

7 June 2016

ASX Market Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

By electronic lodgement

Recapitalisation

McAleese Limited (ASX: MCS) (**Company** or **McAleese**) refers to its recent announcements updating the market on its Strategic Process.

The Company today announced that it has entered into a binding heads of agreement (**Agreement**) with the Company's existing financiers under its Syndicated Facility Agreement (**Existing Financiers**) and a consortium led by SC Lowy Primary Investments Ltd, in which Remagen Nominees Pty Limited and funds and accounts managed by BlackRock are also investors (together, **SC Lowy Consortium**) in relation to a proposed, conditional, recapitalisation of the Company (**Recapitalisation**). Entities associated with the Company's major shareholder and Managing Director and CEO, Mark Rowsthorn (**Rowsthorn Interests**) have also entered into the Agreement as an underwriter of the pro-rata entitlement issue by the Company of subordinated, secured convertible notes which is proposed to be undertaken as part of the Recapitalisation.

The proposed Recapitalisation is the outcome of the Company's comprehensive Strategic Process which commenced in late August 2015. Throughout the Strategic Process, a number of indicative, non-binding transactions were presented to, and considered by, the Company. The Recapitalisation is intended to create a sustainable capital structure for the Company.

McAleese's Chairman, Mr. Don Telford said:

"The announcement of the Recapitalisation represents an important milestone for McAleese, establishing a stable platform from which to service our customers and invest in the business."

"Today's announcement is the result of an extensive process, conducted over several months with the forbearance of our bank group. While the outcome is a disappointing one for existing providers of both debt and equity, we are pleased that shareholders will have the opportunity to consider, and participate in, the Recapitalisation."

Overview of the proposed Recapitalisation

The Recapitalisation involves a number of elements, which are summarised below:

- Extinguishment of all Existing Financier claims¹ (**Senior Debt**) in exchange for \$112.3 million, comprising:
 - \$16 million to be repaid by the Company from cash (\$1 million) on its balance sheet and drawings (\$15 million) under a new \$25 million working capital facility (**New Working Capital Facility**), the key terms of which are summarised in Annexure 1;
 - the acquisition by the SC Lowy Consortium of McAleese's remaining Senior Debt for \$91.3 million (**Senior Debt Acquisition**); and

¹ McAleese's Senior Debt for the purposes of the Recapitalisation and the Agreement is approximately \$196 million (including bank guarantees which will remain in place) before any payments by McAleese.

- \$5 million payable by the Company, which is deferred for up to 12 months after the date of the Senior Debt Acquisition.
- the Senior Debt acquired by the SC Lowy consortium will, following shareholder approval of the Recapitalisation, be replaced by a new senior debt facility (**New Senior Debt Facility**) totalling \$91.3 million plus fees and interest accrued from the time of the Senior Debt Acquisition. The key terms of this facility are summarised in Annexure 2;
- in part consideration of the compromise of the Senior Debt acquired by the SC Lowy Consortium, the Company will issue to the SC Lowy Consortium options over McAleese ordinary shares with a zero strike price (**Options**) in such number that the SC Lowy Consortium will hold 35% of the McAleese shares on issue post-exercise of the Options and post-Recapitalisation. Further terms of the Options are summarised in Part A of Annexure 3;
- an underwritten, \$26 million, pro-rata entitlement offer of subordinated, secured convertible notes (**Notes**) to McAleese shareholders. The Notes will be issued in such number that the Note holders will, on conversion of the Notes, hold 60% of the McAleese shares on issue post-Recapitalisation (assuming the exercise of the Options) (**Notes Issue**). If McAleese shareholders do not subscribe for their entitlement of Notes under the Notes Issue, then they will be materially diluted by the conversion of the Notes. Further terms of the Notes are summarised in Part B of Annexure 3; and
- the proposed delisting of McAleese from the official list of ASX.

The SC Lowy Consortium required that the Recapitalisation include an underwritten \$26 million capital raising and that the proceeds of the capital raising be used to partially repay the New Senior Debt Facility. The Rowsthorn Interests were the only party prepared to provide this underwrite (**Underwrite**) on terms acceptable to the Company and the SC Lowy Consortium.

In addition to agreeing to fully underwrite the Notes Issue, the Rowsthorn Interests (and other entities associated with Mark Rowsthorn) have agreed to provide a limited guarantee up to a maximum amount of \$26 million of the Company's debts under the New Senior Debt Facility. This guarantee will cease upon the Notes Issue raising \$26 million. In order for the Rowsthorn Interests to put in place the Underwrite and limited guarantee of the Company's debt to the satisfaction of the SC Lowy Consortium, the Rowsthorn Interests have restructured certain of their own loan facilities. Given the critical importance of securing the Underwrite to the broader Recapitalisation, the Company has agreed to fund for 12 months the additional interest costs incurred by the Rowsthorn Interests as a consequence of their restructured arrangements.

McAleese's Chairman, Mr. Don Telford said:

"On behalf of the Company's independent, non-executive directors, we acknowledge Mark Rowsthorn's willingness to provide his personal support to the Recapitalisation and to further invest in the Company."

As consideration for providing the Underwrite and subject to shareholder approval, the Rowsthorn Interests will be issued that number of Notes that will deliver 5% of the McAleese shares on issue post-Recapitalisation, assuming exercise of the Options and conversion of the Notes (**Underwriting Fee**). If shareholder approval is not provided for the Underwriting Fee through the issue of Notes, then the Rowsthorn Interests will receive a cash payment of equal value from the Company, although that payment will be deferred until the New Senior Debt Facility has been repaid.

Annexure 4 contains a summary of the pro-forma, post-Recapitalisation shareholding structure of McAleese assuming that the Options are exercised and the Notes are converted.

It is expected that new management incentive arrangements will be established as part of the Recapitalisation. The detail of these arrangements is yet to be finalised, but in the likely event that they are equity linked then they are expected to be dilutive to all post-Recapitalisation equity participants. Relevant detail of the proposed incentive arrangements will be provided in the Notes Issue prospectus.

Following implementation of the Recapitalisation, the SC Lowy Consortium and the Rowsthorn Interests will be entitled to appoint 1 director for each 15% shareholding in McAleese (or prior to exercise of the Options or conversion of the Notes, on an implied shareholding basis).

Following delisting it is proposed that the constitution of McAleese will be amended (with shareholder approval) to require the board of McAleese to consider pursuing a listing of McAleese on or about 24 months after the date upon which the delisting occurs.

Conditions precedent to the Senior Debt Acquisition and extension of forbearance arrangements pending the outcome of the General Meeting of McAleese shareholders

The Senior Debt Acquisition is subject to the conditions precedent summarised in Annexure 5. The parties must seek to ensure the conditions precedent are satisfied as soon as possible and in any event by late June 2016 so that the Senior Debt Acquisition occurs by that date.

Other elements of the Recapitalisation, including the compromise of the Senior Debt by the SC Lowy Consortium (assuming the Senior Debt Acquisition occurs), are conditional upon approval of McAleese shareholders.

If the Senior Debt Acquisition does not occur, then McAleese's Senior Debt with the Existing Financiers will remain outstanding and the Recapitalisation as described in this announcement will not occur. In that circumstance, McAleese would need to rely upon the continued support and forbearance of its Existing Financiers to continue as a going concern.

The SC Lowy Consortium has agreed to extend the current forbearance arrangements with the Company, from the time of the Senior Debt Acquisition until the earlier of: (i) compromise of the Senior Debt, (ii) the fifth business day after McAleese shareholder approval of the Recapitalisation is obtained and (iii) 16 September 2016.

If McAleese shareholders do not approve the Recapitalisation at the General Meeting (refer to section entitled "General Meeting of McAleese Shareholders" below for more detail) or the SC Lowy Consortium's forbearance otherwise expires, the SC Lowy Consortium as the majority secured creditor (assuming that the Senior Debt Acquisition has occurred) may withdraw its support as lender and may then seek, after consultation with the Company and the Rowsthorn Interests in good faith, to acquire its equity interest in McAleese by way of an alternative transaction (such as through a deed of company arrangement or creditors scheme) which otherwise reflects, in substance, the overall transaction contemplated by the Recapitalisation including the preservation of unsecured trade creditor claims other than as contemplated in this announcement and employee entitlements. In this scenario there would be no Notes Issue.

Possible Business Divestments

In connection with the Recapitalisation, McAleese will shortly commence a sale process for the Cootes Transport business, which currently represents the majority of the Company's Oil and Gas Division. The sale package will not include the division's aviation services or the Refuel International businesses. The first \$5 million of the proceeds of the sale of the Cootes Transport business must be used to pay the deferred consideration component of the Senior Debt Acquisition.

Divestment of the Castlereagh quarry and non-strategic depots in the Heavy Haulage and Lifting Division will also be considered.

Exclusivity arrangements with SC Lowy Consortium to continue

As announced on 31 March 2016, the Company granted a period of exclusive due diligence and negotiation to the SC Lowy Consortium. The Company has agreed to extend the exclusivity period until 24 September 2016 and to pay a break fee in certain circumstances where McAleese enters into a competing proposal. Further detail of the exclusivity arrangement and break fee is set out in Annexure 6.

General Meeting of McAleese shareholders

Following the Senior Debt Acquisition, McAleese will hold a General Meeting of its shareholders to consider various resolutions relating to the proposed Recapitalisation, including the Option Issue and the Underwriting Fee.

The resolutions will be set out in the notice of General Meeting and accompanying explanatory memorandum.

McAleese will engage an independent expert to provide an opinion, for the benefit of McAleese shareholders, on the Recapitalisation and Option Issue.

Next steps and indicative timeline

McAleese shareholders do not need to take any action at this time.

An indicative timetable for the proposed Recapitalisation is as follows:

Indicative date	Indicative date
Late June 2016	Execution of definitive transaction documentation and acquisition of McAleese's Senior Debt by the SC Lowy Consortium
Late August 2016	General Meeting of McAleese shareholders
Late August 2016	Dispatch of Prospectus and commencement of Notes Issue
Late September 2016	Completion of Notes Issue
Early October 2016	Implementation of Recapitalisation

The dates in the above timetable are indicative only and subject to change. McAleese reserves the right to amend these dates without notice, subject to the Corporations Act, the ASX Listing Rules and other applicable laws.

Further information on progress of the proposed Recapitalisation will be provided by the Company as appropriate.

Cessation of voluntary suspension

The suspension in trading in the Company's shares is expected to end from the commencement of trading on 8 June 2016.

Ends

About the SC Lowy Consortium

SC Lowy

SC Lowy is a leader in fixed income. Private and employee-owned, the firm uses its balance sheet to operate primary issuance, investment and secondary trading businesses focused on high yield to distressed bonds, loans, trade claims, direct lending and special situations.

In-house analysts (over 30% of total employees) cover energy, infrastructure, manufacturing, telecom & media, metals & mining, financials, shipping and real estate for corporations based in Australia, Asia, the Middle East and Europe.

Headquartered in Hong Kong, with a team of investment professionals located across London, Seoul and New York, SC Lowy has built a global client network of over 700 international and regional banks, asset managers, hedge funds, private equity and pension funds, family offices and corporations.

Remagen Capital Partners Pty Limited

Remagen Capital Partners is a privately owned investment and advisory firm founded in 2013. Remagen is headquartered in Sydney, and conducts business throughout Australia.

Remagen specialises in working with small and medium sized enterprises who are seeking an alternative source of finance to banks, or who require some form of turnaround assistance.

In organising alternative forms of finance, Remagen has been involved in the full spectrum of credit provision from prime through to distressed, and prides itself on its ability to structure mutually beneficial transactions for borrowers and investors, irrespective of the complexity of the situation.

Annexure 1 - Summary of key terms of the New Working Capital Facility

The terms below are the key commercial terms of the New Working Capital Facility.

Term	Description
Facility Structure and Security	Receivables purchase working capital facility. Security: <ul style="list-style-type: none">• an equitable assignment of the trade receivables of the Borrower;• first-ranking security over the Borrower's trade receivables bank accounts; and• second-ranking security over all other assets of the Borrower and its subsidiaries.
Purpose	To provide a working capital facility to McAleese.
Facility Limit	A\$25 million, extendable by mutual agreement.
Facility Term	36 months, extendable by mutual agreement.
Financial covenant	Fixed charge cover ratio

Annexure 2 - Summary of key terms of the New Senior Debt Facility

Term	Description
Facility Structure and Security	<p>Senior secured facility by way of a loan note subscription agreement.</p> <p>Second-ranking security over all of the assets of the Borrower and its subsidiaries (except for the receivables assigned to the New Working Capital Facility provider and associated proceeds where it has a third ranking claim).</p>
Purpose	Refinance the existing syndicated facility agreement
Size	<ul style="list-style-type: none"> A\$91.3 million (in aggregate across Tranche A and Tranche B) <i>plus</i> fees and accrued interest to the extent not forgiven as part of the debt compromise. Facility will be split into two tranches Tranche A and Tranche B, with sizing to reflect certain proposed initiatives.
Maturity Date	<ul style="list-style-type: none"> Tranche A, 12 months from the date on which the Senior Debt Acquisition occurs. Tranche B, 36 months from the date on which the Senior Debt Acquisition occurs.
Interest Rate	<p>Both Tranches have a base 'all in' rate of 15% per annum <i>plus</i> a Variable Hedging Margin (1% for the first 12 months)</p> <p>Tranche A will have a 5% step up from month 7.</p> <p>Interest will be combination of cash and payment-in-kind (PIK) (Tranche A: 5% p.a. cash <i>plus</i> Variable Hedging Margin and 10% per annum PIK; Tranche B: 5% per annum cash <i>plus</i> Variable Hedging Margin and 10% per annum PIK for first 12 months, then 7.5% cash and 7.5% PIK)</p>
Minimum interest earned	Minimum interest to be earned on the facility is \$10.95 million.
Financial covenants	<ul style="list-style-type: none"> Net Debt / EBITDA ratio Minimum average balance of Liquid Assets
Repayment	<ul style="list-style-type: none"> Pursuant to asset sale requirements; Proceeds received from Notes Issue; and any refinance by the Maturity Date.

For personal use only

Term	Description
Other	<ul style="list-style-type: none">• Cash flow sweep linked to Net Debt / EBITDA ratio.• Requirements with respect to particular asset sales.

For personal use only

Annexure 3 - Overview of the Options and Notes

Part A – Options

The terms of the Options will be described in more detail in the notice of meeting to be issued by the Company in relation to the Recapitalisation (**NOM**). A summary of the terms of the Options is as follows:

Term	Description
Exercise price	Nil
Exercise term	Exercisable at any time after the Notes have been converted in accordance with their terms, with any exercise of Options being for all of the Options held by or for that Investor.
Exercise ratio	On exercise of the Options the Option holders will receive ordinary shares in McAleese on a post-Recapitalisation basis (i.e. after all Options have been exercised and all Notes have been converted that represent 35% of the McAleese shares on issue).

Part B – Notes

The terms of the Notes will be described in more detail in the NOM. A summary of the terms of the Notes is as follows:

Term	Description
Conversion	The Notes will convert on the date which is 30 days after the date on which Tranche A under the New Senior Debt Facility has been repaid.
Interest rate	The Notes will provide for interest to be calculated at 15% per annum with accrued interest payable in cash on the conversion of the Notes.
Subordination	The Notes will be secured but subordinated to all amounts owing under the New Senior Debt Facility, under the deferred consideration arrangements, the New Working Capital Facility and the Company's bank guarantee, lease finance and transactional banking facilities.

Annexure 4 - Post-Recapitalisation McAleese shareholding structure

Party	Shareholding structure of McAleese at the date of this announcement (approximate)	Shareholding structure of McAleese post-Recapitalisation (approximate) ¹
Existing McAleese shareholders (excluding Rowsthorn Interests)	70.65%	0% ² – 42.39% ³
Rowsthorn Interests	29.35%	22.61% ⁴ - 65% ⁵
SC Lowy Consortium	0%	35% ⁶
Total	100%	100%

Explanatory notes

1. If the new management incentive arrangements (which are yet to be finalised) are equity-linked, which is expected, then those arrangements are expected to be dilutive to all McAleese shareholders post the Recapitalisation. This would mean that each of the maximum percentage figures in this column would decrease in favour of management incentive participants.
2. The minimum percentage figure of 0% assumes that all existing McAleese shareholders do not subscribe for any Notes (and therefore, will not be entitled to receive any new McAleese shares on conversion of the Notes) under the Notes Issue. However, existing McAleese shares will remain on issue after the dilution of the Option Issue and Notes Issue such that this amount will be at least slightly greater than 0%.
3. The maximum percentage figure of 42.39% assumes that all existing McAleese shareholders fully subscribe for their entitlement of Notes under the Notes Issue and those Notes are converted into new McAleese shares.
4. The minimum percentage figure of 22.61% assumes that the Rowsthorn Interests fully subscribe for their entitlement of Notes under the Notes Issue, but that the Rowsthorn Interests are not required to take up any Notes under the Underwriting Agreement as all other existing McAleese shareholders fully subscribe for their entitlement of Notes under the Notes Issue.
5. The maximum percentage figure of 65% assumes that: (i) the Rowsthorn Interests are required to take up the full shortfall of Notes under the Notes Issue in accordance with the Underwriting Agreement, and (ii) McAleese shareholders approve the issue of 5% of the McAleese shares on issue post-Recapitalisation (assuming conversion of the Notes proposed to be issued to the Rowsthorn Interests), as consideration for the Rowsthorn Interests agreeing to fully underwrite the Notes Issue.
6. This figure assumes that shareholders approve the Option Issue.

Annexure 5 - Conditions Precedent to the Senior Debt Acquisition

The Senior Debt Acquisition is subject to conditions precedent including the following being satisfied or waived:

Condition	Description
Rental reduction	The Company securing from TTPH Pty Ltd, a reduction in its annual real property rental costs, in respect of those properties for which TTPH Pty Ltd is the landlord, to reflect current market conditions
Atlas waiver	If required as a consequence of the final structure of the Recapitalisation, Atlas providing a waiver of any right to terminate its haulage contracts with the McAleese Group as a result of the Recapitalisation.
Searches and due diligence results	The SC Lowy Consortium obtaining all necessary searches, inspections, enquiries and replies to all requisitions requested or made by them or their solicitors or both in respect of the Company and each other obligor under the New Senior Debt Facility.
Definitive documentation	The entry into by the Company, the Existing Financiers, the SC Lowy Consortium and the Rowsthorn Interests, as the case may be, of an implementation deed as well as other definitive transaction documentation relating to the implementation of the Senior Debt Acquisition and the Recapitalisation including the deferred consideration arrangements, the establishment of the New Working Capital Facility and the New Senior Debt Facility, forbearance arrangements, security and priority arrangements for the Company and the Rowsthorn Interests, security trustee and agent arrangements, an underwriting agreement and funding guarantee arrangements by the Rowsthorn Interests.

Annexure 6 - Overview of exclusivity arrangements

As announced by the Company on 31 March 2016, the SC Lowy Consortium was granted exclusivity such that during the exclusivity period, McAleese would not solicit, invite or initiate any inquiries with a view to obtaining a competing proposal to the SC Lowy proposal. The Directors of the Company are not restricted from considering potential competing proposals, where a failure to do so would, or would be likely to, constitute a breach of the Directors' fiduciary or statutory duties. In the event that the Directors consider that a competing proposal is a superior proposal, SC Lowy will be given the opportunity to improve their proposal so that it is superior to the relevant competing proposal.

In consideration for the resources which the SC Lowy Consortium has dedicated to negotiating the Agreement and for the SC Lowy Consortium agreeing to use all reasonable endeavours to satisfy the conditions precedent to the Senior Debt Acquisition, the Company has also agreed to pay a break fee in the circumstances described below.

Exclusivity term	Description
------------------	-------------

Break Fee

If:

- the SC Lowy Consortium notifies the parties to the Agreement that all of the conditions precedent to the Senior Debt Acquisition for their benefit have been satisfied or, if not satisfied, waived by the SC Lowy Consortium;
- the Senior Debt Acquisition does not occur; and
- McAleese enters into a 'competing proposal' (as defined below) by 24 September 2016,

then McAleese must pay a break fee of \$1.12 million to the SC Lowy Consortium.

A 'competing proposal' includes any proposal, agreement, arrangement or transaction under which a third party would:

- acquire the Company's Senior Debt;
- provide a refinancing solution to McAleese which would result in a material reduction of McAleese's total debt levels, deferment of debt payment obligations or other material improvement in McAleese's debt terms;
- acquire a relevant interest (within the meaning of sections 608 or 609 of the Corporations Act 2001 (Cth) (Corporations Act)) of 20% or more of the McAleese shares on issue or of the share capital of any material subsidiary of McAleese (except that this does not include the arrangements contemplated with the Rowsthorn Interests under the underwriting agreement); or
- otherwise acquire control (within the meaning of section 50AA of the Corporations Act) of McAleese.