



# COALBANK

2011 ANNUAL REPORT

## **COALBANK LIMITED**

COALBANK LIMITED IS AN ASX-LISTED COMPANY (ASX:CBQ) THAT INVESTS IN AND DEVELOPS EARLY STAGE UPSTREAM ENERGY PROJECTS.

OUR COMPANY HOLDS ONE OF THE LARGEST COAL EXPLORATION PERMIT AREAS IN AUSTRALIA, AND IS PRIMARILY FOCUSED ON COAL EXPLORATION IN QUEENSLAND.

WE ADD SIGNIFICANT VALUE TO OUR PROJECTS THROUGH OUR TEAM'S EXPLORATION EXPERTISE AND COMMERCIAL DISCOVERY EXPERIENCE.

OUR FUTURE STRATEGY INCLUDES THE INVOLVEMENT OF STRATEGIC INDUSTRY PARTNERS FOR OUR KEY PROJECTS TO ACCELERATE THEIR DEVELOPMENT FROM EXPLORATION TO PRODUCTION.

GIVEN OUR CORE FOCUS ON COAL EXPLORATION, WE WILL CONSIDER JOINT VENTURE PARTNERS OR SPIN-OFF OPPORTUNITIES FOR OUR PETROLEUM SUBSIDIARY, SURAT GAS PTY LTD AND FOR OUR METALS SUBSIDIARY, HARVEST METALS PTY LTD.

# **COALBANK**

# **A FRESH**





# APPROACH





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**C O N T E N T S**



## CHAIRMAN'S REPORT

I am pleased to introduce shareholders to our first annual report as COALBANK Limited.

In a year plagued by bad weather and historic floods, our experienced team expanded COALBANK's exploration footprint in Queensland and undertook a series of important activities to prepare for the 2011 drilling program. The team also made significant inroads in preparing the Company for the next phase as a focused coal explorer, setting a strategic pathway for our future growth.

More recently, these efforts have delivered initial results for the Company with the confirmation of the coal seams within our Blackall project during preliminary drilling in September this year.

### NEW NAME REFLECTS STRATEGIC FUTURE

In June, the Company's shareholders approved the acquisition of Coalbank Qld Pty Ltd, holder of three coal exploration projects in central and south east Queensland and a change of name from Lodestone Energy Limited to COALBANK Limited.

COALBANK's permits now cover more than 20,000 square kilometres in Queensland and represent one of Australia's largest coal exploration footprints.

All key tenements have now been granted or offered for grant by the Queensland Government (and accepted by the Company).

Importantly, the vast majority of our permits fall outside of any Strategic Cropping Land Protected Areas identified by the Queensland Government (a policy which took effect on 31 May 2011).

While the Coalbank Qld Pty Ltd acquisition expanded and diversified our coal exploration portfolio, it also brought other potential options for transport infrastructure, exploration alternatives to mitigate the impact of weather conditions, and ultimately the potential for diversity of coal qualities and markets.

Consistent with our increased focus on coal exploration, the Company is reviewing options for our 100% owned metals and petroleum subsidiaries (Harvest Metals Pty Ltd and Surat Gas Pty Ltd, respectively). Options that will be considered for these subsidiaries in 2011/12 include joint ventures, and spin offs and other forms of divestment, along with the possibility of continued direct exploration and internal funding by COALBANK.

### INSTITUTIONAL INVESTMENT

In July this year, the Company secured a \$3.8 million institutional investment from investment funds affiliated with leading institutional asset management firm Och-Ziff Capital Management Group LLC. Their investment both raises our profile with strategic investors on an international level and provided funding for our 2011 drilling activities.

The Och-Ziff investment enabled COALBANK to recommence drilling of our previously announced high priority coal targets in late August 2011, resulting in confirmation of coal at our Blackall Project in early September.

## COALBANK'S PERMITS NOW COVER MORE THAN 20,000 SQUARE KILOMETRES IN QUEENSLAND AND REPRESENT ONE OF AUSTRALIA'S LARGEST COAL EXPLORATION FOOTPRINTS.

### EXCITING NEW OIL AND GAS TARGETS IDENTIFIED

In January, COALBANK's wholly-owned subsidiary, Surat Gas Pty Ltd was appointed preferred tenderer for three new petroleum tenements (ATP's 1072, 1095 and 1098) in the Surat/Eromonga Basin. Assuming the final grant of these permits, we now have one of the largest gas acreage positions in the Surat Basin (approximately 20,500 square kilometres).

In early March, we received independent expert advice from MBA Petroleum Consultants (MBA) indicating that we have an exciting series of both unconventional and conventional oil and gas targets in the expanded petroleum acreage.

Your Board is continually reviewing the Company's options for monetising these petroleum projects.

### TECHNICAL REVIEW OF METALS PROJECTS

During September 2011, the Company commissioned an independent technical review of its Chillagoe and Mount Morgan metals projects, which are in the process of being transferred to a new wholly owned subsidiary - Harvest Metals Pty Ltd. The preliminary results from this independent review have been positive.

Following receipt of the final recommendations of the review, the Company will consider its options for funding new drilling activities within these projects. This may involve farm out of the metals projects, further internal funding, or outside investment in/spin off of the Harvest Metals subsidiary.

### COAL DRILLING COMMENCED

During August 2011 COALBANK advised Shareholders that a contract for drilling services had been executed to recommence drilling of our high priority coal targets.

Drilling commenced at our Blackall Coal Project in Queensland during the week beginning 29 August 2011.

Initial drilling activities were targeted at the northward extension of coal deposits known to occur immediately south of our permits near Blackall and will later test other areas in the northern half of our Tambo regional projects.

Based on this initial drilling, the Company was very pleased to report on 12 September 2011 that total coal thicknesses of up to 8 metres at relatively shallow depths were intersected in holes drilled (confirmed by analysis of wireline density logs).

We are looking forward to continuing and accelerating our exploration efforts in the coming year, keeping shareholders informed with regular announcements.

### BOARD AND MANAGEMENT

With the commencement of the drilling program in late August 2011, our General Manager, Bruce Patrick, replaced Staffan Ever as CEO, while Staffan has joined the Company's Board as a Director. We are pleased to have the continued involvement of Staffan and Bruce in these roles in the next phase of the Company's development.

Our Director Greg Baynton accepted the new role of Executive Deputy Chairman to assist in implementation of corporate strategies and in identifying future growth opportunities. He brings considerable corporate and project generation experience to our executive team.

I would also like to take this opportunity to thank your Directors and COALBANK's Executives for their ongoing commitment to the Company during the year, and to welcome new shareholders who have joined our register.



**ROGER CLARKE**  
Chairman



## OPERATIONAL REVIEW

### CEO'S REPORT AND OPERATIONAL REVIEW

#### CORPORATE OVERVIEW

While the weather in Queensland restricted exploration activities during a significant part of the year in review, COALBANK was able to strengthen its strategic position through a number of significant corporate activities.

In July 2010, the Company completed its merger transaction with Tambo Coal & Gas Pty Limited and Moreton Energy Pty Limited, resulting in 100% ownership respectively of their coal and gas exploration projects.

In June 2011, shareholders also approved the acquisition of Coalbank Qld Pty Ltd, holder of three coal exploration projects in central and south east Queensland. The Coalbank projects are early stage exploration projects and are each located within 15km to 45km from existing coal mines and are well located in relation to transport infrastructure, water supplies, power stations.

At the same time as the approval of the acquisition, Coalbank Qld Pty Ltd, shareholders also approved the change in company name from **Lodestone Energy Limited** to **COALBANK Limited**.

The consideration agreed by the vendor was structured as success-based, in the form of Company Options exercisable at \$0.25 per share within three years of issue and will be conditional on at least 100Mt of total coal resources being defined to JORC code reporting standards from any one or combination of the Coalbank projects.

Subsequent to the close of the June quarter, we announced a \$3.8 million institutional investment by funds associated with Och-Ziff Capital Management LLC ([www.ozcap.com](http://www.ozcap.com)) to fund the upcoming coal exploration program and provide further working capital. Och-Ziff Capital Management Group LLC is a leading global institutional asset management firm with approximately US\$29.3 billion of assets under management as of 1 July 2011.

As previously advised, COALBANK is continuously exploring commercial arrangements for future joint ventures, farm-outs, spin-offs and project funding/capital raising options to advance its minerals and energy projects.

In this regard, we continue to be approached by potential strategic partners/investors. COALBANK is continuing to engage in such discussions with a view to outcomes that would help advance our projects and benefit shareholders.

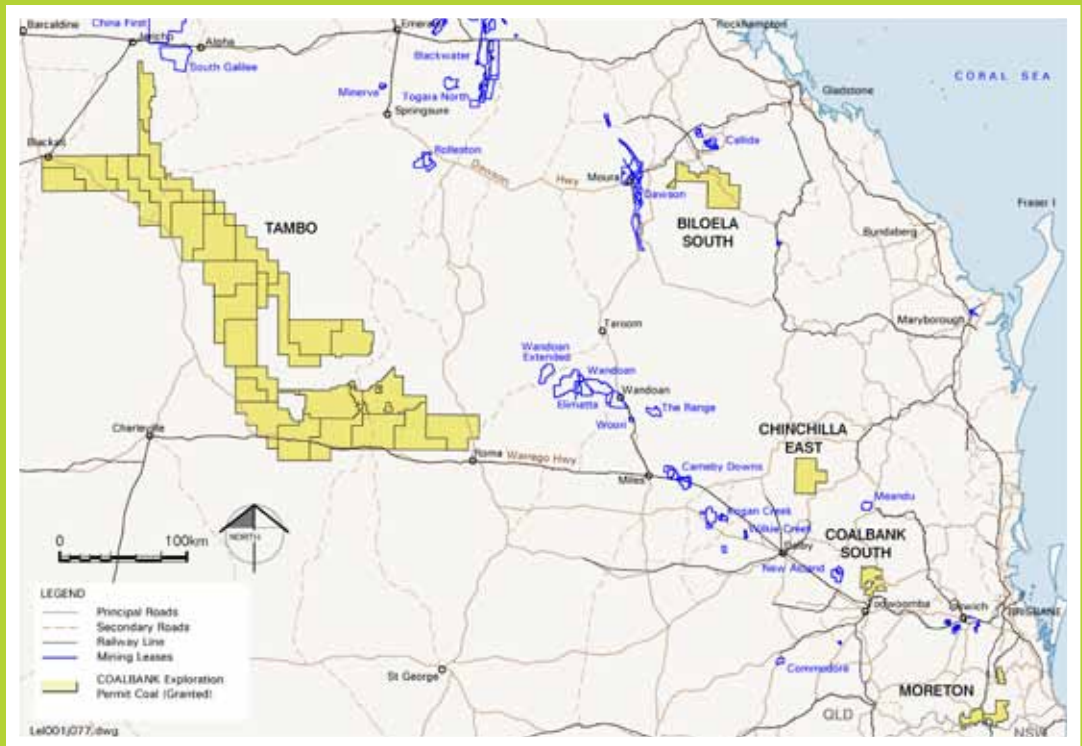
#### COAL PROJECTS

The following map (Map 1) provides an overview of COALBANK's granted EPCs in Queensland. The combined coal exploration portfolio is one of Australia's largest, exceeding 20,000 square kilometres.

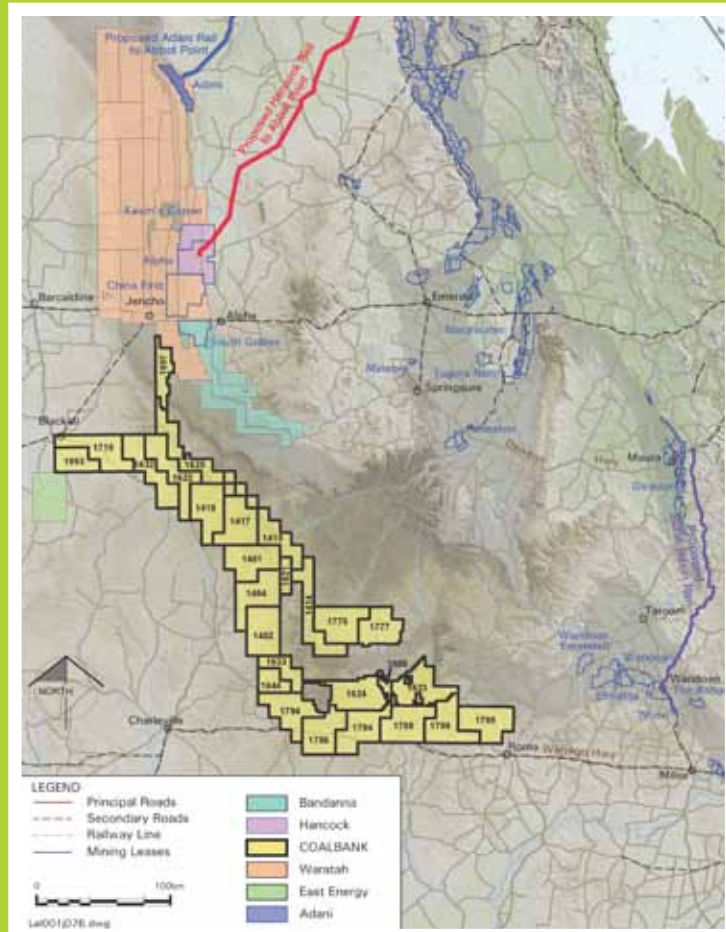
With the acquisition of Tambo Coal & Gas Pty Ltd, Moreton Energy Pty Ltd and Coalbank Qld Pty Ltd completed during the year, the Company's entire coal exploration portfolio is now 100% owned by COALBANK. The Company's Blackall and Tambo Coal Projects represent the majority of this portfolio.



MAP 1: COALBANK-ALL GRANTED EPCS IN QUEENSLAND



MAP 2: BLACKALL AND TAMBO COALBANK EPCS



## BLACKALL AND TAMBO COAL PROJECTS

The Blackall and Tambo Coal Projects cover a large footprint in Queensland, involving a strategic group of tenements extending from Blackall to Roma, a distance of more than 400 kilometres, and cover an area of approximately 1.5 percent of the State (refer Map 2).

COALBANK's Blackall and Tambo Coal Projects represent:

- One of the largest grassroots acreages prospective for coal in Australia
- A logical extension of the Walloon Coal Measures of the Surat Basin which host established mines and CSG fields,
- Presence of the coal-bearing Winton Formation in the north west of the project area; and
- A project close to existing rail corridors and pipeline infrastructure, in a region largely unaffected by the Queensland Government's proposed Strategic Cropping Land policy (refer Map 3 on page 9).

During the past two years, COALBANK has assembled strong evidence that the Tambo and Blackall Coal Projects cover an area that is an extension of the known Surat Basin and host Winton Formation coals in the north-west. The Surat Basin has been highly productive for thermal coal and CSG. Winton Formation coals have now been confirmed within the Company's Blackall Project, with total coal thicknesses of up to 8 metres intersected at shallow depths. These thicknesses were confirmed via the analysis of wireline density logs (a down-hole geophysical technique).

The Company expects that this region will become a significant energy province for Queensland.

A scout drilling program within EPC 1786 was conducted in the second half of 2010. The program confirmed strata in this area contained coal seams but these were identified as lying above the main Walloon targets in the Juandah and Taroom Coal Measures. Unfortunately, severe adverse weather did not allow further drilling in 2010.

The ongoing rain, flooding and resulting poor access conditions in the Tambo and Maranoa region that caused the curtailment of coal exploration activities in December 2010 continued during the March quarter. The Company used this time to conduct further desktop analysis and identification and refinement of coal targets within its EPCs for upcoming drilling programs.

After completing an Institutional capital raising in July and securing a drilling rig, the Company recommenced drilling south of Blackall in late August 2011.

Initial drilling during early September confirmed the presence of shallow coal seams within the Company's EPC1993 south of Blackall. The drilling program commenced near the southern boundary of EPC1993 (approximately 20 kilometres south of Blackall).

Drilling completed to mid September included a deep hole to 293 metres which established stratigraphic relationships with respect to known regional stratigraphy, and a north-south long section along strike, with each hole confirming the presence of Winton Formation coal seams.

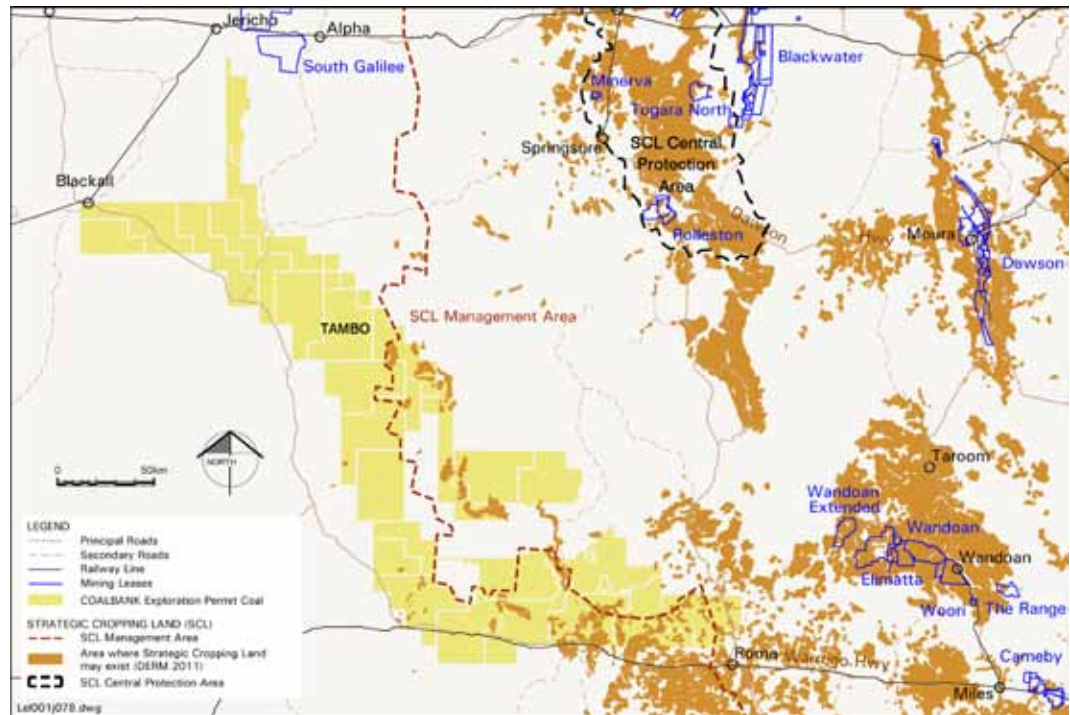
## MORETON ENERGY PROJECT

The Moreton Basin is a late Triassic-to-Cretaceous intracratonic basin, situated in south-east Queensland. It extends from Brisbane to Dalby and south to the Queensland/New South Wales border. The Moreton Basin is contiguous in part with the Surat Basin to the west and is part of the Clarence-Moreton Basin that extends southward into New South Wales.

COALBANK's past efforts aimed at identifying economic deposits in this region, which is well located in relation to the Port of Brisbane and the Brisbane and Gold Coast population centres, with good rail and road connections.

No field activity was undertaken during the year at the Moreton Project, with desk top work and consolidation of data from the prior year's drilling program being the focus of the Company's activities for this project. Four sub-blocks were relinquished from EPC1302.

MAP 3: STRATEGIC CROPPING LAND



Map of COALBANK Projects and their locations with respect to designated strategic cropping land areas in Queensland

**EAST SURAT AND BOWEN BASIN PROJECTS**

Since the announcement of the acquisition of Coalbank QLD Pty Ltd in March this year, EPC 2241 (Biloela South) and EPC 2240 (Coalbank South) have been granted by the Queensland Government.

Two EPCs acquired via Coalbank Qld Pty Ltd (EPC 2239 and EPC 2359) remain at application stage.

No field activity has been undertaken since the grant of these permits. During the year we also undertook a review of the coal prospectivity of the Chinchilla East Project and selected targets for future drilling programs.

**OUTLOOK FOR THE COMPANY'S COAL PROJECTS**

Appropriate weather conditions permitting, we are anticipating solid progress with our drilling program focused on our Blackall and Tambo region coal projects during the remainder of 2011.

Following the commencement of drilling with one rig in late August 2011, we expect to have two drilling rigs operating in these regions by mid-October and, are continuing to arrange access agreements with local land owners in preparation for drilling activities in the Blackall/Tambo region.

COALBANK also intends to continue liaising with the relevant Regional Councils regarding access arrangements on council controlled lands and the recently announced land Restricted Area policy relating to exploration buffer zones surrounding urban areas ('RA 384').

Drilling activities for the remainder of 2011 will be focused on coal targets within the extension of the Walloon Coal Measures and Winton Formation coals. We will also continue to identify new coal drilling targets within our large EPC portfolio.

Regional infrastructure initiatives by nearby coal explorers have the potential to provide significant benefit to future infrastructure requirements of COALBANK's projects. We therefore plan to monitor the results of other coal explorers in the region along with their plans for and progress towards new infrastructure (including rail, power and water).

COALBANK will continue discussions with potential strategic partners regarding our various regional coal projects.



## COAL PROJECTS: TENEMENT SCHEDULE

TENEMENT	TENEMENT NAME	SUB-BLOCKS	GRANTED	EXPIRY
EPC 1414	Maranoa	300	10/05/2010	9/05/2015
EPC 1415	Warrego	300	21/05/2010	20/05/2015
EPC 1417	Tambo East 1	300	24/05/2010	23/05/2015
EPC 1418	Tambo East 2	300	21/05/2010	20/05/2015
EPC 1481	Augathella East 1	300	28/04/2010	27/04/2015
EPC 1482	Augathella East 2	300	5/08/2009	4/08/2014
EPC 1484	Augathella North East	300	6/07/2009	5/07/2014
EPC 1621	Tambo South East Gap	75	7/07/2009	6/07/2014
EPC 1622	Alpha South West 1	300	25/05/2010	24/05/2015
EPC 1623	Bymount West	300	27/04/2009	26/04/2014
EPC 1624	Morven North East	300	29/10/2010	28/10/2015
EPC 1625	Alpha South West 2	300	29/04/2010	28/04/2015
EPC 1632	Tambo	300	29/10/2010	28/10/2015
EPC 1633	Augathella South East 1	162	29/10/2010	28/10/2015
EPC 1644	Augathella South East 2	125	25/11/2009	24/11/2014
EPC 1697	Alpha Rail	154	22/10/2010	21/10/2015
EPC 1719	Barcoo River-Blackall Rail	300	28/07/2010	27/07/2015
EPC 1776	Upper Surat East 1	300	29/10/2010	28/10/2015
EPC 1777	Upper Surat East 2	247	29/10/2010	28/10/2015
EPC 1784	Waroonga	300	20/07/2010	19/07/2015
EPC 1786	Dulbydilla	284	17/03/2010	16/03/2015
EPC 1788	Muckadilla North	300	19/02/2010	18/02/2015
EPC 1789	Muckadilla North East	300	23/12/2009	22/12/2014
EPC 1794	Morven North	299	2/11/2010	1/11/2015
EPC 1795	Roma North West	300	23/12/2009	22/12/2014
EPC 1800	Maranoa River	47	20/07/2010	19/07/2015
EPC 1993	Blackall South Corner	175	17/03/2010	16/03/2014
EPC 2056	Chinchilla East	175	26/11/2010	25/11/2015
EPC 2239	Coal Creek	143	APPLICATION	APPLICATION
EPC 2240	Coalbank South	94	19/04/2011	18/04/2013
EPC 2241	Biloela South	300	19/04/2011	18/04/2013
EPC 2359	Coalbank South	30	APPLICATION	APPLICATION
EPC 1299	Bromelton/Strathnaver	3	13/11/2008	12/11/2011
EPC 1302	Veresdale Scrub	21	16/03/2009	15/03/2011
EPC 1313	Albert River	67	27/04/2009	26/04/2011
EPC 1524	Rathdowney	56	30/06/2009	29/06/2012

## PETROLEUM PROJECTS

In September 2010, via our wholly-owned subsidiary Surat Gas Pty Ltd, your Company applied for new Authorities to Prospect (ATPs) for petroleum exploration pursuant to the Queensland Government's 2010 Petroleum Land Release competitive tender process. In January 2011, the Company was appointed preferred tenderer for three new petroleum tenements (ATPs 1072, 1095 and 1098) in the Surat/Eromanga Basin. We expect these to be granted towards the end of 2011 and early 2012.

The new ATP areas are either unexplored or significantly underexplored for gas and all are contiguous with each other and/or COALBANK's existing tenement footprint. Two of the new ATPs are traversed by major gas pipeline infrastructure and the third ATP is relatively near to gas pipelines and related facilities in the Surat (refer to map 4).

The Company has completed assignment documents and applied to the Queensland Department of Employment, Economic Development and Innovation for the transfer of its ATP 1020 to its wholly owned subsidiary, Surat Gas Pty Ltd.

Assuming they are granted, these three new ATPs have resulted in a 310% increase in the Company's petroleum and gas acreage footprint in the Surat/Eromanga Basin and represent one of the largest holdings in the region, covering approximately 20,500 square kilometers.

The Company was also offered a grant under the Queensland Government Collaborative Drilling initiative to cover direct drilling costs of a drilling program at ATP1020. The maximum amount of \$150,000 is available. The government initiative is targeted to support the testing of high quality exploration targets in under explored areas of Queensland.

COALBANK received independent expert advice from MBA Petroleum Consultants (MBA) identifying new series of both unconventional and conventional oil and gas targets in its expanded petroleum acreage.

Targets include shale gas, conventional oil and gas, and Permian coal seam gas (CSG) in addition to the Jurassic Birkhead Formation (CSG) targets.

## PETROLEUM PROJECTS OUTLOOK

The results of the independent review were included in a technical information package prepared for potential strategic partners and/or for possible use in spin-off documentation. Discussions are currently underway with potential partners for the Surat Gas acreage package. Commercial options currently being considered for Surat Gas include farm-out, separate ASX listing, along with the possibility of continued ownership and direct exploration of the petroleum tenements by COALBANK.

## PETROLEUM PROJECTS: TENEMENT SCHEDULE

TENEMENT	HOLDER NAME	SUB-BLOCKS	GRANTED	EXPIRY
ATP 1020	Tambo Coal & Gas Pty Limited	2150	1/05/2009	30/04/2013
ATP 1072	Surat Gas	2175	Preferred Tenderer	
ATP 1095	Surat Gas	540	Preferred Tenderer	
ATP 1098	Surat Gas	1792	Preferred Tenderer	

## METALS PROJECTS

COALBANK continues to hold interests in the Chillagoe and Mount Morgan metals projects.

Situated 130km north of the Chillagoe township in North Queensland, the Chillagoe district project is believed to have structural and lithological settings similar to the Mungana and Red Dome gold-copper deposits near Chillagoe.

The Mount Morgan project is centred on the historic gold mining town of the same name, and is situated 50km southwest of Rockhampton, Queensland.

The project area covers an area of approximately 265 square kilometres, north and south of the town of Mount Morgan, and extending eastwards near the township of Struck Oil (refer map 5).

## COPPER DISCOVERY AT CHILLAGOE

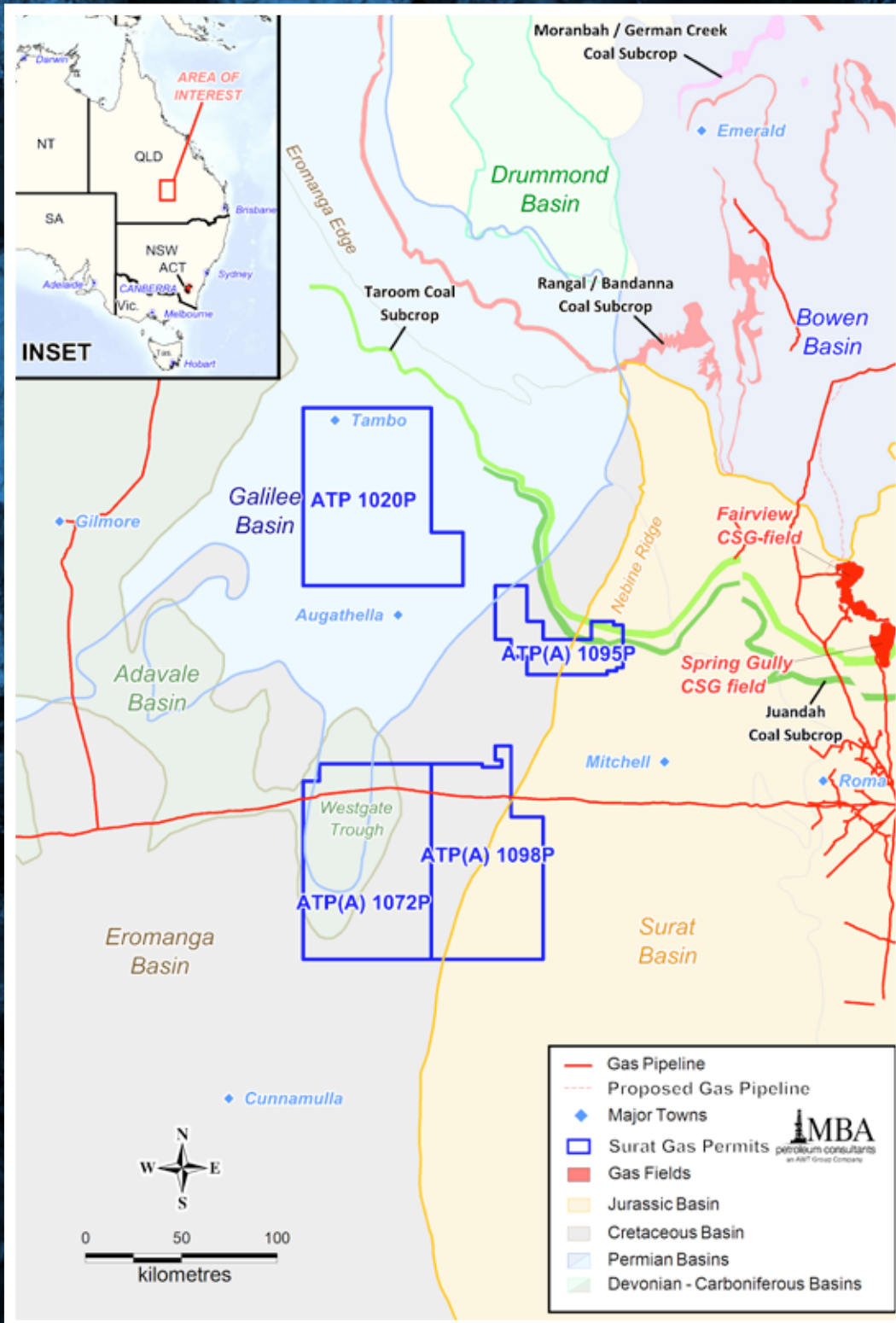
Drilling during October 2010 confirmed our Company's Copper discovery near Chillagoe in North Queensland (refer map 6). Exploration is aiming to discover porphyry copper-gold orebodies similar to those at Red Dome and Mungana, near Chillagoe.

To this end, a 10 hole drilling program was completed at the Company's Chillagoe project in October and, following assay testing, resulted in confirmation of an important copper discovery.

Analysis of drilling results at Limestone Creek indicates that a 700 metre long zone consistently exceeds 1,000 ppm copper. These results follow earlier soil/samples results averaging 3,100ppm copper. A linear zone of hydrothermal breccias, similar in type and shape to those in the upper levels of Red Dome (pre-mining) and Mungana deposits, outcrops over a similar distance.

**THE COMPANY'S GAS ACREAGE FOOTPRINT IN THE SURAT/EROMANGA BASIN IS ONE OF THE LARGEST HOLDINGS IN THE REGION, COVERING APPROXIMATELY 20,500 SQUARE KILOMETRES.**

MAP 4: PETROLEUM PROJECTS - SURAT GAS LOCATION MAP





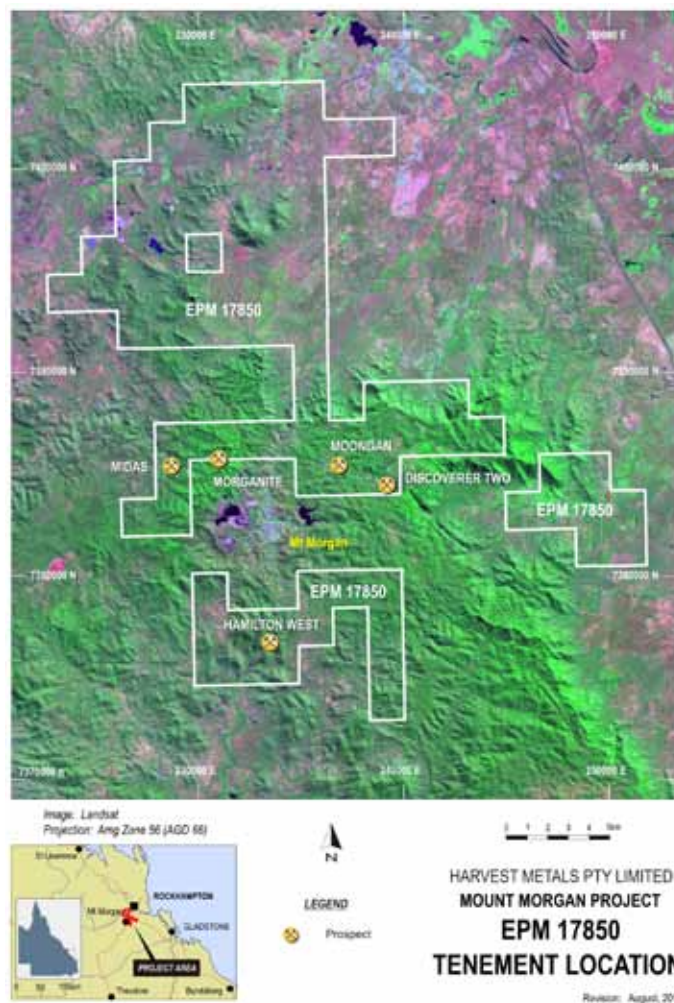
The 10 hole (492 metre) reverse-circulation drilling program tested three targets in October. The main target was Leane's Prospect, where eight holes for 412 metres tested a 500 metre strike length: the main zone of breccias, soil copper anomalies, and strongly anomalous rock chip copper assays.

Significant intersections of copper mineralisation were made in six holes. The central section of the breccia system was examined at shallow depths by holes LRC2, 3 and 4. Bulging of the breccia width in this central area suggests the potential for a porphyry system at depth (refer map 7).

Copper intersections greater than 0.1% are listed below:

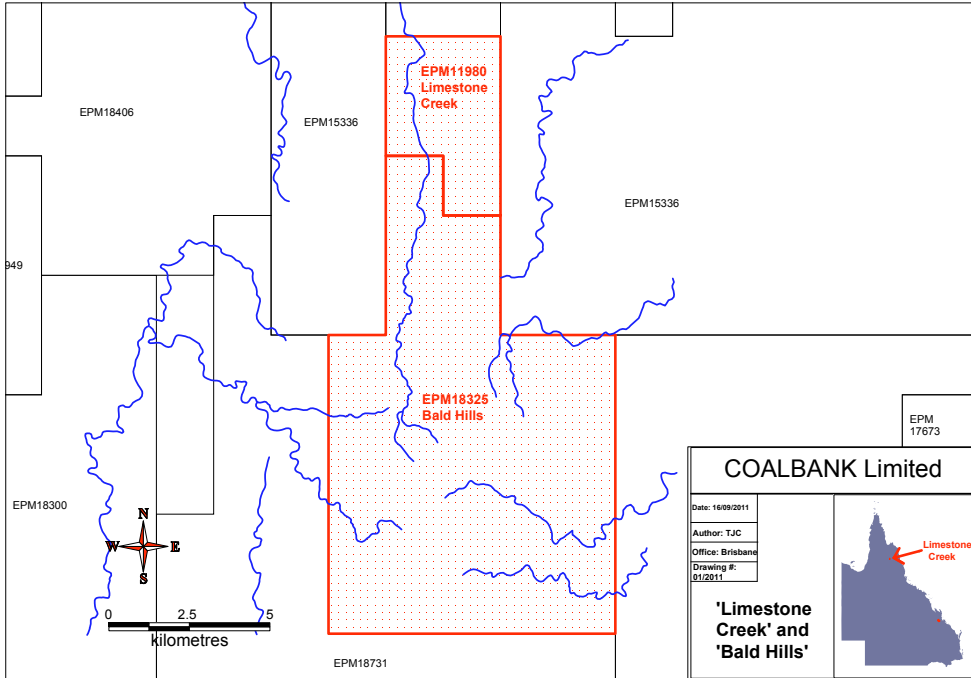
HOLE	INTERVAL (M)	THICKNESS (M)	GRADE (CU%)
LRC02	22-24	2	0.18%
LRC02	31-33	2	0.16%
LRC02	36-48	13	0.31%
LRC03	24-28	4	0.55%
LRC04	21-54	33	0.49%
LRC05	25-28	3	0.35%
LRC06	46-55	9	0.17%
LRC08	06-13	7	0.27%

MAP 5: MOUNT MORGAN DISTRICT PROJECT (100% COALBANK VIA HARVEST METALS PTY LTD)

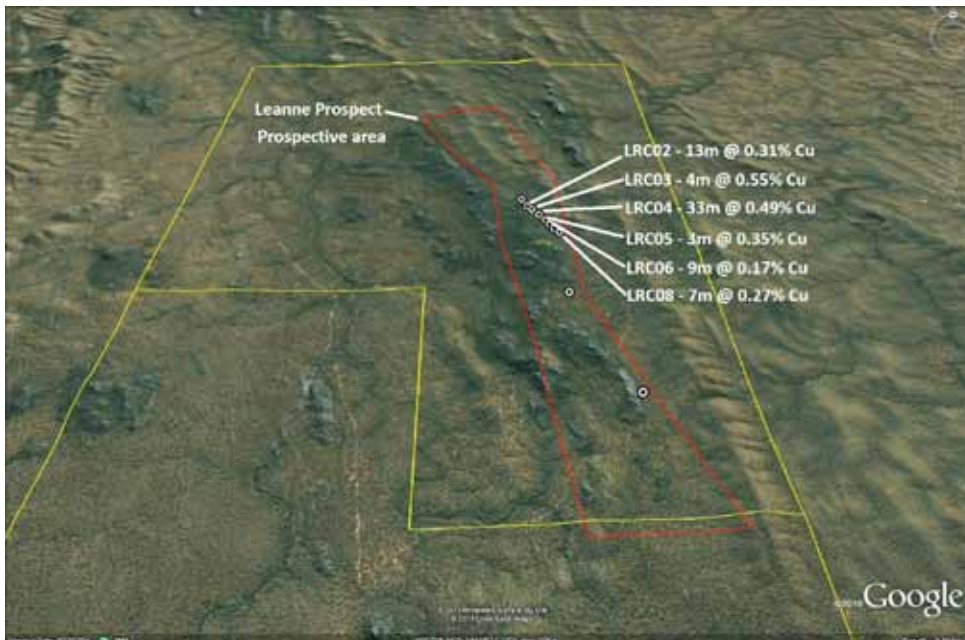


# SIGNIFICANT INTERSECTIONS OF COPPER MINERALISATION WERE MADE IN SIX HOLES.

MAP 6: LOCATION OF CHILLAGOE PROJECT PERMITS



MAP 7: CHILLAGOE DISTRICT PROJECT (100% COALBANK VIA HARVEST METALS PTY LTD)



The Leane's copper discovery has potential to be a similar "Porphyry-Breccia" geological model to Mungana near Chillagoe, in which surface exposure of remnants of the porphyry plug are so highly leached as to be almost unrecognisable.

The focus of copper mineralisation and width of breccias on Sections 6920N, 7000N and 7050N suggest that the optimum location for a source porphyry plug or plugs is at depth on these sections.

A future program of at least three combined RC/NQ cored holes for 180m of RC drilling and 420m of coring is proposed as an additional test of Leane's breccia column, and an initial test of the concept of a porphyry system at depth.

### COLLABORATIVE DRILLING GRANT AWARDED – CHILLAGOE

During the first half of 2011, the Company was successful in its application for a grant of half the estimated direct drilling costs for new drilling at Chillagoe under the Queensland Government's "Collaborative Drilling Initiative". The Collaborative Drilling Grants are competitive and are provided to "assist testing of new exploration concepts by drilling".

### STRATEGIC REVIEW OF METALS PROJECTS

Given its major focus on energy projects and timing for completion of final assay results and other technical assessment from the October drilling program at Chillagoe,

the Company did not undertake further in-field exploration activities at its Chillagoe and Mount Morgan project during the financial year.

However, during September 2011, the Company commissioned an independent technical review of its Chillagoe and Mount Morgan metals projects. The preliminary results from this independent review have been positive.

### METALS PROJECTS OUTLOOK

During the June quarter, the Company incorporated a new entity, Harvest Metals Pty Ltd and has completed documentation required for the transfer of minerals tenements to this new entity to provide flexibility for future funding, new project acquisitions and possible spin off of a pure-play metals explorer.

From the initial results of the independent technical review commenced in September 2011, the Company is excited about the potential for its Chillagoe copper discovery and its Mount Morgan area projects.

Following receipt of the final recommendations of the independent review, the Company will consider its options for funding new drilling activities within these projects. This may involve farm out of the metals projects, further internal funding, or outside investment in/spin off of the Harvest Metals subsidiary.

The Company is looking forward to adding new expertise and funding to resume exploration of its metals projects portfolio.

### METALS PROJECTS: TENEMENT SCHEDULE

TENEMENT	TENEMENT NAME	SUB-BLOCKS	GRANTED	EXPIRY
EPM 18325	Bald Hills	30	Application Exploration Permit Proposal	
EPM 11980	Limestone Creek	5	03/06/05	02/06/13
EPM 17850	Mount Morgan Consolidated	86	16/04/10	15/05/13

Finally, in my new role as Chief Executive I am looking forward to progressing COALBANK's exploration activities in the coming year, building on the initial drilling results, the strong foundations our exploration and technical teams have established, and delivering additional positive results for our shareholders

I look forward to keeping you informed about our progress during the year and thank you for your support and confidence in our project portfolio and the COALBANK team.



**BRUCE PATRICK**  
Chief Executive

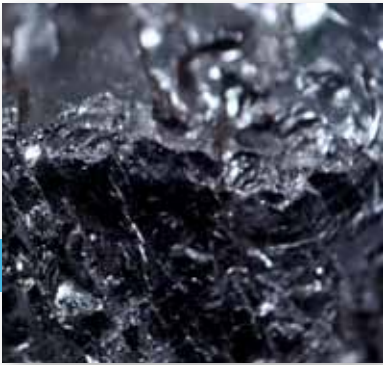




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**FINANCIAL REPORT**



## DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of COALBANK Limited ("the Company") and the entities it controlled at the end of, or during, the year ended 30 June 2011.

### DIRECTORS

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

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

R B Clarke was appointed a director on 2 September 2010 and continues in office at the date of this report.

M C Ackland was a director from the beginning of the financial year until his resignation on 8 November 2010.

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

### CHANGE OF NAME

At a general meeting of shareholders held on 2 June 2011 the Company's name was changed to COALBANK Limited from Lodestone Energy Limited.

### PRINCIPAL ACTIVITIES

During the year the principal continuing activity of the Group consisted of resource exploration. The Group explores for minerals, coal, coal seam gas and conventional oil and gas.

### REVIEW OF OPERATIONS

The operating loss after income tax of the Group for the year was \$8,514,160 (2010: loss \$3,364,970). The loss includes non-cash expense items (including share-based payments, exploration assets written off, depreciation and impairment of assets) of \$7,406,088 (2010:\$2,098,715). The loss reflects the nature of the Group's principal activity. Information on the operations of COALBANK Limited and its business strategies and prospects is set out in the review of operations and activities on pages 6 to 15 of this annual report.



## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the financial year were as follows:

	2011 \$
An increase in contributed equity of \$4,086,000 (from \$49,025,857 to \$53,111,857) as a result of:	
Placement of 47,750,000 ordinary shares at \$0.08 each for cash	3,820,000
Exercise of 3,800,000 options at \$0.07 each	266,000
	-----
	4,086,000
Less: Transaction costs arising on share issues, net of current income tax	-
	-----
Net increase in share capital	4,086,000
	=====

## DIVIDEND

The directors do not recommend the payment of a dividend. No dividend was paid during the year.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Since 30 June 2011 COALBANK Limited has issued 50,000,000 ordinary shares at \$0.038 per share from sophisticated and professional investors raising \$1,900,000. Under the same agreement the Company has issued \$1,900,000 of convertible bonds, initially convertible at \$0.038 per share. These funds are to be used to accelerate exploration activities and augment working capital.

Other than the matters disclosed above no other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

- a. the Group's operations in future financial years, or
- b. the results of those operations in future financial years, or
- c. the Group's state of affairs in future financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS FROM OPERATIONS

Likely developments in the operations of the group constituted by COALBANK Limited and the entities it controls from time to time that were not finalized at the date of this report included considering strategic partnering of the Group's petroleum and minerals assets and/or divestment of the relevant subsidiaries.

Additional comments on expected results of certain operations of the Group are included in this annual report under the review of operations and activities on pages 6 to 15.

## ENVIRONMENTAL REGULATION

The Group is subject to significant environmental regulation in respect of its exploration activities in Australia and is committed to undertaking all its operations in an environmentally responsible manner.

To the best of the directors' knowledge, the Group has adequate systems in place to ensure compliance with the requirements of all environmental legislation and are not aware of any breach of those requirements during the financial year and up to the date of the directors' report.

## DIRECTORS' REPORT (CONTINUED)

### INFORMATION ON DIRECTORS

R B Clarke.

Non-executive director. Age 63

#### Experience and expertise

Mr Clarke has over 30 years commercial experience in the investment banking industry, with responsibilities in fund management, banking and corporate finance. He has been involved in a large number of initial public offerings, capital raisings, advisory roles and corporate transactions. Mr Clarke is the Chairman of the RBS Morgans Limited Board of Advice and the former Chairman of ABN AMRO Morgans Limited.

#### Other current directorships

- Non-executive Chairman of NEXTDC Limited (director since 2010)
- Non-executive Chairman of Tissue Therapies Limited (director since 2003)
- Non-executive director of Trojan Equity Limited (director since 2005)
- Non-executive director of Maverick Drilling and Exploration Limited (director since 2007)

#### Former directorships in last 3 years

- Non-executive Chairman of PIPE Networks Limited (from 2005 to 2010)

#### Special responsibilities

- Chairman
- Member of the audit committee.

#### Interests in shares and options

- 1,000,000 ordinary shares in COALBANK Limited.
- 3,000,000 options over ordinary shares in COALBANK Limited.

---

G L Baker B.E., B.App.Sc., B.Econ., M.Sc., FIE Aust., F Aus IMM., CP Eng.

Non-executive director. Age 74

#### Experience and expertise

Mr Baker is a chemical engineer by profession. He is an independent consultant in the energy industry with particular expertise in upstream petroleum, particularly in coal seam gas.

#### Other current directorships

- None.

#### Former directorships in last 3 years

- None.

#### Special responsibilities

- Member of the audit committee.

#### Interests in shares and options

- 1,100,000 ordinary shares in COALBANK Limited.
  - 1,000,000 performance rights over ordinary shares in COALBANK Limited.
-

## **DIRECTORS' REPORT (CONTINUED)**

**G A J Baynton M.Econ St, MBA, B.Bus (Accounting), FFINSIA, FAICD.**

**Executive director. Age 42**

### Experience and expertise

Mr Baynton is the founder and Managing Director of Orbit Capital, a boutique investment bank and holder of a Financial Services Licence. He has been a board member of Australian exploration companies since 1997 and has experience in identifying new opportunities, establishing new companies, IPO's and other capital raisings.

### Other current directorships

- Non-executive director of Tissue Therapies Limited (director since 2003)
- Non-executive director of NEXTDC Limited (director since 2010)
- Executive director of Orbit Capital Pty

### Former directorships in last 3 years

- Non-executive director of PIPE Networks Limited (director from 2004 to 2010)
- Non-executive director of Diversa Limited (director from 2008 to 2010)

### Special responsibilities

- Member of the audit committee.

### Interests in shares and options

- 413,462,097 ordinary shares in COALBANK Limited.
  - 1,000,000 performance rights over ordinary shares in COALBANK Limited.
  - 40,000,000 options over ordinary shares in COALBANK Limited.
- 

**L R Grimstone B.Sc.(Hons) Geol. Grad.Dipl.Mangt.AusIMM(CP).M.MICA.**

**Non-executive director. Age 62**

### Experience and expertise

Mr Grimstone is a geologist with over 35 years of experience in the exploration, mining and civil engineering industries. For the last 25 years he has operated his own consultancy practice based principally upon his expertise in Eastern Australian coal operations.

### Other current directorships

- None

### Former directorships in last 3 years

- None

### Special responsibilities

- Member of the audit committee.

### Interests in shares and options

- 11,704,407 ordinary shares in COALBANK Limited
  - 2,000,000 performance rights over ordinary shares in COALBANK Limited.
-



## DIRECTORS' REPORT (CONTINUED)

W R Stubbs LLB.

Non-executive director. Age 70

Experience and expertise

Mr Stubbs practiced as a lawyer for 30 years. He is the co-founder of the legal firm Stubbs Barbeler. He practiced in the area of Commercial law including Stock Exchange listings and all areas of mining law. He has held the position of director of various public companies over the past 25 years in the mineral exploration and biotech fields. He is also the former Chairman of Alchemica Limited, Bemax Resources N.L and Arrow Energy Limited.

Other current directorships

- Non-executive Chairman of Stradbroke Ferries Limited (director since 2005)
- Non-executive Chairman of D'Aguilar Gold Limited (appointed 26 November 2009)

Former directorships in last 3 years

- None.

Special responsibilities

- Chairman of the audit committee.

Interests in shares and options

- 5,116,667 ordinary shares in COALBANK Limited.
- 1,000,000 performance rights over ordinary shares in COALBANK Limited.

## MEETINGS OF DIRECTORS

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2011, and the numbers of meetings attended by each director were:

	FULL MEETING OF DIRECTORS		MEETINGS OF AUDIT COMMITTEE	
	A	B	A	B
M C Ackland	3	4	1	1
G L Baker	10	11	2	2
G A J Baynton	11	11	2	2
R Clarke	8	9	1	1
L R Grimstone	11	11	2	2
W R Stubbs	10	11	2	2

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year.

## COMPANY SECRETARY

The company secretary is Ms Leni Stanley CA, B.Com. Ms Stanley was appointed to the position of company secretary in 2002. Ms Stanley is a partner with a Chartered Accounting firm and holds the office of company secretary with other companies.

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT (AUDITED)

This remuneration report sets out remuneration information for COALBANK Limited's non-executive directors, executive directors, other key management personnel and the five highest remunerated executives of the group and the company.

#### DIRECTORS AND EXECUTIVES DISCLOSED IN THIS REPORT

NAME	POSITION
<i>NON-EXECUTIVE AND EXECUTIVE DIRECTORS – SEE PAGES 20 TO 22 ABOVE</i>	
<i>Other key management personnel</i>	
Staffan Ever (from 1 July 2010)	Chief Executive Officer
Leni Stanley	Company Secretary
Bruce Patrick (from 1 May 2011)	General Manager

#### CHANGES SINCE THE END OF THE REPORTING PERIOD

S Ever resigned from the position of Chief Executive Officer and was appointed as a non-executive director of the Company on 30 August 2011.

B Patrick moved from the role of General Manager to Chief Executive Officer on 30 August 2011.

#### PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

##### NON-EXECUTIVE DIRECTORS

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. Non-executive directors do not receive performance based pay. However, to promote further alignment with shareholder interests directors have been issued with performance rights or options. The performance rights vest when certain share price conditions are satisfied and the condition that the director is still employed by the Company. These conditions were selected to align performance with the goal of long term shareholder returns. The balance of performance rights on issue at 30 June 2011 will vest when the share price reaches 25 cents for 5 consecutive days. There are no other performance hurdles.

The holder of the rights and options are not exposed to any risk directly from holding the instruments as there is no liability attaching to the instruments and they are not transferable.

Share options are also issued to non-executive directors at the discretion of the board and following shareholder approval. During the year 3,000,000 options were issued to the Chairman of the Board. These options are exercisable at 10.33 cents and expire 2 June 2013. These options are not subject to any vesting conditions and were issued on these terms and conditions to attract suitably qualified personnel to the role of Chairman.

##### DIRECTORS' FEES

The current base fees were last reviewed with effect from 1 September 2009.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$400,000 in aggregate plus statutory superannuation and was approved by shareholders at the annual general meeting on 9 November 2009.

The following fees have applied:

BASE FEES	\$
Chairman	60,000
Other non-executive directors	40,000

##### EXECUTIVE PAY

The combination of base pay and superannuation make up the executive director's total remuneration. Base pay for the executive director is reviewed annually to ensure the executive's pay is competitive with the market. Executive pay is linked to the performance of the Company through the issue of performance rights and share options.

## DIRECTORS' REPORT (CONTINUED)

### LONG-TERM INCENTIVES

Long-term incentives are provided to directors and key management personnel via the issue of performance rights and options. Terms and conditions for performance rights are detailed above.

The COALBANK Limited Employee Share Option Plan is designed to provide long-term incentives for directors and executives to deliver long-term shareholder returns. Under the plan, participants are granted options and/or performance rights which only vest if certain performance standards are met and the employees are still employed by the group at the end of the vesting period. Participation in the plan is at the board's discretion.

During the current and previous financial years the group has generated losses from its exploration and evaluation activities. Given the nature of the group's activities and the consequential operating results, no dividends have been paid. There have been no returns of capital in the current or previous financial periods. The details of market price movements are as follows:

	SHARE PRICE
Year end 30 June 2011	\$0.04
Year end 30 June 2010	\$0.09
Year end 30 June 2009	\$0.18
Year end 30 June 2008	\$0.08

The link between remuneration, company performance and shareholder wealth is based on the group's current activities and the objective of delivery of long term shareholder returns.



## DIRECTORS' REPORT (CONTINUED)

### DETAILS OF REMUNERATION

#### AMOUNTS OF REMUNERATION

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of COALBANK Limited are set out in the following tables.

#### KEY MANAGEMENT PERSONNEL OF COALBANK LIMITED

2011	SHORT-TERM BENEFITS	POST-EMPLOYMENT BENEFITS	SHARE-BASED PAYMENT				
NAME	CASH SALARY AND FEES \$	SUPERANNUATION \$	OPTIONS \$	PERFORMANCE RIGHTS \$	TOTAL \$	A %	B %
<b>NON-EXECUTIVE DIRECTORS</b>							
R Clarke, Chairman (Director from 2/9/10) (Chairman from 8/11/10)	46,094	4,148	88,800	-	139,042	36%	64%
M C Ackland, Chairman (to 8/11/10)	21,384	1,925	-	203,434	226,743	10%	90%
W R Stubbs	40,000	3,600	-	146,206	189,806	23%	77%
L R Grimstone	40,000	3,600	-	292,412	336,012	13%	87%
G L Baker	40,000	3,600	-	146,206	189,806	23%	77%
<b>Sub-total non-executive directors</b>	<b>187,478</b>	<b>16,873</b>	<b>88,800</b>	<b>788,258</b>	<b>1,081,409</b>	<b>27%</b>	<b>73%</b>
<b>EXECUTIVE DIRECTORS</b>							
G A J Baynton <sup>1</sup>	82,500	2,700	-	146,206	231,406	37%	63%
<b>OTHER KEY MANAGEMENT PERSONNEL</b>							
S Ever – Chief Executive Officer <sup>#</sup> (from 1 July 2011)	240,000	-	-	-	240,000	100%	-
L P Stanley – Company Secretary <sup>#</sup>	15,000	-	-	73,103	88,103	17%	83%
R B Patrick – General Manager <sup>#</sup> (from 1 May 2011)	47,125	-	-	29,014	76,139	62%	38%
<b>Totals</b>	<b>572,103</b>	<b>19,573</b>	<b>88,800</b>	<b>1,036,581</b>	<b>1,717,057</b>	<b>40%</b>	<b>60%</b>

# Included as one of the 5 highest paid executives of the Group and company. There are no other executives

A Proportion of remuneration that is fixed remuneration

B Percentage of remuneration that is share-based payment

<sup>1</sup> Mr Baynton became an Executive Director on 15 March 2011.

No termination benefits were paid to retiring Key Management Personnel. For Mr M Ackland, former Chairman of the Board, on 8 November 2010 the board resolved to waive the remaining vesting conditions on his performance rights, ie the Company's share price reaching \$0.25 for five consecutive days. The share price of the Company on that date was \$0.08. There were no changes to any other terms and conditions relating to these performance rights.

## DIRECTORS' REPORT (CONTINUED)

### KEY MANAGEMENT PERSONNEL OF COALBANK LIMITED

2010	SHORT-TERM BENEFITS	POST-EMPLOYMENT BENEFITS	SHARE-BASED PAYMENT				
NAME	CASH SALARY AND FEES \$	SUPERANNUATION \$	OPTIONS \$	PERFORMANCE RIGHTS \$	TOTAL \$	A %	B %

#### NON-EXECUTIVE DIRECTORS

M C Ackland, Chairman	56,667	5,100	-	89,794	151,561	41%	59%
G A J Baynton	38,333	3,450	-	89,794	131,577	32%	68%
J L McCawley (resigned 31/3/10)	-	30,883	-	89,794	120,677	26%	74%
W R Stubbs	38,333	3,450	-	89,794	131,577	32%	68%
L R Grimstone	38,333	3,450	-	179,588	221,371	19%	81%
G L Baker	38,333	3,450	-	89,794	131,577	32%	68%
<b>Sub-total non-executive directors</b>	<b>209,999</b>	<b>49,783</b>	<b>-</b>	<b>628,558</b>	<b>888,340</b>	<b>29%</b>	<b>71%</b>

#### OTHER KEY MANAGEMENT PERSONNEL

J Jamieson – Chief Executive Officer (1/7/09 to 31/5/10) <sup>#</sup>	165,000	-	-	89,794	254,794	65%	35%
L P Stanley – Company Secretary <sup>#</sup>	15,000	-	-	44,897	59,897	25%	75%
<b>Totals</b>	<b>389,999</b>	<b>49,783</b>	<b>-</b>	<b>763,249</b>	<b>1,203,031</b>	<b>27%</b>	<b>63%</b>

<sup>#</sup> Included as one of the 5 highest paid executives of the Group and Company. There are no other executives

A Proportion of remuneration that is fixed remuneration

B Percentage of remuneration that is share-based payment

During the previous financial year share based payments expense in relation to performance rights was understated by \$554,981. The 2010 table above has been restated to reflect this. For further information refer to Note 31.

L P Stanley provides accounting services in addition to her appointment as company secretary. The company secretarial and accounting services are provided through a partnership of which she is a member based on normal commercial terms and conditions.

#### SERVICE AGREEMENTS

Remuneration and other terms of contracts with Key Management Personnel were formalised in contracts of consultancy. The terms of these agreements were:

NAME	TERM OF AGREEMENT	FEE
S Ever	Ongoing	\$20,000/month
R B Patrick	Ongoing	\$1,800/day

## DIRECTORS' REPORT (CONTINUED)

### SHARE-BASED COMPENSATION

#### OPTIONS

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

GRANT DATE	DATE VESTED AND EXERCISABLE	EXPIRY DATE	EXERCISE PRICE	FAIR VALUE PER OPTION AT GRANT DATE	% VESTED
2 June 2011	2 June 2011	2 June 2013	10.33 cents	2.96 cents	100%

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. No amount was paid/payable on granting of the options.

Details of options over ordinary shares in the Company provided as remuneration to each director of COALBANK Limited and each of the key management personnel are set out below. When exercisable, each option is convertible into one ordinary share of COALBANK Limited. Further information on options is set out in note 28 to the financial statements.

NAME	NUMBER OF OPTIONS GRANTED DURING THE YEAR	FAIR VALUE OF OPTIONS AT GRANT DATE*	NUMBER OF OPTIONS VESTED DURING THE YEAR	NUMBER OF OPTIONS LAPSED DURING THE YEAR	FAIR VALUE AT LAPSE DATE**
------	---	--------------------------------------	--	--	----------------------------

#### DIRECTORS OF COALBANK LIMITED

R Clarke	3,000,000	\$88,800	3,000,000	-	-
M C Ackland	-	-	-	-	-
G A J Baynton	-	-	-	-	-
W R Stubbs	-	-	-	-	-
L Grimstone	-	-	-	-	-
G L Baker	-	-	-	-	-

#### OTHER KEY MANAGEMENT PERSONNEL

S Ever	-	-	-	-	-
L P Stanley	-	-	-	-	-
R B Patrick	-	-	-	-	-
J Jamieson	-	-	-	2,000,000	\$99,000

\* The fair value at grant date calculated in accordance with AASB 2 Share-based Payments of options granted during the year as part of remuneration.

\*\* The fair value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The fair value is determined at the time of lapsing, but assuming the condition was satisfied.



## DIRECTORS' REPORT (CONTINUED)

### SHARES PROVIDED ON EXERCISE OF REMUNERATION OPTIONS

Details of ordinary shares in the Company provided as a result of the exercise of remuneration options to each director of COALBANK Limited and other key management personnel of the group are set out below.

NAME	DATE OF EXERCISE OF OPTIONS	NUMBER OF ORDINARY SHARES ISSUED ON EXERCISE OF OPTIONS DURING THE YEAR	FAIR VALUE AT EXERCISE DATE*
<i>DIRECTORS OF COALBANK LIMITED</i>			
R Clarke	-	-	-
M C Ackland	13 September 2010	1,800,000	\$25,061
G A J Baynton	-	-	-
W R Stubbs	13 September 2010	1,000,000	\$12,531
L Grimstone	13 September 2010	1,000,000	\$12,531
G L Baker	-	-	-
<i>OTHER KEY MANAGEMENT PERSONNEL</i>			
S Ever	-	-	-
L P Stanley	-	-	-
B Patrick	-	-	-

\* The fair value at the exercise date of options that were granted as part of remuneration and were exercised during the year has been determined as the intrinsic value of the options at that date. The amount paid per share issued was \$0.07. No amounts are unpaid on these shares.

### PERFORMANCE RIGHTS

Details of performance rights over ordinary shares in the company provided as remuneration to each director of Coalbank Limited and each of the key management personnel are set out below. When exercised, each performance right is convertible into one ordinary share of Coalbank Limited. Performance rights were granted on 26 June 2009 and 3 March 2010. Further information on performance rights is set out in note 28 to the financial statements.

NAME	NUMBER OF PERFORMANCE RIGHTS GRANTED DURING THE YEAR	FAIR VALUE OF PERFORMANCE RIGHTS AT GRANT DATE*	NUMBER OF PERFORMANCE RIGHTS VESTED DURING THE YEAR	NUMBER OF PERFORMANCE RIGHTS LAPSED DURING THE YEAR	FAIR VALUE AT LAPSE DATE**
<i>DIRECTORS OF COALBANK LIMITED</i>					
R Clarke	-	-	-	-	-
M C Ackland	-	-	2,000,000	-	-
G A J Baynton	-	-	1,000,000	-	-
W R Stubbs	-	-	1,000,000	-	-
L Grimstone	-	-	2,000,000	-	-
G L Baker	-	-	1,000,000	-	-
<i>OTHER KEY MANAGEMENT PERSONNEL</i>					
S Ever	-	-	-	-	-
L P Stanley	-	-	500,000	-	-
R B Patrick	-	-	250,000	-	-
J Jamieson	-	-	1,000,000	1,000,000	\$146,815

\* The fair value at grant date calculated in accordance with AASB 2 Share-based Payments of options granted during the year as part of remuneration.

\*\* The fair value at lapse date of performance rights that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The fair value is determined at the time of lapsing, but assuming the condition was satisfied.

## DIRECTORS' REPORT (CONTINUED)

### SHARES PROVIDED ON EXERCISE OF PERFORMANCE RIGHTS

Details of ordinary shares in the Company provided as a result of the exercise of performance rights to each director of COALBANK Limited and other key management personnel of the group are set out below.

NAME	DATE OF EXERCISE OF PERFORMANCE RIGHTS	NUMBER OF ORDINARY SHARES ISSUED ON EXERCISE OF PERFORMANCE RIGHTS DURING THE YEAR	FAIR VALUE AT EXERCISE DATE *
<i>DIRECTORS OF COALBANK LIMITED</i>			
R Clarke	-	-	-
M C Ackland	17 August 2010	1,000,000	\$146,815
G A J Baynton	17 August 2010	1,000,000	\$146,815
W R Stubbs	1 September 2010	1,000,000	\$146,815
L Grimstone	17 August 2010	2,000,000	\$293,630
G L Baker	17 August 2010	1,000,000	\$146,815
<i>OTHER KEY MANAGEMENT PERSONNEL</i>			
S Ever	-	-	-
L P Stanley	17 August 2010	500,000	\$73,408
B Patrick	17 August 2010	250,000	\$30,000

\* The fair value at the exercise date of performance rights that were granted as part of remuneration and were exercised during the year has been determined as the intrinsic value of the performance rights at that date

THIS IS THE END OF THE REMUNERATION REPORT.

## DIRECTORS' REPORT (CONTINUED)

### SHARES UNDER OPTION

Unissued ordinary shares of COALBANK Limited under option at the date of this report are as follows:

DATE OPTIONS GRANTED	EXPIRY DATE	ISSUE PRICE OF SHARES	NUMBER UNDER OPTION
2 June 2011	2 June 2013	10.33 cents	3,000,000
2 June 2011	2 September 2014	25.0 cents	40,000,000
			43,000,000

No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

Unissued ordinary shares of COALBANK Limited under performance rights at the date of this report are as follows:

DATE PERFORMANCE RIGHT GRANTED	EXPIRY DATE	ISSUE PRICE OF SHARES	NUMBER UNDER PERFORMANCE RIGHT
26 June 2009	26 June 2019	\$0.00	8,000,000
3 March 2010	3 March 2020	\$0.00	250,000

### SHARES ISSUED ON THE EXERCISE OF OPTIONS

The following ordinary shares of COALBANK Limited were issued during the year ended 30 June 2011 on the exercise of options. No amounts are unpaid on any of the shares.

DATE OPTIONS GRANTED	ISSUE PRICE OF SHARES	NUMBER OF SHARES ISSUED
10 September 2008	\$0.07	3,800,000

### INSURANCE OF OFFICERS

During the financial year COALBANK Limited paid a premium of \$32,002 to insure the directors and secretary of the Company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

## DIRECTORS' REPORT (CONTINUED)

### AGREEMENT TO INDEMNIFY OFFICERS

COALBANK Limited is party to an agreement to indemnify the directors of the Company.

The indemnity relates to any liability:

- a. incurred in connection with or as a consequence of the directors acting in the capacity including, without limiting the foregoing, representing the Company on any body corporate, and
- b. for legal costs incurred in defending an action in connection with or as a consequence of the director acting in the capacity.

No liability has arisen under these indemnities as at the date of this report.

### INDEMNITY OF AUDITORS

The Company has not agreed to indemnify the auditor under any circumstances.

### PROCEEDINGS ON BEHALF OF COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

### NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity:

	2011	2010
	\$	\$
Other services		
BDO Audit (Qld) Pty Ltd		
Accounting advice	2,900	-
Total remuneration for non-audit services	2,900	-



## **DIRECTORS' REPORT (CONTINUED)**

The board of directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

## **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 33.

## **AUDITOR'S**

BDO Audit (QLD) Pty Ltd were appointed auditor on 9 November 2009 and continues in office in accordance with section 327 of the *Corporations Act 2001*.

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



**ROGER CLARKE**  
**Chairman**

BRISBANE, 29 SEPTEMBER 2011

## AUDITOR'S INDEPENDENCE DECLARATION



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Australia

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

As lead auditor of COALBANK Limited for the year ended 30 June 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 audit; and
- any applicable code of professional conduct in relation to the audit.

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, 29 September 2011

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# CORPORATE GOVERNANCE STATEMENT

The directors and management of COALBANK Limited (COALBANK) are committed to following the Principles issued by ASX underpinning corporate governance best practice.

In responding to the Principles and associated Best Practice Recommendations, COALBANK has given due and careful regard to its particular circumstances and the best interests of its shareholders.

ASX Listing Rules require listed companies to disclose in their Annual Report the extent to which ASX Best Practice Recommendations have been followed; identify which Recommendations have not been followed; and provide reasons for their decisions.

As detailed in this corporate governance statement, COALBANK considers its current governance practices comply with 24 of the 27 ASX Recommendations. Where arrangements differ from the Recommendations, the directors and management believe this is appropriate to the Company's individual circumstances and represents good practice.

Current practices do not comply in the following areas:

R2.4 The board should establish a nomination committee.

R2.5 The board should disclose the process for evaluating the performance of its committees

R8.1 The board should establish a remuneration committee.

The Company will keep the Recommendations in continuous review and as Company circumstances change we expect to move towards full compliance. Decisions will be based on what is in the best interest of shareholders.

The remainder of this statement sets out each Principle, associated Best Practice Recommendations, and the Company's response.

**Principle 1: Lay solid foundations for management and oversight**

**Principle 2: Structure the board to add value**

**Principle 3: Promote ethical and responsible decision-making**

**Principle 4: Safeguard integrity in financial reporting**

**Principle 5: Make timely and balanced disclosure**

**Principle 6: Respect the rights of shareholders**

**Principle 7: Recognise and manage risk**

**Principle 8: Remunerate fairly and responsibly.**

## PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of the board and management.

Recommendations and response:

**R1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.**

The board has defined the specific functions reserved for the board and its committees and those matters delegated to management.

The board is accountable to shareholders for COALBANK's performance. It oversees and guides management in protecting and enhancing the interests of shareholders and other stakeholders. It sets the strategic direction of the Company, establishes goals for management and monitors progress towards those goals.

**R1.2 Companies should disclose the process for evaluating the performance of senior executives.**

The board is accountable for the proper oversight of executive directors and senior management.

A process is in place for reviewing senior management performance and continuously improving the contributions executives make to the Company.

**R1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.**

Performance evaluation of senior executives has taken place in during 2011 and is in accordance with the process as set out in R1.1 and R1.2 above.

## PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

Recommendations and response:

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

R2.1 A majority of the board should be independent directors.

COALBANK recognises the importance of having a board of the appropriate composition, size and commitment for it to discharge its responsibilities and duties and believes that its board has a balance of skills, experience and independent thinking appropriate to the nature and scope of the Company's operations.

A majority of the directors on the board do meet the ASX definition of independence. Four of the six board members, Mr Clarke, Mr Stubbs, Mr Grimstone and Mr Baker, meet the definition.

The board has determined the independence status of each current director as follows:

DIRECTOR	POSITION	INDEPENDENT	REASON
Roger Clarke	Chairman	Yes	The board considers that Mr Clarke is free of any relationship that could, or could be seen to, materially interfere with the independent exercise of judgement.
William Stubbs	Non-executive director and chairman of the audit committee	Yes	The board considers that Mr Stubbs is free of any relationship that could, or could be seen to, materially interfere with the independent exercise of judgement.
Greg Baynton	Executive director	No	The board considers that Mr Baynton is not independent due to his substantial shareholding in the Company.
Lance Grimstone	Non-executive director	Yes	The board considers that Mr Grimstone is free of any relationship that could, or could be seen to, materially interfere with the independent exercise of judgement.
Grahame Baker	Non-executive director	Yes	The board considers that Mr Baker is free of any relationship that could, or could be seen to, materially interfere with the independent exercise of judgement.
Staffan Ever	Non-executive director	No	The board considers that Mr Ever is not independent due to his recent past executive role with the Company.

R2.2 The chair should be an independent director.

The chair, Roger Clarke, is an independent director.

R2.3 The roles of chair and chief executive officer should not be exercised by the same individual.

The role of chief executive officer is exercised by persons other than board members.

R2.4 The board should establish a nomination committee.

The board itself acts as the Nomination Committee rather than having a separate committee constituted for that purpose.

R2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The board does not have a formal process for evaluating the performance of the board, its committees and individual directors.

However, there is a process for continuously improving the board's systems, procedures and quality of decision-making. This process encompasses continuous attention to all matters that provide an opportunity to improve the creation of value to the company's shareholders via actions of the board, its committees and individuals in developing strategy, decision-making and monitoring the company's performance. The chairman is accountable for ensuring this improvement process is effective and works closely with the company secretary and chief executive officer in implementing the improvements.

R2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2.

Departures from Recommendations R2.4 and R2.5 are explained above.



## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Actively promote ethical and responsible decision-making.

Recommendations and response:

**R3.1** Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:

- the practices necessary to maintain confidence in the Company's integrity
- the practices necessary to take into account their legal obligations and the expectations of their stakeholders
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The board and management are committed to establishing and maintaining a high degree of integrity among those who set or influence the Company's strategy and financial performance, together with responsible and ethical decision-making that take into account legal obligations as well as significant stakeholders' interests.

Each director, senior executive and each employee is individually accountable for bringing potential matters of unethical behavior to the attention of the organisation at an appropriate level. An individual whose attention is so drawn is accountable for using the powers of their office/role to deal appropriately with such matters.

**R3.2** Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

The Policy for Trading in the Company's securities restricts the times and circumstances in which directors and senior executives may purchase or sell shares in the Company.

Directors and senior executives are required to promptly advise the Company Secretary of their activities regarding trading in Coalbank shares so this can be notified to ASX (where required).

The Chair may allow trading outside of these windows in appropriate cases.

**R3.3** Companies should provide the information indicated in the Guide to reporting on Principle 3.

Information related to Principle 3 is presented above.

### PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Have a structure to independently verify and safeguard the integrity of the Company's financial reporting.

Recommendations and response:

**R4.1** The board should establish an audit committee.

The board has established an Audit and Risk Management Committee. The ultimate responsibility for the integrity of the Company's financial reporting rests with the full board.

**R4.2** Structure the audit committee so that it consists of:

- only non-executive directors
- a majority of independent directors
- an independent chair, who is not chair of the board
- has at least three members.

The Audit and Risk Management Committee comprises five non-executive directors, namely, Mr Bill Stubbs who is chair of the committee, Mr Roger Clarke, Mr Lance Grimstone, Mr Grahame Baker and Mr Greg Baynton. All, with the exception of Mr Greg Baynton, meet the ASX test of independence.

**R4.3** The audit committee should have a formal charter.

The Audit and Risk Management Committee works within a formal charter.

**R4.4** Companies should provide the information indicated in the Guide to reporting on Principle 4.

Information related to Principle 4 is presented above.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

Promote timely and balanced disclosure of all material matters concerning the Company.

Recommendations and response:

- R5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

COALBANK has a Continuous Disclosure Policy which aims to provide a timely and balanced picture of all material matters and which requires disclosure of any information concerning COALBANK that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

- R5.2 Provide the information indicated in Guide to reporting on Principle 5.

Information related to Principle 5 is presented above.

### PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Respect the rights of shareholders and facilitate the effective exercise of those rights.

Recommendations and response:

- R6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

COALBANK's shareholder communications strategy seeks to enable shareholders to be well informed about the performance and affairs of the Company. The Chief Executive Officer is accountable for implementing the communications strategy approved by the board.

- R6.2 Companies should provide the information indicated in the Guide to reporting on Principle 6.

Information related to Principle 6 is presented above.

### PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Companies should establish a sound system of risk oversight and management and internal control.

Recommendations and response:

- R7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

COALBANK recognises the importance of risk management; it manages risk through effective oversight and internal control involving board and management systems.

This function is assisted by the Audit and Risk Management Committee.

- R7.2 The board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

Business risk is a periodic agenda item for board meetings where the effectiveness of the Company's risk management systems and activities are reported on and assessed.

- R7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The board requires the Chief Executive Officer and Chief Financial Officer to confirm in writing that declarations provided in accordance with section 295A of the Corporations Act are founded on a sound system of risk management and internal control and that the system is operating effectively.

- R7.4 Companies should provide the information indicated in the Guide to reporting on Principle 7.

Information related to Principle 7 is presented above.

## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

### **PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY**

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Recommendations and response:

**R8.1 The board should establish a remuneration committee.**

COALBANK knows that recognition and reward are key factors in attracting and retaining the skills required to achieve the performance expected by the board, management and shareholders.

The board acts as a Remuneration Committee and has not established a separate committee or specific charter for that purpose.

**R8.2 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.**

Total remuneration paid to non-executive directors may not exceed the limit set by shareholders at the annual general meeting (currently \$400,000). The remuneration of the non-executive directors is fixed rather than variable. In relation to executive remuneration, the board takes advice regarding the nature and direction for the Company's remuneration practices. The board ensures that a significant proportion of each senior manager's remuneration is linked to his or her performance and the Company's performance.

Coalbank executives participate in an option and performance rights schemes that are linked to Coalbank's share performance. Remuneration is also benchmarked against the Company's peers in the resources industry.

The remuneration structure for directors and senior executives is reported in the remuneration report on pages 23 to 29.

**R8.3 Companies should provide the information indicated in the Guide to reporting on Principle 8.**

Information related to Principle 8 is presented above.

## DECLARATION BY DIRECTORS

In the directors' opinion:

- a. the financial statements and notes set out on pages 40 to 78 are in accordance with the *Corporations Act 2001*, including:
  - i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
  - ii. giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date, and
- b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and the chief financial officer required by section 295A of the *Corporations Act 2001*.

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



**ROGER CLARKE**  
**Chairman**

BRISBANE, 29 SEPTEMBER 2011



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Consolidated	
		2011 \$	2010 \$
Revenue from operations	5	89,206	66,593
Other income	6	5,250	-
Exploration assets written off		(5,983,613)	(1,263,817)
Professional services expenses		(563,574)	(533,662)
Corporate overhead expenses		(349,403)	(539,404)
Depreciation expenses		(9,438)	(13,686)
Directors' remuneration		(289,551)	(259,782)
Impairment of assets		(11,728)	-
Share based payments expense		(1,401,309)	(821,212)
Loss before income tax	7	(8,514,160)	(3,364,970)
Income tax expense	8	-	-
Loss for the year		(8,514,160)	(3,364,970)
<b>Other comprehensive income</b>			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year	17	(8,514,160)	(3,364,970)
		Cents	Cents
<b>Loss per share</b>			
Basic earnings per share	27	(1.3)	(1.6)
Diluted earnings per share	27	(1.3)	(1.6)

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Notes	Consolidated	
		2011 \$	2010 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	804,628	774,058
Trade and other receivables	10	16,290	45,076
<b>Total current assets</b>		<b>820,918</b>	<b>819,134</b>
<b>Non-current assets</b>			
Plant and equipment	11	11,278	22,465
Exploration and evaluation assets	12	38,694,859	41,800,748
Other assets	13	177,797	123,400
<b>Total non-current assets</b>		<b>38,883,934</b>	<b>41,946,613</b>
<b>Total assets</b>		<b>39,704,852</b>	<b>42,765,747</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	14	147,852	265,896
<b>Total current liabilities</b>		<b>147,852</b>	<b>265,896</b>
<b>Non-current liabilities</b>			
Other financial liabilities	15	3,000,000	3,000,000
<b>Total non-current liabilities</b>		<b>3,000,000</b>	<b>3,000,000</b>
<b>Total liabilities</b>		<b>3,147,852</b>	<b>3,265,896</b>
<b>Net assets</b>		<b>36,557,000</b>	<b>39,499,851</b>
<b>EQUITY</b>			
Issued capital	16	53,111,857	49,025,857
Reserves	17	2,856,076	1,370,767
Accumulated losses	17	(19,410,933)	(10,896,773)
<b>Total equity</b>		<b>36,557,000</b>	<b>39,499,851</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Issued Capital \$	Share based payment reserve \$	Accumulated Losses \$	Total \$
Balance at 1 July 2009		10,425,961	549,555	(7,531,803)	3,443,713
Total comprehensive income: Loss for the year		-	-	(3,364,970)	(3,364,970)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	16	1,943,957	-	-	1,943,957
Shares issuable on acquisition settlement	16	36,655,939	-	-	36,655,939
Share based payments expense	17	-	821,212	-	821,212
Balance at 30 June 2010		49,025,857	1,370,767	(10,896,773)	39,499,851
Total comprehensive income: Loss for the year		-	-	(8,514,160)	(8,514,160)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	16	4,086,000	-	-	4,086,000
Share based payments expense	17	-	1,485,309	-	1,485,309
Balance at 30 June 2011		53,111,857	2,856,076	(19,410,933)	36,557,000

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

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Consolidated	
		2011 \$	2010 \$
<b>Cash flows from operating activities</b>			
Receipts in the course of operations (inclusive of goods and services tax)		245,545	572,578
Payments to suppliers (inclusive of goods and services tax)		(1,397,724)	(1,871,175)
Interest received		91,533	64,699
<b>Net cash outflows from operating activities</b>	23	<b>(1,060,646)</b>	<b>(1,233,898)</b>
<b>Cash flows from investing activities</b>			
Payments for exploration and evaluation assets		(2,945,387)	(5,458,655)
Payments for plant and equipment		-	(24,934)
Proceeds from sale of plant and equipment		5,000	-
Cash received on acquisition of subsidiary		-	101
Payments for security deposits		(54,397)	(57,220)
<b>Net cash outflows from investing activities</b>		<b>(2,994,784)</b>	<b>(5,540,708)</b>
<b>Cash flows from financing activities</b>			
Proceeds from share issue		4,086,000	1,957,000
Proceeds from financial liabilities		-	2,249,019
Payment of share issue costs		-	(13,043)
<b>Net cash inflows from financing activities</b>		<b>4,086,000</b>	<b>4,192,976</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>30,570</b>	<b>(2,581,630)</b>
Cash and cash equivalents at the beginning of the financial year		774,058	3,355,688
<b>Cash and cash equivalents at the end of the financial year</b>	9	<b>804,628</b>	<b>774,058</b>

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



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

COALBANK Limited is a company limited by shares, incorporated and domiciled in Australia. COALBANK Limited's shares are listed on the Australian Securities Exchange.

At a general meeting of shareholders held on 2 June 2011 the company's name was changed to COALBANK Limited from Lodestone Energy Limited.

The financial statements were authorized for issue by the directors on 28 September 2011. The directors have the power to amend and reissue the financial statements.

The financial statements are presented in Australian dollars which is the Company's and consolidated entity's functional and presentation currency.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for COALBANK Limited and its subsidiaries as required by the *Corporations Act 2001*. Separate financial statements for COALBANK Limited (the Company) as an individual entity are no longer presented as a consequence of a change to the *Corporations Act 2001*. However, limited financial information for the Company as an individual entity is included in Note 18.

#### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

##### *Compliance with IFRSs*

The consolidated financial statement of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

##### *Historical cost convention*

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

##### *Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

#### (b) Principles of consolidation

The consolidated financial statements incorporates the assets and liabilities of all subsidiaries of COALBANK Limited ("Company" or "parent entity") at 30 June 2011. COALBANK Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Income taxes

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the assets and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

COALBANK Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

#### (d) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest until such time as the area of interest moves into development phase, or is abandoned or sold. The realisation of the value of expenditure carried forward depends upon any commercial results that may be obtained through successful development and exploitation of the area of interest or alternatively by its sale. If an area of interest is abandoned or is considered to be of no further commercial interest the accumulated exploration costs relating to the area are written off against income in the year of abandonment. When sub-blocks within an area of interest are relinquished accumulated exploration and evaluation expenditure capitalised is written off against income in the year of relinquishment on a prorata basis.

#### (e) Acquisitions of assets

The purchase method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

#### (f) Recoverable amount of non-current assets

At the end of each reporting period the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognized in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (g) Property, plant and equipment

All property, plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation, and any impairment.

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life to the entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

Plant and equipment	3 – 5 years
Motor vehicles	5 years

#### (h) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. These amounts are unsecured and usually have 30 day payment terms.

#### (i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

#### (j) Issued capital and share-based payments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share-based compensation benefits are provided to directors and key management personnel. Information relating to these schemes is set out in note 28.

The fair value of share-based compensation is recognised as a share-based payment expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are satisfied.

#### (k) Revenue

##### *Interest Income*

Interest income is recognized on a time proportion basis using the effective interest method.

#### (l) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

#### (m) Earnings per share

##### (i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

##### (ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (n) Website costs

Costs in relation to web sites are charged as expenses in the period in which they are incurred. Costs in relation to the development of a web site, and ongoing costs of maintenance during the operating phase are considered to be expenses.

#### (o) Financial instruments

##### *Initial recognition and measurement*

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

##### *Classification and subsequent measurement*

Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances valuation techniques are adopted.

Amortised cost is calculated as:

- a. the amount at which the financial asset or financial liability is measured at initial recognition;
- b. less principal repayments;
- c. plus or minus the cumulative amortization of the difference, if any, between the amount initially recognized and the maturity amount calculated using the effective interest rate method; and
- d. less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

##### *(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets).

##### *(ii) Financial liabilities*

Financial liabilities, after initial recognition, are measured at either amortised cost using the effective interest rate method, or at fair value. Where an instrument contains an embedded derivative that component is, where appropriate, separately identified and measured at fair value. If the embedded derivative is not capable of being measured separately at acquisition or at the end of a reporting period, the entire instrument is measured at fair value.

#### (p) Business combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of the consideration transferred over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognized directly in profit or loss as a bargain purchase.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (q) Parent entity financial information

The financial information for the parent entity, COALBANK Limited, disclosed in note 18 has been prepared on the same basis as the consolidated financial statements.

#### (r) Going concern

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

As disclosed in the financial statements, the Group recorded a loss of \$8,514,160 (2010: \$3,364,970) and had net cash outflows from operating activities of \$1,060,646 (2010: \$1,233,898) for the year ended 30 June 2011.

The Group also has expenditure commitments of \$36,198,330 as detailed in Note 24.

Since year end COALBANK Limited completed a share placement of 50,000,000 ordinary shares at \$0.038 per share raising a total of \$1,900,000. A further \$1,900,000 was raised through the issue of 380 convertible bonds, each with a face value of \$5,000, convertible at \$0.038 per share.

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 realise 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.

#### (s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The entity's assessment of the impact of these new standards and interpretations is set out below.

- (i) AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* (December 2010) (effective from 1 January 2013)  
AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group has not yet assessed the impact of this standard on the Group's financial statements.
- (ii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)  
In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The group will apply the amended standard from 1 July 2011. There will be no impact on any of the amounts recognized in the financial statements.
- (iii) AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective from 1 July 2013)  
On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. COALBANK Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the Group.



## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011**

### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(t) Adoption of new and revised Accounting Standards**

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*;
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions*;
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues*;
- AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19*; and
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*.

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; credit risk, liquidity risk and cash flow interest rate risk.

The Group holds the following financial instruments:

	Consolidated	
	2011 \$	2010 \$
<b>Financial assets</b>		
Cash and cash equivalents	804,628	774,058
Trade and other receivables	16,290	45,076
	820,918	819,134
<b>Financial liabilities</b>		
Trade and other payables	147,852	265,896
Other financial liabilities	3,000,000	3,000,000
	3,147,852	3,265,896

The Board has overall responsibility for the determination of the Group's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

There have been no substantive changes to the Group's exposure to financial instruments, its objectives, policies and processes for managing risks from previous periods.

#### CREDIT RISK

Credit risk is managed on a Group basis. Credit risk arises primarily from cash and cash equivalents and deposits with banks and financial institutions. For bank and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available).

	Consolidated	
	2011 \$	2010 \$
<b>Cash at bank and short-term bank deposits</b>		
AAA	801,974	771,265
A	2,654	2,793
	804,628	774,058

#### LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet obligations when due. At the end of the reporting period the Group held deposits at call of \$727,972 that are expected to readily generate cash inflows for managing liquidity risk. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows. No finance facilities were available to the Group at the end of the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 2 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings.

Contractual maturities of financial liabilities	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
<b>At 30 June 2011</b>	\$	\$	\$	\$	\$	\$	\$
Trade and other payables	147,852	-	-	-	-	147,852	147,852
Other financial liabilities	-	-	-	-	3,000,000	3,000,000	3,000,000
	147,852	-	-	-	3,000,000	3,147,852	3,147,852
<b>At 30 June 2010</b>							
Trade and other payables	265,896	-	-	-	-	265,896	265,896
Other financial liabilities	-	-	-	-	3,000,000	3,000,000	3,000,000
	265,896	-	-	-	3,000,000	3,265,896	3,265,896

#### CASH FLOW AND FAIR VALUE INTEREST RATE RISK

As the Group has no significant interest-bearing assets or borrowings, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

#### FAIR VALUE MEASUREMENTS

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The fair value measurements of the Group's other financial liabilities is level 3 on the hierarchy.

The carrying value of all other financial assets and liabilities approximate their fair value.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

#### KEY JUDGEMENTS AND ESTIMATES

(i) *Carrying value of exploration and evaluation assets*

The Group has capitalised exploration expenditure of \$38,694,859 (2010: \$41,800,748). This amount includes costs directly associated with exploration. These costs are capitalised as an intangible asset until assessment and/or drilling of the permit is complete and the results have been evaluated. These costs include employee remuneration, materials, rig costs, delay rentals and payments to contractors. The expenditure is carried forward until such a time as the area of interest moves into the development phase, is abandoned, sold or sub-blocks relinquished.

Given exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable resources and the difficulty in forecasting cash flows to assess the fair value of exploration expenditure there is uncertainty as to the carrying value of exploration expenditure. The ultimate recovery of the carrying value of exploration expenditure is dependent upon the successful development and commercial exploitation or, alternatively, sale of the interests in the tenements. There are no factors or circumstances which suggest that the carrying amount of remaining exploration and evaluation assets may exceed recoverable amount.

(ii) *Fair value of financial liabilities*

During the prior year the Group entered into agreements with Oliver Lennox-King (Lennox-King), whereby Lennox-King has paid \$3 million to COALBANK and in return COALBANK 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 Coalbank, 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).

The Group's exploration and evaluation activities have not progressed to a stage to allow reliable measurement of any future royalty payment obligations. As such, the Board is of the view that the fair value at the time of the receipt of the funds remains the appropriate measure of fair value at reporting date.

(iii) *Valuation of options and performance rights*

AASB 2 requires the calculation of the fair value of performance rights or options granted to staff and for that amount to be expensed to the profit or loss (with corresponding credit to the share-based payment reserve) over the estimated life from grant date to vesting date. This necessitates the estimate of vesting date where vesting is subject to vesting conditions or otherwise.

Where applicable, the assessed fair value at grant date of share-based payments are determined using a Binomial option pricing model or the Monte Carlo Simulation Method that takes into account the exercise price, the term of the rights or option offer period, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance right or option offer period.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 4 SEGMENT INFORMATION

#### IDENTIFICATION OF REPORTABLE 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.

#### DESCRIPTION OF SEGMENTS

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 have changed from the prior year 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.

2011	Coal \$	Petroleum \$	Minerals \$	Consolidated \$
<b>Segment result</b>				
Segment result	(5,922,293)	(30,449)	(30,871)	(5,983,613)
Interest revenue				89,206
Professional services expenses				(563,574)
Corporate overhead expenses				(349,403)
Director remuneration expense				(289,551)
Share based payment expense				(1,401,309)
Other expenses				(15,916)
<b>Loss for the year</b>				<b>(8,514,160)</b>
<b>Segment assets</b>				
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
Unallocated assets				11,278
<b>Total assets</b>				<b>39,704,852</b>
<b>Segment liabilities</b>				
Segment liabilities	23,006	3,539	-	26,545
Other financial liabilities				3,000,000
Unallocated liabilities – Other payables				121,307
<b>Total liabilities</b>				<b>3,147,852</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 4 SEGMENT INFORMATION (CONTINUED)

2010	Coal \$	Petroleum \$	Minerals \$	Consolidated \$
<b>Segment result</b>				
Segment result	(1,210,519)	-	(53,298)	(1,263,817)
Interest revenue				66,593
Professional services expenses				(533,662)
Corporate overhead expenses				(539,404)
Director remuneration expense				(259,782)
Share based payment expense				(821,212)
Other expenses				(13,686)
<b>Loss for the year</b>				<b>(3,364,970)</b>
<b>Segment assets</b>				
Segment assets	34,742,232	6,934,630	245,341	41,922,203
Cash and cash equivalents				774,058
Trade and other receivables				45,076
Unallocated assets				24,410
<b>Total assets</b>				<b>42,765,747</b>
Segment liabilities	61,235	128,511	-	189,746
Other financial liabilities				3,000,000
Unallocated liabilities – Other payables				76,150
<b>Total liabilities</b>				<b>3,265,896</b>

The segment results for 2011 and 2010 comprise exploration and evaluation assets written off.

	Consolidated	
	2011 \$	2010 \$
<i>Other revenue</i>		
Interest	89,206	66,593

### NOTE 5 REVENUE

<i>Other revenue</i>		
Interest	89,206	66,593

### NOTE 6 OTHER INCOME

Net gain on disposal of property, plant and equipment	3,250	-
Other	2,000	-
	5,250	-



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

	Consolidated	
	2011	2010
	\$	\$
<b>NOTE 7 EXPENSES</b>		
Loss before income tax includes the following specific expenses:		
<i>Defined contribution superannuation expense</i>	59,573	49,783
<i>Depreciation</i>		
Motor vehicles	960	5,795
Plant and equipment	8,478	7,891
<i>Impairment losses</i>		
Trade receivables	11,728	-
<i>Exploration assets written off</i>	5,983,613	1,263,817
<b>NOTE 8 INCOME TAX EXPENSE</b>		
Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from operations before income tax expense	(8,514,160)	(3,364,970)
Tax at the Australian tax rate of 30% (2010: 30%)	(2,554,248)	(1,009,491)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	420,392	246,363
Net capital gain	20,781	-
Entertainment	385	570
	(2,112,690)	(762,558)
Net adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognized	2,112,690	762,558
Income tax expense	-	-
<b>Recognised deferred tax assets</b>		
Unused tax losses	10,664,230	-
Deductible temporary differences	944,228	63,500
	11,608,458	63,500
<b>Recognised deferred tax liabilities</b>		
Assessable temporary differences	11,608,458	63,500
	11,608,458	63,500
Net deferred tax recognized	-	-
<b>Unrecognised deferred tax assets</b>		
Unrecognised tax losses	16,964,683	6,573,233
Deductible temporary differences	-	3,348,507
	16,964,683	9,921,740
Deferred tax assets not taken up at 30% (2010: 30%)	5,089,405	2,976,522

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 8 INCOME TAX EXPENSE (CONTINUED)

Unused losses which have not been recognized as an asset, will only be obtained if:

- i. the Group derives future assessable income of a nature and of an amount sufficient to enable the losses to be realized;
- ii. the Group continues to comply with the conditions for deductibility imposed by the law; and
- iii. no changes in tax legislation adversely affect the economic entity in realizing the losses.

#### (c) Tax consolidation legislation

COALBANK Limited and its wholly-owned Australian controlled entities became eligible to form a tax consolidated group from 1 December 2008. The financial statements have been prepared on the basis that COALBANK Limited and its eligible subsidiaries have formed a tax consolidated group for income tax purposes during the 2011 income tax year. The Australian Taxation Office is yet to be notified of this decision, however COALBANK Limited and its eligible subsidiaries have until the due date of lodgement of the 2011 income tax return to make such notification.

#### (d) Franking credits

The Group has no franking credits available.

Consolidated	
2011	2010
\$	\$

### NOTE 9 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

Cash at bank and on hand	76,656	24,058
Deposits at call	727,972	750,000
	804,628	774,058

#### (a) Risk exposure

The Group's exposure to interest rate risk is discussed in Note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

#### (b) Deposits at call

All deposits are at call bearing an interest rate of between 0% and 4.8% (2010 – 2.15% to 3.60%).

### NOTE 10 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

Prepayments	2,457	14,806
Other debtors	13,833	30,270
	16,290	45,076

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 11 NON-CURRENT ASSETS – PLANT AND EQUIPMENT

Consolidated	Motor vehicles	Plant and equipment	Total
	\$	\$	\$
<b>Year ended 30 June 2010</b>			
Opening net book amount	8,504	2,713	11,217
Additions	-	24,934	24,934
Depreciation charge	(5,795)	(7,891)	(13,686)
Closing net book amount	2,709	19,756	22,465
<b>At 30 June 2010</b>			
At Cost	77,130	36,080	113,210
Accumulated depreciation	(74,421)	(16,324)	(90,745)
Net book amount	2,709	19,756	22,465
<b>Year ended 30 June 2011</b>			
Opening net book amount	2,709	19,756	22,465
Additions	-	-	-
Disposals	(1,749)	-	(1,749)
Depreciation charge	(960)	(8,478)	(9,438)
Closing net book amount	-	11,278	11,278
<b>At 30 June 2011</b>			
At Cost	27,259	36,080	63,339
Accumulated depreciation	(27,259)	(24,802)	(52,061)
Net book amount	-	11,278	11,278

### NOTE 12 NON-CURRENT ASSETS – EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated	
	2011	2010
	\$	\$
Exploration phase costs – at cost	38,694,859	41,800,748
The capitalised exploration expenditure carried forward above has been determined as follows:		
Balance at the beginning of the year	41,800,748	856,878
Expenditure incurred during the year	2,793,724	5,551,849
Acquisition of additional interest in the Tambo and Moreton projects	-	36,655,838
Acquisition of interest in COALBANK projects	84,000	
Exploration abandoned	(5,983,613)	(1,263,817)
Balance at the end of the year	38,694,859	41,800,748

Due to proposed new legislation resulting from Queensland Government policy announcements on Strategic Cropping Land and Exploration in Urban Areas the Group has taken the view that tenements with exposure to these new policies should be written off where it is considered that sub-blocks within these tenements may be required to be relinquished.

The ultimate recoupment of costs carried forward for exploration expenditure is dependent upon the successful development and commercial exploitation or alternatively sale of the interests in the tenements.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

	Consolidated	
	2011	2010
	\$	\$
<b>NOTE 13 NON-CURRENT ASSETS – OTHER ASSETS</b>		
Security deposits	177,797	123,400
Security deposits represent amounts lodged with the Department of Employment, Economic Development and Innovation as security for tenements.		
<b>NOTE 14 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES</b>		
Unsecured		
Trade payables	147,852	265,896
	147,852	265,896
<b>NOTE 15 NON-CURRENT LIABILITIES – OTHER FINANCIAL LIABILITIES</b>		
Other financial liabilities	3,000,000	3,000,000

During the prior year the Group entered into agreements with Oliver Lennox-King (Lennox-King), whereby Lennox-King paid \$3 million to COALBANK and in return COALBANK 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 COALBANK, 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).

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

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 30 June 2011 as no changes in the underlying facts and circumstances have occurred since.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 16 ISSUED CAPITAL

	Consolidated		Consolidated	
	2011 Shares	2010 Shares	2011 \$	2010 \$
(a) Share capital				
Ordinary shares				
Fully paid	679,597,740	211,509,529	53,111,857	12,369,918
Acquisition settlement shares issuable	-	-	-	36,655,939
	679,597,740	211,509,529	53,111,857	49,025,857

#### (b) Movements in ordinary share capital:

Date	Details	Note	Number of Shares	Issue Price	\$
1 July 2009	Balance		201,409,529		10,425,961
3 September 2009	Options exercised	(d)	100,000	\$0.07	7,000
15 December 2009	Placement	(e)	10,000,000	\$0.195	1,950,000
29 June 2010	Acquisition settlement of shares issuable	(h)	-	\$0.09	36,655,939
	Share issue expenses				(13,043)
30 June 2010	Balance		211,509,529		49,025,857
9 July 2010	Settlement of share issuable	(h)	407,288,211	-	-
19 July 2010	Placement	(f)	47,750,000	\$0.08	3,820,000
17 August 2010	Performance rights exercised	(i)	7,250,000	-	-
1 September 2010	Performance rights exercised	(i)	1,000,000	-	-
13 September 2010	Options exercised	(d)	3,800,000	\$0.07	266,000
5 May 2011	Performance rights exercised	(i)	1,000,000	-	-
			679,597,740		53,111,857

#### (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 16 ISSUED CAPITAL (CONTINUED)

#### (d) Options

At balance date 43,000,000 options over ordinary shares of Coalbank Limited were on issue.

Grant date	Number of options	Exercise price	Expiry date
2 June 2011	40,000,000	\$0.25	2 September 2014
2 June 2011	3,000,000	\$0.1033	2 June 2013
	<u>43,000,000</u>		

Other details of options are contained in Note 28 and details of options exercised are contained in Note 19(b).

#### (e) Placements

On 15 December 2009 10,000,000 ordinary shares were issued to a sophisticated investor for \$0.195 each to raise \$1,950,000.

#### (f) Placements

On 19 July 2010 47,750,000 ordinary shares were issued to sophisticated investors for \$0.08 each to raise \$3,820,000.

#### (h) Acquisition settlement shares issuable

In accordance with the Share Sale and Purchase Agreement in consideration for 100% of the issued capital of Tambo Coal & Gas Pty Limited and Moreton Energy Pty Limited, COALBANK Limited agreed to issue 407,288,211 ordinary shares to the vendors (entities associated with Mr Greg Baynton). The market value of these shares at the time the acquisition became unconditional was \$0.09 per share. The agreement to issue shares became unconditional on 29 June 2010, however the actual shares were issued on 9 July 2010.

#### (i) Performance rights

At balance date 8,250,000 performance rights over ordinary shares of COALBANK Limited were on issue. 8,000,000 of these rights were issued on 26 June 2009 and 250,000 of these rights were issued on 3 March 2010. These performance rights vest if the volume weighted average share price is at least \$0.25 for a continuous trading period of five trading days.

During the financial year 9,250,000 performance rights vested and were exercised. The vesting condition for these rights was that the market capitalisation is \$50,000,000 for a continuous period of five or more trading days. This vesting condition was satisfied on 19 July 2010.

#### (j) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group includes equity attributable to equity holders, comprising of issued capital, reserves and accumulated losses. In order to maintain or adjust the capital structure, the company may issue new shares, sell assets to reduce debt or adjust the level of activities undertaken by the Company.

The Group monitors capital on the basis of cash flow requirements for operational, and exploration and evaluation expenditure. The Group's exposure to borrowings as at 30 June 2011 totals \$nil (2010 : \$nil). The Group will continue to use capital market issues and joint venture participant funding contributions to satisfy anticipated funding requirements.

The Group's strategy for capital risk management is unchanged from prior years.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

	Consolidated	
	2011 \$	2010 \$
<b>NOTE 17 RESERVES AND ACCUMULATED LOSSES</b>		
(a) Reserves		
Share-based payments reserve	2,856,076	815,786
<b>Movements:</b>		
Balance 1 July	1,370,767	549,555
Share based payments	1,485,309	266,231
Balance 30 June	2,856,076	815,786
(b) Accumulated losses		
Balance 1 July	(10,896,773)	(7,531,803)
Loss for the year	(8,514,160)	(3,364,970)
Balance 30 June	(19,410,933)	(10,896,773)

### NATURE AND PURPOSE OF RESERVES

#### *Share based payments reserve*

The share-based payments reserve is used to recognise:

- a. the grant date fair value of options issued to directors / contractors and vendors of assets
- b. the grant date fair value of performance rights issued to directors / contractors

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 18 PARENT ENTITY INFORMATION

The following information relates to the parent entity, COALBANK Limited. The information presented has been prepared using accounting policies that are consistent with those presented in Note 1 where applicable.

	2011 \$	2010 \$
Current assets	818,400	801,719
Non-current assets	36,855,872	36,956,428
<b>Total assets</b>	<b>37,674,272</b>	<b>37,758,147</b>
Current liabilities	121,306	76,150
Non-current liabilities	3,000,000	3,000,000
<b>Total liabilities</b>	<b>3,121,306</b>	<b>3,076,150</b>
Issued capital	53,111,857	49,025,857
Accumulated losses	(21,414,967)	(15,714,627)
Share based payment reserve	2,856,076	1,370,767
<b>Total equity</b>	<b>34,552,966</b>	<b>34,681,997</b>
Profit or loss for the year	(5,700,340)	(8,273,093)
<b>Total comprehensive income</b>	<b>(5,700,340)</b>	<b>(8,273,093)</b>

### CONTINGENT LIABILITIES

COALBANK Limited does not have any contingent liabilities at 30 June 2011.

### CAPITAL COMMITMENTS

COALBANK Limited has the following exploration commitments, which are included in the Group's exploration commitments as detailed in note 24:

	Consolidated	
	2011 \$	2010 \$
<b>Exploration commitments</b>		
Commitments for payments under exploration permits for minerals in existence at the reporting date but not recognized as liabilities payable are as follows:		
Within one year	230,000	485,431
Later than one year but not later than 5 years	250,000	1,055,000
Later than 5 years	-	-
<b>Commitments not recognized in the financial statements</b>	<b>480,000</b>	<b>1,540,431</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 19 KEY MANAGEMENT PERSONNEL DISCLOSURES

#### (a) Key management personnel compensation

	Consolidated	
	2011 \$	2010 \$
Short-term employee benefits	572,103	389,999
Post-employment benefits	19,573	49,783
Share-based payments	1,125,381	763,249
	1,717,057	1,203,031

#### (b) Equity instrument disclosures relating to key management personnel

##### (i) Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of COALBANK Limited and other key management personnel, including their personally related parties, are set out below.

2011 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
<b>Directors of Coalbank Limited</b>						
M C Ackland	2,000,000	-	(1,800,000)	(200,000) <sup>1</sup>	-	-
R Clarke	-	3,000,000	-	-	3,000,000	3,000,000
G L Baker	1,900,000	-	-	(1,900,000) <sup>1</sup>	-	-
G A J Baynton	2,000,000	-	-	38,000,000 <sup>2</sup>	40,000,000	-
L R Grimstone	2,000,000	-	(1,000,000)	(1,000,000) <sup>1</sup>	-	-
W R Stubbs	2,000,000	-	(1,000,000)	(1,000,000) <sup>1</sup>	-	-
Total	9,900,000	3,000,000	(3,800,000)	33,900,000	43,000,000	3,000,000
<b>Other key management personnel</b>						
S Ever	-	-	-	-	-	-
L P Stanley	-	-	-	-	-	-
R B Patrick	-	-	-	-	-	-
Total	-	-	-	-	-	-

<sup>1</sup> Represents options that expired during the financial year

<sup>2</sup> 2,000,000 options expired during the year and 40,000,000 options were issued in accordance with a Share Sale and Purchase Agreement (refer note 29)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 19 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

2010 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
<i>DIRECTORS OF COALBANK LIMITED</i>						
M C Ackland	2,000,000	-	-	-	2,000,000	2,000,000
G L Baker	2,000,000	-	(100,000)	-	1,900,000	1,900,000
G A J Baynton	2,000,000	-	-	-	2,000,000	2,000,000
L R Grimstone	2,000,000	-	-	-	2,000,000	2,000,000
J L McCawley	2,000,000	-	-	(2,000,000)*	-	-
W R Stubbs	2,000,000	-	-	-	2,000,000	2,000,000
<b>Total</b>	<b>12,000,000</b>	<b>-</b>	<b>(100,000)</b>	<b>(2,000,000)</b>	<b>9,900,000</b>	<b>9,900,000</b>
<i>OTHER KEY MANAGEMENT PERSONNEL</i>						
J Jamieson	2,000,000	-	-	(2,000,000)**	-	-
L P Stanley	-	-	-	-	-	-
<b>Total</b>	<b>2,000,000</b>	<b>-</b>	<b>-</b>	<b>(2,000,000)</b>	<b>-</b>	<b>-</b>

\* J L McCawley resigned as a director on 31 March 2010

\*\* J Jamieson resigned as Chief Executive Officer on 31 May 2010.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 19 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

#### (ii) Share holdings

The number of ordinary shares in the company held during the financial year by each director of COALBANK Limited and other key management personnel, including their personally related parties, are set out below. There were no shares granted during the year as compensation.

2011 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<i>DIRECTORS OF COALBANK LIMITED</i>				
M C Ackland	1,433,655	1,800,000	(3,233,655) <sup>4</sup>	-
R Clarke	-	-	1,000,000 <sup>1</sup>	1,000,000
G L Baker	100,000	-	1,000,000 <sup>1</sup>	1,100,000
G A J Baynton	9,246,768	-	408,288,211 <sup>2</sup>	417,534,979
L R Grimstone	4,631,525	1,000,000	2,000,000 <sup>1</sup>	7,631,525
W R Stubbs	4,166,667	1,000,000	(50,000) <sup>3</sup>	5,116,667
<b>Total</b>	<b>19,578,615</b>	<b>3,800,000</b>	<b>409,004,556</b>	<b>432,383,171</b>
<i>OTHER KEY MANAGEMENT PERSONNEL</i>				
S Ever	-	-	25,027,400 <sup>5</sup>	25,027,400
L P Stanley	123,617	-	500,000 <sup>6</sup>	623,617
R B Patrick	-	-	501,000 <sup>7</sup>	501,000
<b>Total</b>	<b>123,617</b>	<b>-</b>	<b>26,028,400</b>	<b>26,152,017</b>

<sup>1</sup> Shares issued on the exercise of performance rights

<sup>2</sup> 1,000,000 shares issued on the exercise of performance rights and 407,288,211 shares issued in accordance with a Share Sale and Purchase Agreement (refer note 29).

<sup>3</sup> 1,000,000 shares issued on the exercise of performance rights and 1,050,000 shares sold.

<sup>4</sup> M Ackland resigned as a director on 9 November 2010.

<sup>5</sup> S Ever became key management personnel on 1 July 2010.

<sup>6</sup> 500,000 shares issued on the exercise of performance rights.

<sup>7</sup> B Patrick became key management personnel on 1 May 2011. This represents his shareholding at the time of becoming KMP.

2010 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<i>DIRECTORS OF COALBANK LIMITED</i>				
M C Ackland	1,433,655	-	-	1,433,655
G L Baker	-	100,000	-	100,000
G A J Baynton	9,246,768	-	-	9,246,768
L R Grimstone	4,631,525	-	-	4,631,525
J L McCawley	6,854,198	-	(6,854,198)*	-
W R Stubbs	4,166,667	-	-	4,166,667
<b>Total</b>	<b>26,332,813</b>	<b>100,000</b>	<b>(6,854,198)</b>	<b>19,578,615</b>
<i>OTHER KEY MANAGEMENT PERSONNEL</i>				
J Jamieson	1,300,000	-	(1,300,000)**	-
L P Stanley	123,617	-	-	123,617
<b>Total</b>	<b>1,423,617</b>	<b>-</b>	<b>(1,300,000)</b>	<b>123,617</b>

\* J L McCawley resigned as a director on 31 March 2010

\*\* J Jamieson resigned as Chief Executive Officer on 31 May 2010.

There were no shares held nominally by Key Management Personnel at 30 June 2011 (2010: nil).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 19 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

#### (iii) Performance rights

The number of performance rights over ordinary shares in the company held during the financial year by each director of COALBANK Limited and other key management personnel, including their personally related parties, are set out below.

2011 Name	Balance at the start of the year	Exercised during the year	Other changes during the year	Balance at the end of the year
<i>DIRECTORS OF COALBANK LIMITED</i>				
M C Ackland	2,000,000	(1,000,000)	(1,000,000) <sup>1</sup>	-
R Clarke	-	-	-	-
G L Baker	2,000,000	(1,000,000)	-	1,000,000
G A J Baynton	2,000,000	(1,000,000)	-	1,000,000
L R Grimstone	4,000,000	(2,000,000)	-	2,000,000
W R Stubbs	2,000,000	(1,000,000)	-	1,000,000
<b>Total</b>	<b>12,000,000</b>	<b>(6,000,000)</b>	<b>(1,000,000)</b>	<b>5,000,000</b>
<i>OTHER KEY MANAGEMENT PERSONNEL</i>				
S Ever				
L P Stanley	1,000,000	(500,000)	-	500,000
R B Patrick	-	-	250,000 <sup>2</sup>	250,000
<b>Total</b>	<b>1,000,000</b>	<b>(500,000)</b>	<b>250,000</b>	<b>750,000</b>

<sup>1</sup> M Ackland resigned as a director on 9 November 2010.

<sup>2</sup> Mr Patrick became a KMP on 1 May 2011

None of the amount disclosed above as being held at year end had vested at 30 June 2011.

2010 Name	Balance at the start of the year	Exercised during the year	Other changes during the year	Balance at the end of the year
<i>DIRECTORS OF COALBANK LIMITED</i>				
M C Ackland	2,000,000	-	-	2,000,000
G L Baker	2,000,000	-	-	2,000,000
G A J Baynton	2,000,000	-	-	2,000,000
L R Grimstone	4,000,000	-	-	4,000,000
J L McCawley	2,000,000	-	(2,000,000)*	-
W R Stubbs	2,000,000	-	-	2,000,000
<b>Total</b>	<b>14,000,000</b>	<b>-</b>	<b>(2,000,000)</b>	<b>12,000,000</b>
<i>OTHER KEY MANAGEMENT PERSONNEL</i>				
J Jamieson	2,000,000	-	(2,000,000)**	-
L P Stanley	1,000,000	-	-	1,000,000
<b>Total</b>	<b>3,000,000</b>	<b>-</b>	<b>(2,000,000)</b>	<b>1,000,000</b>

\* J L McCawley resigned as a director on 31 March 2010

\*\* J Jamieson resigned as Chief Executive Officer on 31 May 2010.

None of the amount disclosed above as being held at year end had vested at 30 June 2010.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 19 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

#### (c) Other transactions with key management personnel

On 2 June 2011 a Share Sale and Purchase Agreement to acquire Coalbank Qld Pty Ltd became unconditional. A director, Mr Greg Baynton, is a director and majority shareholder of Coalbank Qld Pty Ltd. For further information refer to note 28.

During the year to 30 June 2011 the Group paid fees for accounting and administration services and rental of a serviced office provided by Stanley Yeates & Associates, a firm of Chartered Accountants, of which L P Stanley is a partner, on normal commercial terms and conditions.

A director, Mr Lance Grimstone, is a director and owner of Lance Grimstone & Associates (Consulting) Pty Ltd which has provided consulting services to COALBANK Limited and its subsidiaries on normal commercial terms and conditions.

A director, Mr Greg Baynton, is a director and majority shareholder of Orbit Capital Pty Limited. Orbit Capital Pty Limited has provided consulting services to COALBANK Limited and its subsidiaries on normal commercial terms and conditions.

During the prior year a Share Sale and Purchase Agreement to acquire Tambo Coal & Gas Pty Limited and Moreton Energy Pty Ltd became unconditional. A director, Mr Greg Baynton, is a director and was a majority shareholder of both Tambo Coal & Gas Pty Limited and Moreton Energy Pty Ltd. For further information refer to note 29.

Aggregate amounts of each of the above types of other transactions with directors and their director-related entities:

	Consolidated	
	2011	2010
	\$	\$
Amounts recognised as expenses		
Accounting and administration fee	120,950	103,625
Office rent	46,651	57,270
Consulting fees	2,809	5,540
Amounts recognised as exploration expenditure		
Acquisition of exploration interests (share based payment)	84,000	36,655,838
Consulting fees	20,269	45,491

Aggregate amounts payable to key management personnel of the group at the end of the reporting period relating to the above types of other transactions:

	Consolidated	
	2011	2010
	\$	\$
Current liabilities	-	-

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 20 REMUNERATION OF AUDITORS

	Consolidated	
	2011 \$	2010 \$
During the year the following fees were paid or payable for services provided by the auditor or, its related practices and non-related audit firms:		
<b>BDO Audit (Qld) Pty Ltd</b>		
Audit services		
Audit and review of financial reports	38,500	26,500
Total remuneration for audit and other assurance services	38,500	26,500
Other services		
Accounting advice	2,900	-
Total remuneration for BDO Audit (Qld) Pty Ltd	2,900	
<b>Total auditor remuneration</b>	<b>41,400</b>	<b>26,500</b>

### NOTE 21 RELATED PARTIES

#### (a) Parent entities

The parent entity within the group is COALBANK Limited. The ultimate Australian parent entity is Allegro Capital Nominees Pty Ltd which at 30 June 2011 owns 61% (2010: 4%).

#### (b) Subsidiaries

Interests in subsidiaries are set out in note 25.

#### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 19.

### NOTE 22 EVENTS OCCURRING AFTER REPORTING DATE

Subsequent to the end of the financial year COALBANK Limited has issued 50,000,000 ordinary shares at \$0.038 per share from sophisticated and professional investors raising \$1,900,000. Under the same agreement the Company has issued \$1,900,000 of convertible bonds, initially convertible at \$0.038 per share. These funds are to be used to accelerate exploration activities and augment working capital.

At the date of this report there are no other matters or circumstances which have arisen since 30 June 2011 that have significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 23 RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Consolidated	
	2011 \$	2010 \$
Loss after income tax	(8,514,160)	(3,364,970)
Exploration abandoned	5,983,613	1,263,817
Depreciation	9,438	13,686
Share based payments	1,401,309	821,212
Profit on sale of fixed assets	(3,250)	-
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	28,786	5,742
Increase/(decrease) in trade and other payables	33,618	26,615
Net cash outflow from operating activities	(1,060,646)	(1,233,898)

### NOTE 24 COMMITMENTS FOR EXPENDITURE

	Consolidated	
	2011 \$	2010 \$
Exploration commitments		
Commitments for payments under exploration permits for minerals in existence at the reporting date but not recognized as liabilities payable are as follows:		
Within one year	13,153,326	9,629,231
Later than one year but not later than 5 years	23,045,004	19,492,500
Later than 5 years	-	-
Commitments not recognized in the financial statements	36,198,330	29,121,731

So as 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 these tenements will be held for its full term. But, in fact, commitments will 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 25 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2011 %	2010 %
Lodestone Coal Pty Limited	Australia	Ordinary	100	100
Lodestone CSG Pty Limited	Australia	Ordinary	100	100
Lodestone Minerals Pty Limited	Australia	Ordinary	100	100
Tambo Coal & Gas Pty Limited	Australia	Ordinary	100	100
Moreton Energy Pty Ltd	Australia	Ordinary	100	100
Coalbank Qld Pty Ltd	Australia	Ordinary	100*	-
Surat Gas Pty Ltd	Australia	Ordinary	100**	-
Surat Mining Pty Ltd	Australia	Ordinary	100**	-
Harvest Metals Pty Ltd	Australia	Ordinary	100**	-

\* Refer to Note 29 for details of acquisition.

\*\* These subsidiaries were incorporated by COALBANK Limited during the year.

### NOTE 26 NON-CASH INVESTING AND FINANCING ACTIVITIES

	Consolidated	
	2011 \$	2010 \$
Acquisition of subsidiaries by means of issue of equity instruments	84,000	36,655,939

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 27 EARNINGS PER SHARE

	2011 Cents	2010 Cents
(a) Basic earnings per share		
Loss attributable to ordinary equity holders of the company	(1.3)	(1.6)
(b) Diluted earnings per share		
Loss attributable to ordinary equity holders of the company	(1.3)	(1.6)
(c) Reconciliation of earnings used in calculating earnings per share	2011 \$	2010 \$
<i>Basic earnings per share</i>		
Loss from operations	(8,514,160)	(3,364,970)
<i>Diluted earnings per share</i>		
Loss from operations	(8,514,160)	(3,364,970)
(d) Weighted average number of shares used as the denominator	2011 Number	2010 Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	665,598,409	206,867,904
Adjustments for calculation of diluted earnings per share:		
Options	-	-
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	665,598,409	206,867,904
(e) Information concerning the classification of securities		
<i>Options and rights</i>		
Options and rights on issue are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2011. These options and rights could potentially dilute basic earnings per share in the future. Details relating to options and rights are set out in note 28.		

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 28 SHARE-BASED PAYMENTS

#### OPTIONS

During the financial year COALBANK Limited:

- granted 3,000,000 options to a director for no consideration. The options are granted for a two year period, and vest immediately.
- granted 40,000,000 options under a Share Sale and Purchase Agreement (refer to note 29). The options expire on 2 September 2014. Exercise of the options is conditional on at least 100 million tonnes of coal resources being defined to JORC code reporting standards from any one or more of the acquired projects.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Securities Exchange during the five trading days immediately before the options are granted.

Set out below are summaries of options granted:

#### 2011

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
02/06/2011	02/09/2014	\$0.25	-	40,000,000	-	-	40,000,000	-
02/06/2011	02/06/2013	\$0.1033	-	3,000,000	-	-	3,000,000	3,000,000
27/01/2006	27/01/2011	\$0.20 to \$0.30	501,000	-	-	(501,000)	-	-
10/09/2008	10/09/2010	\$0.07	10,000,000	-	(3,800,000)	(6,200,000)	-	-
08/04/2009	08/04/2011	\$0.07	1,000,000	-	-	(1,000,000)	-	-
20/04/2009	08/04/2011	\$0.07	1,000,000	-	-	(1,000,000)	-	-
26/06/2009	26/06/2011	\$0.07	1,900,000	-	-	(1,900,000)	-	-
<b>Total</b>			14,401,000	43,000,000	(3,800,000)	(10,601,000)	43,000,000	3,000,000
<b>Weighted average exercise price</b>			<b>\$0.08</b>	<b>\$0.24</b>	<b>\$0.07</b>	<b>\$0.08</b>	<b>\$0.24</b>	<b>\$0.10</b>

#### 2010

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
27/01/2006	27/01/2011	\$0.20 to \$0.30	501,000	-	-	-	501,000	501,000
10/09/2008	10/09/2010	\$0.07	10,000,000	-	-	-	10,000,000	10,000,000
08/04/2009	08/04/2011	\$0.07	1,000,000	-	-	-	1,000,000	1,000,000
20/04/2009	08/04/2011	\$0.07	1,000,000	-	-	-	1,000,000	1,000,000
26/06/2009	26/06/2011	\$0.07	2,000,000	-	(100,000)	-	1,900,000	1,900,000
<b>Total</b>			14,501,000	-	(100,000)	-	14,401,000	14,401,000
<b>Weighted average exercise price</b>			<b>\$0.08</b>	<b>-</b>	<b>\$0.07</b>	<b>-</b>	<b>\$0.08</b>	<b>\$0.08</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 28 SHARE-BASED PAYMENTS (CONTINUED)

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2011 was \$0.10 (2010 - \$0.12).

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.9 years (2010 – 0.4 years).

#### *Fair value of options granted*

The assessed fair value at grant date of options granted during the year ended 30 June 2011 was 0.4 cents per option (2010 – nil). The fair value at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2011 included:

Grant date 2 June 2011 (3,000,000 options)

- a. options are granted for no consideration
- b. exercise price: \$0.1033
- c. expiry date: 2 June 2013
- d. share price at grant date: \$0.725
- e. expected price volatility of the company's shares: 89.677%
- f. expected dividend yield: 0%
- g. risk-free interest rate: 5.189%
- h. fair value: \$88,800

Grant date 2 June 2011 (40,000,000 options)

- a. options are granted for no consideration
- b. exercise price: \$0.25
- c. expiry date: 2 September 2014
- d. share price at grant date: \$0.067
- e. expected price volatility of the company's shares: 50.0%
- f. expected dividend yield: 0%
- g. risk-free interest rate: 5.456%
- h. fair value: \$84,000

The expected price volatility is based on this historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

### PERFORMANCE RIGHTS

During the financial year there were no performance rights granted. At the end of the financial year 8,250,000 performance rights are on issue. These performance rights become exercisable if the volume weighted average price of the company's shares is at least \$0.25 for a continuous period of five trading days.

Performance rights granted carry no dividend or voting rights.

When exercisable, each performance right is convertible into one ordinary share.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 28 SHARE-BASED PAYMENTS (CONTINUED)

Set out below are summaries of performance rights granted:

#### 2011

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
26/06/2009	25/06/2019	\$0.00	18,000,000	-	(9,000,000)	(1,000,000)	8,000,000	1,000,000
03/03/2010	03/03/2020	\$0.00	500,000	-	(250,000)	-	250,000	-
Total			18,500,000		(9,250,000)	(1,000,000)	8,250,000	1,000,000

#### 2010

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
26/06/2009	25/06/2019	\$0.00	18,000,000	-	-	-	18,000,000	-
03/03/2010	03/03/2020	\$0.00	-	500,000	-	-	500,000	-
Total			18,000,000	500,000	-	-	18,500,000	-

The weighted average share price at the date of exercise of performance rights exercised during the year ended 30 June 2011 was \$0.10 (2010 - nil).

The weighted average remaining contractual life of performance rights outstanding at the end of the period was 8 years (2010 – 9 years).

Shares issued on the taking up of performance rights are issued for no consideration and therefore do not have a weighted average exercise price.

#### *Fair value of performance rights granted*

The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using the Monte Carlo Simulation method that takes into account the exercise price, the term of the performance right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance right.

The model inputs for performance rights granted during the year ended 30 June 2009 included:

#### ISSUE A

- Grant date 26/06/2009
- performance rights are granted for no consideration
- exercise price: \$0.00
- expiry date: 26/06/2019
- share price at grant date: \$0.155
- expected price volatility of the company's shares: 140.127%
- expected dividend yield: 0%
- risk-free interest rate: 5.61%
- fair value: \$0.15

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 28 SHARE-BASED PAYMENTS (CONTINUED)

The model inputs for performance rights granted during the year ended 30 June 2010 included:

#### ISSUE B

- a. Grant date: 03/03/2010
- b. performance rights are granted for no consideration
- c. exercise price: \$0.00
- d. expiry date: 03/03/2020
- e. share price at grant date: \$0.12
- f. expected price volatility of the company's shares: 93.939%
- g. expected dividend yield: 0%
- h. risk-free interest rate: 5.43%
- i. fair value: \$0.12

The expected price volatility is based on this historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

#### EXPENSE ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

Total expense arising from share-based payment transactions recognised during the period were as follows:

	Consolidated	
	2011 \$	2010 \$
Performance rights issued	1,312,509	821,212
Options issued	88,800	-
	1,401,309	821,212

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 29 ASSET ACQUISITION

#### (a) Summary of 2011 acquisition

On 2 June 2011 a Share Sale and Purchase Agreement to acquire Coalbank Qld Pty Ltd became unconditional following shareholder approval at a general meeting of the company.

The acquired company contributed revenue of \$nil and net loss before tax of \$nil to the group from 2 June 2011. The amounts of revenue and net profit contributed for the full year, if it had been acquired at the start of the financial year, would also have been \$nil.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	\$
Purchase consideration (refer to (i) below):	
Options in COALBANK Limited (40,000,000 options)	84,000
Total purchase consideration	84,000

The Group has taken up the cost of the underlying assets at acquisition. The assets and liabilities recognized as a result of the acquisition are as follows:

	Fair value \$
Exploration expenditure	84,000
Net identifiable assets acquired	84,000

#### (i) Share based payment

In accordance with the Share Sale and Purchase Agreement in consideration for 100% of the issued capital of Coalbank Qld Pty Ltd, COALBANK Limited is to issue 40,000,000 options to the vendors (entities associated with Mr Greg Baynton).

#### Fair value of options granted

Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted above were:

Grant date 2 June 2011

- a. options are granted for no consideration
- b. exercise price: \$0.25
- c. expiry date: 2 September 2014
- d. share price at grant date: \$0.067
- e. expected price volatility of the company's shares: 50.0%
- f. expected dividend yield: 0%
- g. risk-free interest rate: 5.456%
- h. fair value: \$0.0021.
- i. probability of meeting the vesting conditions: 50.0%

The expected price volatility is based on this historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 29 ASSET ACQUISITION (CONTINUED)

#### (b) Summary of 2010 acquisition

On 29 June 2010 a Share Sale and Purchase Agreement to acquire Tambo Coal & Gas Pty Limited and Moreton Energy Pty Limited became unconditional following shareholder approval at a general meeting of the Company. The acquisition means Lodestone Energy Limited now holds 100% ownership and control of its energy portfolio, which will allow greater flexibility for commercialising and monetising those projects.

The acquired company's contributed revenue of \$nil and net loss before tax of \$nil to the group from 29 June 2010. The amounts of revenue and net profit for the full year, if they had been acquired at the start of the financial year, would also have been \$nil.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	\$
Purchase consideration (refer to (i) below):	
Shares in Lodestone Energy Limited (407,288,211 shares)	36,655,939
Total purchase consideration	36,655,939
The group has taken up the cost of the underlying assets at acquisition. The assets and liabilities recognized as a result of the acquisition are as follows:	
	Fair value \$
Cash	101
Exploration expenditure	36,655,838
Net identifiable assets acquired	36,655,939

#### (i) Share based payment

In accordance with the Share Sale and Purchase Agreement in consideration for 100% of the issued capital of Tambo Coal & Gas Pty Limited and Moreton Energy Pty Limited, Lodestone Energy Limited is to issue 407,288,211 to the vendors (entities associated with Mr Greg Baynton). The market value of these shares at the time the acquisition became unconditional was \$0.09 per share.

#### Acquisition related costs

Acquisition related costs of \$198,908 are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

### NOTE 30 CONTINGENT LIABILITIES

The Group does not have any contingent liabilities at 30 June 2011.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 31 RESTATEMENT

During the previous financial year share based payment expense in relation to performance rights was understated by \$554,981. The error arose from the application of an incorrect vesting period from the valuation report obtained for the valuation of the performance rights. The effect of this restatement on the Group Financial Statements for the year ended 30 June 2010 is summarised below.

	As previously stated 2010 \$	As restated 2010 \$	Restatement 2010 \$
<b>Effect on Statement of Financial Position</b>			
Accumulated losses	(10,341,792)	(10,896,773)	(554,981)
Reserves	815,786	1,370,767	554,981
Net change in equity			-
<b>Effect on Statement of Comprehensive Income</b>			
Increase in share based payments expense	266,231	821,212	554,981
Group loss for the year	(2,809,989)	(3,364,970)	(554,981)
<b>Effect on earnings per share</b>			
Basic and diluted earnings per share	(1.4)	(1.6)	(0.2)

There was no cashflow impact as a result of the restatement.

The performance rights in question were granted at the end of June 2009. Accordingly, there was no impact on periods prior to the year ended 30 June 2010 resulting from the error. Given this, no statement of financial position at the beginning of the year ended 30 June 2010 has been presented as there was no change to the statement presented at 30 June 2009.

### NOTE 32 ENTITY DETAILS

The registered office and principle place of business of the Company is:

Level 1, 101 Edward Street  
Brisbane QLD 4000  
Ph (07) 3229 6606

# INDEPENDENT AUDITOR'S REPORT



Tel: +61 7 3237 5999  
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Level 18, 300 Queen St  
Brisbane QLD 4000,  
GPO Box 457 Brisbane QLD 4001  
Australia

## INDEPENDENT AUDITOR'S REPORT

To the members of COALBANK Limited

### Report on the Financial Report

We have audited the accompanying financial report of COALBANK Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BDO Audit (QLD) Pty Ltd ABN 33 134 022 870 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (QLD) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)



### Independence

In conducting our audit, 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.

### Opinion

In our opinion:

- (a) the financial report of COALBANK Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

### Emphasis of Matters on Going Concern

Without qualification to the opinion expressed above, we draw attention to the matters set out in Note 1(r). As detailed, the financial statements have 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. 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, it may be required to realise its 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.

No adjustments have been made to the carrying value of assets or recorded amount of liabilities should the company's plans not eventuate.

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 23 to 29 of the directors' report for the year ended 30 June 2011. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)



### Opinion

In our opinion, the Remuneration Report of COALBANK Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (QLD) Pty Ltd

BDO

A handwritten signature in black ink, appearing to read 'C. J. Skelton', followed by a horizontal line.

C J SKELTON

Director

Brisbane, 29 September 2011

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## SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 14 September 2011.

### A. DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

	Class of equity security Ordinary Shares
1 – 1,000	51
1,001 – 5,000	50
5,001 – 10,000	189
10,001 – 100,000	519
100,001 and over	333
	<u>1,142</u>

There were 147 holders of less than a marketable parcel of ordinary shares.

### B. EQUITY SECURITY HOLDERS

#### TWENTY LARGEST QUOTED EQUITY SECURITY HOLDERS

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary shares	
	Number Held	Percentage (%) of issued shares
Allegro Capital Nominees Pty Ltd	401,997,293	55.10
HSBC Custody Nominees (Australia) Limited	50,000,000	6.85
Square Resources Pty Ltd	23,750,000	3.26
Oliver Lennox-King	15,000,000	2.06
Armarda Trading Pty Ltd	12,500,000	1.71
Orbit Capital Pty Ltd	10,411,471	1.43
Wealford Investments Limited	10,104,654	1.38
Nefco Nominees Pty Ltd	7,889,632	1.08
Springtide Capital Pty Ltd	7,298,257	1.00
Lance & Olwyn Grimstone	5,631,525	0.77
Somnus Pty Ltd	5,000,000	0.69
Campbell Marine Pty Ltd	4,523,609	0.62
Lance Grimstone Investments Pty Ltd	4,072,882	0.56
Bevan Andrew Slattery	3,250,000	0.45
Leejames Nominees Pty Ltd	3,200,000	0.44
Stubbs Superannuation Fund	2,950,000	0.40
TBIC Pty Ltd	2,851,388	0.39
National Nominees Limited	2,772,500	0.38
Martin Clyde Ackland	2,195,834	0.30
Taycol Nominees Pty Ltd	2,000,000	0.27
	<u>577,399,045</u>	<u>79.14</u>

## SHAREHOLDER INFORMATION (CONTINUED)

### UNQUOTED EQUITY SECURITIES

	Number of issue	Number of holders
Unquoted options	43,000,000	2
Unquoted performance rights	8,250,000	9

### HOLDERS OF GREATER THAN 20% OF UNQUOTED EQUITY SECURITIES

Name	Number held	Percentage of unquoted options
Allegro Capital Nominees Pty Ltd	40,000,000	93.02%

### C. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
Allegro Capital Nominees Pty Ltd	401,997,293	55.10%

### D. VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options

No voting rights.



## DIRECTORS

Roger Clarke (Chairman)  
Greg Baynton (Executive Deputy Chairman)  
Lance Grimstone  
Bill Stubbs  
Grahame Baker  
Staffan Ever

## EXECUTIVES

Bruce Patrick (Chief Executive)

## COMPANY SECRETARY

Leni Stanley

## PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

Level 1, 101 Edward Street  
Brisbane QLD 4000  
(07) 3229 6606

## SHARE REGISTER

Link Market Services Limited  
Level 15, 324 Queen Street  
Brisbane QLD 4000  
(02) 8280 7454

## AUDITOR

BDO Audit (Qld) Pty Ltd  
Level 18, 300 Queen Street  
Brisbane QLD 4000  
(07) 3237 5999

## BANKERS

Westpac Banking Corporation  
388 Queen Eagle Street  
Brisbane QLD 4000

## STOCK EXCHANGE LISTING

COALBANK Limited shares are listed on the Australian Securities Exchange – using the stock code 'CBQ'.

## WEBSITE ADDRESS

[www.coalbank.com](http://www.coalbank.com)



## C O R P O R A T E   D I R E C T O R Y

