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Carbon Energy (Operations) Pty Ltd

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ASX Announcement

28 September 2015

Carbon Energy Secures Funding from Cornerstone Investor and JV Partner for Gas Business in China

- **Kam Lung shareholding in CNX to increase to 19.99%**
- **The Company welcomes Kam Lung to the Board of Directors**
- **JV to be formed between Kam Lung and CNX in China**
- **CNX will have non-dilution rights up until possible IPO of the JV**
- **Kam Lung to contribute US\$30M (A\$40M¹) to the JV**

Carbon Energy (ASX:CNX, OTCQX: CNXAY) is pleased to announce that the Company's largest shareholder, Kam Lung Investment Development Company Ltd ("Kam Lung"), will increase its interest in the Company to 19.99% with Kam Lung also to nominate a representative to join the Carbon Energy Board of Directors.

Approval will also be sought from Carbon Energy's shareholders to form a Joint venture with Kam Lung for the purpose of establishing a vertically integrated gas business in the Peoples' Republic of China ("PRC"). The first goal of the joint venture would be the establishment of a demonstration facility in the PRC. The joint venture will be formed only on receipt of approval from the Ministry of Commerce in the PRC which we would expect to be granted before the end of the first quarter of 2016.

Private Placement:

Kam Lung has agreed to subscribe for an additional 123,845,128 shares in Carbon Energy at a price of \$0.016 cents per share representing a 14% premium to the closing price as at 25 September 2015 ("Placement"). The total value of the Placement is \$2 million. Shares to Kam Lung will be allotted on receipt of cleared funds which are required on or before 30 September 2015.

¹ Assuming an AUD exchange rate of 75 cents

Kam Lung is a Hong Kong based private investment company and is 100% owned by Mr Zhuang Hai Hui. Mr Zhuang's business interests are primarily real estate, new technologies and resources, and extend into the PRC.

CEO Morné Engelbrecht said "We are excited to have the ongoing support of our largest shareholder. We look forward to working closely with Kam Lung and welcome further the benefits to be gained from Kam Lung's knowledge and experience within the PRC through its representation on the Board of Directors."

The funds raised will be used for establishing the joint venture and general working capital, including the pursuit of opportunities for business growth.

Gas Business Joint Venture in China:

China is a key market for Carbon Energy and the Company's strategic vision for the region is shared by Kam Lung. The Chinese government is embarking on its own climate protection strategy and embracing cleaner coal technologies which provides for a stable Governmental platform from which to grow the joint venture.

In 2016 Kam Lung and Carbon Energy will seek to form a Beijing incorporated contractual joint venture (which operates in a manner consistent with an unincorporated joint venture) for the development of a demonstration project in the PRC. The objective of the joint venture will be to commercialise Carbon Energy's In-Situ Gasification (ISG) technology and to form a new vertically integrated PRC gas business that will seek to develop its own projects within the region.

The parties have agreed that Kam Lung will capitalise the joint venture to US\$30 million (A\$40 million¹) over a 3 year period to achieve its initial goal of developing a demonstration project within 18 months of establishing the joint venture. The formation of the joint venture is conditional upon Carbon Energy shareholder approval and subsequently approval from the PRC Ministry of Commerce in early 2016.

The proposed joint venture will be presented to Carbon Energy's shareholders at the 2015 Annual General Meeting for approval pursuant to ASX Listing Rule 10.1. Full details of joint venture arrangements and the requisite expert valuation will be provided with the Notice of Meeting for the AGM. The key terms of the joint venture are set out at the end of this announcement.

The 2015 Carbon Energy AGM will be deferred until 30 November 2015 to

allow for the preparation and dispatch of the Notice of Meeting with the accompanying valuation. Further details regarding the time and venue for the 30 November 2015 AGM will be confirmed as a priority.

China market and beyond:

The Company is well positioned to realise the value of its technology through off-shore commercialisation while we continue to await the announcement of an ISG policy by the Queensland government.

The demonstrated and scientifically assessed trial results in Queensland provide strong confidence in the Company's technology through its complete lifecycle. These results have generated strong interest, with most interest coming from within the South-East Asian region.

JV – Key Terms:

The key terms of the joint venture agreement to be presented to Carbon Energy's shareholders are as follows:

- Place of JV incorporation and registered office: Beijing.
- JV Purpose: establishment of a demonstration operation in the PRC for the promotion of keyseam® in China and subsequent establishment of a vertically integrated PRC based gas business.
- JV Profit distribution: Kam Lung 70%: CNX 30%.
- JV Capitalisation: Kam Lung to invest US\$10M in initial capital and a further US\$20M over the first three years.
- Kam Lung Contribution: In addition to capital, Kam Lung brings valuable business and government contacts in the PRC.
- Carbon Energy Contribution: A non-exclusive licence to the JV to use keyseam to develop and operate the demonstration facility and an exclusive licence to use and sub-licence keyseam within the PRC following successful ignition of the demonstration facility.
- Exclusive Service Provider: Carbon Energy will also provide necessary technical and design services support, supervision and training for all JV projects on a cost plus basis under an exclusive technical services agreement with the joint venture.

ENDS

For and on behalf of the Board
Morné Engelbrecht
Managing Director & Chief Executive Officer