

Employee Code of Conduct

Carbon Natural Gas Company Employee Code of Conduct

Principles / Introduction and Scope

Introduction

Carbon Natural Gas Company (“Carbon” or the “Company”) is committed to uncompromising integrity in all that we do and how we relate to each other and to persons outside our Company. Each of us is personally responsible for making sure that our business decisions and actions comply at all times with the letter and spirit of this Code of Conduct (the “Code”). To that end:

We will deal fairly and honestly with those whose interests we affect and treat them as we would expect them to treat us if the situation were reversed.

We will forego any business opportunity that requires a violation of the law or these principles.

We will undertake only those business activities that would withstand public ethical review.

We will disclose any conflict of interest we may have regarding our responsibilities to Carbon and remove the conflict where required.

We will refrain from any act if we are in doubt about its legality or ethical appropriateness.

We will help individuals resolve any ethical dilemma they may face and provide an environment where employees may question a Company practice without suffering any retaliation or retribution.

Scope

Except where specifically noted, this Code applies to all employees of Carbon and its subsidiaries.

Protecting Carbon’s Proprietary Information and Other Assets

Protecting Carbon’s Proprietary Information

The protection of Carbon’s proprietary information against loss, theft or misuse is a fundamental responsibility of each of us. Proprietary information is information that is not generally known outside of Carbon, and only Carbon’s executive officers or lawyers may determine which proprietary information, if any, may be released. Examples include:

- Carbon technology.
- Business plans or statistics, including information about earnings, gross or operating margins, expenses, reserves, customer base, and financial forecasts.

- Pending acquisitions, divestitures and mergers.
- Specific customer transactions, unless previously announced through news releases.
- Pricing strategies.
- Identification of stockholders.
- Changes in dividend policy, stock splits, stock dividends and proposed issuances of new securities.
- Employee private information.
- Impending changes in senior management.
- Major litigation.

Your Non-Disclosure and Assignment Obligations

You are responsible for protecting Company confidential information from disclosure. Even if you retire or leave Carbon, you may not disclose proprietary Company information or use it in any unauthorized manner. Employees must assign to Carbon the right to any ideas and inventions an employee develops if they are capable of being used in an area of Carbon's business. Computer programs and publications are covered by this standard, which may also apply to software and inventions developed at home on personally owned equipment. Inventions that are not developed for Carbon, are not within our areas of business and are not developed with the use of Company resources are excluded. If an employee believes his or her invention falls outside Carbon's business interests, ask for a written release of any claim or right Carbon may have to the invention.

Use of Company Property

Carbon property and people are to be used only for Company purposes. Misuse of Carbon equipment, tools, supplies and other assets for personal gain not only violates Carbon's policies, but also may violate tax or other laws.

Other Companies' Proprietary Information

Improper Receipt of Other Companies' Proprietary Information

We have an obligation not to misuse or steal the intellectual property of any customer, supplier, business partner, competitor or other company. Carbon periodically gets information about other companies to assist in marketing or other legitimate activities. This is acceptable when the information comes from proper sources, which generally means information that is published or in the public domain, independently developed, or lawfully received from the owner or a third party. We may not, however, engage in industrial espionage or acquire information about other companies through improper means. Improper behavior includes persuading present or former employees of another company to divulge confidential information, or receiving information that was illegally or improperly acquired by another party. If you come into possession of information from another company that has proprietary markings or that you believe may be proprietary, you must determine if Carbon is authorized to have it. If you are not sure, contact your supervisor.

Conflicts of Interest

We must avoid any actual or apparent situations where loyalty could be divided or personal interests could be in conflict with those of Carbon. A conflict of interest would exist, for example, if you had personal interests that you could advance at the expense of Carbon's interests. It is difficult to describe all conflicts of interest, but some examples of conflict situations include:

- Competing with Carbon, either by marketing products or services that compete with Carbon's products or services, or by working for a competitor of Carbon as an employee, consultant or member of its board of directors.
- Soliciting or accepting money, gifts or any other form of compensation from any one to represent their interests at Carbon.
- Using Carbon confidential information for your own advantage.
- Acting as a supplier or subcontractor to Carbon in your own right, or through a company in which you, a family member or someone who shares your household are a part owner, unless approved by the Board of Directors or its designee.
- Conducting business with former employees of Carbon prior to one year after the termination of their employment unless approved by the Board of Directors or its designee.
- Investing in a company in which Carbon has or is making an investment without prior approval from the Board of Directors or its designee, unless (i) Carbon's investment or investing activity has been publicly disclosed, (ii) your investment in that company is made during a public offering or through a securities exchange or national automated quotation system at the market price, and (iii) you were not in possession of material, non-public information about the company when you invested.
- Influencing or involvement in the decision to hire friends or relatives as consultants or employees of Carbon.
- Directly or indirectly supervising the work of someone with whom you are in a romantic relationship.
- Loans and guarantees of obligations incurred for personal reasons may also present conflict of interests. These types of loans and guarantees are prohibited by law and Company policy in the case of our executive officers and directors. It is also our policy that such loans and guarantees will generally not be made to employees unless approved by counsel to Carbon.

In sum, you should not have any business or financial relationships with customers, subcontractors, partners, suppliers or competitors that could in any way impair or appear to impair the proper performance of their jobs, unless the relationships have been disclosed and approved by the Board of Directors or its designee.

Environmental, Health and Safety Laws and Regulations

All of Carbon's operations must be conducted in compliance with all applicable environmental, health and safety laws and regulations. We must all be vigilant and monitor compliance on a regular basis; provide prompt notification of any incident which may constitute a violation of any

environmental, health and safety law; and act responsibly to protect employees and the environment whether or not any laws and regulations apply.

Compliance With Government Investigations

It is Carbon's policy to cooperate with governmental authorities in their proper performance of inquiries or investigations. However, it is important that all such matters be properly coordinated within Carbon. Since government investigations are normally conducted in the context of some applicable law, our counsel should be immediately notified and brought into any investigation in which Carbon becomes or might become involved. "Investigation" is defined as a non-routine inquiry regarding a possible violation of law by Carbon, any Carbon employee, or any other company or person. It does not include routine government audits or compliance reviews. In the event of an investigation, all requests, either oral or written, for access to Carbon files or for other information should be referred immediately to the CEO. If a government official attempts to serve a subpoena, contact the CEO immediately.

Keeping Books and Records; Independent Auditors

Accurate Reporting and Appropriate Controls

Information that you record and submit internally or to any party outside Carbon must be accurate, timely and complete so as to provide a true picture of the material. Reports must not mislead those who receive them — whether as a result of what is said or what is not said. We have implemented administrative and accounting controls to provide reasonable assurance that Carbon is accurately reporting its financial information and that financial and other reports are accurately and reliably prepared, and fully and fairly disclose all required otherwise material information.

Records Retention

It is Carbon's policy that its records be retained only during the period of their immediate use unless longer retention is required for tax purposes or by law, litigation, court order, or for internal or historical reference. If you are unsure about the proper retention period of a Carbon report, record, correspondence or other document, ask the CEO.

Reimbursing Expenses

Carbon only reimburses individuals for authorized expenditures incurred in the conduct of Carbon business. These expenses must be reasonable, ordinary and necessary and must be related to a legal purpose, be ethical in nature and amount, and in no way compromise Carbon's integrity or that of its employees or any other company or individual. Expenses should be submitted in a timely manner. Costs must be properly recorded, with no substitutions or transfers of costs (e.g., charges incurred for a meal must not be recorded as a taxi or other non-meal charge). Individuals must comply with business unit policies on travel and expenses.

Improper Influence of Independent Auditors

It is unlawful for any officer or director, or any employee or anyone else acting under their direction, to coerce, manipulate, mislead or improperly influence our independent auditors engaged in the performance of an audit or review of our financial statements. Carbon's independent auditors must be able to conduct their audit and review of our financial statements without inappropriate influence from directors, officers or other employees at Carbon, and without being misled through materially false or misleading statements or omissions from our directors, officers or other employees of Carbon.

Compliance and Discipline

Failure to comply with the standards explained in this Code of Conduct will result in disciplinary action that may include termination, referral for criminal prosecution, and/or legal action seeking reimbursement to Carbon for any losses or damages resulting from the violation.

Disciplinary action will be taken:

Against anyone who authorizes or participates in actions which violate Carbon's business conduct standards.

Against anyone who deliberately fails to report a violation or withholds relevant and material information concerning a violation.

Against the violator's superiors, to the extent that the circumstances of the violation reflect inadequate supervision or a lack of care by the supervisor.

Against any supervisor who retaliates directly or indirectly — or encourages others to do so — against an employee who reports a violation of these standards.

You Will Be Protected if You Take Action

It is vitally important that you ask for help when you need it and that you report possible violations of the law or of this Code. You will not lose your job or be placed at any career disadvantage for questioning a Carbon practice or reporting a possible violation of Carbon's policies. Carbon or members of its Board of Directors or committees will investigate possible violations. In doing so, it will respect the rights of all parties concerned. If a violation is found, Carbon will take appropriate disciplinary action, up to and including termination and filing of criminal charges. The identity of individuals reporting possible violations will be kept confidential to the extent possible. One exception is if Carbon is required by applicable law or the administrative or judicial process to reveal it.

When You Seek an Exception or Waiver

Policies and practices sometimes have exceptions. If an employee encounters a situation that is not covered by this guide or seems to require an exception, talk with your manager. Your

manager will consult with senior management to determine if an exception is warranted. Waivers of this Code involving any of Carbon's executive officers or senior financial officers may be made only by Carbon's Board of Directors or a designated committee of the Board.