

ASX RELEASE

Issuer: Coalbank Limited (ASX Code: CBQ)

Date: 25 July 2011

Section 708A(5)(e) disclosure notice – issue of placement shares

Coalbank Limited (**Coalbank** or **Company**) relies upon case 1 in section 708A(5) *Corporations Act 2001* (Cth) (**Corporations Act**) in respect of the placement of shares to sophisticated and institutional investors. As required by section 708A(6) Corporations Act, the Company notifies ASX, the operator of the prescribed financial market, of details about the issue of securities by placement to persons in response to offers made by the Company under section 708A(5)(e) Corporations Act.

The Company also provides notice under section 708A(12C)(e) of the Corporations Act for the purposes of ASIC Class Order CO 10/322 to enable fully paid ordinary shares in the capital of Coalbank to be issued on conversion of convertible bonds in the capital of Coalbank (**Bonds**) to be on-sold to retail investors.

Details of the securities issued

Class of securities:	Ordinary shares
ASX Code of the securities:	CBQ
Date of the issue or expected issue of the securities:	25 July 2011
Total number of securities issued or expected to be issued:	50,000,000 ordinary shares 380 convertible bonds convertible into 50,000,000 ordinary shares (based on a conversion price of AUD\$0.038).

Signed for Coalbank:

Date: 25 July 2011 Name: Mr Gregory Baynton Position held: Deputy Chairman (Executive)

Signature: Original signed

- 1 The above securities will be, or have been, issued without disclosure to investors under section 708A(6) of part 6D.2 Corporations Act and as permitted in compliance with section 708A.
- 2 This notice is given under section 708A(5)(e) and section 708A(12C)(e) and in accordance with section 708A(6) Corporations Act.
- 3 At the date of this notice, Coalbank has complied with the provisions of chapter 2M Corporations Act (as modified by an ASIC declaration dated 1 July 2004) in application to Coalbank and Coalbank has complied with section 674 Corporations Act.

- 4 Aside from the information contained in this cleansing notice, there is no additional 'excluded information' required to be set out in this notice under sections 708A(7) and (8) or 713(5) Corporations Act.
- 5 The securities referred to above are ordinary shares (or able to be converted into ordinary shares) in a class of securities that were ASX quoted securities, within the meaning of section 708A(5) Corporations Act, at all times in the three months before the day on which the relevant securities were issued.
- 6 The securities referred to above have been trading on ASX in circumstances where trading has not been suspended for more than a total of five days during the shorter of the period during which the class of securities were quoted and the period of 12 months before the day on which the relevant securities were issued.
- 7 No exemptions under sections 111AS or 111AT Corporations Act cover Coalbank or any person as director or auditor of Coalbank at any time during the shorter of the period during which the class of securities were quoted and the period of 12 months before the day on which the relevant securities were issued.
- 8 Except as modified by the ASIC declaration of 1 July 2004, no order under sections 340 or 341 Corporations Act covers Coalbank or any director or auditor of Coalbank at any time during the shorter of the period during which the class of securities were quoted and the period of 12 months before the day on which the relevant securities were issued.

Issue of placement shares

- 9 Patersons Securities Limited and RBS Morgans Limited are joint lead managers in assisting Coalbank with an equity capital raising of up to 50,000,000 fully paid ordinary shares at an issue price of AUD\$0.038 each to raise up to AUD\$1,900,000 (**Placement**). Settlement of the Placement, comprising a single tranche, will be required on 25 July 2011, with an allotment anticipated by 25 July 2011.
- 10 The issue price for the Placement will be AUD\$0.038, which represents a discount of 9.5% to the last sale price before the trading halt.
- 11 The proceeds of the Placement will be used to accelerate exploration activities and augment working capital.

The effect of the issue of the convertible bonds on Coalbank

- 12 As announced on 21 July 2011, under a subscription agreement (**Subscription Agreement**), Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited (each being investment funds managed by OZ Management LP, an operating company of Och-Ziff Capital Management Group LLC) (**Subscribers** or **Bondholders**) and Coalbank agreed to the issue and subscription of AUD\$1,900,000 Bonds due 2014. The Bonds will be convertible into fully paid ordinary shares of Coalbank, subject to and in accordance with the terms and conditions of the Bonds (**Terms and Conditions**). The Bonds will be unlisted. Ordinary shares are to be issued upon conversion of the Bonds and will be quoted on ASX.
- 13 This offer of Bonds is to the Subscribers only and is not being made to shareholders generally.

Effect on capital structure

- 14 The effect of the issue of AUD\$1,900,000 of Bonds on the capital structure of the Company is as follows. Based on the AUD\$0.038 initial conversion price (this conversion price may be subject to

adjustment in accordance with the terms and conditions applying to the Bonds), full conversion would result in 50,000,000 ordinary shares being issued in Coalbank. The Company currently has 679,579,740 fully paid ordinary shares quoted on ASX.

Terms and conditions of the Bonds

- 15 A summary of the key terms and conditions of the Bonds is set out below:
- (a) (Issue): AUD\$1,900,000 in aggregate principal amount of senior and secured convertible Bonds due 2014;
 - (b) (Form and denomination): The Bonds will be in registered form, and are denominated in Australian dollar and in principal amounts of \$5,000 or integral multiples thereof;
 - (c) (Title): Title to a Bond is vested absolutely in the person entered in the Bond register as the holder of the Bond and passes by transfer and registration;
 - (d) (Status): Bonds are direct, unsubordinated obligations of Coalbank and shall rank equally among themselves and at least equally with all unsubordinated and unsecured obligations of Coalbank other than those mandatorily preferred by law;
 - (e) (Use of proceeds): The proceeds for the subscription of Bonds shall be applied to general working capital of the group, exploration drilling activities and any purposes mutually agreed between Coalbank and Bondholders;
 - (f) (Registration) The Coalbank must ensure that the register for the Bonds is maintained at all times in Brisbane;
 - (g) (Transferability) Bonds may be transferred, at the discretion of the Bondholder and without the consent of Coalbank to an affiliate of that Bondholder (consent is only required if the transfer is to a competitor or an affiliate of a competitor of Coalbank), after the provision of written notice of not less than seven business days. This is provided that the relevant transfer does not result in there being more than six Bondholders who are not affiliates of the Bondholder. The transfer of a Bond to more than two persons jointly or to an unincorporated association is not permitted;
 - (h) (Certificates) A certificate will be issued for the Bonds;
 - (i) (Interest) No interest is payable on the Bonds except for the following events:
 - (i) in any period in which a cash dividend is paid on ordinary shares, Coalbank must pay an equivalent amount of interest in respect of each Bond, calculated as the aggregate cash dividend that would (had such cash dividend been paid on each ordinary share) have been paid on the ordinary shares into which the Bond would have converted at the then current conversion price. Interest on each Bond payable under this condition is payable on the date that the relevant cash dividend is paid in respect of the ordinary shares or on such earlier date as Coalbank determines; and
 - (ii) If payment of principal of a Bond is improperly withheld or refused on the final maturity date of the Bonds, or on any earlier due date for redemption of the Bond, interest will continue to accrue (both before and after judgment) at 15% per annum (or such higher percentage as may apply to any judgment) until the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder;

- (j) (Initial conversion price): the Initial conversion price is AUD\$0.038 per share;
- (k) (Conversion right): The Subscriber has the right to elect to convert Bonds into ordinary shares determined by dividing the principal amount of the Bonds (or the relevant part thereof) to be converted by the determined price and in effect on the date falling two business days after notice of exercise of the conversion right is given to Coalbank (or its designated Agent) and becomes effective;
- (l) (Anti dilution protection): The conversion price shall be subject to adjustment for standard dilutive events including subdivision, consolidation and reclassification, bonus issues and capital distributions. In addition, if:
 - (i) Coalbank issues any ordinary shares (other than ordinary shares issued on conversion of the Bonds or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, ordinary shares); or
 - (ii) Coalbank or a subsidiary or another person issues marketable securities with rights of conversion into ordinary shares,

and the price per ordinary share or the fair market value of the consideration per ordinary share receivable upon conversion of the marketable securities (as applicable) is less than the conversion price as at the date of the first public announcement of the terms of such issue then the conversion price shall be reduced so as to equal that price.

This ratchet mechanism does not apply to issues of ordinary shares at a price that represents a 10% or lesser discount to the initial conversion price of \$AUD0.038.

The conversion price shall not be adjusted to the extent that the circumstances giving rise to an adjustment have resulted in the payment of interest as required in a period in which a dividend is paid.

No adjustment will be made to the conversion price where ordinary shares or other marketable securities are issued, transferred, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of employees, consultants or officers of Coalbank pursuant to a share or option scheme or performance rights plan granted prior to the issue date or after the issue date provided that the number of ordinary shares issued, or which may be issued, upon the exercise of those options or rights issued after the issue date does not exceed 3,000,000 ordinary shares;

- (m) (Ordinary shares issued on conversion): ordinary shares issued will be fully paid and will in all respects rank pari passu with the fully paid ordinary shares in issue on the relevant conversion date;
- (n) (Redemption on maturity): Coalbank must redeem each Bond on its final maturity date of the Bonds by paying the principal amount of the Bond on that date;
- (o) (Early redemption): Each Bondholder may elect to have any or all of the Bonds that it holds on an early redemption date by providing Coalbank with written notice at least 90 days prior to relevant date. The relevant early redemption dates include the date that is two years after the issue date, and the date that is 30 months after the issue date;
- (p) (Events of default): A Bondholder may give notice to Coalbank that the Bonds are, and the Bonds shall immediately become, due and repayable at the default redemption price (which is a price that would result in the Bondholders deriving a 15% internal rate of return on their investment in the Bonds) in the event of any of the following occurring:

- (i) default is made in the payment on the due date of any amount payable in respect of the Bonds, and the default in the payment is not remedied within five business days;
- (ii) default is made in the satisfaction of the conversion right in respect of any Bond on the due date for such satisfaction following the exercise of such conversion right, and the default in the satisfaction of the conversion right is not remedied within five business days;
- (iii) Coalbank does not perform or comply in any material respect with any one or more of its other obligations under the Bonds or any bond document and if the default is incapable of remedy or is not remedied within 20 days after Coalbank has received notice requiring the default to be remedied;
- (iv) a representation given by Coalbank or a subsidiary under a bond document proves to be incorrect when made and has, or is likely to have, a material adverse effect on Coalbank or the investment of a Bondholder and is not, or cannot be, remedied within 20 days after the written notice from a Bondholder;
- (v) a Default occurs with respect to any other debt that Coalbank or a subsidiary has; or a security granted by Coalbank or a subsidiary for any indebtedness becomes enforceable and steps are taken to enforce that security, and the aggregate amount of the indebtedness equals or exceeds AUD\$500,000 (or its equivalent in other currencies);
- (vi) a final judgment or judgments of a court for the payment of money aggregating in excess of AUD\$200,000 is rendered against Coalbank or any subsidiary;
- (vii) a distress, attachment, execution or other legal process is levied or enforced on or against any of the property, assets or revenues of Coalbank or any subsidiary which is not discharged, removed, stayed or paid within ten days or a receiver or similar officer is appointed to Coalbank or a subsidiary;
- (viii) Coalbank or any subsidiary is or states that it is insolvent or unable to pay its debts, is or may be presumed under the Corporations Act to be insolvent, stops or suspends payment of its debts generally or enters into a compromise for the benefit of its creditors;
- (ix) an administrator or liquidator or a like or similar officer is appointed to Coalbank or any subsidiary or a winding-up order is made in respect of Coalbank or a subsidiary, subject to certain exceptions, ceases to carry on business;
- (x) a change of control occurs. A change of control will occur if a person (excluding Greg Baynton and his associates) who controls Coalbank ceases to do so or a person acquires control of Coalbank. A person will be taken to control Coalbank if the aggregate voting power (within the meaning of the Corporations Act) of the person and its associates (within the meaning of the Corporations Act) exceeds 50%, or would exceed 50% if all options or rights to acquire (directly or indirectly) ordinary shares or securities convertible or exchangeable (directly or indirectly) into ordinary shares were exercised or converted;
- (xi) the ordinary shares cease to be quoted on ASX, or trading in ordinary shares on ASX is suspended for ten consecutive trading days or more;
- (xii) all or any material part of the bond documents or the conditions is terminated or is or becomes void, illegal, invalid, unenforceable, Coalbank becomes entitled to

terminate, rescind or avoid all or a material part of the bond documents (other than as a result of the actions of a Bondholder) or Coalbank ceases for any reason to be lawfully able to perform its obligations under the bond documents;

- (xiii) any action, condition or thing at any time required to be taken, fulfilled or done in order to enable Coalbank lawfully to enter into, exercise their respective rights and perform and comply with its obligations under the Bonds and to ensure that those obligations are legally binding and enforceable is not taken, fulfilled or done, and to ensure that each subsidiary creates the security interests contemplated by its terms and has the intended priority, is not or has not been taken, fulfilled or done;
 - (xiv) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs above; or
 - (xv) any litigation commenced against Coalbank or any of its subsidiaries which is likely to have a material adverse effect on Coalbank assets or its ability to perform its obligations under the bond documents;
- (q) (Affirmative undertakings): Coalbank must promptly notify the Bondholders of any event of default, potential event of default or adjustment or potential grounds for an adjustment to the conversion price occurring, maintain all authorisations necessary to be maintained by it to ensure the legality and enforceability of the bond documents and the priority of the security and all material authorisations required for the conduct of its business or ownership of its secured property, comply in all material respects with all laws and stock exchange requirements applicable to it or any of its subsidiaries, procure that each subsidiary will grant the bond guarantee and a fixed and floating charge in favour of each Bondholder on the same date as the bond deed poll, insure its secured property and at all times keep it insured, and punctually pay or procure to be paid all premiums and other amounts necessary to effect and maintain in force each insurance policy;
- (r) (Negative undertakings): Coalbank must not (other than in respect of permitted disposals and permitted encumbrances) sell, assign, transfer or otherwise dispose of or cease to hold, or part with possession of, or create a right to or an interest in any of its assets including by way of an encumbrance, not make or pay any dividend unless the Bondholders consent to the payment of such dividend; and a corresponding amount of interest is paid on the Bonds; or in respect of a subsidiary, any dividend or other distribution, incur financial indebtedness other than pursuant to the bond documents, in respect of amounts of less than \$AUD250,000 arising out of transactions occurring in the ordinary course of business, or financial indebtedness subordinated on terms approved by the Bondholders;
- (s) (Other undertakings): Coalbank gives certain undertaking with respect to its capital structure, including that, subject to certain exceptions, Coalbank must not issue or pay up any marketable securities, in either case by way of capitalisation of profits or reserves, or modify the rights attaching to the ordinary shares with respect to voting, dividends or liquidation nor issue any other class of share capital or reduce its share capital subject to certain exceptions; and
- (t) (Governing law): The bond documents are governed by the laws of Queensland.

Subscription Agreement

16 A summary of the key terms and conditions of the Subscription Agreement are set out below:

- (a) (Transaction): Coalbank is to issue AUD\$1,900,000 in aggregate principal amount of senior and secured convertible Bonds due 2014. The Bonds will be convertible into fully paid ordinary shares of the Company, subject to and in accordance with the terms and conditions of the Bonds (as summarised above). The Bonds will be unlisted. The ordinary shares to be issued upon conversion of the Bonds will be quoted on ASX.
- (b) (Subscribers): The Subscribers are Sculptor Finance (MD) Ireland Limited, Sculptor Finance (AS) Ireland Limited and Sculptor Finance (SI) Ireland Limited.
- (c) (Rights and ranking): All Bonds issued to the Subscribers will be senior and secured, be convertible into fully paid-up ordinary shares of the Company in accordance with the conditions, and rank senior in all respects with all other secured and unsecured indebtedness of the Company as at the date of completion and all future secured and unsecured indebtedness of the Company.
- (d) (Taxes): Coalbank will pay any stamp, issue, registration, documentary or other similar taxes and duties, including interest and penalties, payable in the Commonwealth of Australia on or in connection with the creation, issue and offering of the Bonds or the execution or delivery of the Subscription Agreement and the Bond deed poll or on the issue of the ordinary shares to be issued upon conversion of the Bonds. This is in addition to any amount payable by it under the subscription agreement, any value added, turnover, deduction, withholding or similar tax payable in the Commonwealth of Australia in respect of that amount.
- (e) (Stabilisation): The Company undertakes that, during the period commencing the date of the Subscription Agreement and ending 30 days after the date on which the Bonds are issued, it will not (and will cause each other member of its group not to) engage, directly or indirectly, in any transaction for the purpose of creating actual, or apparent, active trading in or raising, stabilising or maintaining the price of the Bonds or the ordinary shares.
- (f) (Completion): Completion of the issue of the Bonds takes place on the date that the last party executes the Subscription Agreement. The Company is obligated to approve the issue of the Bonds to each of the Subscribers at a meeting of directors, enter the names of the Subscribers into the register of bondholders (and provide Subscribers with a certified copy of the register) and issue certificates to the Subscribers. The Company must also provide Subscribers with the original share certificates for all issued shares in Tambo Coal & Gas Pty Limited. At completion, each Subscriber must pay or cause to be paid, to the Company the relevant subscription price.
- (g) (Warranties and indemnities): The Company provides both general and business warranties. General warranties are provided by the Subscriber. The maximum aggregate liability of the Company as a result of claims for breach of warranties is limited to the amount of the Subscriber's investment. Other customary limitations on the amounts that can be claimed also apply. The Company has no liability for breach of any warranty unless a Subscriber has given written notice of the claim to the Company on or before 31 October 2012.
- (h) (Costs): Each party must pay its own costs and expenses in respect of the negotiation, preparation, execution, delivery and registration of the Subscription Agreement and any other agreement or document entered into or signed under the Subscription Agreement. Any action to be taken by the Company in performing their obligations under the Subscription Agreement must be taken at their own cost and expense unless otherwise provided in the Subscription Agreement.

Rights and liabilities attaching to shares issued on conversion of the Bonds

- 17 The ordinary shares issued on the conversion of the Bonds will rank equally in all respects with all other ordinary shares on issue.

Effect on financial position of Coalbank

- 18 The effect of the Placement and the issue of the Bonds will be as follows:
- (a) the cash reserves of Coalbank will be increased by \$AUD3,800,000;
 - (b) the share capital of Coalbank will be increased by \$AUD1,900,000; and
 - (c) the amount of secured debt owed by Coalbank will increase by \$AUD1,900,000.

Other security documents

- 19 The parties entered into security arrangements in relation to the Subscription Agreement. These security documents include:
- (a) Deed of charge;
 - (b) Security trust deed; and
 - (c) Deed poll of guarantee.

Deed of Charge

- 20 The chargors under the deed are Coalbank and Tambo Coal & Gas Pty Limited (**Chargors**) and the chargee under the deed is Sculptor Finance (MD) Ireland Limited (**Chargee**).
- 21 Each Chargor is, or will be, the legal and beneficial owner of its charged property.
- 22 Each Chargor has agreed to charge all of its interest in its charged property to the Chargee as security for the due and punctual payment of the Secured Moneys. The charged property of the Chargor constitutes all of the present and future undertaking, assets and rights of that Chargor including all real and personal property, choses in action, goodwill, uncalled and called but unpaid capital. The secured moneys are as defined in the Security trust deed.
- 23 The parties intend that the Charge of a Chargor take priority over all other encumbrances and other interests in the charged property other than any permitted encumbrance mandatorily preferred by law.

Security Trust Deed

- 24 The trust established under this deed is to be known as the 'CBQ Security Trust'. The deed is between the initial security providers (being Coalbank and Tambo Coal & Gas Pty Limited) and the security trustee (Sculptor Finance (MD) Ireland Limited).
- 25 The secured moneys are defined as all debts and monetary liabilities of Coalbank to the beneficiaries on any account under or in relation to any bond document and in any capacity. The beneficiaries are defined as the Bondholders in the Company, Sculptor Finance (MD) Ireland Limited and any new beneficiary.
- 26 The Security Trustee will hold, among other things, all its right, title and interest in, to and under the securities on trust for the Beneficiaries on the terms of this deed.

- 27 Each Security Provider must pay the secured moneys due by it in accordance with the bond documents and each other obligation under which the secured moneys are payable, when it is due for payment.
- 28 Any secured moneys paid to a Beneficiary or Sculptor Finance (MD) Ireland Limited by Coalbank or Tambo Coal & Gas Pty Limited is paid as money secured by the securities.

Deed poll of guarantee

- 29 The guarantor under the deed poll is Tambo Coal & Gas Pty Limited.
- 30 The guarantor provides a guarantee to each Bondholder in the Company of the due and punctual payment by Coalbank of the guaranteed moneys of that Bondholder.

Additional information

- 31 Coalbank is a disclosing entity for the purposes of the Corporations Act and is subject to regular reporting and disclosure obligations. Copies of documents lodged with ASIC in relation to Coalbank, including the Company's constitution, may be obtained from, or inspected at, an ASIC office. In addition, Coalbank will make available to you free of charge at any time copies of:
- (a) Coalbank's Annual Report for the year end 30 June 2010;
 - (b) Coalbank's Consolidated Financial Report and Appendix 4D for the half year ended 31 December 2010; and
 - (c) any continuous disclosure notices given by Coalbank after lodgement of that Annual Report and before release of this cleansing notice.

If you have any queries regarding the cleansing notice, please contact Greg Baynton on +61 414 970566.

Mr Gregory Baynton
Deputy Chairman (Executive)
Coalbank Limited