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REDBANK ENERGY

ASX Release

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No further rollover of the BSA

Redbank Energy Limited (ASX:AEJ) advises that its wholly owned subsidiary, Redbank Project, has not been granted a further extension of the Bank Support Agreement (“BSA”) by its lending syndicate, which expired on 31 May 2013. The company sought from the syndicate (comprising Syncora, BOSI, KBC, and Bankwest/CBA) (“Lenders”) an extension to 30 June 2013 to assist with its ongoing permanent restructure negotiations. Notwithstanding the non-extension, Redbank’s negotiations with the Lenders continue and the company is of the view that the BSA is not essential to Redbank’s ongoing viability as it works towards implementing a permanent restructure.

Background to the BSA: 2010 to January 2013

In late 2010, Bankwest cancelled Redbank Project’s liquidity facility and Redbank Project was required, under the terms of its financing documents, to replace the liquidity facility. In the absence of an equivalent replacement liquidity facility the lenders had the ability to declare an event of default and enforce their security, including by declaring their debt due and payable.

In March 2011, under the previous Redbank Board, Redbank Project entered into the BSA. Under the BSA the lenders agreed, amongst other things, not to exercise any rights they might have arising from the failure to replace the liquidity facility for an initial period of 12 months in which time Redbank Project was required to conduct a sale process. As previously disclosed, this sale process was ultimately unsuccessful and the BSA was extended for various periods from March 2012 until January 2013.

January 2013: rollover of the BSA on amended terms: path to a permanent restructure

In January 2013 the Lenders granted a 5 month extension of the BSA on amended terms which included a series of detailed steps to be completed by Redbank Project and the Lenders. The purpose of these steps was to provide a framework to facilitate the agreement of a permanent restructure of the finance facilities by 31 May 2013. In summary, these steps required Redbank Project to:

- provide further additional detailed cashflow reporting and information on capex management to the Lenders;
- engage a technical/engineering expert to conduct a review of the technical assumptions made in the financial model to be used as basis of the permanent restructure (“**Base Case Financial Model**”);
- submit a report regarding the intellectual property licensing agreements relevant to Redbank’s business;
- achieve a resolution of the carbon pass through arbitration with Ausgrid;

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- submit to the Lenders a revised Base Case Financial Model within 10 business days of the resolution of the Ausgrid arbitration; and
- pay the instalment of principal and interest deferred from 31 December 2012 (plus penalty interest) on 31 May 2013 (the total amount paid being approximately \$8 million and, as previously advised, the reason for original deferral being the facts underpinning the carbon dispute with Ausgrid).

Redbank Project has completed each of the steps referred to above. In this regard, it is important to note:

- Redbank successfully resolved the Ausgrid carbon tax arbitration, the result of which has been to remove significant uncertainty from the business to the benefit of all stakeholders; and
- there is no principal or interest currently due and payable but unpaid under the facility agreements.

Next steps toward a permanent restructure

Following on from the steps referred to in the paragraphs above, both the Lenders and Redbank Project were then obliged under the amended BSA terms to:

- agree the Base Case Financial Model within 10 Business Days of its submission by Redbank Project to the Lenders, such that it could form the basis of the terms of the permanent restructure; and,
- in good faith use all reasonable endeavours to agree a term sheet for the permanent restructure, to be followed by documentation of the terms by 31 May 2013.

As yet, the parties have not agreed the Financial Base Case Model or a satisfactory set of commercial terms to form the basis of the permanent restructure. However, although the proposed restructuring date of 31 May 2013 has not been met, Redbank Project expects to remain in discussions with the lenders to enter into a permanent restructure. The next step in the process is for Redbank Project to receive the Lenders' version of the Base Case Financial Model. On receipt, Redbank Project expects that an agreed Base Case Financial Model should be able to be achieved following which Redbank expects the parties will seek to reach mutually agreeable terms.

Effect of the expiry of the BSA

Nonetheless, it is important to note that the expiry of the period of bank support means that any rights the lenders may have in respect of the original breach of the finance documents are reinstated. However, Redbank has not received any indication that the lenders will seek to exercise any such rights.

Other consequences of the expiry of the bank support period include:

- the \$3 million working capital facility and \$2.5 million liquidity facility, which remain undrawn, will no longer be available;
- Redbank Project's financial covenant testing thresholds will revert to those set under the original facility agreement; and
- several reporting and co-operation obligations in respect of the lenders and their advisers are no longer required.

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In the meantime, Redbank Project is actively managing its liabilities and is not cashflow constrained. Its directors currently expect that the company can meet its debts as and when they fall due and payable.

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