COALBANK LIMITED
ABN 20 075 877 075

HALF-YEAR REPORT – 31 DECEMBER 2011

Contents

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by COALBANK Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

COALBANK

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of COALBANK Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2011.

Directors
The following persons were directors of COALBANK Limited during the whole of the half-year and up to the date of this report:

R Clarke
G A J Baynton
W R Stubbs
L R Grimstone
G Baker

S Ever was appointed a director on 30 August 2011 and continues in office at the date of this report.

Review of operations
The loss after income tax of the Group for the half-year was $2,699,564 (2010: loss $632,105). The loss reflects the nature of the Group's principal activity, being coal, coal seam gas (CSG) and mineral exploration.

A $3.8 million institutional investment by funds associated with Och-Ziff Capital Management LLC was completed early in the period to fund the coal exploration program and provide further working capital.

The term for EPC1299 (Strathaver/Bromelton) expired during the period, and the Company has not applied for renewal of this permit of 3 sub-blocks. No economic coal resources were identified in the permit during drilling in prior periods.

COALBANK's 2011 coal drilling program commenced on 29 August 2011 in EPCs 1719 and 1993 within the Company's Blackall Coal Project located near Blackall, approximately 145km south-west of Alpha in Central Queensland. The program was completed in mid-December and continued to reveal the presence of coal seams at shallow depths

Coal seams were intersected at relatively shallow depths (from 16 metres) over a distance of approximately 26 kilometres with total coal thicknesses exceeding 10 metres intersected in a number of holes.

A total of 34 holes have now been completed south of Blackall including 4 partly cored holes targeted for coal seam sampling at sites selected from the chip drilling program. Down-dip holes indicate that the seams are very shallow-dipping.

Three separate coal-bearing horizons have been encountered over a 26 kilometre strike length from depths as shallow as 16 metres.

The deposit is favourably located adjacent to an existing rail corridor connecting Blackall with the rail infrastructure being proposed for regional Galilee Basin coal projects including GVK-Hancock, Waratah Coal and Adani.

In parallel with ongoing activities in the Blackall region COALBANK drilled 6 stratigraphic holes across EPCs 1415, 1481 and 1621 south-east of Tambo. These holes confirmed the presence of the Walloon Coal Measures in the area and provide valuable data for targeting of future exploration in these areas.

In Quarter 1, 2012 the Company will resume drilling activities at the Blackall Project. The focus will be to achieve a maiden coal resource in line with the JORC criteria by:

- continuing a broad drilling grid to progress control correlation, determine eastward extent of Winton Formation coal seams and identify areas with maximum coal thicknesses;
- ongoing core sampling from selected sites for coal quality analysis; and
- continuing infill drilling.

With the initial results from the Company's successful Blackall drilling program, the Company has received recent approaches from a number of interested foreign and domestic strategic partners and intermediaries regarding potential joint ventures, strategic investments, partial asset sales or other corporate transactions.

Site visits for certain interested parties have also been hosted by the Company at certain of its coal project areas.

Discussions are continuing with interested parties with regard to joint ventures or other transactions for the Surat Gas portfolio. Work was undertaken during the quarter to validate open file seismic data previously transcribed.

An Independent Expert's Report was commissioned by the board for its Harvest Metals subsidiary and is due for finalization during the March quarter. The report is a valuable compilation of data relating to the company's Chillagoe and Mt Morgan Exploration Permits for Metals (EPMs).

The Company received approaches during the period from parties interested in joint ventures, farm-in and other transactions regarding Harvest Metals or its individual projects. Further discussions with such parties were delayed pending the receipt of the completed Independent Expert's Report for Harvest Metals. Subject to the outcome of the next phase of these discussions, the Company currently plans to call a Shareholders Meeting during the first half of 2012 to consider an in specie distribution of shares in Harvest Metals to COALBANK shareholders.

The Company is currently considering a formal process to review the options and manage these accelerating approaches and has received proposal from intermediaries well positioned for this role. Appointment of an intermediary to manage a strategic review process will be considered during the first Quarter of 2012.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act* 2001 is set out on page 3.

This report is made in accordance with a resolution of directors.

R Clarke
Chairman

15 March 2012

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DECLARATION OF INDEPENDENCE BY C J SKELTON TO THE DIRECTORS OF COALBANK LIMITED

As lead auditor for the review of COALBANK Limited for the half-year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of COALBANK Limited and the entities it controlled during the period.

C J Skelton
Director

BDO Audit (QLD) Pty Ltd

Brisbane: 15 March 2012

COALBANK

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Half-year 2011 $	2010 $
Revenue	65,277	57,235
Professional services expenses	(112,917)	(123,452)
Tenement expenditure written off	(173,887)	(37,697)
Impairment of assets	-	(11,595)
Finance costs	(343,069)	-
Revaluation of financial liabilities at fair value through profit or loss	(1,145,036)	-
Corporate overhead expenses	(531,108)	(376,586)
Depreciation expenses	(4,045)	(5,393)
Directors' remuneration	(202,633)	(128,051)
Share based payments expense	(252,146)	(6,566)
Loss before income tax	(2,699,564)	(632,105)
Income tax expense	-	-
Net loss for the half-year	(2,699,564)	(632,105)
Other comprehensive income		
Other comprehensive income for the period, net of tax	-	-
Total comprehensive income / (loss) attributable to the owners of COALBANK Limited	(2,699,564)	(632,105)

	Cents	Cents
Loss per share for loss attributable to COALBANK Limited:		
Basic earnings per share	(0.4)	(0.1)
Diluted earnings per share	(0.4)	(0.1)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

COALBANK

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2011

	Notes	31 December 2011 $	30 June 2011 $
ASSETS			
Current assets			
Cash and cash equivalents		1,216,132	804,628
Receivables		135,863	16,290
Total current assets		1,351,995	820,918
Non-current assets			
Plant and equipment		7,233	11,278
Exploration and evaluation assets		41,016,037	38,694,859
Other assets		236,797	177,797
Total non-current assets		41,260,067	38,883,934
Total assets		42,612,062	39,704,852
LIABILITIES			
Current liabilities			
Trade and other payables		451,588	147,852
Total current liabilities		451,588	147,852
Non-current liabilities			
Other financial liabilities	4	3,000,000	3,000,000
Borrowings	5	977,496	-
Derivative liability	5	2,284,234	-
Total non-current liabilities		6,261,730	3,000,000
Total liabilities		6,713,318	3,147,852
Net assets		35,898,744	36,557,000
EQUITY			
Issued capital		54,901,019	53,111,857
Reserves		3,108,222	2,856,076
Accumulated losses		(22,110,497)	(19,410,933)
Total equity		35,898,744	36,557,000

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

COALBANK

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Issued capital $	Accumulated losses $	Share based payments reserve $	Total $
Balance at 1 July 2010	49,025,857	(10,341,792)	815,786	39,499,851
Loss for the period	-	(632,105)	-	(632,105)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(632,105)	-	(632,105)
Transactions with owners in their capacity as owners:				
Issue of share capital, net of transaction costs	4,086,000	-	-	4,086,000
Non-cash share based payments	-	-	6,566	6,566
Sub total	4,086,000	-	6,566	4,092,566
Balance at 31 December 2010	53,111,857	(10,973,897)	822,352	42,960,312
Balance at 1 July 2011	53,111,857	(19,410,933)	2,856,076	36,557,000
Loss for the period	-	(2,699,564)	-	(2,699,564)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(2,699,564)	-	(2,699,564)
Transactions with owners in their capacity as owners:				
Issue of share capital, net of transaction costs	1,789,162	-	-	1,789,162
Non-cash share based payments	-	-	252,146	252,146
Sub total	1,789,162	-	252,146	2,041,308
Balance at 31 December 2011	54,901,019	(22,110,497)	3,108,222	35,898,744

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

COALBANK

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Half-year 2011 $	2010 $
Cash flows from operating activities		
Receipts in the course of operations (inclusive of goods and services tax)	155,474	140,447
Payments to suppliers and employees (inclusive of goods and services tax)	(1,113,255)	(1,009,802)
Interest received	65,277	55,118
Net cash outflow from operating activities	(892,504)	(814,237)
Cash flows from investing activities		
Payments for exploration assets	(2,199,779)	(1,808,948)
Proceeds on sale of plant and equipment	-	5,000
Payment for security deposit	(59,000)	(35,577)
Refund of security deposit	-	680
Net cash outflow from investing activities	(2,258,779)	(1,838,845)
Cash flows from financing activities		
Proceeds from share issue	1,900,000	4,086,000
Payment of share issue costs and costs of issuing convertible bonds	(237,213)	-
Proceeds from issue of convertible bonds	1,900,000	-
Net cash inflow from financing activities	3,562,787	4,086,000
Net increase / (decrease) in cash and cash equivalents	411,504	1,432,918
Cash and cash equivalents at the beginning of the half-year	804,628	774,058
Cash and cash equivalents at the end of the half-year	1,216,132	2,206,976

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

Note 1 Summary of significant accounting policies

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2011 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by COALBANK Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies and methods of computation adopted are consistent with those of the most recent annual financial statements.

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and realization of assets and liabilities in the normal course of business.

The Directors acknowledge that, as in the prior year, to continue the exploration and development of the Group's exploration projects, the budgeted cash flows from operating and investing activities for the future will necessitate further capital raising. In the event that the Group is unable to raise future funding requirements there exists a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern with the result that the Group may be required to realize their assets at amounts different to those currently recognized, settle liabilities other than in the ordinary course of business and make provisions for costs which may arise as a result of cessation or curtailment of normal business operations.

Note 2 Segment information

Description of segments
The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors in assessing performance and determining the allocation of resources. The Board of Directors carries out the role and is therefore the Chief Operating Decision Maker.

The Group is managed primarily on the basis of product category having different risk profiles and performance assessment criteria. Operating segments are therefore determined on this basis.

The consolidated entity has identified its reportable operating segments based on its internal reports that are reviewed and used by the Board of Directors in assessing performance and in determining the location of resources. It's reporting on an operating basis into the following segments. There are no inter-segment transactions.

Coal - Exploration for coal.
Petroleum - Exploration for oil and gas.
Minerals - Exploration for base metals.

These segments are consistent with those identified in the 30 June 2011 financial report. However, they have changed from the prior half-year period as management has changed its focus from a project base to a commodities base. The corresponding financial information below for the prior period has been restated.

The consolidated entity operates solely within Australia. Given the current stage of the Group's activities, there is no segment revenue.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

Note 2 Segment information (continued)

The segment information provided to the board for the reportable segments for the half-year ended 31 December 2011 is as follows:

Half-year 2011	Coal $	Petroleum $	Minerals $	Consolidated $
Tenement expenditure written-off	(105,247)	(64,406)	(4,234)	(173,887)
Half-year 2010				
Tenement expenditure written-off	-	(17,400)	(20,297)	(37,697)
Total segment assets				
31 December 2011				
Segment assets	37,602,817	3,218,887	431,130	41,252,834
Cash and cash equivalents				1,216,132
Trade and other receivables				135,863
Plant and equipment				7,233
Total assets				42,612,062
30 June 2011				
Segment assets	35,270,752	3,178,350	423,554	38,872,656
Cash and cash equivalents				804,628
Trade and other receivables				16,290
Plant and equipment				11,278
Total assets				39,704,852

A reconciliation to loss before income tax is provided as follows:

	2011 **$**	**2010** **$**
Tenement expenditure written off	(173,887)	(37,697)
Corporate expenses / income		
Professional services expenses	(112,917)	(123,452)
Corporate overhead expenses	(531,108)	(376,586)
Depreciation expenses	(4,045)	(5,393)
Directors' remuneration	(202,633)	(128,051)
Finance costs	(343,069)	-
Revaluation of financial liabilities at fair value through profit or loss	(1,145,036)	-
Impairment of assets	-	(11,595)
Share based payments expense	(252,146)	(6,566)
Interest income	65,277	57,235
Loss before income tax	(2,699,564)	(632,105)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

Note 3 Loss for the half-year

	Half-year 2011 $	Half-year 2010 $
Loss for the half-year includes the following items:		
Expenses		
Loss before income tax includes the following specific expenses:		
Finance costs		
Unwinding of issue costs financial liabilities not at fair value through profit or loss	267,297	-
Issue costs of financial liabilities at fair value through profit or loss	75,772	-
Finance costs expensed	343,069	-

Note 4 Non-current liabilities – Other financial liabilities

	31 December 2011 $	30 June 2011 $
Other financial liabilities	3,000,000	3,000,000

The Group has agreements with Oliver Lennox-King (Lennox-King), whereby Lennox-King has paid $3 million to the Group and in return the Group has agreed to pay Lennox-King a royalty equal to 1% of the gross value of coal sold and gas produced from the tenements currently held by the Group, in the areas of the Moreton Energy Coal Project in the Clarence-Moreton Basin and the Tambo Coal & Gas Project in the Upper Surat Basin.

The initial $3 million received and recorded as a liability was initially recognised at fair value. Post initial recognition, the $3 million received is accounted for in accordance with the Group policy for financial instruments set out in Note 1(o) of the 30 June 2011 Annual Report.

The royalty is only payable in the event of future production of coal and gas.

There has been no movement in the balance of the liability. The Group has assessed that the fair value at the time of the initial transaction, which was at arm's length, remains a reasonable assessment of the fair value at 31 December 2011 as no changes in the underlying circumstances have occurred since.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

Note 5 Non-current liabilities – Convertible bonds

	31 December 2011 $	30 June 2011 $
The carrying value of Convertible bonds are disclosed as:		
Derivative liability	2,284,234	-
Borrowings	977,496	-
	3,261,730	-

The parent entity issued 380 convertible notes for $1,900,000 on 25 July 2011. The notes are convertible into ordinary shares in the parent entity, at the option of the holder, up until 25 July 2014. The number of shares to be converted will be dependent on the Conversion Price, which is the lower of $0.038 and the price of any subsequent issue of ordinary shares. The convertible notes are presented in the balance sheet as follows:

Borrowings	31 December 2011 $	30 June 2011 $
Face value of notes issued	1,900,000	-
Derivative liability – fair value initially recognised	(1,139,198)	-
	760,802	-
Issue costs	(50,603)	-
Unwinding of issue costs	267,297	-
Non-current liability	977,496	-
Derivative liability		
Fair value initially recognised	1,139,198	-
Fair value movement to 31 December 2011	1,145,036	-
Carrying value at 31 December 2011	2,284,234	-

COALBANK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

Note 6 Equity securities issued

	Half-year		Half-year	
	2011 Shares	2010 Shares	2011 $	2010 $
Issues of ordinary shares during the half-year				
Shares issued in accordance with share sale and purchase agreement *	-	407,288,211	-	-
Shares issued to sophisticated investors	50,000,000	47,750,000	1,900,000	3,820,000
Shares issued on exercise of options	-	3,800,000	-	266,000
Shares issued on exercise of performance rights	-	8,250,000	-	-
Share issue expenses	-	-	(110,838)	-
Net increase in contributed equity	50,000,000	467,088,211	1,789,162	4,086,000

	Half-year	
	2011 Options	2010 Options
Movement in options during the half-year		
Options exercised	-	(3,800,000)
Options issued	13,000,000	-
	13,000,000	(3,800,000)

	Half-year	
	2011 Rights	2010 Rights
Movement in performance rights during the half-year		
Performance rights exercised	-	(8,250,000)
Performance rights expired	-	(1,000,000)
	-	(9,250,000)

***** No amount has been shown as an increase in the dollar amount of issued capital for the half-year ended 31 December 2010 as the increase was recorded in June 2010 as per note 15(h) of the June 2011 financial report.

COALBANK

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

Note 7 Commitments for expenditure

	31 December 2011 $	30 June 2011 $
Exploration commitments		
Commitments as at 31 December 2011 for payments under exploration permits for minerals in existence at the reporting date but not recognised as liabilities are payable as follows:		
Within one year	8,581,580	13,153,326
Later than one year but not later than 5 years	24,522,568	23,045,004
Later than 5 years	-	-
Commitments as at 31 December 2011 not recognised in the financial statements	33,104,148	36,198,330

To maintain current rights to tenure of various exploration tenements, the Group will be required to outlay amounts in respect of tenement exploration expenditure commitments. These outlays, which arise in relation to granted tenements are noted above. The outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if a tenement is relinquished.

Exploration commitments are calculated on the assumption that each of the tenements will be held for its full term. However, commitments may decrease materially as exploration advances and ground that is shown to be unprospective is progressively surrendered. Expenditure commitments on prospective ground will be met out of existing funds, joint ventures, farm-outs, and new capital raisings.

Note 8 Contingent liabilities

There have been no changes in contingent liabilities or contingent assets since the end of the previous annual reporting period.

Note 9 Events subsequent to reporting date

On 27 February 2012 COALBANK Limited issued 83,333,333 ordinary shares to institutional and sophisticated investors. The shares were issued at $0.06 per share raising a total of $5 million. The funding will enable the Group to accelerate drilling at its Blackall coal project in Central Queensland.

There have been no other matters or circumstances that have arisen since the end of the half-year, that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

COALBANK

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the attached financial statements and notes are in accordance with the *Corporations Act 2001,* including:
(i) complying with Accounting Standard AASB 134 Interim Financial Reporting, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
(ii) giving a true and fair view of the group's financial position as at 31 December 2011 and of its performance for the half-year ended on that date, and

(b) there are reasonable grounds to believe that COALBANK Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

R Clarke
Chairman

Brisbane
15 March 2012

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of COALBANK Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of COALBANK Limited, which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of COALBANK Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of COALBANK Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of COALBANK Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001.*

Emphasis of Matter on Going Concern

Without modifying our conclusion, we draw attention to matters set out in Note 1 in the half-year financial report. The financial report has been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. The ability of the consolidated entity to maintain continuity of the normal business activities, to pay its debts as and when they fall due and to recover the carrying value of their areas of interest, is dependent upon the successful raising in the future of necessary and/or the successful exploration and subsequent exploitation of their areas of interest through sale or development.

These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the disclosing entity's ability to continue as a going concern and therefore, the disclosing entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit (QLD) Pty Ltd

BDO

C J Skelton

Director

Brisbane: 15 March 2012