

## NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the Annual General Meeting of the shareholders of **COALBANK Limited ACN 075 877 075** ('Company' or 'COALBANK') will be held at 11.00 am (Brisbane time) on Tuesday 15 November 2011 at the Theatre Room, RBS Morgans, Level 29, Riverside Centre, 123 Eagle Street, Brisbane, Queensland 4000.

Terms used in this Notice of Meeting are defined in the "Interpretation" section of the accompanying Explanatory Notes.

### AGENDA

Ordinary business

#### Financial Reports

To receive and consider the Company's Annual Report comprising the Directors' Report, Auditors' Report, Directors' Declaration, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and Notes to and forming part of the Financial Statements for the Company for the financial year ended 30 June 2011.

#### Resolution 1: Remuneration Report

To consider and, if thought fit, pass the following advisory resolution, without amendment:

*"That the Remuneration Report for the year ended 30 June 2011 (as set out in the Directors' Report) be adopted."*

##### Voting

The vote on this Resolution 1 is advisory only and does not bind the Directors of the Company.

Voting Restriction pursuant to Section 250R(4) of the Corporations Act

A vote on Resolution 1 must not be cast (in any capacity) by or on behalf of either of the following persons:

- (a) a member of the Key Management Personnel (details of whose remuneration are included in the Remuneration Report);
- (b) a Closely Related Party of such a member.

However, the above persons may cast a vote on Resolution 1 if:

- (a) the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution; and
- (b) the vote is not cast on behalf of a member of the Key Management Personnel (details of whose remuneration are included in the Remuneration Report) or a Closely Related Party of such a member.

##### ASIC Relief

The Company has obtained relief from ASIC allowing the Chairman to vote undirected proxies on the conditions set out in the Explanatory Memorandum.

Shareholders should be aware that any undirected proxies given to the Chairman will be cast by the Chairman and counted in favour of the resolutions the subject of this Meeting, including Resolution 1.

#### COALBANK LIMITED

ABN 20 075 877 075

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**Resolution 2:                    Re-Election of Director – Mr Greg Baynton**

To consider, and if thought fit, pass the following ordinary resolution:

*“That Mr Greg Baynton, who retires by rotation in accordance with the Company’s constitution and, being eligible, offers himself for re-election, be re-elected as a Director of the Company.”*

**Resolution 3:                    Re-Election of Director – Mr Grahame Baker**

To consider, and if thought fit, pass the following ordinary resolution:

*“That Mr Grahame Baker, who retires by rotation in accordance with the Company’s constitution and, being eligible, offers himself for re-election, be re-elected as a Director of the Company.”*

**Resolution 4:                    Election of Director – Mr Staffan Ever**

To consider, and if thought fit, pass the following ordinary resolution:

*“That Mr Staffan Ever, who was appointed a Director since the last annual general meeting, retires in accordance with the Company’s constitution and, being eligible, offers himself for election, be elected as a Director of the Company.”*

Special business

**Resolution 5:                    Issue of options to Mr Staffan Ever**

To consider and, if thought fit, pass the following ordinary resolution:

*“That for the purposes of Listing Rule 10.11 and for all other purposes, the grant of 6,000,000 options to Mr Staffan Ever, a Director, or his nominee for no consideration and otherwise on the terms and conditions described in the Explanatory Notes, be approved. “*

**Voting exclusion statement**

The Company will disregard any votes cast on resolution 5 by:

- Mr Staffan Ever; and
- any of his associates.

However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as their proxy decides.

**Resolution 6: Issue of options to Mr Bruce Patrick**

To consider and, if thought fit, pass the following ordinary resolution:

*“That for the purposes of Listing Rule 7.1 and for all other purposes, the grant of 7,000,000 options to Mr Bruce Patrick, the Chief Executive Officer, or his nominee for no consideration and otherwise on the terms and conditions described in the Explanatory Notes, be approved. ”*

**Voting exclusion statement**

The Company will disregard any votes cast on resolution 6 by:

- Mr Bruce Patrick; and
- any of his associates.

However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as their proxy decides.

**Resolution 7: Ratification of previous issue of shares and convertible bonds**

To consider and, if thought fit, pass the following ordinary resolution:

*“That for the purposes of Listing Rule 7.4 and for all other purposes, the issue of 50,000,000 Shares and the issue of Convertible Bonds to Investment Funds associated with Och-Ziff Capital Management Group LLC on the terms and conditions described in the Explanatory Notes, be ratified.”*

**Voting exclusion statement**

The Company will disregard any votes cast on resolution 7 by:

- each of the Investment Funds; and
- any of their associates.
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However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as their proxy decides.

General business

To consider any other business as may be lawfully put forward in accordance with the constitution of the Company.

**By Order of the Board**

Leni Stanley  
Company Secretary  
11 October 2011

## **NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING**

### **Eligibility to vote**

A person's entitlement to vote at the Meeting will be determined by reference to the number of Shares registered in the name of that person (reflected in the register of members) as at 7.00pm (Sydney time) on Monday 14 November 2011.

### **Proxy votes and corporate representatives**

A member who is entitled to attend and cast a vote at the Meeting is entitled to appoint a proxy. A form of appointment of proxy is enclosed with this Notice.

A proxy need not be a member of the Company. A member who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no such specification is given and two proxies are appointed, each may exercise half of the votes to which that member is entitled.

All Proxy Forms will need to be lodged with the Company no later than 11.00 am (Brisbane time) on Sunday 13 November 2011, being 48 hours before commencement of the Meeting. Any Proxy Form received after that time will not be valid for the Meeting.

If you wish to appoint a proxy and are entitled to do so, then complete the enclosed Proxy Form in accordance with the instructions on it and return it to the Company's share registry by the deadline for lodgement as follows:

- by using the enclosed reply paid envelope;
- by post or fax to the Company's share registry as follows:

COALBANK Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Facsimile: (02) 9287 0309;
- by delivery to Link Market Services Limited at Level 12, 680 George Street, Sydney NSW 2000; or
- online, at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au), by following the directions on the reverse of the Proxy Form.

A corporation may elect to appoint a representative in accordance with the Corporations Act in which case the Company will require written proof of the representative's appointment, which must be lodged with the Company no later than 48 hours before commencement of the Meeting.

### **Questions**

If you have any queries on how to cast your votes then please call the Company Secretary, Leni Stanley, on +61 (0)7 3221 6022 during business hours.

## EXPLANATORY NOTES

### COALBANK LIMITED

A.C.N. 075 877 075

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These Explanatory Notes have been prepared for the information of Shareholders in connection with the business to be conducted at the Annual General Meeting to be held on 15 November 2011.

These Explanatory Notes form part of and should be read in conjunction with the accompanying Notice. A number of words and terms used in these Explanatory Notes have defined meanings, which are set out at the end of these Explanatory Notes.

#### **Resolution 1: Remuneration Report**

The Board has submitted its Remuneration Report to Shareholders for consideration and adoption by way of a non-binding advisory resolution.

The Remuneration Report is set out in the Directors' Report section of the Annual Report. The Report:

- explains the Board's policy for determining the nature and amount of remuneration of executive directors and senior executives of the Company;
- explains the relationship between the Board's remuneration policy and the Company's performance;
- sets out remuneration details for each Director and the most highly remunerated senior executives of the Company; and
- details and explains any performance conditions applicable to the remuneration of executive directors and senior executives of the Company.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the Meeting.

As a result of amendments to the Corporations Act, which came into effect on 1 July 2011, members of the Key Management Personnel and their proxies and Closely Related Parties are restricted from voting on a resolution (**Voting Restriction**) put to Shareholders that the remuneration report of the Company be adopted. Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The Voting Restriction does not apply where the Chairman or any other member of the Key Management Personnel is appointed in writing (by a shareholder who is not a member of the Key Management Personnel) as a proxy (**Management Proxy**) with specific instructions on how to vote on a resolution to adopt the remuneration report of the Company. It is not clear in the amendments to the Corporations Act whether the Management Proxy will be able to vote where the proxy appointment does not give specific instructions on how to vote on a resolution to adopt the remuneration report. In order to resolve this, during 2011, the Federal Government proposes to amend the Corporations Act to make clear that a chairman is permitted to vote undirected proxies on remuneration report resolutions.

In order to ensure strict compliance with the relevant provisions of the Corporations Act in relation to the Voting Restrictions, the Company has obtained from ASIC relief allowing the

Chairman to vote undirected proxies. The relief applies to the casting of a vote of the Chairman in the following circumstances:

- (a) Mr Roger Clarke or, in the alternative, Mr Lance Grimstone has been elected, by either the Directors or the members of the Company, to be the chair of the Annual General Meeting of the Company to be held on or about 15 November 2011 and at any adjournment or postponement of that meeting;
- (b) the chair has been appointed by a member of the Company who is not a person mentioned in paragraph (a) or (b) of subsection 250R(4) as the member's proxy to attend and vote for the member at the meeting in relation to the resolution;
- (c) the appointment does not specify the way the chair is to vote on the resolution;
- (d) the appointment expressly authorises the chair to exercise the proxy in relation to the resolution even if the resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, which includes the chair;
- (e) the notice of the meeting and the proxy form that accompanies the notice of meeting contains a statement as to how the chair, if appointed as the member's proxy and the appointment does not specify the way the chair is to vote on the resolution, intends to vote on the resolution; and
- (f) the proxy form that accompanies the notice of meeting is substantially in the form of the draft proxy form provided to ASIC on 11 October 2011.

Shareholders should be aware that any undirected proxies given to the Chairman will be cast by the Chairman and counted in favour of the resolutions the subject of this Meeting, including this resolution 1.

The Board unanimously recommends that Shareholders vote in favour of adopting the Remuneration Report. A vote on this resolution is advisory only and does not bind the Directors of the Company.

## **Resolution 2: Re-Election of Director – Mr Greg Baynton**

In accordance with the Company's constitution, Mr Baynton will retire by rotation at the Annual General Meeting and being eligible, offers himself for re-election.

### **2.1 Biography**

Mr Baynton M.Econ St, MBA, B.Bus (Accounting), FFINSIA, has been a director of the Company since 5 November 2001. Mr Baynton is the founder and Managing Director of Orbit Capital Pty Ltd, a boutique investment bank and holder of a Financial Services Licence. He has been a director on other Australian exploration companies since 1997 and has experience in identifying new opportunities, establishing new companies, IPOs and other capital raisings. He is the founder of Tambo Coal and Gas Pty Ltd and Coalbank Pty Ltd, among other companies he has established.

Mr Baynton is a member of the Audit and Risk Management Committee.

### **2.2 Directors' recommendation**

Mr Baynton does not make any recommendation in respect of this resolution. All other Directors support Mr Baynton's re-election as a Director and recommend that Shareholders vote in favour of this resolution.

### **Resolution 3: Re-Election of Director – Mr Grahame Baker**

In accordance with the Company's constitution, Mr Baker will retire by rotation at the Annual General Meeting and being eligible, offers himself for re-election.

#### **3.1 Biography**

Mr Baker B.E., B.App.Sc., B.Econ., M.Sc., FIE Aust., F Aus IMM., CP Eng, has been a director of the company since 15 April 2009. 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.

Mr Baker is a member of the Audit and Risk Management Committee.

#### **3.2 Directors' recommendation**

Mr Baker does not make any recommendation in respect of this resolution. All other Directors support Mr Baker's re-election as a Director and recommend that Shareholders vote in favour of this resolution.

### **Resolution 4: Election of Director – Mr Staffan Ever**

Mr Staffan Ever was appointed as a Director on 30 August 2011 and in accordance with the Company's constitution, Mr Ever will retire at the Annual General Meeting and being eligible, offers himself for election.

#### **4.1 Biography**

Mr Ever, MBA, M.Sc (Civil Eng) was previously the chief executive officer of the Company. He is the former chief executive officer of QCoal and the former general manager of AMCI (Australia).

#### **4.2 Directors' recommendation**

Mr Ever does not make any recommendation in respect of this resolution. All other Directors support Mr Ever's election as a Director and recommend that Shareholders vote in favour of this resolution.

### **Resolution 5: Issue of options to Mr Staffan Ever**

#### **5.1 Introduction**

Pursuant to resolution 5 Shareholder approval is sought for the purposes of Listing Rule 10.11 and for all other purposes for the grant by the Company, for no consideration, of 6,000,000 options to Mr Staffan Ever or his nominee.

The options are to be issued on the terms summarised below. Mr Ever is a Director of the Company.

#### **5.2 Why is shareholder approval required?**

Listing Rule 10.11 provides that a company must not issue or agree to issue securities to a related party of the company without first obtaining shareholder approval. Under Resolution 5 the Company will, if the resolution is passed, issue options to a Director (i.e., to a related party). Accordingly, the Company must obtain Shareholder approval under Listing Rule 10.11 before those options are issued.

Chapter 2E of the Corporations Act prohibits a company (subject to certain exceptions) from giving a financial benefit to a related party of the Company, except with the approval of the

Company's members. Issuing securities (including an option) to a related party is an example of giving a financial benefit that requires shareholder approval under Chapter 2E.

However, shareholder approval under Chapter 2E is not required if the financial benefit is remuneration provided to a related party as an officer of the company and to give the remuneration would be reasonable given the circumstances of the company and the related party's circumstances, including the responsibilities involved in the office held.

The Board has formed the view that the issue of options as contemplated by Resolution 5 represents reasonable remuneration having regard to Mr Ever's other entitlements to Director's fees of approximately \$40,000 per annum and his responsibilities as a Director of the Company and therefore that approval of the issue of options to him under Chapter 2E is not required.

### **5.3 Details of options**

The options to be issued under resolution 5 will, if this resolution is approved, be issued on the following terms:

- the options will be issued for no consideration;
- each option will, on exercise, will entitle the holder to acquire one Share;
- the exercise price of each option is \$0.0974;
- the options will vest when they are granted as Mr Ever has served the requisite period of service with in the Company;
- each option will have an expiry date of 29 June 2012; and
- although the options are not being issued under the Company's employee share option scheme (ESOP), the terms of issue of options under the ESOP will, so far as they are applicable and are not inconsistent with the above terms and conditions, apply to the options. A summary of the material terms of the options is set out in schedule A to these Explanatory Notes.

### **5.4 Value of options**

The Board has engaged RBS Morgans to prepare a valuation of the options to be granted under resolution 5. RBS Morgans has determined the value of the options to be issued pursuant to resolution 5 to be \$0.0113 per option. This value has been derived using a Black Scholes Option Pricing Model assuming the following:

- share price of \$0.061 (being the price of the Shares on 28 September 2011);
- an exercise price of \$0.0974 per option;
- a risk free rate of 4.31% per annum;
- a volatility factor of 95.16%, which has been determined having regard to the historical trading of the Company's Shares on ASX;
- an expiry date of 29 June 2012; and
- all other terms and conditions as outlined in these Explanatory Notes.

### **5.5 Why are the options being issued?**

The primary purpose of the grant of the options under resolution 5 is to better align the interests of the Company and Mr Ever by providing an incentive to him to remain with the Company and increase shareholder value. Mr Ever has a strong experience in managing and financing coal projects from greenfields to production and marketing. His contribution to the Board will be particularly valuable as the Company formulates its strategic goals and executes its strategy.

## **5.6 Other information**

For the purposes of Listing Rule 10.13, and for all other purposes, the following information is provided to Shareholders in connection with resolutions 5:

- under resolution 5 approval is being sought to issue to Mr Ever 6,000,000 options;
- the options will be granted to Mr Ever as soon as practicable after the meeting, but in any event, no later than one month after the date of the meeting;
- because the options are to be issued for no consideration, the Company will not raise any funds from the issue. If any or all of the options are exercised, the funds raised from the issue of Shares pursuant to that exercise will contribute to the Company's working capital; and
- the Company will not provide a loan in connection with the exercise of any options issued pursuant to resolution 5.

Pursuant to Listing Rule 7.2 Exception 14, where an issue is made with the approval of the shareholders under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

## **5.7 Directors' interests and recommendations**

None of the Directors, other than Mr Ever, has an interest in resolution 5. As the proposed recipient of options under resolution 5, Mr Ever has an interest in resolution 5, and therefore makes no recommendation in relation to it. The Directors, other than Mr Ever, unanimously recommend that you vote in favour of resolution 5.

## **Resolution 6: Issue of options to Mr Bruce Patrick**

### **6.1 Introduction**

Pursuant to resolution 6 Shareholder approval is sought for the purposes of Listing Rule 7.1 and for all other purposes for the grant by the Company, for no consideration, of 7,000,000 options to Mr Bruce Patrick or his nominee.

The options are to be issued on the terms summarised below. Mr Patrick is the Chief Executive Officer of the Company.

### **6.2 Why is shareholder approval required?**

The Company has entered into a contract with Geomine Project Management Pty Ltd (a company associated with Mr Patrick) for the services of Mr Patrick as Chief Executive Officer of COALBANK. As part of the contract, the Company has agreed to issue 7,000,000 options to Mr Patrick or his nominee.

Listing Rule 7.1 imposes a limit on the number of securities (shares or options to acquire shares) that the Company can issue without Shareholder approval. In general terms the Company may not, without Shareholder approval, issue equity securities representing more than 15% of its share capital in a 12 month period. Securities that are issued with Shareholder approval do not reduce the number of equity securities that may be issued by the Company under Listing Rule 7.1.

The Company is seeking Shareholder approval under Listing Rule 7.1 for the issue of the options to Mr Patrick so that it preserves its capacity to issue further securities in the next 12 months should it wish to raise additional capital.

### **6.3 Details of options**

The options to be issued under resolution 6 will, if this resolution is approved, be issued on the following terms:

- the options will be issued for no consideration;
- each option will, on exercise, will entitle the holder to acquire one Share;
- 3,000,000 of the options are exercisable at \$0.0825 each and 4,000,000 options are exercisable at \$0.10 each;
- 3,000,000 of the options vest on 30 August 2012 and 4,000,000 of the options vest on 28 February 2013; however, all of the options will vest immediately in the event of the completion of a takeover of 100% of the Company;
- each option will have an expiry date of 8 August 2013, however, each option will lapse within 30 days of termination of the contract if not exercised before then; and
- although the options are not being issued under the Company's employee share option scheme (ESOP), the terms of issue of options under the ESOP will, so far as they are applicable and are not inconsistent with the above terms and conditions, apply to the options. A summary of the material terms of the options is set out in schedule A to these Explanatory Notes.

#### **6.4 Value of options**

The Board has engaged RBS Morgans, to prepare a valuation of the options to be granted under resolution 6. RBS Morgans has determined the value of the first tranche of 3,000,000 options to be \$0.0281 per option and the value of the second tranche of 4,000,000 options to be \$0.0253 per option. This value has been derived using a Black Scholes Option Pricing Model, assuming the following:

- share price of \$0.061 (being the price of Shares on 28 September 2011);
- an exercise price of \$0.0825 per option in respect of the first tranche and \$0.10 per option in respect of the second tranche;
- a risk free rate of 4.10 % per annum for both tranches;
- a volatility factor of 102.54% for both tranches which has been determined having regard to the historical trading of the Company's Shares on ASX;
- an expiry date of 8 August 2013; and
- all other terms and conditions as outlined in these Explanatory Notes.

#### **6.5 Why are the options being issued?**

The primary purpose of the grant of the options under resolution 6 is to better align the interests of the Company and Mr Patrick by providing an incentive to him to remain with the Company and increase shareholder value.

#### **6.6 Other information**

For the purpose of Listing Rule 7.3, and for all other purposes, the following information is provided to Shareholders in connection with resolution 6:

- under resolution 6 approval is being sought to issue to Mr Patrick 7,000,000 options;
- the options will be granted to Mr Patrick or his nominee as soon as practicable after the meeting, but in any event, no later than three months after the date of the meeting;
- because the options are to be issued for no consideration, the Company will not raise any funds from the issue. 3,000,000 of the options have an exercise price of \$0.0825 per option and 4,000,000 of the options have an exercise price of \$0.10 per option. If any or all of the options are exercised, the funds raised from the issue of Shares pursuant to that exercise will contribute to the Company's working capital;

- the Company will not provide a loan in connection with the exercise of any options issued pursuant to resolution 6;
- Shares issued on exercise of the options will be fully paid ordinary shares and will rank equally with all other Shares then on issue.

## **6.7 Directors' interests and recommendations**

None of the Directors has an interest in resolution 6. The Directors unanimously recommend that you vote in favour of resolution 6.

## **Resolution 7: Ratification of previous issue of shares and convertible bonds**

### **7.1 Introduction**

As announced to ASX on 21 July 2011, the Company has issued 50,000,000 Shares (**Placement Shares**) and Convertible Bonds to contain investment funds associated with Och-Ziff Capital Management Group LLC, a leading global institutional asset management firm with approximately US\$29.3 billion worth of assets under management as at 1 July 2011.

The issue of the Placement Shares and the Convertible Bonds raised \$3.8 million to fund the Company's drilling and other exploration activities, along with working capital requirements.

### **7.2 Why is shareholder approval required?**

Listing Rule 7.1 imposes a limit on the number of equity securities (including Shares and bonds convertible into Shares) that a company can issue without shareholder approval. In general terms, the Company may not without Shareholder approval issue equity securities representing more than 15% of its share capital within a 12 month period.

Securities that are issued with shareholder approval do not reduce the number of equity securities that may be issued by the Company under Listing Rule 7.1.

Under Listing Rule 7.4, shareholder approval for the purposes of Listing Rule 7.1 can be obtained after the securities are issued if the issue did not breach the 15% limit in Listing Rule 7.1 when made. The issue of the Placement Shares and the Convertible Bonds did not breach the 15% limit.

Under resolution 7 the Company seeks ratification by Shareholders of the issue of the Placement Shares and Convertible Bonds to the Investment Funds to provide the Company with greater flexibility to make future issues of equity securities during the next 12 months without first having to obtain the prior approval of Shareholders under Listing Rule 7.1.

### **7.3 Details of Placement Shares and Convertible Bonds**

The Placement Shares were issued on the same terms and conditions as other Shares in the capital of the Company.

A summary of the terms and conditions of the Convertible Bonds is set out in schedule B to these Explanatory Notes.

### **7.4 Other information**

For the purpose of Listing Rule 7.5, and for all other purposes, the following information is provided to Shareholders in connection with resolution 7:

- the Company issued 50,000,000 Placement Shares and 380 Convertible Bonds to the Investment Funds;
- the Placement Shares were issued at a price of \$0.038 each to raise a total of \$1.9 million; and

- the Convertible Bonds were issued for a total price of \$1.9 million, and are convertible into 50,000,000 Shares (based on a conversion price of \$0.038).

## 7.5 Effect on equity capital of Company

The following table shows the effect on the equity capital of the Company of:

- the issue of the options under resolution 5;
- the issue of the options under resolution 6;
- the issue of the Placement Shares; and
- the conversion of all Convertible Bonds into Shares at a conversion price of \$0.038 per Share.

Class of security	Number of Securities	Terms (if any)
<i>Listed Securities</i>		
Shares	779,597,740	(assumes that Convertible Bonds have been converted to Shares)
<i>Unlisted Securities</i>		
Options	40,000,000	Exercisable at 25 cents expiring on 2 June 2014 – subject to vesting conditions
Options	3,000,000	Exercisable at 10.33 cents expiring 2 June 2013
Options	6,000,000	Exercisable at 9.74 cents each expiring 29 June 2012
Options	3,000,000	Exercisable at 8.25 cents each expiring 8 August 2013 – subject to vesting conditions
Options	4,000,000	Exercisable at 10 cents each expiring 8 August 2013 – subject to vesting conditions
Performance Rights	8,250,000	Subject to Share price vesting conditions

## 7.6 Directors' interests and recommendations

None of the Directors has an interest in resolution 7. The Directors unanimously recommend that you vote in favour of resolution 7.

## Definitions

In these Explanatory Notes:

**ASX** means ASX Limited or the stock market operated by it, as the context requires.

**Board** means the board of Directors of the Company.

**Closely Related Party** (as defined in the Corporations Act) of a member of the Key Management Personnel for an entity means:

- a spouse or child of the member; or
- a child of the member's spouse; or

- (c) a dependant of the member or the member's spouse; or
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity; or
- (e) a company the member controls; or
- (f) a person prescribed by the regulations made under the Corporations Act.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Company** means COALBANK Limited ACN 075 877 075.

**Convertible Bonds** means the senior and secured bonds issued by the Company, which are convertible into Shares and due 2014, which were issued under a subscription agreement between the Investment Funds and the Company.

**Directors** means the directors of the Company.

**Investment Funds** means the following investment funds managed by OZ Management LP, an operating company of Och-Ziff Capital Management Group LCC:

- (a) Sculptor Finance (MD) Ireland Ltd;
- (b) Sculptor Finance (AS) Ireland Ltd; and
- (c) Sculptor Finance (SI) Ireland Ltd.

**Key Management Personnel** has the definition given in the accounting standards as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any director (whether executive or otherwise) of that entity.

**Listing Rule** means the listing rules of ASX Limited.

**Notice** means the notice of meeting of the Company dated 11 October 2011.

**Meeting** means the annual general meeting convened pursuant to the Notice.

**Proxy Form** means a proxy form accompanying the Notice.

**Shareholder** means a holder of Shares.

**Shares** means ordinary fully paid shares in the issued capital of the Company.

## Schedule A – Option terms

<b>Nature of option</b>	Each option entitles the holder to subscribe for one Share on exercise of the option.
<b>Issue price</b>	Each option is to be issued for no consideration.
<b>Transfer</b>	An option is personal to the participant and cannot be transferred or otherwise disposed of except as determined by the Board.
<b>Ranking</b>	Shares issued on the exercise of options will rank equally with all existing Shares then on issue.
<b>Conditions on exercise</b>	An option must be exercised before its expiry date. The Board may determine minimum parcels in which options may be exercised. The exercise by a participant of some options does not affect their right to exercise other options at a later time.
<b>Lapse</b>	<p>An option lapses on its expiry date, or if the Board determines that the participant has acted fraudulently, dishonestly or in breach of the participant's obligations to the Company or an associated body corporate and that their options should therefore be forfeited.</p> <p>Options will also lapse upon:</p> <ul style="list-style-type: none"> <li>• the participant ceasing to be employed or engaged by the Company (except as a consequence of a disposal or sale of the Company's undertaking);</li> <li>• 30 days after the date the participant dies, is retrenched or made redundant, retires or is permanently, physically or mentally incapacitated; or</li> <li>• 30 days following a person acquiring a relevant interest in not less than 90% of the Company's Shares or, at the discretion of the Board, ten days following the Company issuing a notice of meeting in connection with a scheme of arrangement, which, if implemented, will give a person a relevant interest in not less than 90% of the Company's Shares.</li> </ul>
<b>New issues</b>	Options to not confer on participants any rights or entitlements to participate in new issues of capital.
<b>Reorganisations of capital</b>	In the event of a reorganisation of the issued capital of the Company the rights of option holders will be changed to the extent necessary to comply with the Listing Rules.
<b>Quotation</b>	Options will not be listed for quotation on ASX.
<b>Bonus Issue</b>	If the Company makes a bonus issue, participants whose options have not expired will not be entitled to any adjustment to the number of Shares that will be issued to them upon exercise of any of those options.

## **Schedule B – Convertible Bond terms**

A summary of the key terms and conditions of the Convertible Bonds is set out below:

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

for redemption of the Convertible Bond, interest will continue to accrue (both before and after judgment) at 15% per annum (or such higher percentage as may apply to any judgment) until the day on which all sums due in respect of such Convertible Bond up to that day are received by or on behalf of the relevant holder;

- (j) (Initial conversion price): the initial conversion price is \$0.038 per Share;
- (k) (Conversion right): The bondholder has the right to elect to convert Convertible Bonds into ordinary shares determined by dividing the principal amount of the Convertible Bonds (or the relevant part thereof) to be converted by the determined price and in effect on the date falling two business days after notice of exercise of the conversion right is given to COALBANK (or its designated Agent) and becomes effective;
- (l) (Anti dilution protection): The conversion price shall be subject to adjustment for standard dilutive events including subdivision, consolidation and reclassification, bonus issues and capital distributions. In addition, if:
  - (i) COALBANK issues any ordinary shares (other than ordinary shares issued on conversion of the Convertible Bonds or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, ordinary shares); or
  - (ii) COALBANK or a subsidiary or another person issues marketable securities with rights of conversion into ordinary shares,and the price per ordinary share or the fair market value of the consideration per ordinary share receivable upon conversion of the marketable securities (as applicable) is less than the conversion price as at the date of the first public announcement of the terms of such issue then the conversion price shall be reduced so as to equal that price.

This ratchet mechanism does not apply to issues of ordinary shares at a price that represents a 10% or lesser discount to the initial conversion price of \$0.038.

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

No adjustment will be made to the conversion price where ordinary shares or other marketable securities are issued, transferred, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of employees, consultants or officers of COALBANK pursuant to a share or option scheme or performance rights plan granted prior to the issue date or after the issue date provided that the number of ordinary shares issued, or which may be issued, upon the exercise of those options or rights issued after the issue date does not exceed 3,000,000 ordinary shares;
- (m) (Ordinary shares issued on conversion): ordinary shares issued will be fully paid and will in all respects rank pari passu with the fully paid ordinary shares in issue on the relevant conversion date;
- (n) (Redemption on maturity): COALBANK must redeem each Convertible Bond on its final maturity date of the Convertible Bonds by paying the principal amount of the Convertible Bond on that date;
- (o) (Early redeemed): Each Bondholder may elect to have any or all of the Convertible Bonds that it holds on an early redemption date by providing COALBANK with

written notice at least 90 days prior to relevant date. The relevant early redemption dates include the date that is two years after the issue date, and the date that is 30 months after the issue date;

- (p) (Events of default): A Bondholder may give notice to COALBANK that the Convertible Bonds are, and the Convertible Bonds shall immediately become, due and repayable at the default redemption price (which is a price that would result in the Bondholders deriving a 15% internal rate of return on their investment in the Convertible Bonds) in the event of any of the following occurring:
- (i) default is made in the payment on the due date of any amount payable in respect of the Convertible Bonds, and the default in the payment is not remedied within five business days;
  - (ii) default is made in the satisfaction of the conversion right in respect of any Convertible Bond on the due date for such satisfaction following the exercise of such conversion right, and the default in the satisfaction of the conversion right is not remedied within five business days;
  - (iii) COALBANK does not perform or comply in any material respect with any one or more of its other obligations under the Convertible Bonds or any bond document and if the default is incapable of remedy or is not remedied within 20 days after COALBANK has received notice requiring the default to be remedied;
  - (iv) a representation given by COALBANK or a subsidiary under a bond document proves to be incorrect when made and has, or is likely to have, a material adverse effect on COALBANK or the investment of a bondholder and is not, or cannot be, remedied within 20 days after the written notice from a bondholder;
  - (v) a default occurs with respect to any other debt that COALBANK or a subsidiary has; or a security granted by COALBANK or a subsidiary for any indebtedness becomes enforceable and steps are taken to enforce that security, and the aggregate amount of the indebtedness equals or exceeds \$500,000 (or its equivalent in other currencies);
  - (vi) a final judgment or judgments of a court for the payment of money aggregating in excess of \$200,000 is rendered against COALBANK or any subsidiary;
  - (vii) a distress, attachment, execution or other legal process is levied or enforced on or against any of the property, assets or revenues of COALBANK or any subsidiary, which is not discharged, removed, stayed or paid within ten days or a receiver or similar officer is appointed to COALBANK or a subsidiary;
  - (viii) COALBANK or any subsidiary is or states that it is insolvent or unable to pay its debts, is or may be presumed under the Corporations Act to be insolvent, stops or suspends payment of its debts generally or enters into a compromise for the benefit of its creditors;
  - (ix) an administrator or liquidator or a like or similar officer is appointed to COALBANK or any subsidiary or a winding-up order is made in respect of COALBANK or a subsidiary, subject to certain exceptions, ceases to carry on business;
  - (x) a change of control occurs. A change of control will occur if a person (excluding Greg Baynton and his associates) who controls COALBANK ceases to do

so or a person acquires control of COALBANK. A person will be taken to control COALBANK if the aggregate voting power (within the meaning of the Corporations Act) of the person and its associates (within the meaning of the Corporations Act) exceeds 50%, or would exceed 50% if all options or rights to acquire (directly or indirectly) ordinary shares or securities convertible or exchangeable (directly or indirectly) into ordinary shares were exercised or converted;

(xi) the ordinary shares cease to be quoted on ASX, or trading in ordinary shares on ASX is suspended for ten consecutive trading days or more;

(xii) all or any material part of the bond documents or the conditions is terminated or is or becomes void, illegal, invalid, unenforceable, COALBANK becomes entitled to terminate, rescind or avoid all or a material part of the bond documents (other than as a result of the actions of a Bondholder) or COALBANK ceases for any reason to be lawfully able to perform its obligations under the bond documents;

(xiii) any action, condition or thing at any time required to be taken, fulfilled or done in order to enable COALBANK lawfully to enter into, exercise their respective rights and perform and comply with its obligations under the Convertible Bonds and to ensure that those obligations are legally binding and enforceable is not taken, fulfilled or done, and to ensure that each subsidiary creates the security interests contemplated by its terms and has the intended priority, is not or has not been taken, fulfilled or done;

(xiv) any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs above; or

(xv) any litigation commenced against COALBANK or any of its subsidiaries that is likely to have a material adverse effect on COALBANK assets or its ability to perform its obligations under the bond documents;

(q) (Affirmative undertakings): COALBANK must promptly notify the bondholders of any event of default, potential event of default or adjustment or potential grounds for an adjustment to the conversion price occurring, maintain all authorisations necessary to be maintained by it to ensure the legality and enforceability of the bond documents and the priority of the security and all material authorisations required for the conduct of its business or ownership of its secured property, comply in all material respects with all laws and stock exchange requirements applicable to it or any of its subsidiaries, procure that each subsidiary will grant the bond guarantee and a fixed and floating charge in favour of each bondholder on the same date as the bond deed poll, insure its secured property and at all times keep it insured, and punctually pay or procure to be paid all premiums and other amounts necessary to effect and maintain in force each insurance policy;

(r) (Negative undertakings): COALBANK must not (other than in respect of permitted disposals and permitted encumbrances) sell, assign, transfer or otherwise dispose of or cease to hold, or part with possession of, or create a right to or an interest in any of its assets including by way of an encumbrance, nor make or pay any dividend unless the bondholders consent to the payment of such dividend and a corresponding amount of interest is paid on the Convertible Bonds; or in respect of a subsidiary, any dividend or other distribution, incur financial indebtedness other than pursuant to the bond documents, in respect of amounts of less than \$250,000 arising out of transactions occurring in the ordinary course of business, or financial indebtedness subordinated on terms approved by the bondholders;

- (s) (Other undertakings): COALBANK gives certain undertaking with respect to its capital structure, including that, subject to certain exceptions, COALBANK must not issue or pay up any marketable securities, in either case by way of capitalisation of profits or reserves, or modify the rights attaching to the ordinary shares with respect to voting, dividends or liquidation nor issue any other class of share capital or reduce its share capital subject to certain exceptions; and
- (t) (Governing law): The bond documents are governed by the laws of Queensland.



**By mail:**  
Coalbank Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235 Australia



**By fax:** +61 2 9287 0309



**All enquiries to: Telephone:** 1300 554 474 **Overseas:** +61 2 8280 7454



**X99999999999**

## SHAREHOLDER VOTING FORM

I/We being a member(s) of Coalbank Limited and entitled to attend and vote hereby appoint:

### STEP 1

### APPOINT A PROXY

☐

**the Chairman  
of the Meeting  
(mark box)**

**OR** if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of Coalbank Limited to be held at **The Theatre Room, RBS Morgans, Level 29 Riverside Centre, 123 Eagle Street, Brisbane Qld 4000** on **Tuesday, 15 November 2011 at 11:00am (Brisbane time)** and at any adjournment of that meeting.



#### IMPORTANT NOTE

The Chairman of the Meeting intends to vote undirected proxies **in favour of each item of business**. If the Chairman of the Meeting is your proxy (or becomes your proxy by default), you authorise the Chairman to exercise your proxy on Item 1, that the Remuneration Report for the year ended 30 June 2011 (as set out in the Directors' Report) be adopted, and on Items 5 and 6, that the issue of certain options be approved, even though these Items are connected directly or indirectly with the remuneration of a member of Key Management Personnel, which includes the Chairman. If you do **not** wish to authorise the Chairman to vote in this way, you should direct your vote in accordance with Step 2 below.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting.

Please read the voting instructions overleaf before marking any boxes with an **X**

### STEP 2

### VOTING DIRECTIONS

#### Resolution 1

Remuneration Report

☐
☐
☐

#### Resolution 5

Issue of options to Mr Staffan Ever

☐
☐
☐

#### Resolution 2

Re-Election of Director -  
Mr Greg Baynton

☐
☐
☐

#### Resolution 6

Issue of options to Mr Bruce Patrick

☐
☐
☐

#### Resolution 3

Re-Election of Director -  
Mr Grahame Baker

☐
☐
☐

#### Resolution 7

Ratification of previous issue of shares  
and convertible bonds

☐
☐
☐

#### Resolution 4

Election of Director - Mr Staffan Ever

☐
☐
☐

**i** \* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

### STEP 3

### SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

**CBQ PRX110**



## HOW TO COMPLETE THIS PROXY FORM

### Your Name and Address

This is your name and address as it appears on the company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

### Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the company. A proxy may be an individual or a body corporate.

### Votes on Items of Business - Proxy Appointment

You should direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

If the Chairman of the meeting or another of the Key Management Personnel of the company or their closely related parties is your proxy, that person will vote your shares on Item 1 (Remuneration Report) and Items 5 and 6 (Issue of options) in favour if you have not directed them how to vote on those items.

Key Management Personnel of the company are the Directors and those persons having authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly. The Remuneration Report identifies the company's Key Management Personnel for the financial year to 30 June 2011. Their closely related parties are defined in the *Corporations Act 2001* (Cth), and include certain of their family members, dependants and companies they control.

### Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together.

### Signing Instructions

You must sign this form as follows in the spaces provided:

**Individual:** where the holding is in one name, the holder must sign.

**Joint Holding:** where the holding is in more than one name, either shareholder may sign.

**Power of Attorney:** to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

### Corporate Representatives

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the company's share registry.

## Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **11:00am on Sunday, 13 November 2011**, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy Forms may be lodged using the reply paid envelope or:



**ONLINE**  [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Login to the Link website using the holding details as shown on the proxy form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the proxy form).



**by mail:**

Coalbank Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia



**by fax:**

+61 2 9287 0309



**by hand:**

delivering it to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

**If you would like to attend and vote at the Annual General Meeting, please bring this form with you.  
This will assist in registering your attendance.**