



29 September 2008

Avastra Sleep Centres Limited ACN 094 446 803 (ASX:AVS) (**Avastra** or **Company**)

Non-Renounceable Entitlements Offer outcome and restructure

Avastra has terminated the Underwriting Agreement for its entitlements offer, announced on 15 August 2008 (**Entitlements Offer**), on the grounds that the underwriter, Colorado Investments Pty Ltd ACN 063 688 611 (**Underwriter**), has breached the agreement by failing to lodge applications for the entitlements offer shortfall by the required date of 24 September 2008.

The Entitlements Offer was expected to raise approximately A\$2.3 million (before issue costs). The proceeds from the Entitlements Offer were to be used for the Company's working capital expenses, to make earn out payments due to existing sleep centre vendors and to make payments to the contractor for the build out of the north-west facility in Seattle, Washington, USA.

As at the date of this announcement, the Company had received valid applications for 19,073,141 ordinary shares in the capital of the Company (**Shares**) together with application monies for the amount of \$572,194.23.

The Company has taken steps to restructure its Entitlements Offer and now announces the following arrangements:

- the Company has entered into a binding terms sheet with Aus-Care Management Services Pty Ltd to issue to that company or its nominees notes with certain rights of conversion to equity to raise \$1.6 million in debt funding;
- shareholders who have accepted their entitlements under the Entitlements Offer will be provided with details of the changes to the funding structure of the Company and offered the opportunity to withdraw their acceptances and receive a refund of their subscription money. If an acceptance is not withdrawn, the Company intends to proceed with the issue of shares in relation to that acceptance;
- the directors intend to investigate placing part of the shortfall to professional and sophisticated investors under Exception 3 to Listing Rule 7.2.

Notes issue

Attached is a summary of the terms relating to the notes. The notes have a term of 3 years and will be issued in two tranches:

- Tranche 1 Notes - convertible notes of an aggregate face value of \$368,400.00 - these notes are convertible to ordinary shares at any time at a conversion price of \$0.03 per share (12,280,000 shares which is within the Company's uncommitted capacity under Listing Rule 7.1);
- Tranche 2 Notes - loan notes of an aggregate face value of up to \$1,231,600.00 - these notes are not convertible unless after the announcement of the Company's annual results in each year, the holder requests shareholders to approve their conversion to ordinary shares at a conversion price of \$0.03 per share and such approval is given at a general meeting in accordance with Listing Rule 7.1 and any other regulatory requirements. The amount may be reduced if further equity is raised from the placement of the shortfall from the Entitlements Offer.

The interest rate is 5% per annum, payable at the end of the term and may be capitalised. The notes will be secured by a fixed and floating charge granted by the Company. The note issue is subject to the parties entering into definitive documentation.

Avastra Sleep Centres Limited ABN 47 094 446 803
Level 7, 360 Queen Street, Brisbane QLD 4000 AUSTRALIA
GPO Box 744, Brisbane QLD 4001 AUSTRALIA
phone: (61) 7 3120 0637, fax: (61) 7 3120 0639
info@avastra.com www.avastra.com

The lead note holder is Aus-Care Management Services Pty Ltd, a company associated with Mr John Bell-Allen. Mr Bell-Allen presently has a relevant interest in approximately 2.12% of Avastra's shares.

Entitlement acceptances

Shareholders who have accepted their entitlements under the Entitlements Offer will be provided with details of the changes to the funding structure of the Company and offered the opportunity to withdraw their acceptances.

If acceptance are not withdrawn, the Company intends to proceed with the issue of shares to those shareholders under the Entitlements Offer.

The key effects of the restructure of the Entitlements Offer are:

- The Entitlements Offer is no longer underwritten by Colorado Investments Pty Ltd. The full amount to be raised of A\$2.3 million will not be raised. The Entitlements Offer is effectively not underwritten.
- The Company may raise up to A\$2.3 million (before costs) through the note issue (A\$1.6 million or lesser amount as required), the Entitlements Offer, if most accepting shareholders confirm their acceptances (approximately A\$572,000) and do not withdraw and additional funds which may be raised by the placement of the shortfall.
- No underwriting fee will be payable and there is no facility fee for the notes to be issued. Therefore the amount which may be raised under the restructured Entitlements Offer and note issue is approximately the net amount which would have been raised under the underwritten Entitlements Offer.
- A maximum of 19,073,141 shares will be issued to shareholders under the restructured Entitlements Offer rather than the 76,666,667 shares which would have been issued under the underwritten Entitlements Offer. On this basis, the indicative total shares on issue immediately after completion of the restructured Entitlements Offer will be 134,546,515 shares. Further shares may be issued on the placement of the shortfall but that amount is not known at this time. This is also subject to conversion of notes in accordance with their terms.
- If shareholders withdraw their acceptances, then they will be diluted.

There is no change to the intended use of the funds raised. The proceeds from the Entitlements Offer are to be used for the Company's working capital expenses, to make earn out payments due to existing sleep centre vendors and to make payments to the contractor for the build out of the north-west facility in Seattle, Washington, USA.

There are some different risks associated with the restructured Entitlements Offer and the note issue:

- If a substantial proportion of accepting shareholders withdraw their acceptances and the shortfall cannot be placed, then the Company will raise less money than it intended to raise. This is most likely to result in the Company needing to raise further funds through some other means, which may include a placement of shares to selected investors.
- If such a lesser amount of funds are raised, these will be applied for the most urgent priority commitments. These include payments to the contractor for the build out of the north-west facility in Seattle and sleep centre vendor earn out payments. As previously announced, the Company has entered into or is negotiating payment deferral arrangements with sleep centre vendors. The Company expects that most of these payments will be deferred on acceptable terms.
- Limited funds will be available for working capital. Working capital will need to be sourced solely from operational revenues. This will reduce the cash available to the group.
- If the Tranche 1 Notes are converted, then existing shareholders will be diluted. The conversion price may not reflect the market price of the Company's shares at the time of conversion.
- If Tranche 2 Notes are converted, then existing shareholders will be diluted. The conversion price may not reflect the market price of the Company's shares at the time of conversion. However, such a conversion is not permitted unless shareholders (excluding the note holders) approve the conversion by resolution at a general meeting.

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- The notes are redeemable after three years. To the extent that notes have not been converted, the Company will need to finance the repayment of the face value of the notes plus interest. The Company may not be able to finance such a repayment on acceptable terms or at all.
- Certain actions of the Company are subject to approval of the note holders, including changes to the Board and senior management and others set out in the attached summary terms. If such matters occur without approval, this may result in an event of default.
- Note holders will rank ahead of unsecured creditors and shareholders for repayment in a winding up.
- The Company may incur costs in pursuing legal action against, or defending legal action by, the Underwriter.

Underwriter

The Company is currently considering the legal remedies available to it and the most suitable course of action in relation to the Underwriter's breach of the Underwriting Agreement.

Acceptances Confirmation or Withdrawal and Refund

The Company will be writing to shareholders who accepted their entitlements this week to provide them with the above information and provide an opportunity to withdraw their acceptances for Shares under the Entitlements Offer and receive a refund (without interest). Shareholders will have 10 business days to respond.

The Company therefore anticipates that it will complete the restructured Entitlements Offer and note issue on 14 October 2008 and despatch holding statements by midday on 15 October 2008.

Yours faithfully



Charles King
Company Secretary



Summary of Notes Terms

The notes (**Notes**) will be issued on the following basis:

1. (**Loan**): the maximum aggregate face value amount of Notes to be issued is \$1,600,000.
2. (**Tranches**): the notes will be issued in tranches as follows:

 Tranche 1 Notes - convertible notes of an aggregate face value of \$368,400.00;

 Tranche 2 Notes - loan notes of an aggregate face value of up to \$1,231,600.00;
3. (**Face Value**): each Note will have a face value of A\$100.00;
4. (**Term**): the term of each Note will be 3 years;
5. (**Conversion - Tranche 1**): the Tranche 1 Notes will be convertible into fully paid ordinary shares in the capital of the Company (**Shares**) at any time;
6. (**Conversion - Tranche 2**): Tranche 2 Notes may only be converted into Shares:
 - (a) after announcement of the Company's full year financial results (**Announcement Date**) in each year of the loan term; and
 - (b) with the prior approval of shareholders under Listing Rule 7.1 and subject to any other necessary shareholder approvals;
7. (**Conversion Price**): A\$0.03 per Share;
8. (**Interest rate**): 5% per annum (negotiable) calculated on the Face Value, accruing monthly in arrears (**Interest**), payable at the end of the term and may be capitalised;
9. (**Instrument**): a Note Deed for each of Tranche 1 Notes and Tranche 2 Notes, duly executed by the Company;
10. (**Security**): fixed and floating charge over the assets and undertaking of the Company ranking subordinate to existing securities;
11. (**Conversion adjustments**): a Conversion will be adjusted for any bonus issue, off-market buy-back or other capital reconstruction;
12. (**Redemption**): the Face Value plus Interest on the third anniversary of the date of issue;
13. (**Transfer**): will not be permitted in the first 12 months from issue unless the purchaser is a person to whom disclosure is not required under Chapter 6D of the Corporations Act. Otherwise Notes may be transferred;
14. (**Future raisings**): Noteholder will have a right of first refusal to participate in any capital raising by the Company on terms to be agreed with the Company. If the securities offered are notes with rights of conversion to ordinary shares, the terms of such notes will be substantially the same as the Notes except that the conversion price will be set by negotiation having regard to the market price of the Company's shares at that time.

15. (Events of default):

- (a) failure by the Company to repay any amount due when due and payable;
- (b) failure by the Company to pay any other monies due to the Noteholder;
- (c) a material breach of the Note Deed (subject to a 20 business day cure period);
- (d) an insolvency event occurs in the Company;
- (e) an order for payment or a judgement in excess of \$2,000,000 and the amount is not paid within 7 days;
- (f) ASIC or any Government Agency issues any proceedings against the Company or its directors alleging material breach of the Corporations Act;
- (g) the Company cease to carry on the business or the majority part thereof;
- (h) appointment or removal of the Chairman of the Company, or of any director of the Company or appointment or removal of any senior manager of the Company, including the Chief Executive Officer or the Chief Financial Officer, without the prior consent of the note holder;
- (i) undertaking without the approval of the note holder a restructure of the share capital of the Company, including the issue of securities, the reduction of any uncalled liability in respect of partly paid shares of the Company, redemptions or a buy-back of any securities or the variation of any rights attaching to any issued or unissued security;
- (j) other events usual for a transaction of this nature.

16. (Negative undertakings): the Company must not, and must not agree to, without the prior written consent of the Noteholder, acting reasonably:

- (a) make any material amendments to accounting policies;
- (b) deal in assets of the Company having a book or market value in excess of \$500,000;
- (c) incur any liabilities in respect of interest bearing borrowing or other financial accommodation or providing any guarantee or indemnity in excess of \$250,000;
- (d) provide a loan or other financial accommodation to any person (other than usual trade credit in the ordinary course of business) exceeding \$100,000;
- (e) cease to carry on, or materially alter the scale of operations of, the business or commence any business or operational activities other than the business;
- (f) make a declaration or payment of any dividend;
- (g) create or grant any mortgage, charge or other encumbrance in respect of any asset or undertaking the Company;
- (h) make any proposal to limit the Company's right to carry on its business or a substantial part of its business or to wind-up or dissolve the Company.