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ASX release

15 September 2014

Despatch of Target's Statement

Cape Alumina ACN 107 817 694 (ASX: CBX) (**Cape**) has today lodged its Target's Statement in relation to the off-market takeover offer by MetroCoal Limited ACN 117 763 443 (**MetroCoal**) with the Australian Securities and Investments Commission and provided a copy of the Target's Statement to MetroCoal. Cape will complete despatch of the Target's Statement to Cape shareholders later today.

As required by item 14 of section 633(1) of the *Corporations Act 2001* (Cth), enclosed is a copy of the Target's Statement and the accompanying independent expert's report.

Scott Waddell
Company secretary

More information: Cape Alumina Limited +61 7 3009 8009

TARGET'S STATEMENT

**CAPE'S NON-ASSOCIATED
DIRECTORS RECOMMEND THAT,
IN THE ABSENCE OF A
SUPERIOR PROPOSAL, YOU**

ACCEPT

THE OFFER

BY METROCOAL LIMITED

ACN 117 763 443

to acquire all of your shares in

CAPE ALUMINA LIMITED

ACN 107 817 694

**THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR
IMMEDIATE ATTENTION**

**If you are in any doubt as to how to deal with this document, you
should consult your legal, financial or other professional adviser
as soon as possible**

LEGAL ADVISERS

McCullough Robertson Lawyers

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Important notices

This document is a Target's Statement issued by Cape Alumina Limited ACN 107 817 694 (**Cape**) under part 6.5 division 3 of the Corporations Act in response to the Bidder's Statement issued by MetroCoal Limited ACN 117 763 443 (**MetroCoal**). This Target's Statement is dated 15 September 2014.

A copy of this Target's Statement was lodged with ASIC and sent to ASX on 15 September 2014. None of ASIC, ASX nor any of their officers take any responsibility for the content of this Target's Statement.

This Target's Statement and the Bidder's Statement contain important information. You should read both documents carefully and in their entirety.

Investment decision

This Target's Statement does not take into consideration your individual investment objectives, financial situation or particular needs. You may wish to seek independent financial and tax advice before deciding whether or not to accept the Offer by MetroCoal to acquire all of your Cape Shares.

Shareholder information

If you have any questions about the MetroCoal Offer, please call the Cape Shareholder information line on +61 7 3009 8009 on weekdays between 9.00am and 5.00pm (Brisbane time), or visit our website at www.capealumina.com.au.

The Directors are committed to ensuring Shareholders are kept informed of developments. Important developments under the control of Cape will be notified directly to Shareholders.

Forward looking statements

This Target's Statement contains certain forward looking statements and statements of current intention. The forward looking statements in this Target's Statement reflect views held at the date of this Target's Statement.

You should be aware that these statements involve inherent risks and uncertainties. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and those deviations are both normal and to be expected.

None of Cape, its officers or any person named in this Target's Statement with their consent or involved in the preparation of this Target's Statement makes any representation or warranty, as to the accuracy or likelihood of fulfilment of any forward looking statement. You should not place undue reliance on those statements.

Defined terms

A number of defined terms are used in this Target's Statement. These terms are explained in the definitions in section 12.

Privacy statement

Cape has collected your information from the register of Shareholders. The Corporations Act permits that information be made available to certain persons, including MetroCoal. Your information may also be disclosed on a confidential basis to Cape's related bodies corporate and external service providers and may be required to be disclosed to regulatory parties such as ASIC. You can contact us for details of information held by us about you.

COMPETENT PERSON'S STATEMENT

Technical information about the ore resources on any Cape Alumina project in this document had been compiled by Neil McLean, who is a consultant for Cape Alumina Limited, a Fellow of the Australian Institute of Mining and Metallurgy (F. AusIMM) and is a competent person and has relevant experience to the mineralisation being reported on to qualify as a Competent Person as defined by the 2004 and 2012 editions of the Australasian Code for Reporting of Minerals Resources and Reserves. Neil McLean consents to the inclusion in the document of the matters based on the information in the form and context in which it appears. The resource information in this document has been released to the ASX. The information in this document that relates to the Pisolite Hills project was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported. The information in this document that relates to the Bauxite Hills project has been prepared and disclosed under the JORC Code 2012.

Letter to Shareholders

15 September 2014

Dear Shareholder

Accept the MetroCoal Offer

On 4 August 2014, MetroCoal Limited (**MetroCoal**) announced an off-market takeover bid for all the Shares in Cape Alumina Limited (**Cape**) (**MetroCoal Offer**).

Under the MetroCoal Offer, Cape Shareholders are being offered 1 MetroCoal share for every 1.3 Cape Shares held. You should have recently received a copy of the Bidder's Statement from MetroCoal setting out the terms of the MetroCoal Offer.

There are certain advantages associated with the MetroCoal Offer, however there are also a number of disadvantages. Your Non-Associated Directors have considered these various factors in making their recommendation and, on balance, have decided that the advantages outweigh the disadvantages and therefore **recommend that you accept the MetroCoal Offer in the absence of a superior proposal**.

Your Non-Associated Directors reasons for recommending that you accept the MetroCoal Offer are set out in the section entitled 'Why you should accept the MetroCoal Offer'.

Your Non-Associated Directors (George Lloyd and Ken Xiao) intend to accept the MetroCoal Offer in respect of the Cape Shares held or controlled by them.

As required by the Corporations Act, Cape has commissioned an Independent Expert's Report (**IER**) to assess whether the MetroCoal Offer is fair and reasonable to Cape Shareholders not associated with MetroCoal. The IER is attached as Annexure A to this Target's Statement.

The Independent Expert has concluded that the Offer Price of 1 MetroCoal Share for every 1.3 Cape Shares held is both fair and reasonable to the Cape Shareholders. In reaching this conclusion the Independent Expert has assessed that the value range for each Cape Share is between \$0.123 and \$0.133 with a mid-point of \$0.128 and that the value of the consideration offered by MetroCoal is between \$0.114 and \$0.143 with a mid-point of \$0.129.

Your Non-Associated Directors' recommendation is based not only on the assessment of the Independent Expert but also on the view that successful development of the Bauxite Hills Project will require significant additional funds in the short term and that the MetroCoal Offer provides short term funding certainty which will enable the company to progress the development of the Bauxite Hills project in a timely manner. Furthermore, the acceptance of the MetroCoal Offer will lead to significantly improved liquidity for Cape Shareholders meaning that your shares will be easier to trade and the share price may better reflect the actual market value of the combined group's projects.

This Target's Statement sets out your Non-Associated Directors' response to the MetroCoal Offer and contains their recommendation, reasons for that recommendation and other important information you should consider when deciding whether to accept the MetroCoal Offer. If you are in doubt as to whether to accept the MetroCoal Offer, you should seek your own independent professional advice.

If you have any questions about the MetroCoal Offer, please call Cape's Shareholder information line on +61 7 3009 8009 on weekdays between 9.00am and 5.00pm (Brisbane time).

Yours sincerely



George Lloyd
Non-executive Director
Takeover Response Committee Chairman

What should you do

You should read the Bidder's Statement and this Target's Statement (including the Independent Expert's Report), which contains your Non-Associated Directors' recommendation to accept the MetroCoal Offer in the absence of a superior proposal and their reasons for this recommendation.

As a Cape Shareholder, you have the following choices in respect of the MetroCoal Offer:

- (a) **you may ACCEPT the MetroCoal Offer**, in which case you should complete the acceptance form in the Bidder's Statement and return it in the envelope provided;
- (b) **you may choose to REJECT the MetroCoal Offer**, in which case you do not need to take any action; or
- (c) **you may sell your Cape Shares on market**, unless you have previously accepted the MetroCoal Offer and you have not validly withdrawn your acceptance.

If you have any questions, please call Cape's Shareholder information line on +61 7 3009 8009 on weekdays between 9.00am and 5.00pm (Brisbane time).

Key dates

Announcement date	4 August 2014
Bidder's Statement lodged with ASIC	19 August 2014
Date of Offer	2 September 2014
Date of Target's Statement	15 September 2014
Close of Offer Period (unless extended)	3 October 2014

Why you should accept the MetroCoal Offer

At the date of this Target's Statement, MetroCoal owns 57.23% of the issued capital of Cape. The purpose of the MetroCoal Offer is to enable MetroCoal to acquire the remaining 42.8% of Cape Shares which it does not already own.

If the MetroCoal Offer is successful it will mean that the Cape Shareholders, other than MetroCoal, will effectively exchange their 42.8% interest in the net assets of Cape Alumina for a 27.7% interest in the net assets of Cape Alumina (a reduction of 15.1 percentage points or 35%) plus a 27.7% interest in the net non-Cape Alumina assets of MetroCoal, which mainly comprise cash and interests in black coal resources. MetroCoal's assets and the black coal mining industry are described in Sections 4 and 6 respectively of the Independent Expert's Report.

The Non-Associated Directors of Cape recommend that you accept the MetroCoal Offer for the following reasons:

1. **The MetroCoal Offer is fair and reasonable**

The Independent Expert, in opining that the MetroCoal Offer is fair and reasonable to the Cape Shareholders, has determined that the mid-point fair market value of the consideration provided by MetroCoal is equivalent to the mid-point value of Cape Alumina shares, which valuation includes a 25% premium for control.

Your Non-Associated Directors believe that the 15.1 percentage point reduction in the interests of Shareholders in the net assets of Cape Alumina is appropriately compensated for by the acquired 27.7% interest in the net non-Cape Alumina assets of MetroCoal.

2. **The combined company will have a mix of short and medium to longer term value creation projects**

In addition to its current interest in Cape Alumina, MetroCoal's assets are cash (A\$6.5 million at 30 June 2014) and interests in a number of thermal coal deposits in the Surat Basin of South Eastern Queensland. These coal deposits are not expected to be developed until coal markets improve. However, the combination of Cape Alumina's high quality bauxite resources and MetroCoal's well situated coal deposits will provide shareholders with an interest in bauxite deposits, which should be developed in the short to medium term, and in coal deposits which should be developed in the medium to longer term. The combination will provide shareholders with shares in a diversified bulk commodities company, providing asset and risk diversification and a strong near-term and long-term project pipeline with the potential to create sustainable and growing value over many years.

3. **The combined company will have better access to funding and better prospects for development of the Bauxite Hills project than Cape Alumina on its own**

Cape Alumina has insufficient cash resources to effectively progress the development of the Bauxite Hills project, at a rate and in a timeframe to allow it to benefit from the strengthening bauxite market, without raising significant additional cash in the short term, probably on unfavourable terms. The combined cash of both companies (A\$7.9 million at 30 June 2014) will provide short term funding certainty and will better position the Company to advance the Bauxite Hills project and take advantage of the emerging favourable market conditions.

In the event that the MetroCoal Offer is not successful, Cape would need to raise additional funds to progress the development of the Bauxite Hills project and repay the loan from MetroCoal (refer to section 3.6) in an environment where equity is difficult for junior exploration companies like Cape to raise and such equity would likely be priced at a significant discount to the trading price of Cape Shares. If funding was raised by means of a pro-rata rights issue, Cape Shareholders would need to contribute additional funds or otherwise have their respective shareholdings diluted.

4. Improved share liquidity

At 4 August 2014 the top four shareholders of Cape accounted for 82.2% of the issued capital of the Company. The shares are highly illiquid with relatively small numbers of shares traded on the ASX at any one time or over a lengthy period. In these circumstances it is difficult for shareholders to sell shares without adversely affecting the price of the shares or to purchase shares in quantity with a degree of price certainty. Furthermore, the poor liquidity of the shares mean that the likelihood of share prices fairly reflecting the value of the company is reduced.

In the event the MetroCoal Offer is successful, the top four shareholders will account for approximately 52% of the issued capital of MetroCoal which should lead to improved liquidity for the Cape Shareholders who accept the Offer (assuming the Offer is declared unconditional) and a greater likelihood that the price of the shares will better reflect the value of the assets of Cape.

5. Avoid being a minority shareholder in Cape Alumina which will be controlled by MetroCoal

Cape Shareholders who do not accept the MetroCoal Offer run the risk of being a minority shareholder in a company which, if MetroCoal is unable to proceed to compulsory acquisition of the outstanding Cape Shares, may be delisted from the ASX. In this event it will be difficult for shareholders to trade their Cape Alumina shares and to realise fair value for them. Furthermore, as a minority shareholder in Cape Alumina, Shareholders' interests may be diluted as the Company seeks to raise additional funding for the development of Bauxite Hills. Whereas, as a shareholder of MetroCoal, the former Cape Shareholder's interests will be better aligned with those of the Company's majority shareholder.

6. No superior offer or proposal from a third party has emerged to date

As at the date of this Target's Statement, Cape has not received any alternative offers or proposals from other third parties and the Non-Associated Directors are not aware of any other likely superior bid which might be made. In the absence of a superior proposal or other favourable developments in respect of Cape's assets, Cape Shareholders are unlikely to realise their Cape Shares for an amount in excess of the consideration offered pursuant to the MetroCoal Offer in the short term.

Frequently asked questions about the MetroCoal Offer

The process governing takeovers is complex. This section of the Target's Statement is designed to help you understand some of the issues relating to the MetroCoal Offer.

Question	Answer	Further Information
Who is the bidder?	The MetroCoal Offer is made by MetroCoal Limited ACN 117 763 443. Information about MetroCoal can be obtained from section 5 of the Bidder's Statement or from MetroCoal's website at www.metrocoal.com.au .	Section 3
What is the MetroCoal Offer?	MetroCoal has made an offer of 1 MetroCoal share for every 1.3 Cape Shares you hold.	Section 2.2
What choices do I have as a Cape Shareholder?	As a Cape Shareholder, you have the following choices: (a) you can accept the Offer; (b) you can reject the Offer; or (c) you can sell your Cape Shares on market (unless you have previously accepted the MetroCoal Offer and you have not validly withdrawn your acceptance). When deciding what to do, you should carefully consider the Non-Associated Directors' recommendation and other important considerations set out in this Target's Statement.	Section 6
What do your Non-Associated Directors recommend?	Your Non-Associated Directors recommend that you accept the MetroCoal Offer in the absence of a superior proposal. The reasons for this recommendation are set out in this Target's Statement.	Section 1.2
Why are Stephen Everett and Lindsay Ward, Directors of Cape, not making a recommendation?	Mr Stephen Everett and Mr Lindsay Ward are each non-executive Directors of both Cape and MetroCoal. To minimise any conflict of interest (actual or perceived) and any potential influence, Mr Everett and Mr Ward have abstained from making a recommendation as to whether Cape Shareholders should accept or reject the MetroCoal Offer and have had no involvement in the process of deliberation in respect of the MetroCoal Offer undertaken by the Non-Associated Directors.	Section 1.2

Question	Answer	Further Information
What does the Independent Expert conclude?	<p>The Independent Expert's Report prepared by InterFinancial Corporate Finance Limited has determined that, in its opinion, the MetroCoal Offer is both fair and reasonable to the Cape Shareholders. In reaching this conclusion the Independent Expert has assessed the underlying value of equity in Cape to be in the range of \$0.123 and \$0.133 per Cape Share with a mid-point of \$0.128 (including a control premium of 25%) and that the value of the consideration offered by MetroCoal is between \$0.114 and \$0.143 with a midpoint of \$0.129.</p> <p>A copy of the Independent Expert's Report can be found in Annexure A.</p>	
How do I accept the MetroCoal Offer?	Details of how to accept the MetroCoal Offer are set out in section 1 and 12.7 of MetroCoal's Bidder's Statement.	Section 6
How do I reject the MetroCoal Offer?	To reject the MetroCoal Offer, you do not need to do anything.	Section 6
When do I have to decide?	<p>If you want to accept the MetroCoal Offer, you need to do so before the end of the Offer Period. The Offer Period is expected to remain open until 3 October 2014, unless extended or withdrawn by MetroCoal.</p> <p>If you want to reject the MetroCoal Offer, you need not do anything.</p>	Section 2.3
Can MetroCoal vary the MetroCoal Offer?	Yes. MetroCoal can vary the MetroCoal Offer by waiving the Conditions, extending the Offer Period or increasing the Offer Price.	Section 2.8
When does the MetroCoal Offer close?	The MetroCoal Offer will close at 7.00 pm on 3 October 2014, unless it is extended or withdrawn.	Section 2.3
What happens if MetroCoal increases the consideration payable under the Offer?	If MetroCoal increases the consideration payable under the Offer, you will receive the higher consideration even if you have already accepted the Offer.	Section 2.8

Question	Answer	Further Information
What are the conditions of the Offer?	<p>The MetroCoal Offer is subject to the following Conditions:</p> <ul style="list-style-type: none"> (a) between the Announcement Date and the end of the Offer Period, there is no Regulatory Action; (b) between the Announcement Date and the end of the Offer Period, there is no Material Adverse Change; (c) between the Announcement Date and the end of the Offer Period, there are no material acquisitions, disposals or new commitments; (d) between the Announcement Date and the end of the Offer Period, Cape must not make, determine as payable, announce or declare any distribution; and (e) between the Announcement Date and the end of the Offer Period, there is no Prescribed Occurrence. <p>The MetroCoal Offer is not subject to a minimum acceptance condition.</p> <p>This is only a summary of the Conditions. See section 2.4 of this Target's Statement for further details about the Conditions and refer to section 11.2 of MetroCoal's Bidder's Statement for full details of all Conditions.</p>	Section 2.4
What are the consequences of accepting the Offer now?	<p>If you accept the MetroCoal Offer while it is still conditional, unless withdrawal rights are available (see the following question) you will not be able to sell your Cape Shares on ASX or to any other bidder that may make a takeover offer, or otherwise deal with your Cape Shares while the Offer remains open.</p> <p>If the Conditions of the Offer are not satisfied or waived and the Offer lapses, you will be free to deal with your Cape Shares, even if you accepted the Offer.</p>	Section 2.6
If I accept the Offer, can I withdraw my acceptance?	You may only withdraw your acceptance if MetroCoal extends by more than one month the time it has to provide the consideration under the Offer.	Section 7.3
What happens if I do nothing?	<p>You will remain a Cape Shareholder unless MetroCoal can compulsorily acquire your Cape Shares.</p> <p>If you do nothing, but MetroCoal acquires 90% or more of Cape Shares and all the Conditions of the MetroCoal Offer are satisfied or waived, MetroCoal intends to compulsorily acquire your Cape Shares.</p>	Sections 6 and 2.9

Question	Answer	Further Information
<p>If MetroCoal acquires less than 90% of the Cape Shares, will I still be able to sell my Cape Shares on ASX?</p>	<p>If you retain your Cape Shares, you will still be able to sell them on ASX unless Cape is delisted at some time in the future.</p> <p>MetroCoal has stated in its Bidder's Statement that if it acquired at least 75% but less than 90% of the Cape Shares MetroCoal intends to arrange for Cape to be removed from the official list of ASX.</p> <p>If Cape is removed from the official list of ASX, you will not be able to sell your Cape Shares on ASX.</p> <p>On 6 May 2014, MetroCoal announced that it had a relevant interest in 57.23% of Cape Shares.</p>	<p>Section 2.10</p>
<p>What are the other consequences if MetroCoal acquires less than 90% of the Cape Shares and I remain a Cape Shareholder?</p>	<p>In the event that MetroCoal acquires less than 90% of Cape Shares, Cape would need to undertake an equity raising in order to progress the development of the Bauxite Hills project and repay the loan from MetroCoal (refer to section 3.6).</p> <p>If funding was raised by means of a pro-rata rights issue, Cape Shareholders would need to contribute additional funds or otherwise have their respective shareholdings diluted.</p>	
<p>Can I be forced to sell my Cape Shares?</p>	<p>You cannot be forced to sell your Cape Shares unless MetroCoal proceeds to compulsory acquisition. If MetroCoal proceeds to compulsory acquisition, you will receive the same consideration as if you had accepted the MetroCoal Offer.</p> <p>On 6 May 2014, MetroCoal announced that it had a relevant interest in 57.23% of Cape Shares.</p>	<p>Section 2.9</p>
<p>What happens if the conditions of the MetroCoal Offer are not satisfied or waived?</p>	<p>If the Conditions of the MetroCoal Offer are not satisfied or waived before the Offer closes, the Offer will lapse, your Cape Shares will not be transferred to MetroCoal and you will not receive the consideration under the MetroCoal Offer.</p> <p>This means that you will continue to be a Cape Shareholder, free to deal with your Cape Shares.</p>	<p>Section 2.5</p>
<p>When will I receive my consideration if I accept the Offer?</p>	<p>If you accept the MetroCoal Offer, you will receive your consideration by the earlier of:</p> <p>(a) one month after the later of:</p> <p style="padding-left: 20px;">(i) the date you accept the Offer; and</p> <p style="padding-left: 20px;">(ii) the date the Offer becomes unconditional; and</p> <p>(b) 21 days after the end of the Offer Period.</p>	<p>Section 2.7</p>
<p>What are the tax implications of accepting the MetroCoal Offer?</p>	<p>A general outline of the tax implications of accepting the MetroCoal Offer is set out in section 8 of this Target's Statement.</p> <p>You should consult your financial or tax adviser for advice on the tax implications applicable to your individual circumstances.</p>	<p>Section 8</p>

Question	Answer	Further Information
What is a bidder's statement?	The documents sent to you by MetroCoal include a document called a bidder's statement. It contains information about the Offer.	
What is a target's statement?	This document is a target's statement. It contains information prepared by your Non-Associated Directors to help you decide whether to accept the Offer.	
What if I have other questions about the Offer?	<p>If you have any questions, please call Cape's Shareholder information line on +61 7 3009 8009, or visit Cape's website at www.capealumina.com.au.</p> <p>Announcements made to ASX by Cape and other information relating to the MetroCoal Offer can be obtained from Cape's website at www.capealumina.com.au.</p>	

1 Non-Associated Directors' recommendation

1.1 Summary of the MetroCoal Offer

MetroCoal is offering Cape Shareholders 1 MetroCoal share for every 1.3 Cape Shares held. The MetroCoal Offer is subject to a number of Conditions. Those Conditions are set out in the Bidder's Statement and are summarised in section 2.4 of this Target's Statement.

1.2 Non-Associated Directors' recommendation

After taking into account the terms of the MetroCoal Offer and the matters in this Target's Statement (including the contents of the IER), each Non-Associated Director recommends that you accept the MetroCoal Offer in the absence of a superior proposal.

The reasons for the Non-Associated Directors' recommendation are set out in the section entitled 'Why you should accept the MetroCoal Offer'.

Mr Lindsay Ward and Mr Stephen Everett are each Non-Executive Directors of MetroCoal, and Mr Everett is also the Non-Executive Chairman of MetroCoal. Following the closing of the MetroCoal on-market takeover offer for Cape in May 2014, MetroCoal held a 57.23% interest in the issued capital of Cape, and subsequently the Cape board appointed Mr Ward and Mr Everett as the MetroCoal nominees on the Cape board.

To minimise any conflict of interest and any potential influence, Mr Ward and Mr Everett have abstained from making a recommendation in their capacity as Cape Directors as to whether Cape Shareholders should accept or reject the MetroCoal Offer. In considering the MetroCoal Offer, a board sub-committee, described as the 'takeover response committee' and comprising Mr George Lloyd and Mr Ken Xiao (as alternate to Mr Jijun Liu), and supported by Mr Scott Waddell and Mr Derek Pocock (of McCullough Robertson, Cape's legal adviser), was formed and has been tasked with making all decisions in respect of the MetroCoal Offer including the appointment of the Independent Expert.

Based on the closing price of MetroCoal's shares on 10 September 2014, the MetroCoal Offer has an implied value of \$0.027 per Cape Share.

1.3 Non-Associated Directors' acceptance of the MetroCoal Offer

At the date of this Target's Statement, it is your Non-Associated Directors' intention to accept the MetroCoal Offer for the Cape Shares held or controlled by them at 10 September 2014.

Details of the relevant interests of each Non-Associated Director in Cape Shares are set out in section 9.

Neither Mr Lindsay Ward nor Mr Stephen Everett hold a relevant interest in Cape Shares and make no comment or recommendation as to whether Cape Shareholders should accept the MetroCoal Offer.

Mr Jijun Liu (for whom Mr Ken Xiao acts as alternate) is an employee of China Xinfra Group Corporation Limited. China Xinfra Group Corporation Limited (together with associated entities) holds 29,342,960 ordinary shares in Cape Alumina.

At the date of this Target's Statement, the intentions of China Xinfra Group Corporation Limited, with respect to the MetroCoal Offer, are not known.

2 Key terms of the MetroCoal Offer

2.1 History

On 4 August 2014, MetroCoal announced its intention to make an off-market takeover bid for all the ordinary Shares in Cape. On 19 August 2014, MetroCoal lodged its Bidder's Statement with ASIC and gave a copy to Cape.

The Bidder's Statement contains the MetroCoal Offer.

2.2 Summary of the MetroCoal Offer

The MetroCoal Offer is to acquire all of your Cape Shares and any rights attaching to the Shares for 1 MetroCoal share for every 1.3 Cape Shares.

2.3 Offer Period

The MetroCoal Offer will remain open for acceptance until 3 October 2014, unless extended or withdrawn under the Corporations Act.

2.4 Conditions of the MetroCoal Offer

The MetroCoal Offer is subject to those Conditions set out in full in 11.2 of the Bidder's Statement, which are summarised below:

- (a) no Regulatory Action between the Announcement Date and the end of the Offer Period, including:
 - (i) the commencement of an action or investigation by a public authority;
 - (ii) an application to a public authority; or
 - (iii) the coming into effect of any preliminary or final decision, order or decree issued by a public authority;
- (b) no Material Adverse Change between the Announcement Date and the end of the Offer Period, including:
 - (i) no event or change which results in, or could reasonably be expected to result in, liabilities or an adverse effect on Cape's financial or trading position, of an amount which would or could reasonably be expected to result in a diminution of Cape's net assets by more than \$200,000;
 - (ii) no event which could have a material adverse effect on Cape's prospects, or on the status or terms of any material approvals, licences or Cape's tenements;
- (c) no material acquisitions, disposals or new commitments between the Announcement Date and the end of the Offer Period, including:
 - (i) acquiring, offering to acquire or agreeing to acquire assets, entities or businesses for an amount exceeding \$100,000;
 - (ii) disposing of, offering to dispose of or agreeing to dispose of assets, entities or businesses for an amount, or in respect of which the book value is, greater than \$100,000;

- (iii) entering into any contract, commitment or arrangement, joint venture or partnership that requires payments, expenditure or the foregoing of revenue by Cape in excess of \$100,000;
- (iv) Cape giving or agreeing to give any encumbrance over any of its assets;
- (v) Cape taking certain actions in respect of its tenements, including:
 - (A) relinquishing, selling or disposing of any interest in its tenements;
 - (B) taking any action which results in or may reasonably be expected to result in a breach of the terms of any of the tenements or any environmental authority of relating to any of the tenements; or
 - (C) taking any action which results in or may reasonably be expected to result in the surrender of any of the tenements or any environmental authority relating to the tenements;
- (d) no determination, announcement or declaration of any distribution (including by way of dividend, capital reduction or otherwise) by Cape between the Announcement Date and the end of the Offer Period; and
- (e) no Prescribed Occurrences, including:
 - (i) Cape converting all or any of its Shares into a larger or small number of Shares;
 - (ii) Cape resolving to reduce its Share capital in any way;
 - (iii) Cape issuing, or agreeing to issue Shares or convertible notes;
 - (iv) Cape disposing of the whole or a substantial part of its business or property;
 - (v) Cape resolving to be wound up; or
 - (vi) the appointment of a liquidator, administrator, receiver or receiver and manager.

At the date of this Target's Statement, the Non-Associated Directors are not aware that any Prescribed Occurrences have occurred in respect of Cape.

MetroCoal may waive any of these Conditions under the Corporations Act.

2.5 Consequences if Conditions not satisfied

If the Conditions are not satisfied or waived before the Offer closes, the Offer will lapse. This means that:

- (a) if you have accepted the MetroCoal Offer, your acceptance is void and you will continue to be a Cape Shareholder, free to deal with your Cape Shares; or
- (b) if you have not accepted the MetroCoal Offer, you continue to be a Cape Shareholder and are free to deal with your Cape Shares.

2.6 Effect of acceptance

The effect of acceptance of the MetroCoal Offer is set out in section 12.10 of the Bidder's Statement. Read that section in full to understand the effect that acceptance will have on your

ability to exercise the rights attaching to your Cape Shares and the representations and warranties which you give by accepting the MetroCoal Offer. In particular, if you accept the MetroCoal Offer, you may forfeit the opportunity to benefit from any superior offer made by another bidder for your Cape Shares, if that offer were to eventuate. If you accept the MetroCoal Offer you will not be able to sell your Cape Shares on ASX.

2.7 Payment of consideration

MetroCoal has set out in section 12.11 of the Bidder's Statement, the timing of the payment of the consideration to holders of Cape Shares who accept the MetroCoal Offer. In general terms, you will receive the consideration to which you are entitled under the MetroCoal Offer by the earlier of:

- (a) 21 days after the expiry of the Offer Period; or
- (b) one month after the later of your acceptance and the date the relevant Offer becomes unconditional.

2.8 Changes to the MetroCoal Offer

MetroCoal can vary the MetroCoal Offer by:

- (a) waiving the Conditions to the MetroCoal Offer;
- (b) extending the Offer Period; or
- (c) increasing the consideration offered under the MetroCoal Offer.

If you accept the MetroCoal Offer and MetroCoal subsequently increases its Offer Price, you are entitled to receive the higher price.

2.9 Compulsory acquisition

MetroCoal has indicated in section 7.4 of its Bidder's Statement that, if it is entitled to do so, it will proceed to compulsorily acquire all remaining Cape Shares.

Under section 661A Corporations Act, MetroCoal is entitled to compulsorily acquire any Cape Shares for which it has not received an acceptance of its Offer on the same terms as the Offer if, during or at the end of the Offer Period, MetroCoal and its associates have a relevant interest in at least 90% (by number) of Cape Shares. The consideration per Cape Share payable to Cape Shareholders whose Shares are compulsorily acquired is the same as that payable under the MetroCoal Offer.

On 6 May 2014, MetroCoal announced that it had a relevant interest in 57.23% of Cape Shares on issue.

If MetroCoal is entitled to proceed to compulsory acquisition, it will have one month after the Offer Period to give compulsory acquisition notices to Cape Shareholders who have not accepted the Offer. Cape Shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the Shareholders to establish to the satisfaction of a court that the terms of the Offer do not represent 'fair value' for the Cape Shares.

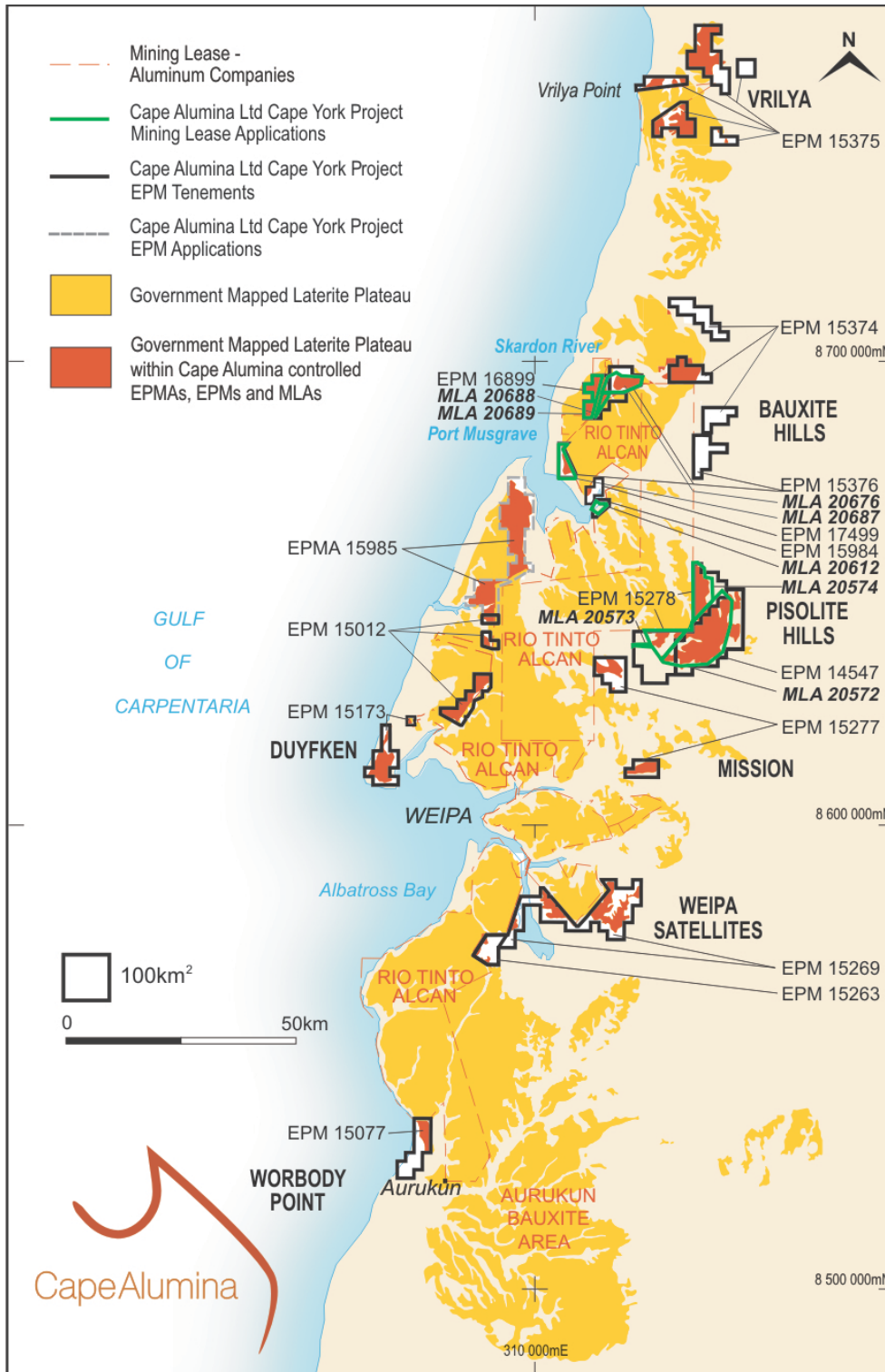
2.10 MetroCoal's intention if 90% threshold not met

MetroCoal has stated in 7.3 of its Bidder's Statement that if it by virtue of acceptances of the MetroCoal Offer it acquired less than 90% of the Cape Shares (so that it cannot proceed to compulsorily acquire the remaining Shares), then MetroCoal intends to:

- (a) subject to the Corporations Act and the constitution of Cape, increase its board representation to a level reflective of its shareholding;
- (b) consider various options available to Cape to raise the funds necessary to deliver Cape's strategy;
- (c) remove Cape from the official list of ASX (subject to MetroCoal acquiring at least 75% of the Cape Shares and otherwise satisfying the requirements of ASX and the Listing Rules) which would mean that Cape Shares cannot be traded on ASX;
- (d) if MetroCoal becomes entitled at some later time to exercising general compulsory acquisition rights under the Corporations Act, exercise those rights;
- (e) depending on the level of ownership achieved, change the name of Cape to more appropriately reflect the commodity diversification of the entity; and
- (f) depending on the level of ownership achieved, replace:
 - (i) all Directors; and
 - (ii) Cape nominees appointed as directors of any company,with MetroCoal nominee directors.

3 Profile of Cape

Section 3 contains more detailed information on Cape's businesses, financial outlook and the management of Cape.



Above: Cape Alumina Limited's tenements and projects on western Cape York, Queensland.

3.1 Introduction

Cape Alumina was established in February 2004 and has, since inception, been a pure-play bauxite exploration company, focusing on projects on western Cape York, Queensland, one of Australia's largest undeveloped, export-quality bauxite provinces, for commercial development.

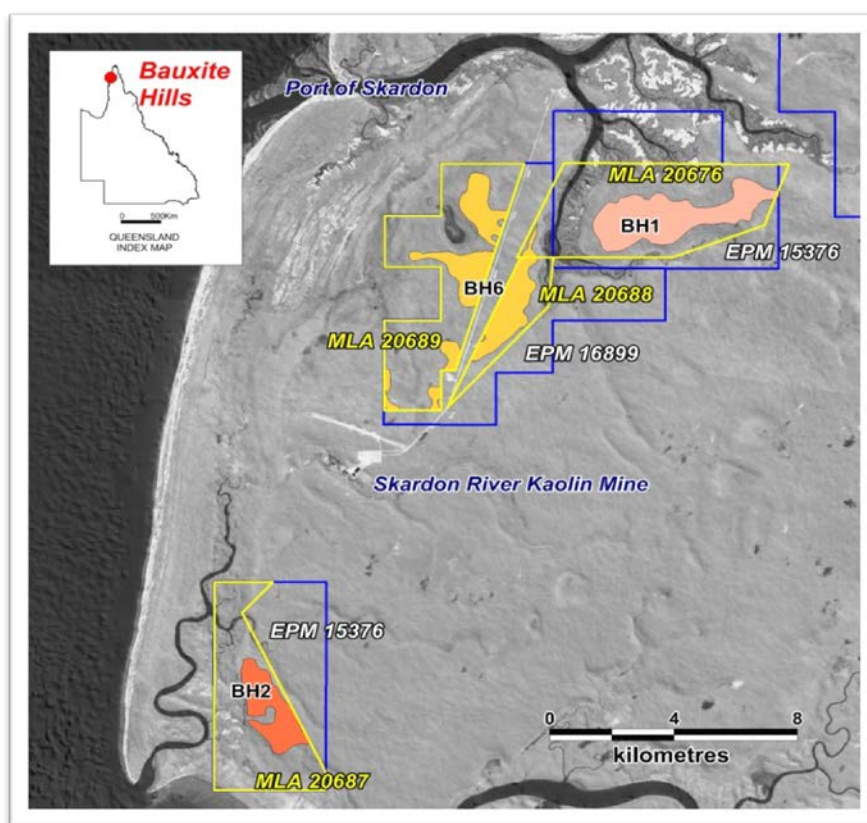
The company was listed on the Australian Securities Exchange (ASX) in January 2009.

3.2 Business overview

Cape's operations principally comprise the following:

(a) *Bauxite Hills*

The proposed Bauxite Hills integrated mine and port project is Cape Alumina's major project. It is located approximately 95 kilometres north of Weipa on western Cape York, Queensland, within the bauxite plateau between the Ducie and Skardon Rivers and just five kilometres south-east of the existing port at Skardon River.



Above: Bauxite Hills tenements and project on western Cape York, Queensland.

On 11 August 2014, Cape announced that a 19.85 million tonne Direct Shipping Ore (DSO) JORC compliant inferred resource has been estimated for the BH6 tenement forming part of the Bauxite Hills project. Cape is planning to test other plateaus for a DSO resource (in addition to BH6) in the coming periods.

The BH6 DSO product is expected to have average grades of 51.2 per cent alumina (Al_2O_3) and 6.7% silica (SiO_2). Subject to undertaking adequate fund raising, Cape anticipates extending its resource work to the BH1 and BH2 bauxite plateaus to investigate a possible DSO resource at each of them. The production of DSO avoids a number of significant costs in comparison to production of a beneficiated bauxite product, including reduced infrastructure costs (with no requirement for a large beneficiation plant) and significantly reduced water, energy and tailings dam requirements.

Key benefits of the Bauxite Hills project is the high alumina content and its location which is very close to coastal waters and international shipping routes.

A recently completed internal review for Bauxite Hills has concluded that if a Direct Shipping Ore (DSO) product can be produced and transhipped via the Skardon or Ducie rivers then a low capital and low operating cost mine would have the potential to increase the economic viability of the project. 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 an economically mineable DSO product prior to committing to a feasibility study.

As announced to the ASX on 3 September 2014, the Queensland Government's release of the Cape York Regional Plan confirmed there are currently no areas of Regional Interest over the Bauxite Hills mine and port project. This is a positive outcome that supports Cape Alumina's continued focus on development of this project.

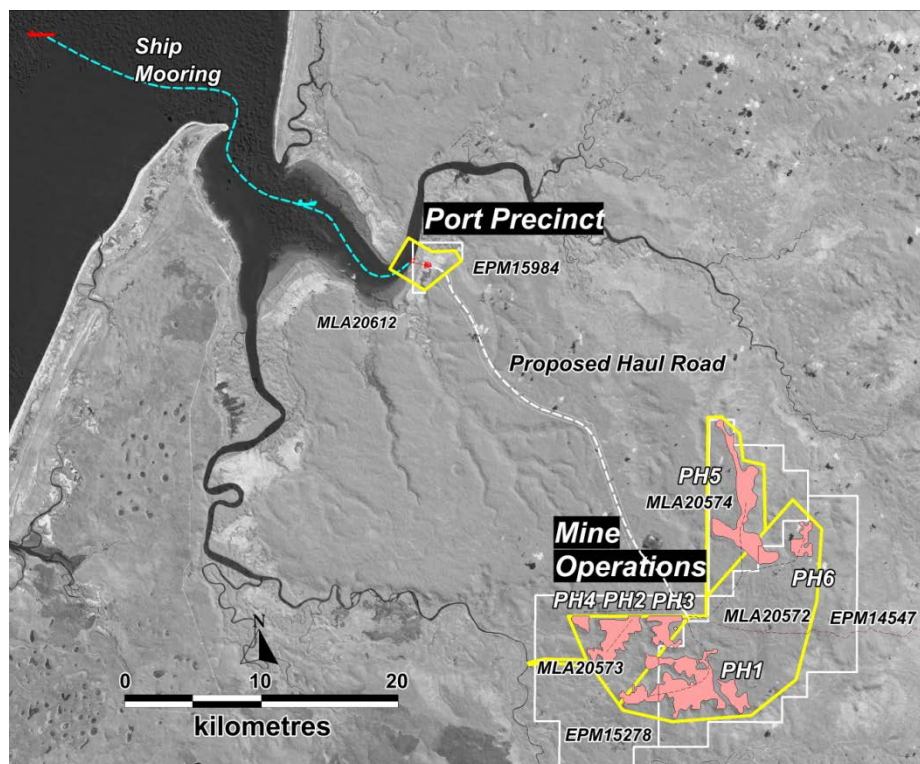
(b) *Pisolite Hills*

Cape Alumina's Pisolite Hills integrated mine and port project is located on an elevated, open, dry bauxite plateau approximately 50 kilometres north-east of Weipa and 40 kilometres south-east of the community of Mapoon. It is situated between 2.8 and 15 kilometres from the Wenlock River in western Cape York, Queensland.

The Pisolite Hills resource, based on over 4,000 drill holes, is estimated to be 134.6* Million tonnes (Mt) of in-situ bauxite, including the Musgrave deposit. Overall, this resource had the potential to yield up to seven and a half million tonnes per annum (Mtpa) of dry-product bauxite over a 14-year period.

In November 2013 the Queensland Government announced a ban of mining over the Steve Irwin Wildlife Reserve, which covers the majority of the Pisolite Hills project. The project was placed on hold in December 2013.

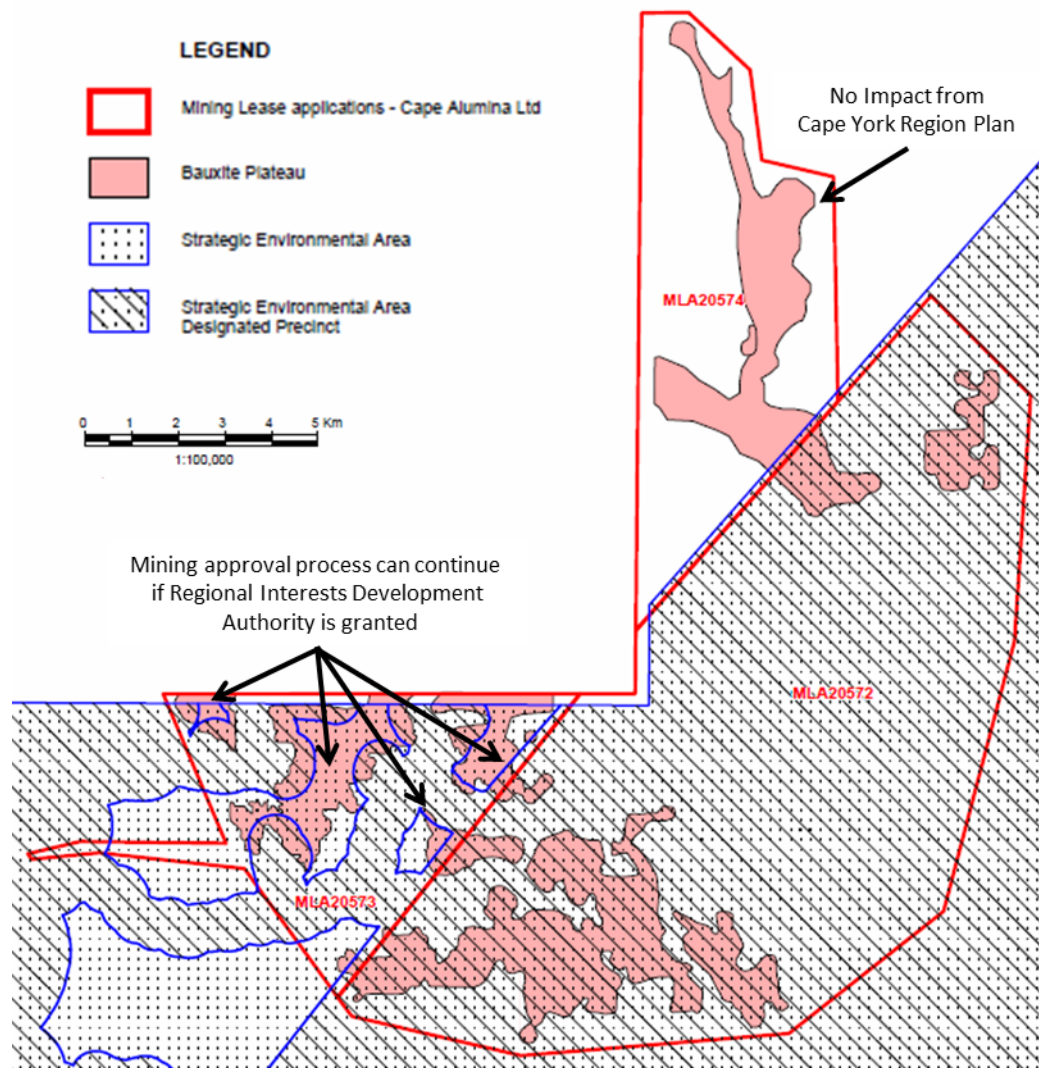
*The 134.6 Mt of *in-situ* bauxite at Pisolite Hills is expected to yield 88.9 Mt (20.1 Mt Measured + 39.5 Mt Indicated + 29.3 Mt Inferred) of bauxite on a dry-product basis at average beneficiated grade of 53.1 per cent Al_2O_3 and 12.3 per cent SiO_2 (7.5 per cent reactive silica at 150 degrees celsius).



Above: Pisolite Hills tenements and project on western Cape York, Queensland.

The Cape York Regional Plan (CYRP) was announced by the Queensland Government on 15 August 2014. The CYRP did not change the Strategic Environmental Areas that came into force on 13 June 2014 as part of the *Regional Planning Interests Act 2014*. This legislation establishes the approval process for resource activities in areas of regional interest.

Substantial portions of Cape Alumina's Pisolite Hills tenements are outside the Strategic Environmental Areas and may have potential for future development. However, more work is required to determine whether those areas of Pisolite Hills which are not impacted by the CYRP may be economically developed. The Company will minimise further expenditure on Pisolite Hills whilst the focus remains on the Bauxite Hills project.



Above: Pisolite Hills tenements and project on western Cape York, Queensland.

(c) *Hey Point tenements*

In December 2013, Cape Alumina completed the sale process for the Hey Point tenements, which is now awaiting Green Coast Resources Pty Ltd to complete the tenement transfer.

In November 2012 Cape Alumina sold its Hey Point bauxite tenements. The Hey Point tenements are located 5km south of Weipa and are estimated to contain inferred resources of 3.8 Mt.

Consideration receivable under the agreement includes cash payments of \$1,500,000 (spread over a number of tranches) with \$500,000 received during FY2013. The remaining \$1 million remains contingent on the sale of bauxite, and as the project is in the early stages of development the remaining payment has not been accounted for by Cape Alumina as a receivable balance in the balance sheet.

The company will receive royalties of 2% to 3% on all future gross sale proceeds on bauxite sold from the project. In addition, Cape Alumina has retained the marketing rights to the bauxite and will receive a marketing fee.

As this project is in the early stages of development and there is significant uncertainty with regard to the timing and amount of royalties, we have not included a value for the potential future earnings from Hey Point.

(d) *Queensland Government and other business*

Cape has been active on a number of fronts to add value for shareholders. Actions undertaken or currently being undertaken are:

- (i) advancing the company's Bauxite Hills Project in Cape York;
- (ii) further understanding the impact on the Cape York Regional Plan on the Pisolite Hills project; and
- (iii) identifying and reviewing other business development options.

3.3 Previous dealings with MetroCoal

Proposed scheme of arrangement

On 25 September 2013, MetroCoal and Cape announced that they had agreed to merge and create a diversified bauxite and thermal coal business. This merger was to be implemented via a scheme of arrangement (**Scheme**) for all the shares in Cape subject to Cape shareholder and court approval. MetroCoal was to offer approximately 1.12 MetroCoal shares for every 1 Cape Share and MetroCoal provided Cape with a \$3 million convertible note.

On 22 November 2013 the Scheme was terminated following the announcement by the Queensland government made on 20 November 2013 that it would introduce legislation to declare the Steve Irwin Wildlife Reserve and Wenlock River in Cape York Peninsula a 'Strategic Environmental Area', effectively banning any mining on the site.

Approximately 50% of Cape's Pisolite Hills project is located within the Steven Irwin Wildlife Reserve and as such Cape has had to stop progress on this project which rendered the Scheme unworkable.

Convertible Note

As discussed above, the \$3 million convertible note was provided to Cape. Out of this amount, \$1 million was provided on announcement of the Scheme, resulting in the issue of 16,666,667 Cape Shares to MetroCoal. The further \$2 million was available upon Cape receiving shareholder approval however, due to the termination of the Scheme, this was not advanced to Cape.

On-market takeover offer

On 18 March 2014, MetroCoal announced an on-market takeover bid for all of the fully paid ordinary shares in Cape which were not already held by MetroCoal or its associates under Part 6.5 of the *Corporations Act 2001* (Cth) (Corporations Act).

The bid, which closed on 5 May 2014, resulted in MetroCoal obtaining voting power of 57.23% in Cape.

Following the close of the bid, the board of Cape appointed Mr Stephen Everett as Non-Executive Chairman and Mr Lindsay Ward as Non-Executive Director. Mr Everett and Mr Ward are, respectively, Non-Executive Chairman and a Non-Executive Director of MetroCoal.

Mr Scott Waddell is the Chief Financial Officer, Company Secretary and acting Chief Executive Officer of Cape. MetroCoal also appointed Mr Waddell as the Chief Financial Officer and Company Secretary. To ensure Mr Waddell's independence in considering the MetroCoal Offer in his capacity as acting Chief Executive Officer of Cape, appropriate conflict barriers have been put in place pursuant to which Mr Waddell has had no involvement in the preparation of the MetroCoal Offer.

Loan from MetroCoal

As announced to ASX on 27 August 2014, MetroCoal has provided Cape with a \$250,000 loan to progress the Bauxite Hills project. The key terms of the loan are summarised in section 3.6.

For further details in relation to the Scheme, the convertible note, the previous takeover offer and the loan agreement please refer to both Cape and MetroCoal's ASX announcements.

3.4 Directors and senior management

The Directors of Cape are set out below:

George Lloyd – Non-Executive Independent Director

In addition to his role as Non-Executive Independent Director of Cape Alumina, George Lloyd is Chairman of global resources industry engineering services group Ausenco Limited. He is also Chairman of Pryme Energy Limited, an ASX-listed oil and gas explorer and producer operating in the United States.

Mr Lloyd holds a Bachelor of Engineering Science (Industrial Engineering) degree and a Master of Business Administration degree, both from the University of NSW. He is also a graduate of the Stanford Executive Program.

Mr Lloyd is a Fellow of the Australian Institute of Company Directors (AICD) and a Fellow of the Australasian Institute of Mining and Metallurgy (AusIMM). He has over 30 years of resource industry experience including time as a senior executive and board member of listed and unlisted Australian resource companies with interests in minerals, energy and industry services.

Jijun Liu – Non-Executive Director

Mr Jijun Liu is the Managing Director of the Shandong Xinha Group Co, which controls one of the largest alumina-aluminium enterprises in China.

Mr Liu is also a member of various government committees. He studied thermal power plant engineering at Shandong Power Junior College.

Ken Xiao – Non-Executive Alternate Director to Jijun Liu

Mr Ken Xiao has served as an alternate Director to Jijun Liu since June 8 2007 and is a member of the Remuneration Committee and Audit Committee.

He holds a Bachelor of Science majoring in Computing and a Bachelor of Engineering in Computer from the University of Newcastle. He is also holds a Master of Information Technology QUT.

Stephen Everett – Non-Executive Director, Non-Executive Chairman

Mr Stephen Everett has forty years management and board experience in the resources and construction industries and has held Chairman and Non-Executive Director positions in publicly-listed and private companies, as well as with Government Development Boards. Mr Everett has also held senior executive positions including Managing Director and Chief Executive Officer of private and publicly listed companies. He is currently Chairman of MetroCoal and Chairman of Global Resources Corporation Limited (ASX), and has previously served as Chairman of IronRidge Resources Limited, Australian Solomons Gold (TSX), JMS Engineering/JJ McDonald & Sons and BeMax Resources Limited (ASX) as well as a Director of Queensland Coal Mine Management (QCMM).

Lindsay Ward – Non-Executive Director

Mr Lindsay Ward is an experienced senior executive having worked in a broad range of industries including ports, mining, mineral processing, rail haulage, electricity generation, gas transmission, alternative waste treatment, transport and logistics at general manager, CEO, managing director, non-executive director and chairman level.

Mr Ward is currently CEO of the Tasmanian Gas Pipeline (TGP) and has a broader role with Palisade Investment Partners (the owners of TGP) managing their various infrastructure assets including a port, power station and alternative waste treatment facilities either as CEO, general manager, chairman or director.

Prior to this, Mr Ward was Managing Director of Dart Mining NL (ASX-DTM), a Victorian based molybdenum-copper-silver explorer. Prior to joining Dart Mining, Mr Ward was General Manager – Patrick Ports and Pacific National Bulk Rail, a business unit of Asciano Ltd.

Mr Ward started his career in the Mining Industry, spending 15 years working with various mining companies in WA, Queensland, NSW and Victoria in various roles including mine geologist, mining engineer and mine manager.

Mr Ward holds a Bachelor of Applied Science (Geology) and a Graduate Diploma Business Management GAICD.

The members of senior management of Cape are set out below:

Scott Waddell – Acting CEO, Chief Financial Officer and Company Secretary

Colleen Fish – Manager of Environment, Communities and Sustainability

3.5 Summary historical financial information

The summary historical financial information below has been extracted from Cape's financial statements for the full-year ended 30 June 2014 and does not take into account the effects of the the current MetroCoal Offer.

Copies of Cape's Financial Statements from which the financial information was extracted can be found on the company's website at www.capealumina.com.au. These reports also contain details of Cape's accounting policies. Shareholders without internet access can obtain copies of these reports by contacting the company secretary of Cape on +61 7 3009 8009.

The balance sheet of Cape as at 30 June 2014 is shown below:

CAPE ALUMINA LIMITED
ABN 88 107 817 694
and Controlled Entities
Interim Financial Report

Consolidated Statement of Financial Position
as at 30 June 2014 ¹

	30 June 2014
	\$
Current assets	
Cash and cash equivalents	1,415,160
Trade and other receivables	14,219
Other financial assets	-
Total current assets	1,429,379
Non-current assets	
Exploration and evaluation assets	4,799,461
Assets held for sale	-
Plant and equipment	25,150
Other assets	88,695
Total non-current assets	4,913,306
TOTAL ASSETS	6,342,685
Current liabilities	
Trade and other payables	188,184
Total current liabilities	188,184
Non-current liabilities	
Loans and borrowings	-
Derivative liabilities	-
Total non-current liabilities	-
TOTAL LIABILITIES	188,184
NET ASSETS	6,154,501
Equity	
Issued capital	33,858,372
Reserves	795,500
Accumulated losses	(28,499,371)
TOTAL EQUITY	6,154,501

The cash balance of Cape as at 30 June 2014 was approximately \$1.4 million (equal to 0.5 cents per Cape Share).

¹ The Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.

3.6 Material changes in Cape's financial position

In November 2013 the Queensland Government announced a ban of mining over the Steve Irwin Wildlife Reserve, which covers the majority of the Pisolite Hills project. The project was placed on hold in December 2013 and has been fully impaired in the financial year ended 30 June 2014, other than the Port Musgrave tenements, which may be available to be developed with the Bauxite Hills project. Cape has subsequently announced a new focus on the development of the Bauxite Hills project incorporating Direct Shipping Ore, which will reduce project costs. The Consolidated Entity assesses impairment at the end of each reporting period by evaluating conditions specific to the Consolidated Entity that may lead to impairment.

On 27 August 2014, Cape announced a \$250,000 loan from MetroCoal to enable the company to preserve its existing cash resources and still advance the Bauxite Hills project critical path work program. Key terms of the loan are as follows:

- (a) the loan is unsecured;
- (b) the loan may only be used for the development of the Bauxite Hills project;
- (c) the interest on the loan is 10% per annum;
- (d) the loan is to be repaid in cash on the earlier of:
 - (i) 3 October 2015;
 - (ii) 21 business days after Cape has issued at least \$1 million of marketable securities; or
 - (iii) Cape entering into additional debt (other than certain permitted debts) without the consent of MetroCoal; and
- (e) covenants and obligations customary for such loan agreements.

3.7 Recent Share price performance

Cape Shares are quoted on ASX under the code CBX.

The closing price of Cape Shares on ASX on 10 September 2014 was \$0.027.

The highest and lowest recorded closing prices of Cape Shares on ASX during the specified periods immediately before the announcement date of 4 August 2014 are set out below:

Period	Highest Price (\$)	Lowest Price (\$)
Three months	0.035	0.007
Six months (4 February 2014)	0.048	0.006
One year (4 August 2013)	0.090	0.006

Between the period commencing on the date of the announcement of the MetroCoal Offer to ASX on 4 August 2014 and 10 September 2014, Cape Shares have traded on ASX at between \$0.023 and \$0.034.

3.8 Publicly available information

Cape is a company listed on ASX and is subject to periodic and continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. A substantial amount of information on Cape is publicly available and may be accessed by referring to Cape on www.asx.com.au.

A list of announcements made by Cape to ASX between 1 July 2014 and 10 September 2014) is set out in the Schedule. This information may be relevant to your assessment of the MetroCoal Offer. Copies of the announcements are available from ASX.

Further announcements about developments on the MetroCoal Offer will continue to be made available on Cape's website at www.capealumina.com.au after the date of this Target's Statement.

3.9 Further information

Further information about Cape can be found on Cape's website: www.capealumina.com.au.

3.10 Issued capital

At the date of this Target's Statement, Cape's issued capital was 242,648,398 as disclosed in the last Appendix 3B lodged with ASX.

3.11 Substantial holders

Substantial holder notices lodged with ASX before the date of this Target's Statement indicated that the following entities (together with any of their associates) have relevant interests in 5% or more of Cape's Shares:

Name	Cape Shares	Relevant interest in shares (%)
China Xinfra Group Corporation Limited and associates	29,342,960	12.09
Bondline Limited	21,356,387	8.80
MetroCoal Limited (Metallica Minerals Ltd has a relevant interest in the Cape Shares held by MetroCoal, as it has voting power in MetroCoal above 20%)	138,862,510	57.23

4 Cape risk factors

4.1 Risks associated with continuing to hold Cape Shares

If you decide not to accept the MetroCoal Offer, you will continue to be exposed to risks associated with Cape and with the mining and exploration industry generally, including the following:

- (a) availability of funding;
- (b) government policy and regulation;

- (c) commodity prices and demand;
- (d) environmental risk;
- (e) operational risk;
- (f) loss of key personnel;
- (g) claims and litigation;
- (h) exploration risk;
- (i) liquidity of Cape Shares; and
- (j) general economic risks.

Availability of funding

Cape will require additional funds in the future to progress its projects. Factors relevant to securing financing include commodity prices, interest rates, economic conditions, debt market conditions, share market conditions and country risk issues. Particularly given the unsettled state of equity and credit markets, there is no assurance that Cape will be able to access sufficient capital or liquidity when required. An inability to obtain funding could adversely impact the financial condition and performance of Cape by causing delays or increasing financing costs. Cape may consequently be forced to revise its planned expenditure and reduce the scope of its future activities.

Further, if funding was raised by means of a pro-rata rights issue, Cape Shareholders would need to contribute additional funds or otherwise have their respective shareholdings diluted.

Government policy and regulation

Changes in legislation, government policy or regulation could also adversely impact the performance of the business of Cape. In addition, Cape's projects may require from time to time various regulatory approvals (including in relation to environmental matters, exploration, development and production of bauxite) by government for their operations and accordingly must comply with those approvals, applicable laws, regulations, guidelines and policies. In addition, if the amount and complexity of applicable legislation, policy or regulation increases, so too may the cost of compliance and the risk of non-compliance by Cape. Cape cannot predict the amount by which future legislation and regulatory change would impact on its business.

Commodity prices and demand

Cape's future profits are dependent on the exploration, production and sale of bauxite. There are various factors which influence bauxite prices, including the outcome of future sales contract negotiations, general economic activity, industrial production levels, changes in the demand and supply of substitute and complementary products, changes in transportation and infrastructure costs, market changes in quality requirements and government regulation.

Environmental risk

There are various environmental risks that may adversely impact the economic viability of the Cape's projects, including:

- (a) change to environmental legislation or approval conditions that reduce the economic viability of the resources by imposing:

- (i) buffer zones that extend into bauxite resources; and
- (ii) unsustainable environmental management constraints on exploration or mining operations;
- (b) identification of unexpected species or communities that have high environmental significance under State or Commonwealth legislation;
- (c) activities that result in an incident causing significant environmental harm;
- (d) identification of a significant cultural heritage site or inability to reach agreement with traditional owners;
- (e) inability to source adequate water supply; and
- (f) inability to develop cost effective waste (including tailings) management processes that meet environment requirements.

Cape's projects in Cape York have been the subject of close scrutiny by environmental groups and other stakeholders. The impact of poor stakeholder management could result in reputational damage to Cape, which may have broader implications for the value of Cape Shares.

Operational risk

Cape's future operations will be subject to a number of factors beyond its control that could cause material delays or changes in operation costs for varying lengths of time. Operational risks include weather conditions and natural disasters, disruption of energy supply, unexpected technical problems, unanticipated geological conditions, equipment failures and industrial disruption. The impacts of these factors could potentially adversely impact the results and financial performance of Cape.

Loss of key personnel

The business of Cape is dependent in part on the efforts, expertise and experience of its people. The loss of key personnel and the failure to recruit sufficiently qualified staff may adversely impact the performance of the business of Cape.

General claims and litigation

Cape may incur costs and liabilities resulting from claims for damages to sites or injury to persons arising from its operations. These claims could have an adverse effect on Cape's performance and reputation and, if not covered by insurance, could have an adverse effect on the financial performance of Cape.

Exploration risk

Mineral exploration and development is inherently risky. Exploration is costly and involves exacting techniques that must be applied over extended periods of time. Cape cannot guarantee whether any future exploration activities will result in the discovery of a commercially viable bauxite deposit. There is no assurance that Cape's future exploration and development activities will develop into profitable mining operations.

Market for shares in Cape

There can be no guarantee that liquidity in Cape Shares will improve. There may be relatively few potential buyers, or many sellers, of Cape Shares on ASX at any given time. This may affect the

prevailing market price at which Cape Shareholders are able to sell their Shares. This may result in Cape Shareholders receiving a market price for their Cape Shares which is less than the value of the Scheme Consideration or the current market price at which Cape Shares currently trade on ASX.

General economic risks

Changes in economic conditions both in Australia and globally affect the financial performance and share price of businesses such as Cape. No assurance can be made that the market performance of Cape will not be adversely affected by such changes, which include:

- (a) changes in inflation, interest rates and exchange rates;
- (b) capital cost increases;
- (c) changes in employment levels and labour;
- (d) changes in household income, aggregate investment and economic output;
- (e) investor sentiment and local and international stock market conditions;
- (f) changes in fiscal, monetary and regulatory policies; and
- (g) developments in technology, finance and markets generally.

Such market fluctuations may adversely affect the price of Cape Shares.

5 About MetroCoal

5.1 Disclaimer

The following information about MetroCoal has been prepared by Cape using publicly available information, including information in the Bidder's Statement, and has not been independently verified. Accordingly, Cape does not, subject to the Corporations Act, make any representation or warranty, express or implied as to the accuracy or completeness of this information.

The information on MetroCoal in this Target's Statement should not be considered comprehensive.

5.2 Overview of MetroCoal and its principal activities

MetroCoal is an Australian coal company focused on thermal coal projects in the Surat Basin region of South East Queensland.

MetroCoal holds extensive coal exploration permits (EPCs) in the Surat Basin covering over 3,000 square kilometres and containing one of the largest thermal coal resources in Australia.

MetroCoal has identified two project areas both capable of supporting mines producing over 5 million tonnes per year, including:

- (a) the Bundi Project, owned 100% by MetroCoal, situated south west of the town of Wandoan, adjoining Xstrata's Wandoan Project; and

- (b) the Columboola Joint Venture owned by MetroCoal (49%) and SinoCoal Pty Ltd, the Australian subsidiary of China Coal (one of China's largest coal companies). The Columboola project is situated near Chinchilla adjoining Yancoal's Cameby Downs Mine.

In February 2014, MetroCoal was also granted a tenement comprising 310 sq km at Pentland South, 110km southwest of Charters Towers in North Queensland. An exploration program is being prepared and farm-in opportunities are being discussed with third parties.

5.3 MetroCoal Directors

As at the date of this Target's Statement, the directors of MetroCoal are:

- (a) Mr Stephen Everett (Chairman);
- (b) Mr Andrew Gillies (Non-Executive Director);
- (c) Mr Dongping Wang (Non-Executive Director);
- (d) Mr Lindsay Ward (Non-Executive Director);
- (e) Mr Robert Finch (Alternate Director); and
- (f) Mr John Haley (Alternate Director).

5.4 Risk of holding shares in MetroCoal

There are a number of risks relating to holding shares in MetroCoal of which Cape shareholders should be aware. Information about the risks of holding shares in MetroCoal are set out in section 9 of the Bidder's Statement. The Non-Associated Directors of Cape encourage you to carefully read and consider section 9 of the Bidder's Statement before deciding on your course of action in relation to the MetroCoal Offer.

The Non-Associated Directors of Cape draw your attention to the following risks in particular:

- (a) MetroCoal's potential future earnings could be closely related to the price of coal;
- (b) the terms of MetroCoal's granted tenements include minimum expenditure requirements and there is a risk that the actual expenditure that MetroCoal undertakes following completion of the MetroCoal Offer may be insufficient to meet those requirements; and
- (c) it is highly likely that there will be a significant write down of the value of MetroCoal's exploration assets in the financial statements of MetroCoal to 30 June 2014 (which are expected to be released prior to the close of the Offer Period and should be reviewed carefully by Cape Shareholders in deciding whether to accept the MetroCoal Offer).

In addition to the risks set out in the Bidder's Statement, your Non-Associated Directors draw to the attention of Cape Shareholders who accept the MetroCoal Offer on the basis that they wish to see Cape's bauxite projects progressed that there is a risk that MetroCoal may not direct sufficient funding to Cape's bauxite projects, in line with MetroCoal's stated intention to continue to seek avenues to diversify its risk base through participation and acquisition of other projects in Australia and possibly overseas (see section 5 of the Bidder's Statement).

5.5 Publicly available information

MetroCoal is a company listed on ASX and is subject to the periodic and continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. A substantial amount of

information on MetroCoal is publicly available and may be accessed by referring to MetroCoal on www.asx.com.au.

5.6 Further information

Further information about MetroCoal can be found on MetroCoal's website: www.metrocoal.com.au.

6 Your choices as a Cape Shareholder

Your Non-Associated Directors recommend that you accept the MetroCoal Offer in the absence of a superior proposal.

As a Cape Shareholder, you can respond to the MetroCoal Offer in one of three ways.

6.1 Reject the Offer and do not sell your Shares on market

The Non-Associated Directors recommend that you accept the MetroCoal Offer in the absence of a superior proposal. However, if you reject the MetroCoal Offer and do not wish to sell your Shares on market, you should do nothing.

You should note that MetroCoal may be entitled to compulsorily acquire your Shares (notwithstanding that you did not accept the MetroCoal Offer – see section 2.9 for further details).

6.2 Sell your Cape Shares on market

During the Offer Period, you can still sell your Shares on market for cash, if you have not already accepted the MetroCoal Offer for those Shares.*

The latest price for Cape Shares may be obtained from the ASX website www.asx.com.au.

If you sell your Shares on market, you:

- (a) will lose the ability to accept the MetroCoal Offer and any higher offer for your Shares (which may or may not eventuate);
- (b) will lose the opportunity to receive future returns from Cape;
- (c) may be liable for capital gains tax on the sale (refer to section 8 for further details); and
- (d) may incur a brokerage charge.

* You should note that Cape Shares are relatively illiquid. Accordingly you may not be able to sell your entire holding at the prevailing market price.

6.3 Accept the Offer

If you choose to accept the MetroCoal Offer, you should follow the instructions in sections 1 and 12.7 of the Bidder's Statement and on the acceptance form accompanying the Bidder's Statement.

MetroCoal has stated that the Offer remains open until 7.00 pm on 3 October 2014. MetroCoal may choose to extend the Offer Period.

7 Disadvantages associated with accepting the MetroCoal Offer

Although your Non-Associated Directors recommend that you accept the MetroCoal Offer in the absence of a superior proposal, there may be a number of disadvantages in doing so. A summary of some of those disadvantages is set out below.

This summary is not exhaustive and you should have regard to your own personal investment objectives and financial circumstances, and should consult your professional advisers, before deciding whether or not to accept the MetroCoal Offer.

7.1 If you accept the MetroCoal Offer, you will no longer own Cape Shares

If you accept the MetroCoal Offer, you will no longer own Cape Shares. This means that you will lose the ability to benefit from any future dividends paid by Cape or capital growth in the value of Cape Shares, other than as a result of your holding shares in MetroCoal, in which case you will only have an indirect and diluted interest in Cape.

7.2 Shareholders will only receive the consideration if all the Conditions are satisfied or waived

The MetroCoal Offer is subject to the Conditions, as set out in section 11.2 of the Bidder's Statement. All Conditions must be satisfied or waived by MetroCoal before Cape Shareholders who accept the MetroCoal Offer receive the Offer Price. If you accept the MetroCoal Offer and any Condition is not satisfied or waived at the end of the Offer Period, MetroCoal will not acquire your Cape Shares and you will not receive the Offer Price for your Cape Shares. In the meantime, Cape Shareholders who accept the MetroCoal Offer will be unable to trade their Cape Shares or withdraw their acceptance (other than in accordance with their statutory rights).

7.3 Shareholders will be unable to withdraw their acceptance or accept a superior proposal

You only have limited rights to withdraw your acceptance of the MetroCoal Offer. In particular, if a superior proposal is announced, Cape Shareholders who have accepted the MetroCoal Offer will not be able to withdraw their acceptance of the MetroCoal Offer and accept a superior proposal unless:

- (a) the MetroCoal Offer is subject to a Condition; and
- (b) the Offer is varied in a way that postpones, for more than one month, the time when MetroCoal needs to meet its obligations under the Offer, or the Offer lapses while still subject to a Condition or is withdrawn.

At the date of this Target's Statement, Cape is not aware of any superior proposal.

7.4 The value of the MetroCoal Offer may rise or fall

The Offer Consideration is shares in MetroCoal. The number of MetroCoal shares being offered to Shareholders is at a fixed ratio. Accordingly, the value of the MetroCoal Offer will fluctuate with the MetroCoal share price – if the MetroCoal share price falls, the value of the MetroCoal Offer will also fall. Likewise, if the MetroCoal share price rises, the value of the MetroCoal Offer will also rise.

7.5 You may not want to reduce your exposure to Cape's assets

If you accept the MetroCoal Offer and it becomes unconditional, your interest in Cape's assets and the value that could be realised through a successful development of these assets will be diluted.

7.6 There are risks associated with accepting the MetroCoal Offer

As a MetroCoal shareholder, you may be exposed to a more diverse range of risks, including risks inherent with the exploration, production and sale of thermal coal. You should carefully consider the risks outlined in section 9 of the Bidder's Statement in deciding whether to accept the MetroCoal Offer.

8 Tax consequences

8.1 Introduction

The following is a general summary of the potential Australian income tax consequences generally applicable to a Shareholder who disposes of Cape Shares under the MetroCoal Offer. This summary is based on the law and practice in effect on the date of this Target's Statement.

The following summary is not intended to be an authoritative or complete statement of the tax law applicable to the specific circumstances of every Shareholder.

In particular the summary is only applicable to Shareholders that are Australian residents for income tax purposes and hold their Cape Shares on capital account for income tax purposes. This summary does not apply to Shareholders that hold their Cape Shares in the course of a business of trading or dealing in securities.

All Shareholders are advised to seek independent professional advice about their particular circumstances and non-resident Shareholders should seek their own advice on the Australian and foreign tax consequences associated with any sale of Cape Shares.

8.2 CGT consequences on the disposal of Cape Shares

A Shareholder that accepts the MetroCoal Offer and whose Shares are subsequently transferred to MetroCoal, is taken to have disposed of their Cape Shares for Australian capital gains tax (CGT) purposes. Shareholders make a capital gain equal to the amount by which the MetroCoal Offer consideration exceeds the cost base that the Shareholder has for the Cape Shares. Subject to the availability of the CGT discount (see below) and any losses available to be offset against the capital gain, this amount is included in the Shareholder's taxable income.

A Shareholder will alternatively make a capital loss equal to the amount by which the reduced cost base of the Cape Shares exceeds the consideration. A capital loss may be used to offset a capital gain made in the same income year or be carried forward to offset a capital gain made in a future income year, subject to the satisfaction of certain loss recoupment tests applicable to companies and trusts.

8.3 Cost base of Cape Shares generally

The cost base of Cape Shares would generally be equal to the amount the relevant Shareholder paid to acquire the Cape Shares which includes certain incidental costs (such as brokerage) associated with the acquisition.

8.4 Cape Shares acquired before 21 September 1999

Any Shareholder who acquired their Cape Shares before 11.45am (legal time in the Australian Capital Territory) on 21 September 1999 and held them for at least 12 months before the transfer to MetroCoal under the MetroCoal Offer may index the cost base of their Cape Shares to take account of inflation between the calendar quarter in which the Cape Shares were acquired and the calendar quarter ended 30 September 1999.

If a Shareholder who is an individual, the trustee of a trust or a complying superannuation entity chooses to index the cost base of their Cape Shares, then the CGT discount will not be available to them (see below). Note that the cost base of Cape Shares cannot be indexed in working out the amount of any capital loss.

8.5 CGT discount

Any Shareholder who is an individual, the trustee of a trust or a complying superannuation entity may be entitled to claim the CGT discount in calculating any capital gain provided that:

- (a) the Cape Shares were acquired at least 12 months before disposal to MetroCoal;
- (b) the Shareholder did not choose to index the cost base of their Cape Shares (see above); and
- (c) the CGT discount is applied to the capital gain after any available capital losses are first offset against that capital gain.

A Shareholder who is an individual or the trustee of a trust may discount the capital gain by 50% and include 50% of the capital gain in the taxable income of that individual or trust.

A Shareholder that is a complying superannuation entity may discount the capital gain by 33⅓% and include 66⅔% of the capital gain in the taxable income of that complying superannuation entity.

The CGT discount is not available to a Shareholder that is a company.

8.6 CGT rollover

Where MetroCoal acquires 80% of the Shares in Cape, a Cape Shareholder may be eligible to choose for rollover relief to apply to their disposal of Cape Shares under the scrip for scrip rules so that any CGT payable on the disposal is deferred, to the extent that MetroCoal shares are received as consideration for the Cape Shares.

Whether the rollover is available depends on the individual circumstances of each Shareholder. Also, if the MetroCoal Offer becomes unconditional and MetroCoal does not receive acceptances for 80% of the Shares in Cape and acquires those Shares, the rollover relief will not be available.

Section 10 of the Bidder's Statement also sets out an overview of the Australian income tax and capital gains tax implications for Australian residents (for tax purposes) and non-residents who accept the MetroCoal Offer.

8.7 Stamp duty and GST

Shareholders who dispose of their Cape Shares under the Offer are not expected to incur any Australian stamp duty or be subject to GST on that disposal.

8.8 Obtain your own tax advice

Do not rely on the comments or the statements contained in this Target's Statement or the Bidder's Statement as advice about your own affairs. The tax laws are complex and there could be implications in addition to those generally described in this Target's Statement and the Bidder's Statement.

Accordingly, consult your own tax advisers for advice applicable to your individual needs and circumstances. To the extent permitted by law, Cape does not accept any responsibility for tax implications for individual Shareholders.

9 Directors' interests

9.1 Directors' interests in Cape Shares

At the date of this Target's Statement, the Non-Associated Directors had a relevant interest in the following Cape Shares:

Director	Cape Shares
George Lloyd (held directly and indirectly)	242,766 ordinary shares
Ken Xiao	Ken Xiao holds 41,572 Ordinary Shares Ken Xiao is a consultant to China Xinfra Group Corporation Limited which (together with associated entities) holds 29,342,960 ordinary shares

Mr George Lloyd and Mr Ken Xiao intend to accept the MetroCoal Offer for the Shares they hold or control.

At the date of this Target's Statement, the intentions of China Xinfra Group Corporation Limited, with respect to the MetroCoal Offer, are not known.

9.2 Non-Associated Directors' recent dealings in Cape Shares

Except as disclosed below, no Non-Associated Director has acquired or disposed of a relevant interest in any Cape Shares in the four month period immediately preceding the date of this Target's Statement.

9.3 Non-Associated Directors' interests in MetroCoal securities

At the date of this Target's Statement, no Non-Associated Director had a relevant interest in any securities of MetroCoal.

9.4 Non-Associated Directors' recent dealings in MetroCoal securities

No Non-Associated Director has, in the four month period immediately preceding the date of this Target's Statement, acquired or disposed of a relevant interest in any securities in MetroCoal.

9.5 Benefits and agreements

Other than as set out in section 9.5, as a result of the MetroCoal Offer no person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from the board of directors of Cape or a related body corporate of Cape.

There are no agreements made between a Non-Associated Director and another person in connection with, or conditional upon, the outcome of the MetroCoal Offer, other than in the Non-Associated Director's capacity as a holder of Cape Shares.

No Non-Associated Director has an interest in any contract entered into by MetroCoal.

10 Additional information

10.1 Consents

InterFinancial Corporate Finance Limited has given and not before the date of this Target's Statement withdrawn its consent to:

- (a) be named in this Target's Statement as the Independent Expert;
- (b) the inclusion of the Independent Expert's Report in this Target's Statement; and
- (c) the references to the Independent Expert's Report in this Target's Statement being made in the form and context in which each reference is included.

McCullough Robertson has given and has not before the date of this Target's Statement withdrawn its consent to be named in this Target's Statement as Cape's legal adviser in the form and context in which it is named.

Neither McCullough Robertson nor the Independent Expert:

- (d) has authorised or caused the issue of this Target's Statement; and
- (e) makes, or purports to make, any statement in this Target's Statement nor is any statement in this Target's Statement based on any statement by any of those parties, other than as specified in section 10.1.

Each of McCullough Robertson and the Independent Expert, to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement other than a reference to its name, and a statement included in this Target's Statement with the consent of that party as specified in section 10.1.

10.2 Publicly available information

This Target's Statement contains statements which are made in, or based on statements made in, documents lodged with ASIC or given to ASX by MetroCoal.

As permitted by ASIC class order 13/521, the consent of MetroCoal is not required for the inclusion of those statements in this Target's Statement. Any Cape Shareholder may obtain a copy of those documents free of charge during the Offer Period by contacting Cape's company secretary on +61 7 3009 8009.

As permitted by ASIC class order 13/523, this Target's Statement may include or be accompanied by certain statements:

- (a) fairly representing a statement by an official person; or
- (b) from a public official document or published book, journal or comparable publication,

and the consent of the persons to whom those statements are attributed is not required to be included in this Target's Statement.

10.3 No material litigation

The Non-Associated Directors are not aware of any current material litigation involving Cape.

10.4 No other material information

This Target's Statement is required to include all of the information that Cape Shareholders and their professional advisers would reasonably require to make an informed assessment about whether to accept the MetroCoal Offer, but:

- (a) only to the extent to which it is reasonable for Cape Shareholders and their professional advisers to expect to find this information in this Target's Statement; and
- (b) only if the information is known to any Director.

The Non-Associated Directors of Cape are of the opinion that the information that Cape Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- (c) the Bidder's Statement (to the extent that the information is not inconsistent with or superseded by information in this Target's Statement);
- (d) Cape's annual reports and releases to ASX, and documents lodged by Cape with ASIC before the date of this Target's Statement;
- (e) this Target's Statement; and
- (f) the Independent Expert's Report.

11 Approval of Target's Statement

This Target's Statement has been approved by a resolution passed by the Directors.

Dated 15 September 2014

A handwritten signature in black ink, appearing to read 'G. Lloyd', with a stylized flourish at the end.

George Lloyd

**Independent non-executive Director
Takeover Response Committee Chairman**

12 Definitions and interpretation

12.1 Definitions

In this Target's Statement:

Term	Definition
Announcement Date	means 4 August 2014.
ASIC	means the Australian Securities and Investments Commission.
ASX	means ASX Limited ACN 008 624 691 or the securities exchange operated by it (as the case requires).
ASX Settlement Operating Rules	means the settlement rules of ASX Settlement and Transfer Corporation Pty Limited ABN 49 008 504 532, the body which administers the CHESS system in Australia.
Bidder's Statement	means the bidder's statement dated 19 August 2014 served on Cape about the off-market offer under section 633 Corporations Act and which contains the MetroCoal Offer.
Broker	means a person who is a share broker and a participant in CHESS.
Cape	means Cape Alumina Limited ACN 107 817 694.
CGT	means capital gains tax.
CHESS	means the Clearing House Electronic Subregister System, which provides for electronic share transfer in Australia.
CHESS Holding	means a holding of Cape Shares on the CHESS subregister of Cape.
Conditions	means the conditions precedent to the MetroCoal Offer set out in section 11.2 of the Bidder's Statement.
Controlling Participant	means the Broker or Non-Broker Participant who is designated as the controlling participant for shares in a CHESS Holding under the ASX Settlement Operating Rules.
Corporations Act	means <i>Corporations Act 2001</i> (Cth).
Directors	means the directors of Cape.
Independent Expert	means InterFinancial Corporate Finance Limited ACN 136 962 966.
Independent Expert's Report or IER	means the report prepared for Cape by the Independent Expert.
Issuer Sponsored Holding	means a holding of Cape Shares on Cape's issuer sponsored subregister.
Material Adverse Change	has the meaning given to that term in section 11.2(b) of the Bidder's Statement.
MetroCoal	means MetroCoal Limited ACN 117 763 443.
MetroCoal Offer or Offer	means the offer by MetroCoal to acquire Cape Shares, set out in sections 4, 11 and 12 of the Bidder's Statement.

Term	Definition
Non-Associated Directors	means Mr Ken Xiao and Mr George Lloyd.
Non-Broker Participant	means a non-broker participant under the ASX Settlement Operating Rules.
Offer Period	means the period during which the Offer will remain open for acceptance under section 12 of the Bidder's Statement.
Offer Price	means the consideration payable by MetroCoal under its Offer.
Preference Shares	means convertible preference shares of that name issued by Cape.
Prescribed Occurrences	has the meaning given to that term in section 11.2(e) of the Bidder's Statement.
Regulatory Action	has the meaning given to that term in section 11.2(a) of the Bidder's Statement.
Shareholder	means a holder of one or more Shares.
Shares or Cape Shares	means the fully paid ordinary shares in Cape.
Target's Statement	means this document, being Cape's target's statement.

12.2 Interpretation

In this Target's Statement, unless the context otherwise requires:

- (a) headings are for convenience and do not affect the interpretation;
- (b) words or phrases defined in the Corporations Act have the same meaning in this Target's Statement;
- (c) a reference to a section or schedule is a reference to a section of and a schedule to this Target's Statement and references to this document include any schedules;
- (d) a singular word includes the plural and vice versa;
- (e) if a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- (f) a reference to a person includes a corporation, trust, partnership, unincorporated body, government and local authority or agency, or other entity whether or not it comprises a separate legal entity;
- (g) a reference to legislation or to a provision of legislation (including subordinate legislation) is to that legislation as amended, re-enacted or replaced, and includes any subordinate legislation issued under it;
- (h) a reference to '\$' or 'dollar' is to Australian currency;

Schedule

Cape announcements to ASX since 1 July 2014

Date	Announcement
11/09/2014	Full Year Statutory Accounts
03/09/2014	Cape York Regional Plan supports focus on Bauxite Hills
02/09/2014	MTE: Dispatch of Bidder's & Supplementary Bidder's Statement
27/08/2014	Supplementary Bidders Statement – Off-market bid
27/08/2014	MTE: to provide interim loan funding to Cape Alumina
27/08/2014	Cape Alumina arranges \$250k unsecured debt financing
19/08/2014	Bidders Statement – Off-market bid from MTE
19/08/2014	Notification of Register Date
19/08/2014	Change in substantial holding from MTE
14/08/2014	Revised DSO Inferred Resource for Bauxite Hills
11/08/2014	Direct Shipping Ore Inferred Resource for Bauxite Hills
06/08/2014	Revised Investor Presentation – August 2014
05/08/2014	Response to MetroCoal announcement
04/08/2014	MTE: Intention to make a scrip offer for remaining shares
04/08/2014	Trading Halt
01/08/2014	Investor Presentation – 1 August 2014
25/07/2014	Quarterly Activities Report
07/07/2014	Quarterly Cashflow Report
01/07/2014	Resignation of CEO

Corporate directory

Cape Alumina Limited

107 817 694

Address:

Level 8, 300 Adelaide Street
BRISBANE QLD 4000

Telephone: +61 7 3009 8009

Facsimile: +61 7 3221 4811

www.capealumina.com.au

Lawyers

McCullough Robertson

Level 11, Central Plaza Two
66 Eagle Street
BRISBANE QLD 4000

Telephone: 3233 8888

Facsimile: 3229 9949

www.mccullough.com.au

Directors

Non-executive chairman: Stephen Everett

Non-executive Director: Jijun Liu

Non-executive Director: George Lloyd

Non-executive Director: Lindsay Ward

Alternate Director: Ken Xiao

Auditors

BDO Audit Pty Ltd ACN 134 022 870

Address:

Level 10, 12 Creek Street
BRISBANE QLD 4000

Telephone: +61 7 3237 5999

Facsimile: +61 7 3221 9227

www.bdo.com.au

Executive management

Acting CEO: Scott Waddell

CFO: Scott Waddell

Company Secretary: Scott Waddell

Independent Expert

InterFinancial Corporate Finance Limited

Address:

Level 3, 145 Eagle Street
BRISBANE QLD 4000

Share registry

Link Market Services

Address:

Level 15, 324 Queen Street
BRISBANE QLD 4000

Telephone: +61 1300 554 474

Facsimile: +61 2 9287 0303

www.linkmarketservices.com.au



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August 2014



Independent Expert's Report

**CLAIRFIELD
INTERNATIONAL**

InterFinancial
Corporate Finance Limited
ABN: 49 136 962 966
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InterFinancial Corporate Finance Limited ACN 136 962 966 Financial Services Guide

About us

InterFinancial Corporate Finance Limited (**InterFinancial, IFL** or **we** or **us** or **our**) (Australian Financial Services Licence 341675) has been engaged by Cape Alumina Limited (**Cape Alumina** or **Company**) to provide general financial product advice in the form of an independent expert's report (**Report**) in connection with the proposed Transaction with MetroCoal Limited (the **Transaction**). Our Report sets out our opinion as to whether the Transaction is fair and reasonable and our reasons for forming those conclusions.

The Corporations Act 2001 (Cth) requires us to provide this Financial Services Guide (**FSG**) in connection with the attached Report prepared for Cape Alumina. You are not the party who engaged us to prepare this Report and we are not acting for any person other than Cape Alumina. This FSG provides important information designed to assist Shareholders in forming their views of the Transaction and in understanding any general financial advice provided by IFL in this Report. Our Report is not intended to comprise personal retail financial product advice to retail investors or market-related advice to retail investors. This FSG contains information about our engagement by the directors of Cape Alumina to prepare this Report in connection with the Transaction (**Engagement**), the financial services we are authorised to provide, the remuneration we (and any other relevant parties) may receive in connection with the Engagement, and details of our internal and external dispute resolution systems and how these may be accessed.

Financial services we are authorised to provide

Our Australian Financial Services Licence authorises us to provide the following services to both retail and wholesale clients, financial product advice in relation to securities, and government debentures, stocks and bonds, underwriting an issue of securities and dealing in a financial product by arranging for another person to apply for, acquire, vary or dispose of the abovementioned financial products.

General financial product advice

This Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs. Where the advice relates to the application for or acquisition of a financial product, you should also obtain and read carefully the relevant offer document or explanatory memorandum provided by the issuer or seller of the financial product before making a decision regarding the application for or acquisition of the financial product.

Remuneration, commissions and other benefits

IFL charges fees for its services, and will receive a fee of \$25,000 (excluding GST) for its work on this Report. These fees have been agreed on, and will be paid solely by Cape Alumina, which has engaged our services for the purpose of providing this Report. IFL may seek reimbursement of any out of pocket expenses incurred in providing these services. Our advisers are directors and employees of IFL who are paid salaries and dividends by IFL, and may also receive bonuses and other benefits from IFL. Our advisers may alternatively be paid by means of commission determined by a percentage of revenue written by the adviser.

Associations and relationships

We have previously prepared Independent Reports for Cape Alumina in October 2013 and October 2011. Other than as set out in this FSG or this Report, IFL has no association or relationship with any person who might reasonably be expected to be capable of influencing them in providing advice under the Engagement. IFL, its officers and employees and other related parties have not and will not receive, whether directly or indirectly, any commission, fees, or benefits, except for the fees to be paid to IFL for services rendered in producing this Report. IFL, its directors and executives do not have an interest in securities, directly or indirectly, which are the subject of this Report. IFL may perform paid services in the ordinary course of business for entities, which are the subject of this Report.

Risks associated with our advice

This FSG is provided in connection with the attached Report relating to the Transaction. The Report comprises general product advice and does not comprise personal retail financial product advice to retail investors or market-related advice to retail investors. The Report is an expression of IFL's opinion as to whether the Transaction is fair and reasonable. However, IFL's opinion should not be construed as a recommendation as to whether or not to approve the acquisition the Transaction. Approval or rejection of the Transaction is a matter for individual shareholders based on their own circumstances, including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in any doubt as to the action they should take in relation to the Transaction should consult their own independent professional advisers. Further information on the risks, assumptions and qualifications associated with the advice is contained within the Report.

Compensation arrangements

The law requires IFL to have arrangements in place to compensate certain persons for loss or damage they suffer from certain breaches of the Corporations Act by IFL or its representatives. IFL has internal compensation arrangements as well as professional indemnity insurance that satisfy these requirements.

Complaints

As an Australian Financial Services Licence holder, we are required to have an internal complaints-handling mechanism. All complaints must be addressed to us in writing at Level 3, 145 Eagle Street Brisbane, Queensland, 4000. You may contact us on P: (07) 3218 9100, F: 07 3218 9199, E: pkeehan@interfinancial.com.au. If we are not able to resolve your complaint to your satisfaction within 45 days of first lodging it with us, you are entitled to have your matter referred to the Financial Ombudsman Service (**FOS**). You will not be charged for using the FOS service.

To contact the FOS:
GPO Box 3
MELBOURNE, VIC 3001
Tel: 1300 780 808
Fax: (03) 9613 6399

Privacy & use of information

We do not collect personal information on individual clients and are bound by the IFL Privacy Policy in the way that it governs personal information collected on clients. If you have any questions on privacy please contact us on the details above.



29 August 2014

The Directors
Cape Alumina Limited
6/56 Peel St
South Brisbane
QLD 4101

Dear Directors

INDEPENDENT EXPERT'S REPORT – METROCOAL TAKEOVER OFFER

Introduction

On 4 August 2014, MetroCoal Limited (“**MetroCoal**” or “**MTE**”) announced to the Australian Securities Exchange (“**ASX**”) its intention to make a scrip offer for the remaining 43% of shares that it does not already own in Cape Alumina Limited (“**Cape Alumina**” or “**the Company**” or “**CBX**”). The off-market takeover offer of 1 MetroCoal share for every 1.3 Cape Alumina shares (the “**Transaction**” or “**Offer**”) will result in Cape Alumina shareholders holding shares in MetroCoal with Cape Alumina a subsidiary of MetroCoal. The effect of the Transaction, if all shareholders accept the offer, will be that the Cape Alumina shareholders (excluding MetroCoal) will collectively hold 27.7% of the merged group.

The directors of Cape Alumina (“**Directors**”) have requested InterFinancial Corporate Finance Limited (“**IFL**”), to prepare an independent expert's report (“**Report**”) expressing an opinion as to whether the Offer is “fair and reasonable” for the shareholders of Cape Alumina not associated with the Transaction (“**Non-Associated Shareholders**”).

The post-Transaction capital structure is detailed below:

Table 1: Post Transaction Ratio

	Ordinary Shares Pre-Transaction	Shares That Will Participate in Transaction	Shares Post Transaction	%
Cape Alumina	242,648,398	103,785,888	79,835,298	27.7%
MetroCoal	208,883,663	208,883,663	208,883,663	72.3%
Total	451,532,061	312,669,551	288,718,961	100.0%

As at 4 August 2014, MetroCoal held 57.2% of the shares (138,862,510 shares) in Cape Alumina. These shares have been excluded from the shares that will participate in the transaction, resulting in the remaining Cape Alumina Shares collectively holding 27.7% of the merged group following the transaction (if all shareholders accept the offer).

Summary of Opinion

In our opinion, the Transaction is fair and reasonable to the Shareholders and as a result is “fair and reasonable”.

Fairness

In forming our opinion in relation to the fairness of the proposed Transaction, we have applied the offer ratio to our determined fair value of a MetroCoal share and then assessed this against the fair value of a Cape Alumina share.



Table 2: Fair Value of the Transaction

	Ref	Low Value	Midpoint	High Value
Fair Value Consideration in Merged Group	9	\$0.114	\$0.129	\$0.143
Fair Value of Cape Alumina shares	7.4	\$0.123	\$0.128	\$0.133
Premium		-\$0.009	\$0.001	\$0.010
Percentage Premium		-7.4%	0.5%	7.8%

Source: IFL Analysis

IFL has assessed that the fair market value of the consideration provided by MetroCoal is in the range \$0.114 and \$0.143 with a mid-point of \$0.129. By comparison, the assessed value of the Cape Alumina shares is in the range \$0.123 to \$0.133 with a mid-point of \$0.128 and as a result the Transaction is fair.

Reasonableness

As the offer is fair, it is also reasonable. To assist shareholders in their decision making process we have detailed the following:

- The likely advantages and disadvantages associated with the Transaction; and
- Alternatives, including the position of Shareholders if the Transaction does not proceed.

Advantages of Approving the Transaction

Set out below is a summary of the key advantages to the Non-Associated Shareholders:

The Transaction provides short term funding certainty

The Transaction provides certainty with regard to the short term funding of the current exploration program, and will enable Cape Alumina to continue to develop the Bauxite Hills project and accelerate the pre-feasibility study and environmental approvals. It should be noted that in the current market conditions the ability for explorers to raise capital is constrained and the value of like assets vary. Equity raising in the current circumstances is difficult and requires a significant discount to trading prices.

Cape Alumina currently has minimal working capital which means only essential activity can be undertaken. The cash position as at 30 June 2014 was \$1.4 million. Cape Alumina will require additional capital to enable it to sustain itself in the longer term.

Continues Development of Mining Tenements

Approval and completion of the Transaction will result in the merged entity having over \$6 million in cash (\$7.9 million at 30 June 2014) vs less than \$1.4 million for Cape Alumina on its own. These funds will allow Cape Alumina to continue to develop the Bauxite Hills project. It also allows time to look for the next stage of funding required including farm-in or joint venture arrangements or further capital raisings for the purpose of transitioning to a producer.

Improved liquidity

The Transaction will result in an enlarged company. The Transaction may improve the liquidity of the shares of the enlarged company compared with the liquidity in Cape Alumina's shares currently. In our opinion, any improvement in the liquidity for Cape Alumina's shareholders will be an advantage to Cape Alumina's Non-Associated Shareholders.

Diversification of risk

Cape Alumina shareholders will be able to substantially maintain their interest in the Cape Alumina's Bauxite assets while achieving a diversification of commodity risk. The consolidated portfolio with MetroCoal will comprise several projects involving a range of black-coal projects.



Disadvantages of Approving the Transaction

Dilution of shares

The Transaction will result in a dilution of shares for existing shareholders in Cape Alumina. Following the Transaction, Cape Alumina's shareholders will receive 1 share in MetroCoal for 1.3 Cape Alumina shares. Cape Alumina's shareholders will therefore share collective control of the enlarged company with MetroCoal shareholders and will have to share in any future potential financial upside in the merged company with MetroCoal shareholders.

Broader commodity base

There is potential risk with the Transaction resulting from a larger group of projects competing for limited cash and management resources. These risks include possible differences in priorities for projects and inability to achieve any of the project's timelines due to limited resources.

Implications for Cape Alumina Shareholders of Rejecting the Transaction

Reduction in liquidity

Cape Alumina shareholders will not be entitled to the potential benefits of the enlarged company, such as the potential for improved liquidity from a larger listed company.

In addition, as the Transaction is not subject to a minimum acceptance condition, if MetroCoal falls short of the 90% minimum shareholding to enable compulsory acquisition, then the remaining shareholders may lose any liquidity of their shares.

Funding Future Exploration

If the Transaction is not approved Cape Alumina may not be able to raise capital from other sources at a level as favourable to enable it to continue its exploration program.

Forego diversification

Cape Alumina shareholders will forego any potential benefit from the diversification of commodity risk.

Potential decline in share price

The consideration provided reflects a premium over the share price of Cape Alumina prior to the announcement. There is potential that if the Transaction is not approved, that the share price may decline.

Availability of alternative transaction

Cape Alumina has been actively looking at capital raising alternatives with major shareholders declining to contribute additional capital. Without a cash injection the Company will be limited in its ability to develop its bauxite tenements.

Shareholder circumstances

A Shareholder's decision to accept or reject the Transaction is likely to be influenced by their particular circumstances, for example, tax considerations particular to that person. This Report does not address circumstances specific to an individual Shareholder. Shareholders should consult with their own independent professional advisers with regard to their circumstances.

Other Matters

This Report has been requested by the Directors to assist the Shareholders in their decision to accept or reject the Offer.

This Report should not be used for any other purpose and IFL does not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of our Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

This Report will form part of the Target Statement to be provided by the Directors to the Cape Alumina Non-Associated Shareholders (**"the Target Statement"**). This Report has been prepared to assist the Directors to fulfil their obligation to the Shareholders and to assist the Non-Associated Shareholders in deciding whether or not to accept the Offer. IFL acknowledges that this Report may be lodged by the Directors with the ASX.



Conclusion

We have concluded that the Offer is “fair and reasonable” for the Non Associated Shareholders.

This summary opinion should be read in conjunction with the following Report that sets out in full the purpose, scope, basis of evaluation, limitations, valuation analysis and out other findings.

Yours Faithfully

A handwritten signature in black ink that reads "Brett Plant". The signature is written in a cursive, slightly slanted style.

Brett Plant - Authorised Representative



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Glossary of Terms

Table 3: Glossary

Term	Meaning
ABX	Australian Bauxite Limited
Act	Corporations Act 2001
AFSL	Australian Financial Services Licence
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
AUASB	Australian Auditing and Assurance Standards Board
BBSW	90 day bank bill swap reference rate
Bt	Billion tonnes
Capitalisation of earnings methodology	The multiplication of the future maintainable earnings of a business by an appropriate multiple to calculate the capital value of the business. The earnings multiple may be calculated at EBIT or EBITDA levels determining the Enterprise Value of the business; or at NPAT determining the Equity value or market capitalisation of the business
CAPM	Capital Asset Pricing Model - is used to determine a theoretically appropriate required rate of return on equity invested in a project, company or asset
Company, or Cape Alumina, or Cape Alumina	Cape Alumina Limited
CYRP	Cape York Regional Plan
Directors	Directors of Cape Alumina
DSO	Direct Shipping Ore, defined as bauxite that can be exported directly with minimal processing
EIS	Environmental Impact Statement
Engagement	Our engagement by the Directors of Cape Alumina to prepare this Report in connection with the Transaction
Enterprise Value	The total value of the business and is equal to Debt + Equity
EPM	Exploration Permit for Minerals
EPMA	Exploration Permit for Minerals Application
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FY	Financial Year ended 30 June
HY13	Half year (6 months) to 31 December 2013
IFL or we or us or our	InterFinancial Corporate Finance Limited
JORC Code	The Code for Reporting of Mineral Resources and Ore Reserves
Non-Associated Shareholders	Shareholders and option holders of Cape Alumina not associated with the Transaction
Management	Management of Cape Alumina
MetroCoal or MTE	MetroCoal Limited
MLA	Mining Lease Application
Mt	Million tonnes
Mtpa	Million tonnes per annum
NPV	Net Present Value
PFS	Pre-Feasibility Study
Report	This Independent Expert's report commissioned by the Directors
RG 111	Regulatory Guide 111 "Content of Expert Reports"
RIDA	Regional Interests Development Authority
SEA	Strategic Environmental Area
Share	Share in Cape Alumina
Shareholders	Shareholders of Cape Alumina
SIWR	Steve Irwin Wildlife Reserve
Transaction	Proposed Transaction of Cape Alumina and MetroCoal announced on 4 August 2014

Source: IFL



1. Outline of the Transaction

1.1 Introduction and Background

MetroCoal has made an off-market takeover offer for the remaining 43% of shares in Cape Alumina. The offer is not subject to a minimum acceptance level and the key conditions of the transaction are:

- Between the announcement date and the end of the offer period there is:
 - No regulatory action against the company;
 - No material adverse change that results in a diminution of the Net Assets by more than A\$200,000;
 - No material acquisitions, disposals or new commitments;
 - No dividends paid; and
 - No prescribed occurrences which relate to changes in share capital events or insolvency events.

1.2 Offer Formula

The offer formula is 1 MetroCoal share for every 1.3 Cape Alumina shares.

1.3 Transaction Outcome

We have completed an analysis of the post-Transaction shareholding based on the top 10 shareholders for Cape Alumina and MetroCoal at 4 August 2014.

Table 4: Top Ten Shareholders Post Transaction

Shareholder	Number of Ordinary Shares held	Percentage held of issued Ordinary Capital
METALLICA MINERALS LIMITED	64,293,962	22.27%
DADI ENGINEERING DEVELOPMENT (GROUP)	47,250,000	16.37%
CHINA XINFA GROUP CORPORATION LIMITED (and subsidiaries)	22,571,508	7.82%
BONDLINE LIMITED	16,427,990	5.69%
MS QING XIA	10,342,684	3.58%
J P MORGAN NOMINEES AUSTRALIA LIMITED	7,831,400	2.71%
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	6,978,223	2.42%
NLK HOLDINGS PTY LTD	4,000,000	1.39%
REMOND HOLDINGS PTY LIMITED	2,380,941	0.82%
JIEN MINING PTY LTD	1,709,133	0.59%
Top 10 Shareholders	183,785,840	63.66%
Other Shareholders	104,933,121	36.34%
Total Issued Shares	288,718,961	100.00%

Source: IFL Analysis



2. Purpose, Scope and Limitations

2.1 Legislative Requirements

Section 640 of the Corporations Act 2001 (the “**Act**”) requires an expert opinion to be provided where the bidder is connected with the target company.

Section 640 provides that if:

- (a) the bidder’s voting power in the target is 30% or more; or
- (b) for a bidder who is, or includes, an individual — the bidder is a director of the target; or
- (c) for a bidder who is, or includes, a body corporate — a director of the bidder is a director of target.

Then a target statement given in accordance with subsection 638 must include, or be accompanied by, a report by an expert that states whether, in the expert’s opinion, the takeover offers are “fair and reasonable” and give the reasons for forming that opinion.

2.2 Purpose of Report

The Directors have engaged IFL to prepare an independent expert’s report in relation to the Transaction and to express an opinion as to whether or not the Offer is “fair and reasonable” for the Shareholders of Cape Alumina for the purposes of Section 640, and to provide reasons for that opinion.

This Report has been prepared for use by the Shareholders to provide them with information relating to the Transaction and should not be used by any other person or for any other purpose. This Report will be provided to Shareholders to assist them to make an informed decision as to whether to accept of the Offer. This Report should be read in full, including all of the assumptions upon which our work is based. The Report should be read together with the Target Statement and any other information provided to Shareholders in connection with the Transaction.

A Shareholder’s decision to accept or reject the Offer is likely to be influenced by their particular circumstances, for example, tax considerations particular to that person. This Report does not address circumstances specific to an individual Shareholder. Shareholders should consult with their own independent professional advisers with regard to their circumstance.

2.3 Scope

For the purposes of assisting the Directors to satisfy the requirements of Section 640, the Directors requested IFL to prepare this Report expressing our opinion as to whether the Transaction is “fair and reasonable” for the Shareholders. Our work has been limited to those procedures we believed were required in order to form our opinion. Our procedures, in the preparation of this Report, do not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards issued by the Australian Auditing and Assurance Standards Board (**AUASB**) or its predecessors.

The assessment of whether the Transaction is “fair and reasonable” will necessarily involve the determining the “fair market value” of various securities, assets and interests.

For the purposes of our opinion, the term “fair market value” is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm’s length.

By its very nature, the formulation of a valuation assessment necessarily contains significant uncertainties and the conclusions arrived at in many cases will be subjective and dependant on the exercise of individual judgement. There is therefore no indisputable value, and we normally express our opinion as falling within a likely range.

We have not considered the effect of the Transaction on the particular circumstances of individual shareholders. Some individual shareholders may place a different emphasis on various aspects of the Transaction from the one adopted in this Report. Accordingly, individuals may reach different conclusions on whether or not the Transaction is fair and reasonable to them.

It is IFL’s understanding that this Report will accompany the Target Statement to be sent to the Cape Alumina shareholders by Cape Alumina. The sole purpose of this Report is to provide the Directors and Shareholders with an expression of IFL’s opinion as to whether the Transaction is fair and reasonable.



IFL's opinion should not be construed as a recommendation as to whether or not the Directors should recommend the Transaction. Acceptance or not is a matter for individual Directors.

2.4 Basis of Evaluation

The Act does not define the expression “fair and reasonable”. RG 111 draws a distinction between “fair” and “reasonable”. An offer is fair if the consideration is equal to or greater than the value of the securities subject to the offer. RG 111 considers an offer to be “reasonable” if:

- the offer is “fair”; or
- despite not being “fair”, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher offer.

RG 111 states that an offer will be “fair” if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. In assessing if the offer is “fair” that the comparison be made:

- assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing but not anxious, seller acting an arm’s length;
- assuming 100% ownership of the ‘target’ and irrespective of whether the consideration is scrip or cash; and
- irrespective of the percentage holding of the bidder or its associates in the target company.

RG 111 sets out some of the factors that an expert might consider in assessing the reasonableness of an offer including:

- the bidder’s pre-existing voting power in the target company;
- other significant security holding blocks in the target;
- the liquidity of the market in the target’s securities;
- taxation losses, cash flow or other benefits arising through achieving 100% ownership of the target;
- any special value of the target to the bidder;
- the likely market price if the offer is unsuccessful; and
- the value to an alternative bidder and likelihood of an alternative offer being made.

In our opinion, the Transaction will be fair if the value of the consideration is equal to or greater than the fair market value of the securities in Cape Alumina.

In considering whether the Transaction is reasonable, other factors that have been considered including:

- the estimated value of Cape Alumina;
- the estimated value of MetroCoal;
- the existing shareholding structure of Cape Alumina;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Cape Alumina shares in the absence of the offer; and
- other advantages and disadvantages for Cape Alumina shareholders of approving the Transaction.

2.5 Reliance on Information

This Report is based upon financial and other information provided by Cape Alumina. IFL has considered and relied upon this information. IFL believes the information provided to be reliable, complete and not misleading, and we have no reason to believe that any material facts have been withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether the Offer is fair and reasonable.

IFL does not warrant that its inquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. In any event, an opinion as to whether a corporate transaction is fair and reasonable is in the nature of an overall opinion rather than an audit or detailed investigation.



It is understood that the accounting information provided to IFL was prepared in accordance with generally accepted accounting principles and except where noted, prepared in a manner consistent with the method of accounting used by Cape Alumina in previous accounting periods.

Where IFL has relied on the views and judgement of management, the information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of direct external verification or validation. In the context of this Report, the views not capable of direct external verification or validation related principally to matters such as the likely future actions of management and/or the likely future behaviour of competitors.

2.6 Current Market Conditions

Our opinion is based on economic, market and other conditions prevailing at the date of this Report. Such conditions can change significantly over relatively short periods of time. Accordingly, changes in those conditions may result in any valuation opinions becoming quickly out-dated and in need of revision. IFL reserves the right to revise any valuation, or other opinion, in the light of material information existing at the date of this Report that subsequently becomes known to IFL. It should be noted that currently market conditions are extremely volatile with the value of like assets varying greatly and in some cases displaying a general lack of fundamentals. Equity raising under such circumstances is extremely difficult even at significant discounts to trading prices.

2.7 Sources of Information

Appendix A to this Report sets out details of information referred to and relied upon by IFL during the course of preparing this Report and forming our opinion.

Under the terms of IFL's engagement, Cape Alumina has agreed to indemnify the directors and staff (as appropriate) of IFL, against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided by Cape Alumina which is false and misleading or omits any material particulars, or arising from failure to supply relevant information.

2.8 Assumptions

In forming our opinion, the following has been assumed:

- All relevant parties have complied, and will continue to comply, with all applicable laws and regulations and existing contracts and there are no alleged or actual material breaches of the same or disputes (including, but not limited to, legal proceedings), other than as publicly disclosed and that there has been no formal or informal indication that any relevant party wishes to terminate or materially renegotiate any aspect of any existing contract, agreement or material understanding, other than as publicly disclosed;
- That matters relating to title and ownership of assets (both tangible and intangible) are in good standing, and will remain so, and that there are no material legal proceedings, or disputes, other than as publicly disclosed;
- Information in relation to the Transaction provided to the Shareholders or any statutory authority by the parties as part of the Bidder's Statement or Cape Alumina's Target Statement is complete, accurate and fairly presented in all material respects;
- If the Offer is accepted, it will be implemented in accordance with its disclosed terms; and
- The legal mechanisms to implement the Transaction are correct and effective.



3. Cape Alumina Company Profile

3.1 Company overview

Cape Alumina is a public company listed on the Australian Stock Exchange (**ASX:CBX**). Cape Alumina was formed in February 2004 to explore for metallurgical bauxite resources in Queensland, securing key untenured areas of potential bauxite mineralisation in western Cape York. Cape Alumina listed on the ASX in January 2009 through an initial public offer and now has 242 million ordinary shares on issue as at 4 August 2014.

Major shareholders in Cape Alumina as at 4 August 2014, include:

- Metro Coal Limited (57.2%);
- China Xinha Group Corporation Limited and subsidiaries (12.1%); and
- Bondline Limited (8.8%).

Metro Coal acquired the 57.2% holding through an on-market bid and conversion of a \$1 million convertible note. 95.1 million shares were acquired on 26 March 2014 for \$0.006 per share and 27.1 million shares were acquired on 17 April 2014 for \$0.006 per share. The offer closed on 5 May 2014. In addition, MetroCoal was issued a \$1 million convertible note in September 2013 which was converted into 16.7 million shares in December 2013 at \$0.060 per share.

Cape Alumina controls approximately 1,900 km² of exploration tenements in western Cape York. This is the second largest tenement holding in the region outside the Rio Tinto Alcan (RTA) mining leases. Cape Alumina has identified seven priority bauxite exploration areas, with JORC compliant bauxite resources of 202.4 Mt within the Pisolite Hills and Bauxite Hills mine and port projects.

Bauxite Hills, located 95km NW of Weipa and 5km from the existing port, is a 64 Mt JORC compliant resource with the potential to yield up to 5 Mtpa of dry-product bauxite over a 10 year period. A pre-feasibility study was completed in December 2012 which confirmed the technical and economic feasibility of the project. Since completing the study, Cape Alumina announced on 11 August 2014 that a Direct Shipping Ore (DSO) JORC compliant inferred resource of 19.85 Mt of DSO was estimated at the BH6 tenement.

Pisolite Hills, situated 50km NE of Weipa, is estimated to be 134.6 Mt of in situ bauxite, however is no longer considered to be viable. In November 2013, the Queensland Government announced a ban on mining "in perpetuity" in the Steve Irwin Wildlife Reserve (SIWR) in which the majority of the resource is located. There is a smaller resource outside the SIWR which has the potential to be developed into a smaller standalone mine or as a satellite mine to the Bauxite Hills project. Cape Alumina will continue to review options to add value to any future project at Pisolite Hills.

The key focuses for Cape Alumina now include:

- Advancing the Bauxite Hill project;
- Identifying DSO resources at other tenements (apart from BH6) at the Bauxite Hills project; and
- Identifying and reviewing other business development opportunities, particularly in respect to the unallocated Aurukun Bauxite resource area.

3.2 Company history

Key milestones in the Company history are shown in Table 5 below.

Table 5: Cape Alumina Company Historical Milestones

Year	Milestone
2004	<ul style="list-style-type: none">- Cape Alumina was formed on 2 February 2004- In March 2004 Cape Alumina expanded into Cape York



2005	<ul style="list-style-type: none"> In February 2005 Cape Alumina changed its name to Cape Alumina Pty Ltd, reflecting the shift in primary focus to western Cape York. Cape Alumina then set about securing key untenured areas of potential bauxite mineralisation in western Cape York. A funding arrangement between Metallica Minerals and Anegada Metals Corporation was agreed in May 2005 to advance the project.
2008	<ul style="list-style-type: none"> On 11 November 2008, Cape Alumina opened its Initial Public Offer (IPO), which closed on 20 January 2009 resulting in the issuing of 30 million shares at \$0.50 per share.
2009	<ul style="list-style-type: none"> Cape Alumina listed on the ASX on 29 January 2009, raising \$15 million. JORC resource of 130 Mt confirmed on 2 July 2009. In October 2009 Cape Alumina conducted a Bankable Feasibility Study (BFS) following completion of a pre-feasibility study review of the Pisolite Hills project.
2010	<ul style="list-style-type: none"> In June 2010 the Queensland Government declared the Wenlock River Basin as a wild river area. This jeopardises development of the Pisolite Hills project. Work on the Environmental Impact Statement (EIS), BFS and Indigenous Land Use Agreement (ILUA) is put on hold. Pisolite Hills project declared unviable under forecast economic conditions on 18 October 2010 due to Wild River Declaration. Cape Alumina lodged a Mining Lease Application (MLA) for the BH1 Plateau at Bauxite Hills.
2011	<ul style="list-style-type: none"> New concept study confirms major project potential for Bauxite Hills. In June 2011 Cape Alumina announced it secured \$1.8 million in funding from three of the Company's largest shareholders through the issue of Convertible Notes. Mr Graeme Sherlock commenced in the role of Managing Director in July 2011. In September 2011 Cape Alumina raised \$5 million through the issue of a convertible note to its largest shareholder. Cape Alumina raised \$1.17 million through the issue of nearly 10 million shares following the completion of a partially underwritten Share Purchase Plan.
2012	<ul style="list-style-type: none"> PFS completed, confirming the technical and economic feasibility of Bauxite Hills. In October 2012 the Queensland Government defined Pisolite Hills as a "significant project for which an Environmental Impact Statement (EIS) is required" under section 26 (1) (a) of the <i>State Development and Public Works Organisation Act 1971</i>.
2013	<ul style="list-style-type: none"> During the year raised \$1.5 million through the issue of ordinary shares. Cape Alumina entered into an agreement for the sale of its Hey Point bauxite tenements and mineral sands interests located at the Duyfken tenement. In July 2013, an updated PFS confirmed the technical and economic feasibility of Pisolite Hills. In September 2013 raised \$1 million through the issue of a convertible note to MetroCoal. In November 2013 the Queensland Government announced it would introduce legislation to declare the SIWR and the Wenlock River on Cape York Peninsula a "Strategic Environmental Area", effectively banning any mining on the Pisolite Hills site. All work suspended on the Pisolite Hills project. Following the announcement from the Queensland Government, the proposed merger with MetroCoal was officially terminated in December 2013 and the \$1 million convertible note was converted into 16.7 million ordinary shares.
2014	<ul style="list-style-type: none"> By May 2014, Metro Coal had acquired 57.2% of Cape Alumina's shares through an on-market bid. A number of board changes took place as a result - appointed Stephen Everett as non-executive Chairman and Lindsay Ward as non-executive Director, and Rennie Fritschy and Graeme Sherlock resigned as directors (although Graeme continued for a short while in his role as CEO). In June 2014 the Queensland Government released the Regional Interest Area map and Cape Alumina confirmed there are currently no areas of Regional Interest over the Bauxite Hills project. In July 2014 Graeme Sherlock resigned as CEO, with Scott Waddell (current CFO and Company Secretary) appointed to the role of Acting CEO. In August 2014 a 19.85 Mt DSO JORC compliance inferred resources was estimated for the Bauxite Hills project BH6 tenement.

Source: Cape Alumina



3.3 Operations

3.3.1 Exploration and Development

3.3.1.1 Western Cape York

Cape Alumina controls approximately 1,900 km² of exploration tenements in western Cape York in Queensland, a region known for its high-quality, export-grade bauxite. This is the largest tenement holding in the region outside the Rio Tinto Alcan (RTA) mining leases.

The project areas that Cape Alumina owns in Cape York include:

- Bauxite Hills – 64 Mt, including 19.5 Mt of DSO product;
- Pisolite Hills – 134 Mt, this project has been impaired as a result of the Government's ban on mining in the SIWR;
- Vrilya – further exploration required;
- Mission – exploration required;
- Duyfken - exploration required;
- Weipa Satellites - exploration required; and
- Worboby Point (Aurukun) - exploration required.

Over these tenements, the company has been granted 13 Exploration Permits for Minerals (EPMs). It also currently has four EPM Applications (EPMA) adjoining the RTA mining leases, and nine Mining Lease Applications (MLAs).

Cape Alumina plans further scouting, exploration and drilling programs to advance more projects in the future, although the immediate focus will be on the Bauxite Hills project.

3.3.1.2 Central Queensland

Cape Alumina also holds small tenements in Central Queensland but considered to be of limited potential:

- Toondoon;
- Hawkwood; and
- Auburn.

Two EPMs and one EPMA have been granted over these projects.

3.3.2 Bauxite Hills

Cape Alumina's Bauxite Hills integrated mine and port project is located approximately 95 km NW of Weipa on western Cape York, within the bauxite plateau between the Ducie and Skardon Rivers and 5 km SE of the existing port at Skardon River.

It is a 64 Mt JORC compliant resource, with the BH6 tenement within the project recently declared a 19.85 Mt DSO JORC compliant inferred resource. Cape Alumina also intends to determine the potential DSO resources at its other tenements at the Bauxite Hills project.

In late 2012, Cape Alumina completed the Bauxite Hills PFS for the project to produce beneficiated bauxite, which confirmed the technical and economic feasibility of the project. The study showed that Bauxite Hills could produce 5 Mtpa of high-quality, export-grade bauxite over a life of up to 10 years. It is proposed that Bauxite Hills would commence production at 2.5 Mtpa of dry beneficiated bauxite building to 5 Mtpa over two years.

The resources at Bauxite Hills have extremely low strip ratios and are very shallow, free-digging deposits. They are very close to coastal waters and international shipping routes, and they have high alumina content and low bauxite to alumina ratios, which means lower shipping costs and lower overall refinery input costs compared to bauxite deposits outside the Weipa region. The DSO report issued in August 2014 showed that the DSO product has a 51.2% alumina content (a similar level to the beneficiated product).

Key features of the Bauxite Hills project include:

- Low operating costs due to the high alumina content and close location to coastal waters and international shipping routes;
- Low capital as there is no requirement for a large beneficiation plant; and
- Significantly less water, energy and tailings dam requirements than a beneficiated bauxite product.



Following the recent announcement of the DSO resource, Cape Alumina will now progress reviewing fund raising options to progress Bauxite Hills. The following activities are planned to be undertaken:

- Extend the resource work to the BH1 and BH2 bauxite tenements;
- Undertake additional technical and material handling studies, including bauxite characterisation work, to further define project costs and economics;
- Undertake further analysis of the in-fill drilling samples collected in the 2012 drilling campaign to enable an indicated or measured resource to be delineated; and
- Commence dry-season environmental works to progress the environmental approvals which were started in 2012.

The Queensland Government has recently finalise the Cape York Regional Plan (CYRP) and as such there are currently no areas of Regional Interest over the Bauxite Hills project. As there is no impact from the CYRP, Cape Alumina is proceeding with the development of the Bauxite Hills project as planned.

3.3.3 Pisolite Hills

Cape Alumina's Pisolite Hills integrated mine and port project is located on an elevated, open, dry bauxite plateau approximately 50 km NE of Weipa and 40 km SE of the community of Mapoon. It is located between 2.8 and 15 km from the Wenlock River in western Cape York.

The Pisolite Hills resource, based on over 4,000 drill holes, is estimated to be 134.6 Mt of in-situ bauxite, including the Musgrave deposit. Overall, this resource has the potential to yield up to 7 Mtpa of dry-product bauxite over a 15 year period (88.9 Mt in total).

In October 2012, the Queensland Government declared Pisolite Hills a 'significant project for which an Environmental Impact Statement (EIS) is required' under section 26 (1) (a) of the State Development and Public Works Organisation Act 1971. As a result, Cape Alumina restarted work on technical and environmental studies for the project and the pre-feasibility study (PFS) was updated.

In November 2013, despite ongoing communication, the Queensland Government announced it would introduce legislation to declare the SIWR and the Wenlock River on Cape York Peninsula a "Strategic Environmental Area", effectively impairing the Pisolite Hills site. All work was immediately suspended on the Pisolite Hills project.

Cape Alumina has a smaller resource outside the SIWR that still has the potential to be developed as a smaller standalone mine or as a satellite mine to the Bauxite Hills project.

The Queensland Government recently finalised the Cape York Regional Plan (CYRP). In summary, the impact on the Pisolite Hills project is:

- The PH5 tenement (which contains 24.1Mt of in-situ bauxite) is largely unaffected and those areas not affected (estimated at 20 to 24Mt, subject to confirmation) can be developed without restriction from the CYRP.
- The PH2, PH3 and PH4 tenements have a number of areas impacted by the Strategic Environmental Areas (SEAs), which would require a Regional Interests Development Authority (RIDA) application to develop. It is estimated that the amount of bauxite that could be developed with an RIDA application is in the area of 10 to 17Mt.
- No impact from the CYRP on the Port Musgrave tenements (2.2Mt of in-situ bauxite).

In summary, Pisolite Hills is expected to have an in-situ bauxite resource of 32 to 43 Mt, subject to confirmation, which is not in a 'SEA – designated precinct' which bans mining. Confirmation of the resource size will be performed by Cape Alumina's geologists.

The economics of developing the Pisolite Hills resource is unlikely to be as favourable as the Bauxite Hills project, as a 34km haul road would be required to be constructed to transport the majority of the bauxite to Port Musgrave. However, there is potential for the economics to improve if Pisolite Hills becomes an extension or satellite mine to the Bauxite Hills project. The potential synergies of developing the projects simultaneously include:

- The common use of barging and transshipment operations in the Ducie River;
- Common infrastructure such as airstrip, electricity generation and other facilities; and
- Managing the workforce across two operations, including specialist staff; and common site camp facilities, vehicles and beneficiation plant.



3.3.4 Other Projects

In November 2012 Cape Alumina sold its Hey Point bauxite tenements and mineral sands interests on western Cape York. The Hey Point tenements are located 5km south of Weipa and are estimated to contain inferred resources of 3.8 Mt.

Consideration receivable under the agreement includes cash payments of \$1,500,000 (spread over a number of tranches) with \$250,000 received during FY2013 and a second \$250,000 in HY2013. The remaining \$1 million remains contingent on the sale of bauxite, and as the project is in the early stages of exploration the remaining payment has not been accounted for by Cape Alumina as a receivable balance in the balance sheet.

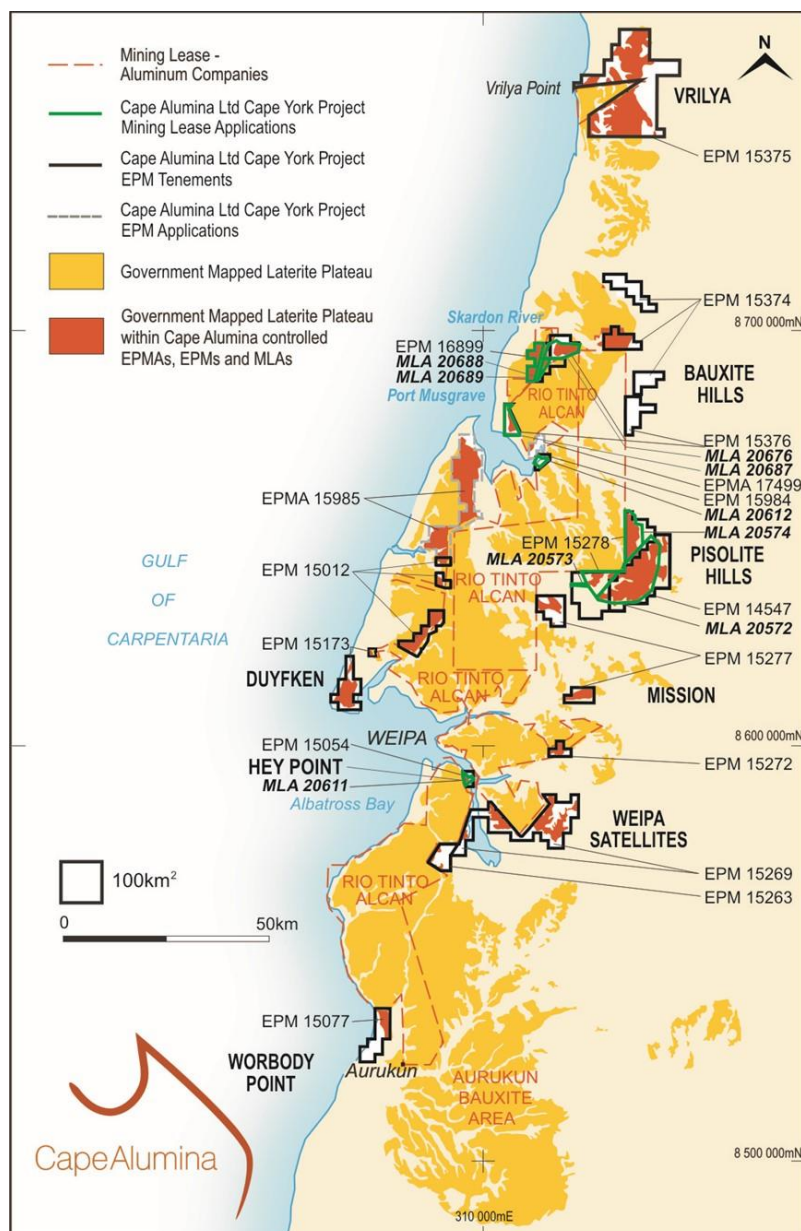
The company will receive royalties of 2% to 3% on all future gross sale proceeds on bauxite sold from the project. In addition, Cape Alumina has retained the marketing rights to the bauxite and will receive a marketing fee.

As this project is in the early stages of development and there is significant uncertainty with regard to the timing and amount of royalties, we have not included a value for the potential future earnings from Hey Point.

3.3.5 Cape Alumina's exploration permits

The figure below depicts Cape Alumina's exploration permits in Cape York.

Figure 1: Cape Alumina's Exploration Permits

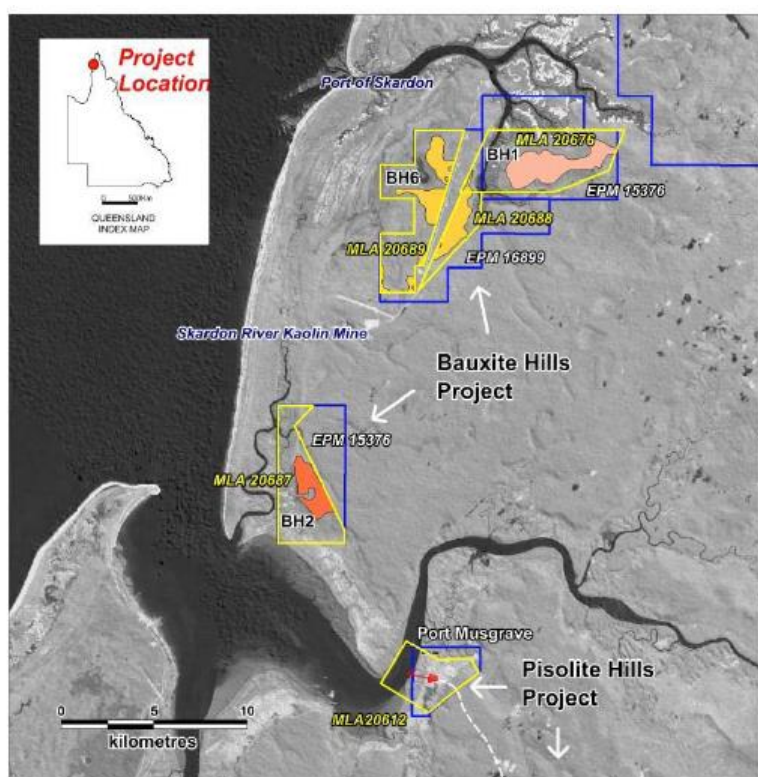


Source: Cape Alumina



Note that Hey Point is represented on the above map. The tenements have been sold to an external party (with \$1 million in consideration contingent on future sales of bauxite). However, under the terms of the sale, Cape Alumina is entitled to future royalties and marketing fees, pending the success of the development and marketing of the bauxite resources at Hey Point.

Figure 2: Bauxite Hills Project Area



Source: Cape Alumina

We have detailed the resources by project below, we have adjusted the resource based on the declaration of the Steve Irwin Wildlife Reserve and the ensuing impact on the Pisolite Hills Project. As discussed in Section 7, for the purposes of this report, we have included the Hey Point resource.

Figure 3: Cape Alumina Resources and Projects

Area	Resource Category	In-situ dry tonnes (Mt)	Beneficiated dry tonnes (Mt)	Total Al ₂ O ₃ (wt %)	Total SiO ₂	Adjusted
Bauxite Hills						
BH 1, 2 and 6	Inferred	60.2	41.3	51.6	9.6	
BH 4 & 5	Inferred	3.8	2.0	49.5	11.0	
		<u>64.0</u>				64.0
Other Projects:						
Pisolite Hills						
Pisolite Hills	Measured	27.5	20.1	54.4	10.8	
Pisolite Hills	Indicated	56.1	37.9	53.5	12.5	
Pisolite Hills	Inferred	48.8	29.3	53.1	13.2	
Musgrave	Indicated	2.2	1.6	52.8	11.2	
		<u>134.6</u>				37.5
Other Projects						
Hey Point	Inferred	3.8	2.5	55.3	9.8	3.8
Total		202.4				105.3

Source: Cape Alumina

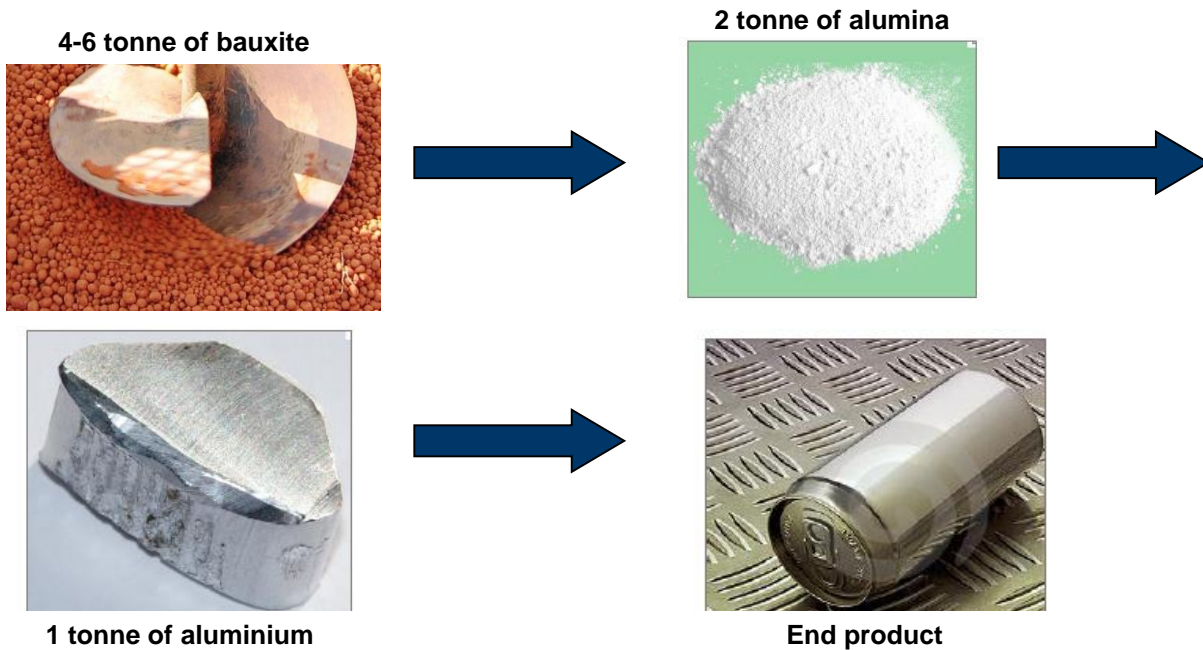
Refer note re Hey Point at the top of this page.



3.4 Products and Markets

Bauxite is used to produce alumina and aluminium. The figure below depicts the stages that the bauxite goes through to become an end product.

Figure 4: Bauxite to aluminium



Source: Cape Alumina

Cape Alumina has identified its market as the Asia-Pacific market.

The bauxite found on the company's tenements is:

- Well-suited for low and high temperature alumina refineries;
- Export grade resource; and
- The bauxite samples at Bauxite Hills are very high-grade with a high alumina content compared to other Australian bauxite provinces (outside the Weipa region).

Refer to the Industry Analysis section (section 5) for further explanation on the market for bauxite and alumina/aluminium.



3.5 Competitive Position or SWOT Analysis

Set out below is an analysis of the strengths, weaknesses, opportunities and threats (“SWOT”) of Cape Alumina:

Table 6: SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Market for bauxite is strong and growing, with prices expected to increase over coming years. In particular, there is increasing demand for bauxite in the growing Chinese market. ▪ Indonesia has legislated to ban unprocessed bauxite exports from January 2014 and India has recently announced their intention to increase the bauxite export tax from 10% to 20%. Both of these actions will further open up the market for exports from Australia. Prior to the ban, Indonesia was the largest global exporter of bauxite. This is a significant opportunity for Cape Alumina to replace some of this supply. ▪ Western Cape York has high-quality export-grade bauxite, with a high alumina content when compared to other Australian bauxite provinces. ▪ Located close to coastal waters and international shipping routes, with ready access to ship-borne trade to China or the Middle East, lowering operating and transport costs. ▪ Shallow, free-digging bauxite with minimal overburden thickness and low strip ratios. ▪ DSO JORC compliant inferred resource recently declared at Bauxite Hills BH6 tenement. ▪ The majority of the Bauxite Hills bauxite is within 10km of the Skardon River, reducing operating and capital costs. ▪ Strong Board, shareholder support and management team. 	<ul style="list-style-type: none"> ▪ Limited diversification amongst other commodities. ▪ Low cash position, as is common amongst many explorers. ▪ Small and vulnerable company. ▪ Difficulty in raising capital required. ▪ Ability of the current management and board to transition from a prospector to developer to miner.
Opportunities	Threats
<ul style="list-style-type: none"> ▪ Improving bauxite price / foreign exchange rates may assist with project profitability. ▪ Other joint venture opportunities with consumers of bauxite. ▪ Synergies with other neighbouring bauxite tenement holders or operators. ▪ Expectation that Cape Alumina will be able to market and receive royalties and marketing fees for bauxite sold from Hey Point tenements. ▪ Remaining contingent consideration of \$1 million from the sale of Hey Point tenements. 	<ul style="list-style-type: none"> ▪ The CYRP can be reviewed annually and amended, however any changes will only be made with the consent of the Traditional Land Owners and Regional Town Councils. ▪ Adverse bauxite price / foreign exchange rates decrease project profitability. ▪ Fund raising.

Source: Cape Alumina



3.6 Board and Management

Table 7: Board members and Key Management

Name	Title
Mr Stephen Everett, Non-Executive Chairman	<p>Mr Everett has more than 40 years board and management experience in the resources and construction industries both in Australia and overseas. His management experience includes production and project management, marketing, corporate restructuring, debt/equity financing and government relations. His senior executive positions have included Managing Director and Chief Executive Officer of private and publicly listed companies. Mr Everett was formerly Chairman of BeMaX Resources NL, Australian Solomons Gold Limited, JMS Civil and Mining Pty Ltd and IronRidge Resources Limited. He is currently Chairman of Global Resources Corporation Limited in addition to being Independent Chairman of MetroCoal.</p> <p>Mr Everett is a graduate of chemical engineering from UNSW.</p>
Mr George Lloyd, Non-Executive Director	<p>Mr Lloyd has more than 30 years' experience working in the resources industry in senior executive and board roles. He is currently the Chairman of Pryme Energy Limited, an ASX-listed oil and gas explorer and producer operating in the United States of America, and Chairman of Ausenco Limited, an ASX-listed global resources industry engineering services group.</p> <p>Mr Lloyd is a fellow of the Australasian Institute of Mining and Metallurgy.</p>
Mr Lindsay Ward, Non-Executive Director	<p>Mr Ward has over 25 years broad industry experience holding executive positions in mining, exploration, mineral processing, ports, rail, power generation, gas transmission and logistics. Mr. Ward's previous mining experience includes Mine Manager of the Yallourn Energy open cut coal mine in Victoria and senior mining engineering positions with BHP Australia Coal in Queensland and Camberwell Coal in the Hunter Valley. Mr. Ward is currently a Non-Executive Director of MetroCoal Limited and CEO of the Tasmanian Gas Pipeline, a gas transmission pipeline that links Victoria to Tasmania and transports gas throughout Tasmania. Mr Ward was previously Managing Director of Dart Mining a Melbourne based exploration company and prior to this was General Manager, Patrick Ports and Pacific National Bulk Rail – a business unit within Asciano Limited.</p>
Mr Jijun Liu, Non-Executive Director	<p>Mr Liu is currently the Managing Director of China Xinha Group Company Limited, China's largest independent Alumina-Aluminium company with current and planned capacity for production of around 12 Mtpa of alumina and 2 Mtpa of Aluminium.</p>
Mr Scott Waddell, Acting Chief Executive Officer and Chief Financial Officer and Company Secretary	<p>Mr Waddell was appointed Cape Alumina's CFO and Company Secretary in June 2010. Prior to joining Cape Alumina, he served as Head of Finance for the Monash Energy project in Victoria's La Trobe Valley. His resources experience has been gained over nine years with Anglo Coal and eight years with Rio Tinto Alcan (RTA). He has a deep understanding of the global bauxite and resources sectors.</p>

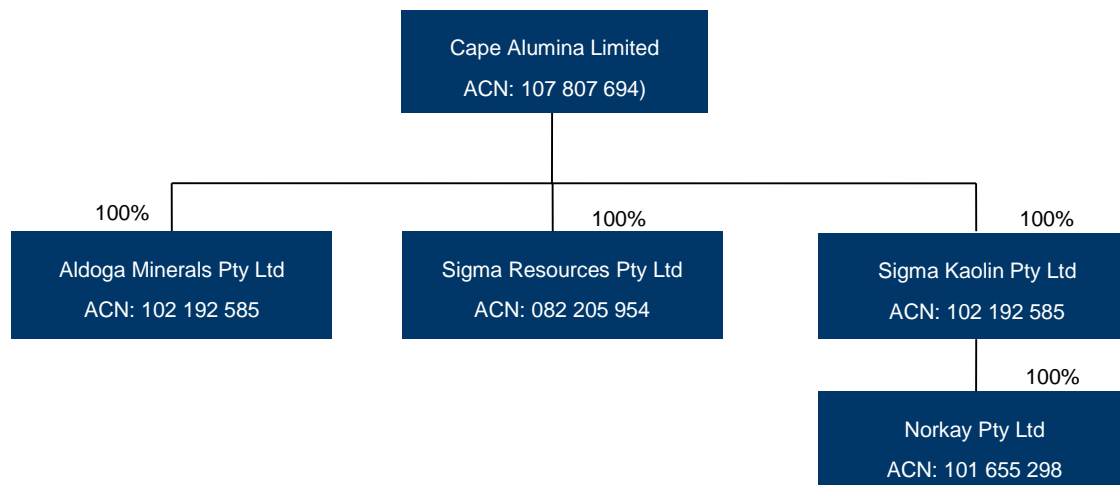
Source: Cape Alumina



3.7 Ownership and Capital Structure

The corporate structure of Cape Alumina is detailed below.

Figure 5: Cape Alumina's Corporate Structure



Source: Cape Alumina

Note that all subsidiaries of the parent entity are non-operating.

Cape Alumina Limited holds:

- The Pisolite Hills MLA's and EL's; and
- The Bauxite Hills EL's and 1% of its MLA's.

Aldoga Minerals Pty Ltd holds 99% of the Bauxite Hills MLA's.

As at 4 August 2014, Cape Alumina had approximately 242 million ordinary shares on issue. The top 10 shareholders and total issued ordinary shares of Cape Alumina as at this date are summarised below.

Table 8: Top 10 Shareholders as at 4 August 2014

Shareholder	Number of Ordinary Shares held	Percentage held of issued Ordinary Capital
METROCOAL LIMITED	138,862,510	57.2%
CHINA XINFA GROUP CORPORATION LIMITED (and subsidiaries)	29,342,960	12.0%
BONDLINE LIMITED	21,356,387	8.8%
J P MORGAN NOMINEES AUSTRALIA LIMITED	10,180,820	4.2%
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	4,643,004	1.9%
J IEN MINING PTY LTD	2,221,873	0.9%
CROFTON PARK DEVELOPMENTS PTY LTD	2,000,000	0.8%
MR GRAEME THOMAS SHERLOCK	1,630,000	0.7%
REMOND HOLDINGS PTY LIMITED	1,585,000	0.7%
VICTORIAN FERRIES PTY LTD	1,536,857	0.6%
Top 10 Shareholders	213,359,411	87.9%
Other Shareholders	29,288,987	12.1%
Total Issued Shares	242,648,398	100.0%

Source: Cape Alumina

The top 10 shareholders hold 88% of the total shares on issue in Cape Alumina, whilst the remaining shareholders hold parcels which are individually less than 0.5% of the total shares on issue.



Table 9: Substantial shareholders as at 4 August 2014

Substantial shareholders	Number of Ordinary Shares held	Percentage held of issued Ordinary Capital
METROCOAL LIMITED	138,862,510	57.2%
CHINA XINFA GROUP CORPORATION LIMITED (and subsidiaries)	29,342,960	12.0%
BONDLINE LIMITED	21,356,387	8.8%

Source: Cape Alumina

Cape Alumina has 14,706,000 options outstanding with an exercise price of \$0.17 and expiring on 18 November 2015. Based on the current share price of around \$0.03 per share, these options are out of the money.

3.8 Historical Financial Performance

Cape Alumina's historical P&L for full years FY2011 to FY2013 and the half year HY2013 are shown in the table below.

Table 10: Cape Alumina's Historical P&L

\$	FY2011 Actual	FY2012 Actual	FY2013 Actual	HY2013 Actual
Revenue	0	0	0	0
Cost of goods sold	0	0	0	0
Gross Profit	0	0	0	0
Other Income	419,268	177,258	301,947	317,646
Employee benefits expense	(1,311,680)	(1,725,902)	(1,775,179)	(868,966)
Defined contribution superannuation expense	(93,104)	(100,587)	(137,323)	N/A
Occupancy expenses	(59,780)	(84,152)	(119,832)	(61,381)
Impairment of mineral properties and exploration costs	(11,438,562)	0	0	0
Fair value movement of embedded derivatives	0	1,692,070	1,005,081	368,870
Professional and legal fees	(186,099)	(185,915)	(255,841)	N/A
Other expenses	(683,088)	(432,684)	(536,694)	(546,514)
Total Operating Expenses	(13,772,313)	(837,170)	(1,819,788)	(1,107,991)
EBTDA	(13,353,045)	(659,912)	(1,517,841)	(790,345)
Depreciation and amortisation	(11,723)	(7,870)	(13,503)	(5,135)
EBIT	(13,364,768)	(667,782)	(1,531,344)	(795,480)
Finance income	131,250	204,155	140,750	29,069
Finance costs	0	(1,483,609)	(1,251,823)	(286,553)
Net Profit Before Tax	(13,233,518)	(1,947,236)	(2,642,417)	(1,052,964)

Source: Cape Alumina

Note: HY2013 is for the 6 months to 31 December 2013, and the disclosure of expenses was on a different basis for the half year accounts

Notes to the Profit and Loss Statement:

- Exploration expenditure was written off in FY2011 when the Pisolite Hills project was deemed unviable as a result of the Wild Rivers legislation. In October 2012 the Queensland Government declared the Pisolite Hills project a "significant project" and formalised a process to overturn the declaration of the Wenlock River as a Wild River. Cape Alumina then restarted the project and from October 2012 to November 2013 commenced capitalising new costs. In November 2013 the Queensland Government announced the banning of mining over the SIWR and all work ceased at Pisolite Hills. At 31 December 2013, Cape Alumina was awaiting the final legislation prior to making any decisions as to whether to impair the asset further. However, subsequently the board has decided to fully impair the Pisolite Hills tenements (excluding Port Musgrave) in the financial statements for the year ended 30 June 2014.
- An embedded derivative liability was recognised with the issue of convertible notes and was subsequently revalued at June 2012, June 2013 and December 2013.
- The source of the other income is a research and development tax claim.



3.9 Financial Position

Table 11: Cape Alumina's Historical Balance Sheet

\$	30-Jun 2011	30-Jun 2012	30-Jun 2013	31-Dec 2013
Current Assets				
Cash and cash equivalents	2,964,729	4,655,359	2,704,870	2,176,245
Trade and other receivables	22,666	61,772	33,684	30,300
Other financial assets	48,354	49,562	51,131	52,158
Total Current Assets	3,035,749	4,766,693	2,789,685	2,258,703
Non-Current Assets				
Exploration and evaluation assets	1,756,258	4,476,542	6,272,821	6,487,157
Plant and equipment	19,009	41,201	38,071	29,915
Assets held for sale	0	0	156,835	0
Other assets	7,560	86,560	88,695	88,695
Total Non-Current Assets	1,782,827	4,604,303	6,556,422	6,605,767
TOTAL ASSETS	4,818,576	9,370,996	9,346,107	8,864,470
Current Liabilities				
Trade and other payables	353,612	649,262	1,360,754	456,264
Loans and borrowings	1,703,337	0	0	0
Total Current Liabilities	2,056,949	649,262	1,360,754	456,264
Non-Current Liabilities				
Loans and borrowings	0	2,772,073	3,523,896	0
Derivative liabilities	0	1,373,951	368,870	0
Total Non-Current Liabilities	0	4,146,024	3,892,766	0
TOTAL LIABILITIES	2,056,949	4,795,286	5,253,520	456,264
NET ASSETS	2,761,627	4,575,710	4,092,587	8,408,206
EQUITY				
Issued capital	23,555,624	27,085,408	29,016,668	33,858,372
Reserves	172,196	403,731	631,765	795,500
Accumulated losses	(20,966,193)	(22,913,429)	(25,555,846)	(26,245,666)
TOTAL EQUITY	2,761,627	4,575,710	4,092,587	8,408,206

Source: Cape Alumina

Notes to the balance sheet:

- Assets held for sale – During FY2013 Cape Alumina entered into an agreement for the sale of its Hey Point bauxite tenements and mineral sands interests, completion of which was subject to certain conditions. The book value of the assets being sold was \$156,835 at 30 June 2013 and the assets were reclassified from exploration and evaluation assets to assets held for sale. The transaction has subsequently settled however the tenements are in the process of being transferred.
- Cash has been positively impacted during HY 2013 by the following transactions:
 - Cash received from the settlement of the sale of Hey Point - \$0.25m; and
 - Issue of a convertible note to MetroCoal Limited (since converted into 16.7m shares) - \$1.0m.
- Exploration and evaluation assets – The Pisolite Hills tenements (excluding Port Musgrave) will be fully impaired in the financial statements for the year ended 30 June 2014. Refer note in section 3.8 above.
- Trade and other payables at 30 June 2013 included \$250,000 of deferred income for a non-refundable deposit for the sale of the Hey Point tenements.
- During HY2013, the convertible note issued to RCF was converted to 41.7 million ordinary shares at \$0.085 per share and raised \$3.5 million.

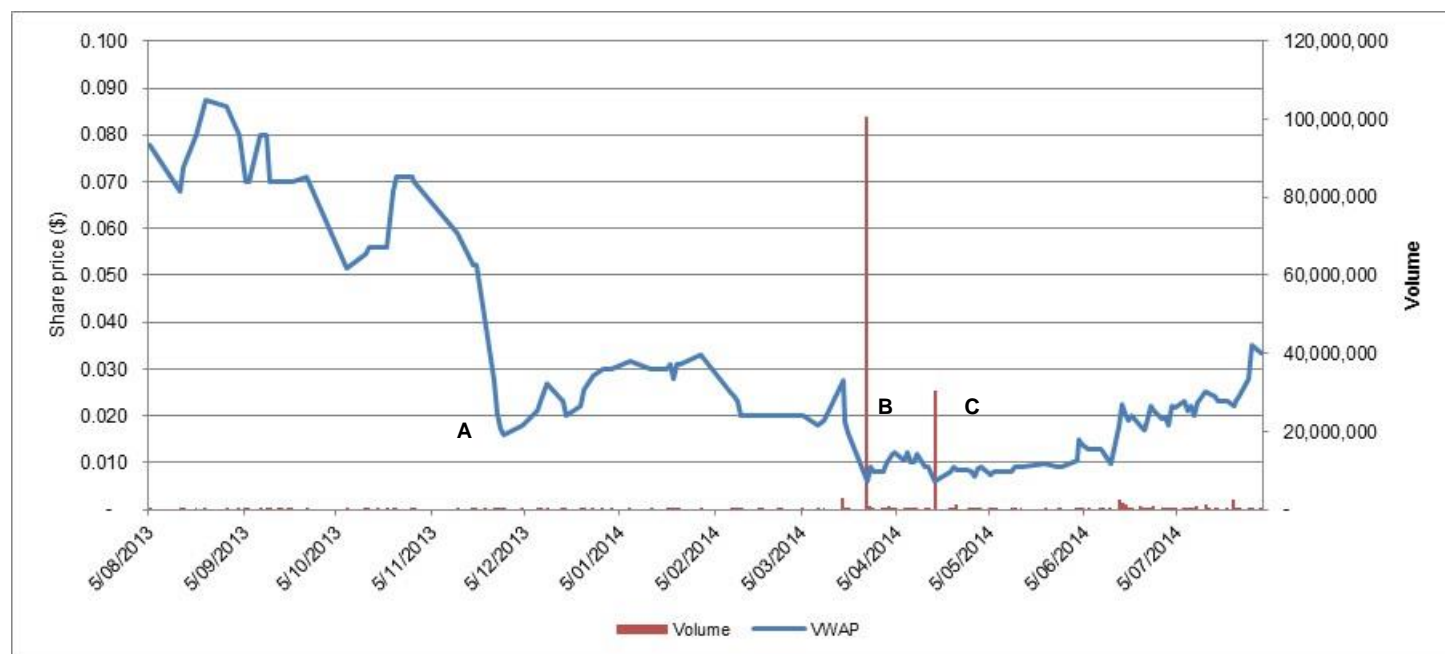


- Provision for employee entitlements is classified within trade and other payables.
- Issued capital has increased during HY2013 due to the following share issues:
 - \$1 million raised through the issue of a convertible note to MetroCoal which was converted into 16.7 million ordinary shares;
 - \$0.3 million of shares issued as payment for convertible note interest;
 - Shares issued to employees upon vesting of performance rights issues; and
 - Convertible note converted to ordinary shares and raised \$3.5m.
- Subsequent to the announcement of the proposed transaction on 4 August 2014, Cape Alumina announced on 27 August 2014 that they had entered into an agreement for \$250,000 of unsecured debt funding from MetroCoal. The purpose of the funding is to continue development of the Bauxite Hills project. The terms of this funding agreement are:
 - Interest payable at 10% per annum;
 - Loan term is the earlier of:
 - 12 months after the close of the current offer; or
 - 21 days after Cape Alumina has raised a minimum of \$1 million of capital through the issue of shares in Cape Alumina; or
 - Immediately in certain circumstances.

3.10 Share Price Analysis

We have analysed Cape Alumina's daily share close price and volume traded over the past 12 months to 4 August 2014.

Figure 6: Share price analysis



Source: Capital IQ (4 August 2013 to 4 August 2014)

Notable events disclosed by Cape Alumina's company announcements during the trading period which may have impacted Cape Alumina's share price movements and trading volumes are set out as follows:



Table 12: Cape Alumina's Recent Company Announcements

Date	Chart Reference	Announcement Details
22 November 2013	A	MetroCoal and Cape Alumina agree not to proceed with merger following the announcement from the Queensland Government regarding the SIWR. As a result work on the Pisolite Hills project is suspended.
26 March 2014	B	MetroCoal acquires Resource Capital Fund's (RCF) holding in Cape Alumina at 0.6 cents per share.
17 April 2014	C	On-market share purchase from MetroCoal at 0.6 cents per share, providing MetroCoal with effective control of Cape Alumina.

Source: Cape Alumina ASX Announcements

Of the total shares on issue of 242 million, over 80% are held by institutional investors who are not trading their shares. Of the shareholders who are trading their shares they hold approximately 41 million shares. In order to establish the liquidity without the institutional investors we have analysed the share volumes assuming the traded shares are 41 million.

Table 13 below outlines Cape Alumina's average daily and weekly share volume turnover for the 12 months to 4 August 2014. Excluded are the following on-market share trades:

- MetroCoal's acquisition of 95.1 million shares from RCF on 26 March 2014; and
- MetroCoal's further acquisition of 27.1 million shares on 17 April 2014.

Based on the average daily and weekly turnover, it would take nearly 1,500 weeks for 100% of the tradable stock to trade.

Table 13: Cape Alumina's share trading turnover

Issued Shares (m)	Traded Shares (m)	Avg Daily Turnover (m)	Avg Weekly Turnover	Trading weeks to Turnover 100%
183	25.00	0.00	0.02	1,470.1

Source: Capital IQ

Based on this analysis we have concluded that Cape Alumina is a very illiquid stock.

The 30 day VWAP for the shares prior to the announcement was \$0.025 and we have used this as the low end of our valuation range.

Table 14: Cape Alumina share price analysis

	High	Low	VWAP	Average daily volume
As at 04 Aug 2014	\$0.034	\$0.030	\$0.034	4,200
1 month to 04 Aug 2014	\$0.035	\$0.020	\$0.025	470,864
3 months to 04 Aug 2014	\$0.035	\$0.007	\$0.018	421,371
6 months to 04 Aug 2014	\$0.048	\$0.007	\$0.016	353,543
12 months to 04 Aug 2014	\$0.090	\$0.007	\$0.029	241,143

Source: Capital IQ (4 August 2013 to 4 August 2014)



4. MetroCoal Company Profile

4.1 Company Overview

MetroCoal is a public company listed on the Australian Stock Exchange (**ASX:MTE**), focused on thermal coal projects in the Surat Basin and Galilee Basin in Queensland. The Company was formed in January 2006 and listed on the ASX in December 2009 through an initial public offer (**IPO**). MetroCoal now has 209 million ordinary shares on issue to approximately 1,450 shareholders as at 4 August 2014.

Major shareholders in MetroCoal, as at 4 August 2014, include:

- Metallica Minerals Limited (30.8%)
- DADI Engineering Development Group (22.6%); and
- Ms Qing Xia (5.0%).

MetroCoal possesses 7 EPCs in the Surat Basin exceeding 3,000 km² and a total resource of 4.4 Bt. The most advanced projects were the Bundi and Columboola projects. Although MetroCoal remains confident in the long term outlook for coal, costs at Bundi have been reduced to a minimum and field activities suspended at Bundi and Columboola. Critical to the Surat Basin projects is securing access to rail and port infrastructure, with rail infrastructure heavily dependent on the viability of the Surat Basin Rail, the future of which is uncertain following Glencore's announcement that the Wandoan mine project would be placed on hold. MetroCoal has been working with other stakeholders in the Surat Basin via the Surat Basin Alliance to develop a plan to meet the infrastructure requirements to enable mine development to occur in the future. In addition, in response to the depressed coal market, low coal prices and the delay in infrastructure to the Surat Basin, MetroCoal has implemented strategies over the past 6 months to reduce costs including administration, corporate and tenement costs. Some of these costs have been shared with Cape Alumina.

MetroCoal has recently been granted tenure of the Pentland South tenement in the Galilee Basin, which is intersected by the existing rail infrastructure direct to the port of Townsville. An exploration program is being prepared and farm-in opportunities are being discussed with third parties.

4.2 Company history

Key milestones in the Company history are shown in **Table 15** below.

Table 15: MetroCoal Historical Milestones

Year	Milestone
2006	<ul style="list-style-type: none">- MetroCoal formed in January 2006.
2007	<ul style="list-style-type: none">- Acquisition of the coal tenements in December 2007.
2008	<ul style="list-style-type: none">- In June 2008, MetroCoal raised \$1.5 million through the sale of 15 million shares to fund the preliminary exploration program and preparation of the prospectus for the IPO.- First drilling program commenced in September 2008.
2009	<ul style="list-style-type: none">- Maiden JORC resource declared in May 2009.- Pre IPO capital raising of \$1.0 million completed in August 2009.- MetroCoal debuts on the ASX in December 2009.
2010	<ul style="list-style-type: none">- In April 2010 MetroCoal entered into a Joint Venture Agreement (JVA) with China Coal Import & Export Company (CCIEC), a wholly owned subsidiary of China National Coal Group Corp (China Coal).
2011	<ul style="list-style-type: none">- In August 2011 MetroCoal executed a Capacity Priority Agreement and an Investment Agreement with Tenement to Terminal Limited (3TL), providing MetroCoal with a 20% investment and priority access for up to 11.47 Mtpa at the proposed Yarwun Coal Terminal in Gladstone.- In November 2011 DADI completes an investment \$24 million, an approximate 15% shareholding, in MetroCoal, increasing their shareholding to 19.6%.
2012	<ul style="list-style-type: none">- Scoping Study released in September 2012 confirms the financial and technical viability of the Bundi Project.- In December 2012 the Columboola JV announced an open cut indicated reserve of 26.2 Mt.



	<ul style="list-style-type: none"> Bundi Project recommences drilling program in May 2013, and results announced in October 2013 showed that estimated tonnage has increased by 11% to 2 billion tonnes, of which 296 Mt is indicated and 1,705 Mt is inferred.
2013	<ul style="list-style-type: none"> Co-Development Agreement for the Columboola project finalised with QGC in July 2013. In September 2013 Glencore announced the postponement of the Wandoan coal mine project in the Surat Basin, raising uncertainty around the viability of the Surat Basin Rail project. MetroCoal's operations at Bundi and Columboola suspended shortly thereafter.
2014	<ul style="list-style-type: none"> Announced in February 2014 that MetroCoal had been granted tenure of EPC 1640, identified as "Pentland South", located 100km SW of Charters Towers in the northern extent of the Galilee Coal Basin in Queensland. In March 2014, MetroCoal announced an on-market takeover bid for Cape Alumina. By April 2014, MetroCoal had secured control of Cape Alumina with a 57% shareholding.

Source: MetroCoal

4.3 MetroCoal's Coal Resources

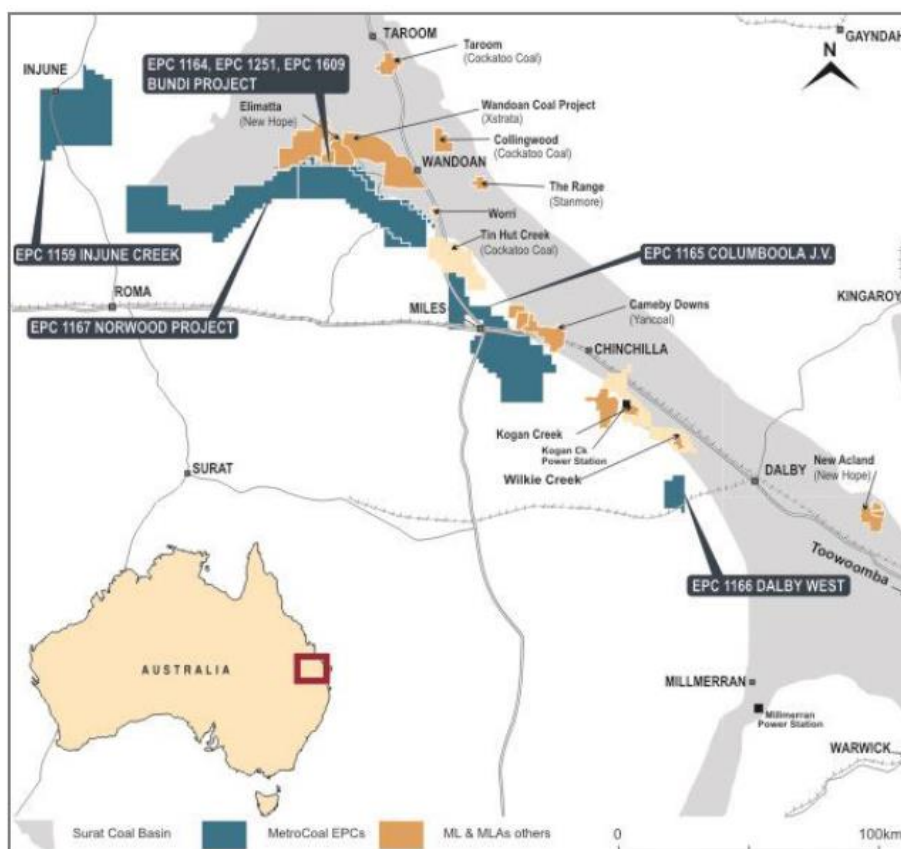
MetroCoal's key coal resources include:

- Surat Basin – Bundi and Columboola projects
- Galilee Basin - Pentland South

4.3.1 Surat Basin Tenements

MetroCoal has 7 EPCs exceeding 3,500 km² that are located down dip of other major mines/projects.

Figure 7: MetroCoal's Surat Basin Tenements



Source: MetroCoal



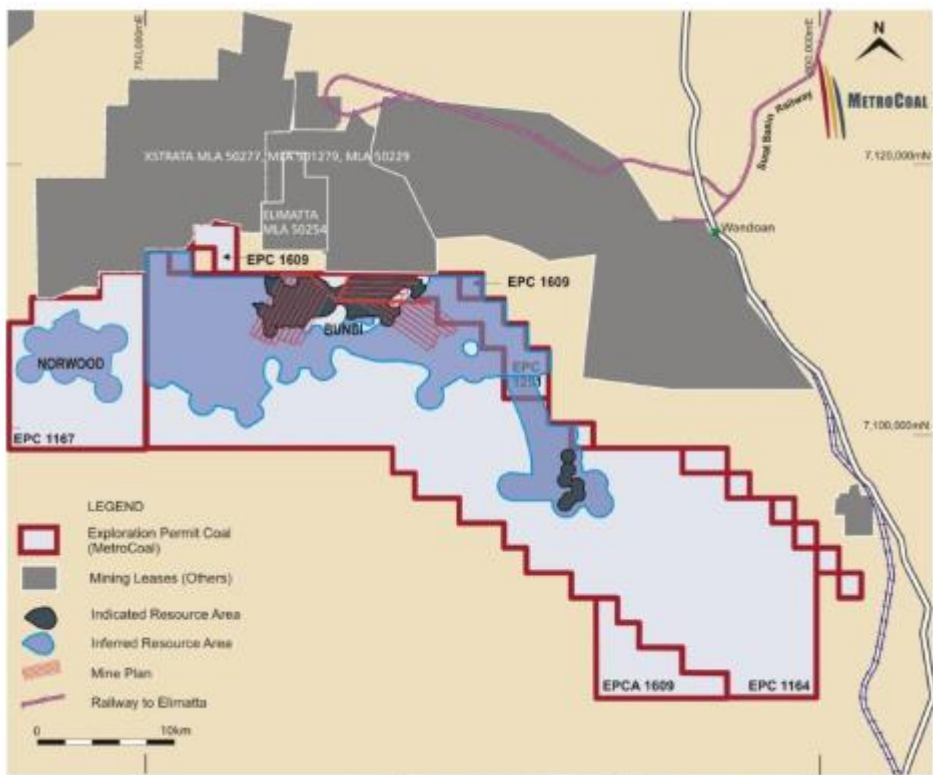
4.3.2 Bundi Project

The Bundi project is 100% owned by MetroCoal. It is located in the vicinity of the town of Wandoan in the Surat Basin coal region of Central Queensland, down dip of New Hope's Elimatta and Glencore Xstrata's Wandoan coal mine projects. The mine life is expected to be 28 years producing on average over 5 Mtpa during steady state production.

The Bundi Project has been advanced to the stage that an MLA could be lodged with a Mining Lease granted providing that an improvement in thermal coal prices and infrastructure allowed a JORC compliant resource to be calculated. However, following the announcement from Glencore that the Wandoan mine would be placed on hold, resulting in a delay in the Surat Rail infrastructure, MetroCoal has reduced costs to a minimum, with the project in care and maintenance. The current state of the thermal coal market, combined with the uncertainty around the rail infrastructure, mean that it is highly unlikely that any further investment will be made into the Bundi project until those conditions improve.

There has been interest in joint venture opportunities with Indian and Chinese entities for the Bundi project. Once conditions improve, MetroCoal is planning to continue to seek joint venture partners and to pursue possible rail infrastructure solutions with other companies with tenements in the Surat Basin.

Figure 8: Bundi Project



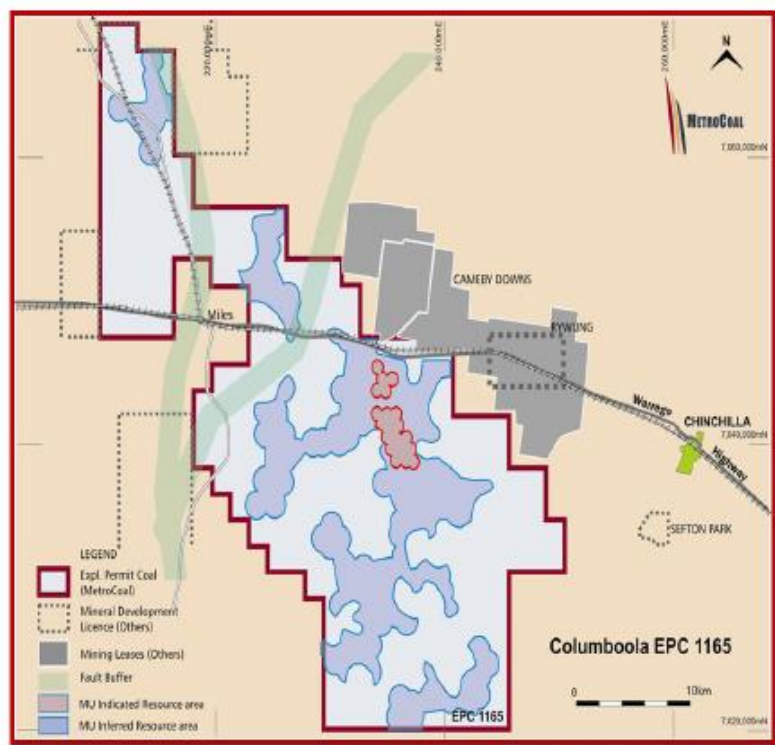
Source: MetroCoal

4.3.3 Columboola Project

The Columboola project is a joint venture with SinoCoal Resources Pty Ltd and is 49% owned by MetroCoal. The project is located in the Surat Basin near the town of Miles and the Carneby Down Mines owned by Yancoal Australia.

Although MetroCoal remains confident in the long term outlook for coal, field exploration at Columboola has been suspended and will be recommenced when market sentiment improves. The JV partner has not committed to further expenditure to develop the project and future development plans remain uncertain.

Figure 9: Columboola Project



Source: MetroCoal

MetroCoal possesses total resources of 4.4 billion tonnes, by project in the figure below:

Figure 10: MetroCoal's resources

Project	MTE Ownership	Indicated Resources (Mt)	Inferred Resources (Mt)	Total Resources (Mt)
Columboola	49%	46.4	792.8	839.2
Goombi	49%	2.4	6.8	9.2
Bundi (includes Juandah)	100%	296.0	1,705.6	2,001.6
Dalby West	100%		520.0	520.0
Norwood	100%		156.0	156.0
Total		344.8	3,181.2	3,526.0

Source: MetroCoal

Note: The resources for the projects in the table above have been stated at the proportion owned by MetroCoal i.e. at 49% or 100% of the total resource.

Carried forward exploration expenditure for the Norwood and Dalby West projects (and other projects) was written off in the half year accounts as at 31 December 2013, due to the lack of future proposed development or expenditure for the projects.



4.3.4 Pentland South

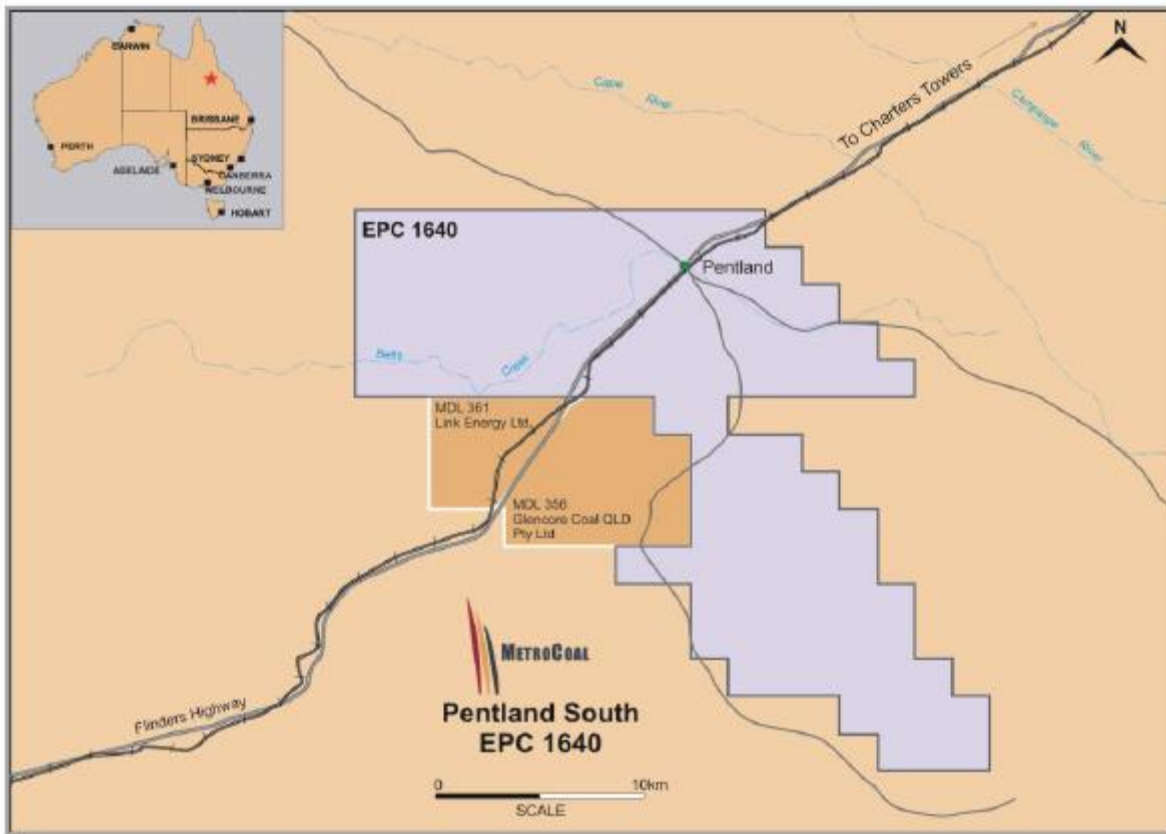
In February 2014 MetroCoal was granted tenure of EPC 1640, identified as “Pentland South”. The tenement is located 110km SW of Charters Towers in the northern extent of the Galilee Basin.

The tenement comprises 310km² and adjoins Mineral Development Licences held by other coal mine operators Linc Energy and Glencore. Rail infrastructure intersects the tenement and links directly with the port of Townsville.

Pentland South provides MetroCoal with thermal coal exploration opportunities outside the Surat Basin and that are prospective for open cut mining.

An exploration program is being prepared and farm-in opportunities are being discussed with third parties.

Figure 11: Pentland South



Source: MetroCoal

4.4 Infrastructure

MetroCoal's Surat Basin projects will require the construction of the planned rail and port infrastructure, notably:

- The Surat Basin Rail;
- Stage 2 of Wiggins Island Coal Export Terminal ('WICET'); and
- Tenement to Terminal Limited's ('3TL') Yarwun Coal Terminal project (a proposed coal terminal in the Port of Gladstone).

The Surat Basin Rail, also known as the “Southern Missing Link”, is a proposed multi user open access 204km rail line that would connect the existing railway system near Wandoan (230km north west of Toowoomba) with the Moura railway network at Banana (130km west of Gladstone). The expansion of the Surat Basin Rail corridor was being developed by a joint venture between Australian Transport and Energy Corridor Limited (ATEC), Glencore Xstrata and Aurizon. The joint venture was terminated last year following the announcement from Glencore that the Wandoan project would be placed on hold.

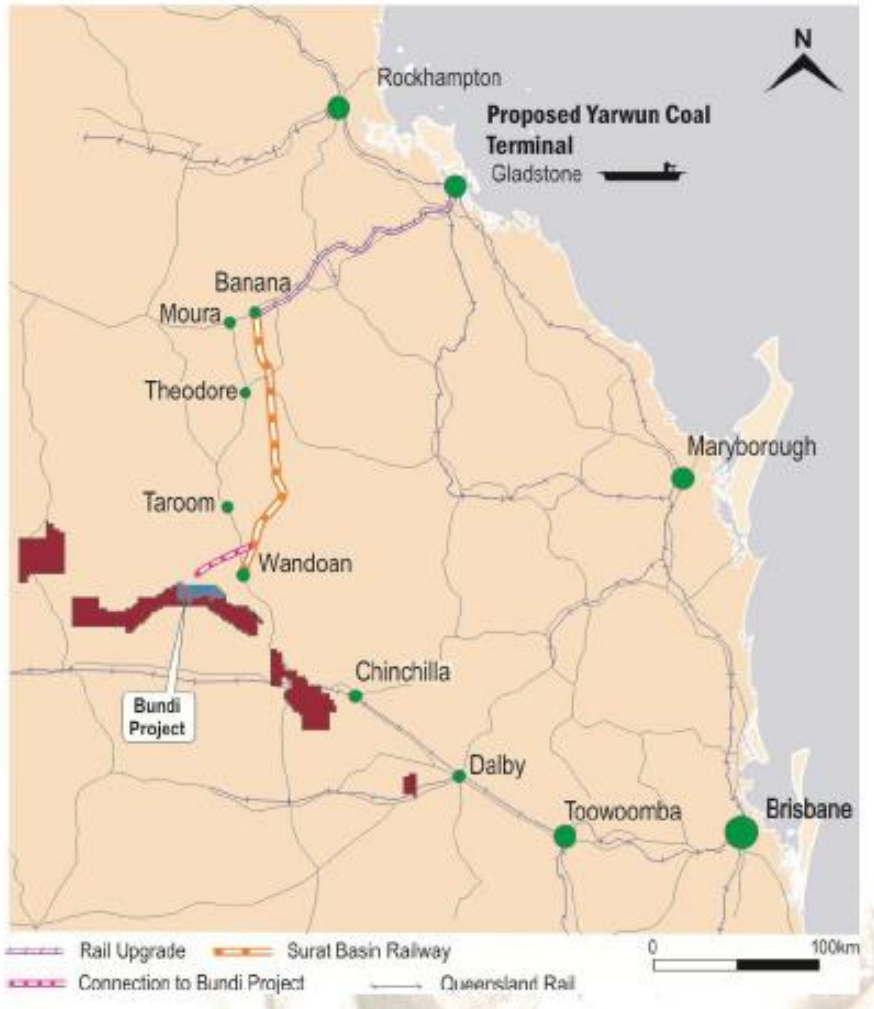


Due to uncertainty around the impact of global market conditions and coal prices on the Surat Basin Rail project, as well as a number of other infrastructure projects that make up the Surat to Gladstone coal chain, including port development, the future of the rail infrastructure remains uncertain.

The ability of MetroCoal to unlock their thermal coal resources will be highly dependent on economically feasible rail and port access.

The diagram below shows the location of MetroCoal's tenements in relation to the proposed Surat Basin rail link.

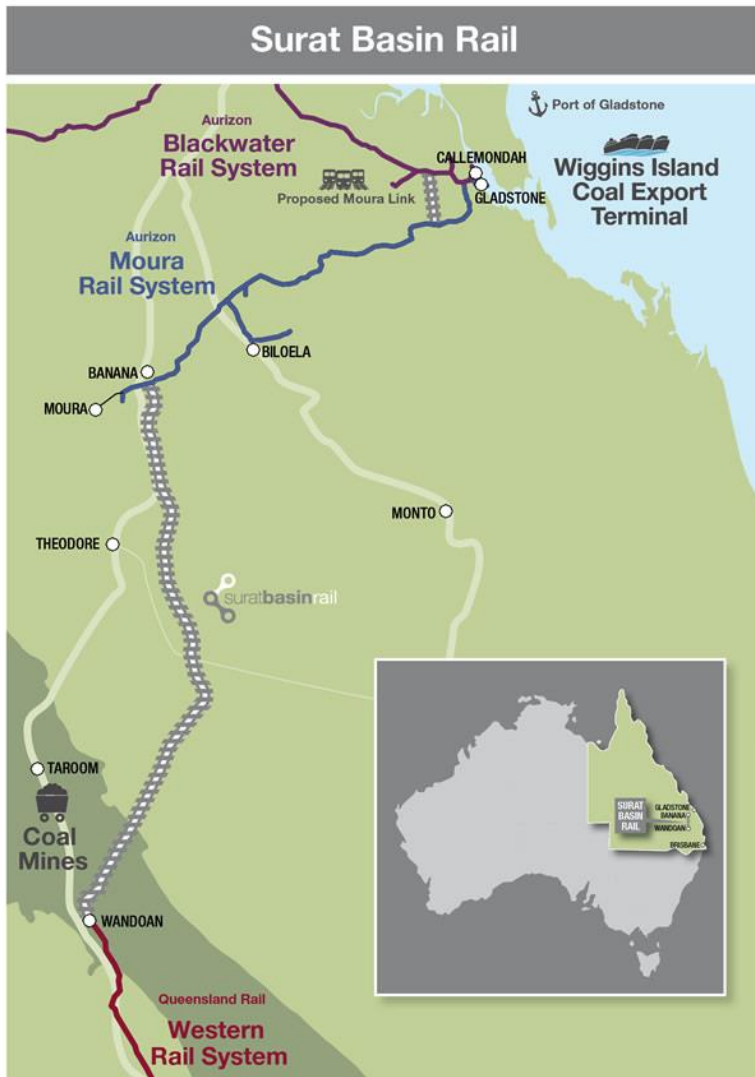
Figure 12: MetroCoal's location near the Proposed Surat Basin Rail Link



Source: MetroCoal



Figure 13: The Proposed Surat Basin Rail Link



Source: Surat Basin Rail

MetroCoal had entered into a Feasibility Funding Deed with Wiggins Island Coal Export Terminal Pty Ltd (WICET) to fund a proportion of feasibility costs in return for securing terminal capacity of 12 Mtpa. Ongoing funding remains uncertain.

MetroCoal has a 20% shareholding in Tenement to Terminal Limited (3TL), an unlisted Australian public company. This investment secures up to 11.43 Mtpa of capacity at the proposed port facility in Gladstone. This priority right is subject to MetroCoal meeting various capacity commitment criteria including mining project development progress, future feasibility funding and eventual take or pay contract commitments. However MetroCoal's investment in 3TL and the options were fully impaired during FY2012 as this project is at an early stage in its development and does not have operating cash flows.



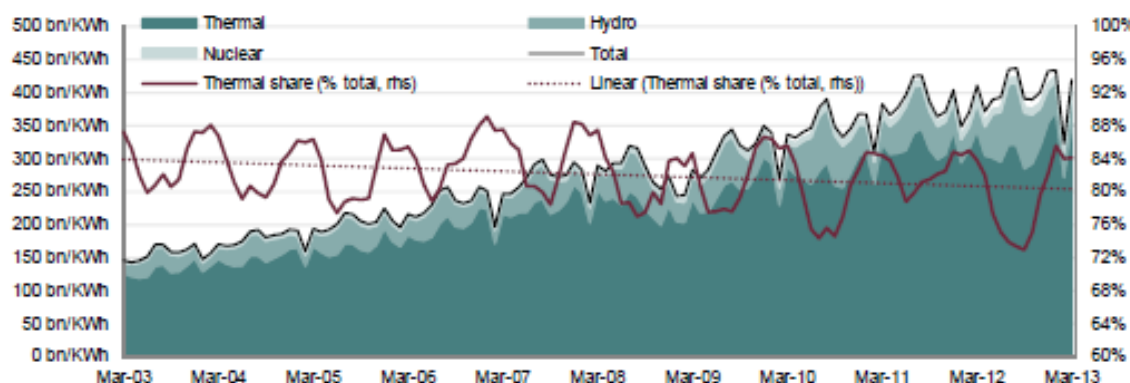
4.5 Products and Markets

MetroCoal's resources are in thermal coal, which is primarily used in power generation.

China is considered to be the major demand driver for growth in Australian production of thermal coal. Despite the recent advances in alternative energy sources such as natural gas and renewable, China's dependence on thermal coal power is expected to continue due to the dominance of coal in global energy requirements. The diagram below shows the concentration of thermal coal in China's electricity output.

Figure 14: China's electricity output by type

Figure 15: China's electricity output – by type, and share accounted for by thermal power



Source: CBA

4.6 Competitive Position or SWOT Analysis

Set out below is an analysis of the strengths, weaknesses, opportunities and threats (“SWOT”) of MetroCoal:

Table 16: SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Good quality thermal coal that is marketable. ▪ Connected seams capable of being longwall mined, with a lower environmental impact from longwall mining. ▪ Strong Board, shareholder support and management team. ▪ Support from key shareholders. ▪ JV partner SinoCoal. ▪ Strong cash position. 	<ul style="list-style-type: none"> ▪ Limited diversification amongst other commodities. ▪ Small and vulnerable company. ▪ Difficulty in raising capital required. ▪ Lack of port and rail infrastructure. ▪ Ability of the current management and board to transition from a prospector to developer to miner.
Opportunities	Threats
<ul style="list-style-type: none"> ▪ Increasing world demand for energy sources. ▪ Securing JV partner for Bundi project. ▪ Surat Basin as an emerging energy hub. ▪ Improving coal price / foreign exchange rates may assist with project profitability. ▪ Development of port and rail infrastructure in the Surat Basin. 	<ul style="list-style-type: none"> ▪ Infrastructure availability. ▪ Perception you can't longwall mine in the Surat Basin. ▪ Permitting / Approvals issues or delays. ▪ Adverse coal price / foreign exchange rates decrease project profitability. ▪ Fund raising.

Source: MetroCoal



4.7 Board and Management

Table 17: Board members and Key Management

Name	Title
Mr Stephen Everett Independent Non-Executive Chairman	<p>Has over 40 years of management and board experience in the resources and construction industries and has held Chairman and non-executive director positions in Government development boards, private, ASX listed and TSX listed companies. Mr Everett has also held senior executive positions including Managing Directors and Chief Executive Officer of private and publicly listed companies.</p> <p>Mr Everett is presently director of Global Resources Corporation Limited and Non-Executive Chairman of Cape Alumina Limited.</p>
Mr Andrew Gillies Non-Executive Director	<p>Founding director of MetroCoal Limited, with key strengths in mineral resources management and strategic planning specializing in project generation, selection and acquisition. 27 years of experience as a geologist in the mining and exploration industry across a range of commodities.</p> <p>Current directorships include Metallica Minerals Limited, Orion Metals Limited and Cape Alumina Limited.</p>
Mr Lindsay Ward Independent Non-Executive Director	<p>An experienced senior executive having worked in ports, mining, mineral processing, rail haulage, electricity generation, transport and logistics at both Director, General Manager and CEO level.</p>
Mr Dongping Wang Non-Executive Director	<p>Established Dadi Engineering Group, China's largest coal industry engineering group, and is now Chairman of Dadi Engineering Development Group.</p> <p>Brings extensive management experience and an intimate knowledge of modern coal process technology to MetroCoal.</p>
Mr Robert Finch Alternate Director to Mr Wang	<p>Brings 25 years of management experience to MetroCoal, including over 18 years in the Australian and Chinese coal industries. Instrumental in pioneering modern coal process technology in China and was Managing Director of Schenck Tianjin in China for four years up to 2006.</p> <p>In 2008 Mr Finch established and is Managing Director of Aury Australia, a coal process equipment manufacturing company based in Queensland, which supplies process equipment to the Australian and overseas coal and minerals industries.</p>
Mr John Haley Alternate Director to Mr Gillies	<p>Brings nearly 30 years of senior corporate experience from positions in Canada and Australia to the board of MetroCoal. He has a diverse career in a range of industries including mineral exploration and has participated as a seed capitalist in a number of mineral exploration companies.</p> <p>Mr Haley has held directorships at Cape Alumina Limited and Metallica Minerals Limited.</p>
Mr Mike O'Brien Chief Executive Officer	<p>Brings more than 36 years of mining and mineral experience to MetroCoal including 25 years extensive management experience with Shell Coal and Anglo Coal. He has worked in operational roles as general manager of a large underground longwall mine, general manager of a very large opencast mine that included a coal seam gas operation.</p>
Mr Scott Waddell Chief Financial Officer and Company Secretary	<p>Mr Waddell was appointed MetroCoal's CFO and Company Secretary in May 2014 (as part of MetroCoal's plan to achieve operational cost savings by amalgamating functions at MetroCoal and Cape Alumina) and has also been serving both roles for Cape Alumina since June 2010.</p> <p>Prior to joining Cape Alumina, Mr Waddell served as Head of Finance for the Monash Energy project in Victoria's La Trobe Valley. His resources experience has been gained over nine years with Anglo Coal and eight years with Rio Tinto Alcan (RTA).</p>

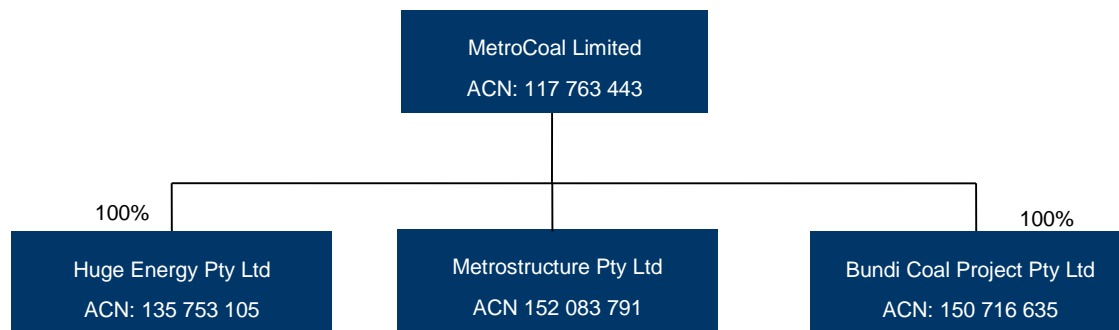
Source: MetroCoal



4.8 Ownership and Capital Structure

The corporate structure of MetroCoal is detailed below.

Figure 15: MetroCoal's Corporate Structure



Source: MetroCoal

In April 2010 MetroCoal entered into a Joint Venture Agreement (JVA) with China Coal Import & Export Company (CCIEC), a wholly owned subsidiary of China National Coal Group Corp (China Coal). Under the JVA, CCIEC acquired a 51% interest in MetroCoal's Columboola project for an agreed commitment of \$30m. The funds were used for exploring and evaluating the potential for future commercialisation options within the Columboola tenement.

As at 4 August 2014, MetroCoal had approximately 209 million ordinary shares on issue. The top 10 shareholders and total issued ordinary shares of MetroCoal as at 4 August 2014 are summarised below.

Table 18: Top 10 Shareholders as at 4 August 2014

Shareholder	Number of Ordinary Shares held	Percentage held of issued Ordinary Capital
METALLICA MINERALS LIMITED	64,293,962	30.8%
DADI ENGINEERING DEVELOPMENT (GROUP)	47,250,000	22.6%
MS QING XIA	10,342,684	5.0%
NLK HOLDINGS PTY LTD	4,000,000	1.9%
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	3,406,681	1.6%
J P MORGAN NOMINEES AUSTRALIA LIMITED	2,781,782	1.3%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,070,134	1.0%
MR LEIGH DAVID KALAZICH	1,888,888	0.9%
MR CLIFFORD MALCOLM ARNOLD PRATT	1,400,000	0.7%
REMOND HOLDINGS PTY LIMITED	1,161,710	0.6%
Top 10 Shareholders	138,595,841	66.4%
Other Shareholders	70,287,822	33.6%
Total Issued Shares	208,883,663	100.0%

Source: MetroCoal

The top 10 shareholders hold approximately 66% of the total shares on issue in MetroCoal, whilst the remaining shareholders hold parcels which are individually less than 0.5% of the total shares on issue.



Table 19: Substantial shareholders as at 4 August 2014

Substantial shareholders	Number of Ordinary Shares held	Percentage held of issued Ordinary Capital
METALLICA MINERALS LIMITED	64,293,962	30.8%
DADI ENGINEERING DEVELOPMENT (GROUP)	47,250,000	22.6%
MS QING XIA	10,342,684	5.0%

Source: MetroCoal

MetroCoal has over 2 million options outstanding, which based on the share price as at 4 August 2014 of 4.1 cents are currently out of the money.

4.9 Historical Financial Performance

MetroCoal's historical P&L for FY2011 to FY2013 and the half year HY2013 is shown in the table below.

Table 20: MetroCoal's Historical P&L

\$	FY2011 Actual	FY2012 Actual	FY2013 Actual	HY2013 Actual
Revenue	0	0	0	0
Cost of goods sold	0	0	0	0
Gross Profit	0	0	0	0
Other Income (administration fees and recharge of expenses)	0	205,233	503,039	185,297
Salaries, wages, fees and provisions	(505,842)	(903,683)	(697,889)	(468,013)
Share based payments	(579,789)	(1,043,735)	(88,592)	N/A
Defined contribution superannuation expense	(28,123)	(39,722)	(146,202)	N/A
Occupancy expenses	(87,005)	(107,580)	(110,809)	(54,570)
Impairment of exploration and evaluation assets	(150,000)	0	(963,086)	(1,540,630)
Impairment of investments	(836,245)	(7,519,603)	0	(550,000)
WICET feasibility costs	(142,000)	(852,000)	0	0
Professional fees	(425,579)	(233,111)	(324,065)	N/A
Other expenses	(426,069)	(1,488,046)	(968,494)	(310,457)
Total Operating Expenses	(3,180,652)	(12,187,480)	(3,299,137)	(2,923,670)
EBTDA	(3,180,652)	(11,982,247)	(2,796,098)	(2,738,373)
Depreciation and amortisation	(29,375)	(114,649)	(64,515)	(26,085)
EBIT	(3,210,027)	(12,096,896)	(2,860,613)	(2,764,458)
Finance income	827,413	853,031	549,167	165,999
Finance costs	(50,000)	(21,370)	0	0
Net Profit Before Tax	(2,432,614)	(11,265,235)	(2,311,446)	(2,598,459)

Source: MetroCoal

Note: HY2013 is for the 6 months to 31 December 2013, and the disclosure of expenses was on a different basis for the half year accounts

Notes to the Profit and Loss Statement:

- During HY2013, carried forward exploration expenditure for the Norwood and Dalby West projects (and other projects) was written off due to the lack of future proposed development or expenditure for the projects.
- During FY2013 the Dalby West EPC was impaired by \$963,086 on the basis that there is unlikely to be any further exploration activity in the near term.
- During FY2012 MetroCoal incurred feasibility costs of \$852,000 in relation to the Wiggins Island Coal Export Terminal Pty Ltd Feasibility Funding deed to secure terminal capacity for the planned Wiggins Island port expansion.
- During FY2012 MetroCoal invested 20% in Tenement to Terminal Limited (3TL), an unlisted Australian public company. However by that year end the investment was fully impaired as the project is at an early stage in its development and does not have operating cash flows.



- There were two impairment charges during FY2011. \$150,000 for the full impairment of early stage feasibility costs for Stage 2 of WICET and \$836,245 for the full impairment of MetroCoal's investment in Indonesian company UniCoal.

4.10 Financial Position

Table 21: MetroCoal's Historical Balance Sheet

\$	30-Jun 2011	30-Jun 2012	30-Jun 2013	31-Dec 2013
Current Assets				
Cash and cash equivalents	1,587,495	5,015,040	1,127,970	7,478,266
Trade and other receivables	373,202	1,063,199	264,855	105,541
Financial assets (term deposit)	10,000,000	10,261,962	10,375,493	376,441
Other assets (prepayments)	49,435	56,098	78,777	78,296
Total Current Assets	12,010,132	16,396,299	11,847,095	8,038,544
Non-Current Assets				
Available for sale financial assets	0	0	0	450,000
Property plant and equipment	162,645	226,016	112,124	95,039
Exploration and evaluation assets	7,947,929	19,992,258	23,359,081	23,903,030
Total Non-Current Assets	8,110,574	20,218,274	23,471,205	24,448,069
TOTAL ASSETS	20,120,706	36,614,573	35,318,300	32,486,613
Current Liabilities				
Trade and other payables	800,333	1,677,420	984,706	196,559
Borrowings (convertible notes payable)	1,000,000	0	0	0
Employee benefits	46,669	92,893	135,828	56,848
Total Current Liabilities	1,847,002	1,770,313	1,120,534	253,407
TOTAL LIABILITIES	1,847,002	1,770,313	1,120,534	253,407
NET ASSETS	18,273,704	34,844,260	34,197,766	32,233,206
EQUITY				
Contributed equity	22,622,308	45,149,187	45,149,187	45,149,187
Reserves	599,305	5,497,915	5,586,507	5,586,507
Accumulated losses	(4,947,909)	(15,802,842)	(16,537,928)	(18,502,488)
TOTAL EQUITY	18,273,704	34,844,260	34,197,766	32,233,206

Source: MetroCoal

Notes to the balance sheet statement:

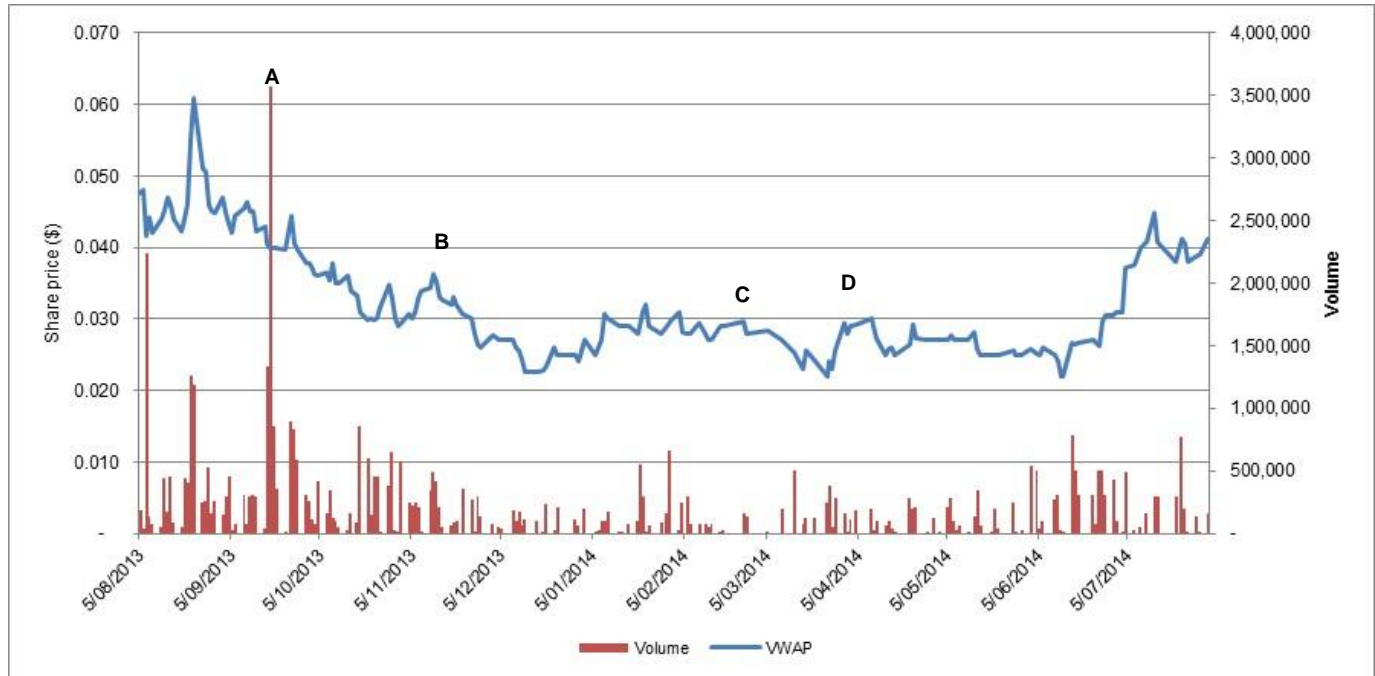
- During HY2013, MetroCoal advanced \$1 million to Cape Alumina through a convertible note. Following the termination of the earlier proposed merger between the two companies, Cape Alumina converted the convertible note into shares in Cape Alumina. As at 31 December 2013, the \$1 million investment was impaired by \$550,000 and the remaining book value of the shares was \$450,000 based on the ASX quoted price for Cape Alumina shares as at that date.
- Note that the cash balance as at the date of the announcement of the transaction of 4 August 2014 was \$6.5 million.



4.11 Share Price Analysis

We have analysed MetroCoal's daily share close price and volume traded over the past 12 months.

Figure 16: Share price analysis



Source: Capital IQ (4 August 2013 to 4 August 2014)

Notable events disclosed by MetroCoal's company announcements during the trading period which may have impacted MetroCoal's share price movements and trading volumes are set out as follows:

Table 22: MetroCoal's Recent Company Announcements

Date	Chart Reference	Announcement Details
25 September 2013	A	MetroCoal announces first attempt at merger with Cape Alumina.
22 November 2013	B	MetroCoal and Cape Alumina agree not to proceed with merger following the announcement from the Queensland Government regarding the SIWR. As a result work on the Pisolite Hills project is suspended.
26 February 2014	C	MetroCoal announced that the company had been granted tenure of EPC 1640 at "Pentland South".
26 March 2014	D	MetroCoal acquires Resource Capital Fund's (RCF) holding in Cape Alumina at 0.6 cents per share.
17 April 2014		On-market share purchase from MetroCoal at 0.6 cents per share, providing MetroCoal with effective control of Cape Alumina.

Source: MetroCoal ASX Announcements

Of the total shares on issue of 209 million, at least 134 million are held by long term institutional investors who are not trading their shares. Of the shareholders who are trading their shares they hold approximately 75 million shares. In order to establish the liquidity without the institutional investors we have analysed the share volumes assuming the traded shares are 75 million.

The table on the following page outlines MetroCoal's average daily and weekly share volume turnover for the 12 months to 4 August 2014. Based on the average daily and weekly turnover, it would take over 60 weeks or over one year, for 100% of the tradable stock to trade.

Table 23: MetroCoal's share trading turnover

Issued Shares (m)	Traded Shares (m)	Avg Daily Turnover (m)	Avg Weekly Turnover	Trading weeks to Turnover 100%
208.88	74.74	0.247	1.236	60.5

Source: Capital IQ

Based on this analysis we have concluded that MetroCoal is a mildly illiquid stock.

The 30 day VWAP for the shares prior to the announcement was \$0.040. Due to the fact that the company's shares are thinly traded we have not used the share price to value MetroCoal.

Table 24: MetroCoal share price analysis

	High	Low	VWAP	Average daily volume
As at 04 Aug 2014	\$0.043	\$0.040	\$0.041	6,492
1 month to 04 Aug 2014	\$0.047	\$0.036	\$0.040	200,847
3 months to 04 Aug 2014	\$0.047	\$0.022	\$0.030	218,522
6 months to 04 Aug 2014	\$0.047	\$0.021	\$0.029	179,351
12 months to 04 Aug 2014	\$0.065	\$0.021	\$0.032	247,134

Source: Capital IQ (4 August 2013 to 4 August 2014)



5. Industry Analysis – Bauxite Mining

In order to assess the value of Cape Alumina, we have considered the industry within which Cape Alumina operates. Cape Alumina operates within the bauxite mining industry. Cape Alumina is currently an explorer of bauxite and plans to move into the development and production of bauxite.

5.1 Overview

Australia is the largest producer of bauxite in the world, accounting for approximately one third of global output¹. Australia's bauxite production was expected to be about 85 million tonnes in FY2014, compared with 65 million tonnes in FY2009. Most bauxite that is mined within Australia is processed into alumina locally, however over \$475 million worth of raw bauxite (26% of industry revenue) is expected to be exported in FY2014.

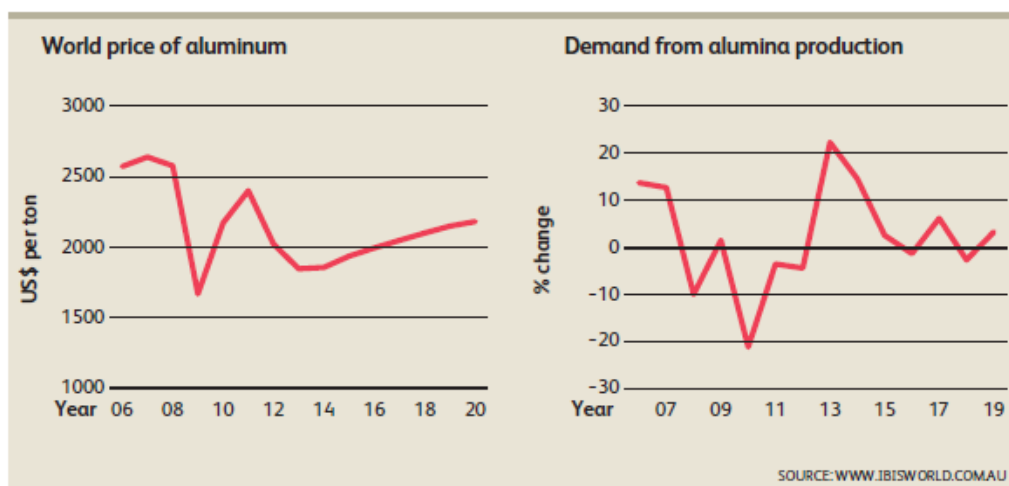
The Bauxite Mining industry is expected to generate revenue of \$2.0 billion in FY2014. This is an average annualised increase of 15.8% from \$900 million in FY2009. The increase in industry revenue for FY2014 is expected to be 11.3%, driven by increases in mine and refinery capacity due to expansion projects and a weaker Australian dollar increasing the domestic price of bauxite.

Industry revenue is expected to expand at an average annual rate of 3.6% over the next five years, to reach \$2.3 billion in FY2019. Industry performance is expected to make substantial gains during the next five years, as production increases in response to recovering global growth and rising aluminium output. China is expected to account for a substantial proportion of the growth in world aluminium consumption and output, reflecting continued growth in the country's manufacturing output and investment in infrastructure.

5.2 Price & Demand

Demand for bauxite is dependent upon the levels of aluminium demand. Aluminium is used in a large and diverse range of products, from aircraft to packaging materials. In Australia bauxite is generally refined by the same company that mines it and so there is no arms-length price. There is also no internationally traded price for bauxite. Contract sales of bauxite are negotiated between individual buyers and sellers and are based on terms that are kept confidential, however shifts in aluminium and alumina prices provide a guide to trends in the price for bauxite. IBISWorld expects aluminium prices to increase steadily over the next five years. A weaker Australian dollar will lead to a small increase for the metal in AUD terms. However the effect of weaker prices on revenue will be more than offset by higher output, allowing revenue to rise marginally.

Figure 17: World price and demand



Source: IBISWorld Industry Report B0802 – Bauxite Mining in Australia, April 2014

¹ IBISWorld Industry Report B0802 – Bauxite Mining in Australia, April 2014



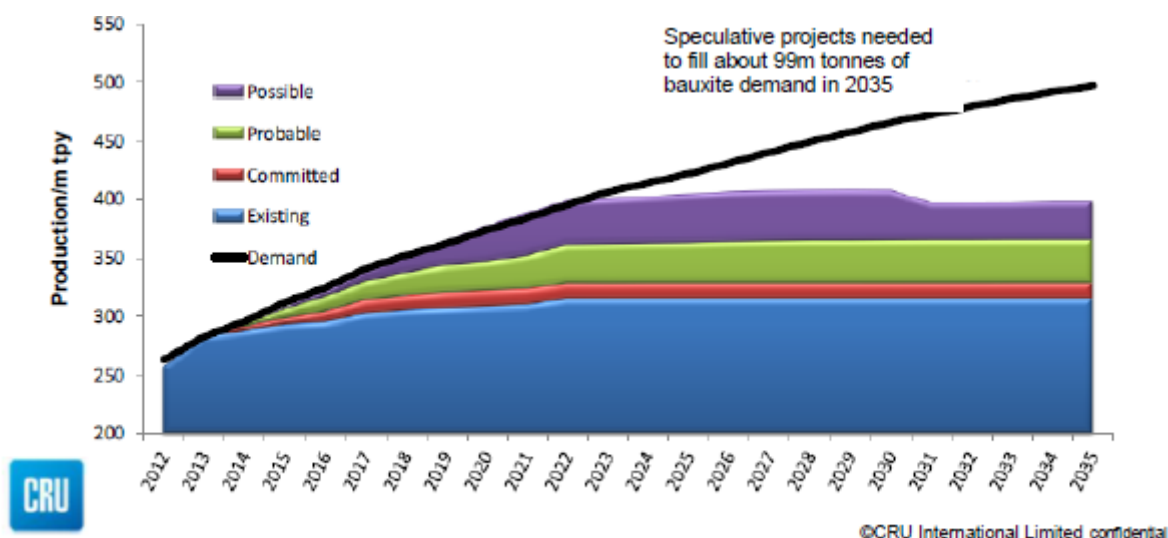
Australia's bauxite output is expected to be approximately 85 million tonnes in FY2014, up from 65 million tonnes in FY2009. The growth in output reflects increased alumina production capacity and consequently an increased requirement for bauxite. Both improving global economic conditions and the low-cost status of Australian alumina and bauxite producers were responsible for the increases in output over the past five years. Alumina capacity has been expanded at the Gove (NT), Yarwun (QLD) and Worsley (WA) refineries.

World bauxite demand is expected to reach 380 Mt by 2022, representing an increase of over 50% from 2012 volume of 251 Mt.

Australia is presently the largest producer of bauxite in the world. Indonesia was previously a large bauxite exporter, however legislated to ban bauxite exports from January 2014 to encourage value-add processing of bauxite prior to export. India also recently announced their intention to increase their bauxite export tax from 10% to 20%. The effect of both of these actions is expected to result in an increase in demand for bauxite from Australia. The bauxite resources in the Cape York region in Australia are well positioned to access the export market.

CRU International Limited is forecasting a potential supply shortfall emerging from 2015, illustrated in the following chart published in their report *Bauxite Long Term Market Outlook 2013 Edition*. This chart was generated prior to the Indonesian export ban, and this ban is expected to place further upward pressure on bauxite prices in the near and medium term.

Figure 18: Bauxite demand and supply



Source: CRU International Limited *Bauxite Long Term Market Outlook 2013 Edition*

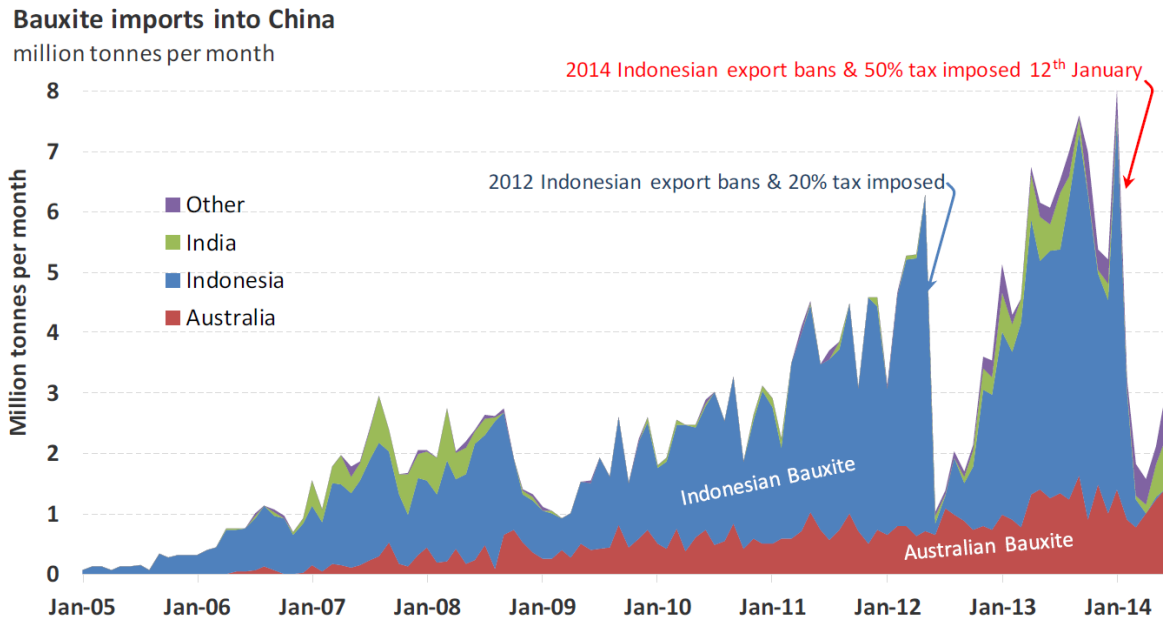
5.3 Products & Markets

Australia is the world's largest producer of bauxite, accounting for about one-third of global output. Over 95% of the bauxite exports from Australia are destined for processing in China. Exports in the industry are medium and increasing, as global demand and Australian production increase. The ban on raw bauxite exports from Indonesia (from January 2014) will continue to have a positive impact on the level of Australian exports of bauxite.

Export volumes from Australia to China have increased in recent years as depicted by the following diagram.



Figure 19: Chinese imports of bauxite by source



Source: Australian Bauxite Limited June 2014 quarterly activities report

Nearly all bauxite output that is not processed into alumina in local refineries is exported, but occasionally tiny quantities are used as catalysts in the manufacture of chemicals.

5.4 Life cycle

The Industry is a mature industry, reasons for this include:

- It is a well-known product that is refined using well known processes; and
- The major players in the industry are well established participants with long standing mining operations.

However, the volume of production is trending up and is expected to expand solidly until FY2019, in response to general rising world demand for aluminium.

5.5 Barriers to Entry

The barriers to entry to the industry are high, key barriers include:

- The bauxite mining industry is highly capital intensive and requires access to large amounts of capital;
- Bauxite production is often part of a vertically integrated operation, which also covers the manufacture of alumina and aluminium; and
- Expertise is required in negotiating across a number of levels of government and with local communities, including indigenous communities.

The large amounts of capital required to own and operate bauxite mines, along with the high level of vertical integration in the industry, provide significant barriers to entry.

5.6 Key Success Factors

Key success factors in the Industry include:

- Availability of resource – firms require access to large, high-grade deposits of bauxite. This availability allows companies to have lower operating costs;
- Downstream ownership links – this integration, of processing the bauxite into alumina, provides a higher return;
- Ability to prepare environmental impact statements – to secure mining licences firms must be able to assess and deal with environmental issues on their tenements;



- Ability to deal with contract miners – mine owners must be able to secure attractive pricing with the large contract mining firms who play an important role in the development and operations of bauxite mines.

5.7 Outlook

The outlook for the Industry is strong, reasons for this include:

- Firming growth in the global demand for aluminium and alumina over the five years through FY2019 will support an expansion in Australia's bauxite production. By the end of the period, bauxite output is expected to be approximately 94 million tonnes;
- A continuing recovery in world economic activity is expected to underpin solid growth in the demand for aluminium, and therefore the production of alumina and bauxite, over the next five years;
- China is expected to account for a substantial proportion of the growth in world aluminium consumption, reflecting strong growth in that country's manufacturing output;
- Exports of bauxite are also expected to grow as firms strive to secure economies of scale when expanding their mining projects.

5.8 Conclusion on Industry Analysis

From our analysis, the performance of the bauxite industry is expected to make significant gains over the next five years. Demand from China is ever increasing; this will lead to further increases in exports from Australia.



6. Industry Analysis – Black Coal Mining

In order to assess the value of MetroCoal, we have considered the industry within which MetroCoal operates. MetroCoal operates within the coal mining industry, is currently an explorer of thermal coal and plans to move into the production of thermal coal for the export market.

6.1 Overview

Coal has many important uses worldwide, the most significant uses being electricity generation, steel production, cement manufacturing and as a liquid fuel. Since 2000, global coal consumption has grown faster than any other fuel. The largest coal users are China, USA, India, Russia and Japan, accounting for 76% of total global coal use². The single biggest market for coal is Asia (China, Japan, Taiwan and Korea), which currently accounts for over 67% of global coal consumption.

Different types of coal have different uses. Steam coal – also known as thermal coal – is mainly used in power generation. MetroCoal is an explorer of thermal coal. Coking coal – also known as metallurgical coal – is mainly used in steel production.

Australia is a major global coal producer and the biggest exporter of seaborne coal³. Australian black coal exports account for over 20% of the seaborne trade in steaming coal and nearly 60% of the seaborne trade in coking coal. Australian exports account for over 75% of industry revenue.

The Black Coal Mining industry is expected to generate revenue of \$46.7 billion in FY2015. This is an average annualised decrease from FY2010 of 2.4% (average annual fall). A strong drop in world coal prices in FY2013 contributed to this decline. Over the past five years, increases in global supply and decreases in global demand have put downward pressure on world coal prices, especially for thermal coal. In Australia the industry has faced extreme weather events, industrial action and increased taxation.

Industry revenue is expected to grow at an annualised 3.6% over the next five years to reach \$55.8 billion in FY2020. Key drivers of this growth are expected to be improving global economic conditions and growing demand for imports from emerging economies like India, supporting demand for Australian coal exports. While this is a positive sign for the industry, the five year price outlook remains subdued, as the growth in China's demand for imported coal is forecast to slow.

6.2 Price & Demand

The Black Coal Mining industry's performance in Australia is influenced by global commodity prices and domestic production volumes.

The overseas demand for steaming and coking coal depends upon economic conditions in general and the health of the steel and power generation industries in particular. Interest rates are important given the highly capital intensive nature of the industry.

Globally, production overtook demand in 2013, resulting in a strong decline in world prices for both steaming and coking coal. Consequently, industry revenue fell by 20.5% in that year. With continuing declines in prices in 2014, revenue is forecast to contract by a further 14.7% in the year.

Black coal prices are set in US dollars, and variations in the exchange rate affect the AUD returns available to Australian producers. IBISWorld expects the exchange rate to weaken over the FY2015 year.

The industry in Australia has been subject to a number of other events that have had a significant impact on prices:

- 2011 flooding in Queensland, resulting in reduced production and higher prices, not only for those mines affected by the flooding but also unaffected operators benefited from the higher prices.
- In 2010 the global financial crisis slowed global growth worldwide, dampening demand for coal and caused a drastic decline in prices for both contracts and spot prices.
- In 2008 China suspended coal exports in response to an extremely cold winter and the associated increased heating requirements. Severe power shortages in South Africa led to further increases in coal spot prices.

² World Coal Association

³ IBISWorld Industry Report B0601 – Black Coal Mining in Australia, July 2014

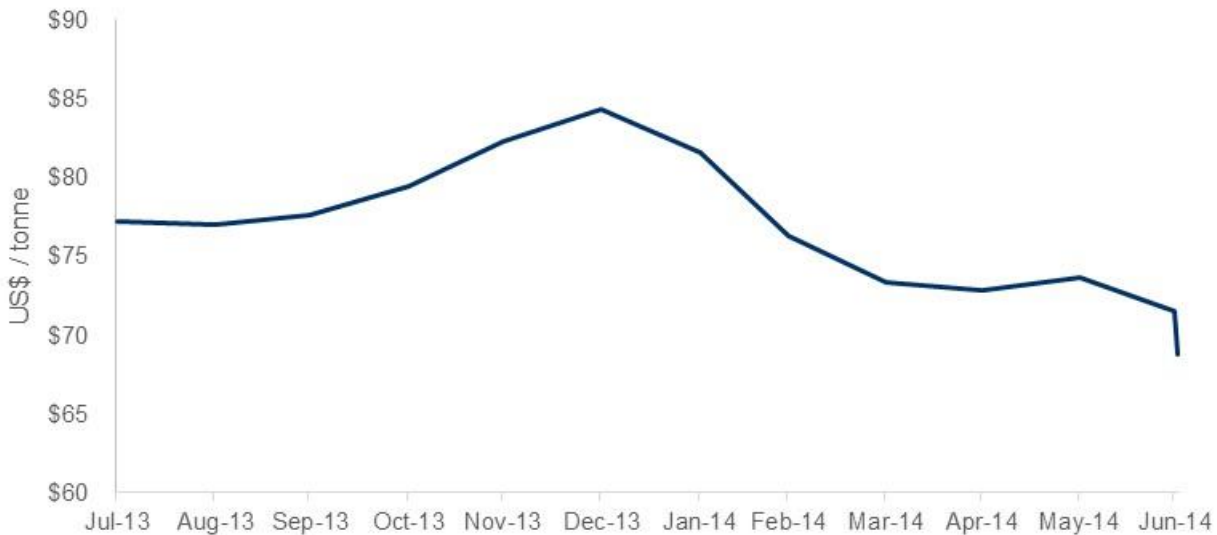


- In 2007 there was severe congestion at Newcastle and Dalrymple Bay coal terminals, combined with port problems in Russia and South Africa, resulting in a steep increase in spot prices of steaming coal.

Coal contract negotiations had previously been conducted for many years on an annual basis, but since 2010 the focus has progressively shifted to shorter terms, typically three months. As Japan is Australia's largest market for coal exports, other countries, particularly South Korea and Taiwan, often use prices negotiated with Japan as a benchmark.

The decline in the average market price of thermal coal over the last year is demonstrated in the following graph.

Figure 20: Coal price graph



Source: World Bank - Thermal Coal Australia FOB Newcastle/Port Kembla

6.3 Products & Markets

Australia's coal output in FY2015 is expected to be split 45.6% metallurgical (coking) coal and 54.4% thermal (steaming) coal. 40.2% of exports are from coking coal and 59.8% thermal coal. The industry derives 89.1% of its revenue from export sales.

Australia is the world's largest exporter to black coal, ranking second in steaming coal (behind Indonesia and ahead of South Africa and Columbia) and first in coking coal (ahead of Canada and the USA).

Australia's exports of steaming coal to Asia are expected to continue expanding over the next few years as new coal fired power stations commence. These new power stations will require imported coal due to the lack of local resources.

The main market for Australia's coal exports is Japan, which accounts for 35.4% of coal exports. Japanese demand for steaming coal is expected to remain high over the medium term due to doubts over nuclear safety linked to the 2011 meltdown of the Fukushima and other nuclear plants. Japan's influence on the industry is broad, as other markets use Japanese contract prices as benchmarks.

India and China are growing rapidly as key destinations for coking coal and steaming coal, reflecting the expansion of both the steel and power generating industries. Both countries are major regional producers of coal, however they are expected to remain net importers due to rapid economic growth, high demand for coal fired electricity and difficulties in producing high quality steaming coal. In FY2015, India is expected to account for 12.3% of the volume of coal exports, with China accounting for 19.5% of coal exports.

6.4 Life cycle

The Industry is a mature industry with elements of growth. Reasons for this include:

- Increases in industry production and large price rises, resulting in relatively fast growth in the industry.



- The industry's switch from an old product (coking coal) to a renewed one (steaming coal) is continuing.
- Introduction of new technology and techniques, such as longwall mining, to combat the prospect of losing market share to other forms of energy such as natural gas.

6.5 Barriers to Entry

The barriers to entry to the Industry are high, key barriers include:

- Prospective entrants must either find a suitable black coal deposit or acquire a stake in an existing resource;
- The Industry is highly capital intensive and requires access to large amounts of capital;
- Lengthy approvals processes, which require environmental impact statements and approvals to explore and mine;
- Expertise is required in negotiating across a number of levels of government and with local communities, including indigenous communities;
- The ability to win favourable export contracts.

These factors provide significant barriers to entry.

6.6 Key Success Factors

Key success factors in the Industry include:

- Location that facilitates effluent disposal – thick coal seams close to the surface result in lower production costs.
- Access to high quality inputs.
- Access to a highly skilled workforce – senior employees who are skilled in regulatory processes provide miners with a competitive advantage.
- Proximity to key markets – a location close to a port.
- Production of premium coal that does not require washing and mining a high grade product.

6.7 Outlook

Higher production and improving global demand are forecast to lead the industry back to a growth path in the next five years. Growth in demand will be led by emerging economies such as India. Despite these positive signs for industry demand, the five year price outlook remains subdued as the growth in China's demand for imported coal is forecast to slow.



7. Valuation of Cape Alumina Shares

7.1 Valuation Methodology

A number of valuation methodologies are available to determine an estimate of the value of a company and its assets. Each of these valuation methodologies has application in different circumstances and not all of them are applicable to companies involved with resource-based projects, especially those in an early development stage, nor does sufficient information necessarily exist to use them reliably.

The primary factor in determining which methodology is appropriate is the actual practice adopted by purchasers of the type of businesses and assets involved. Among the methods used for companies such as Cape Alumina are:

- Discounting projected cash flows (**DCF**);
- Market-based values - applicable to the extent that the ASX share price reflects underlying value and the extent the shares are traded with liquidity;
- Comparable transactions - applicable to the extent that there is a visible market in tenements or data bases acquired and sold by resource explorers and that the market in which the transactions occurred are similar to the current environment;
- Industry rules of thumb; or
- Net asset or residual value analysis, also referred to as Net Realised Value (**NRV**).

In our opinion, the most appropriate method to value Cape Alumina is a market based valuation using comparable bauxite exploration companies.

This method is appropriate for the following reasons:

- Cape Alumina is an exploration company and as such does not presently generate earnings. A valuation based on a capitalisation of future maintainable earnings is therefore not appropriate;
- Cape Alumina's shares are thinly traded;
- We have been unable to identify any comparable bauxite tenement sales; and
- Given the present uncertainties in the timing and quantum of the future cash flows from Bauxite Hills and the other tenements, we believe that a valuation based on the DCF method could not be reliably made.

7.2 Market-based Valuation

We have completed extensive research to determine globally if there are other comparable companies or transactions which we could use as market evidence. Apart from a small number of ASX listed companies we haven't been able to identify any comparable companies or transactions.

7.2.1 Comparable Companies

We have considered the ASX listed peers and their current market values. There are a limited number of companies that we consider are comparable. We note that, in analysing the listed peers, 2 companies have a market capitalisation that is below their cash on hand:

- Iron Mountain is trading at more than \$1 million discount to cash; and
- Bauxite Resources is trading at more than \$7 million discount to cash.

As a result we have excluded these companies from our comparable company analysis as we believe the reasons for this occurring are due to company specific issues. Due to the limited number of comparable companies we have included Cape Alumina in our market analysis.



Table 25: Listed Comparable

	Enterprise Value \$ M	In-situ Resource Mt	Enterprise Value \$ per In-situ Mt
Australian Bauxite Limited (ASX:ABX)	29.8	115.6	\$0.26
Aziana Limited (ASX:AZK)	3.6	10.1	\$0.36
Iron Mountain Mining Limited (ASX:IRM)	(1.5)	286.0	*
Bauxite Resources Limited, (ASX:BAU)	(9.1)	243.7	*
Cape Alumina Limited (ASX:CBX)	6.8	105.3	\$0.06
Average			\$0.23

Source: Capital IQ 18 August 2014, IFL Analysis

* these companies have been excluded due to company specific factors which mean they are valued at less than their cash on hand.

7.2.2 Hey Point

In November 2012 Cape Alumina sold the Hey Point bauxite tenements to Racle Resources Pty Ltd, a Melbourne based unlisted resources company. This agreement includes future payments of \$500,000 on each of the second and third shipments of Bauxite (total \$1 million in future contingent consideration). In considering the value of Cape we have analysed the Hey Point agreement and the current stage of the development of this tenement, we do not consider that there is sufficient certainty to complete a discounted cash flow valuation. We consider that the most appropriate method to value Hey Point is to include it in the total resources for Cape Alumina due to the option in place for Cape Alumina to buy the asset back at \$1 if Racle Resources does not meet certain performance requirements.

7.2.3 Market Value Resource

We have applied the average Enterprise Value per in-situ resource to the adjusted in-situ resource owned by Cape Alumina.

Table 26: Value of Resource

	In-situ Resource Mt	Enterprise Value \$ per Inferred Mt	Enterprise Value
Valuation - Enterprise Value	105.3	\$0.23	23.9

Source: IFL Analysis

7.3 Premium for Control

RG 111 states that “The expert should not consider the percentage holding of the ‘bidder’ or its associates in the target when making this comparison. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or ‘portfolio’ parcel of shares.” As a result while MetroCoal already holds a majority stake in the company we have applied a control premium.

When valuing a controlling interest, an appropriate allowance should be made for the premium for control, given the strategic benefit that a controlling interest would provide. Empirical evidence on premiums for control indicates that these premiums tend to range between 15% and 40%. We have considered the synergies that will result from the Transaction and have applied a premium for control of between 20% and 30% to the valuation of Cape Alumina shares.



7.4 Valuation of Cape Alumina shares

We have assessed the fair market value of Cape Alumina shares on a controlling basis to be in the range of \$0.123 to \$0.133 cents per share.

Table 27: Cape Alumina valuation range

	Low (\$M)	High (\$M)
Tenement Value on a minority basis	23.9	23.9
Premium for control (20% - 30%)	4.8	7.2
Tenement Value on a controlling basis	28.7	31.1
Add Cash	1.2	1.2
Total Equity Value on a controlling basis	29.9	32.3
Issued Shares (million)	242.6	242.6
Per Share Value (\$ per Share)	\$0.123	\$0.133

Source: IFL Analysis

7.5 Valuation Cross Check

In cross checking our valuation we considered the following transactions and market information.

Australian Bauxite

A transaction between Australian Bauxite Limited (ABX) and Xinha Group, took place in April 2013 at a consideration of \$2.5m for a 5.8% equity and included an option for a 50% interest in certain projects at \$0.38 per share. This equates to an EV per inferred resource of \$0.78 per Mt.

We do not consider that this transaction is comparable to Cape Alumina's shares for the following reasons:

- The option to gain a 50% interest in certain projects has a value separate to the share value;
- ABX is now trading at around \$0.24 per share;
- ABX completed a placement to other shareholders on December 2013 at \$0.21 per share, raising \$1.1 million; and
- The projects are in different geographies, geologies and some are further along in the development process.

March 2014 Takeover Offer

We have considered MetroCoal's on-market takeover bid in March 2014 at \$0.006 per share. This took place following the Queensland Government's announcement in November 2013 to ban mining in the SIWR in which the majority of the Pisolite Hills project resource is located. Through that transaction, MetroCoal increased their stake from 6.8% to 57.2%, primarily through the acquisition of Resource Capital Fund's major shareholding of 30.3%. RCF had flagged their disappointment with the Queensland Government's decision and the uncertainty that had created with respect to the Pisolite Hills project. This transaction took place at a time when there was a large parcel of shares on the market combined with illiquid share trading, as a result we do not consider that the transaction provides a true indication of value.

Sale of Hey Point tenements

We have considered this transaction in our analysis, but do not consider that it is representative of Cape Alumina's share value given the transaction is more than 18 months ago and the complex nature of the transaction in relation to the timing of payments and the royalties agreed.

Convertible note issued to MetroCoal

In September 2013 a convertible note of \$1 million was issued to MetroCoal in conjunction with the earlier proposed merger last year. The conversion price was calculated at the VWAP of Cape Alumina shares over the 20 trading days prior to the date of issue of the convertible notice subject to a maximum conversion price of \$0.12 per share and a minimum conversion price of \$0.06 per share. The minimum conversion price of \$0.06 per share applied when the note was converted in December 2013, resulting in the issue of 16.7 million shares to MetroCoal. We have considered this transaction in our analysis, but do not consider that it is representative of Cape Alumina's share value given the relationship with MetroCoal.



Share Price

The 30 day VWAP prior to the announcement of the takeover offer was \$0.025. While this is less than our valuation above we consider that it provides some support to our primary valuation methodology given the subdued market for mining explorers.



8. Valuation of MetroCoal Shares

8.1 Valuation Methodology

As discussed in section 7.1, various valuation methodologies can be applied in different circumstances to estimate the value of a company and its assets. Their usage is determined by the confidence levels in available information.

The primary factor in determining which methodology is appropriate is the actual practice adopted by purchasers of the type of businesses and assets involved. In valuing coal exploration and development companies, for example, it is common to use capitalisation of resource in the ground methodologies.

In our opinion, the most appropriate method to value Cape Alumina is a market based valuation using comparable thermal coal exploration companies.

This method is appropriate for the following reasons:

- MetroCoal is an exploration company and as such does not presently generate earnings. A valuation based on a capitalisation of future maintainable earnings is therefore not appropriate;
- MetroCoal's shares are thinly traded; and
- Given the present uncertainties in the timing and quantum of the future cash flows; we believe that a valuation based on the DCF method could not be reliably made.

8.2 Market Based Valuation

We considered the listed peers and their current market values. We have only included Australian coal exploration companies at a reasonably similar stage of development.

Table 28: Listed Coal Company Peers

Company	Location	Product (Predominant)	Market Cap (\$m)	Enterprise Value (\$m)	M&I Resources (Mt) *	Total Resources (Mt)	EV/M&I Resources (\$/t) *	EV/Total Resources (\$/t)	
Acacia Coal Limited	Bowen	Coking and thermal coal	3.6	-0.7	16	66	N/A	N/A	
Bandanna Energy Limited	Galilee and Bowen	Thermal coal	44.4	-63.7	757	2,282	N/A	N/A	
Coalbank Limited	Eromanga, Surat and Bowen	Thermal coal	1.7	2.9	0	1,300	N/A	\$0.002	
Cuesta Coal Limited	Bowen	Thermal coal	33.5	29.6	0	744	N/A	**	
East Energy Resources	Eromanga	Thermal coal	13.9	29.7	627	2,180	\$0.047	\$0.014	
International Coal Limited	Surat and Bowen	Thermal coal	7.0	5.5	0	1,240	N/A	\$0.004	
Malabar Coal Limited	Hunter Valley	Coking coal	12.7	22.6	333	623	**	**	
NuCoal Resources Limited	Hunter Valley	Thermal coal	9.2	2.5	142	512	\$0.018	\$0.005	
Stanmore Coal Limited	Surat and Bowen	Coking, thermal and PCI coal	26.1	16.3	231	913	**	**	
Tiaro Coal Limited	Maryborough	Coking and thermal coal	6.9	9.2	75	815	**	**	
							Average	\$0.032	\$0.006
							Median	\$0.032	\$0.005

Source: Capital IQ – 20 August 2014; IFL Analysis

*: M&I is Measured and Indicated

** : excluded due to differing characteristics to MetroCoal including access to infrastructure, resource type and stage of project

We have used the average of the comparable company valuations when valuing MetroCoal. For the low valuation point we have used the average EV per measured and indicated resource and for the high end of our valuation range



we have used the average EV per total resource. We have then applied these average metrics to the same for MetroCoal.

Table 29: Valuation Range

	Indicated Resource Fair Market Value (Low)	Total Resource Fair Market Value (High)
At 30 June 2014 (Mt)	345	3,526
Value per (\$/t)	\$0.032	\$0.006
Valuation of Resources (\$m)	11.2	22.2

Source: IFL Analysis

Having considered the current market conditions, listed comparable companies and the recent tenement transactions, we have determined that the MetroCoal tenements are worth in the range of \$11.2 million to \$22.2 million.

8.3 Other Assets

In valuing MetroCoal we have considered the other assets that it holds and in particular the “Available Assets for Sale Financial Assets”. We have been advised that the assets available for sale are the shares held in Cape Alumina and that these shares will be extinguished as part of the Transaction. As a result we have assigned a value of zero to these assets.

8.4 Valuation of MetroCoal Shares

IFL’s value of MetroCoal derived from the market value approach is summarised as follows:

Table 30: Summary of MetroCoal Valuation

	Fair Market Value (Low)	Fair Market Value (High)
Enterprise Value on a Minority Basis / Tenement Value (\$m)	11.2	22.2
Cash on hand (\$m)	6.5	6.5
Equity value on a minority basis (\$m)	17.7	28.7

Source: IFL Analysis

We have used the balance of the cash at the takeover offer date of 4 August 2014 of \$6.5m.

8.5 Premium for Control

Our view is that MetroCoal should not be valued on a controlling basis for the purposes of the Transaction as the Cape Alumina shareholders will hold less than 30% (27.7%) of the shares post Transaction and the major shareholders post Transaction will not be Cape Shareholders.



8.6 Valuation Cross Check

In cross checking our valuation we considered the following recent transactions of tenements as detailed below:

Table 31: Recent Coal Company and tenement transactions

Date	Project/Acquisition	Parties	Consideration (\$m)	Total resource (000 t)	Value per Resource \$/t	Key Project/ Resource Issues
Current	Guildford Coal's Australian coal assets	Sino Construction Limited	25.0	2,128,000	0.012	- Near term
Feb-14	Peabody Budjero Pty Ltd (MDL 162)	Wesfarmers Resources Limited	70.0	255,000	0.275	- Located adjacent to the acquirer's operating mine
Feb-14	Carabella Resources	China Kingho Energy Group Co Ltd	59.1	N/A	N/A	- Off market takeover bid to establish Australian presence, includes metallurgical coal in the resource
Nov-13	Coalbank (proportional takeover for 75% at 1c per share 846m shares on issue)	Treasure Wheel Global Limited	6.3	1,300,000	0.005	- Smaller scale and longer time frame
May-13	Hume Coal project (30%) – Southern Coalfields	Cockatoo Coal sold to POSCO who already owned 70%	18.6	451,000	0.041	- Smaller scale and longer time frame, includes metallurgical coal in the resource
Dec-12	Orion Coal Project – West Bowen Basin	Cuesta Coal acquired from Hannigan & Associates	18.2	136,300	0.133	- Near term project potential
Oct-12	Endocoal	Takeover by U&D Mining	71	514,000	0.138	- Near term development opportunity. Synergy benefits and some metallurgical coal.

Source: Capital IQ; Mergermarket, Company Announcements; IFL Analysis

We note the following issues in relation to the MetroCoal projects:

- At this stage MetroCoal does not have a mining lease; and
- At this stage MetroCoal does not have access to essential infrastructure and to establish the infrastructure would take at least 5 years if the process was started now;

We reviewed the recent transactions and determined that none of the transactions were similar to MetroCoal.

We considered that the Coalbank transaction and determined that it was not comparable given that the transaction involved an offtake partner.



9. Value of Merged Group

We have determined the value of the merged group for the purposes of assessing the consideration received by Cape Alumina shareholders. Under the Offer if all shareholders accept, the Cape Alumina shareholders will hold 27.7% of the issued share capital in the merged group.

Table 32: Value of Merged Group

	Ref	Low Value	High Value
Value of CBX (\$m)	7.4		
- tenements on a minority basis		23.9	23.9
- cash		1.2	1.2
		25.1	25.1
Value of MTE (\$m)	8.6	17.7	28.7
Value of Merged Group (\$m)		42.8	53.8
Issued Share Capital Post Merger (millions)	1.3	289	289
Value of Merged Group (\$ per share)		\$0.148	\$0.186
Merger Ratio	1.2	1.3	1.3
Consideration received per Cape Alumina Share (\$ per share)		\$0.114	\$0.143

Source: IFL Analysis

This value per share does not reflect the price at which the merged group's shares may trade assuming that the Offer is accepted by shareholders. The price at which the merged group's share will trade at depends on a range of factors including liquidity in the shares, commodity prices, exchanges rates and the broader performance of the economy.



10. Assessment of Fairness

In the assessment of the 'fairness' of the transaction we have considered the value of the securities issued to and the total consideration offered under the Transaction.

Table 33: Value of Proposal

	Ref	Low Value	Midpoint	High Value
Fair Value Consideration in Merged Group	9	\$0.114	\$0.129	\$0.143
Fair Value of Cape Alumina shares	7.4	\$0.123	\$0.128	\$0.133
Premium		-\$0.009	\$0.001	\$0.010
Percentage Premium		-7.4%	0.5%	7.8%

Source: IFL Analysis

Based on this analysis, the proposal is considered to be fair to Cape Alumina Shareholders.



11. Assessment of Reasonableness

As the offer is fair, it is also reasonable. To assist shareholders in their decision making process we have detailed the following:

- The likely advantages and disadvantages associated with the Transaction; and
- Alternatives, including the position of Shareholders if the Transaction does not proceed.

Advantages of Approving the Transaction

Set out below is a summary of the key advantages to the Non-Associated Shareholders:

The Transaction provides short term funding certainty

The Transaction provides certainty with regard to the short term funding of the current exploration program, and will enable Cape Alumina to continue to develop the Bauxite Hills project and accelerate the pre-feasibility study and environmental approvals. It should be noted that in the current market conditions the ability for explorers to raise capital is constrained and the value of like assets vary. Equity raising in the current circumstances is difficult and requires a significant discounts to trading prices.

Cape Alumina currently has minimal working capital which means only essential activity can be undertaken. The cash position as at 30 June 2014 was \$1.4 million. Cape Alumina will require additional capital to enable it to sustain itself in the longer term.

Continues Development of Mining Tenements

Approval and completion of the Transaction will result in the merged entity having over \$6 million in cash (\$7.9 million at 30 June 2014) vs less than \$1.4 million for Cape Alumina on its own. These funds will allow Cape Alumina to continue to develop the Bauxite Hills project. It also allows time to look for the next stage of funding required including farm-in or joint venture arrangements or further capital raisings for the purpose of transitioning to a producer.

Improved liquidity

The Transaction will result in an enlarged company. The Transaction may improve the liquidity of the shares of the enlarged company compared with the liquidity in Cape Alumina's shares currently. In our opinion, any improvement in the liquidity for Cape Alumina's shareholders will be an advantage to Cape Alumina's Non-Associated Shareholders.

Diversification of risk

Cape Alumina shareholders will be able to substantially maintain their interest in the Cape Alumina's Bauxite assets while achieving a diversification of commodity risk. The consolidated portfolio with MetroCoal will comprise several projects involving a range of black-coal projects.



Disadvantages of Approving the Transaction

Dilution of shares

The Transaction will result in a dilution of shares for existing shareholders in Cape Alumina. Following the Transaction, Cape Alumina's shareholders will receive 1 share in MetroCoal for 1.3 Cape Alumina shares. Cape Alumina's shareholders will therefore share collective control of the enlarged company with MetroCoal shareholders and will have to share in any future potential financial upside in the merged company with MetroCoal shareholders.

Broader commodity base

There is potential risk with the Transaction resulting from a larger group of projects competing for limited cash and management resources. These risks include possible differences in priorities for projects and inability to achieve any of the project's timelines due to limited resources.

Implications for Cape Alumina Shareholders of Rejecting the Transaction

Reduction in liquidity

Cape Alumina shareholders will not be entitled to the potential benefits of the enlarged company, such as the potential for improved liquidity from a larger listed company.

In addition, as the Transaction is not subject to a minimum acceptance condition, if MetroCoal falls short of the 90% minimum shareholding to enable compulsory acquisition, then the remaining shareholders may lose any liquidity of their shares.

Funding Future Exploration

If the Transaction is not approved Cape Alumina may not be able to raise capital from other sources at a level as favourable to enable it to continue its exploration program.

Forego diversification

Cape Alumina shareholders will forego any potential benefit from the diversification of commodity risk.

Potential decline in share price

The consideration provided reflects a premium over the share price of Cape Alumina prior to the announcement. There is potential that if the Transaction is not approved, that the share price may decline.

Availability of alternative transaction

Cape Alumina has been actively looking at capital raising alternatives with major shareholders declining to contribute additional capital. Without a cash injection the Company will be limited in its ability to develop its bauxite tenements.

Shareholder circumstances

A Shareholder's decision to accept or reject the Transaction is likely to be influenced by their particular circumstances, for example, tax considerations particular to that person. This Report does not address circumstances specific to an individual Shareholder. Shareholders should consult with their own independent professional advisers with regard to their circumstances.

Other Matters

This Report has been requested by the Directors to assist the Shareholders in their decision to accept or reject the Offer.

This Report should not be used for any other purpose and IFL does not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of our Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

This Report will form part of the Target Statement to be provided by the Directors to the Cape Alumina Non-Associated Shareholders (**"the Target Statement"**). This Report has been prepared to assist the Directors to fulfil their obligation to the Shareholders and to assist the Non-Associated Shareholders in deciding whether or not to accept the Offer. IFL acknowledges that this Report may be lodged by the Directors with the ASX.



Conclusion

We have concluded that the Offer is “fair and reasonable” for the Non Associated Shareholders.

This summary opinion should be read in conjunction with the following Report that sets out in full the purpose, scope, basis of evaluation, limitations, valuation analysis and out other findings.



12. Qualifications, Declarations and Consents

12.1 Qualifications

IFL provides corporate advisory services in relation to Transactions and acquisitions, capital raisings, corporate proposal and financial matters generally. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert's reports in connection with Transactions and acquisitions, takeovers and schemes of arrangements. IFL directors have prepared a number of public expert's reports since its formation in 1987.

Brett Plant, is a CA Business Valuation Specialist, holds a BBus, MCom, FCA is a Director of IFL and was the principal person responsible for the preparation of the report. Mr Plant has been actively involved in the preparation of this report. Mr Plant has in excess of 20 years' experience in the commerce and the accountancy profession and has been involved in specialist corporate advisory services including company valuations, business sales, due diligence investigations, independent experts' reports as well as other corporate investigations for more than 10 years. Mr Plant has the appropriate experience and professional qualifications to provide the advice offered.

Paul Keehan who is a director of IFL reviewed the Report. He has over 25 years of experience in relevant corporate advisory matters.

12.2 Declarations

It is not intended that this Report should be used or relied upon for any purpose other than as an expression of IFL's opinion as to whether the Transaction is fair and reasonable. IFL expressly disclaims any liability to any Shareholder who relies or purports to rely on this Report for any other purpose and to any other party who relies or purports to rely on this Report for any purpose.

This Report has been prepared by IFL with care and diligence and the statements and opinions given by IFL in this Report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by IFL or any of its directors, officers or employees for errors or omissions however arising in the preparation of this Report, provided that this shall not absolve IFL from liability arising from an opinion expressed recklessly or in bad faith (unless the law otherwise requires).

IFL has had no involvement in the preparation of the Notice of Meeting and Target Statement and has not verified or approved any of the contents of the Notice of Meeting and Target Statement. IFL does not accept any responsibility for the contents of the Notice of Meeting and Target Statement or any other documents provided to the Shareholders (except for this Report).

12.3 Independence

IFL is entitled to receive a fee of \$25,000 (exclusive of GST) for the preparation of this Report. IFL is also entitled to be reimbursed for any out-of-pocket expenses incurred in the preparation of this Report. Except for this fee and the reimbursement of these expenses, IFL has not received and will not receive any pecuniary or other benefit, whether direct or indirect, in connection with the preparation of this Report.

Neither the signatory to this Report nor IFL holds securities in Cape Alumina. No such securities have been held at any time over the last two years.

Apart from the preparation of 2 previous Independent Expert Reports, neither the signatories to this Report nor IFL have had within the past two years any business relationship material to an assessment of IFL's impartiality with Cape Alumina, or its associates, other than in connection with the preparation of two previous valuation reports and this Report.

Prior to accepting this engagement, IFL considered its independence with respect to Cape Alumina and any of its respective associates with reference to ASIC Regulatory Guide 112 entitled "Independence of Experts". In IFL's opinion, it is independent of Cape Alumina and its associates.

A draft of this Report was provided to Cape Alumina and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this Report as a result of this review and there was no alteration to the methodology, evaluation or opinions set out in this Report as a result of issuing the draft.



12.4 Indemnity

Under the terms of our Engagement, Cape Alumina has agreed that no claim shall be made by Cape Alumina or any of its subsidiaries against IFL, any of their directors, officers, partners, employees or agents (Indemnified Persons) to recover any loss or damage which Cape Alumina or any of its subsidiaries may suffer by reason of or arising out of anything done or omitted in relation to the provision of the services by IFL, provided that such loss or damage does not arise from the negligence or wilful default of any of the Indemnified Persons. Cape Alumina has unconditionally indemnified IFL and its related bodies corporate and their respective officers, employees and agents against any losses, claims, damages, liabilities, costs, expenses and outgoings whatsoever (Losses) which they may suffer or incur directly or indirectly arising out of:

- IFL relying on information provided by Cape Alumina or any of its employees, agents or advisers; or
- Cape Alumina failing to provide IFL with material information in relation to the Transaction or Cape Alumina.

Further, Cape Alumina must pay and must indemnify IFL against any losses in relation to any investigations, enquiries or legal proceedings by ASIC or any other competent regulatory body arising out of, or in connection with, the Transaction, including reasonable legal expenses and disbursements incurred by IFL and fees payable to IFL attributable to time reasonably spent by its staff assessed at its hourly rates to the extent that investigation, enquiry or legal proceeding is not caused by an act or omission of the Indemnified Persons.

12.5 Consents

IFL consents to the issuing of this Report in the form and context in which it is to be included in the Notice of Meeting and Target Statement to be sent to the Shareholders. Neither the whole nor any part of this Report nor any reference thereto may be included in, or attached to, any other document without the prior written consent of IFL as to the form and context in which it appears.

IFL takes no responsibility for the content of the Notice of Meeting and Target Statement or any other documents provided to the Shareholders, other than this Report.

12.6 Other

The opinion of IFL is made at the date of this Report and reflects circumstances and conditions as at that date. In particular, IFL provides no representations or warranties in relation to the future value of shares of Cape Alumina.

Shareholders who are in any doubt as to the action they should take should consult their own independent professional advisers.

IFL has prepared a Financial Services Guide as required by the Act. The Financial Services Guide is set out at the beginning of this Report.



Appendix A – Basis of Information

IFL has relied on the following information in the preparation of this Report:

- Cape Alumina's audited accounts for FY11, FY12, FY13 and HY13;
- Cape Alumina's media and ASX releases;
- Cape Alumina's board paper regarding asset impairment at 30 June 2014;
- IFL has also held discussions with, and obtained information from, senior management of Cape Alumina;
- MetroCoal's audited accounts for FY11, FY12, FY13 and HY13;
- MetroCoal's unaudited FY14 accounts;
- MetroCoal's media and ASX releases;
- IFL has also held discussions with, and obtained information from, senior management of MetroCoal;
- Publicly available information;
- Data from Standard & Poors' CapitalIQ database
- Research reports from various sources including IBIS World and stock brokers;
- Discussions with management;
- Financial forecasts; and
- Other confidential correspondence, project presentations, and working papers.





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