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COOTE'S RECAPITALISATION AND FUTURE DIRECTION

- **Underwritten entitlement issue – 1-for-1 non-renounceable rights issue to raise $42.6 million**
- **Mr. Dale Elphinstone and Mr. Vince De Santis to join the Coote Board in June 2010**
- **Intention to appoint a further independent, non-executive director before the 2010 Annual General Meeting**
- **Capital raising provides for working capital and sustainable capital structure for future growth opportunities**
- **Coote Board to undertake a strategic review**
- **Significant improvement in financial performance expected in FY2011**

The directors of Coote Industrial Ltd ("Coote") (ASX:CXG) are pleased to announce that the company has reached agreement with Elph Pty Ltd ("Elph") on the terms of a $42.6 million equity capital raising to be underwritten by Elph.

Key terms of proposal

Under the terms of definitive agreements entered between the parties, Elph will underwrite a 1-for-1 non-renounceable rights issue at $0.16 per share, to raise approximately $42.6 million (before costs) ("Entitlement Issue").

Funds raised under Entitlement Issue will be used to provide additional working capital, repay Elph's subordinated loan, satisfy outstanding tax liabilities, meet the obligation of Coote to pay $6.5 million to Elphinstone Holdings Pty Ltd arising under the terms of the Greentrains put option (see ASX announcement dated 21 April 2010), pay down debt on terms previously agreed with the company's bankers and meet the costs of the Entitlement Issue (see "**Uses of Proceeds**" below).

The Board has unanimously recommended that shareholders **accept** the proportional takeover offer by Elph ("Elph Offer") (see ASX announcement dated 21 May 2010). The proceeds from acceptance of the Elph Offer will be available to accepting shareholders in sufficient time for them to exercise their rights under the Entitlement Issue, should they wish to do so. Depending on the level of acceptances under the Elph Offer and the take-up under the Entitlement Issue, Elph is expected to emerge with around 45% of Coote on a fully diluted basis.

The Elph Offer has been extended and is now scheduled to close on 9 June 2010. Shareholders with queries regarding how to accept the offer may call Elph on 1300 733 145 (for callers within Australia) and +612 8256 3362 (for callers outside Australia).

The Board of Coote will also be restructured in line with the expected holding of Elph following completion of the Offer, with Mr Dale Elphinstone and Mr Vince De Santis to join the Board as Non-Executive Directors in June 2010.

Coote Chairman Dr Donald Hector said: "This capital raising will place Coote on a much sounder financial footing, remove the overhang of the Greentrains put option and supplying additional working capital thereby enhancing Coote's operational flexibility and prospects for growth.

We are pleased that both Mr Elphinstone and Mr De Santis have agreed to join the Board of Coote. They bring a broad mix of skills and experience in the industrial services sector which will be valuable to Coote as it navigates its way through a critical period in the improvement of its business.

These appointments represent only one part of our commitment to achieving best practice in corporate governance. We have already commenced a search for an appropriately qualified, independent non-executive director to join the Board."

Elphinstone Group Executive Chairman Mr Dale Elphinstone said: "We welcome the Board's endorsement of this new proposal which we believe will, over time, result in Coote becoming a stronger, more enduring and profitable company, for the benefit of all shareholders.

We hope to move promptly towards completion of the capital raising, which will enable the Board and management team to return its focus to maximising the performance of the business."

Subordinated Bridging Loan and Entitlement Issue

In addition to underwriting the Entitlement Issue, Elph has agreed to immediately extend to Coote a subordinated bridging loan of $10 million, secured by a second-ranking charge over all the assets and undertakings of Coote, to provide working capital.

The amount due under the loan will be offset against Elph's obligations under the Underwriting Agreement for the Entitlement Issue. Under the loan, interest is payable at the 90 day bank bill swap rate plus a margin of 5% p.a. (reset at the beginning of each quarter).

The Entitlement Issue is expected to be open from 22 June 2010 to 6 July 2010. The record date for the Entitlement Issue is 16 June 2010. The Entitlement Issue will be non-renounceable and will be fully underwritten by Elph. Elph has also committed to take up its full entitlement under the Entitlement Issue. Elph is to be paid a 5% underwriting fee on the gross proceeds of the raising, except on proceeds from shares taken up by Elph as part of its pro rata entitlement. The underwriting agreement includes a number of termination events, including material disruptions in financial conditions or markets.

Two of Coote's other substantial shareholders, Thorney Holdings Pty Ltd and Equity Trustees Limited (as responsible entity for SG Hiscock and its funds) ("Substantial Holders"), have supported the Entitlement Issue by committing to take up their entitlements, and have also entered into general sub-underwriting positions of $2.8 million and $1.4 million respectively. Elph has also entered into sub-underwriting arrangements with other third parties.

The Entitlement Issue will allow shareholders to apply for shares in excess of their Entitlement ("Top-Up Facility"). The allocation policy for shares subscribed pursuant to the Top-Up Facility, as agreed between the Board and the Underwriter, is as follows:

1. Elph will receive a priority allocation of any shortfall calculated as $21.3 million minus the amount equal to Elph's pro-rata entitlement under the Entitlement Issue.

2. Shareholders who have applied for additional shares through the Top-Up Facility, will receive up to $25,000 of shares applied for on a pro rata basis (Elph will not apply for additional shares under the Top-Up Facility);

3. The Substantial Holders will receive allocations under their general sub-underwriting commitments on a pro rata basis, to be followed by a priority group of sub-underwriters on a pro-rata basis;

4. Shareholders who have applied for additional shares in excess of $25,000 through the Top-Up Facility will receive additional shares on a basis jointly agreed between Elph and Coote; and

5. If any shortfall remains after the above allocations, it will be allocated to sub-underwriters other than the Substantial Holders.

Documentation for the Entitlement Issue is expected to be despatched to Coote Shareholders by 22 June 2010.

Set out in Annexure A to this announcement are further details relating to the proposed Entitlement Issue and a proposed timetable for the Entitlement Issue.

Broker Handling Fee

Coote will also pay a broker handling fee of 1% (capped at $250 per application) on successful applications under the Entitlement Issue. Brokers must be ASX participants and complete a claim form to be eligible for this fee.

Uses of Proceeds

The proceeds of the Entitlement Issue will be applied to the following uses:

	$m	$m
Source		
Entitlement Issue proceeds (gross)	42.6	
Costs of the Entitlement Issue[1]	1.6	
Entitlement Issue proceeds (net)	**41.0**	
Application		
Provide working capital		12.4
Repayment of subordinated loan to Elph[2]		10.0
Payment of outstanding tax liabilities		9.3
Greentrains put option		6.5
Scheduled amortization of facility		2.0
Costs of the Elph Offer		0.8
TOTAL		**41.0**

Notes:

1. Assumes underwriting fee of 5% on portion underwritten exclusive of Elph entitlement, assuming Elph acquires 40% of Coote under the Elph Offer, plus $0.3 million in ancillary costs.
2. As noted above, Elph has provided a subordinated bridging loan of $10 million in advance of the Entitlement Issue. This loan is to be repaid by offsetting the amount due to Coote by Elph under its obligations under the Underwriting Agreement for the Entitlement Issue.

On the basis that $41.0 million is raised under the Entitlement Issue net of costs, Coote's consolidated net debt is expected to decrease from $118.8 million as at 31 March 2010 to approximately $77.1 million upon completion of the Entitlement Issue (after adjusting for the expected impact of the sale of the South Spur Rail Services business and for debt reduction during April 2010).

The capital raising, together with the sale of South Spur Rail Services and the associated debt reduction and extension, will achieve what the Board believes to be a more conservative gearing level and debt profile, which will allow the business to re-focus on the growth opportunities ahead.

The company's financiers have provided necessary consents under the terms of facility documentation for the sale of South Spur and for the capital raising and application of proceeds described above.

Board appointments

As noted, Mr Dale Elphinstone and Mr Vince De Santis have agreed to join the Board of Coote as Non Executive directors. The appointments will take effect in June 2010.

The Coote Board also confirms its commitment to finding a suitable appointment for an independent, non-executive director before the 2010 Annual General Meeting of the company.

Strategic review

Consistent with Elph's intentions as outlined in its Bidder's Statement, the Board, on completion of the Entitlement Issue, proposes to undertake a broad-ranging review of the company, its strategic direction and focus and funding position, with a view to maximising returns to shareholders.

It is possible that as a result of this review, certain non-core assets of the company and potentially entire businesses may be divested, with the proceeds likely to be applied at least in part to the repayment of debt.

Furthermore, in connection with the preparation of the accounts for the year ending 30 June 2010, the Board will be required, in accordance with the accounting standards, to test the carrying value of assets on the balance sheet as at that date. In light of operational issues previously disclosed, this may lead to write-downs to those carrying values. However the Board is not currently in a position to estimate the amounts, if any, that may be involved. It should be noted that any such write-downs represent non-cash items and are not expected to have any impact under the company's finance facilities.

Outlook

Coote has previously disclosed updated guidance in respect of earnings for the 2010 financial year (see ASX announcements dated 12 and 14 May 2010).

The Board of Coote believes that in light of the range of potential outcomes under the strategic review noted above, and generally uncertain trading conditions, it is not possible to provide meaningful guidance in respect of earnings for the 2011 financial year. However the Board notes the following in terms of its general expectations for that period:

- A continuing and materially improved performance is expected from the Drivetrain business, reflecting both revenue and margin growth;
- Gemco is also expected to contribute a turnaround performance delivered from new contract awards including that recently announced with IMX Resources (see ASX announcement dated 25 May 2010);
- Momentum is expected to show constant revenue and margins in line with FY10 performance;
- Industrial Powertrain is expected to show trend levels of growth in revenues in line with recent years with consistent or increasing margins;
- The Convair business is expected to maintain its contribution to Group earnings;
- Upon completion of the Greentrains put option previously exercised by Elphinstone Holdings Pty Ltd, Coote will own approximately 81% of Greentrains. The Greentrains business is expected to make a positive contribution to earnings, however as previously disclosed, the Board is considering a number of options for the business which may include an equity capital raising or partial or outright sale; and

- The proposed or pending divestment of other businesses which have made a negative contribution to Coote over the course of the 2010 financial year, including the South Spur Rail Services business, should have a positive impact on reported earnings in 2011.

Hence, the Board expects a significant improvement in the financial performance of the company for the coming financial year.

Elph Offer - Board recommendation and intentions

As previously advised, the Board recommends that shareholders **accept** the Elph Offer for 35% of their shares.

Each of the directors, with the exception of Managing Director Mr Mike Coote, intends to **accept** the Elph Offer in respect of the shares they own or control and to apply the proceeds in exercise of their rights under the Entitlement Issue. Mr Mike Coote's position is consistent with his earlier statements of his intention not to accept the Elph Offer in respect of his shareholding.

The Elph Offer closes on 9 June 2010. Elph has confirmed to Coote that it will not extend this Offer any further.

Risks

Shareholders should be aware that an investment in Coote shares is subject to a number of risks, as outlined in the Target's Statement, this announcement and in Annexure B.

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Important Notice and Disclaimer

This announcement is issued by Coote Industrial Limited ABN 99 120 432 144 (**"Coote"**), and contains general background information about Coote's activities current as at the date of the announcement. It is information in a summary form and does not purport to be complete. It should be read in conjunction with Coote's other periodic and continuous disclosure announcements, including the Coote 2009 Annual Report lodged with the Australian Securities Exchange (**ASX**) on 1 October 2009, Coote's half yearly report to 31 December 2009 lodged with the ASX on 1 March 2010, Coote's Target's Statement dated 12 April 2010 and Supplementary Target's Statements lodged since that date, and Coote's other announcements to the ASX available at www.asx.com.au.

This announcement is not a prospectus or a product disclosure statement under the Corporations Act and has not been lodged with the Australian Securities and Investments Commission ("**ASIC**"). The Entitlement Issue to which this announcement relates complies with the requirements of section 708AA of the Corporations Act as modified by ASIC Class Order [CO 08/35], and a Cleansing Notice complying with that section has been lodged with ASX.

The information contained in this announcement is for information purposes only and does not constitute an offer to issue or arrange to issue securities or other financial products. The information provided in this announcement is not intended to be relied upon as advice to investors or potential investors and has been prepared without taking into account the recipient's investment objectives, financial circumstances or particular needs. Before making an investment decision, you should consider, with or without the assistance of a financial adviser, whether an investment is appropriate in light of your particular investment needs, objectives and financial circumstances.

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This announcement may contain certain "forward-looking statements". The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "plan" and other similar expressions are intended to identify forward looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Due care and attention have been used in the preparation of forecast information. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Coote, that may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements.

Annexure A – Entitlement issue – further details and timetable

Entitlement issue

The Entitlement Issue is a pro rata non-renounceable rights issue to be offered to eligible Coote shareholders that meet all of the following criteria ("**Eligible Shareholders**"):

- they are registered as a holder of Coote shares at 5.00pm (Perth time) on the Record Date of Wednesday 16 June 2010;
- they have a registered address in Australia or New Zealand;
- they are not in the United States or a US Person or acting for the account or benefit of such persons; and
- they are eligible under all applicable securities laws to receive an offer under the Entitlement Issue.

The Entitlement Issue is not being extended to any shareholder with a registered address outside Australia or New Zealand having regard to the small number and value of new shares that would be offered in such jurisdictions and the cost of complying with the legal and regulatory requirements in those jurisdictions. However, Coote will appoint an ASIC-approved nominee to arrange for the sale on ASX of shares that may have been taken up by those shareholders, and to distribute any proceeds of sale (less the Entitlement Issue subscription price and other costs) to those shareholders.

The issue price under the Entitlement Issue is 16 cents per share. This price represents a discount of30% to the volume weighted average price of Coote shares for the five trading days prior to the date of this announcement.

The Entitlement issue is non-renounceable. This means that Coote shareholders who do not take up their entitlement to participate in the Entitlement Issue will not be able to transfer or receive any value for those entitlements, and their equity interest in Coote will be diluted.

Eligible Shareholders as at the record date may choose to accept all or part of their pro rata entitlement or none at all. Eligible Shareholders (other than directors of Coote) who take up their entitlement in full may also apply for additional shares in excess of their Entitlement under the Top-Up Facility. The allocation policy for shares subscribed pursuant to the Top-Up Facility will be as described under "**Subordinated Bridging Loan and Entitlement Issue**" in this announcement. Entitlements of Eligible Shareholders which are not taken up will lapse upon close of the Entitlement Issue.

Eligible Shareholders will shortly receive an offer booklet and a personalised entitlement and acceptance form which will provide further details on how to participate.

Timetable

"Ex Date" – Company's shares quoted on an 'ex' basis	**Wednesday 9 June 2010**
Record Date – To identify Company shareholders entitled to participate in the Offer	**Wednesday 16 June 2010**
Lodgement Date, Despatch of Offer Documents and Opening Date	**Tuesday 22 June 2010**
Closing Date	**Tuesday 6 July 2010**
Deferred Settlement Commences – shares quoted on a deferred settlement basis	**Wednesday 7 July 2010**
Notify ASX of under subscriptions	**Friday 9 July 2010**
Allocation Date – last date on which allocation of Offer Shares occurs	**Wednesday 14 July 2010**
Despatch Date – deferred settlement trading ends, security holdings entered	**Wednesday 14 July 2010**
Normal trading of new Coote Shares expected to commence on ASX	**Friday 15 July 2010**

All dates set out in the above table are Perth WST time. All dates are indicative and are subject to change. Any material changes will be announced to ASX.

Annexure B – Key risks in relation to Coote

This section discusses some of the key risks associated with an investment in shares in Coote. A number of risks and uncertainties, which are both specific to Coote and of a more general nature, may adversely affect the operating and financial performance or position of Coote, in turn affecting the value of Coote shares and the value of your investment in Coote.

The risks and uncertainties described below are not an exhaustive list of the risks facing Coote in connection with the Entitlement Issue or associated with an investment in Coote. Additional risks and uncertainties may also become important factors that adversely affect Coote's operating and financial performance or position.

Before investing in Coote shares, you should consider whether this investment is suitable for you. Potential investors should consider publicly available information on Coote (such as that available on the websites of Coote and ASX), carefully consider their personal circumstances and consult their stockbroker, solicitor, accountant or other professional adviser before making an investment decision.

Coote specific risks

1. Working capital

The principal risks associated with Coote's working capital include:

- notwithstanding the Entitlement Issue, there can be no assurances that Coote will be able to obtain appropriate funding for its operations on a timely basis, on reasonable terms, or at all, or that such additional funding would be sufficient to enable Coote to continue to implement its long term business strategy;
- divestment of non-core assets may not be consummated, or may not be consummated within the time periods anticipated, or the proceeds received may be less than anticipated; and
- any delay in reducing indebtedness or sourcing additional funding may adversely affect Coote's credit standing and may result in its borrowing costs being higher than expected.

2. Industry cycle

Coote provides engineering and technical sales and services customers in the defence, maritime, power generation, rail and resources industries. Any variance in the level of activity in these industries will be influenced by factors that may have an adverse effect on operating results and are beyond the control of Coote including metal prices and supply and demand, exchange rates, and availability and cost of key resources including people, equipment and critical consumables.

3. Increased or new competition

Coote faces competition in its businesses. To the extent that there are new entrants or changes in strategy by existing competitors Coote may lose market share with consequent adverse effects upon operating and financial performance.

4. Foreign exchange

Coote's revenue, operating and other business expenditure is determined principally in Australian dollars and Swedish Krona. Fluctuations in the exchange rate between the Australian dollar and the Swedish Krona will result in foreign exchange gains and losses which may impact on Coote's financial performance.

5. Environmental risks

Extensive national environmental laws and regulations in Australia affect the operations of Coote. The laws and regulations set various standards that regulate certain aspects of health and environmental quality, provide penalties or other remedies for any violation of standards and, in certain circumstances, impose obligations to undertake remedial action in current locations where operations are conducted. There is a risk that significant damages or penalties might be imposed on Coote group companies, including for certain discharges into the environment, effects on employees, sub-contractors or customers, or as clean up costs.

6. Reliance on key personnel

The responsibility of overseeing day-to-day operations and the strategic management of Coote is concentrated amongst a small number of key employees. While it is not currently anticipated, one or any number of these key employees may cease employment with Coote. The loss of any such key employees could have the potential to have a detrimental impact on Coote until the skills that are lost are adequately replaced.

7. Occupational health and safety

Coote manages, with its clients, certain risks associated with the occupational health and safety of its employees. Coote takes out insurance to cover these risks in certain parameters, however it is possible for injuries and/or incidents to occur which may result in expenses in excess of the amount insured or provided for with a resultant impact on Coote's earnings.

8. Reliance on key customers

Coote's businesses rely on a number of long-term contracts and business relationships. If any of the key customers reduces production or terminates the relationship, this may have an adverse effect on the financial performance and/or financial position of Coote.

9. Equipment

Coote is dependent on access to storage, rail, power and propulsion equipment and related parts. If Coote is unable to source suitable equipment and parts, its ability to perform or commence new contracts may be adversely affected.

10. Sovereign risk

Coote and its clients operate in various countries. There is a risk that the actions of a government, or other unforeseen events, in any of these countries may adversely affect Coote's operational flexibility.

11. Industrial disputes

Industrial disputes may arise from claims for higher wages and/or better working conditions in the industry in which Coote operates. This could disrupt operations and impact on earnings.

12. Risks associated with future growth initiatives

Coote intends to grow both organically and through new investment opportunities. There are always risks that the benefits, synergies or efficiencies expected from such investments or growth opportunities may take longer than expected to be achieved or may not be achieved at all. Any investments pursued could, for a variety of reasons, have a material adverse effect. Growth also brings substantial demands on management.

13. Litigation risk

Exposure to litigation brought by third parties such as customers, regulators, employees or business associates could negatively impact on Coote's financial performance through increased costs, payments for damages and damage to reputation.

14. Insurance

There may be circumstances where Coote's insurance will not cover, or will not be adequate to cover, the consequences of adverse events arising from operations, or where Coote may become liable for pollution or other operational hazards against which they cannot insure or may have elected not to have insured or keep insured on account of high premium costs or otherwise. In that event Coote could incur significant costs that would have a material adverse effect on its financial position.

General risks

15. Economic conditions

Adverse changes in economic conditions such as interest rates, exchange rates, inflation, government policy, international economic conditions and employment rates (amongst others) are outside Coote's control and have the potential to have an adverse impact on Coote and its operations.

16. Stock market fluctuations

There are risks associated with any investment in a company listed on the ASX. The value of Coote shares may rise above or below the current price depending on the financial and operating performance of Coote and external factors over which Coote and its Directors have no control. These external factors include economic conditions in Australia and overseas, changing investor sentiment in the local and international stock markets, changes in domestic or international fiscal, monetary, regulatory and other government policies and developments and general conditions in the markets in which Coote operates or proposes to operate and which may impact on the future value and pricing of shares.

17. Regulatory risks

Coote is exposed to changes in the regulatory conditions under which it operates. Such regulatory changes can include, for example, changes in taxation laws and policies, accounting standards, environmental laws and regulations, employment laws and regulations, and laws and regulations relating to occupational health and safety.