

**ASX ANNOUNCEMENT**

27 August 2013

**PROPORTIONAL TAKEOVER OFFER**

**COALBANK LIMITED (ASX: CBQ, COALBANK or the Company)** and Loyal Strategic Investment Ltd (Loyal Strategic) are pleased to announce that Loyal Strategic will make a proportional takeover offer for 75% of each COALBANK shareholder's shares in COALBANK at 1 cent per share (Offer).

The parties have entered into a deed of variation setting out the terms for implementation of the Offer for the Company.

As announced on 24 July 2013, and following feedback from shareholders, the parties have restructured the whole-of-company transaction announced on 26 April 2013 from a scheme of arrangement to a proportional takeover, with a view to retaining the Company's ASX listing. This will enable the Company to pursue existing projects and other growth and income-generation opportunities. Loyal Strategic will also loan the Company funds to redeem the convertible bonds currently on issue. The terms of that loan are set out in the annexure to this announcement.

The proportional takeover will give shareholders the opportunity to participate in the Company's future. The bid also provides the option for liquidity for the majority of each shareholder's holding.

The COALBANK Board supports the bid and unanimously recommends the Offer to its shareholders, in the absence of a superior proposal.

The COALBANK Directors have advised that they intend to accept the Offer in respect of all COALBANK shares which they hold or control, within five Business Days after the beginning of the Offer Period, subject to there being no superior proposal.

Under the revised arrangements, subject to Ministerial approval (where required), Loyal Strategic will separately acquire COALBANK's Biloela South, Coalbank South, Chinchilla East EPCs, and Harvest Metals Pty Ltd for \$2,000,000 (of which \$1,500,000 has already been received) (Sale Interest), which is not subject to the Offer becoming unconditional. Completion will occur in October and will require Loyal Strategic to pay COALBANK the remaining consideration of A\$500,000. The Sale Interest encompasses a group of COALBANK's non-core EPCs (Biloela South, Coalbank South, and Chinchilla East) and its shareholding in Harvest Metals Pty Ltd.

**Proportional Takeover Bid***Key Terms*

Under the terms of the proportional takeover, Loyal Strategic (or its nominee) will make a takeover bid for 75% of each holder's ordinary shares in COALBANK, at an Offer price of 1 cent per ordinary share. The COALBANK directors recommend the Offer, in the absence of a superior proposal.

*Timing*

Loyal Strategic has agreed to promptly lodge a Bidder's Statement on or about 2 September, and the COALBANK board has consented to the early dispatch of Loyal Strategic's Offer. On this basis, the expected timetable is as follows:

<b>Key Event</b>	<b>Date*</b>
Bidder's Statement lodged with ASIC and dispatch (Offer opens)	Monday, 2 September 2013
Target's Statement lodged with ASIC	By Monday, 9 September 2013
Shareholder meeting to approve the Offer	Friday, 4 October 2013
Last date of Offer (subject to extension)	Friday, 4 October 2013
Expected date for payment of bid consideration	Friday, 18 October 2013

*\*Dates may vary*

*Exclusivity*

COALBANK has agreed to standard exclusivity arrangements in respect of the proposed takeover bid. The detailed terms of those arrangements are set out in Annexure A to this announcement.

*Defeating conditions*

The bid will be subject to certain customary conditions set out in Annexure A to this announcement. In particular, the bid will be subject to achievement of a minimum acceptance of not less than 50.1% (by number) of COALBANK's shares then on issue, before the end of the Offer Period. The Offer is also conditional on COALBANK's shareholders approving a proportional takeover under rule 16.4 of COALBANK's Constitution.

As outlined in the timetable above, COALBANK expects the despatch of Loyal Strategic's Bidder's Statement to shareholders on or about 2 September which will be followed shortly by the despatch of the Target's Statement by 9 September.

*Advisers*

COALBANK is being advised on the transaction by McCullough Robertson.

Further information:

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**Annexure A**

**Defeating conditions**

The Offer is subject to the following defeating conditions:

**Minimum acceptance condition**

Before the end of the Offer Period, the Bidder has acquired voting power of not less than 50.1% (by number) of the Target's Shares then on issue.

**No prescribed occurrences**

During the Offer Period there is no Prescribed Occurrence.

**No material adverse change**

During the Offer Period there is no Material Adverse Change.

**No regulatory action**

During the Offer Period:

- (1) there is not in effect any preliminary or final decision, order or decree issued by any Government Agency; and
- (2) no action or investigation is announced, commenced or threatened by any Government Agency,

in consequence of or in connection with the Offer (other than an application to, or a decision or order of, ASIC or the Takeovers Panel in exercise of the powers and discretions conferred by the Corporations Act) which prohibits or materially impedes, or materially impacts upon, the making of the Offer.

**No legal proceedings**

During the Offer Period, no litigation or arbitration proceedings or other legal proceedings against the Target or any of its subsidiaries are commenced, instituted or threatened to be commenced which is likely to have a material adverse effect on the Target Group.

**Exclusivity**

In addition, the Target has granted the Bidder exclusivity during the Exclusivity Period during which:

- (a) **(no-talk)** the Target must not, and must ensure that no member of the Target Group nor any of their respective directors, employees, officers, agents or advisers participate in any negotiations or discussions in respect of any Competing Proposal;
- (b) **(no-shop)** the Target must not, and must ensure that no member of the Target Group nor any of their respective directors, employees, officers, agents directly or indirectly:
  - (i) solicits, invites, facilitates, encourages or initiates any enquiries, negotiations or discussions; or
  - (ii) communicates any intention to do any of these things, with a view to obtaining any approach, expression of interest, offer or proposal from any person in relation to a Competing Proposal.

Those provisions do not prevent a party from undertaking an act otherwise prohibited by the 'no-talk' obligation if, in the opinion of the Target Board determined in good faith and based on the written

opinion of legal counsel (which will be made available to the Bidder on request), the Competing Proposal could be a Superior Proposal.

During the Exclusivity Period, the Target must not, and must ensure that no member of the Target Group, nor any of their respective directors, employees, officers, agents or advisers, recommends a Competing Proposal, or enters into any agreement, arrangement or understanding to pursue a Competing Proposal, unless it has first:

- (a) notified the Bidder in writing of the existence of the Competing Proposal and the person or persons proposing the Competing Proposal; and
- (b) given the Bidder at least five Business Days after provision of that information to provide a matching or superior deal to the Competing Proposal.

## Redemption of convertible bonds

In addition, Loyal Strategic has agreed to lend COALBANK \$2 million to redeem the convertible bonds on issue. The redemption will occur when Loyal Strategic declares the bid unconditional with a relevant interest of greater than 50%. The loan to COALBANK is for an initial term of 12 months, and is interest free. At the end of that period, COALBANK may elect to convert the loan into equity at \$0.015 per COALBANK share, which conversion will be subject to shareholder approval. Should shareholder approval not be obtained, Loyal Strategic may convert to the extent it is able to under the Corporations Act (e.g. creep provisions allowing movement in voting power of 3% in any six month period), but otherwise interest will accrue at 15% per annum on the advance.

## Definitions

In this annexure, capitalised terms have the following meanings:

**Bidder** means Loyal Strategic Investment Ltd.

**Bidder Representations and Warranties** means certain representations and warranties of the Bidder.

**Business Day** means a business day as defined in the Listing Rules.

**Competing Proposal** means a transaction which, if completed, would mean a person other than the Bidder or an associate of the Bidder would:

- (a) acquire a relevant interest in 20% or more of the Target's securities;
- (b) acquire control of the Target, within the meaning of section 50AA Corporations Act; or
- (c) acquire all or a substantial part of the Target's business, assets or undertaking.

**Consideration** means \$0.01 for each Share.

**Encumbrance** means any mortgage, charge, pledge or lien and a security interest or a preferential or adverse interest of any kind.

**EPC** means an exploration permit for coal or an exploration permit for minerals, in each case issued under the *Mineral Resources Act 1989* (Qld).

**EPCA** means an application for an exploration permit for coal or an exploration permit for minerals, in each case to be issued under the *Mineral Resources Act 1989* (Qld).

**Exclusivity Period** means the period of three months from the date of this announcement.

**Financial Indebtedness** means any debt or other monetary liability (whether actual or contingent) in respect of moneys borrowed or raised or any financial accommodation.

**Government Agency** means any Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any State.

**Implementation Agreement** means the agreement setting out the terms for implementation of the Offers to be made under the takeover bid described in this announcement.

**Insolvency Event** means any of the following events occurring in relation to a party:

- (a) a liquidator, receiver, receiver and manager, administrator, official manager or other controller (as defined in the Corporations Act), trustee or controlling trustee or similar official is appointed over any of the property or undertaking of the party;
- (b) the party is, or becomes unable to, pay its debts when they are due or is or becomes unable to pay its debts within the meaning of the Corporations Act, or is presumed to be insolvent under the Corporations Act;
- (c) the party ceases to carry on business; or
- (d) an application or order is made for the liquidation of the party or a resolution is passed or any steps are taken to liquidate or pass a resolution for the liquidation of the party, otherwise than for the purpose of an amalgamation or reconstruction.

**Material Adverse Change** means any matter, event or circumstance which occurs, is announced or becomes known to the Bidder after the date of this announcement which (individually or when aggregated with all such matters, events or circumstances) has resulted in or is likely to result in a material diminution in the value of the Target Group but does not include:

- (a) any matter, event or circumstance arising from changes in economic or business conditions (including changes in thermal coal prices, likely operating or capital expenditure requirements or the intentions of other participants in the coal industry) which impact on the Target and its competitors in a similar manner;
- (b) any change in royalty or taxation rates or the law relating to royalties or taxation which impact on the Target and its competitors in a similar manner; or
- (c) any change occurring directly or indirectly as a result of any matter, event or circumstance required to be done or procured by a party pursuant to the Implementation Agreement.

**Prescribed Occurrence:** means:

- (a) **(conversion)** the Target converts all or any of its shares into a larger or smaller number of shares;
- (b) **(reduction of share capital)** the Target resolves to reduce its share capital in any way;
- (c) **(buy-back)** the Target:
  - (i) enters into a buy-back agreement; or
  - (ii) resolves to approve the terms of a buy-back agreement under the Corporations Act;
- (d) **(distribution)** the Target makes or declares, or announces an intention to make or declare, any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie);
- (e) **(issuing or granting shares or options)** a member of the Target Group:
  - (i) issues shares;
  - (ii) grants an option over its shares; or
  - (iii) agrees to make such an issue or grant such an option,
 in each case to a person outside the Target Group, other than due to the exercise of Target Options or Target Performance Rights or conversion of Target Convertible Bonds;
- (f) **(securities or other instruments)** a member of the Target Group:
  - (i) issues securities or other instruments convertible into shares or debt securities; or
  - (ii) agrees to issue securities or other instruments convertible into shares or debt securities,
 in each case to a person outside the Target Group;
- (g) **(constitution)** a member of the Target Group adopts a new constitution or modifies or repeals its constitution or a provision of it;
- (h) **(disposals)** a member of the Target Group disposes, or agrees to dispose, or is mandated by a Government Agency to dispose of, a part of its business or property where the value of such business, or property exceeds \$50,000 (either individually or, in the case of related businesses

or classes of property, collectively) other than a partial relinquishment in the area of an EPC in accordance with the terms and conditions of the EPC documents or the relinquishment of EPC 1313 or EPC 1524;

- (i) **(acquisitions, disposals or tenders)** a member of the Target Group:
    - (i) acquires or disposes of;
    - (ii) agrees to acquire or dispose of; or
    - (iii) offers, proposes, announces a bid or tenders for,
 any business, asset, interest in a joint venture, entity or undertaking where the value of such business, asset, interest, entity or undertaking exceeds \$50,000 (either individually or, in the case of related businesses or classes of assets, collectively) other than a partial relinquishment in the area of an EPC in accordance with the terms and conditions of the EPC documents;
  - (j) **(Encumbrances)** a member of the Target Group creates any Encumbrance over the whole or a part of its business or property (other than a lien which arises by operation of law or legislation securing an obligation not yet due and consistent with past practice) which secures a liability greater than \$20,000;
  - (k) **(employment arrangements)** a member of the Target Group:
    - (i) increases the remuneration of, or otherwise varies the employment arrangements with, any of its directors or employees;
    - (ii) accelerates the rights of any of its directors or employees to compensation or benefits of any kind; or
    - (iii) pays any of its directors or employees a termination or retention payment (otherwise than in accordance with an existing contract which, at the date of the Implementation Agreement, is in place and has been disclosed to the Bidder),
 other than as a result of contracted arrangements at the date of the Implementation Agreement;
  - (l) **(commitments and settlements)** a member of the Target Group:
    - (i) enters into any contract or commitment involving revenue or expenditure by the Target Group of more than \$50,000 over the term of the contract or commitment;
    - (ii) waives any material third party default where the financial impact on the Target Group will be in excess of \$50,000;
    - (iii) accepts as a settlement or compromise of a material matter (relating to an amount in excess of \$50,000) less than the full compensation due to the Target or a Subsidiary of the Target;
    - (iv) is joined in any capacity in any legal, arbitral, administrative or other proceedings which may result in a fine, penalty, award, judgment, determination, loss, damages, expense or other liability in excess of \$150,000 in aggregate; or
    - (v) is required to pay or discharge a fine, penalty or liability or liabilities to a Government Agency in excess of \$50,000 in aggregate,
 other than contracts or commitments entered into or expenses incurred in connection with the Implementation Agreement and the Transaction;
  - (m) **(capital expenditure)** a member of the Target Group undertakes or agrees to undertake capital expenditure in excess of \$50,000 in aggregate;
  - (n) **(insolvency)** an Insolvency Event occurs in relation to any member of the Target Group;
  - (o) **(financial indebtedness)** a member of the Target Group provides financial accommodation (irrespective of what form of Financial Indebtedness that accommodation takes) in excess of \$50,000; or
  - (p) **(breach of law)** a member of the Target Group takes or omits to take action which results in a breach of law material to a member of the Target Group,
- provided that a Prescribed Occurrence does not include:
- (q) any issue of equity in the Target pursuant to the exercise of rights under Target Performance Rights and Target Options described in Schedule 2 of the Implementation Agreement;
  - (r) any matter required to be done or procured by a member of the Target Group pursuant to the Implementation Agreement; or
  - (s) any other matter, the undertaking of which the Bidder has approved in writing.

**Superior Proposal** means a publicly announced Competing Proposal that, taking into account all aspects of the Competing Proposal, including the likelihood of success of the Competing Proposal, is reasonably capable of being completed and more favourable to the Target Shareholders than the Offer.

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

**Target Board** means the board of directors of the Target.

**Target Group** means the Target and each of its subsidiaries

**Target Options** means options over unissued Target Shares.

**Target Performance Rights** means rights to acquire Target Shares, the exercise of which is subject to performance conditions.

**Target Representations and Warranties** means the representations and warranties of the Target set out in Schedule 2 of the Implementation Agreement

**Target Share** means a fully paid ordinary share in the Target.

**Target Shareholder** means each person registered as the holder of Target Shares.

**Transaction** means the Offers made under the takeover bid the subject of this announcement.