in relation to the principles and content of an expert's report relating to the approval of the issue of securities under item 7 of section 611 of the Corporations Act. However ASIC are of the view that the report should follow the requirements of other expert reports under the Corporations Act and ASIC have set out specific guidance in RG 111: *Content of Expert Reports* ('RG 111') in relation to the approval of the issue of securities under item 7 of section 611 of the Corporations Act.

RG 111 states that, in the event that a company issues securities to the vendor of another entity or to the vendor of a business and, as a consequence, the vendor acquires over 20% of the company incorporating the merged interest, the transaction should be analysed as if it was a takeover bid. In such circumstances, references to the 'bidder' and 'target' should be taken to mean the 'allottee' and the 'company' respectively.

When analysing a takeover bid, RG 111 states that an expert is required to give an opinion as to whether the proposed transaction is 'fair and reasonable' to the shareholders. The expert's report should explain how the particulars of the proposal were evaluated as well as the results of the examination and evaluation. RG 111 also provides guidance on common valuation methodologies and certain matters which should be considered by an expert when completing a valuation.

To meet the ASIC requirements, an expert seeking to determine whether a proposal is 'fair and reasonable' should complete the steps set out below.

4.4.1 Step 1 - Assessment of Fairness- The Relevant Interest Acquisition

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject to the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject to an offer in a control transaction, the expert should consider this value inclusive of a control premium and assume a 100% ownership interest.

In our view, it is appropriate to assess the fairness of the Relevant Interest Acquisition by:

- a) Determining the value of a CNX share prior to the Relevant Interest Acquisition on a controlling interest basis;
- b) Determining the value of a CNX share post the Relevant Interest Acquisition on a minority interest basis; and
- c) Comparing the value from a) above with b) above to allow us to conclude on whether or not the Relevant Interest Acquisition is 'fair'.

In accordance with the requirements of RG 111, the Relevant Interest Acquisition can be considered 'fair' to the shareholders if the value determined in b) above is equal to or greater than the value determined in a).

The valuation work set out in this Report has been completed using publicly available information, in addition to information provided by the Directors.

Our assessment of the fairness of the Relevant Interest Acquisition is set out in Section 8.0 of this Report.

4.4.2 Step 2 - Assessment of Reasonableness- The Relevant Interest Acquisition

To assess whether the Relevant Interest Acquisition is 'reasonable', in our view it is appropriate to examine other significant factors to which the Non-Interested Shareholders may give consideration prior to deciding whether to vote in favour of or against the Conditional Resolutions. This includes comparing the likely advantages and disadvantages of approving the Conditional Resolutions to the Company and examining the position of the Non-Interested Shareholders if the Conditional Resolutions are not approved.

Our assessment of the reasonableness of the Relevant Interest Acquisition is set out in Section 9.0 of this Report. We note that as with the assessment of fairness approach summarised above, we have considered factors that would impact on reasonableness as at the date of this Report.

4.4.3 Step 3 - Expert's Opinion- The Relevant Interest Acquisition

Upon completion of steps 1 and 2 above, we will conclude on whether the Relevant Interest Acquisition is 'fair' and/or 'reasonable' to the Non-Interested Shareholders. We note that under RG 111, the Relevant Interest Acquisition is considered to be 'reasonable' if it is 'fair'. It may also be possible to conclude that the Relevant Interest Acquisition is 'reasonable' if there are sufficient valid reasons for the approval, notwithstanding that the Relevant Interest Acquisition may not be 'fair' to the Non-Interested Shareholders.

This Report will conclude by providing our opinion as to whether or not the Relevant Interest Acquisition is 'fair and reasonable'. While all relevant issues need be considered prior to forming an overall opinion, we will assess the fairness and reasonableness issues separately for clarity.

4.5 Assessment Methodology - The Security Transaction

Neither the Corporations Act nor the ASX Listing Rules provide guidance in relation to the definition of 'fair and reasonable'. In determining whether the Security Transaction is considered fair and reasonable we have had regards to the guidance provided by RG 111. RG 111 provides guidance as to what matters an independent expert should consider to assist security holders to make an informed decision about transactions.

RG 111 suggests that where an expert is to assess whether a related party transaction is 'fair and reasonable' for the purpose of complying with ASX Listing Rule 10.1, the assessment should not be applied as a composite test. That is, the expert should assess separately whether the transaction is 'fair' and 'reasonable'. The expert's report should explain how the particulars of the transaction were evaluated as well as the results of the examination and evaluation.

4.5.1 Step 1 - Assessment of Fairness - The Security Transaction

RG 111 states that a related party offer is fair if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made:

- Assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length; and
- If the transaction is considered to be a control transaction, assuming 100% ownership of the target irrespective of whether the consideration is scrip or cash.

Our assessment of the fairness of the Security Transaction is set out in Section 10.0.

4.5.2 Step 2 - Assessment of Reasonableness - The Security Transaction

Reasonableness examines other significant factors which shareholders may consider prior to voting for or against the Security Transaction. This includes comparing the likely advantages and disadvantages of voting for or against the Security Transaction, with the position of the shareholders if the Security Transaction is not approved. This step can be classified as an assessment of whether the Security Transaction is 'reasonable'.

Our assessment of the reasonableness of the Security Transaction is set out in Section 11.0.

4.5.3 Step 3 - Expert's Opinion - The Security Transaction

Upon completing steps 1 and 2 above, we will conclude whether the Security Transaction is 'fair' and/or 'reasonable' to the Non-Interested Shareholders. We note that under RG 111, the Security Transaction is considered to be 'reasonable' if it is 'fair'. It may also be possible to conclude that the Security Transaction is 'reasonable' if there are sufficient valid reasons for the approval, notwithstanding that the Security Transaction may not be 'fair' to the Non-Interested Shareholders.

This Report will conclude by providing our opinion as to whether or not the Security Transaction is 'fair and reasonable'. While all relevant issues must be considered prior to forming an overall opinion, we will assess the fairness and reasonableness issues separately for clarity.

4.6 Other Matters

In this Report, we have not provided any taxation, legal or commercial advice in relation to the transactions set out in the Conditional Resolutions, inclusive of the Relevant Interest Acquisition and the Security Transaction.

When considering the transactions set out in the Conditional Resolutions, we have relied on certain economic, market and other conditions prevailing as at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report within a short period. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

This Report has been prepared in accordance with professional standard APES 225: Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited ('APES 225'). This assignment is a Valuation Engagement as defined by APES 225. A Valuation Engagement means an engagement or assignment to perform a valuation and provide a valuation report where we determine an estimate of value of the Company by performing appropriate valuation procedures and where we apply the valuation approaches and methods that we consider appropriate in the circumstances.

5.0 Background of Carbon Energy Limited

This section is set out as follows:

- Section 5.1 sets out an overview of CNX;
- Section 5.2 sets out an overview of the corporate structure of CNX;
- Section 5.3 sets out an overview of the equity structure of CNX;
- Section 5.4 provides a summary of share trading data available; and
- Section 5.5 sets out a summary of the historical financial information of CNX.

5.1 Company Overview

Carbon Energy Limited owns and develops a unique proprietary underground coal gasification ('UCG') technology, Keyseam, which has the potential to deliver low cost and environmentally responsible energy which can be used for power generation, chemical production and pipeline quality gas.

The Company entered a trading halt on 8 November 2016 prior to being suspended from trading on the ASX on 10 November 2016. Voluntary administrators were appointed on 22 November 2016. A DOCA has been approved by creditors and control of the Company reverted to the Directors on 9 March 2017. The DOCA is still subject to conditions precedent before becoming effective, including relevant shareholder approvals.

The following sections of this Report provide a brief overview of CNX's history, its key assets and developments.

5.1.1 Company History in Australia

Carbon Energy (Operations) Pty Ltd ('CEOPL') was formed in 2006 as a joint venture between Metex Resources Limited ('MRL') and the CSIRO to develop UCG technology.

During the 2008 financial year ('FY'), MRL changed its name to Carbon Energy Limited and acquired the remaining 50% of issued capital in CEOPL. CNX also committed to trialling the UCG technology at its Bloodwood Creek Site in Queensland. The UCG technology transforms coal into a product gas known as syngas.

In 2011, the Company achieved an Australian first in generating electricity from syngas.

In July 2013, the Independent Scientific Panel ('ISP') provided its findings on UCG projects including Bloodwood Creek, the project owned by CNX. The ISP was appointed by the Queensland State Government ('QLD Government') to report on the technical, environmental and commercial performance of the UCG technology in Queensland. The ISP report contained three overarching and eight specific recommendations in addition to the following overall conclusions:

- UCG could, in principle, be conducted in a manner that is acceptable socially and environmentally when compared to a wide range of other existing resource-using activities; and
- The ISP is of the opinion that for commercial UCG operations in Queensland in practice, first decommissioning must be demonstrated and then acceptable design for commercial operations must be achieved within an integrated risk-based framework.

During 2014, CNX submitted its decommissioning plan and rehabilitation plan to the QLD Government.

On 18 April 2016, the QLD Government introduced a ban on UCG in Queensland.

On 25 July 2016, CNX received confirmation from the QLD Government Chief Scientist that the Company had satisfactorily completed (and was the only company to meet) the recommendations of the QLD Government appointed ISP in relation to UCG. Further information is provided in Appendix A. This acknowledgement did not reverse the QLD Government's decision to ban UCG in Queensland.

Even prior to the QLD Government's decision to ban UCG in Queensland, the Company was refocussing its priorities, as evidenced by the Company's announcements in FY2015 and in the first half of FY2016, towards its

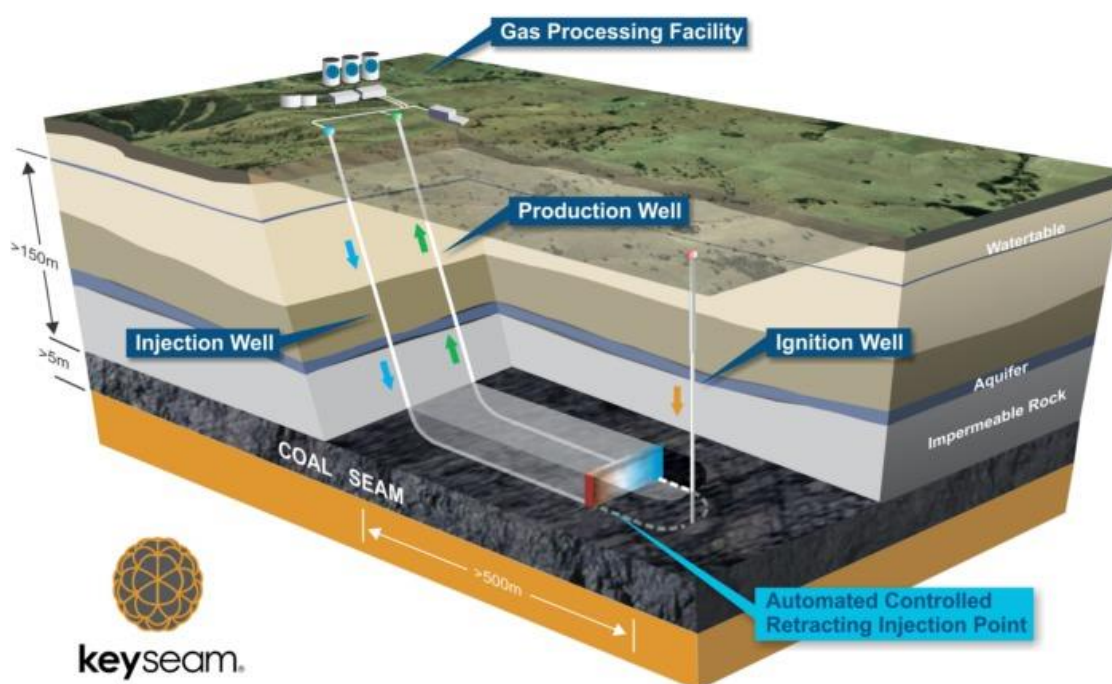
China projects and the licensing of the Company's Keyseam Technology internationally. The Keyseam Technology is described below.

5.1.2 Keyseam Technology

The Company's proprietary UCG technology, Keyseam, which is trademarked, was initially developed with the CSIRO. The Keyseam Technology transforms solid coal into gas underground and extracts gas from coal seam resources previously considered too deep or uneconomic to reach. The Company has pursued development of the technology over 10 years of research with CSIRO and over eight years of in-field trials with over \$150 million in total investment (which the Company has sourced through placements and secondary equity raisings since listing).

The Company has developed site selection expertise through its advanced geological modelling and collaboration with the CSIRO. The Keyseam process is illustrated in Figure 5.1 below:

Figure 5.1: The Keyseam Process



Source: Carbon Energy

The Keyseam process works as follows:

- To extract the energy from the coal, a small amount of natural gas is pumped down the initiation well to heat the coal and initialise the gasification process. Air, or a combination of oxygen and steam, is pumped down the injection well into the coal seam;
- Following air injection, a reaction takes place converting the solid coal into gas. This controlled process results in a steady flow of consistent quality gas. Maintaining a consistent quality of gas throughout the extraction process is critically important and had been one of the key barriers to being able to successfully tap into this potential energy source until now. In conjunction with CNX's unique design tools, the Company's proven technique achieves a consistent flow of high quality gas which is a significant breakthrough for the energy industry;
- Once syngas extraction has taken place, pillars of coal are left between each panel which are specifically designed, taking into consideration the local geology, to ensure surface subsidence is minimised; and
- The product gas is known as syngas. It is primarily made up of methane, ethane and hydrogen which are used for low-emission power generation and for the production of fertilisers, explosives, transport fuels

and synthetic natural gas. Additionally, syngas is produced with substantially lower capital costs than surface gasification plants.

Compared to other UCG technologies, Keyseam is differentiated by the following:

- It is the only UCG technology to successfully complete the QLD Government's scientific and environmental evaluations;
- Advanced site selection methodology;
- Process controls and technology design which allows for control of operations, allowing for operations that are environmentally safe and managed in a responsible risk based manner; and
- Automated gasification design allows for delivery of high quality consistent gas.

The technology enables over 10 years of continuous, consistent syngas production which delivers predictably stable, quality gas. Previous UCG projects have averaged around only three months of continuous gas supply and the consistency of the gas produced has been erratic.

Refer to **Appendix A** for further information on the UCG process.

5.1.3 *Developments in China*

CNX's projects in China have developed through their collaboration with the public sector and the progress of a joint venture with the private sector as outlined below.

The UCG Centre

China has included cleaner coal to energy production as an area of focus in its current Five Year Plan which commenced on March 2016⁵. The Energy Technology Revolutionary Innovation Action Plan (2016-2030) issued by the China National Development and Reform Commission and National Energy Administration includes the following goals for UCG:

- By 2020, to have a single gasifier process 500,000 tons of coal annually; and
- By 2030, achieve large scale industrial demonstration.

The China University for Mining and Technology International Research Centre for UCG ('the UCG Centre') was officially opened on 24 April 2016 with CNX's Dr Cliff Mallett and Jianmim Zhang being appointed as Directors. The UCG Centre has been established to encourage the development of UCG technology by industry and government groups alike, as the environmentally acceptable utilisation method for coal. The UCG Centre will seek to simplify the regulatory process by establishing standards of operations and formally seek recognition from the Chinese government.

The JinHong JV

During 2015, CNX entered into a joint venture ('JinHong JV') with Beijing JinHong Investment Development Co. ('JinHong') to focus on the building of a vertically integrated gas business in China. JinHong is controlled by Mr Zhuang who is the owner of Kam Lung Investment Development Company ('Kam Lung'), the top shareholder in CNX as at the date of this Report.

The Company announced on 17 June 2016 that the JinHong JV had been formally registered. Under the JinHong JV, JinHong will contribute US\$30 million towards developing a commercial demonstration project (the 'First Demonstration Project') over three years upon the JinHong JV meeting certain milestones. On 24 September 2016, the Company announced the receipt of US\$10 million in cash by the JinHong JV from JinHong. The US\$10 million is the first required milestone payment under the JinHong JV agreement with the remaining US\$20 million payable as required, to complete the commercial demonstration project.

⁵ The Oxford Institute For Energy Studies

CNX's contribution to the JinHong JV is initially a non-exclusive licence to use the Keyseam Technology which will become an exclusive licence in China upon the successful commissioning of the Demonstration Project. CNX will also provide technical and design services support, supervision during the construction, operations and operational training for all JV projects under the Technical Services Agreement. As part of a Technical Services Agreement, CNX as the licensor provides technical services and technical documentation to the JinHong JV, the licensee. As part of the JinHong JV's contractual obligations, all third party licencing requires the execution of a technical services agreement directly with CNX as the exclusive provider of those services.

The JinHong JV have held numerous meetings with a large SOE and relevant government departments to understand the requirements for registration and approval of the Demonstration Project in the respective regions of the identified sites. We have been instructed that all meetings and discussions to date have been preliminary in nature with no formal approvals sought or granted.

We understand that JinHong has held discussions with business and government parties to secure adequate coal resources and regulatory approvals for the Demonstration Project. CNX will receive technical service fees from the JinHong JV for its contribution to the JinHong JV's Demonstration Projects. Fees are charged on a cost plus a management fee basis.

5.1.4 Other International Projects

The Company has also historically pursued the following opportunities:

- In 2016, the Company signed a non-binding term sheet with Ascot Energy Pte Ltd (an Indonesian company) to license its Keyseam Technology and services to develop a modular 30 megawatt ('MW') capacity syngas fuelled power project in Indonesia. Further discussions with Ascot Energy Pte Ltd are continuing however there has been no further progress due to the Company being placed into administration;
- In 2013, the Company entered into a technology licence agreement with Zhengzhou Coal Industry Group Co Ltd, in relation to UCG commercialisation at the Haoqin coal field in Mongolia. The Company was to receive over US\$15 million in fees under the terms of the agreement, however, only US\$1.8 million has been received to date. The project is on hold pending further payments. We have been instructed that there has been no contact with Zhengzhou Coal Industry Group Co Ltd in over 18 months and the residual receivables were written down 18 months ago; and
- The Company entered into an agreement with Antofagasta Minerals SA in relation to a potential UCG development at the Mulpun project in Chile in 2011. It also signed an MOU with Delmo Group for a potential UCG project in the Claromeco coal basin in Argentina in 2013. Both projects have completed initial demonstration set up activities, however, require initial equity of approximately US\$30 million funding before they can be commercialised.

5.1.5 Tenements and Queensland Operations

The Company owns coal tenements in Kogan, Queensland. The tenements include Bloodwood Creek, the pilot site for Carbon Energy's first trial to commercialise its Keyseam Technology. The tenements are not currently in production.

Table 5.1 summarises the tenements owned by CNX.

Table 5.1: Summary of CNX's tenements as at 30 June 2016

Tenure	Expiry Date	Mineral Resource Category	Thermal Coal Resource (Mt)	Syngas Resource Classification ²	Syngas Energy (PJ)
MDL374	31/01/2018	Inferred	243	2C Contingent Resource	2,512.4
EPC867	17/02/2015 ¹	Inferred	1,448	2C Contingent Resource	13,384.4
EPC868	17/02/2015	-	-	-	-
EPC869	13/10/2017	Inferred	449	2C Contingent Resource	4,150.3
EPC1132	20/06/2019	Inferred	132	2C Contingent Resource	1,220.1
Total			2,272		21,267.2

Source: CNX Annual Report for the year ended 30 June 2016

- 1 EPC 867 and 868 renewals were submitted to the Department of Natural Resources and Mines on time and are currently with the Department for review.
- 2 Thermal coal can be gasified to produce syngas, so either coal or syngas can be extracted from the Company's tenements.

The Company's activities involving its Queensland tenements include the following:

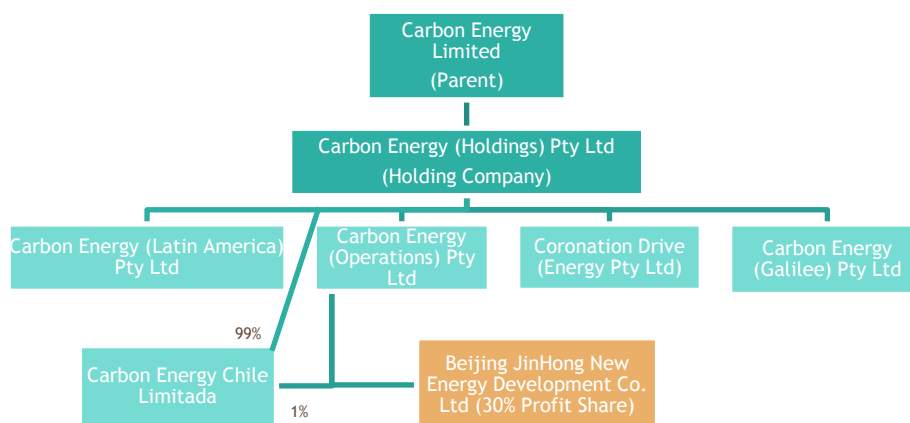
- In May 2008, CNX commenced the development and construction of its first pilot scale, oxygen injected UCG trial based on a 1 PJ per year UCG syngas module at its Bloodwood Creek site near Kogan. It was successful in generating electricity from syngas for the first time in 2011;
- In 2012, the Company suspended its trial at Bloodwood Creek pending finalisation of the government approval process; and
- On 23 June 2016 the Company announced a Memorandum of Understanding ('MOU') with Photon Energy Limited for the development of a solar plant at the Bloodwood Creek site to support a potential solar farm. Under the MOU, CNX and Photon Energy Limited have agreed a six month target timeframe to assess the potential to develop the solar project. CNX will also conduct a feasibility study to determine whether the Bloodwood Creek UCG infrastructure can be used for an innovative energy storage solution. We have been advised that this agreement ended on 23 December 2016 and was not extended by the Administrators. The Company is considering a number of alternative options in relation to monetising its Bloodwood Creek assets.

The Company announced on 25 October 2016 that it had entered into an agreement with Pacific Road to assist with the sale of its Queensland tenements. The agreement only came into effect if the transfer of the convertible note to Kam Lung was approved by CNX shareholders. We note that this agreement never came into effect due to the unsuccessful conclusion to the previous attempt to transfer the convertible note to Kam Lung. The Company does not see any value in holding the Queensland tenements and is investigating various options available to them.

5.2 Corporate Structure

Figure 5.2 outlines the corporate structure of CNX.

Figure 5.2: CNX's Corporate Structure



Source: CNX Management

With reference to Figure 5.2, we note that:

- CNX owns 100% of all its controlled entities;
- CNX has an interest in 30% of the profit share of the JinHong JV;

- CEOPL was originally formed to facilitate the construction and commissioning of the UCG project in Queensland. On 18 April 2016, the QLD government introduced a ban on UCG in Queensland and the Company wrote off all capitalised costs relating to its Queensland projects to date. The ban creates significant uncertainty about the future of UCG development in Queensland. The Company is attempting to mitigate the uncertainty through:
 - Continuing to explore alternative options for monetising the Bloodwood Creek assets; and
 - its developments in China; and
- Carbon Energy Chile Limitada holds the Company's UCG project assets in Chile, which were initially established in 2009. The Company impaired its investment in Chile in its 2016 financial statements.

5.3 Equity Structure

5.3.1 Top 10 and Other Shareholders of CNX's Ordinary Shares

As at 23 May 2017, CNX has 1,813,428,879 shares, 9,495,080 unlisted options and 71,243,236 performance rights on issue. Ownership of Carbon Energy is relatively consolidated with the top 10 shareholders holding approximately 53% of the total ordinary shares on issue.

The top 10 and other shareholders of CNX ordinary shares as at 23 May 2017 are set out in Table 5.2 below. Table 5.2 does not consider the impacts of any changes in shareholding arising from the Relevant Interest Acquisition.

Table 5.2: Top 10 and Other CNX Shareholders as at 23 May 2017

Shareholder	Number of Shares	Percentage of Total Shares (%)
1 Kam Lung Investment Development Company Limited	514,760,847	28.39%
2 Pacific Road Group.	168,531,831	9.29%
3 Incitec Pivot Limited	75,556,040	4.17%
4 Citicorp Nominees Pty Limited	55,398,171	3.05%
5 BNP Paribas Nominees Pty Ltd	33,277,252	1.84%
6 Commonwealth Scientific and Industrial Research	28,346,389	1.56%
7 HSBC Custody Nominees (Australia) Limited	24,915,339	1.37%
8 J P Morgan Nominees Australia Limited	19,676,356	1.09%
9 Clifford Mallett	19,609,607	1.08%
10 Mr Ross Francis Stanley	17,559,853	0.97%
11 Other	855,797,194	47.19%
Total	1,813,428,879	100.00%

Source: CNX Shareholder Register as at 23 May 2017

5.4 Trading of CNX's Shares on the ASX

This section sets out our analysis of the share market performance of CNX by considering:

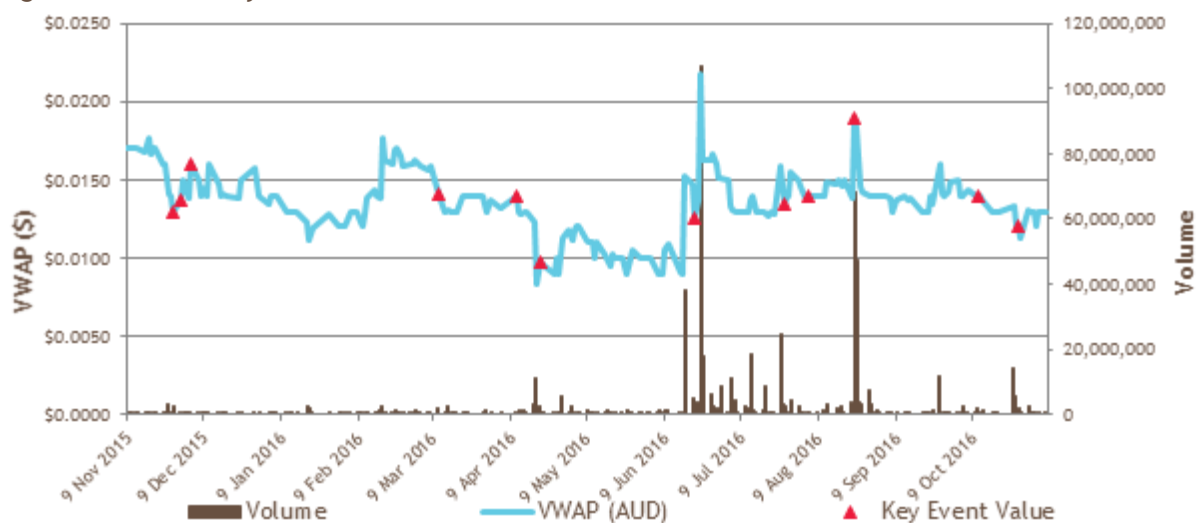
- The price of CNX shares listed on the ASX; and
- The liquidity of CNX shares.

We also note that CNX's shares since June 2011 are traded through its listed American Depositary Receipts ('ADRs') within the United States of America on the OTCQX Exchange (the top tier over the counter exchange run by OTC Markets Limited. In December 2016, its trading platform moved to the OTC pink sheet market). Each CNX ADR (Ticker: CNXAY) represents 20 ordinary shares of CNX shares listed on the ASX. The closing price of CNXAY as at 7 November 2016 is USD\$0.19. We have not analysed the CNXAY trading details in this Report as the volume of trades are relatively small prior to delisting.

5.4.1 CNX's Share Price

CNX's shares are listed on the ASX. Figure 5.3 below sets out CNX's daily volume weighted average price ('VWAP') and volume traded over the period from 9 November 2015 to 7 November 2016.

Figure 5.3: CNX's Daily VWAP 9 November 2015 to 7 November 2016



Source: Capital IQ as at 23 May 2017

Over the period graphed in Figure 5.3, the CNX daily VWAP shows a period low of \$0.0084 on 19 April 2016 and a period high of \$0.0218 on 23 June 2016.

In addition to the share price and trading data, we have also provided additional information in this Report to assist readers to understand possible reasons for movements in CNX's share price and volume of share trades over the time period analysed. We have provided a summary of CNX's announcements over the period from 9 November 2015 to 7 November 2016 in Table 5.3 below. For completeness, we have also included announcements post the trading halt to the date of this Report.

Table 5.3: Summary of CNX's Announcements over the period from 9 November 2015 to 10 November 2016

Date	Announcement
27/11/15	CNX announced that it has entered into a JV with Beijing JinHong Investment Co. Ltd (JinHong).
26/02/16	CNX announced that it had obtained consent from long term shareholder and provider of the five year \$10 million convertible loan facility, Pacific Road Group to establish the JinHong JV agreements and for the grant of licenses to the JinHong JV. The Pacific Road Group was granted additional security over other assets of the Company.
29/02/16	CNX announced that CNX and its JV partner, JinHong have agreed to monthly, pre-paid service fees to progress pre-JV activities following the JV's first strategic workshop in Beijing, China.
11/03/16	CNX announced a 3 for 11 partially underwritten renounceable rights issue to eligible shareholders at 1.3c per share to raise up to \$5.3 million.
11/04/16	CNX announced it had raised \$3.48 million under the rights issue. The entitlements accepted and top-up shares applied for totalled \$1.68 million with the remaining amount underwritten by APP Securities Pty Ltd and sub-underwritten by Kam Lung.
18/04/16	The Department for Natural Resources, Mining, Environment and Heritage Protection announce a complete ban on UCG in Queensland.
29/04/16	CNX announced the Company's participation in the formation of a UCG research centre in China in conjunction with the China University of Mining and Technology.
17/06/16	CNX announced the JinHong JV had achieved formal registration in China with the Chinese corporate registry.

Date	Announcement
23/06/16	CNX announced it had entered a Memorandum of Understanding with Photon Energy NV to evaluate the development of a solar power generation plant at the Company's Bloodwood Creek site.
25/07/16	CNX announced it had received formal confirmation from the Queensland Government's Chief Scientist that the Company had met the key recommendations of the government appointed ISP into UCG.
23/08/16	CNX announced the appointment of Mr Kerry Parker to the position of Managing Director and CEO.
23/08/16	CNX announced it has signed a non-binding term sheet with Ascot Energy Pte Ltd to license its Keyseam Technology for a 30 MW Indonesian power project.
26/09/16	CNX announced the achievement of a key milestone in the development of its JinHong JV being the receipt of the initial \$US10 million payment as the initial capitalisation for the JinHong JV.
11/10/16	CNX announced the resignation of its non-executive Director, Mr Louis Rozman effective immediately
21/10/16	CNX announced that the securities of the Company will be placed in a trading halt, pending a release of an announcement by the Company in relation to the execution of a term sheet dealing with refinancing the Company's \$10m convertible note.
25/10/16	CNX announces that cornerstone investor, Kam Lung is purchasing the \$10 million convertible note from Pacific Road. CNX also proposed a \$5 million rights issue at 1.2c per share as a condition precedent to Kam Lung acquiring the convertible note.
27/10/16	CNX announced the retirement of its non-executive Chairman and Director, Dr Chris Rawlings effective from the date of its 2016 AGM
08/11/16	CNX announced that the securities of the Company will be placed in a trading halt, pending a release of an announcement by the Company in relation to finalising the documentation to secure funding to refinance its \$10m convertible note facility.
10/11/16	CNX announced the suspension of trading of its shares on the ASX pending the release of an announcement regarding the finalisation of the Company's refinancing.
23/11/16	CNX announced the appointment of Voluntary Administrators
17/02/17	CNX (Administrators appointed) announced the proposed recapitalisation of the Company by way of deed of company arrangement. Kam Lung to provide a convertible note facility and take a controlling interest in the Company. Mr George Su to also be appointed to the Board of CNX as a non-executive director.
01/03/17	The Voluntary Administrators provided the Administrator's report and relevant annexures to shareholders and announced that the second creditors meeting was convened for 9 March 2017
09/03/17	CNX announced that the deed of company arrangement (approved by Creditors on 9 March 2017) was executed and control of the Company had reverted to the Directors
13/03/17	CNX announced the resignation of Dr Helen Garnett (effective 13 March 2017), Kerry Parker (effective 31 May 2017) and Ms Catherine Costello (effective 1 May 2017). Mr Peter Hogan was appointed Chairman (effective 13 March 2017) to replace Dr Chris Rawlings who retired 9 March 2017).
05/04/17	CNX announced that Mr Kerry Parker has stepped down as Managing Director effective immediately. Mr Parker will remain employed as Chief Executive Officer on a part-time basis until his resignation takes effect on 21 May 2017.
15/05/17	CNX announced that the deed of company arrangement (approved by Creditors on 9 March 2017) has been amended and the updated terms of the deed of company arrangement will be voted on by Creditors at a Creditors meeting scheduled for 23 May 2017.
23/03/17	CNX announced that the amended deed of company arrangement has been approved by Creditors. The Company also announced that the meeting of shareholders is anticipated to be held before 22 July 2017. Mr Kerry Parker and Ms Catherine Costello will remain employed on a part-time basis until the earlier of the completion of the DOCA or 31 July 2017 to ensure continuity of management throughout this process.

Source: ASX Announcements as of 23 May 2017

In Table 5.4 below we have set out Carbon Energy's VWAP for the 1 week, 1 month, 3 months, 6 months, 9 months and 12 months prior to 7 November 2016.

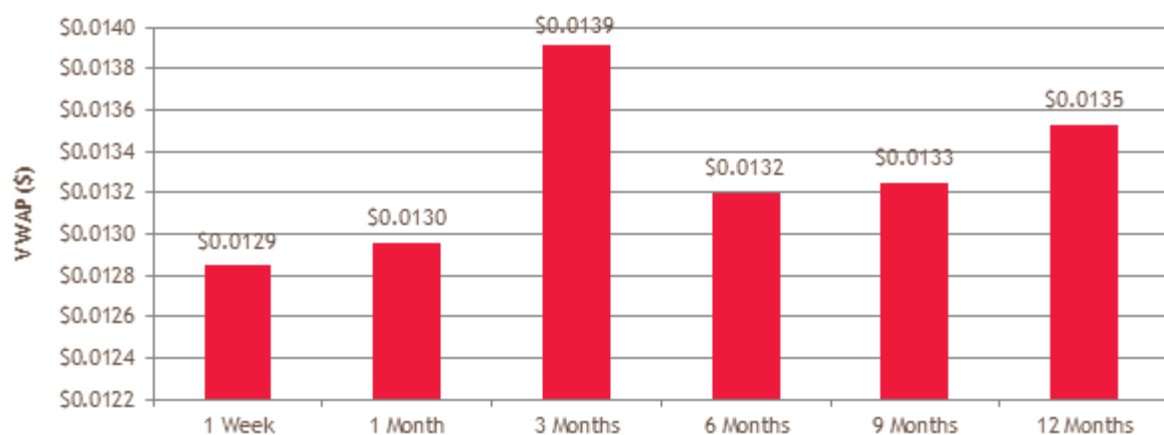
Table 5.4: Carbon Energy's VWAP for Specified Periods Prior to 7 November 2016

VWAP Period Prior to 7 November 2017	VWAP (A\$)
1 Week	\$0.0129
1 Month	\$0.0130
3 Months	\$0.0139
6 Months	\$0.0132
9 Months	\$0.0133
12 Months	\$0.0135

Source: Capital IQ as at 23 May 2017

The information presented in Table 5.4 is shown graphically in Figure 5.4 below.

Figure 5.4: Carbon Energy's VWAP for Specified Periods Prior to 7 November 2016



Source: Capital IQ as at 23 May 2017

5.4.2 Liquidity of CNX Shares

Table 5.5 below summarises the monthly liquidity of CNX shares from November 2015 until November 2016. Liquidity has been summarised by considering the following:

- Volume of CNX trades per month;
- Total value of trades per month;
- Volume of CNX trades per month as a percentage of total CNX shares on issue at the end of the month; and
- Monthly VWAP.

Table 5.5: Liquidity of CNX's Shares

Month	Volume	Value of Trades	Shares Outstanding ¹	Volume per Shares Outstanding	Monthly VWAP
November 2016 ²	832,210	10,690	1,813,428,880	0.05%	\$0.0128
October 2016 ³	34,595,920	447,040	1,813,428,880	1.91%	\$0.0129
September 2016	22,956,630	316,630	1,813,428,880	1.27%	\$0.0138
August 2016	153,583,320	2,616,780	1,807,542,980	8.50%	\$0.0170
July 2016	98,525,590	1,347,650	1,805,034,370	5.46%	\$0.0137
June 2016	191,537,240	3,196,880	1,775,730,120	10.79%	\$0.0167
May 2016	15,255,300	162,910	1,764,233,860	0.86%	\$0.0107
April 2016 ⁴	29,343,230	300,250	1,696,682,950	1.73%	\$0.0102
March 2016 ⁵	10,319,790	140,300	1,492,996,140	0.69%	\$0.0136
February 2016	12,087,250	174,220	1,487,938,870	0.81%	\$0.0144
January 2016	7,621,620	93,310	1,487,938,870	0.51%	\$0.0122
December 2015	5,181,260	74,070	1,486,899,000	0.35%	\$0.0143
November 2015	13,898,100	210,340	1,479,100,000	0.94%	\$0.0151
Total	595,737,460	9,091,070	1,670,736,980	35.66%	\$0.0153

Source: Capital IQ as at 23 May 2017

1 Average number of shares outstanding

2 November 2016 includes share trading data to 7 November 2016

3 Share trading halt in month of October from 21 October 2016 to 25 October 2016

4 CNX requested a voluntary suspension from trading in month of April from 6 April 2016 to 11 April 2016

5 Share trading halt in month of March from 9 March 2016 to 11 March 2016

Based on the average number of 1,670,736,980 CNX shares on issue, approximately 35.66% of CNX shares on issue were traded over the period 1 November 2015 to 7 November 2016. We consider that CNX exhibited low to moderate levels of liquidity over the period.

5.5 CNX's Historical Financial Information

This section of this Report sets out the historical financial information of CNX. As this Report contains only summarised historical financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in CNX's annual reports which include the full statements of comprehensive income, statements of financial position and statements of cash flows.

CNX's accounts were audited in FY2014 and FY2015 by Deloitte and FY2016 by Grant Thornton. BDO CFQ has not performed any audit or review of any type on the historical financial information of CNX. We make no statement as to the accuracy of the information provided. However, we have no reason to believe that the information is misleading.

5.5.1 Comprehensive Income

The consolidated statements of comprehensive income of CNX for the 12 months ended 30 June 2014, 2015 and 2016 are summarised in Table 5.6 below.

Table 5.6: Summarised CNX's Statements of Comprehensive Income

	12 Months Ended 30-Jun-14 Audited (\$ AUD)	12 Months Ended 30-Jun-15 Audited (\$ AUD)	12 Months Ended 30-Jun-16 Audited (\$ AUD)
Technology service fee revenue	2,332,029	285,268	189,069
Other revenue	4,125,561	3,906,430	2,560,429
Revenue and other income from continuing operations	6,457,590	4,191,698	2,749,498
Employee Benefits expense	(5,702,661)	(4,195,896)	(3,066,278)
Administration, legal and corporate costs	(2,357,484)	(1,759,193)	(1,680,457)
Consultancy costs	(1,048,943)	(1,327,150)	(546,111)
Operating expenditure	(1,624,864)	(309,537)	(314,013)
Share-based payments	(478,393)	(83,113)	(75,588)
Depreciation expense	(145,253)	(228,713)	(183,052)
Finance Costs	(2,270,742)	(1,878,719)	(1,752,442)
Movement in fair value of derivatives	255,252	1,884	9,020
Impairment expense	(1,970,900)	(634,148)	(95,677,350)
Total expenses	(15,343,988)	(10,414,585)	(103,286,272)
Profit/(Loss) before tax	(8,886,398)	(6,222,887)	(100,536,774)
Income tax benefit/ (expense)	(233,203)	52,122	(8,530)
Profit/(Loss) after tax	(9,119,601)	(6,170,765)	(100,545,304)
Other comprehensive income (net of tax)	-	-	-
Total loss including comprehensive income for the Year	(9,119,601)	(6,170,765)	(100,545,304)

Source: CNX 2014, 2015 and 2016 Annual Reports

With reference to Table 5.6, we note the following:

- CNX has experienced net losses in all periods reported;
- The majority of CNX's revenue in each financial year reported comes from Government grants that relate to expenditures in prior years. Government grants include:
 - FY2014: \$3,865,463;
 - FY2015: \$3,787,536; and
 - FY2016: \$2,490,344;
- CNX's finance costs relate to interest expense and the accretion expense on the convertible note issued to Pacific Road;
- CNX's impairment expense increased to \$95.7 million in FY2016 mainly due to the write down of deferred exploration and evaluation costs of \$90.5 million. This write down relates to 100% of the Blue Gum Gas project as a result of the Queensland Government's announcement to ban UCG in Queensland;
- CNX's share-based payments relate to the Company's long and short term incentive schemes. The reduction in costs accompanies a reduction in the Company's eligible staff headcount;
- The profit from movement in fair value of derivatives of \$0.26 million in FY2014 relates to fair value adjustments on 61,728,395 options held by Credit Suisse that were issued at a strike price of \$0.081 per share as part of a loan facility with Credit Suisse. The FY2013 rights issue resulted in a recalculation of the strike price which was reduced to \$0.061 per share. As such, the derivative financial liability was recalculated at fair value at the period end. These options expired on 15 November 2015;
- Employee Benefits expenses have decreased in all years shown above as the Company has reduced staff numbers over this period. Staff numbers were reduced in June 2014 when the Company's Haoqin project in Mongolia was put on hold and further reduced in October 2014 after the submission of the decommissioning plan and rehabilitation plan to the QLD Government. In addition to the above, a number of executive positions were consolidated following the departure of the General Manager, Technical Services and the General Counsel and Company Secretary; and

- The tax benefit of \$0.052 million in FY2015 was a result of tax credits that relate to withholding tax paid in China.

5.5.2 Financial Position

The consolidated statements of financial position of CNX as at 30 June 2014, 2015 and 2016 are summarised in Table 5.7 below.

Table 5.7: Summarised CNX Statements of Financial Position

	As at 30-Jun-14 Audited (\$ AUD)	As at 30-Jun-15 Audited (\$ AUD)	As at 30-Jun-16 Audited (\$ AUD)
Current assets			
Cash and cash equivalents	2,387,114	1,688,736	2,208,071
Trade and other receivables	1,460,432	51,878	177,821
Other current assets	39,461	65,424	78,027
Total current assets	3,887,007	1,806,038	2,463,919
Non-current assets			
Trade and other receivables	267,553	267,553	267,553
Intangible assets	47,598,834	47,902,732	47,968,814
Construction work in progress	2,555,334	2,555,334	-
UCG panel assets	1,774,901	1,786,888	-
Property, plant & Equipment	1,043,282	834,191	692,707
Deferred exploration & evaluation costs	90,180,110	90,376,990	-
Other non-current assets	860,326	860,326	-
Total non-current assets	144,280,340	144,584,014	48,929,074
Total assets	148,167,347	146,390,052	51,392,993
Current liabilities			
Trade and other payables	952,372	435,158	643,270
Deferred revenue	873,106	-	-
Loans & borrowings	-	1,165,937	-
Derivative financial liability	10,904	9,020	-
Financial liabilities	-	-	9,210,047
Provisions	829,337	386,699	864,031
Total current liabilities	2,665,719	1,996,814	10,717,348
Non-Current liabilities			
Provisions	2,923,595	3,727,577	2,898,203
Financial liabilities	6,972,442	8,029,675	-
Total non-current liabilities	9,896,037	11,757,252	2,898,203
Total liabilities	12,561,756	13,754,066	13,615,551
Net assets	135,605,591	132,635,986	37,777,442
Equity			
Issued Capital	235,606,127	238,614,976	244,226,148
Reserves	19,735,710	19,928,021	20,003,609
Accumulated losses	(119,736,246)	(125,907,011)	(226,452,315)
Total equity	135,605,591	132,635,986	37,777,442

Source: CNX 2014, 2015 and 2016 Annual Reports

With reference to Table 5.7 above we note the following:

- Intangible assets predominantly relate to the following:
 - capitalised costs relating to the Keyseam Technology development in Australia;

- deferred exploration and evaluation expenditure relating to the exploration and evaluation of the Bloodwood Creek project as the initial pilot site for the Keyseam Technology;
- The increase in financial liabilities in each financial year reported relates to the accretion of interest on the Pacific Road convertible note. This note was required to be repaid by 18 January 2017 and the ability of the Company to remain a going concern was contingent on this debt being refinanced. The convertible note was reclassified as a current liability in 2016 as it was repayable within 12 months from 30 June 2016. CNX was unable to conclude the refinancing options announced in October 2016 due to a irregularity regarding the internal restructure of one of Pacific Road's entities party to the CFA (refer to Section 3.1.1 and ASX announcement on 22 November 2016), which led to the Company being placed into Voluntary Administration on 22 November 2016. Excluding intangible assets, CNX had a net asset deficiency of approximately \$10.2 million;
- The reduction in Construction Work in Progress in FY2016 relates to the construction work at Bloodwood Creek, Dalby in Queensland. This asset was impaired at 30 June 2016 due to QLD Government restrictions preventing UCG in Queensland;
- The reduction in the UCG panel assets at Bloodwood Creek in FY2016 relates to the impairment of assets at 30 June 2016;
- The trade and other receivables of approximately \$1.5 million in FY2014 relate to receivables due from Haoqin Mining in relation to the Inner Mongolia project. These assets were impaired during FY2015; and
- The increase in issued capital in each financial year reported predominantly relates to private placements, rights issues and employee share scheme shares as well as the issue of shares to Pacific Road towards the payment of interest on the convertible note.

5.5.3 Cash Flows

The consolidated statement of cash flows of CNX for the 12 month periods ended 30 June 2014, 2015 and 2016 are summarised in Table 5.8 below.

Table 5.8: Summarised CNX Statements of Cash Flow

	As at 30-Jun-14 Audited (\$ AUD)	As at 30-Jun-15 Audited (\$ AUD)	As at 30-Jun-16 Audited (\$ AUD)
Cash Flow from Operating Activities			
Receipts from customers	1,810,818	172,331	69,463
Payments to suppliers & employees	(12,425,011)	(8,140,077)	(6,129,129)
Receipt of Government grants	3,865,463	3,787,536	2,490,344
Interest received	166,946	91,442	60,370
Taxes paid	(181,082)	-	(8,530)
GST receipts from ATO	659,401	412,879	267,871
Other receipts	91,023	12,745	6,132
Net Cash Flows used in operating activities	(6,012,442)	(3,663,144)	(3,243,479)
Cash Flows from Investing Activities			
Payments for plant, property & equipment	(105,311)	(19,684)	(41,568)
Proceeds on sale of available for sale assets	449,999	-	3,819
Proceeds from sale of tenements	600,000	-	-
Payments for exploration & evaluation costs	(120,857)	(196,881)	(88,423)
Payments for intangible assets	(24,452)	(85,709)	(38,385)
Net Cash Flows used in Investing activities	799,379	(302,274)	(164,557)
Cash Flows from Financing Activities			
Proceeds from issues of shares	8,874,169	2,566,152	5,406,836
Proceeds from short term loan facility	-	2,665,937	-
Repayment of short term loan facility	(2,997,233)	(1,500,000)	(1,165,937)
Term facility costs	-	(219,413)	(16,493)

	As at 30-Jun-14 Audited (\$ AUD)	As at 30-Jun-15 Audited (\$ AUD)	As at 30-Jun-16 Audited (\$ AUD)
Capital raising and financing costs	(49,321)	(245,636)	(297,034)
Net cash flows provided by financing activities	5,827,615	3,267,040	3,927,372
Net increase/ (decrease) in cash & equivalents	614,552	(698,378)	519,336
Cash & cash equivalents at the beginning of the financial year	1,772,562	2,387,114	1,688,736
Cash & cash equivalents at the end of the financial year	2,387,114	1,688,736	2,208,072

Source: CNX 2014, 2015 and 2016 Annual Reports

With reference to Table 5.8, we note the following:

- Operating cash flows have been negative as operating expenses have exceeded revenues in all three periods due to the Company's continued focus on developing its Keyseam Technology and establishing demonstration and commercialisation capability;
- The majority of funding for the Company has come from the proceeds raised through share issuances or borrowings from short-term financing facilities;
- Positive cash flows from investing activities of approximately \$0.8 million in FY2014 are a result of the sale of tenements and investment assets;
- The decline in the payments to suppliers and employees in each of the reported periods relates predominantly to the reduction in employee benefits expense; and
- The receipt of Government grants in each of the reported periods relates to a research and development ('R&D') tax incentive rebate from the Australian Taxation Office ('ATO') and an export market development grant from Austrade. These rebates are recognised upon receipt and relate to eligible expenditure incurred in relation to the Company's Keyseam Technology in the relevant prior financial period.

6.0 Valuation of CNX Prior to the Relevant Interest Acquisition

This section is set out as follows:

- Section 6.1 sets out our view of the most appropriate methodology to value CNX prior to the Relevant Interest Acquisition;
- Section 6.2 sets out our view of the value of CNX prior to the Relevant Interest Acquisition having regard to an ABV methodology;
- Section 6.3 sets out our view of the value of CNX prior to the Relevant Interest Acquisition having regard to a MBV methodology; and
- Section 6.4 sets out our conclusion on the value of CNX prior to the Relevant Interest Acquisition for the purposes of this Report.

6.1 Our Valuation Approach

Table 6.1 below summarises our view of the methodologies that are appropriate to determine the value of CNX prior to the Relevant Interest Acquisition. Table 6.1 also provides a brief explanation as to why each methodology is or is not appropriate. Appendix B of this Report provides a summary of each of the valuation methodologies listed in Table 6.1.

Table 6.1: Appropriate Valuation Methodologies for CNX prior to the Relevant Interest Acquisition

Valuation Methodology	Adopted	Explanation
ABV	✓	<p>In our view, it is appropriate to have regard to an ABV methodology for the purposes of valuing CNX prior to the Relevant Interest Acquisition in this Report. The assets of CNX can be identified and it is possible to determine the fair value of those identifiable assets with a reasonable degree of accuracy.</p> <p>The information that we have been provided to assist with our ABV in relation to the assets and liabilities of CNX includes a consolidated unaudited statement of financial position for CNX as at 31 December 2016 which sets out information on the value of other assets and liabilities held by CNX. This balance sheet was provided to the ASX for the purpose of the waiver requests in relation to the Relevant Interest Acquisition. To assist form a view on the Keyseam Technology, we have also used a DCF valuation methodology.</p>
DCF	✓ Incorporated in ABV	<p>The DCF valuation methodology requires calculation of the forecast earnings of CNX. CNX has prepared a financial model which sets out current expectations of future financial information for the Keyseam Technology. We are of the view that a DCF valuation of the Keyseam Technology is appropriate to incorporate into our consideration of the value of CNX for the purposes of this Report.</p>
CME	✗	<p>CNX does not currently have maintainable earnings suitable for use in a CME valuation methodology as the Company has delivered a net loss in recent years.</p> <p>We are of the view that there are more appropriate valuation methodologies than the CME valuation methodology which can be adopted for the purposes of valuing CNX prior to the Relevant Interest Acquisition in this Report.</p>
MBV	✓	<p>Generally, it is possible to complete a market based valuation of a company when there is a readily observable market for the trading of the company's shares.</p> <p>Prior to CNX entering Voluntary Administration, the shares of CNX were traded on the ASX and it was possible to observe the market price of trades in CNX shares.¹ We note that the MBV provides a valuation of CNX shares on a minority interest basis.</p> <p>CNX completed a three-for-eleven right issue ('the Previous Rights Issue') raising \$3.48 million at an offer price of \$0.013 in April 2016. The company since raised another \$0.4 million, being a placement under the Previous Rights Issue shortfall.</p> <p>In our view, it is appropriate to have regard to the MBV methodology for the purpose of calculating the value of CNX shares prior to the Relevant Interest Acquisition.</p>

Source: BDO CFQ Analysis

¹ We note the Company entered a trading halt on 8 November 2016 prior to being suspended from trading on the ASX on 10 November 2016.

Sections 6.2 and 6.3 below summarise our ABV and MBV of CNX respectively.

6.2 Asset Based Valuation of CNX prior to the Relevant Interest Acquisition

Our asset based valuation of CNX prior to the Relevant Interest Acquisition is set out as follows:

- Section 6.2.1 summarises the valuation set out in the Financial Model for the Keyseam Technology which includes a DCF cash flow model comprising CNX's interest in:
 - The First JinHong Demonstration Project (the 'First Demonstration Project');
 - The Second JinHong Demonstration Project (the 'Second Demonstration Project');
 - The two Commercialisation Projects (the 'Commercialisation Projects');
- Section 6.2.2 considers the value of the Surat Basin Tenements;
- Section 6.2.3 considers the value of the debt and equity components of the Pacific Road Convertible Note;
- Section 6.2.4 considers the fair market value of the other assets and liabilities of CNX;
- Section 6.2.5 considers the fair market value of the Other Equity Instruments; and
- Section 6.2.6 sets out our view of the fair market value of CNX prior to the Relevant Interest Acquisition having regard to an ABV methodology.

6.2.1 Value of the Keyseam Technology prior the Relevant Interest Acquisition

The Financial Model

CNX management have provided us with a financial model ('the Financial Model') which sets out management's current expectation of future financial information relating to the Keyseam Technology. We have referred to the Financial Model for the purposes of assisting us in determining an appropriate value for the Keyseam Technology in this Report.

The projections in the Financial Model have been prepared by, and are the responsibility of, the Directors of CNX. We are instructed that the projections represent the Directors' best estimates of the future cash flows of the Keyseam Technology at the current time. We have considered the projections in the Financial Model for the purposes of determining an appropriate value for the Keyseam Technology in this Report.

We have critically analysed the Financial Model to determine whether the assumptions underpinning the projections set out in the Financial Model provide an appropriate basis for our valuation of the Keyseam Technology. Our work has included the following:

- Performing tests and checks on a sampling basis in relation to the mathematical accuracy of the Financial Model;
- Making enquiries of management as to the source of assumptions used in preparing their current estimates of information set out in the Financial Model to understand and critically evaluate the basis of those assumptions; and
- Performing a high level analysis of the reasonableness of the key market based assumptions set out in the Financial Model.

Notwithstanding the above procedures, forecasts and projections are, by their nature, inherently uncertain. BDO CFQ does not provide any opinion or assurance that the results in the Financial Model, based on the assumptions utilised, will be achieved. We have not reviewed or audited the financial information as defined by the Australian Accounting Standards and Australian Auditing Standards.

This Report considers the value of the Keyseam Technology as at the date of this Report. Many of the assumptions adopted in the Financial Model are subjective and may be subject to material change in short periods of time. Changes in these assumptions may have a material impact on the overall value determined for the Keyseam Technology in this Report. There can be no guarantee that the cash flow forecasts or valuation calculations will hold for any length of time as circumstances are continually changing.

Assumption References

CNX shareholders should note the assumptions set out in the Financial Model in relation to the Keyseam Technology are referred to in this Report as follows:

- All references to assumptions are stated in real terms rather than nominal terms, unless otherwise stated. Having regard to this, we have adopted a real weighted average cost of capital ('WACC');
- All references to financial assumptions are stated in Australian dollars, unless otherwise stated. Key assumptions are set out below in this section;
- A discount rate range of 15% to 20% (see Appendix D for detailed analysis of the discount rate); and
- All references to assumptions are on CNX's percentage ownership interest basis, unless otherwise stated.

Other Key Assumptions

Table 6.2 summarises key assumptions in relation to the Keyseam Technology.

Table 6.2: Key Assumptions Adopted for the DCF Valuation of the Keyseam Technology

Assumption	Description
Licence fees	Based on previous negotiations with other parties, a US\$10 million licence fee is assumed to be received by the JinHong JV for each project.
Technical service fees	Technical services fees are generated in the first two years of each project. They are assumed to be equal to US\$4 million per annum per project and have been based of previous projects that CNX have undertaken and negotiated with potential licensees of the Keyseam Technology.
Costs	Costs are incurred in the provision of technical services to the JinHong JV in relation to the projects undertaken by the JinHong JV. The costs have been estimated from a build-up of the required labour and disbursements from executive, technical, operational and office staff. The cost structure of the Second Demonstration Project and Commercialisation Projects is consistent with the First Demonstration Project however, the scale and operational requirements will be different and it is anticipated that some efficiencies may be gained from the completion of the First Demonstration Project.
Margin on costs	CNX earns a 15% margin on services provided to the Demonstration Project. For the First and Second Commercialisation Projects in the JinHong JV, CNX earns a 10% margin on technical services including process, design, procurement, construction and commissioning.
Ownership interest	CNX ownership of the Keyseam Technology is 100%. CNX has provided a non-exclusive licence to the Keyseam Technology to the JinHong JV during the demonstration stage and an exclusive licence post-demonstration for the JinHong JV to sub-licence the Keyseam Technology.
China taxes	The China tax rate applicable to the Keyseam Technology is assumed to be equal to 30%.
Royalties	The royalty rate is based on an average project size using a cubic metre of syngas basis at a rate of 2¥/cm ³ . The royalty is applicable to joint venture revenue from the commencement of each project until the JinHong JV ends. A funding arrangement may also require additional royalties. These can be negotiated as required in the relevant circumstances. We have not included additional royalties in the Financial Model.
Terminal value	No terminal value is assumed at the end of the projects
Discount rate	As set out in Appendix D of this Report, we have calculated an after-tax WACC for the Keyseam Technology within the range of 15% to 20%, or a midpoint of 17.5% in real terms.
Capital Expenditure	CNX management have informed us that the Commercialisation Projects included in the DCF Valuation are structured to ensure the third party licensee is responsible for the capital expenditure associated with the projects. CNX's JV partner is responsible for the capital expenditure (through their US\$30 million contribution to the JinHong JV) for the demonstration stage and the Keyseam Technology is to be licenced to third parties after that stage.
Tax losses	There are no forecast tax losses generated by the Keyseam Technology that could be used to offset taxable income earned by the Keyseam Technology. We note that CNX has significant corporate income tax losses carried forward in Australia. The JinHong JV and the Commercialisation Projects will be subject to a foreign tax jurisdiction. We have been instructed by management that a Chinese tax certificate will be received for China tax paid/remitted and Australian tax losses may be able to be applied. Due to the unknown timing and uncertainty in the use of the tax losses, they have been excluded from the valuation of the Keyseam Technology.
Project life	25 years post construction and commissioning

Source: The Financial Model and BDO CFQ Analysis

Foreign Exchange Rates

We have adopted the foreign exchange rates set out in Table 6.3 below.

Table 6.3: Foreign Exchange Rate Forecasts Adopted in the DCF Valuation

	CY17	CY18	CY19	CY20	CY21	CY22	CY23+
AUD/USD	0.745	0.736	0.737	0.743	0.752	0.760	0.771

Source: Consensus Economics May 2017

We have set out the projected cash flows for each type of project included in the Financial Model in Tables 6.4 to 6.6 below.

Table 6.4 sets out the cash flows for the First Demonstration Project.

Table 6.4: Summary of Cash flows for the First Demonstration Project

The First Demonstration Project Cash Flows	Year 1 (A\$ millions)	Year 2 (A\$ millions)	Year 3 onwards (A\$ millions)	Year 4 onwards (A\$ millions)
Process Design Package, Basic Engineering Design, Detailed Engineering Design	3.4	1.4	-	-
Technical Services Agreement	0.2	2.1	-	-
Royalty fee	-	0.4	1.3	1.3
Costs	(4.2)	(2.5)	(1.2)	(1.2)
Net cash flow before tax	(0.6)	1.5	0.2	0.2

Source: The Financial Model

1 The cash flows in Table 6.4 represent CNX's 30% share of the cash flows associated with the First Demonstration Project.

We note the following in relation to Table 6.4 above:

- The First Demonstration Project is expected to commence in October 2017;
- The key pre-requisites to the First Demonstration Project are the Chinese regulatory approvals and the revised funding arrangements of the Company (which underpin the Relevant Interest Acquisition). Depending on the location of the demonstration project, further approvals may be required (e.g. grant of coal lease). The Demonstration Project does not have any other third party or other internal constraints and can progress as soon as the demonstration site is identified, secured and established;
- The First Demonstration Project has an estimated NPV of between \$0.9 million and \$1.1 million.

Table 6.5 sets out the projected cash flows for the Second Demonstration Project.

Table 6.5: Summary of Cash flows for the Second Demonstration Project

The Second Demonstration Project	Year 1 (A\$ millions)	Year 2 (A\$ millions)	Year 3 (A\$ millions)	Year 4 onwards (A\$ millions)
Process Design Package, Basic Engineering Design, Detailed Engineering Design	2.4	1.0	-	-
Technical Services Agreement	0.2	2.1	-	-
Royalty fee	-	0.4	1.3	1.3
Costs	(3.1)	(2.3)	(1.2)	(1.2)
Net cash flow before tax	(0.5)	1.2	0.2	0.2

Source: The Financial Model

1 The cash flows in Table 6.5 represent CNX's 30% share of the cash flows associated with the Second Demonstration Project.

We note the following in relation to Table 6.5 above:

- The Second Demonstration Project is expected to commence in February 2018;

- CNX will have a 30% interest in the profits of this project in accordance with the agreement with JinHong relating to the JinHong JV. We specifically note that the cash flows set out in Table 6.5 above are CNX's share of the cash flows associated with the Second Demonstration Project;
- The Company has assigned a probability weighting of 100% based on feedback from the JinHong JV; and
- The Second Demonstration Project has a probability adjusted NPV of between \$0.8 million and \$1.0 million.

Table 6.6 sets out the projected cash flows for the First Commercialisation Project.

Table 6.6: Summary of Cash flows for the Commercialisation Project

Commercialisation Projects Cash Flows (per project)	Year 1 (A\$ millions)	Year 2 (A\$ millions)	Year 3 onwards (A\$ millions)
Licence	4.1	-	-
PCP&UCP	5.4	-	-
Technical Services Agreement	-	5.4	-
Royalty fee	-	-	2.4
Total costs	(4.9)	(4.9)	(0.3)
Net cash flow before tax	4.6	0.5	2.2

Source: The Financial Model and Consensus Economics May 2017

- 1 The cash flows in Table 6.6 represent CNX's 30% share of the cash flows associated with the Commercialisation Projects (per project)
- 2 We note that cash flows denominated in US dollars have been converted at the spot rate of \$0.739 AUD/USD

We note the following in relation to Table 6.6 above:

- The Company currently expects that it can undertake two Commercialisation Projects in China through the JinHong JV. Those projects are currently expected to commence in January 2019 and January 2020 and are currently expected to operate for 25 years each after construction and commissioning;
- The Company receives technical services fees and a 30% interest in the licence fee and royalty stream (through its interest in the JinHong JV);
- The Financial Model assumes the Demonstration Projects and Commercialisation Projects proceed successfully;
- The success of the Commercialisation Projects depends on the success of the Demonstration Projects. If the Demonstration Projects are not successful, the Commercialisation Projects are not likely to proceed. We have made an allowance for Company specific risk in the discount rate; and
- The total probability adjusted NPV contribution from the Commercialisation Projects is between \$11.1 million and \$15.6 million.

In addition to the Commercialisation Projects valued above (which are all based in China), CNX also currently expects to undertake a number of international projects (the 'International Projects') which may include projects in Asia and Europe. Based on our discussions with CNX management, we understand that the Company is focussing on the Demonstration and Commercialisation Projects in China. If these projects are successful, the Company is likely to explore the International Projects as follows:

- CNX and Ascot Energy (of Indonesia) signed a non-binding term sheet on 23 August 2016. The term sheet is in relation to developing a modular 30MW capacity syngas fuelled power project in Indonesia. Ascot Energy is required to find suitable coal and gain all necessary approvals. It is expected that a project will be initialised within 12-18 months of gaining approvals; and
- CNX has been focussed on the China projects with relatively less progress on other business development opportunities.

Based on the information available in relation to the International Projects as at the date of this Report, we are of the opinion that the International Projects are not sufficiently supported to include in our valuation of the Keyseam Technology for the purpose of this Report.

Valuation of the Keyseam Technology

Table 6.7 sets out a summary of the DCF valuation from each project identified for the Keyseam Technology.

Table 6.7: Summary of Keyseam Technology Valuation Based on CNX's Interest

Project Name	Probability (%)	Start Date ¹	Low (\$m)	High (\$m)
JinHong Demonstration 1	100%	Oct-17	0.9	1.1
JinHong Demonstration 2	100%	Oct-17	0.8	1.0
Commercialisation Project 1	100%	Mar-19	6.1	8.4
Commercialisation Project 2	100%	Mar-20	5.0	7.2
TOTAL			12.8	17.7

Source: The Financial Model and BDO CFQ Analysis

¹ Each project is assumed to last 27 years from the Start Date in Table 6.7 above

With reference to Table 6.7, we note.

- Having regard to the above work completed, our valuation range of the Keyseam Technology held by CNX is \$12.8 million to \$17.7 million;
- More than 89% of the value (based on midpoints of the low and high values) is attributable to the Commercialisation Projects in China;
- The Demonstration Projects proceeding are a key milestone. If the Demonstration Projects do not proceed, the majority of the value attributed to the Commercialisation Projects is unlikely to be realised;
- The Company's interest in 30% of the profits of the JinHong JV may not provide the same economic benefits as a 30% equity interest (including an ownership in the net assets of the Company and the right to vote on specific decisions made on behalf of the JinHong JV); and
- We have not attributed any value to the Keyseam Technology projects outside of China given the early stage of the negotiations related to the International Projects and its pre-commercialisation status in China at the date of this Report.

Sensitivity Analysis

To provide further information to CNX shareholders, we have completed a sensitivity analysis on the mid-point of the DCF valuation range of \$14.9 million for the Keyseam Technology assuming each variable is adjusted in isolation and all other assumptions are held constant. The variables we have adjusted for are:

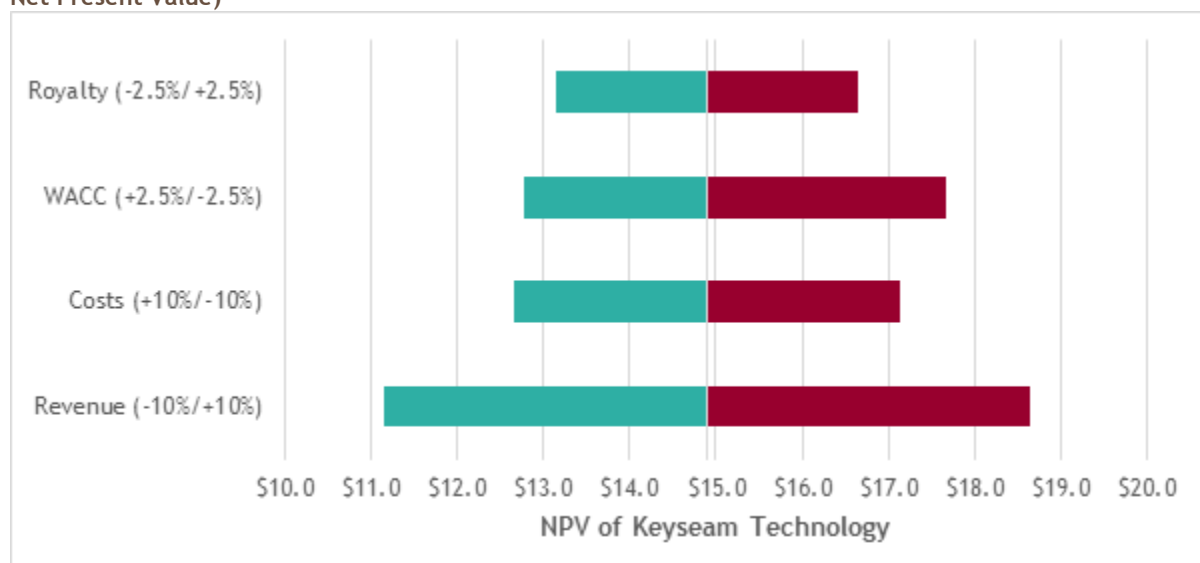
- Ongoing royalty revenue only;
- WACC;
- Costs; and
- Total revenue.

CNX shareholders should note that:

- In reality, the variables described above would have compounding or offsetting effects and are unlikely to move in isolation;
- The variables for which we have performed sensitivities are not the only variables which are subject to deviation from the forecast assumptions; and
- The sensitivities we have performed do not cover the full range of possible variances from the base case assumptions assumed (i.e. variances could be greater than the percentage increase or decreases set out in this analysis).

Figure 6.1 below provides an overview of the impact on the midpoint of our valuation range of \$14.9 million for the Keyseam Technology from a change in selected key valuation inputs.

Figure 6.1: Sensitivity Analysis on Selected Key Assumptions for the Keyseam Technology (Movement in Net Present Value)



Source: BDO CFQ Analysis

Value Implied by the JinHong JV Transaction

We have also considered the valuation of the Keyseam Technology implied by the transaction which CNX entered into with JinHong in 2015, which is termed the JinHong JV in this Report. The JinHong JV provides to JinHong a 70% profit share in the project for a cash injection of US\$30 million, payable in tranches. It provides a 30% profit share to CNX for the contribution of its Keyseam Technology.

US\$10 million in cash has been contributed by JinHong to the JinHong JV on 25 September 2016 with a further US\$20 million to be contributed upon the meeting of specific milestones under the terms of the JinHong Demonstration Project. We have discounted the future contributions at 17.5%, the midpoint of the discount rate range adopted for the DCF Valuation of the Keyseam Technology.

Table 6.8 below sets out the implied valuation of the JinHong JV transaction.

Table 6.8: Implied Valuation of the Keyseam Technology by the Joint Venture Transaction

Description	Values
Present Value of Contribution to JinHong JV ¹	US\$25.8 million
Current AUD/USD exchange rate ²	0.739
JinHong 70% share of JinHong JV profits in AUD	A\$24.4 million
Implied Value of the JinHong JV profit share in AUD	A\$34.84 million
CNX profit share of JinHong JV	30%
Implied CNX profit share of JinHong JV in AUD	A\$10.5 million

Source: JinHong JV Agreement and BDO CFQ Analysis.

¹ The future contributions to the JinHong JV are assumed to occur in US\$10 million increments in Mar-18 and Mar-19.

² Consensus Economics May 2017

The valuation of the Keyseam Technology implied by the JinHong JV transaction is approximately \$10.5 million.

Conclusion on Value of the Keyseam Technology

In our view it is appropriate to adopt a value in the range of \$10.0 million and \$17.0 million for the value of the Keyseam Technology. Factors that we have considered to conclude on a value for Keyseam Technology include:

- In our view, the DCF based valuation on the cash flows from the Financial Model of \$17.0 million provides more relevant information for the high end of the valuation range as it allows for upside arising from the de-risking of the Keyseam Technology in the period following the JinHong JV being entered into; and
- In our view, the value implied from the JinHong JV transaction of approximately \$10.0 million provides a floor value as JinHong has agreed to the injection of a further US\$20 million to enable the Demonstration Project to take place. We note that based on the JinHong JV agreement, the injection of the further US\$20 million is expected to be made progressively as the JinHong JV requires funding to pay for the demonstration plant. CNX management have informed us that the First Demonstration Project will take approximately 12 months to design and build.

6.2.2 Value of CNX's Surat Basin Tenements prior the Relevant Interest Acquisition

We have valued the Surat Basis Tenements using a market based (reserve and resource multiples) approach (refer to Appendix E). In relation to the valuation of the Surat Basis Tenements we note the following:

- CNX owns 100% of each of the EPCs detailed in Table 5.1 above;
- Comparable trading and transactions data in Appendix E may include value from various sub-surface and surface infrastructure;
- The infrastructure at Bloodwood Creek pilot site has been largely written off and the solar energy storage solution development with Photon Energy is at a very early stage; and
- On 25 October 2016, the Company announced that Pacific Road and the Company's subsidiary, CEOPL have entered into an agreement to act for and represent CEOPL in seeking to solicit offers for the sale of CEOPL's thermal coal assets located in the Surat Basin, Queensland. Pacific Road is not entitled to any fees or reimbursement of costs. We note that this agreement has since been terminated due to the previous refinancing deal not proceeding.

We have assigned a value of \$Nominal to \$2 million to CNX's tenements as at the date of this Report. We note that the low end of our valuation range is reflective of the regulatory uncertainty surrounding the Surat Basin tenements at the date of this Report and at the high end it considers that CNX may realise value for these assets directly themselves.

6.2.3 Value of the Debt and Equity Components of the Pacific Road Convertible Note

The Pacific Road Convertible Note has two key components of value:

- **A debt component:** The Holder of the Pacific Road Convertible Note can request the repayment of the face value of the Pacific Road Convertible Note if it elects not to convert the Pacific Road Convertible Note. The Holder of the Pacific Road Convertible Note is also entitled to receive interest on the Pacific Road Convertible Note equal to 5.0% per annum, payable in shares quarterly in arrears. The value of the principal and interest repayments on the Pacific Road Convertible Note effectively represents the debt component of the value of the Pacific Road Convertible Note; and
- **An equity component:** The Holder of the Pacific Road Convertible Note can elect to convert the Pacific Road Convertible Note into ordinary CNX shares at \$0.14 per share (the 'Pacific Road Conversion Price') at maturity (we note that the Pacific Road Conversion Price was repriced following the 2014 capital raising from \$0.15 to \$0.14). The value of the option embedded in the Pacific Road Convertible Note effectively represents the equity component of the value of the Pacific Road Convertible Note.

Having regard to the CNX share price of \$0.013 when it was last traded and the fact that the Pacific Road Convertible Note is past the maturity date, it is our view that the equity component does not have any material value. We have adopted the \$10 million face value of Pacific Road's Convertible Note as the value of the debt component.

6.2.4 Value of CNX's Other Assets and Liabilities prior to the Relevant Interest Acquisition

The net value we have adopted for the other assets and liabilities held by CNX prior to the Relevant Interest Acquisition is summarised in Table 6.9. We have been informed by the Directors of CNX that there are no other material assets, liabilities, off-balance sheet assets and liabilities or unrecognised liabilities as at the date of this Report that have not been included in Table 6.9.

Table 6.9: Values Adopted for the Other Assets and Liabilities Held by CNX prior to the Relevant Interest Acquisition

Item	Value \$ At 18 July 2017
Cash and cash equivalents	-
Trade and other receivables	240,000
Other current assets	60,000
Property, plant & Equipment	600,000
Total Assets	900,000
Trade and other payables	100,000
Interim Funding	1,940,000
Provisions	3,560,000
Total Liabilities	5,600,000
Net Asset Surplus / (Deficiency)	(4,700,000)

Source: CNX financial position as at 31 December 2016 and CNX Management's expected use of funds to 18 July 2017

With reference to Table 6.9, we note that the value of the other assets and liabilities held by CNX prior to the Relevant Interest Acquisition are approximately negative \$4.7 million. We note that as part of the administration process, Summa Resource Holdings LLC made a claim of US\$9 million for an alleged breach of contract. CNX maintains their position that there was no breach of contract and has not recognised any contingent liability in relation the claim. We have not made any adjustment for this claim in Table 6.9 above.

We have also been instructed by the Directors of CNX that no material financial events have occurred since December 2016 that would have materially affected the financial position of CNX prior to the Relevant Interest Acquisition.

6.2.5 Value of Other Equity Instruments on Issue prior to the Relevant Interest Acquisition

We have considered the value of other CNX equity instruments ('the Other Equity Instruments') on issue prior to the Relevant Interest Acquisition. The conditions relating to the Other Equity Instruments are as set out in the Company's 2016 Annual Report. The terms of the Other Equity Instruments on issue as at the date of this Report are set out in Table 6.10 below.

Table 6.10: Key Variables used to Value the Other Equity Instruments

Rights Options	Source / Explanation	Options		Performance Rights	
		Low	High	Low	High
CNX share price (\$)	Iterative Process ¹	\$Nil	\$Nil	\$Nil	\$Nil
Exercise price (\$)	Option terms	0.0301		NA	
Time to maturity (years)	Option terms	0.10		NA	
Interest rate (%)	RBA	1.50%		NA	
Volatility (%)	BDO CFQ	90%		NA	
Dividend rate (%)	CNX management	0.00%		NA	
Total Number Other Equity Instruments		9,495,080		71,243,236	
Total Value of Other Equity Instruments (\$)		\$Nominal	\$Nominal	\$Nominal	\$Nominal

Source: NoM, BDO CFQ Analysis

¹ The share prices used in the Black Scholes Model to Value the Other Option are the same values calculated for CNX shares prior to the Relevant Interest Acquisition and circularity exists. We have used an iterative process to overcome the circularity described above. Specifically, we have repeated the valuation calculations until the per share values calculated for CNX shares and the share prices adopted in the Black Scholes Model are equal.

6.2.6 Value of Corporate Overhead Costs

We note that corporate overheads were not included in the Financial Model provided to us. CNX have estimated corporate overheads of approximately \$3 million per annum based on the future expectation of the Keyseam Technology. In our view, given the activities currently underway and the resourcing required, it is appropriate to make an adjustment for corporate overheads.

For the purposes of determining a controlling interest value of a CNX share before the Relevant Interest Acquisition in this Report, in our view, it is necessary to have regard to the way in which a potential acquirer would view the operations and corporate structure of CNX. In our experience, it is reasonable to assume that a potential acquirer would not incur any additional public company running costs (which are included in the estimate of corporate overheads set out above) and would seek to run the corporate function with minimal incremental cost to the incumbent cost of its own existing corporate function.

Having considered the above, in our view, it is appropriate to include a valuation adjustment of negative \$4.5 million comprising approximately one and a half years of corporate overheads. This valuation adjustment for overheads allows for the continued expenditure of overheads for a period of time until either a transaction is completed and/or a value realisation event occurs for shareholders.

While we note that a capitalised annual overhead adjustment would result in a valuation adjustment materially greater than \$4.5 million, in our view it is reasonable to expect that overheads will be consolidated through the completion of a transaction or the remaining cash will be returned to shareholders. For those reasons we have limited our overheads adjustment to one and a half years of cash outflows.

6.2.7 Asset Based Valuation of CNX prior to the Relevant Interest Acquisition

Our ABV of CNX prior to the Relevant Interest Acquisition is set out in Table 6.11 below.

Table 6.11: ABV of CNX prior to Relevant Interest Acquisition

Item	Section Reference	Low (A\$)	High (A\$)
Value of the Keyseam Technology	Section 6.2.1	10,000,000	17,000,000
Value of the Surat Basin Tenements	Section 6.2.2	-	2,000,000
Value of the debt component of the Pacific Road Convertible Note ¹	Section 6.2.3	(10,000,000)	(10,000,000)
Value of the other assets and liabilities of CNX	Section 6.2.4	(4,700,000)	(4,700,000)
Corporate over heads	Section 6.2.6	(4,500,000)	(4,500,000)
Transaction costs ³		(60,000)	(60,000)
CNX equity value (Controlling interest)		(9,260,000)	(260,000)
Value of the equity component of the Pacific Road Convertible Note ¹	Section 6.2.3	-	-
Value of the Other Equity Instruments	Section 6.2.5	-	-
Value of CNX Ordinary Shares (Controlling interest)		-	-
Number of CNX Shares		1,813,428,879	1,813,428,879
Value per CNX Ordinary Share prior to the Relevant Interest Acquisition		\$Nominal	\$Nominal

Source: The Financial Model, CNX Management and BDO CFQ analysis

1 We have adopted the face value of Pacific Road's Convertible Note as the value of the debt component. Given the current share price and time to maturity the equity component does not have any material value.

2 Transaction costs which are incurred whether or not the Relevant Interest Acquisition proceeds. Approximately \$60,000 of transaction costs have not been included in the forecast cash flows resulting in zero cash and cash equivalents as at 18 July 2017.

Table 6.11 shows that our ABV of CNX per share prior to the Relevant Interest Acquisition is \$Nominal. Our ABV of CNX prior to the Relevant Interest Acquisition provides a value per share for CNX prior to the Relevant Interest Acquisition on a controlling interest basis. While we note that this is a relatively wide range, in our view it is appropriate having regard to the current and early stage of CNX's Keyseam Technology and the uncertainties and risks associated with any investment in the Keyseam Technology.

In accordance with paragraph 15 of RG 111, CNX shareholders should note that we have not adjusted our ABV for the financial distress of CNX. We have considered the value of CNX on the basis of a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the Relevant Interest Acquisition.

6.3 Market Based Valuation of CNX prior to the Relevant Interest Acquisition

This section sets out our market based valuation of CNX prior to the Relevant Interest Acquisition. We note that a MBV generally provides a value per share on a minority interest basis.

Our MBV of CNX is set out as follows:

- Section 6.3.1 considers the recent share market performance of CNX ordinary shares;
- Section 6.3.2 considers the liquidity of CNX ordinary shares;
- Section 6.3.3 considers recent transactions relating to large parcels of CNX ordinary shares;
- Section 6.3.4 sets out our conclusion on the MBV of CNX shares on a minority interest basis; and
- Section 6.3.5 sets out our conclusion on the MBV of CNX shares on a controlling interest basis.

6.3.1 CNX's Share Market Performance prior to the Relevant Interest Acquisition

CNX entered a trading halt on 8 November 2016 prior to being suspended from trading on the ASX on 10 November 2016. Voluntary Administrators were appointed on 22 November 2016.

Information on the recent share market performance of CNX shares along with a summary of announcements made by CNX prior to 10 November 2016 to the ASX are set out in Section 5.4 of this Report.

With reference to the information set out in Section 5.4.1 of this Report, we note the VWAP of CNX shares traded on the ASX for 1 week, 1 month, 3 months, 6 months, 9 months and twelve months prior to 7 November 2016 was in the range of \$0.0129 to \$0.0139.

Referencing the same period, CNX's share price has varied between a low of \$0.0084 on 19 April 2016 and a high of \$0.0218 on 23 June 2016.

6.3.2 Liquidity of CNX Shares

With reference to the information set out in Section 5.4.2 in relation to the liquidity of CNX shares, we note that 35.66% of total shares on issue were traded in the 12-month period to 7 November 2016 (i.e. the day before the Company entered a trading halt prior to being suspended from trading on the ASX on the 10 November 2016 and the appointment of Voluntary Administrators on 22 November 2016).

Having regard to the above, as stated in Section 5.4.2, in our view, CNX shares exhibited a low to moderate level of liquidity in this period.

6.3.3 Recent Significant Transactions in CNX Shares

The only significant transaction in CNX shares in the past 12 months was the partially underwritten, three-for-eleven right issue (the 'Previous Rights Issue') completed in 2016. Key details of the Previous Rights Issue include the following:

- The Previous Rights Issue was completed on 11 April 2016 raising \$3.48 million representing 267,904,397 new shares or 66% of the Previous Rights Issue offer of \$5.3 million (we note that the Company only received acceptances for 32% of the new shares offered under the Previous Rights Issue). The figure stated above includes the new shares issued as per the underwriting agreement in place in relation to the Previous Rights Issue;

- The Previous Rights Issue was sub-underwritten by the Company's cornerstone investor Kam Lung up to an amount of \$1.8 million;
- The offer price of \$0.013 per share represented a 19.2% discount to the VWAP for the five trading days to 8 March 2016 (being the closing day for acceptances) and a 13.3% discount to the closing price on 8 March 2016; and
- The Company placed an additional \$0.4 million of the Previous Rights Issue shortfall of \$1.8 million within three months of the close of the Previous Rights Issue reducing the final shortfall to approximately \$1.4 million.

6.3.4 Conclusion on Market Based Valuation of CNX Shares on a Minority Interest Basis prior to the Relevant Interest Acquisition

Having regard to the information set out directly above and in Sections 6.3.1 to 6.3.3, in our view it would be appropriate to adopt a value for each CNX ordinary share under a MBV methodology in the range of \$0.0084 to \$0.0142 on a minority interest basis as at the date of this Report. For completeness, we reiterate that this value is based on ASX trading data for the period prior to voluntary administration.

6.3.5 Conclusion on Market Based Valuation of CNX Shares on a Controlling Interest Basis prior to the Relevant Interest Acquisition

The value of a CNX share on a controlling interest basis can be calculated by applying a control premium to the minority interest value calculated for a CNX share in Section 6.3.4 of this Report. Having regard to our control premium research set out in Appendix C of this Report, it is our view that it is appropriate to adopt a control premium of 30.0% for the purposes of the analysis set out in this Report.

Our valuation of a CNX share on a controlling interest basis is set out in Table 6.12 below.

Table 6.12: Valuation of a CNX Share on a Controlling Interest Basis (MBV basis)

Application of Controlling Interest	Section Reference	Low (\$)	High (\$)
Value of CNX Shares (Minority Interest Basis)	Section 6.3.4	\$0.0084	\$0.0142
Control Premium	Appendix C	30.0%	30.0%
Value of CNX Shares (Controlling Interest Basis) using an MBV methodology		\$0.0109	\$0.0185

Source: BDO CFQ Analysis

6.4 Conclusion on the Value of CNX Shares prior to the Relevant Interest Acquisition

In our view, for the purposes of the analysis set out in this Report it is appropriate to adopt a value of \$Nominal per CNX ordinary share on a controlling interest basis prior to the Relevant Interest Acquisition. In relation to the value per share we have adopted we note the following:

- The ABV methodology we have adopted calculates a net asset deficiency at the low and high ends of our valuation range. In accordance with paragraph 111.15 of RG 111, we have not adjusted our valuation for the financial distress of CNX. We have considered the value of CNX on the basis of a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the Relevant Interest Acquisition;
- The MBV methodology we have adopted calculates a value in the range of \$0.0109 to \$0.0185 on a controlling interest basis. This value range is based on trading data up to 7 November 2016, the last day of trading prior to the Company entering voluntary administration;
- Voluntary Administrators were appointed by CNX on 22 November 2016. As part of the Voluntary Administration process, a DOCA has been approved by creditors and control of the Company reverted to the Directors on 9 March 2017. Notwithstanding the creditors approving the DOCA, the DOCA remains subject to conditions precedent before becoming effective, including relevant shareholder approvals;
- As set out in clause 4.3 of the DOCA (attached as Annexure I to the Administrator's Report), if the conditions precedent to the DOCA are not satisfied or waived on or before 30 September 2017, the Administrators will convene a meeting of creditors to determine the future of the deed companies. In this

circumstance, the choices available to the creditors are likely to include liquidating the company or returning the company to the control of the Directors. Concurrently, Pacific Road may also elect to exercise their security over the assets and appoint a receiver;

- In circumstances that the DOCA does not take effect and control reverts to the Directors, they are of the view that the Company is likely to be insolvent given that it will be unable to meet its debts as and when they become due. On this basis, the Directors are of the view that the only alternative for CNX will be liquidation. In section 10.1 of the Administrator's Report, the Administrator's estimates that if CNX is wound up there will be no return to unsecured creditors; and
- Equity holders in the Company rank behind unsecured creditors. Given the Administrator's view that there will be no return to unsecured creditors and only a partial return to the secured creditor, we consider it unlikely the Non-Interested Shareholders will receive any return on their investment in circumstances where the DOCA does not take effect.

For completeness we highlight the Non-Interested Director's view set out in section 7.4 of the EM that the JinHong JV will terminate if the Deed Companies are placed into liquidation. The value of the Keyseam technology determined in Section 6.2.1 is dependent on the continued operation of the JinHong JV. In circumstances that the JinHong JV terminates, the value that will be able to be realised for the Keyseam technology in liquidation will depend on the ability of the liquidator to identify an alternative buyer and the value that the alternative buyer is prepared to pay.

7.0 Valuation of CNX following the Relevant Interest Acquisition

This section is set out as follows:

- Section 7.1 sets out our view of the most appropriate methodology to value CNX following the Relevant Interest Acquisition;
- Section 7.2 sets out our view of the value of CNX following the Relevant Interest Acquisition having regard to an ABV methodology;
- Section 7.3 sets out our view of the value of CNX following the Relevant Interest Acquisition having regard to a MBV methodology; and
- Section 7.4 sets out our conclusion on the value of CNX following the Relevant Interest Acquisition for the purposes of this Report.

7.1 Our Valuation Approach

Table 7.1 below summarises our view of the methodologies that are appropriate to determine the value of CNX following the Relevant Interest Acquisition. Table 7.1 also provides a brief explanation as to why each methodology is or is not appropriate. Appendix B of this Report provides a summary of each of the valuation methodologies listed in Table 7.1.

Table 7.1: Appropriate Valuation Methodologies for CNX following the Relevant Interest Acquisition

Valuation Methodology	Adopted	Explanation
ABV	✓	For reasons consistent with those outlined in Section 6.1, we are of the view that it is appropriate to have regard to an ABV methodology for the purposes of valuing CNX following the Relevant Interest Acquisition in this Report.
DCF	✓ Incorporated in ABV	For reasons consistent with those outlined in Section 6.1, we are of the view that it is appropriate to have regard to a DCF methodology for the purposes of valuing the Keyseam Technology held by CNX following the Relevant Interest Acquisition in this Report.
CME	✗	For reasons consistent with those outlined in Section 6.1, we are of the view that there are more appropriate valuation methodologies than the CME valuation methodology which can be adopted for the purposes of valuing CNX following the Relevant Interest Acquisition in this Report.
MBV	✓ Cross Check	<p>Although the Share Placement is not complete as at the date of this Report, we are of the view that it provides an appropriate cross check for the valuation of shares in CNX following the Relevant Interest Acquisition.</p> <p>In our view, it is appropriate to have regard to the MBV methodology for the purpose of calculating the value of CNX shares following the Relevant Interest Acquisition.</p>

Source: BDO CFQ Analysis

7.2 Asset Based Valuation of CNX following the Relevant Interest Acquisition

Our asset based valuation of CNX following the Relevant Interest Acquisition is set out as follows:

- Section 7.2.1 summarises the valuation set out in the Financial Model for the Keyseam Technology;
- Section 7.2.2 considers the value of the Surat Basin Tenements;
- Section 7.2.3 considers the value of the debt and equity components of the Convertible Note;
- Section 7.2.4 considers the value of the Share Placement;

- Section 7.2.5 considers the fair market value of the other assets and liabilities of CNX;
- Section 7.2.6 considers the application of a minority interest discount; and
- Section 7.2.7 sets out our view of the value of CNX on a minority interest basis following the Relevant Interest Acquisition.

7.2.1 Value of the Keyseam Technology following the Relevant Interest Acquisition

For the purposes of our valuation of CNX following the Relevant Interest Acquisition in this Report, we have adopted a valuation range for the Keyseam Technology (refer to Section 6.2.1) within the range of approximately \$10.0 million to \$17.0 million.

7.2.2 Value of CNX's Surat Basin Tenements following the Relevant Interest Acquisition

For the purposes of our valuation of CNX following the Relevant Interest Acquisition in this Report, we have adopted a valuation range for the Surat Basin Tenements (refer to Section 6.2.2) within the range of approximately \$Nominal million to \$2.0 million.

7.2.3 Value of the Debt and Equity Components of the Convertible Note following the Relevant Interest Acquisition

The Convertible Note has two key components of value as follows:

- **An equity component:** The holder of the Convertible Note can elect to convert the Convertible Note into ordinary CNX shares at a specified dollar amount per share (the 'Conversion Price'). The specific dollar amount will be initially set (the 'Initial Conversion Price') at 125% of the average of the VWAP of an ordinary share for the 20 consecutive dealing days immediately preceding (but not including) the earliest conversion date (the 'Earliest Conversion Date'). The value of the option embedded in the Convertible Note effectively represents the equity component of the value of the Convertible Note.
- **A debt component:** The holder of the Convertible Note can request the repayment of the face value of the Convertible Note if it elects not to convert the Convertible Note. The holder of the Convertible Note is also entitled to receive interest on the Convertible Note equal to 8.0% per annum, payable in shares quarterly in arrears. The value of the principal and interest repayments on the Convertible Note effectively represents the debt component of the value of the Convertible Note.

To calculate an appropriate value for the Convertible Note, we have:

- For the equity component, calculated the value of the embedded options in the Convertible Note having regard to the minority interest share price of CNX assuming the Relevant Interest Acquisition is approved; and
- For the debt component, we have calculated the present value of the principal and interest repayments to calculate the value of the debt component of the Convertible Note (assuming interest is paid in cash and not settled in shares).

The following sections of this Report set out the analysis described above.

Value of the Call Equity Component of the Convertible Note

As discussed above, the equity component of the Convertible Note is represented by the embedded call options over CNX shares. The Initial Conversion Price has been estimated using a share price equal to \$0.0006 (being the high value implied by our ABV) per CNX share and adding a 25% premium as per the terms of Convertible Note. This results in an Initial Conversion Price of \$0.00075.

To determine the price of each call option over CNX shares, we consider it appropriate to adopt the Black Scholes Options Pricing Model. Table 7.2 below sets out the key variables we have used in the Black Scholes Options Pricing Model to determine the price of each embedded call option over CNX shares.

Table 7.2: Key Variables used in the Black Scholes Model to Value the Call Options Embedded in the Convertible Note

Key Driver	Value	Calculation Method
Share Price	Low: \$Nominal High: \$0.0006	The share prices we have used to calculate the value of the call options embedded in the Convertible Note are equal to the per share values we have calculated for CNX following the Relevant Interest Acquisition on a minority interest basis (refer to Table 7.7). We have used an iterative process to overcome the circularity described above. Specifically, we have repeated the valuation calculations until the values calculated per share for CNX and the share prices adopted in the option pricing models equal (i.e. the share prices used to calculate the value of the call options embedded in the Convertible Note are the same as the values calculated per share for CNX on a minority interest basis in Table 7.7).
Assumed Exercise Price	\$0.00075	The conversion price of the Convertible Note is \$0.00075
Volatility of Share Price	90%	We have assumed a volatility of 90% is reflective of CNX's volatility over the life of the call options embedded in the Convertible Note.
Risk Free Rate	2.00%	Having regard to the average yield on five-year Commonwealth Government Treasury Bonds sourced from the Reserve Bank of Australia website, we consider it appropriate to adopt a risk free rate of 2.00% for the purposes of this Report.
Time to Maturity	5 years	The term of the Convertible Note and embedded call option is five years.
Annual Dividend Yield	0%	We have assumed that CNX will pay no dividends before the Convertible Note matures.
Number of options	Theoretical maximum at assumed exercise price: 12,400,000,000 options Maximum to become "90% holder": 6,493,340,160 options	We have adopted a number of embedded call options based on the terms of the Convertible Note set out in Section 3.0. The Convertible Note has a face value of \$8.3 million (plus capitalised costs and expenses, capped at \$1 million) and an assumed conversion price of \$0.00075. This results in a maximum theoretical number of 12,400,000,000 options embedded in the Convertible Note. For completeness we note that, as per Clause 6.1(e) of the Convertible Note terms, a maximum number of 6,493,340,160 options may be exercised (to make Kam Lung a "90% holder" under Part 6A.2 of the Corporations Act).

Source: Capital IQ, RBA and BDO CFQ Analysis

Table 7.3 below sets out our valuation of the call options embedded in the Convertible Note adopting the inputs contained in Table 7.3 above and the Black Scholes Option Pricing Model.

Table 7.3: Valuation of Call Options Embedded in the Convertible Note

	Low Value (\$)	High Value (\$)
Value of a call option embedded in the Convertible Note	\$Nominal	\$0.0004
Number of Call Options	6,493,340,160	6,493,340,160
Total value of call options embedded in the Convertible Note	\$Nominal	\$2,400,000

Source: BDO CFQ Analysis

The net value of the equity component of the Convertible Note is between \$Nominal and \$2.5 million.

Value of the Debt Component of the Convertible Note

We have adopted the present value of the principal and interest repayments to calculate the value of the debt component of the Convertible Note.

A detailed description of the proposed terms and conditions of the Convertible Note is set out Section 3.0.

To determine an appropriate value to adopt for the debt component of the Convertible Note, we have assumed the following:

- A term to maturity of 5.0 years, commencing at completion once all the conditions precedent are satisfied. We have been advised that the Company is currently targeting 18 July 2017 (approximate date of shareholders meeting);
- A coupon rate of 8.0% per annum, payable quarterly in arrears; and
- A discount rate of 17.5% representing a proxy for the interest rate that would apply to a hypothetical debt instrument without the conversion features. Given that there are a number of inherent difficulties with directly observing such a rate for CNX, we have also completed a sensitivity analysis on the impact of our valuation of a $\pm 2.5\%$ movement.

Having regard to the above, we have calculated a present value for the repayments on the Convertible Note as set out in Table 7.4.

Table 7.4: Present Value of the Repayments on the Convertible Note

Quarter Ending	Opening Balance (\$)	Interest ¹ (\$)	Repayments (Principal and Interest) (\$)	Closing Balance (\$)	Present Value of Repayments at 17.5% (\$)
30-Sep-17	9,300,000	150,867	(150,867)	9,300,000	146,000
31-Dec-17	9,300,000	186,000	(186,000)	9,300,000	173,000
31-Mar-18	9,300,000	186,000	(186,000)	9,300,000	166,000
30-Jun-18	9,300,000	186,000	(186,000)	9,300,000	160,000
30-Sep-18	9,300,000	186,000	(186,000)	9,300,000	153,000
31-Dec-18	9,300,000	186,000	(186,000)	9,300,000	147,000
31-Mar-19	9,300,000	186,000	(186,000)	9,300,000	141,000
30-Jun-19	9,300,000	186,000	(186,000)	9,300,000	136,000
30-Sep-19	9,300,000	186,000	(186,000)	9,300,000	130,000
31-Dec-19	9,300,000	186,000	(186,000)	9,300,000	125,000
31-Mar-20	9,300,000	186,000	(186,000)	9,300,000	120,000
30-Jun-20	9,300,000	186,000	(186,000)	9,300,000	116,000
30-Sep-20	9,300,000	186,000	(186,000)	9,300,000	111,000
31-Dec-20	9,300,000	186,000	(186,000)	9,300,000	107,000
31-Mar-21	9,300,000	186,000	(186,000)	9,300,000	102,000
30-Jun-21	9,300,000	186,000	(186,000)	9,300,000	98,000
30-Sep-21	9,300,000	186,000	(186,000)	9,300,000	94,000
31-Dec-21	9,300,000	186,000	(186,000)	9,300,000	91,000
31-Mar-22	9,300,000	186,000	(186,000)	9,300,000	87,000
18-Apr-22	9,300,000	35,133	(9,335,133)	-	4,337,000
TOTAL			(12,834,000)		6,740,000

Source: BDO CFQ Analysis

- 1 For completeness we note that interest is payable through the issue of shares at the prevailing market share price as at the respective interest payment date.
- 2 The present value of repayments using a discount rate of 20% is approximately \$6.2 million while a discount rate of 15% results in a present value of repayments of approximately \$7.3 million.

Table 7.4 above shows that we calculate a present value for the repayments on the Convertible Note to be approximately \$6.7 million adopting an interest rate of 17.5%.

7.2.4 The Share Placement following the Relevant Interest Acquisition and Number of Shares on Issue

In addition to the transfer of the convertible note from Pacific Road to Kam Lung, the Relevant Interest Acquisition includes the Share Placement of ordinary shares to Kam Lung. CNX proposes to raise \$3.85 million at a price of approximately \$0.000823 per share. The Share Placement impacts the number of ordinary shares on issue. Details of the value and share impacts are detailed in Table 7.5 below.

Table 7.5: Funds Raised and the Number Ordinary Shares Issued as part of the Share Placement

Rights Issue		Value
Share Placement price	\$/share	\$0.000823
Amount raised	\$	\$3,850,000
Number of ordinary shares issued via the Share Placement	#	4,679,911,281
Total Number of ordinary shares issue after Share Placement	#	6,493,340,160

Source: NOM, BDO CFQ Analysis

We note the following in relation to Table 7.5 above:

- The Share Placement will be priced at \$0.000823 cents per share, being a 94% discount to the 90-day VWAP and a 94% discount to the 30-day VWAP as at 7 November 2016. We note that the Company entered a trading halt on 8 November 2016 prior to being suspended from trading on the ASX on 10 November 2016; and
- The total number of shares on issue following the Relevant Interest Acquisition is 6,493,340,160.

7.2.5 Value of CNX's Other Assets and Liabilities following to the Relevant Interest Acquisition

The net value we have adopted for the other assets and liabilities held by CNX following the Relevant Interest Acquisition is summarised in Table 7.6. We have been informed by the Directors of CNX that there are no other material assets, liabilities, off-balance sheet assets and liabilities or unrecognised liabilities as at the date of this Report that have not already been adjusted for in Table 7.6.

Table 7.6: Values Adopted for the Other Assets and Liabilities Held by CNX following the Relevant Interest Acquisition

Item	Value \$ At 18 July 2017
Cash and cash equivalents	3,640,000
Trade and other receivables	240,000
Other current assets	60,000
Property, plant & Equipment	600,000
Total Assets	4,540,000
Trade and other payables	95,000
Provisions	3,560,000
Total Liabilities	3,655,000
Net Asset Surplus / (Deficiency)	885,000

Source: CNX financial position as at 31 December 2016 and CNX Management

With reference to Table 7.6, we note that the value of the other assets and liabilities held by CNX following the Relevant Interest Acquisition are approximately \$0.9 million. We note that the cash and cash equivalents amount includes the funds raised as part of the Share Placement detailed in Section 7.2.4. We also note, the positive change in net asset position of CNX is in part due to the reduced creditors balance settled through the DOCA.

We have also been instructed by the Directors of CNX that no material financial events have occurred since December 2016 that would have materially affected the financial position of CNX prior to the Relevant Interest Acquisition.

7.2.6 Application of a Minority Interest Discount

An asset based valuation typically calculates the value of a company on a controlling interest basis. As the valuation of CNX set out in this section is an asset based valuation (i.e. a controlling interest basis) we are required to apply a minority discount to calculate the value on a minority interest basis. We note that a minority interest in a company is generally regarded as being less valuable than that of a controlling interest as a controlling interest may provide the owner with the following:

- Control over the operating and financial decisions of the company;
- The right to set the strategic direction of the company;
- Control over the buying, selling and use of the company's assets; and
- Control over the appointment of staff and setting of financial policies.

The increase in value for a controlling interest is often observed where an acquirer launches a takeover bid, or some other mechanism for control, for another company. Empirical research suggests that control premiums are typically within the range of 20% to 40% which is consistent with recent transactions in Australia (refer to Appendix C for our control premium research). The inverse of this range to apply for a minority discount is 16.7% to 28.6%.⁶

For the purposes of this Report, in our view it is appropriate to adopt a minority discount of 23.10% to calculate the value of CNX on a minority interest basis.

7.2.7 Asset Based Valuation of CNX on a Minority Interest Basis following the Relevant Interest Acquisition

Our ABV of CNX on a minority interest basis following the Relevant Interest Acquisition is set out in Table 7.7 below.

Table 7.7: ABV of CNX on a Minority Interest Basis following the Relevant Interest Acquisition

Item	Section Reference	Low Value (\$)	High Value (\$)
Value of the Keyseam technology	Section 7.2.1	10,000,000	17,000,000
Value of the Surat Basin Assets	Section 7.2.2	-	2,000,000
Value of the debt component of the Convertible Note ¹	Section 7.2.3	(9,300,000)	(6,200,000)
Value of the other assets and liabilities of CNX	Section 7.2.5	885,000	885,000
Pacific Road Loan Facility ²		(850,000)	(850,000)
Corporate overheads		(4,500,000)	(4,500,000)
Transaction Costs ³		(500,000)	(500,000)
CNX equity value (Controlling interest)		(4,265,000)	7,835,000
Adjustment for minority discount	Appendix C	23.10%	23.10%
CNX equity value (Minority interest)		-	6,000,000
Net Value of the equity component of the Convertible Note	Section 7.2.3	-	(2,400,000)
Value of CNX Ordinary Shares Minority interest		-	3,600,000
Number of CNX Ordinary Shares	Section 7.2.	6,493,340,160	6,493,340,160
Value per CNX Ordinary Share following the Relevant Interest Acquisition		\$Nominal	\$0.0006

Source: BDO CFQ Analysis

- 1 Due to the net asset deficiency at the low end of the ABV valuation, we have adopted the face value of the Convertible Note at the low end of our ABV valuation.
- 2 The Pacific Road Loan Facility has been included at the present value (discounted at 17.5%) of the \$1 million balance which is payable on the successful ignition of the UCG panel, expected to occur be in Jun/July 2018.
- 3 We note that in addition to the \$60,000 set out in Table 6.11 there is an additional \$15,000 of costs estimated for the Share Issue. In addition to the \$75,000 we have also included the present value of the \$1 million Arranger's fee paid to Kam Lung on the Final Maturity Date.

⁶ Calculated as: $1 - 1/(1 + \text{control premium})$

Table 7.7 shows that our ABV of CNX on a minority interest basis following the Relevant Interest Acquisition is within the range of \$Nominal to \$0.0006.

7.3 Market Based Valuation of CNX following the Relevant Interest Acquisition

This section sets out our market based valuation of CNX following the Relevant Interest Acquisition. We note that a MBV generally provides a value per share on a minority interest basis.

Our MBV of CNX is set out as follows:

- Section 7.3.1 considers recent transactions relating to large parcels of CNX ordinary shares; and
- Section 7.3.2 sets out our conclusion on the MBV of CNX shares on a minority interest basis.

7.3.1 Significant Transactions in CNX following the Relevant Interest Acquisition

The Share Placement occurring as part of the Relevant Interest Acquisition represents a significant transaction in CNX shares. Key details of the Share Placement include the following:

- The Share Placement will comprise approximately 68% of the issued capital of CNX following the Relevant Interest Acquisition (excluding any shares issued from the conversion of the Convertible Note or issue of shares for the payment of interest); and
- The Share Placement price of \$0.000823 per share represents a 93.7% discount to the volume weighted average trading price for the 30 trading days to 7 November 2016 and a 93.6% discount to the five-day volume weighted average trading price to the same date.

7.3.2 Conclusion on Market Based Valuation of CNX Shares on a Minority Interest Basis following the Relevant Interest Acquisition

Having regard to the information set out directly above and in Section 7.3.1, it is our view that it is appropriate to adopt a value of each CNX ordinary share under a MBV methodology in the range of \$Nominal to \$0.001 on a minority interest basis as at the date of this Report.

7.4 Conclusion on the Value of CNX Shares following the Relevant Interest Acquisition

In our view, for the purposes of the analysis set out in this Report it is appropriate to adopt a value in the range of \$Nominal to \$0.0006 per CNX ordinary share on a minority interest basis following the Relevant Interest Acquisition. In relation to the value per share we have adopted we note the following:

- The valuation range adopted aligns with our ABV calculation which is in the range of \$Nominal to \$0.0006 per share on a minority interest basis. The net asset deficiency at the low end of the ABV range has improved from a net asset deficiency of \$9.3 million prior to the Relevant Interest Acquisition to a net asset deficiency of \$4.3 million following the Relevant Interest Acquisition. The improvement in the net asset deficiency is caused by factors including:
 - The \$3.85 million share placement;
 - Debt to CNX creditors being cleared at a discount to the original face value of the debt (as set out in Section 10 of the Administrator's Report); and
 - Reduction in the face value of the Kam Lung Facility from \$10 million to \$8.3 million (plus capitalised costs and expenses capped at \$1 million);
- The MBV we have adopted aligns with our valuation range. In considering the MBV, we note the Share Placement has been negotiated as part of the Relevant Interest Acquisition and is only available to Kam Lung (not all shareholders).

In circumstances where the Conditional Resolutions are approved and the DOCA completes, CNX will continue to have significant levels of debt. Our ABV of CNX following the Relevant Interest Acquisition does not specifically incorporate any adjustments for the impact of the issues arising as a consequence of any financial distress that may be experienced by CNX as a result of the ongoing levels of debt. There is a risk that CNX shareholders may ultimately realise a value that is materially lower than the value we have calculated for CNX.

8.0 Assessment of the Fairness of the Relevant Interest Acquisition

To assess the fairness of the Relevant Interest Acquisition, we have:

- Determined the value of a share in CNX, on a controlling interest basis, immediately prior to the Relevant Interest Acquisition; and
- Compared the value determined above with our valuation of a share in CNX on a minority interest basis following the Relevant Interest Acquisition.

Under RG 111, the Relevant Interest Acquisition will be considered 'fair' to the Non-Interested Shareholders if the value of a share of CNX following the Relevant Interest Acquisition is equal to or greater than the value of a CNX share prior to the Relevant Interest Acquisition.

8.1 Value of an CNX Share Prior to the Relevant Interest Acquisition

For the purpose of assessing the fairness of the Relevant Interest Acquisition, we calculated the value of a CNX share to be \$Nominal on a controlling interest basis immediately prior to the Relevant Interest Acquisition (refer to Section 6.0 of this Report for our valuation of CNX).

8.2 Value of the CNX Following the Relevant Interest Acquisition

For the purpose of assessing the fairness of the Relevant Interest Acquisition, we calculated the value of a share in CNX to be within the range of \$Nominal and \$0.0006 on a minority interest basis following the Relevant Interest Acquisition (refer to Section 7.0 of this Report for our valuation of the CNX).

8.3 Assessment of the Fairness of the Relevant Interest Acquisition

Table 8.1 below sets out our assessment of the fairness of the Relevant Interest Acquisition.

Table 8.1: Fairness of the Relevant Interest Acquisition

	Section Reference	Low Value (\$)	High Value (\$)
Value of CNX share prior to the Relevant Interest Acquisition (controlling interest)	6.4	\$Nominal	\$Nominal
Value of CNX share post the Relevant Interest Acquisition (minority interest)	7.4	\$Nominal	\$0.0006

Source: BDO CFQ analysis

In addition to the values set out in Table 8.1 above, we note:

- If the Conditional Resolutions are not approved, the DOCA will not take effect and the Non-Interested Director expects CNX to be liquidated;
- The net asset deficiency at the low end of the ABV range has improved from a net asset deficiency of \$9.3 million prior to the Relevant Interest Acquisition to a net asset deficiency of \$4.3 million following the Relevant Interest Acquisition. The improvement in the net asset deficiency is caused by factors including:
 - The \$3.85 million share placement;
 - Debt to CNX creditors being cleared at a discount to the original face value of the debt (as set out in Section 10 of the Administrator's Report); and
 - A reduction in the face value of the convertible note facility from \$10 million to \$8.3 million (plus capitalised costs and expenses capped at \$1 million);
- At the high end of our ABV range, the net asset value has improved from a net asset deficiency of \$0.3 million prior to the Relevant Interest Acquisition to \$7.8 million following the Relevant Interest Acquisition; and
- While there is significant dilution as a result of the issue of the Convertible Notes, post the Relevant Interest Acquisition, there is some positive value which can be attributed to the CNX shareholders at the high end of our valuation range.

Having regard to the above assessment of the Relevant Interest Acquisition and the information set out in detail in the balance of this Report, it is our view that in the absence of any other information or a superior offer, the Relevant Interest Acquisition is Fair to the Non-Interested Shareholders as at the date of this Report.

The Non-Interested Shareholders should also refer to Section 9.0 of this Report which sets out additional matters on the Relevant Interest Acquisition that the Non-Interested Shareholders should consider when deciding whether to vote in favour of or against the Conditional Resolutions.

9.0 Assessment of the Reasonableness of the Relevant Interest Acquisition

This section is set out as follows:

- Section 9.1 outlines the advantages of the Relevant Interest Acquisition to the Non-Interested Shareholders;
- Section 9.2 outlines the disadvantages of the Relevant Interest Acquisition to the Non-Interested Shareholders;
- Section 9.3 sets out other matters not considered in the assessment of reasonableness of the Relevant Interest Acquisition
- Section 9.4 outlines the issues to consider if the Conditional Resolutions are not approved and the DOCA does not proceed; and
- Section 9.5 provides our assessment of the reasonableness of the Relevant Interest Acquisition.

9.1 Potential Advantages of the Relevant Interest Acquisition

Table 9.1 below outlines the potential advantages of the Relevant Interest Acquisition to the Non-Interested Shareholders assuming the Conditional Resolutions are approved and the DOCA completes.

Table 9.1: Potential Advantages of the Relevant Interest Acquisition

Advantage	Explanation
Enables CNX to operate as a going concern and avoid liquidation	<p>If the Relevant Interest Acquisition is approved, it would provide the Company with the necessary financial resources (as outlined in Section 3.1) to meet its liabilities as and when they fall due at the current time.</p> <p>CNX is currently subject to a DOCA. If the conditions precedent to the DOCA (including shareholder approval) are not satisfied or waived on or before 30 September 2017, and in the event that the Shareholder meeting date extends beyond the end of May 2017 and additional funding is not secured to cover operating expenditure until all conditions precedent are satisfied or waived, it is the Directors view that the Company is likely to be liquidated (refer to Section 9.4 below).</p>
The Relevant Interest Acquisition is fair	<p>In our view, the Relevant Interest Acquisition is fair to the Non-Interested Shareholders as at the date of this Report. In accordance with RG 111, a transaction is considered reasonable if it is fair.</p> <p>Refer to Section 8.0 of this Report for our assessment of the fairness of the Relevant Interest Acquisition.</p>
There are no alternatives available to CNX in securing alternative funding	<p>The Company in 2016 had completed an international marketing campaign to secure alternative funding to repay and/or replace the CFA which is in place with Pacific Road. Ultimately, the Company was unsuccessful in securing alternative funding and was placed into Voluntary Administration. The Voluntary Administrators also conducted a marketing campaign (see Section 7 of the Administrator's Report in Schedule 5 of the EM) to assist to maximise the return to all creditors.</p> <p>Having regard to the process conducted by the Voluntary Administrators, the Voluntary Administrators determined the funding arrangements of the Relevant Interest Acquisition as the superior proposal for reasons set out in Section 7 of the Administrator's Report (Schedule 5 of the EM).</p> <p>The Relevant Interest Acquisition enables the funding arrangements to be provided by Kam Lung. If not for the conversion features of the Convertible Note, CNX may not have been able to secure funding. The Directors' are not aware of any alternative transaction available with terms superior to those offered (and summarised in Section 3.0) as at the time of this Report.</p>
Provides funding to continue the development and commercialisation of the Company's business operations for longer term shareholder value	<p>The Directors view the development and commercialisation of the Keyseam Technology as a key milestone and value driver for the Company. The funding from the Relevant Interest Acquisition will assist the Company in progressing its current business operations and provide more opportunity to establish and develop new revenue streams.</p> <p>For completeness, we have been informed that the Company has been focused on reducing discretionary costs. The Directors' are of the view that the funding will enable the Company to better resource its growth functions and execute its growth strategy. It is the Director's view that the Relevant Interest Acquisition offers the best opportunity to the Non-Interested Shareholders to provide longer term shareholder value.</p>

Advantage	Explanation
More highly aligned interest and support of the cornerstone investor with the Company	The Relevant Interest Acquisition further reinforces the support from Kam Lung and its associates as the cornerstone investors in CNX. This will further align the interest of Kam Lung and its associates with the Company. Kam Lung has indicated (see Section 7.7 of the EM) the potential for future capital injection into the Company subject to the prevalent market conditions at the time. This may provide the market and other potential investors with confidence that the Company has support at the current time.
The Company has the potential to settle its debt and interest in CNX shares instead of cash	If the Relevant Interest Acquisition is approved, the Company has the potential to settle the funding and interest from the Convertible Note in CNX shares rather than in cash up to a maximum which would result in Kam Lung having a relevant interest in 90% of CNX shares. We also note that the Company may elect to capitalise interest for a given interest period and add it to the outstanding principal. We note that while the option to convert ultimately lies with the holder of the Convertible Note, the Relevant Interest Acquisition potentially allows for the repayment of the monies owing on the Convertible Note by CNX without seeking external funding.
Potential reinstatement of the Company's shares on the ASX	The ASX have indicated to the Company that if the Relevant Interest Acquisition is approved, the suspension on CNX shares will be lifted. This will enable the Non-Interested Shareholders who wish to realise the value of their shares to do so through trading on the ASX.
The Company will be cleared of historical debts to creditors under the DOCA	If the Relevant Interest Acquisition is approved and on completion of the DOCA, debt to certain CNX creditors will be cleared at a discount to the face value of the debt (as set out in Section 10 of the Administrator's Report). We note that the debt owed under the CFA to Pacific Road has been reduced from \$10 million to \$7 million (\$6.85 million excluding Kam Lung's legal and financial advisory costs) (refer to Section 7.2 of the EM).

Source: BDO CFQ analysis and EM

9.2 Potential Disadvantages of the Relevant Interest Acquisition

Table 9.2 below outlines the potential disadvantages of the Relevant Interest Acquisition to the Non-Interested Shareholders.

Table 9.2: Potential Disadvantages of the Relevant Interest Acquisition

Disadvantage	Explanation
Kam Lung will gain a significant influence on the strategic directions of the Company	The Directors have indicated that they have no intention in changing the Company's strategic direction. However following the Relevant Interest Acquisition, any changes to the Company's strategy will require the support of Kam Lung and there is no binding restriction which prevents Kam Lung from changing the Company's strategic direction.
The Relevant Interest Acquisition results in significant dilution of interest held by the Non-Interested Shareholders and loss of control	<p>If the Relevant Interest Acquisition is approved, the Non-Interested Shareholders' interest in the Company will be diluted from 62.32% to a level below 20% (exact percentage will depend on the conversion price for the Convertible Note) if the Convertible Note is converted to CNX shares.</p> <p>While CNX will have similar operations both before and after the Relevant Interest Acquisition, the Non-Interested Shareholders will lose their controlling stake in CNX and own a significantly smaller proportion of the Company. This will reduce the proportion of any potential upside for the Non-Interested Shareholders from future activities of CNX.</p>
Kam Lung is unilaterally able to pass or block any ordinary and special resolutions.	<p>CNX must obtain votes in excess of 50% from its shareholders to pass an ordinary resolution. In order to pass a special resolution, CNX is required to obtain votes from 75% or more of its shareholders.</p> <p>Kam Lung currently have a relevant interest in CNX of 28.39% which may increase to a maximum of 90%, following the approval of the Relevant Interest Acquisition. This significant increase in shareholding interest of CNX will allow Kam Lung to unilaterally pass or block any ordinary and special resolutions, as well as appoint and remove the Directors (refer to Section 7.9 of the EM).</p>

Disadvantage	Explanation
Reduce the likelihood of a takeover of the Company	The Relevant Interest Acquisition will result in Kam Lung increasing their relevant interest in the Company from 28.39% up to 80% (and possibly up to 90%). Accordingly, any takeover offer that has a minimum acceptance condition of either 50.1% or 100% of the shares in the Company will require the support of Kam Lung. This may reduce the likelihood of the Company receiving a takeover offer in the foreseeable future. As at the date of this Report, a takeover offer for 50.1% of the shares in the Company would not require the support of Kam Lung.
Potential option for Kam Lung to compulsorily acquire the remaining CNX shares	As set out in Section 7.7 of the EM, the maximum interest in CNX that Kam Lung can obtain following the conversion of the Convertible Note and interest in the Company is 90%. If its interest holding in CNX is 90%, Kam Lung may be able to compulsorily acquire the remaining shares not held by it under Part 6A.2 of the Corporations Act. In that event, the Non-Interested Shareholders will be paid fair value for their CNX shares (as determined by an independent expert), however will no longer have the opportunity to enjoy any potential upside from future activities of the Company.
Conversion price under the Convertible Note is uncertain as at the date of this Report	As set out in Section 3.1.3 above, the price that shares will be issued at to Kam Lung in the event of conversion for the Convertible Note is not currently known and will be set having regard to the prevailing market price at the time (i.e. VWAP of CNX shares on the ASX in the 20 dealing days immediately preceding (but not including) the first anniversary of the completion date of the Convertible Note).
Potential for a significant number of CNX shares to be sold on the open market	If the Relevant Interest Acquisition is approved, Kam Lung will be issued a maximum of 4.7 billion new CNX Shares (subject to assumptions set out in Section 3.3) and have a total relevant interest in the Company of up to 90%. We note under the terms of the Relevant Interest Acquisition, there is no binding restriction on Kam Lung and associates selling their CNX shares on the open market. However, we note shares issued under the Share Placement are subject to escrow for a 12 month period. If the Relevant Interest Acquisition is approved, Kam Lung and associates in the future may elect to sell some or all of their CNX shares not subject to escrow agreement on the open market. This may place downward pressure on the share trading price of CNX if the increased supply of CNX shares sufficiently outweighs the demand for CNX shares.
Availability of income tax losses carried forward	If the Relevant Interest Acquisition is approved, Kam Lung is likely to hold a relevant interest in the Company of above 50%. In this circumstance, the Company will fail the Continuity of Ownership test for utilising some or all of its available carry forward tax losses. In this event the Company will seek to rely on the Same Business Test for utilising its carry forward tax losses. The level of tax losses that can be offset against taxable income in Australia will depend on the nature of the business at the time these losses were incurred compared to the time in the future that the Company seeks to utilise them. For completeness we note that CNX's tax losses, at 30 June 2016 totalled \$325 million.

Source: BDO CFQ analysis and EM

9.3 Other Matters Not Specific to the Relevant Interest Acquisition

The Relevant Interest Acquisition as defined in this Report is the possibility for Kam Lung to obtain a relevant interest in CNX of up to 90% of shares (refer to Section 3.3 of this Report) as a result of the financing arrangements which have been secured by CNX.

We note that there are a number of transactions occurring in conjunction with the Relevant Interest Acquisition that we have not considered as part of the Relevant Interest Acquisition in this Report. While we have not considered these other matters in our assessment of reasonableness, in Table 9.3 below we have set out selected other matters that shareholders may wish to consider. The relevance of each consideration will be specific to individual shareholders having regard to their particular views and circumstances. We advise that readers of this Report should consider all information set out in the EM, including the DOCA in Schedule 5 of the NoM and the Conditional Resolutions.

Table 9.3: Other Matters Not Considered as Part of the Relevant Interest Acquisition

Matter	Explanation
CNX is repaying its existing convertible facility with Pacific Road under the CFA	<p>The existing convertible facility with Pacific Road was due on 18 January 2017 and we note that Pacific Road elected to have the convertible note repaid in cash at the end of the term. The Company was unable to meet its debt obligations under the CFA and entered into Voluntary Administration.</p> <p>With the funds raised as part of the Kam Lung Facility, the Company intends to repay the Pacific Road CFA (refer to Section 3.1.3 of this Report).</p>
Possibility of default	<p>Until such time as the Convertible Note is converted into equity or are otherwise settled, CNX will have significant debt on its balance sheet. If Kam Lung elects for the Company to repay the Convertible Note in cash at the maturity date there is no guarantee that the Company will be able to raise the cash and may default on the debt.</p> <p>In this circumstance the Company may become insolvent and Kam Lung may exercise their rights under the Security Agreement. As a consequence, it is possible that there will be no economic interest remaining for existing shareholders if these events occurred, noting that the Non-Interested Director expects that CNX will be liquidated if the Relevant Interest Acquisition does not complete in which case the Administrators have estimated that there will be a nil return for Shareholders.</p>
Grant of indemnity	<p>Under the facility document relating to the DOCA, the Company provides an indemnity in respect of any event of default under the Kam Lung Facility. The indemnity may be relied upon by Kam Lung to demand payment of all monies owed under a facility document as a debt, not just amounts directly owing in respect of repayments under the Kam Lung Facility</p>
The granting of security in favour of Kam Lung by the Deed Companies	<p>While we have assessed the reasonableness of the Relevant Interest Acquisition and the Security Transaction separately in this Report, both the Relevant Interest Acquisition and the Security Transaction form part of the Conditional Resolutions. The Fairness and Reasonableness of the Security Transaction is discussed in Section 10.0 and Section 11.0 of this Report.</p>

Source: BDO CFQ analysis and EM

9.4 Matters to Consider if the Conditional Resolutions are Not Approved

Table 9.4 outlines the possible position of the Non-Interested Shareholders in the event the Conditional Resolutions are not approved. We note that the Conditional Resolutions may not be approved for a number of reasons including, but not limited to, the conditions to the Relevant Interest Acquisition and/or the Security Transaction not being satisfied (refer to Section 3.2 of this Report) and/or the Non-Interested Shareholders not approving the resolution.

Table 9.4: Matters to Consider if the Relevant Interest Acquisition Does Not Proceed

Matter	Explanation
The Non-Interested Director expects CNX to be liquidated	<p>If the Relevant Interest Acquisition does not proceed, CNX will be required to immediately find an alternative source of funding to meet its debt obligations. Based on the results from the marketing campaign completed by the Voluntary Administrators (refer to Section 7 of the Administrator's Report) and the Company in the past, the Directors are not confident in securing sufficient funding to repay its debt obligations.</p> <p>If the conditions precedent to the DOCA (including shareholder approval) are not satisfied or waived on or before 30 September 2017, one or more of the following will occur:</p> <ul style="list-style-type: none"> ▪ The Voluntary Administrators will convene a meeting of creditors to determine the future of the deed companies. In this circumstance, the choices available to the creditors are likely to include liquidating the company or returning the company to the control of the Directors; ▪ If control reverts to the Directors, they are of the view that the Company is likely to be insolvent given that it will be unable to meet its debts as and when they become due. On this basis, the Directors are of the view that the only alternative for CNX will be liquidation; and/or ▪ Pacific Roads may elect to exercise their security over the assets and appoint a receiver. Under these circumstances, CNX's secured assets will be disposed and the funds received first allocated towards debt obligations. <p>However, the Non-Interested Director has stated in the EM that he expects CNX will be liquidated if the Relevant Interest Acquisition does not proceed.</p> <p>In section 10.1 of the Administrator's Report, the Voluntary Administrator estimates that if CNX is wound up there will be no return to unsecured creditors. Equity holders in the Company rank behind unsecured creditors. Given the Voluntary Administrator's view that there will be no return to unsecured creditors, we consider it unlikely the Non-Interested Shareholders will receive any return on their investment in circumstances where the DOCA does not take effect.</p>
CNX shares will remain suspended on the ASX	<p>If the Relevant Interest Acquisition does not proceed, the Company's shares will likely remain suspended. CNX shareholders will be unable to realise the value of their shares through the ASX.</p>
The Non-Interested Shareholders will retain a controlling interest in CNX	<p>The current Non-Interested Shareholders will retain a controlling interest (above 50%) within the Company. This will continue to allow the Non-Interested Shareholders to block any ordinary resolutions and be entitled to any potential upside or downside risks associated with the future earnings and value of CNX.</p> <p>Notwithstanding the above, we note the above point in relation to the likelihood that the Company will return to voluntary administration, be liquidated and/or be placed into receivership.</p>

Source: BDO CFQ analysis and EM

9.5 Assessment of the Reasonableness of the Relevant Interest Acquisition

In our opinion, after considering all of the issues set out in this Report and in the absence of any other information, the Relevant Interest Acquisition is **Reasonable** to the Non-Interested Shareholders as at the date of this Report.

10.0 Fairness of the Security Transaction

This section provides our opinion on the fairness of the Security Transaction to the Non-Interested Shareholders and is set out as follows:

- Section 10.1 sets out the approach we have adopted to assess the fairness of the Security Transaction; and
- Section 10.2 sets out our assessment on the fairness of the Security Transaction.

10.1 Approach Adopted to Assess Fairness

RG 111 suggests that a proposed related party transaction is ‘fair’ if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length.

Our fairness assessment considers the circumstance where there is a default and the security for the Convertible Note is called by Kam Lung. We do not consider other terms associated with the Convertible Note, including interest rates.

Under RG 111, in the case of the Security Transaction, the proceeds flowing to CNX from the sale of the assets (over which security is proposed to be granted) in the event of a default on the Convertible Note constitutes the financial benefit provided to Kam Lung. The consideration provided by Kam Lung to CNX is the outstanding amount on the Convertible Note which will be foregone by CNX in the event of a default on the Convertible Note.

Having regard to the above, the Security Transaction is ‘fair’ if the value of the security provided to Kam Lung (i.e. the value of the proceeds flowing to Kam Lung from the sale of the assets) is equal to or less than the value of the liabilities to be settled by the security (i.e. the outstanding amount on the Convertible Note) in the event of a default on the Convertible Note.

Under the terms of the Convertible Note, Kam Lung’s entitlement in the event of default is limited to the outstanding amount (including principal, interest and enforcement costs) on the Convertible Note. If the proceeds received from the sale of the assets are greater than the outstanding amount on the Convertible Note then Kam Lung will only receive the amount owing on the Convertible Note at the time the assets are sold. Once any amounts owing to Creditors have been repaid, any surplus funds that remain from the sale of the assets will be returned to CNX.

For completeness, we note that, in the event of a default on the Convertible Note, Kam Lung may themselves enter into possession as a ‘Controller’⁷ or appoint a receiver and manager to recover the debt owed, which may involve a sale of the relevant assets. We understand that if appointed, a receiver has an obligation under the Corporations Act to take reasonable care to sell the secured assets at:

- ‘Not less than market value’ where a market value exists; and
- The ‘best price that is reasonably obtainable’ where a market value does not exist.

If the Financier were to exercise their power of sale over a property as mortgagee, their obligations under the Property Law Act 1974 (Qld) or similar legislation in other Australian states would be similar to those of a receiver, particularly in regards to the duty to take reasonable care to ensure that the property is sold at the market value.

We understand that in certain circumstances it is possible that a liquidator may be appointed instead of an administrator or receiver. If appointed, a liquidator’s obligations under the Corporations Act are similar to that of administrators and receivers, although unlike administrators and receivers, there is no statutory instruction for liquidators to seek the market value. There is however an obligation to discharge their duties with due care and diligence and deal with the secured assets in a manner that will most benefit an entity’s creditors and achieve the best price that is reasonably obtainable, having regard to the state of the asset at

⁷ The Corporations Act 2001 defines ‘controller’, in relation to property of a corporation, to mean:
a) a receiver, or receiver and manager, of that property; or
b) anyone else who (whether or not as agent for the corporation) is in possession, or has control, of that property for the purpose of enforcing a security interest.

the time of sale. In any case, the appointment of the liquidator will be subject to the consent and agreement of Kam Lung.

Having regard to the above, in our view, it is appropriate to assume for the purposes of our analysis in this Report that, in the event of a default on the Convertible Note, any sales process pursued to divest the assets will be conducted in a manner which realises fair market value as at the time of the sale, having regard to the existing state of the assets.

10.2 Assessment of Fairness

To assess whether the Security Transaction is fair, we have compared the value of the proceeds flowing to Kam Lung from the sale of the assets to the value of the outstanding amount (including principal, interest and enforcement costs) on the Convertible Note owing to Kam Lung in the event of a default on the Convertible Note under several scenarios. In considering the various possible scenarios, we note the following:

- In the scenario where the value of the proceeds from the sale of the assets is greater than the value of the outstanding amount on the Convertible Note, Kam Lung is only entitled to receive sale proceeds equal to the amount outstanding on the Convertible Note;
- In the scenario where the value of the proceeds from the sale of the assets is equal to the outstanding amount on the Convertible Note, Kam Lung is entitled to receive all of the sale proceeds; and
- In the scenario where the value of the proceeds from the sale of the assets is less than the outstanding amount on the Convertible Note, Kam Lung is entitled to receive all of the sale proceeds. To the extent the amount outstanding on the Convertible Note exceeds the proceeds received from the sale of the assets, Kam Lung can only recover it as an unsecured creditor of the Company.

Table 10.1 below summarises the potential outcomes from the settlement of the Convertible Note under a default scenario.

Table 10.1: Potential Settlement Scenarios for the Convertible Note

Scenario	Consequence	Fairness
Proceeds from assets > Outstanding Amount	Security provided = Liabilities settled	Fair
Proceeds from assets = Outstanding Amount	Security provided = Liabilities settled	Fair
Proceeds from assets < Outstanding Amount	Security provided < Liabilities settled	Fair

Source: BDO CFQ Analysis

Having regard to the potential settlement scenarios summarised above, in all circumstances Kam Lung is entitled to receive a maximum amount equal to the outstanding amount on the Convertible Note, in circumstances where the assets are sold.

After considering the information above, we conclude that the Security Transaction is **Fair** to the Non-Interested Shareholders as at the date of this Report.

11.0 Assessment of the Reasonableness of the Security Transaction

Our assessment of the reasonableness of the Security Transaction includes consideration of the likely advantages and disadvantages of the Security Transaction and the position of the Non-Interested Shareholders if the Security Transaction does not proceed.

11.1 Advantages of the Security Transaction

Table 11.1 outlines the potential advantages of the Security Transaction to the Non-Interested Shareholders.

Table 11.1: Advantages of the Security Transaction

Advantage	Explanation
The Security Transaction is Fair	In our view, the Security Transaction is Fair to the Non-Interested Shareholders as at the date of this Report. In accordance with RG 111, a transaction is considered reasonable if it is fair. Refer to Section 10.0 of this Report for our assessment of the fairness of the Security Transaction.
It is not unusual for companies to grant security over their assets when raising debt finance	It is not unusual for companies to grant security over their assets when raising debt finance. In many cases, the granting of security assists companies to obtain the funding they require for their ongoing operations and development on terms that are more favourable than they otherwise would have been if no security was granted. This is because the granting of security assists to reduce counterparty risk for the financier, or the risk to the financier of the borrower defaulting on their obligations.

Source: BDO CFQ Analysis

11.2 Disadvantages of the Security Transaction

Table 11.2 below outlines the potential disadvantages of the Security Transaction to the Non-Interested Shareholders.

Table 11.2: Disadvantages of the Security Transaction

Disadvantage	Explanation
There will be a limited ability to secure alternative sources of funding from non-related third parties	If the Security Transaction proceeds, Kam Lung will be granted security over all the assets of the Deed Companies (refer to Schedule 6 of the EM). CNX's ability to secure further / alternative asset based debt finance from non-related third parties may be limited until the Convertible Note is converted and/or repaid. If CNX does obtain debt finance from a non-related third party, it may be on less favourable terms than would otherwise be the case if the Security Transaction was not approved, as any additional debt provider would rank behind Kam Lung. We note that prior to the Security Transaction, security under the terms of the CFA was already provided to Pacific Road, and the security is effectively being replaced under the Security Transaction.
CNX may lose control over its assets	In the event of default, CNX may be required to sell its assets in order to settle the amounts owing to Kam Lung. In this circumstance, CNX will be forced to forego the potential future profits that would otherwise accrue to them from having ownership of its assets, including the Keyseam Technology and its 30% interest in the profits of the JinHong JV.

Source: BDO CFQ Analysis

11.3 Position of the Non-Interested Shareholders if the Conditional Resolutions are Not Approved

The Security Transaction is one part of the Conditional Resolutions. We have discussed the implications to the Non-Interested Shareholders if the Relevant Interest Acquisition (which is also part of the Conditional Resolutions) is not proceeding in Section 9.3 of this Report.

11.4 Assessment of the Reasonableness of the Security Transaction

In our opinion, after considering all of the issues set out in this Report, in the absence of any other information, the Security Transaction is **Reasonable** to the Non-Interested Shareholders as at the date of this Report.

12.0 Sources of Information

We have prepared this Report utilising information from sources including the following:

- CNX Annual Reports for the years ended 30 June 2014, 2015 and 2016;
- The Financial Model prepared by CNX in relation to the Company's financial projections in relation to the Keyseam Technology;
- The NoM and EM in relation to the Relevant Interest Acquisition dated 2 June 2017;
- CNX company website (www.carbonenergy.com.au);
- The CFA and other agreements in relation to the Relevant Interest Acquisition;
- Other commercial and financial documents in relation to the JinHong JV;
- Capital IQ;
- Various other research publications and publicly available data as sourced throughout this Report; and
- Various discussions and other correspondence with CNX management, CNX Directors, JinHong and their advisers.

13.0 Indemnities, Representations and Warranties

CNX has agreed to our usual terms of engagement in addition to the indemnities and representations set out below.

13.1 Indemnities

In connection with BDO CFQ's engagement to prepare this Report, CNX agrees to indemnify and hold harmless BDO CFQ, BDO (QLD) or any of the partners, directors, agents or associates (together 'BDO Persons'), to the full extent lawful, from and against all losses, claims, damages, liabilities and expenses incurred by them. CNX will not be responsible, however, to the extent to which such losses, claims, damages, liabilities or expenses result from the negligent acts or omissions or wilful misconduct of any BDO Persons.

CNX agrees to indemnify BDO Persons in respect of all costs, expenses, fees of separate legal counsel or any other experts in connection with investigating, preparing or defending any action or claim made against BDO Persons, including claims relating to or in connection with information provided to or which should have been provided to BDO CFQ by CNX (including but not limited to the directors and advisers of CNX) as part of this engagement.

CNX has acknowledged that the engagement of BDO CFQ is as an independent contractor and not in any other capacity including a fiduciary capacity.

13.2 Representations & Warranties

CNX recognises and confirms that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDO Persons will be using and relying on publicly available information and on data, material and other information furnished to BDO Persons by CNX, its directors, its management, JinHong and other parties, and may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.

CNX directors represent and warrant to BDO Persons that all information and documents furnished by CNX (either directly or through its advisors) in connection or for use in the preparation of this Report will not, at the time so furnished, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein.

14.0 Experience, Disclaimers and Qualifications

BDO CFQ has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDO CFQ holds an Australian Financial Services Licence issued by ASIC for preparing expert reports pursuant to the Listing Rules of the ASX and the Corporations Act.

BDO CFQ and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Queensland and in Australia is a national association of separate partnerships and entities and is a member of the international BDO network of individual firms.

Mark Whittaker and Steven Sorbello have prepared this Report with the assistance of staff members. Mr Whittaker and Mr Sorbello are directors of BDO CFQ and have extensive experience in corporate advice and the provision of valuation and business services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations.

BDO CFQ has been engaged to provide an independent expert's report to the Non-Interested Shareholders. Specifically, this Report has been prepared to provide information to the Non-Interested Shareholders in relation to the Relevant Interest Acquisition and the Security Transaction to assist them to make an informed decision on whether to vote for or against the Conditional Resolutions at the Annual General Meeting. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement, or letter without the prior written consent of BDO CFQ.

BDO CFQ takes no responsibility for the contents of other documents supplied in conjunction with this Report. BDO CFQ has not audited or reviewed the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or a review of any of the entities mentioned in this Report. However, we have no reason to believe that any of the information or explanations so supplied is false or that material information has been withheld.

Any forecast information which has been referred to in this Report has been prepared by the relevant entity and is generally based upon best estimate assumptions about events and management actions, which may or may not occur. Accordingly, BDO CFQ cannot provide any assurance that any forecast is representative of results or outcomes that will actually be achieved.

With respect to any taxation implications of the Relevant Interest Acquisition and the Security Transaction, it is strongly recommended that the Non-Interested Shareholders obtain their own taxation advice, tailored to their own particular circumstances.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete. This Report is current as at 24 May 2017.

BDO Corporate Finance (QLD) Ltd



Mark Whittaker
Director



Steven Sorbello
Director

Appendix A - Industry Information

CNX is focussed on the development of its UCG technology. This appendix sets out an overview of the UCG process and the gasification industry.

The information presented in this appendix has been compiled from a range of publicly available sources and is not intended to be a comprehensive analysis. We recommend that CNX's shareholders refer to the original source of the information referred to in this section, and any other information they believe appropriate, for a more comprehensive analysis. This section should be referred to as a broad guide only.

A.1 The UCG Process⁸

Underground Coal Gasification is the process of converting coal into gas within the underground coal seam. It is an 'in-situ' process carried out through the injection of materials to bring output gas to the surface through production wells.

The earliest recorded idea of underground coal gasification came from the late 1800s with the work of Sir William Siemens. In the early 20th century, patents were granted to an American entity to produce gas from underground coal seams.

The UCG process is broadly described as follows:

- Air is pumped down a borehole into a coal seam;
- The coal is gasified in a cavity created by the conversion of coal to syngas; and
- Syngas is extracted through a different (i.e., production) borehole.

Syngas is primarily comprised of methane, ethane and hydrogen which are used for low-emission power generation and for the production of fertilisers, explosives, transport fuels and synthetic natural gas.

A.2 Gasification Industry⁹

A.2.1 Properties and Uses

Gasification has been used on a commercial scale for more than 60 years. Gasification is a manufacturing process that converts any material containing carbon—such as coal, petroleum coke, or biomass—into synthesis gas (syngas). The syngas can be burned in a turbine to produce electricity or further processed to manufacture chemicals, fertilisers, liquid fuels, substitute natural gas ('SNG') or hydrogen.

Syngas has different commercial applications. A description of its applications is set out in Table A.1 below.

Table A.1: Syngas Products and Applications

Product	Application
Chemicals and fertilisers	The syngas can be used to produce methanol as well as chemicals such as ammonia and urea, which form the foundation of nitrogen based fertilisers.
Power generation	Coal can be used as a feedstock to produce electricity via gasification. This process allows for lower air emissions than conventional coal burning.
Substitute natural gas	SNG can be created from coal and other feedstock using a methanation approach by which the carbon monoxide and hydrogen is converted to methane.
Hydrogen and oil refining	The hydrogen found in syngas can be used to strip impurities from gasoline, diesel and jet fuels and to upgrade heavy crude oil. Traditionally, refineries have used natural gas for this purpose.
Transportation fuels	Gasification can be used to produce transportation fuels from oil sands, coal and biomass.

Source: Gasification Technologies Council

⁸ Information in this section has been obtained from sources including Linc Energy (www.lincenergy.com.au) and Cornerstone, The Official Journal of the World Coal Industry (www.cornerstonemag.net)

⁹ Information in this section has been obtained from Linc Energy, Australian Syngas Association, Gasification Technologies Council and Analyst Reports

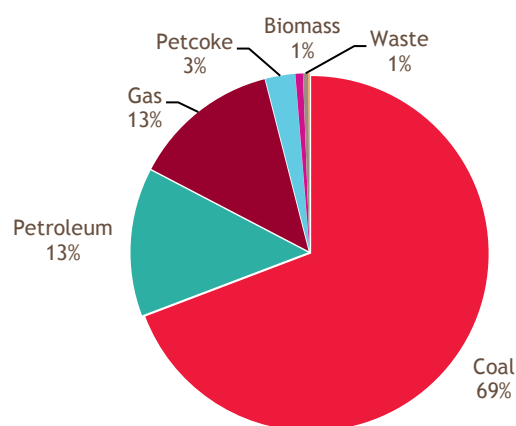
A.2.2 Sources of Feedstock

Coal is currently the predominant feedstock used in the gasification process and industry participants expect the process to be primarily based on coal resources for the foreseeable future. The gasification process can be achieved using coal sourced from either underground (underground coal gasification) or aboveground (aboveground coal gasification).

A significant proportion of dual-fuel power plants or engines use oil as a feedstock however the number has decreased significantly in recent years as the price of crude oil increased. The waste and biomass categories are expected to grow significantly in the near future, despite being relatively small at the current time.

Figure A.1 below sets out a breakdown of global syngas output by feedstock.

Figure A.1: Global Syngas Output by Feedstock

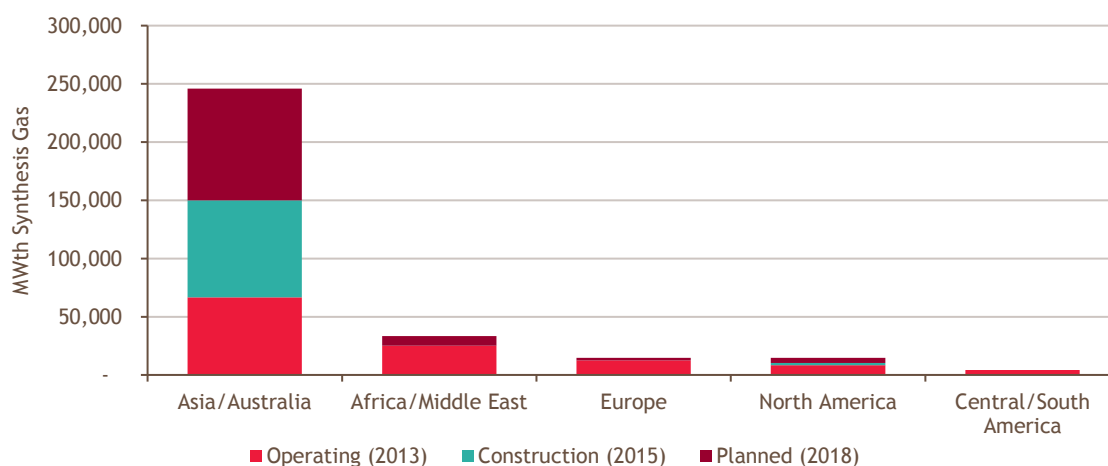


Source: Gasification Technologies Council 2014

A.2.3 Location of Gasification Plants

There are more than 272 gasification plants with 686 gasifiers currently operating worldwide. The majority of the world's gasification capacity is currently located in the Australasian region, which exceeds the rest of the world's capacity put together.

Figure A.2: Gasification Capacity by Geographic Region



Source: Gasification Technologies Council

The majority of the expected strong growth in global gasification capacity is anticipated to occur in Asia, specifically China, India, South Korea and Mongolia. The expected growth in the Asian region's gasification capacity is driven by the expected growth in the chemical, fertiliser and coal-to-liquids industries; the relatively high cost of LNG; and concerns about energy security. Limited growth in gasification capacity is forecast for the North American region in the near to medium term due to the abundant supply of relatively cheap natural gas.

UCG projects are primarily located in Australia, China, South Africa and Eastern Europe. China has the largest UCG program worldwide, with 30 projects currently in different phases of development. Uzbekistan (part of the former Soviet Union) currently has the only commercial UCG operation in the world, Yerostigaz. Yerostigaz has consistently produced one million cubic metres of UCG syngas per day for over 50 years and has coal reserves to support another 50 years of production at current capacity levels. The syngas produced at the Yerostigaz facility is used for the generation of electricity at the nearby Angren Power Station.

A.2.4 Key Challenges to Commercialising UCG Projects

Key challenges to successfully commercialising additional UCG projects around the globe are summarised in Table A.2 below.

Table A.2: Key Challenges to Commercialising UCG Projects

Challenge	Description
Limited track record	UCG technologies have a limited track record in being able to consistently produce commercial amounts of energy (the Yerostigaz facility in Uzbekistan is the world's only large scale commercial UCG operation). The economics of UCG projects are likely to remain uncertain until a number of commercial UCG projects are in operation.
Environmental concerns	Environmental and safety incidents at UCG facilities can damage the reputation of (and confidence in) UCG technologies among governments and the public. A number of UCG projects have been accused of polluting aquifers and causing subsurface subsidence in the recent past, resulting in negative sentiment for the technology. Site selection needs to be properly evaluated to avoid potential issues with groundwater contamination and surface subsidence.
Price competition	UCG outputs need to be competitively priced relative to the outputs from more conventional production methods in order to be commercially viable. Specifically, the price of UCG syngas needs to be lower than the price of natural gas. In regions where the spot price of natural gas is lower than the cost of UCG syngas (as is currently the case in the US), UCG projects are unlikely to be viable.
Political support	UCG projects generally require supportive government legislation in order to be viable. If there is a lack of political support for UCG projects, UCG companies may not be able to obtain the approvals and investment required to establish large scale commercial operations.

Source: Analyst reports

A.2.5 Queensland Ban on UCG Projects

On 18 April 2016 the QLD State Government announced a ban on underground coal gasification. This ban was instituted with immediate effect through Government policy. On 8 November 2016 the QLD Government introduced the Strong and Sustainable Resource Communities Bill 2016 (the 'Bill') to Parliament. This Bill was referred to the Infrastructure, Planning and Natural Resources Committee, who delivered their report on 7 March 2017. The committee recommended the bill be passed. The Bill is currently scheduled for second reading on 9 May 2017. Therefore, the source of the ban is currently implemented by way of QLD Government policy until such time as the Bill is passed.

Australia's history of UCG development is made up of only three individual pilot projects, all located in Queensland. These included Linc Energy's Chinchilla project, Cougar Energy's Kingaroy project and Carbon Energy's Bloodwood Creek project. Both Linc Energy and Cougar Energy ceased operations of their Chinchilla and Kingaroy projects prior to the ban, due to environmental concerns. Consequently, Carbon Energy are the only operational Australian based UCG related company that has been affected by the ban, despite following the QLD Government's ISP process and receiving independent support for their Keyseam Technology.

For completeness, we note that:

- On 25 July 2016, CNX received confirmation from the Queensland Government’s Chief Scientist that the Company met the key recommendations of the government appointed ISP into UCG;
- The Chief Scientist, who led the formal peer review process of the ISP, expressly acknowledges Carbon Energy as the only company to meet the recommendations of the ISP. He also recognises that the Company’s successful and innovative Keyseam Technology is different from that of other technologies employed, stating “it is clear that Carbon Energy has contributed to the collective understanding of UCG and the conditions under which the operation is likely to be both safe and successful.” ;
- The Company is of the view that this acknowledgment is likely to pave the way for expedited commercialisation of the Company’s technology in other jurisdictions; and
- The Chief Scientist also further confirmed that the ISP report and its key recommendations were accepted by the Queensland Department of Natural Resources & Mines and that the Company’s actions demonstrating safe and effective decommissioning and completing a plan for rehabilitation were independently reviewed by experts appointed by the Department of Environment and Heritage Protection.

Appendix B - Common Valuation Methodologies

A 'fair market value' is often defined as the price that reflects a sales price negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, with both parties at arm's length. The valuation work set out in this Report assumes this relationship.

There are a number of methodologies available to value an entity at fair market value. In preparing this Report, we have considered, amongst other metrics, the valuation methodologies recommended by ASIC in *RG 111: Content of Expert Reports*. The methodologies include those mentioned directly below.

B.1 Discounted Cash Flows (DCF)

The DCF approach calculates the value of an entity by adding all of its future net cash flows discounted to their present value at an appropriate discount rate. The discount rate is usually calculated to represent the rate of return that investors might expect from their capital contribution, given the riskiness of the future cash flows and the cost of financing using debt instruments.

In addition to the periodic cash flows, a terminal value is included in the cash flow to represent the value of the entity at the end of the cash flow period. This amount is also discounted to its present value. The DCF approach is usually appropriate when:

- An entity does not have consistent historical earnings but is identified as being of value because of its capacity to generate future earnings; and
- Future cash flow forecasts can be made with a reasonable degree of certainty over a sufficiently long period of time.

Any surplus assets, along with other necessary valuation adjustments, are added to the DCF calculation to calculate the total entity value.

B.2 Capitalisation of Maintainable Earnings (CME)

The CME approach involves identifying a maintainable earnings stream for an entity and multiplying this earnings stream by an appropriate capitalisation multiple. Any surplus assets, along with other necessary valuation adjustments, are added to the CME calculation to calculate the total entity value.

The maintainable earnings estimate may require normalisation adjustments for non-commercial, abnormal or extraordinary events.

The capitalisation multiple typically reflects issues such as business outlook, investor expectations, prevailing interest rates, quality of management, business risk and any forecast growth not already included in the maintainable earnings calculation. While this approach also relies to some degree on the availability of market data, the multiple is an alternative way of stating the expected return on an asset.

The CME approach is generally most appropriate where an entity has historical earnings and/or a defined forecast or budget. Further, a CME is usually considered appropriate when relevant comparable information is available.

B.3 Asset Based Valuation (ABV)

An ABV is used to estimate the fair market value of an entity based on the book value of its identifiable net assets. The ABV approach using a statement of financial position alone may ignore the possibility that an entity's value could exceed the book value of its net assets, however, when used in conjunction with other methods which determine the value of an entity to be greater than the book value of its net assets, it is also possible to arrive at a reliable estimate of the value of intangible assets including goodwill.

Alternatively, adjustments can be made to the book value recorded in the statement of financial position in circumstances where a valuation methodology exists to readily value the identifiable net assets separately and book value is not reflective of the true underlying value. Examples of circumstances where this type of adjustment may be appropriate include when valuing certain types of identifiable intangible assets and/or property, plant and equipment.

The ABV approach is most appropriate where the assets of an entity can be identified and it is possible, with a reasonable degree of accuracy, to determine the fair value of those identifiable assets.

B.4 Market Based Valuation (MBV)

An MBV methodology determines a value for an entity by having regard to the value at which securities in the entity have recently been purchased. This approach is particularly relevant to:

- Entities whose shares are traded on an exchange. The range of share prices observed may constitute the market value of the shares where a sufficient volume of shares is traded and the shares are traded over a sufficiently long period of time; and/or
- Entities for which it is possible to observe recent transactions relating to the transfer of relatively large parcels of shares (e.g. recent capital raisings).

For listed entities, the range of share prices observed may constitute the market value of the shares where sufficient volumes of shares are traded and the shares are traded over a sufficiently long period of time. Share market prices usually reflect the prices paid for parcels of shares not offering control to the purchaser.

B.5 Industry Specific Metrics

It is often appropriate to have regard to industry specific valuation metrics in addition to the traditional valuation approaches outlined above. These metrics are particularly relevant in circumstances where it is reasonably common for market participants to have regard to the alternative measures of value.

For resource companies, it is common for market analysts to have regard to multiples related to resources and tenement size.

Appendix C - Control Premium Research

A controlling interest in a company is usually regarded as being more valuable than a minority interest as it provides the owner with control over the operating and financial decisions of the company, the right to set the strategic direction of the company, control over the buying, selling and use of the company's assets, and control over appointment of staff and setting financial policies.

The increase in value for a controlling interest is often observed where an acquirer launches a takeover bid for another company. For the purposes of our research on control premiums, we have defined a controlling interest to be an interest where the acquirer has acquired a shareholding of greater than 50% in the target company.

The control premium observed in a given takeover bid may be impacted by a range of factors, including:

- The specific value that may have been applicable to the acquirer at the time of the transaction;
- The level of ownership already held by the acquirer in the target;
- The level of speculation in the market about a transaction between the target and the acquirer;
- The presence of competing bids for the target; and
- The prevailing strength of the market and the economy more broadly at the time of the transaction.

To determine an appropriate control premium range to apply to CNX in this Report, we have considered the following information:

- Control premiums implied in merger and acquisition transactions of broadly comparable coal and oil and gas exploration companies operating in Australia, which indicate median control premiums in the range of 30-55%¹⁰. We note that there are very limited transactions (including those considered above) which may be regarded as directly comparable to CNX. This is due to:
 - CNX's focus on pursuing the JinHong JV which relies on the Company's Keyseam Technology as its main value contribution. This limits the Company's comparability to companies and transactions involving upstream coal and/or oil and gas exploration / operations; and
 - The ban on UCG activities in Queensland, thereby limiting any immediate activities by the Company in Australia (allowing direct use of its infrastructure and acreage in the Surat Basin). This limits the Company's comparability to transactions involving Australian operations;
- Recent independent expert's reports which apply control premiums in the range of 20% to 40%;
- Various industry and academic research, which suggests that control premiums are typically within the range of 20% to 40%;
- Various valuation textbooks; and
- Industry practice.

Having regard to the information set out above, in our view, it is appropriate to consider control premiums within the range of 20% to 40% with a preferred value of 30% for the purposes of assessing the Relevant Interest Acquisition in this Report. This implies a minority interest discount in the range of 16.7% to 28.6% with a preferred value of 23.1%, which is calculated as the inverse of the control premium¹¹.

¹⁰ Capital IQ 1-day, 1-week and 1-month premiums as at announcement dates based on broadly comparable transactions between 2009 to 2016

¹¹ Calculated as: $1 - 1 / (1 + \text{control premium})$

Appendix D - Weighted Average Cost of Capital

The discount rate is usually calculated to represent the rate of return that investors might expect from their capital contribution, given the riskiness of the future cash flows and the cost of financing using debt instruments. We have selected a real after tax discount rate in the range of 15.0% to 20.0% to discount the free cash flows of Keyseam Technology to their present value. In selecting this discount rate we have considered the following:

- The required rate of return of comparable companies in the resources and energy sectors;
- The capital structure of comparable companies;
- The Keyseam Technology's projected cash flows, including inherent uncertainty in relation to the projections; and
- The Keyseam Technology is currently in the development and demonstration phase of the product life cycle.

The real after tax discount rate range selected reflects our assessment of the weighted average cost of capital ('WACC') for Keyseam Technology based on the following:

- a cost of equity prior to considering company specific risk of approximately 10% to 14% based on:
 - a risk free rate of 2.40% based on the 10-year United States Treasury Bonds as at 22 March 2017;
 - an equity market risk premium of 6.0%; and
 - a beta in the range of 0.9 to 1.3;
- a company specific risk premium to reflect the higher level of uncertainty associated with the growth potential of Keyseam Technology and execution risk;
- a cost of debt of 10%;
- a debt to equity ratio in the range of 10/90 to 20/80;
- a corporate tax rate of 30%;
- a value for imputation credits (γ) of nil. This assumption has been made with reference to the fact that imputation credits for Australian companies are available to domestic investors only and that not all investors in Keyseam Technology are Australian. The marginal investor is likely to be an investor who is not entitled to claim imputation credits; and
- an average inflation rate of 1.77% by considering the long term inflation rate using annual growth in consumer price indices ('CPI') for the US and China of 2.74% and 0.80%¹² respectively and the Fisher equation.

¹² Sourced from Capital IQ as at 23 March 2017

Appendix E Value of the Surat Basin Tenements

In this section, we have set out our opinion of the value of the Surat Basin tenements owned by CNX.

E.1 Summary of CNX Tenements and Resources¹³

As outlined in Section 5.1.4, CNX has exploration licences across four permits (EPC) in Kogan and Milmeran in Queensland. The Company also has a mining development licence in Kogan. These permits cover 787.7 square kilometres.

Across these tenements, as outlined in the CNX Annual Report for FY2016, the Company has made the following resource determinations:

- An inferred mineral resource determination of 2,272 million tonnes of thermal coal; or
- A 2C contingent petroleum resource equivalent of 21,267.2 peta joules of syngas.

The Company has specified that thermal coal can be gasified to produce syngas, such that either coal or syngas can be extracted from the Company's tenements. The resource determinations set out above are provided as alternative resource estimates, rather than cumulative resources.

E.2 Valuation Approach to CNX Tenements and Resources

A number of methods may be used in valuing mineral deposits, petroleum assets and tenements. The method/s utilised usually depend on the stage of development of the tenement and the information available about the deposits.

Based on the information available regarding the CNX tenements and given that no sustained exploration, appraisal or production activities have taken place at those tenements to date, these tenements may be regarded as early stage mineral deposits. Market participants generally value early stage deposits using comparable transactions. We note that we have not included a comparison to petroleum tenements on the basis that the tenements are only registered for UCG activities (which are currently banned), and any other form of gas exploration (including CSG) activity is licenced to other companies (overlapping tenements).

We have had regard to comparable transactions in providing our valuation conclusion regarding the CNX tenements in this Report.

E.3 Comparable Transactions

We have had regard to transactions between 2012 and 2016 involving early stage coal mining tenements in Queensland. We have also considered the trading multiples of companies which hold early stage coal mining in Queensland.

A summary of the trading and transaction data which we have had regard to is provided in Table E.1 below. With reference to Table E.1, we note the following:

- The trading multiples of early stage coal companies in Queensland range from under \$0.003 per tonne of resource to approximately \$0.013 per tonne as at the date of this Report. On an area basis, the trading multiples are in the range of \$737 to \$9,200 per square kilometre. The wide range reflects the level of advancement of certain companies' assets relative to others which are less developed; and
- The transaction multiples relating to coal transactions in Queensland range from \$0.14 per tonne to \$0.48 per tonne of resource. Many of these transactions involve operating mines and their area multiples are not comparable to CNX's Surat Basin tenements.

Among other factors, the wide ranges of multiples shown above reflect the differences due to the type of resource being explored (coal v petroleum), the difference in the stage / quality of the assets and market conditions.

¹³ This information is sourced from CNX's Annual Report 2016 and further information provided by CNX management.

E.4 Valuation of the CNX Tenements

In concluding on our valuation of the CNX tenements, we have considered the following additional information:

- We are not technical experts and do not provide a technical expert's opinion or a technical valuation of the Surat Basin tenements;
- The thermal coal resources identified in the tenements held by CNX have been earmarked for their UCG potential for the deeper coal seams, rather than for use as thermal coal;
- The syngas potential of the tenements (expressed in peta joules) is constrained from commercialisation due to the QLD Government ban on UCG projects at the current time. The majority of the comparable companies and transactions set out in Table E.1 and Table E.2 below relate to coal seam gas or other unconventional gas assets which are not constrained from commercialisation, and those comparable tenements have not been earmarked for UCG projects as at the date of this Report;
- The Company has fully impaired its Surat Basin tenements in its financial statements for the year ended 30 June 2016;
- The tenements face constraints in relation to their development potential as thermal coal mines, due to lack of port and rail access and early. Further, they may be required to be developed as more expensive underground operations (rather than open cut) mines; and
- Two of the tenements (EPC 867 and EPC868) which expired in February 2015 are pending renewal (the applications were lodged in November 2014) and EPC1132 which expires in June 2019 has a requirement to relinquish 11 sub-blocks in 2017.

Having regard to the above, in our view it is appropriate to adopt a value of \$Nominal to \$2 million to CNX's tenements for the purposes of the analysis set out in this Report. We note that our valuation range is reflective of the regulatory uncertainty inherent in the Surat Basin tenements at the date of this Report.

E.5 Summary of Comparable Companies and Transactions

In Table E.1, we have provided a summary of the trading multiples of comparable companies.

Table E.1: Trading Multiples of Comparable Companies

Company	Enterprise Value ('EV') (\$ millions)	Measured/ Indicated/ Inferred Resource (Mt)	Area (km ²)	EV / Resource (\$/tonne)	EV / Area (\$/km ²)
East Energy Resources Limited	25.0	1,741	2,500	0.0144	10,000
Allegiance Coal Limited	3.1	263	222	0.0118	13,969
Coal Bank Limited	5.5	1,292	347	0.0043	15,848
Mean	11.2	1099	1,023	0.0101	13,273
Median	5.5	1292	347	0.0118	13,969

Source: Capital IQ 24 March 2017, Company Reports and BDO CFQ analysis

In Table E.2, we have provided a summary of the transaction multiples of comparable companies and projects.

Table E.2: Transaction Multiples of Comparable Coal Companies and Projects

Date	Acquirer	Vendor	Asset	% Acquired	Consideration (\$ millions)	Resource (million tonnes)	EV/ Resource (\$/t)
01/07/2015	Stanmore Coal Limited	Millennium Coal Pty Ltd	Wotonga coking coal in Bowen Basin	100%	7.0	14.5	0.48
20/01/2014	Wesfarmers Resources	Peabody Budjero Pty Ltd	Curragh coal mine in Central Qld	100%	70.0	255.0	0.27
12/12/2012	Cuesta Coal Ltd	Hannigan & Associates Pty Ltd	Orion Coal Project in Bowen Basin	100%	18.2	83.0	0.22
29/10/2012	U&D Mining Industry Australia	Endocoal Limited	Endo Coal in Bowen Basin	100%	71.0	498.5	0.14
29/08/2012	NuCoal Resources Ltd	Mitsui Matsushima International Pty Ltd	Doyles Creek Project in Hunters Valley	Joint development	94.0	512.0	0.18
Mean					52.0	273	0.261
Median					70.0	255	0.219

Source: Capital IQ, Company Reports and BDO CFQ analysis

EXPLANATORY MEMORANDUM

PROXIES AND REPRESENTATIVES

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

Shareholders who are a body corporate are able to appoint representatives to attend and vote at the Meeting under Section 250D of the Corporations Act.

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

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be **given to the Company's Share Registry, Link Market Services Limited**, in the manner indicated in the instructions to the proxy form, not less than 48 hours before the time for holding the Meeting, or adjourned Meeting as the case may be, at which the individual named in the proxy form proposes to vote.

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

A proxy form is attached to this Notice.

VOTING ENTITLEMENT

For the purposes of determining voting entitlements at the Meeting, shares will be taken to be held by the persons who are registered as holding the shares at 10.00am on Sunday, 16 July 2017. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

SIGNING INSTRUCTIONS

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

Individual:	Where the holding is in one name, the holder must sign.
Joint Holding:	Where the holding is in more than one name, any Shareholder may sign.
Power of Attorney:	To sign under Power of Attorney, you must lodge this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies:	Where the company has a Sole Director who is also the Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place



carbonenergy

ABN 56 057 552 137

LODGE YOUR VOTE



ONLINE

www.linkmarketservices.com.au



BY MAIL

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



BY FAX

+61 2 9287 0309



BY HAND

Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138



ALL ENQUIRIES TO

Telephone: 1300 554 474

Overseas: +61 1300 554 474

PROXY FORM

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

APPOINT A PROXY



the Chairman of the Meeting (mark box)

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

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Annual General Meeting of the Company to be held at **10:00AM on Tuesday, 18 July 2017 at the offices of McCullough Robertson Lawyers, Level 11, Central Plaza Two, 66 Eagle Street, Brisbane Queensland (the Meeting)** and at any postponement or adjournment of the Meeting.

Important for Resolution 6: If the Chairman of the Meeting is your proxy, either by appointment or by default, and you have not indicated your voting intention below, you expressly authorise the Chairman of the Meeting to exercise the proxy in respect of Resolution 6, even though the Resolution is connected directly or indirectly with the remuneration of a member of the Company's Key Management Personnel (**KMP**).

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒.

Resolutions

	For	Against	Abstain*		For	Against	Abstain*
1 To Re-Elect Mr Peter Hogan as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5 Appointment of Auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 To Elect Mr George Su as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6 To Adopt the Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Approval of 10% Placement Capacity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7 Approval of the Proposed Transaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Approval of the Omnibus Incentive Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8 Consolidation of Share Capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
				9 Approval of the Company Acquiring a Relevant interest in its own Shares as a Result of Entering into the Escrow Deed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



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

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

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

CNX PRX1701N



HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

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

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form, including where the Resolution is connected directly or indirectly with the remuneration of KMP.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

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

APPOINTMENT OF A SECOND PROXY

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

To appoint a second proxy you must:

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

SIGNING INSTRUCTIONS

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

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

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

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

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

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00AM on Sunday, 16 July 2017**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

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



ONLINE

www.linkmarketservices.com.au

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



BY MOBILE DEVICE

Our voting website is designed specifically for voting online. You can now lodge your proxy by scanning the QR code adjacent or enter the voting link www.linkmarketservices.com.au into your mobile device. Log in using the Holder Identifier and postcode for your shareholding.

QR Code



To scan the code you will need a QR code reader application which can be downloaded for free on your mobile device.



BY MAIL

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



BY FAX

+61 2 9287 0309



BY HAND

delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

* During business hours (Monday to Friday, 9:00am–5:00pm)

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**