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ASX Market Announcements
ASX Limited

Via E lodgement

SET TO EXPAND OPERATIONS IN INDONESIA WITH COAL AND IRON ORE ACQUISITION

Highlights:

Iron Ore

- Conditional Agreement to acquire a 65% shareholding in the owner of an operating iron ore mine located in the established mining province of West Sumatra, Indonesia.
- Current production of 30,000 Mt per month of highly marketable product
- Key customer being Krakatoa Steel
- Consideration being US\$6.5m over staged payments

Coal

- Conditional Agreement to acquire a 70% shareholding in the owner of a high calorie operating anthracite coal mine located in the established mining province of West Sumatra, Indonesia.
- Historic production of 30,000 Mt per month
- Consideration being US\$250,000 over staged payments
- Transaction to be conducted at \$0.01 being 100% above current market price.

Coal Fe Resources Ltd (**Coal Fe** or the **Company**) is pleased to announce that Conditional Sale and Purchase Agreements (“CSPA”) have been executed for the acquisition of majority shareholdings in two companies owning producing projects near Padang, Sumatra, Indonesia, with both projects introduced by Managing Director Mr Robert Swarbrick.

BACKGROUND

As previously announced on 14 April 2014, following the appointment of Mr Robert Swarbrick as Managing Director, a strategic review of the Company’s assets was undertaken, with the end result being a clear focus on the acquisition of higher calorific projects aimed at commanding higher prices and therefore greater margins to shareholders than the current Abadi coal project held by the Company.

In that announcement, Mr Swarbrick cited the Company’s goal to acquire “*near production coal projects in Indonesia, which possess high grade coal, where the Company can be the owner operator producing cash-flow within 12 months and delivering returns to shareholders.*”

It is believed that these two share acquisitions (“**Transaction**”) will provide the Company with access to cash-flow immediately, potentially leading to a re-rating of the Company as a producer.

THE PROJECTS

Iron Ore

The first CSPA will see Coal Fe acquire a 65% interest in PT Mineral Saksur Makmur (“MSM”). MSM is the sole owner of a producing iron ore concession in Solok, West Sumatra, which is

located approximately 80 km from Padang, West Sumatra. The concession is approximately 74 hectares, with current production coming from a 3 hectare area, with further drilling required to define additional mineralization on the remaining area.

MSM currently holds all valid export permits, producing licenses and a smelter permit, which allows the Company to produce and export product.

MSM currently produces 30,000 MT/Month of 62% Fe product. It currently supplies this product to Krakatoa Steel, a leading Indonesian Steel Company at a price of US\$80/MT. Coal Fe plans to increase production to 60,000 MT/month.

The mined iron ore is transported by road truck to Stockpile approx 40 km South of mine site where it is crushed and there is a small smelter. From there it is road trucked approx 40 km. to another stockpile close to Taluk Beyer Port, Padang. It is then loaded at the port onto a barge and shipped CFR West Java, Indonesia for Krakatoa Steel.



Current mining operations - PT Mineral Saksur Makmur

Coal

The second CSPA will see Coal Fe acquire a 70% interest in PT Tunngal Putra Nusantara (“TPN”), the sole owner of a high calorie anthracite coal concession in Palin, West Sumatra, Indonesia which was formerly producing 30,000 MT/Month. The concession is approximately 100 hectares with production currently being sourced from an area of 70 hectares, and is located approximately 10 kms from the jetty for barging.

The concession has ceased production at present due to TPN having insufficient working capital to maintain the ongoing running of the mine. The concession is close to infrastructure and has a current contract with a leading Indonesian Cement Factory which purchases the product at a premium to current market prices.

Coal Fe is currently in negotiations with a number of offtakers for this premium product.



The coal previously produced and sold is a highly desirable anthracite coal with product specifications as follows:

Calorific Value (kcal / kg)	7,200 K Cal/Kg (air dried basis)
Total Moisture (%)	4.96 (air dried basis)
Ash (%)	8.43 (air dried basis)
Total Sulphur (%)	2.21 (air dried basis)

(sourced from sales contracts)

Following acquisition by Coal Fe, it is intended that operations will recommence with a view to being in production within 2-6 months of shareholder approval. It is expected that the historic production of 300,000 MT per annum will be increased to 500,000 MT per annum.

All production and export permits are in place.

ACQUISITION TERMS

Subject to completion of due diligence, and the obtaining of shareholder and any necessary regulatory approvals including under Indonesian mines department regulations, the key terms of the transaction are:

- Coal Fe will acquire a 65% interest in Indonesian company PT. Mineral Sukses Makmur for consideration comprising cash payments totaling US\$6.5 million, being US\$1 million payable upon shareholder approval and transfer of shares, a further payment of US\$920,000 per month for 5 months from settlement, with a final payment of US\$900,000 in month 6;
- Coal Fe will acquire a 70% interest in Indonesian company PT. Tunggal Putra Nusantara for consideration comprising cash payments for past development costs and current exploration licence fees, totaling US\$250,000, plus a royalty of US\$5 per ton of coal sold;
- For introducing the project to Coal Fe, the Company will issue 345 million fully paid ordinary shares at a deemed issue price of \$0.01 per share to Mr Swarbrick or his nominee. The Company will seek approval at a shareholder meeting to issue the shares to Mr Swarbrick within 1 month of the meeting, given he is a related party of the Company;
- Coal Fe will also issue 20.7 million fully paid ordinary shares at a deemed issue price of \$0.01 in advisory fees to advisers associated with the introduction of the two projects, following shareholders approving the issue;
- Coal Fe proposes to issue 50 million fully paid ordinary shares at an issue price of \$0.01 by way of a placement to non-related party, sophisticated investors without disclosure under the Corporations Act, within 3 months of the general meeting.

Completion is subject to satisfactory of a 60 day due diligence period and the obtaining of all necessary shareholder and regulatory approvals. The terms can be extended by mutual consent.

Following completion of due diligence and shareholder approval to proceed with the above items, the capital structure of the Company post the Transaction will be:

PARTY	NUMBER OF SHARES	% OF EQUITY
CES	95,518,100	18.68%
Consideration shares to acquire project ¹	345,000,000	67.49%
Placement at \$0.01 ¹	50,000,000	9.78%
Shares issued to advisers ¹	20,700,000	4.05%
TOTAL	511,218,100	100%

¹ indicates subject to shareholder approval.

NEW BOARD

Following completion of the Transaction, the Board of Coal Fe will be restructured to increase the experience of the board in assisting the Company to finance and develop the new projects.

To this end, it is proposed that current executive directors Mr Cheng Jew Keng Keng and Mr Faris Azmi Abdul Rahman will remain on the board, as non-executive directors, together with Mr Robert Swarbrick as Managing Director. The remaining current Board members will resign from the Board.

Also joining the Board in a non-executive capacity will be Mr Ben Donovan. Mr Donovan is a

member of Chartered Secretaries Australia and provides corporate advisory and consultancy services to a number of companies. Mr Donovan is currently a director and company secretary of several ASX listed and public unlisted companies, and has extensive experience in listing rules compliance and corporate governance, having served as a Senior Adviser at the Australian Securities Exchange (ASX) in Perth, including as a member of the ASX JORC Committee. In addition, Mr Donovan has experience in the capital markets having raised capital and assisted numerous companies on achieving a listing on ASX, as well as a period of time as a private client adviser at a boutique stockbroking group.

Mr Donovan will also assume the role of company secretary following completion of the Transaction.

It is intended that a fifth director with suitable experience in capital markets will also be appointed.

SHAREHOLDER MEETING

Preparation of a notice of meeting is currently underway to convene a shareholder meeting to approve the Transaction, anticipated to take place in July 2014. The acquisitions are inter-conditional and remain subject to shareholder approval for the purposes of ASX Listing Rules 11.1.2, 7.1, 10.1, and sections 208 and 611 of the Corporations Act, in view of the proposed issues of securities, the resulting change in control of the Company, the planned subsequent placement, the acquisition of assets from associates of a related party of the Company comprising a significant transaction, and the change in scale of activities for the purposes of the ASX Listing Rules.

The Notice of Meeting will incorporate an independent experts report as required by the ASX Listing Rules and ASIC policy supporting Section 611 of the Corporations Act.

ASX GUIDANCE

Coal Fe has sought prior guidance from the Australian Securities Exchange on the application of Chapter 11 of the ASX Listing Rules. ASX has confirmed that the Transaction as proposed is a change in the scale of activity and therefore the Company will need shareholder approval for the Transaction under ASX Listing Rule 11.1.2 given the change in scale. More importantly, the ASX has confirmed that the Company will not have to re-comply with Chapter 1 and 2 of the ASX Listing Rules as required under ASX Listing Rule 11.1.3.

FUNDING

In addition to the proposed placement at \$0.01 per share contemplated as part of the Transaction, Coal Fe is in advanced discussions with several parties regarding the future funding of the deferred payment of the purchase price by instalments.

It is expected that the payment of ongoing instalments will be sourced from the anticipated returns to shareholders generated by product sales from the mines.

The Company is in discussions with a well-known international commodity trader and an Australian Financial Services Group regarding the funding of the initial cash payments and any ongoing working capital.

A further announcement on these discussions will be made in due course.

MANAGING DIRECTORS COMMENTS

Commenting on the acquisition of these two projects, Managing Director Robert Swarbrick said *“Coal Fe has a track record of developing and commercializing mines in Indonesia. These projects will simply fast track that process and provide shareholders with access to already*

producing or historically producing projects that have low capital expenditure but provide good operating margins resulting in significant cash-flows for shareholders.

We look forward to the settlement of these acquisitions and delivering returns to shareholders.”

Regards

A handwritten signature in blue ink, appearing to read 'R. Swarbrick', with a horizontal line underneath.

Robert Swarbrick
Managing Director

About Indonesian Mining

Indonesia continues to lead the world thermal coal export market with in excess of 400 million tonnes produced in 2013. The lower capital cost establishment of mines and access to a vast network of rivers for transport makes it an attractive location for investment. Most coals from Indonesia are mined via open pit methods and sold raw, and are generally low in ash and sulphur content making them ideally suited to power generation. Indonesia is ideally located to capitalise on access to the expanding Asian coal markets.