

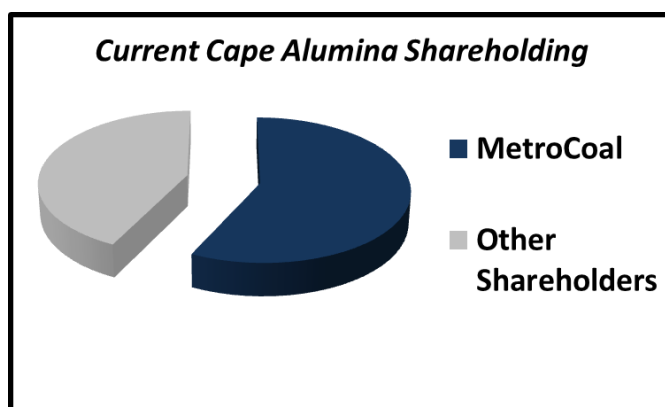
ASX ANNOUNCEMENT

4 August 2014

MetroCoal announces intention to make a scrip offer for the remaining shares in Cape Alumina Limited

Highlights

- MetroCoal Limited (**Metro**) confirms its intention to make an off-market takeover offer for the remaining 43% of shares in Cape Alumina (**Cape**) it does not already own (**Offer**)
- Metro is offering existing Cape shareholders 1 Metro share for every 1.3 Cape shares they own.
- The Offer represents a premium of approximately 35% to the 20 day VWAP (to 1 August 2014) for each Cape share¹.
- The Offer is not subject to a minimum acceptance condition.
- If the takeover bid is successful (where Metro achieves 100% ownership of Cape), the merged entity will hold extensive bauxite tenements in Cape York, including the Bauxite Hills Project, as well as an interest in extensive thermal coal in the Surat Basin and over \$6 million in cash.
- If Metro achieves 100% ownership of Cape its cash reserves will be available to accelerate the pre-feasibility studies and environmental approvals for the Bauxite Hills project.
- There is a risk that Cape will not be able to raise sufficient funds to progress their projects without MetroCoal support.
- If Cape becomes a wholly owned subsidiary of Metro then approximately \$500k p.a. will be saved from not having to maintain Cape as an ASX public company.



The consideration under the Offer will be **one (1) Metro** ordinary share for each **one point three (1.3) Cape** shares on issue.

Full acceptance of the Offer would result in existing Cape shareholders owning approximately 27.6% of the consolidated MetroCoal entity.

¹ Based on the implied Offer price of Metro shares of 4.09c which is the 20 Day VWAP (to 1 August 2014) for Metro shares.

The benefits of the Offer to Cape shareholders

Metro believes that the Offer for Cape provides considerable benefits to the shareholders of Cape especially given Cape's low cash position of \$1.4M as at 30 June 2014, according to Cape's Quarterly Cash Flow Report released to the ASX on 7 July 2014, which is insufficient to take the Bauxite Hills Project forward. It should be noted that there is no certainty that Cape's shares would trade at or above the implied Offer price once the Metro Offer lapses. Given MetroCoal currently holds 57.22% of Cape, Metro considers that it is unlikely that a competing bidder will emerge.

The benefits to Cape's shareholders include:

- a significant premium of approximately 35% to the 20 day VWAP of Cape Shares²;
- allowing Cape shareholders (through their resulting equity position in Metro) the opportunity to participate in:
 - the accelerated development of Cape's Bauxite Hills projects;
 - a diversified bulk commodities entity with significant bauxite and thermal coal resource projects; and
 - a simplified and lower cost corporate entity to drive shareholder value;
- using Metro's cash (\$6.5M as at 30 June 2014) removes uncertainty and avoids the risks over CBX's capacity to develop and fund its operations going forward, given its significant impending working capital requirements.

In addition:

- Cape shareholders could be further diluted through alternative fundraising mechanisms.
- If Metro gains 100% of Cape then savings of approximately \$500k p.a. could be attained through the delisting of Cape.
- The proposed takeover is an effective mechanism to provide funds for the environmental and technical studies for Bauxite Hills.
- There is no minimum acceptance condition to the Offer.

Background to the Offer

MetroCoal acquired a 57.23% holding in Cape through an "on market" bid which closed on 5 May 2014. Since then Metro has been actively assisting Cape in progressing its Bauxite Hills project and reduce costs through restructuring and amalgamating corporate functions.

On 13 June 2014 the Queensland Government proclaimed the *Regional Planning Interests Act 2014* and also made the *Regional Planning Interests Regulation 2014*. This legislation establishes the approval process for resource activities in areas of regional interest and confirms that there is no impact to any of Cape Alumina's

² Based on the implied Offer price of Metro shares of 4.09c which is the 20 Day VWAP (to 1 August 2014) for MetroCoal shares.

Bauxite Hills tenements or the proposed mine and port project area. This proclamation removes uncertainty regarding future land conflicts and allows Cape to focus on the development of the Bauxite Hills project.

Metro has also assisted Cape in lodging a proposal for the development of Aurukun with the Queensland government.

Cape recently completed an internal review of possible development scenarios for Bauxite Hills and has concluded that if a DSO (direct shipped ore) product can be produced and transhipped via Skardon River then a low capital cost economically viable project may be able to be developed at Bauxite Hills. This internal review has given management sufficient confidence to push ahead with the preliminary stages of environmental approvals and to complete additional technical studies to firm up the existence of a DSO product prior to committing to a feasibility study which will require additional funding.

MetroCoal's entry into the bauxite sector was prompted by the current positive fundamentals and attractive outlook for the bauxite sector. The positive outlook is supported by a number of factors including the Indonesian Government's ban on bauxite exports and India's recent announcement of their intention to increase their bauxite export tax from 10% to 20%.

The impact of these factors is borne out by the upward trend in the bauxite price, making bauxite one of the few bulk commodities with increasing prices and a positive outlook.

Funding Cape Projects

Cape requires funds to take advantage of the favourable outcomes from the Government's Cape York Regional Plan and Cape's review of Bauxite Hills and the continuing firm bauxite market by accelerating the development of Bauxite Hills.

Although Cape has a number of options by which it may raise funds the MetroCoal board believes it is unlikely to raise the necessary funds without Metro's support and, if it were to be successful, existing Cape shareholders will have to contribute additional funds in any offering or otherwise risk further dilution of their equity position.

Metro strongly believes that the proposed **Offer** presents Cape with the best opportunity to provide the funds necessary to accelerate Bauxite Hills and is in the best interests of both Cape's and Metro's shareholders.

Should MetroCoal not gain full control of Cape then Cape will be required to raise funds through other mechanisms and it is Metro's view that this could delay the Bauxite Hills project disadvantaging all shareholders.

Small Shareholders

MetroCoal recognises that there is a large number of Cape shareholders with unmarketable parcels. These shareholders are disadvantaged because, due to the small size of their holdings they cannot exit without paying excessive brokerage fees and can only top up "on market".

Following the completion of the Offer, MetroCoal will investigate options to allow the small shareholders to top up their investment in MetroCoal before following up with a buy-back of any remaining unmarketable parcels of Cape shares. This will allow those shareholders who wish to retain an interest in the merged entity to do so while at the same time provide an easy exit for the holders of unmarketable parcels.

Conditions to the Offer

The Offer is not subject to a minimum acceptance condition.

It is subject to a minimal number of conditions, many of which are customary for a transaction of this type. Details of the proposed Offer conditions are set out in the annexure to this announcement.

Next steps and timetable

The Metro Bidder's Statement is expected to be lodged by late August 2014 and will subsequently be despatched to Cape shareholders.

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Annexure A

Conditions of the Offer

The Offer to be made for all ordinary shares in Cape Alumina Limited will be subject to conditions substantially as set out below:

1. **No regulatory action**

Between the Announcement Date and the end of the Offer Period:

- (a) there is not in effect any preliminary or final decision, order or decree issued by a Public Authority;
- (b) no action or investigation is commenced by any Public Authority; and
- (c) no application is made to any Public Authority (other than by the Bidder or any of its Related Bodies Corporate),

(other than an application to, or a decision or order of, ASIC or the Takeovers Panel under, or relating to a breach of Chapter 6A, 6B or 6C of the Corporations Act or relating to unacceptable circumstances within the meaning of section 657A of the Corporations Act in consequence of, or in connection with, the Offer) which restrains, impedes or prohibits (or if granted could restrain, impede or prohibit), or otherwise materially adversely impacts upon, the making of the Offer, the acquisition of Target Shares under the Offer or any transaction contemplated by the Bidder's Statement, the Offer or the rights of the Bidder in respect of the Target, or requires the divestiture by any entity within the Bidder Group of any Target Shares, or requires the divestiture of any assets of the Bidder Group or Target Group.

2. **No material adverse change**

Between the Announcement Date and the end of the Offer Period (each inclusive), no event, change or condition occurs, is announced or becomes known to the Bidder (whether or not it becomes public) where that event, change or condition has or has resulted in, or could reasonably be expected to have or result in:

- (a) without limiting the generality of sub-paragraph (b) below, liabilities, or an adverse effect on the financial or trading position, or profitability of the Target Group, taken as a whole, of an amount which (when aggregated with any other event, change or condition) would or could reasonably be expected to result in a diminution of the Target Group's Net Assets by more than A\$200,000;
- (b) a material adverse effect on:
 - (1) the prospects of the Target Group, taken as a whole;
 - (2) the status or terms of any material approvals, licences, the Tenements or any other tenements held or permits issued by any Public Authority to any entity within the Target Group,

other than changes, events or conditions fully and fairly disclosed by the Target in an ASX announcement or otherwise to the Bidder in writing.

3. **No material acquisitions, disposals or new commitments**

Between the Announcement Date and the end of the Offer Period (each inclusive), neither the Target nor any Subsidiary of the Target, other than with the prior written consent of the Bidder:

- (a) acquires, offers to acquire or agrees to acquire one or more entities, businesses or assets (or any interest in one or more entities, businesses or assets) for an amount in aggregate greater than the Specified Amount;

- (b) disposes of, offers to dispose of or agrees to dispose of one or more entities, businesses or assets (or any interest in one or more entities, businesses or assets) for an amount, or in respect of which the book value is, in aggregate, greater than the Specified Amount;
- (c) enters into, agrees to enter into or announces any agreement to enter into any contract, commitment or arrangement, joint venture or partnership that:
 - (1) requires payments, expenditure or the foregoing of revenue by the Target and/or any of its Subsidiaries of an amount in excess of A\$200,000 on any individual basis or which is, in aggregate, greater than the Specified Amount; or
 - (2) is material in the context of the Target Group and is not in the ordinary course of business;
- (d) enters into or agrees to enter into, terminates or agrees to terminate a contract, commitment or arrangement for the provision of services or a licence to a third party that is a new or existing customer that results in the Target and/or any of its Subsidiaries incurring costs greater than \$A25,000 on an individual basis or is, in aggregate, greater than the Specified Amount for the entire term of such contract, commitment or arrangement;
- (e) provides or agrees to provide financial accommodation or a guarantee, other than to entities within the Target Group for any amount, or receives financial accommodation other than from entities within the Target Group for any amount;
- (f) enters into, amends, or agrees to enter into or amend any material contract, commitment or other arrangement with a related party (as defined in section 228 of the Corporations Act) of the Target;
- (g) incurs, agrees to incur or bring forward the time for incurring, or granting to a third party a right the exercise of which would involve the Target or a Subsidiary incurring or agreeing to incur an amount of capital expenditure in excess of the Specified Amount, other than capital expenditure that has been announced by the Target to ASX prior to the Announcement Date;
- (h) gives or agrees to give any Encumbrance over any of its assets (or an interest in any of its assets), other than liens in the ordinary and usual course of business;
- (i) does any of the following in respect of the Tenements:
 - (1) enters into, agrees to enter into or announces any agreement to enter into any contract, commitment or arrangement (including without limitation any ore sale, ore processing, joint venture, partnership, farm-in, royalty, marketing, or off-take agreement) in relation to any of the Tenements;
 - (2) relinquishes, sells or disposes of any interest or creates any Encumbrance over any of the Tenements;
 - (3) takes any action or omits to take any action that results in or may reasonably be expected to result in a breach of the terms any of the Tenements or any environmental authority relating to any of the Tenements; or
 - (4) takes any action or omits to take any action that results in or may reasonably be expected to result in the surrender of any of the Tenements or any environmental authority relating to any of the Tenements; or
- (j) without limiting sub-paragraphs (a) to (i) above:
 - (1) enters into, offers to enter into, agrees to enter into or announces any agreement for any transaction; or
 - (2) is otherwise affected by any transaction or proposal,

- (3) under which any third party would acquire any legal or economic interest in, or there would be any material diminution in, the rights granted under any mineral tenement held by any entity within the Target Group,
- (k) announces an intention to do any of the matters referred to in sub-paragraphs (a) to (j) above.

4. **No dividends**

Between the Announcement Date and the end of the Offer Period (each inclusive), the Target does not make, determine as payable, announce or declare any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie).

5. **No prescribed occurrences**

Between the Announcement Date and the end of the Offer Period (each inclusive), none of the following events occur:

- (a) the Target converts all or any of its shares into a larger or smaller number of shares under section 254H of the Corporations Act;
- (b) the Target or a Subsidiary of the Target resolves to reduce its share capital in any way;
- (c) the Target or a Subsidiary of the Target enters into a buy-back agreement or resolves to approve the terms of a buy-back agreement under section 257C(1) or 257D(1) of the Corporations Act;
- (d) the Target or a Subsidiary of the Target issues shares (other than as a result of the exercise of Target Options) or grants an option over its shares, or agrees to make such an issue or grant such an option;
- (e) the Target or a Subsidiary of the Target issues, or agrees to issue, convertible notes;
- (f) the Target or a Subsidiary of the Target disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;
- (g) the Target or a Subsidiary of the Target charges, or agrees to charge, the whole, or a substantial part, of its business or property;
- (h) the Target or a Subsidiary of the Target resolves to be wound up;
- (i) a liquidator or provisional liquidator of the Target or of a Subsidiary of the Target is appointed;
- (j) a court makes an order for the winding up of the Target or of a Subsidiary of the Target;
- (k) an administrator of the Target or of a Subsidiary of the Target is appointed under section 436A, 436B or 436C of the Corporations Act;
- (l) the Target or a Subsidiary of the Target executes a deed of company arrangement; or
- (m) a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of the Target or a Subsidiary of the Target.

Definitions

Announcement Date means the date of announcement of the Bidder's intention to make the Offer.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited.

Bidder means MetroCoal Limited ACN 117 763 443.

Bidder Group means the Bidder and its Subsidiaries.

Bidder's Statement means the bidder's statement to be prepared in relation to the Offer and includes any supplementary or replacement bidder's statement.

Corporations Act means the Corporations Act 2001 (Cth).

Encumbrance means a mortgage, lien, charge, pledge, assignment by way of security, security interest, title retention, preferential right or trust arrangement, claim, covenant, profit a prendre, easement or any other security arrangement or any other arrangement having a similar effect.

Net Assets means an amount equal to the net assets (being total assets less total liabilities) of the Target Group (on a consolidated basis), determined in accordance with Australian Accounting Standards as applied in the most recent financial statements of the Target prior to the Announcement Date.

Offer means an off-market offer to be made by the Bidder under Chapter 6 of the Corporations Act to acquire all of the Target Shares.

Offer Period means the period during which the Offer remains open for acceptance by Target Shareholders.

Public Authority means any government or any governmental, semi-governmental, statutory or judicial entity or authority, or any minister, department, office or delegate of any government, whether in Australia or elsewhere. It also includes any self-regulatory organisation established under statute and any stock exchange.

Related Body Corporate has the meaning given in section 50 of the Corporations Act.

Relevant Interest has the meaning given to that term in the Corporations Act.

Specified Amount means A\$100,000.

Subsidiary has the meaning given to that term in the Corporations Act.

Target means Cape Alumina Limited ACN 107 817 694.

Target Group means the Target and its Subsidiaries.

Target Share means an ordinary share issued in the capital of the Target.

Target Shareholder means a person who is the registered holder of one or more Target Shares.

Tenements means all tenements that a member of the Target Group holds any right, title or interest and any extension, renewal, conversion or substitution of such tenements