

31 May 2016

The Manager  
Company Announcements Office  
ASX Limited  
20 Bridge Street  
Sydney NSW 2000

**By E-lodgement**

**SINO-EXCEL ENERGY LIMITED TO ACQUIRE ENGINEERING EQUIPMENT AND SERVICES BUSINESSES IN THE UPSTREAM OIL AND GAS INDUSTRY**

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**Highlights**

- Sino-Excel Energy Limited (**SLE**) has entered into a term sheet today relating to the proposed acquisition (**Acquisition**) of Solidgro Energy Sdn Bhd (incorporated in Malaysia), Color Ocean Energy Limited (incorporated in the British Virgin Islands) and Geopremium Sdn Bhd (incorporated in Malaysia) (together, the **SOL Group**).
  - In conjunction with the Acquisition, SLE is proposing to conduct a capital raising for a minimum amount of \$3 million (up to a maximum of \$4 million) via a prospectus involving the issue of fully paid ordinary shares in SLE (**Shares**) at a price of \$0.05 per Share (**Public Offer**).
  - SLE is also proposing to conduct the following steps to restructure its debt and share capital (subject to obtaining the requisite approvals):
    - a share consolidation where every 8 Shares will be consolidated into 1 Share (**Share Consolidation**); and
    - various debt to equity conversions where certain debts owed by SLE will be converted into Shares at a rate of \$0.05 per Share (on a post consolidation basis) (**Debt-to-Equity Conversions**).
  - SLE has today completed an initial capital raising of \$400,000. The funds invested are to be initially treated as loans until SLE has obtained the necessary approvals from its shareholders to issue convertible notes (**Notes**) to the relevant investors.
  - SLE is intending to have completed the Acquisition, the Public Offer, the Share Consolidation and Debt-to-Equity Conversions (**Transaction**) by late August 2016 and intends to seek approval from the ASX for its Shares to recommence trading on the ASX as part of this process.
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SLE is pleased to announce that it has signed a term sheet to acquire the entire issued share capital of each of the SOL Group companies. The Acquisition is subject to a number of conditions precedent (as set out below).

### **About the SOL Group**

The operations of the SOL Group commenced in 2006 after the founders identified an opportunity to provide specialist engineering equipment and services to the upstream oil and gas industry. From the founders' experience in the oil and gas industry, they were aware that with the depletion of shallow oil and gas wells, oil production companies were required to drill deeper for oil reserves. Greater drilling depths generate more heat, creating an opportunity for mud cooling equipment and services.

Today, the principal activities, products and services of the SOL Group consist of:

- mud cooling equipment and services (for both offshore and onshore drilling);
- conductor piling equipment and services; and
- supply and leasing services for offshore containers.

### ***Mud cooling equipment and services***

Mud cooling equipment, or also known as mud coolers, is specialised equipment used in high pressure high temperature drilling activities. The purpose of mud coolers is to substantially reduce the temperature of the drilling mud, or drilling fluids, with the following benefits:

- lowering of flash points for site safety when using oil based drilling fluids;
- greater drilling accuracy when using measurement-while-drilling (**MWD**) devices;
- MWD devices and other logging tools can go to greater depths and with increased endurance due to reduced thermal stress; and
- reduced usage of drilling additives and increased life of elastomers.

The SOL Group companies manufacture and fabricate their mud coolers at their plant in Kemaman, Malaysia where they fabricate the mud cooling skids, pump skids, strainers and baskets and install heat exchanger packs onto the skids. The heat exchanger packs are procured from a third party supplier.

The SOL Group companies lease mud coolers to their customers and they are then transported to the relevant customer's oil and gas drilling site. At the end of the lease period, the mud coolers are returned to the plant in Kemaman.

### ***Conductor piling equipment and services***

The SOL Group companies supply piling equipment that is specialised hydraulic based equipment used for driving surface conductor pipes into the ground for drilling purposes and for the installation of offshore platforms. The key benefits of this equipment are:

- rapid piling rates save time and costs, shortening project durations;
- hydraulic operations produce simple and reliable functionality; and
- the compact and low weight design facilitates offshore handling.

### ***Supply and leasing services for offshore containers***

Members of the SOL Group have collaborated with OEG Asia Pacific Pte Ltd to provide supply and rental services relating to offshore containers. All units are certified to DNV 2.7-1 and EN12079 standard. The SOL Group can provide bespoke container designs and layouts for specific customer requirements.

### **Key Acquisition Terms**

The term sheet for the Acquisition has been entered to with Tung Han Bee, Wee Khen Peng and Manogran P. Arumugam (together, the **Vendors**) (being the shareholders of each of the SOL Group companies) and each of the SOL Group companies. The consideration for the Acquisition will consist of the allotment to the Vendors of the following Shares and options to acquire Shares:

- 180,000,000 Shares (with a deemed issue price of \$0.05 per Share) (**Consideration Shares**); and
- 20,000,000 unlisted options over Shares (**Consideration Options**) exercisable at a price of \$0.10 per option and at any time within 36 months from date of issue.

### **Conditions Precedent to Acquisition of the SOL Group**

Completion of the Acquisition is subject to a number of conditions precedent. These conditions must be satisfied or waived before 31 August 2016 (or such other date agreed between the parties). These conditions include:

- The parties entering into a formal and binding sale and purchase agreement to document the terms of the Acquisition.
- The results of any due diligence investigation carried out by the Vendors in relation to SLE being satisfactory to the Vendors.
- The SOL Group and the Vendors obtaining all necessary approvals and consents required to comply with law.
- The results of any due diligence investigation carried out by SLE in relation to the SOL Group and the Vendors being satisfactory to SLE.
- SLE holding a general meeting of shareholders (**General Meeting**) and obtaining the requisite shareholder approvals required under the Corporations Act and Listing Rules in order to implement the Transaction, including any required approvals under item 7 of section 611 of the Corporations Act and approvals under Listing Rule 11.1.2.
- SLE completing the Share Consolidation, to take effect immediately before completion of the Acquisition.
- All necessary approvals and documents being obtained and signed for SLE to carry out the Debt-to-Equity Conversions.

- SLE issuing a prospectus for the Public Offer and SLE receiving valid applications and subscription moneys for no less than \$3,000,000 and not accepting applications totalling more than \$4,000,000.
- SLE re-complying with Chapters 1 and 2 of the Listing Rules.
- SLE obtaining all necessary ASIC, ASX and shareholder approvals required to complete the Transaction.

### **Re-compliance with Chapters 1 & 2 of the Listing Rules**

The acquisition of the SOL Group will result in a change in SLE's nature and scale of activities and will require shareholder approval under Chapter 11 of the Listing Rules and re-compliance by SLE with Chapters 1 and 2 of the Listing Rules. SLE will despatch a notice of meeting to shareholders seeking the relevant approvals to undertake this process, with such notice to contain detailed information relating to the acquisition of the SOL Group.

In the context of SLE's proposed application under Chapters 1 and 2, SLE intends to seek a waiver from the ASX in relation to Listing Rule 2.1 (condition 2) because it is proposed that the issue price or sale price of all the securities for which SLE will be seeking quotation (except options) will be less than 20 cents per Share. SLE also intends to seek a waiver from the ASX in relation to Listing Rule 1.1 (condition 11) because it is proposed that the exercise price for each of the Consideration Options will be less than 20 cents per option.

SLE has been suspended from trading on the ASX since 2013 and will remain suspended until the ASX has confirmed that SLE has re-complied with Chapters 1 and 2 of the Listing Rules. SLE has also received notice from the ASX that it will be removed from the official list of the ASX if its Shares have not re-commenced trading on or before 2 September 2016.

### **General Impact on SLE**

Before being suspended, SLE's principal activities related to the provision of technical and 3M coal services to mines. 3M coal services assist mine owners to increase productivity, efficiency and profitability from their assets. These operations ceased in 2012 due to the global downturn in the coal sector.

Since 2012, SLE has been seeking opportunities to acquire new businesses. As at 31 December 2015, SLE had negative net assets of approximately \$4 million.

The SLE board is of the view that the Acquisition and Public Offer are in the best interests of SLE and its shareholders as they are intended to create additional value for the benefit of SLE and its shareholders.

Some of the key financial figures relating to the SOL Group (on a consolidated basis and expressed in Australian dollars) are set out in the table below:

	<b>FY2015</b>	<b>FY2014</b>	<b>FY2013</b>
Net assets (as at 31 December):	\$2,249,534	\$3,803,347	\$2,518,204
Annual revenue (for the year ended 31 December):	\$3,266,614	\$5,509,200	\$3,633,230
Annual profit before tax (for the year ended 31 December):	(\$426,796)	\$1,629,908	\$961,514

SLE has recently commenced conducting financial and legal due diligence on the SOL Group and further information about the likely effect of the Acquisition on SLE's total assets, total equity interests, annual revenue, annual profit before tax and extraordinary items will be made available in due course.

### **Change of Board**

With effect from today, all existing directors of SLE (other than Leo Peng and Yan Shi Zhao) have resigned. Also with effect from today, Frank Licciardello has been appointed to the board as Chairman and Lee Mitchell has been appointed as Company Secretary. It is currently anticipated that 1 additional director will be appointed to the SLE board before completion of the Transaction.

### **Capital Raising(s)**

In conjunction with the Acquisition, SLE will be undertaking (or has already undertaken) the following capital management initiatives:

#### ***Notes***

SLE today completed an initial capital raising of \$400,000.

The funds raised will initially constitute simple unsecured loans to SLE. The loan moneys are to be applied as subscription moneys for convertible notes (**Notes**) to be issued by SLE (subject to SLE obtaining any shareholder approval required under Listing Rule 7.1 for those Notes to be issued). The issue of Shares in SLE on conversion of these Notes is also subject to the required shareholder approval being obtained.

SLE expects to seek the required shareholder approvals at the same General Meeting that will be called to (among other things) approve the Acquisition.

Once issued, all Notes will automatically convert into Shares if SLE receives notice of conditional approval from the ASX lifting the current trading suspension on SLE's Shares.

The funds raised under the loan and convertible note agreements will be used by SLE to fund the costs associated with the Transaction.

A summary of the key terms of the loan and convertible note agreements is attached.

### ***Prospectus Raising***

In conjunction with the Acquisition, SLE is proposing to conduct a capital raising for a minimum amount of \$3 million (up to a maximum of \$4 million) via a full form prospectus involving the issue of new Shares at a price of \$0.05 per Share. SLE has appointed Sanston Securities Australia Pty Ltd (**Sanston**), a company controlled by one of the new incoming directors (Frank Licciardello), as corporate financial advisor and lead manager in relation to the Transaction and the Public Offer.

Assuming \$3 million is raised under the Public Offer, it is currently estimated that the funds raised under the Public Offer will be used as follows:

Purchase of new equipment	\$500,000
Costs of the offer	\$400,000
Acquisitions of new businesses	\$1,000,000
Repayment of debt	\$300,000
Working capital	\$800,000
<b>TOTAL</b>	<b>\$3,000,000</b>

### **Indicative Capital Structure**

The indicative effect of the Transaction on SLE's capital structure will be as follows (assuming \$3 million is raised under the Public Offer):

<b>Shareholder group</b>	<b>Number of Shares held before completion of Share Consolidation, Acquisition and Public Offer</b>	<b>Number of Shares held after completion of Share Consolidation, Acquisition and Public Offer</b>	<b>Percentage of Shares held</b>
Current shareholders	179,503,062	22,437,883	7.08%
Vendors (Consideration Shares)	0	180,000,000	56.82%
Public Offer (assuming \$3 million raised)	0	60,000,000	18.94%
Noteholders (conversion of Notes - \$400,000)*	0	13,333,333	4.21%
Shareholders arising from Debt-to-Equity Conversions	0	13,000,000	4.10%
Sanston (Lead Manager Options) – assuming all options exercised	0	8,000,000	2.53%
Vendors (Consideration Options) - assuming all options exercised	0	20,000,000	6.31%
<b>Total Shares</b>	<b>179,503,062</b>	<b>316,771,216</b>	<b>100%</b>

\*Additional Shares may be issued if any interest payable under the loan and convertible note agreements is capitalised.

Assuming that \$3 million is raised under the Public Offer, this would result in SLE having a market capitalisation of **\$15,838,560**.

### **Indicative Timetable**

An indicative timetable for the Transaction is set out below. This timetable may be subject to change.

<b>Key events / future milestone</b>	<b>Date / Proposed date (approximate)</b>
Announcement of Acquisition and receipt of initial \$400,000 funding	Tuesday, 31 May 2016
Signing of term sheet for the Acquisition	Tuesday, 31 May 2016
Signing of binding sale and purchase agreement	Week commencing 20 June 2016
Completion of due diligence	Week commencing 27 June 2016
Submission of draft notice of meeting to the ASX and ASIC	Week commencing 27 June 2016
Despatch of notice of meeting to shareholders	Week commencing 18 July 2016
Lodgement of prospectus with ASIC	Week commencing 25 July 2016
Lodgement of listing application with the ASX	Week commencing 25 July 2016
Prospectus offer period opens	Week commencing 8 August 2016
Prospectus offer period closes	Week commencing 22 August 2016
General Meeting	Week commencing 22 August 2016
Proposed date for final acceptance by ASX of listing application and removal of trading suspension	Week commencing 22 August 2016
Completion of the Acquisition and allotment of Shares under the Public Offer, Debt-to-Equity Conversions and the conversion of the Notes	Week commencing 29 August 2016



For further details please contact:

Frank Licciardello - Chairman on [flicciardello@sanston.com.au](mailto:flicciardello@sanston.com.au) or +61 411 708 933.

Lee Mitchell – Secretary on [lmitchell@convergencelegal.com.au](mailto:lmitchell@convergencelegal.com.au)

## Loan and Convertible Note Agreement

### Summary of key terms

<b>Investors</b>	Kaing Hooou Tan, Lee Keong Wong, Asenna Wealth Solutions Pty Ltd
<b>Loan amount</b>	\$400,000.00 (plus any capitalised interest).
<b>Loan date</b>	31 May 2016
<b>Number of Notes subscribed for by the Investors</b>	The loan amount divided by the face value (in each case, as at the date the Notes are issued), which in the absence of any capitalised interest accrued on the loans, would be a total of 106,666,666 Notes (in aggregate between all of the Investors).
<b>Conditions to the issue of Notes</b>	The issue of Notes to the Investors is subject to and conditional on any shareholder approval that may be required under Listing Rule 7.1.
<b>Face value</b>	\$0.00375 per Note (plus any additional amount that reflects capitalised interest).
<b>Interest rate</b>	8% per annum, accruing daily and payable on the last business day of each month (except where SLE elects for interest to be capitalised, in which case the relevant interest will instead be added to the loan amount or the face value of the Notes, as applicable).
<b>Conversion notice</b>	If Notes are issued to the Investors, then the Investors may elect to convert those Notes into Shares by giving SLE a conversion notice at any time before those Notes are cancelled or redeemed.
<b>Automatic conversion</b>	<p>If SLE receives conditional approval from the ASX relating to the relisting of SLE's securities on the ASX, then any Notes that have not already converted into Shares will automatically convert into Shares.</p> <p>The Investors will also be deemed to have given conversion notices requiring the Notes to be converted if Notes have been issued, but SLE has not re-listed on the ASX within 12 months after the date of the loan and convertible note agreements.</p>
<b>Conversion rate</b>	On conversion, SLE will issue to the Investors (or an appropriate nominee) that number of Shares equal to the number of Notes being converted multiplied by the face value,

	and then divided by \$0.00375 per Note. This will result in approximately 13,333,333 Shares being issued to the Investors in aggregate (after factoring in the adjustments resulting from the Share Consolidation).
<b>Conditions of conversion</b>	The issue of any Shares on conversion of any Notes issued to the Investors is subject to and conditional on certain conditions, including the obtaining of any required shareholder approval.
<b>Repayment or redemption</b>	<p>SLE must repay the loans to the Investors on the earlier of the date that is 12 months after the date of the loan and convertible note agreements or the date that is 10 business days after the Investors give SLE an event of default notice.</p> <p>If Notes are issued to the Investors and they have not been converted into Shares, SLE must redeem those Notes within 10 business days after the relevant Investor gives SLE an event of default notice. As noted above, if Notes have been issued and SLE has not re-listed on the ASX within 12 months after the date of the loan and convertible note agreements, the Investors will be taken to have given a conversion notice requiring the Notes to be converted into Shares (rather than redeemed).</p>