FINANCIAL SERVICES GUIDE

AND

INDEPENDENT EXPERT'S REPORT

COOTE INDUSTRIAL LIMITED

17 September 2009

BDO Kendalls

BDO Kendalls

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ABN 27 124 031 045
AFS Licence No. 316158

Financial Services Guide

17 September 2009

BDO Kendalls Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ("**BDO Kendalls**" or "**we**" or "**us**" or "**ours**" as appropriate) has been engaged by Coote Industrial Limited ("**Coote**") to provide an independent expert's report on the proposal to issue 12,457,694 convertible notes to Elph Pty Ltd. You will be provided with a copy of our report as a retail client because you are a shareholder of Coote.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ("**FSG**"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our **Australian Financial Services Licence, Licence No. 316158;**
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- Any relevant associations or relationships we have; and
- Our internal and external complaints handling procedures and how you may access them.

Information about us

BDO Kendalls Corporate Finance (WA) Pty Ltd is a member firm of the BDO Kendalls network in Australia, a national association of separate partnerships and entities. The financial product advice in our report is provided by BDO Kendalls Corporate Finance (WA) Pty Ltd and not by BDO Kendalls or its related entities. BDO Kendalls and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO Kendalls (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice

Fees, Commissions and Other Benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee for this engagement is approximately $60,000.

Except for the fees referred to above, neither BDO Kendalls, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

We have received a fee from Coote for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Kendalls Corporate Finance (WA) Pty Ltd, PO Box 7426 Cloisters Square, Perth WA 6850.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ("**FOS**"). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Toll free: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au

Contact details

You may contact us using the details set out at the top of our letterhead on page 1 of this FSG.

COOTE INDUSTRIAL LIMITED

INDEPENDENT EXPERT'S REPORT

TABLE OF CONTENTS

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17 September 2009

The Directors
Coote Industrial Limited
PO Box 270
MADDINGTON WA 6989

Dear Sirs

INDEPENDENT EXPERT'S REPORT

1 INTRODUCTION

On 17 July 2009, Coote Industrial Limited ("**Coote**" or "**the Company**") announced the issue of convertible notes to Elph Pty Ltd ("**Elph**"). The convertible notes are to be issued in two tranches as follows:

- 10,871,200 convertible notes raising $1,863,989 ("**Tranche 1**"); and
- 12,457,694 convertible notes raising $2,136,011 ("**Tranche 2**" or "**the Transaction**").

The issue of the Tranche 2 convertible notes will result in the potential for Elph to increase its interest in Coote above 20%. This means that shareholders are required to approve the Transaction and an independent expert's report is required to assist shareholders in making their decision on whether to approve the Transaction.

2 SUMMARY AND OPINION

2.1 Purpose of the Report

The directors of Coote have requested that BDO Kendalls Corporate Finance (WA) Pty Ltd ("**BDO Kendalls**") prepare an independent expert's report ("**our Report**") to express an opinion as to whether or not the Transaction is fair and reasonable to the non associated shareholders of Coote ("**Shareholders**").

Our Report is prepared pursuant to section 611 of the Corporations Act in order to assist the Shareholders in their decision whether to approve the Transaction and is to be included in the Explanatory Memorandum for Coote to be sent to all Shareholders to assist them in deciding whether to approve the Transaction.

2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ("**ASIC**") Regulatory Guide 111 ("**RG 111**"), 'Content of Expert's Reports' and Regulatory Guide 112 ("**RG 112**") 'Independence of Experts'.

In arriving at our opinion, we have assessed the terms of the Transaction as outlined in the body of this report. We have considered:

- How the value of the shares to be issued if the Tranche 2 convertible notes ("**the Notes**") are converted compares to the value of the consideration to be paid for the Notes;

- The advantages and disadvantages of the Transaction;
- The likelihood of a superior alternative strategy being available to Coote;
- The position of Shareholders should the Transaction not proceed; and
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Transaction.

2.3 Opinion

We have considered the terms of the Transaction as outlined in the body of this report and have concluded that the Transaction is not fair but reasonable to Shareholders.

In our opinion, the Transaction is not fair because the value of the consideration Elph will provide for each Coote share is less than the value of a Coote share. However, we consider the Transaction to be reasonable because the advantages of the Transaction to Shareholders are greater than the disadvantages. In particular, we note the difficulties Coote has had previously trying to secure funding, the time and costs that would be incurred if Coote were to attempt to raise alternative funding and the financial position of Coote at the time of initial contact with Elph.

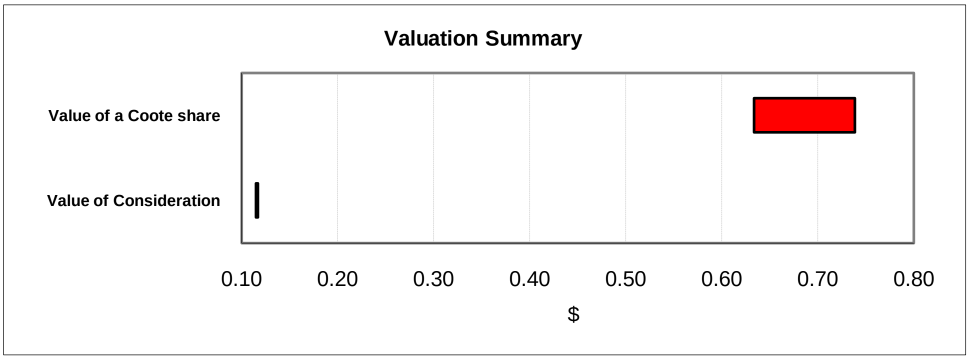
We believe that the Directors would be justified in recommending that Shareholders vote in favour of the Transaction.

2.4 Fairness

In Section 13 we determined that the Transaction consideration per share compares to the value of Coote, as detailed hereunder.

	Ref	Low $	High $
Value of a Coote share	11	0.634	0.739
Value of consideration	12	0.116	0.116

The above valuation ranges are graphically presented as follows:



The graph above indicates that the Transaction is not fair to Shareholders.

2.5 Reasonableness

We have considered the analysis in Section 14 of this report, in terms of both

- advantages and disadvantages of the Transaction; and
- alternatives, including the position of Shareholders if the Transaction does not proceed.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	**Advantages**	**Section**	**Disadvantages**
14.4	No immediate repayment of loan	14.5	Convertible notes favour Elph
	Interest rate is reasonable		Dilution of existing shareholders
	Improves relationship with Elph and Elph related entities		Elph could have greater control
	Assisted in restructuring debt position as required by Coote's bankers		Two shareholders with a combined interest in excess of 50%
			Substantial discount to current share price

Other key matters we have considered include:

Description
Coote investigated alternatives to the Transaction but was not able to identify an alternative transaction that would provide a greater value to Shareholders.
Coote's share price has not moved significantly since the Transaction was announced which indicates that the share price may remain at its current levels if the Transaction is not approved.
Failure to approve the Transaction could adversely affect the relationship between Coote and Elph.
If the Transaction is not approved then Coote will be required to repay the $2,136,011 loaned by Elph for the Tranche 2 convertible notes. The ability of Coote to repay this loan will be dependent on Coote's cash position at the time.

3 SCOPE OF THE REPORT

3.1 Purpose of the Report

The current shareholders of Elph (and their associates) together own 10.8% of the shares in Coote. If the Transaction is approved, Elph will increase its interest in Coote to above 20%. Section 606 of the Corporations Act Regulations ("**the Act**") expressly prohibits the acquisition of shares by an entity if that acquisition will result in that entity (or another entity) holding an interest in 20% or more of the issued shares of a public company, unless a full takeover offer is made to all shareholders.

Section 611 permits such an acquisition if the shareholders of the public company have agreed to the issue of such shares. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares. Section 611 states that shareholders of the company must be given all information that is material to the decision on how to vote at the meeting.

Whilst it does not apply here, Regulatory Guide 74 issued by ASIC deals with "Acquisitions Agreed to by Shareholders". It states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of Coote, by either:

- undertaking a detailed examination of the Transaction themselves, if they consider that they have sufficient expertise; or
- by commissioning an Independent Expert's Report.

The directors of Coote have commissioned this Independent Expert's Report.

3.2 Regulatory Guidance

The Corporations Act 2001 does not define the meaning of “fair and reasonable”. In determining whether the Transaction is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction it should be analysed on a basis consistent with a takeover bid.

In our opinion the Transaction is a control transaction as defined by RG 111 and we have therefore assessed the Transaction to consider whether in our opinion it is fair and reasonable to Shareholders.

3.3 Adopted Basis of Evaluation

RG 111 states that an offer is reasonable if it is fair. It might also be reasonable if despite being ‘not fair’ the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO Kendalls has completed this comparison in two parts:

- A comparison between the value of the shares to be issued if the Tranche 2 convertible notes are converted and the value of the consideration to be paid for the Notes (fairness – see Section 13 “Is the Transaction Fair?”); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness – see Section 14 “Is the Transaction Reasonable?”).

4 OUTLINE OF TRANSACTION

4.1 Background to the Transaction

In order for Coote to recover the debt owed to it by Greentrains Limited (“**Greentrains**”) for the sale of rollingstock prior to 30 June 2008, Coote needed to assist Greentrains to raise capital. The Commonwealth Bank of Australia Limited agreed to provide a $34 million debt facility to Greentrains provided the company had an adequate debt to equity ratio. In order for Greentrains to improve its debt to equity ratio, Greentrains had to raise an additional $10 million in equity. Approximately $6.5 million was committed towards this by Elph. The availability of the $6.5m was subject to Greentrains raising the additional $3.5 million.

Despite a lengthy search exploring a number of equity options in difficult equity markets, Greentrains was unable to raise additional equity. In order to raise the additional equity Coote was required to contribute $3.5 million so that Greentrains could establish its debt facility and settle $44m of the reduced receivable due to Coote subsidiary Gemco Rail of $65m. In order for Coote to contribute the $3.5 million to Greentrains it raised $4m in cash through the issue of convertible notes to Elph.

4.2 Details of the Transaction

On 17 July 2009 Coote announced the issue of convertible notes to Elph. The convertible notes are to be issued in two tranches as follows:

- 10,871,200 convertible notes for the consideration of $1,863,989 ("**Tranche 1**"); and
- 12,457,694 convertible notes for the consideration of $2,136,011 ("**Tranche 2**" or "**the Transaction**").

Each tranche of convertible notes has the same terms as follows:

- Interest is charged at 8% per annum, accrues daily and is payable quarterly in arrears;
- The conversion period is any time up to 12 months from the date of issue;
- The redemption period commences 12 months after the issue of the convertible notes and ceases 3 years after the issue of the convertible notes;
- The convertible notes can be redeemed at the election of Elph or Coote; and
- Each note converts to one Coote share.

Elph has provided the consideration for both tranches of convertible notes. However, the Tranche 2 convertible notes cannot be issued unless they are approved by shareholders. Therefore, the payment for Tranche 2 takes the initial form of a loan to Coote. If Tranche 2 is not approved then Coote must repay the $2,136,011 received from Elph within 5 days. The funds received from Elph are to be used to acquire shares in Greentrains and assist with the working capital requirements of the Company.

The change in capital structure if the convertible notes are converted to shares is set out below:

	Pre Transaction		Conversion of Tranche 1		Conversion of Tranche 2	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Current Shareholders	109,803,030	89.2	109,803,030	82.0	109,803,030	75.0
Elph Pty Ltd	13,272,116	10.8	24,143,316	18.0	36,601,010	25.0
TOTAL	**123,075,146**	**100.0**	**133,946,346**	**100.0**	**146,404,040**	**100.0**

5 PROFILE OF ELPH PTY LTD

5.1 Background

Elph is a member of a group of companies controlled by Mr Dale Elphinstone. The group of companies includes William Adams, which operates the Caterpillar equipment dealerships in Victoria and Tasmania.

Elph also holds a 21.3% interest in the issued shares of National Hire Group Limited ("**National Hire**"). National Hire manufactures, assembles, sells and supports lighting, power generation, access, temporary accommodation and dewatering equipment. The company operates throughout Australia and recently acquired Coates Hire Limited.

Elph also holds a 19.8% interest in Greentrains.

5.2 Relationship with Coote

Elph currently has an existing relationship with Coote. Elph already holds 10.8% of the issued shares in Coote. In addition to this, Elph holds 19.8% of Greentrains. Coote has a long term objective to work with Elph in expanding the operations of Greentrains.

The management of Coote believe that Coote and Elph have synergistic industrial interest which provide opportunity for both entities to expand utilising their core capabilities.

In addition to Coote's interest in Greentrains, the expansion of operations in Greentrains is expected to directly affect Coote positively by providing engineering, new, rebuilt and refurbishment options in future rollingstock rental assets and maintenance services to the existing fleet of rollingstock assets now owned by Greentrains.

5.3 Previous Share Transactions with Coote

Elph previously acquired 6,772,112 Coote shares via a number of on-market trades. The most significant of these trades were on 27 February 2009 and 2 March 2009 where Elph acquired a total of 4,903,560 shares at an average cost of $0.15. The majority of these shares were acquired off market from one large shareholder unrelated to Coote family interests.

On 24 April 2009 Coote announced the issue of 6.5 million shares to Elph at an issue price of $0.20 to raise $1.3 million for working capital purposes.

6 PROFILE OF COOTE INDUSTRIAL LTD

6.1 Background

Coote is a multi-disciplinary company that provides technical and logistics solutions to various industries throughout the world.

Coote began operations in 1989. During the 16 years from commencement of operations in 1989 through to 2005 Coote grew from a single niche product line in diesel engine turbochargers and components, to providing diesel engineering and commercial equipment manufacture services, mainly through the process of acquisitions. Coote listed on the ASX on 14 December 2006 raising $25 million before costs.

The Company experienced rapid growth in FY 2006 to FY 2008. In FY 2006, Coote was focused on the engineering sector delivering technical based sales and services to niche markets. In FY 2008, Coote expanded those offerings through the acquisition of key businesses in Energy, Logistics, Rail and Rolling.

Coote's active expansion of its core capabilities through acquisition was largely serviced through debt and an additional capital raising of $70m undertaken in November 2007

One of the businesses acquired during FY08 was rail operator South Spur Rail Services ("**South Spur**"), which at the time owned 17 locomotives and a number of wagons and was renting another 24 locomotives from Allco Finance Group Limited subsidiary Allrail. This rollingstock was to be maintained under contract by RTS Group (a rollingstock maintenance provider, a controlled entity of Allrail).

Coote's management believe that the 24 locomotives did not perform efficiently due to long periods of time under previous ownership where little expenditure on maintenance was undertaken. Additionally, Coote's management believed that RTS possessed neither the engineering expertise nor maintenance capability to maintain the fleet as required.

South Spur rental agreement with Allrail did not provide any recourse for non-performances and so they incurred additional rental costs when forced to rent locomotives from other rental operators to meet operating requirements. The 17 locomotives owned by South Spur also required considerable expenditure and upgrade to adequately perform the task required under contracts between South Spur and its customers.

In order to rectify those issues and deliver a reliable, efficient fleet of rollingstock to South Spur, Coote acquired the entire fleet of performing and non-performing assets from Allrail, through its rollingstock maintainer Gemco Rail.

During the 6 months preceding 30 June 2008, Gemco Rail worked on rebuilding and refurbishing a number of the locomotives and wagons. Additional expertise was provided by other Coote personnel who also had long term locomotive and diesel engine expertise.

As Coote's core business lies in the delivery of technical based sales and services; the retention of high value, long lived assets from the rebuilds, now on the group balance sheet was not a desirable outcome.

Consequently a separate low operational cost infrastructure entity, Greentrains, was incorporated to own the rollingstock and lease it back to South Spur Rail and other rail operators.

As a consequence of Coote's investment in rollingstock and the rebuild program, its debt to equity ratio peeked at around 110%.

Since the fourth quarter of the 2008 calendar year, Coote has undertaken a restructuring program in order to simplify its business model by focussing on niche technical based sales and services to the resources, maritime, defence, rail and power generation markets.

The directors of Coote are as follows:

- Donald Hector (Chairman)
- Michael Coote (Managing Director)
- Glenn Parrett (Executive Director)
- Don Patterson (Executive Director)

6.2 Greentrains

On 17 July 2009 Coote received an interest in Greentrains as part consideration for the rolling stock sold to Greentrains in June 2008. In addition to this, $3.5 million of the funds received from Elph for the convertible notes was used to acquire an additional interest in Greentrains, taking Coote's total interest to 61.1%.

Greentrains was established on 26 June 2008 and agreed to acquire a number of rolling stock from Coote during the year ended 30 June 2008. However, Greentrains had failed to pay for the rolling stock until 17 July 2009. Greentrains paid approximately $44 million cash to Coote in addition to issuing the equity noted above and returning a portion of rolling stock.

The other key shareholder of Greentrains, with a 15.98% interest, is Orange Grove Brickworks, a company controlled by Michael Coote's parents, in which Michael Coote holds no financial interest.

We note that Michael Coote was appointed a director of Greentrains on 26 March 2009. Greentrains currently leases the majority of its rolling stock to South Spur.

Greentrains delivered a small trading loss for the year ended 30 June 2009. Currently, Greentrains has a debt of approximately $34 million, guaranteed by Coote until half of the debt is sold down.

6.3 Service Provisions

Coote provides a broad range of technically based sales and service expertise to various industry sectors including defence, maritime, power generation, rail, resources and transportation. The technical sales and service offering comprises of the following services:

- Project management
- Engineering services
- Manufacturing and fabrication services
- Repair and maintenance services
- Plant, equipment and component sales
- Rail infrastructure services
- Rail operations
- Freight logistics, and
- Training and Personnel services

As at June 2009, Coote had over 44 locations and employed over 1,300 personnel. Coote has operations in Australia, New Zealand, Singapore, Philippines, Indonesia, United States of America and Sweden. Coote's core business units are:

- Convair Engineering;
- Drivetrain Power & Propulsion;
- Gemco Rail;
- Industrial Powertrain;
- Momentum, and
- South Spur Logistics.

We have set out the profiles of these business units below.

6.3.1 Convair Engineering

Convair Engineering specialises in the design, manufacture and repair of steel and aluminium pneumatic tankers for transport of dry bulk products via road and rail. Convair is the exclusive sales and service agent for Feldbinder Spezialfahrzeugwerke GmbH of Germany, a European based manufacturer of aluminium dry bulk tankers.

Convair Engineering predominantly services the construction and transportation market sectors.

Convair customers are predominantly involved in either the manufacture and/or distribution of construction materials including cement and lime; mineral sands, grains, stock-feeds and dry chemicals.

6.3.2 Drivetrain Power & Propulsion

Drivetrain Power & Propulsion is a supplier and service organization within the Australasian region for off highway, automotive and marine Powertrain components with operations in cryogenics in USA and OEM manufacturing and service facilities in Sweden.

Customers of Drivetrain Power & Propulsion are predominantly engaged in operating or servicing powered off-highway (above/below ground mining), heavy/specialised vehicles and marine equipment. Drivetrain provides comprehensive sales, service and spares support for mining, agriculture, marine, and automotive, off-highway, construction and earth moving applications.

Coote acquired Hedemora Diesel AB in February 2006. Hedemora Diesel AB is the original equipment manufacturer for the Hedemora range of diesel engines which includes those in operation onboard Australia's Collins Class Submarines.

Hedemora Diesel AB provides a range of mechanical and electrical/electronic engineering services to the defence, resources, maritime, power generation and rail industries, including engineering design, repair and maintenance and spares support with key niche expertise in delivering power and propulsion solutions.

6.3.3 Gemco Rail

Gemco is a manufacturer and maintainer of rollingstock (locomotives, carriages and wagons) and rail maintenance equipment. Gemco's customers include all Australian freight rail operators; resources rail operators and rollingstock maintainers. Other technical sales and service offerings include project management for locomotive and wagon refurbishment and commissioning. Gemco offers mechanical engineering design for rollingstock and rail maintenance equipment. Manufacturing and fabrication services include manufacturing of locomotives, wagons, ballast cars and carriages, track maintenance equipment and ballast car discharge systems. Gemco provides locomotive and rollingstock repair and maintenance facilities throughout Australia. Plant, equipment and component sales include locomotive and rollingstock leasing, comprehensive spare parts support and sales and servicing of track maintenance equipment.

6.3.4 Industrial Powertrain

Industrial Powertrain specialises in the repair and overhaul of powertrain and drivetrain equipment for heavy industrial equipment and is also the approved EMD sales and service centre for marine, industrial and stationary power generation customers in the Australasian region. Industrial Powertrain operates mainly in Western Australia. Industrial Powertrain performs various repair and maintenance services such as in-house repair and overhaul of power shift transmissions, torque converters, planetary axles and differentials for front-end loaders, dump trucks and other similar equipment used in the mining, civil construction and materials handling industries. In-house and field servicing of EMD diesel engines and ancillaries are also provided. Industrial Powertrain is an approved EMD sales and service centre for marine, industrial and stationary power generation customers in the Australasian region. Industrial Powertrain also provides comprehensive spare parts provisions for EMD diesel engines including complete new and unit exchange engines. Industrial Powertrain primarily operates in the resources and construction market sectors.

6.3.5 Momentum

Momentum predominantly provides services to the rail and rail infrastructure industries including professional recruitment, labour hire, infrastructure maintenance, training and certification services.

Momentum customers include construction companies such as Laing O'Rourke, Leighton Contractors, John Holland Construction and Thiess, and rail operation customers including SCT Logistics, Australian Western Railway, Pacific National and Railcorp.

Momentum's service offering includes rail maintenance project management, rail track construction and repair, rail track welding, professional and technical recruitment, operator training, rail certification services and labour hire: locomotive drivers, terminal operators, rail welding and adjustment crews, track construction and maintenance, electrical and mechanical technicians and safe working personnel.

6.3.6 South Spur Logistics

South Spur Logistics is an integrated rail, road and port logistics company recently formed through the merger of South Spur Rail Services & Coote Logistics. South Spur Rail Services was acquired during May 2007 and Coote Logistics was established in 2006.

The division provides specialised road transport solutions; short haul rail transportation (including port shuttles, hook & pull and shunting services); AQIS and Customs accredited port inspection, quarantine and wash pad services; and storage and distribution of agricultural, mine and other products. Company operations are delivered across Western Australia, South Australia and New South Wales.

On 17 June 2009 Coote announced that it was actively pursuing opportunities to sell South Spur Logistics.

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6.4 Historical Balance Sheet

Coote Industrial Ltd	As at 30-Jun-09 $'000	As at 30-Jun-08 $'000	As at 30-Jun-07 $'000
CURRENT ASSETS			
Cash and cash equivalents	1,878	-	-
Trade and other receivables	150,020	130,994	19,666
Inventories	51,771	65,124	14,909
Other current assets	1,998	2,087	1,789
TOTAL CURRENT ASSETS	**205,667**	**198,205**	**36,364**
NON-CURRENT ASSETS			
Trade and other receivables	3,173	2,255	-
Inventories	17,608	7,200	-
Financial assets	127	5,004	-
Property, plant & equipment	46,324	34,672	35,074
Deferred tax assets	2,079	3,192	2,337
Intangible assets	102,748	93,515	34,812
TOTAL NON-CURRENT ASSETS	**172,059**	**145,838**	**72,223**
TOTAL ASSETS	**377,726**	**344,043**	**108,587**
CURRENT LIABILITIES			
Trade and other payables	72,652	41,756	16,368
Financial liabilities	61,890	43,501	5,556
Current tax liabilities	9,290	10,117	2,082
Short-term provisions	9,961	4,286	2,097
TOTAL CURRENT LIABILITIES	**153,793**	**99,660**	**26,103**
NON-CURRENT LIABILITIES			
Financial liabilities	87,326	98,314	31,597
Long-term provisions	1,934	1,766	450
Deferred tax liabilities	42	288	273
TOTAL NON-CURRENT LIABILITIES	**89,302**	**100,368**	**32,320**
TOTAL LIABILITIES	**243,095**	**200,028**	**58,423**
NET ASSETS	**134,631**	**144,015**	**50,164**
EQUITY			
Issued Capital	119,222	117,632	39,870
Reserves	697	1,329	1,192
Retained Earnings	14,712	25,054	9,102
TOTAL EQUITY	**134,631**	**144,015**	**50,164**

Source: Annual report for the year ended 30 June 2008 and preliminary final report for the year ended 30 June 2009

Trade receivables increased significantly over the 2008 financial year, due to the sale of a number of locomotives and wagons from Gemco Rail to Greentrains. Ownership of the locomotives did not pass until the amounts due for these assets were paid in full, including any interest, in July 2009. We note that there was an inherent uncertainty regarding the collectability of this debtor included in the financial statements as at 31 December 2008. This amount has since been settled via cash and scrip.

Inventories increased in value due to an increase in Work in Progress. Intangible assets relate mostly to goodwill from acquisitions including Momentum, South Spur,Industrial Powertrain, FCD Container Logistics, Gemco Rail and Drivetrain.

Creditors and financial liabilities have increased since 30 June 2007, due to the acquisitions Coote made in the first half of FY2008 increasing the size of Coote's operations.

The value of Issued Capital increased over FY2008, due to a capital raising of $70m at $2.40 in November 2007.

6.5 Historical Income Statements

Coote Industrial Ltd	FY Ended 30-Jun-09 $'000	FY Ended 30-Jun-08 $'000	FY Ended 30-Jun-07 $'000
Revenue	317,187	346,311	68,959
Other income	175	1,582	457
Changes in inventories of finished goods and work in progress	(2,945)	43,015	2,647
Raw materials and consumables used	(153,080)	(217,637)	(30,243)
Employee benefits expense	(85,715)	(82,071)	(17,109)
Depreciation & amortisation expense	(10,455)	(8,525)	(1,951)
Impairment	(1,060)	-	-
Finance costs	(14,779)	(8,943)	(2,969)
Subcontract freight	(2,616)	(1,767)	(1,433)
Repairs and maintenance	(6,353)	(6,006)	-
Insurance	(3,850)	(2,161)	(1,412)
Rent & outgoings	(10,612)	(6,818)	(870)
Vehicle expenses	(1,908)	(1,791)	(406)
Vehicle fuel	(8,445)	(7,765)	-
Foreign exchange movement	(2,615)	-	-
Other expenses	(15,819)	(15,249)	(4,608)
Profit/loss before Income tax	**(2,890)**	**32,175**	**11,062**
Income tax expense	(1,651)	(10,163)	(2,888)
Profit/loss attributable to members of the parent entity	**(4,541)**	**22,012**	**8,174**

Source: Annual report for the year ended 30 June 2008 and preliminary final report for the year ended 30 June 2009

Revenue increased substantially in FY2008 due to the sale of locomotives from the Gemco Rail division and the acquisitions made by Coote at the beginning of the financial year. Expenses have increased over the same period as a result of the acquisitions and corresponding change in financial size of the Group

Profitability for FY2009 was down compared to the prior period, due in part to a $2.6 million loss on foreign exchange movements and redundancy costs. Finance costs were also substantially higher than the prior period because of costs incurred as a result of the delayed payment for the sale to Greentrains and an increase in debt levels. Sales to Greentrains in FY2009 were $17.5 million. A credit note of $17.2 million was issued to Greentrains in relation to the sales in FY2008.

6.6 Capital Structure

The share structure of Coote as at 30 June 2009 is outlined below:

Shareholders	Number
Total Ordinary Shares on Issue	123,075,146
Top 20 Shareholders	85,230,945
Top 20 Shareholders - % of shares on issue	69.25%

Source: Thomson Reuters

The ordinary shares held by the most substantial shareholders as at 30 June 2009 are detailed below:

Name	No of Ordinary Shares Held	Percentage of Issued Shares (%)
Michael Charles Coote	42,811,164	34.78%
Dale and Cheryl Elphinstone	13,272,116	10.78%
Pratt Family Interests	3,473,730	2.82%
SG Hiscock and Company	3,386,667	2.75%
William & Patricia Coote	3,356,464	2.73%
Total Top 5	66,300,141	53.87%
Others	56,775,005	46.13%
Total Ordinary Shares on Issue	**123,075,146**	**100.00%**

Source: Thomson Reuters

7 ECONOMIC AND INDUSTRY ANALYSIS

Our analysis of current and forecast economic and industry conditions is attached as Appendix 2.

8 VALUATION APPROACH ADOPTED

We are required to determine the value of a Coote share that will be issued upon conversion of the Tranche 2 convertible notes. Such a conversion can take place any time up to 12 months after the issue of the notes. It is not possible to assess the future value of a Coote share so for the purposes of our assessment of the fairness of the Transaction we have assessed the current value of a Coote share and used this in our assessment.

There are a number of methodologies which can be used to value the shares in a company. The principal methodologies which can be used are as follows:

- Net Tangible Assets on a going concern basis ("**NTA**")
- Quoted Market Price Basis ("**QMP**")
- Capitalisation of future maintainable earnings ("**FME**")
- Discounted Cash Flow ("**DCF**")

A summary of each of these methodologies is outlined in Appendix 3.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information. In our assessment of the value of Coote's shares we have chosen to employ the following methodologies:

- FME methodology;
- QMP methodology; and
- NTA methodology.

We have chosen these methodologies for the following reasons:

- Coote is a service based business which means that an earnings based valuation can provide the best indication as to value.
- Coote has a history of operating profits and can break down its operations into clearly assessable segments which means we are able to analyse historic earnings.
- Coote's shares are traded on the ASX. This means there is a regulated, liquid and observable market where Coote's shares can be traded. In order for the quoted market price to be considered appropriate the company's shares should be liquid and the market should be fully informed as to Coote's activities. We have considered these factors in Section 10.
- Coote does not prepare long term forecasts. Therefore, we are not able to use the DCF methodology.

9 FUTURE MAINTAINABLE EARNINGS VALUE OF A COOTE SHARE

When performing an FME valuation we must determine what the future maintainable earnings of Coote are and then determine an appropriate capitalisation multiple to apply to these earnings.

In undertaking an FME valuation we must consider potential adjustments to the profit from the financial statements for any revenue or expenses of a private nature, any non-business related revenue and expenses, and any one-off or non-recurring items.

In calculating future maintainable earnings, the figure selected should represent what is currently sustainable. Any anticipated growth in earnings is accounted for via the capitalisation rate. We have reviewed the historical accounts of Coote and for each of the three years, made adjustments to the net profit after tax for the following items:

- Non-recurring or one-off items such as profit on sale of assets;
- Non-operating revenues and expenses;
- Unrecorded items; and
- Abnormal or non-commercial transactions.

We have analysed the FME value of Coote based on each core operating unit. These units are:

- Drivetrain Power and Propulsion
- Industrial Powertrain
- Convair
- South Spur Logistics

- Momentum
- Gemco Rail
- Corporate

Whilst we have performed our analysis on each of the operating units of Coote, we have presented our valuation on a consolidated basis. This is because some information could be considered sensitive. We do not consider that the presentation of our report on a group basis will result in a lack of transparency in our valuation to Shareholders.

We have also included the forecast earnings prepared by Coote for the year ending 30 June 2010. These forecasts have been prepared by the management of Coote.

9.1 Normalised Earnings

The objective of normalising earnings is to determine the underlying profitability expected to be maintained by Coote. Our adjustments are limited to those adjustments obvious from a review of the detailed financial statements and those provided by the management of Coote.

Our normalisation adjustments are set out below:

	Notes	FY2010 Forecast $'000	FY2009 Preliminary $'000	FY2008 Actual $'000
EBIT		**26,725**	**5,383**	**38,346**
Net interest received/(paid)		(2,871)	(8,273)	(6,171)
Net Profit/(Loss) before tax		**23,854**	**(2,890)**	**32,175**
Normalisation Adjustments				
Interest	1	(2,000)	2,000	-
Redundancy costs	2	-	1,850	-
Foreign exchange loss/(gain)	3	4	2,615	(1,323)
Extraordinary (income)/expenses	4	-	(3,185)	101
Goodwill amortisation/impairment	5	148	2,904	1,819
Other	6	300	(647)	440
Greentrains transaction	7	-	2,550	(10,000)
Total Normalisation Adjustments		**(1,549)**	**8,086**	**(8,964)**
Normalised Profit before tax		**22,305**	**5,196**	**23,212**
Nominal tax on normalised profit at 30 percent		(6,691)	(1,559)	(6,963)
Normalised Profit from ordinary activities after tax		**15,613**	**3,637**	**16,248**

Normalisation Adjustments:

9.1.1 Interest

We have increased the amount of forecast interest to be paid by Coote during the 2010 financial year. We have made this adjustment so that interest in the forecast year reflects the historic interest paid. There may be some changes to Coote's debt levels going forward; however, some of these changes are subject to transactions which are not currently finalised.

We note that on 17 July 2009 Coote announced the receipt of $44 million from Greentrains as part payment for locomotives sold by Gemco during the year ended 30 June 2008. Of this payment, $34 million has been allocated to paying down debt.

The average percentage of net interest paid when compared to the total level of debt for the years ended 30 June 2008 and 2009 was approximately 5%. Therefore, we have applied this percentage to an expected debt level of approximately $100 million following the repayment of $34 million. We have also reduced the interest paid during the year ended 30 June 2009 to reflect the reduced debt level and also reduce the effect of additional interest charges and penalties as a result of Coote's debt position during the year.

We have considered Coote's debt levels further when we have considered the capitalisation multiple in Section 9.3.4.

9.1.2 Redundancy costs

As a result of the GFC and subsequent slow down in economic activity and due to the integration and simplification of Coote's operating model Coote has made a number of redundancies. Redundancies are considered one off costs as they are not an operating cost of a business and would not be expect to be recurring. We have added back any redundancy costs to Coote's net profit.

9.1.3 Foreign exchange loss/(gain)

This adjustment relates to eliminating any loss or gain that has arisen as a result of changes in foreign currency exchange rates. These losses and gains, whilst occurring as a result of normal operations, are not consistent and a given loss or gain is non-recurring.

9.1.4 Extraordinary (income)/expenses

There were a number of non-operating and non-recurring items included as extraordinary items in the financial statements of Coote. As such, we have removed these items from our calculations.

9.1.5 Goodwill amortisation/impairment

In the case of Coote, goodwill is the value of consideration paid which is in excess of the value of the assets and liabilities of the companies that Coote has acquired since listing on the ASX. Goodwill amortisation is the recognition of this goodwill in the Income Statement over a given period. Goodwill is not an operating expense and has no effect on the operations of Coote. Therefore, we have eliminated goodwill amortisation from the earnings of Coote.

In addition to the amortisation of goodwill, Coote also impaired certain assets recorded on the balance sheet. An impairment is recorded with the fair value of an asset is less than the recorded value in the financial statements. This is a one off charge and is not an operational expenditure, therefore, we have adjusted for this in our calculations.

9.1.6 Other adjustments

Other adjustments relate to various one off and non-operational revenues and expenditures such as system improvements, profits earned on the sale of assets and the issue of options.

9.1.7 Greentrains transaction

During the years ended 30 June 2008 Coote recognised income from the sale of rolling stock to Greentrains. Coote recognised a gross profit of approximately $25.1 million on this sale. However, following difficulties in securing payment approximately $17.2 million of this rolling stock was not delivered to Greentrains. In addition to this, approximately $16.5 million of the sales value was paid in shares in Greentrains. We have adjusted the earnings of Coote to reflect an estimated profit figure that has not been realised by Coote. When making our adjustment we have assumed that there is no value in Greentrains' shares.

During the year ended 30 June 2009 Coote recognised a credit note in relation to the transaction with Greentrains during the year ended 30 June 2008. As we have adjusted the earnings of Coote for the year ended 30 June 2008 we have also adjusted for this credit note.

9.2 Calculating Future Maintainable Earnings

In calculating future maintainable earnings, we have considered the historical levels of normalised earnings to determine an estimated future maintainable earnings position for Coote. The purpose of this is to derive a sustainable level of profitability that we consider to be achievable in the future.

We have also considered the future earnings of Coote for the year ending 30 June 2010 because this provides support to what future maintainable earnings may be.

After considering Coote's historic and forecast earnings we estimate a future maintainable earnings figure of $10 million. When calculating this figure we have considered that the performance for the year ended 30 June 2009 reflects a poor performance which could be considered a base level of earnings. In addition to this, we consider that the normalised earnings for the year ended 30 June 2008 reflect a strong performance in a booming economy which is unlikely to be replicated in the future.

We specifically considered the following underlying drivers and factors that influence Coote's earnings.

9.2.1 Economic conditions

Economic conditions for the year ended 30 June 2008 were very different to the current economic conditions and what many economists forecast for the future.

For the two years ended 30 June 2008 Australia experienced significant growth as a result of the mining boom. This drove substantial growth in all services and industries in Australia. However, in late 2008 the global financial crisis saw a significant decrease in economic activity resulting in an expectation that Australia could suffer an extended recession. Many companies exposed to the mining industry continued to report strong earnings up to the six months ended 31 December 2008. However, this appeared to be more due to contracts that existed prior to the GFC than due to ongoing growth from new projects.

Whilst many countries' economies have reached recession, Australia's economy is yet to enter two quarters of negative growth (a common definition of a technical recession). However, many economists predict that Australia has, or will, enter a recession by the end of 2009 and it is likely that commercial and industrial activity will remain depressed when compared to the period between 2006 and 2008.

The future of Australia's economy is still uncertain, however, any recession is not expected to be as severe as first estimated.

As a result of the slow down in the economic conditions in Australia we do not consider that the full earnings for the year ended 30 June 2008 are reflective of the future maintainable earnings of Coote. This is because tougher economic conditions are likely to result in increased competition and less demand for services which will result in a reduction in potential profit margins.

9.2.2 Forecast earnings for the year ending 30 June 2010

The forecast earnings for the year ending 30 June 2010 are based on many assumptions. The key assumptions are listed below:

- Coote is able to reduce salary and on costs by approximately 22%;
- Coote can reduce debt by approximately $59 million (this includes $34 million received from Greentrains and allocated to the repayment of debt);
- Coote generates a gross profit of $9.5 million from the sale of rolling stock to Greentrains;
- All of Coote's operating units will be profitable;
- Total revenue for the year ending 30 June 2010 will be approximately $309 million.

Coote released a market update on 6 August 2009 in which it described adverse market conditions which had affected the 30 June 2009 results. We expect these adverse conditions to continue. As such, whilst the forecast earnings for FY2010 are achievable, we have adopted a conservative valuation approach and have selected a future maintainable earnings figure below the forecast earnings for the year ending 30 June 2010.

We note that Coote's ability to achieve consistent revenue indicates that the future profitability of the group will depend on the Company's ability to manage expenditure accordingly.

9.2.3 Potential sale of South Spur

Coote is currently seeking expressions of interest for the sale of the South Spur Logistics. This means that, in the future, the income generated by this business unit will not be included in the earnings of Coote. However, we have not excluded the earnings of the South Spur Logistics business because if the business unit is sold then Coote will receive a payment that will approximate the value we have calculated for the business unit.

9.2.4 Coote's structure

Coote is a diversified engineering company that has grown through acquisition. Each of Coote's core subsidiaries has a history of profits. This provides Coote with an element of dependability in the earnings of each business unit because the businesses have operated for a long time and have established relationships and experiences with customers.

9.3 Calculation and Application of an Earnings Multiple

We selected a group of public listed companies considered to be comparable due to activity or exposure to a similar end user market and risks to Coote to determine an appropriate earnings multiple. The comparable companies are detailed in Appendix 4. In determining an appropriate earnings multiple to apply to Coote, the following factors were considered:

- economic factors (e.g., economic growth, inflation, interest rates) affecting the market in which Coote operates;
- strategic attractions of Coote – its particular strengths and weaknesses, market position, strength of competition and barriers to entry;
- relationship with and dependence on key clients;
- stability and quality of earnings;
- the asset backing of the underlying business;
- dependence on suppliers, customers and key personnel;
- the future prospects for the operations of Coote; and
- the structural and regulatory framework; and share market conditions.

We have reviewed the resultant multiples (observable for publicly listed companies) and adjusted these for:

- variations in the factors above between Coote and the comparable companies; and
- a control premium.

The table below sets out the earnings multiples of the comparable companies and also sets out the industry average earnings multiples.

ASX Code	Company Name	Market Capitalisation as at 10 September 2009 ($m)	EPS ($)	PE Multiple (10 September 2009)
Rolling Stock and Rail Engineering				
DOW	Downer EDI	2,778	0.58	14.47
UGL	United Group	2,468	0.87	17.16
	Average	**2623**	**0.725**	**15.81**
Engineering Services				
DOW	Downer EDI	2,778	0.58	14.47
UGL	United Group	2,468	0.87	17.16
MND	Monadelphous	1122	0.88	14.84
BKN	Bradken Ltd	830	0.53	12.09
MAH	Macmahon	466	0.03	21.17
CDD	Cardno Ltd	370	0.45	9.76
SDM	Sedgman Ltd	322	0.04	40.00
NHR	National Hire Group	252	0.17	10.00
RCR	RCR Tomlinson Ltd	156	0.11	10.91
LYL	Lycopodium Ltd	118	0.37	8.24
GRD	GRD Ltd	104	0.06	9.00
BOL	Boom Logistics	87	0.01	51.00
FGE	Forge Group	74	0.23	4.74
	Average	**704**	**0.33**	**17.18**
Transport and Logistics				
TOL	Toll Holdings Ltd	5,975	0.40	21.48
AIO	Asciano	4,960	0.10	16.95
KSC	K & S Corp	185	0.26	10.19
REX	Regional Express Holdings	140	0.20	5.78
WWA	Wridgeways Australia	83	0.21	12.38
LAU	Lindsay Australia	35	0.03	7.00
SCC	Scott Corporation	15	0.03	8.00
	Average	**1,628**	**0.18**	**11.68**
	Overall Average			**15.31**
	Overall Median			**12.24**

Source: Bloomberg

The PE Mulitples included in the table above have been calculated using the operating income after tax for the year ended 30 June 2009. We have selected an earnings multiple of between 6 and 7 for Coote. In arriving at our multiple range we have considered the following factors.

9.3.1 Current takeover offer for GRD

On 11 July 2009 GRD announced that it was subject to a takeover offer. On 20 July 2009 GRD announced that the value of the takeover offer was $0.55 per share. The share price of GRD at 7 August 2009 was $0.54. This was an increase of approximately 32% from the value of a GRD share prior to the announcement of the takeover on 11 July 2009. This indicates that the share price of GRD as at 7 August 2009 includes a 32% premium for control which means the earnings multiple is also reflecting a premium for control. If we deduct the premium for control from GRD's earnings multiple the result is a current earnings multiple of 6.8.

9.3.2 Coote's scale of operations

Coote's market capitalisation is approximately $49 million and its total revenue for the year ended 30 June 2009 was approximately $317 million. This makes Coote's scale comparable to that of GRD. GRD is also predominantly Western Australian based. However, GRD has a significant interest in recycling which Coote does not.

Boom Logistics currently has a debt to equity ratio similar to Coote's and will be required to renew debt in the short term. However, given Boom's poor financial results of the year ended 30 June 2009 we do not consider the PE multiple for Boom to be applicable to Coote. If Boom and Sedgman (abnormal PE multiples) are removed from the table above the average PE multiple reduces to approximately 12.

We note that Forge is a comparable size to Coote and operates predominantly in Western Australia. However, Forge has a much higher exposure to property and related sectors. However, there is a general trend towards a lower multiple than average for companies with smaller market capitalisation.

9.3.3 Debt risk

Coote is due to renew a significant proportion of its bank loans in February 2010 and also has a substantial amount outstanding to suppliers. The ability of Coote to negotiate with its bankers is dependent on a number of factors; the key factors being the sale of additional rolling stock to Greentrains and the realisation of Coote's investment in Greentrains, a successful capital raising and trading conditions to remain buoyant. These events are not guaranteed and there is a risk that any one of these events may not occur. This could be detrimental to Coote's negotiations with its bankers.

Failure of Coote to renegotiate repayment terms could result in the Company breaching debt covenants and being charged penalty fees or being forced to repay debt.

9.4 Control Premium

RG 111.22 suggests that when considering the value of a company's shares for the purposes of approval under Item 7 of s611 of the Act the Expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

- control over decision making and strategic direction
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

Whilst Elph will not be obtaining 100% of Coote, RG 111 states that the Expert should calculate the value of a target's shares as if 100% control were being obtained. RG 111.24 states that the expert can then consider an acquirer's practical level of control when considering reasonableness. This has been included in Section 14.3.

A market based multiple is calculated using a company's share price. A share price is reflective of a minority interest in a company. Therefore, we must add a premium for control to any FME valuation that is calculated using a market based multiple.

We have reviewed the control premia paid by acquirers of companies on security exchanges around the world. We have summarised our findings below:

Industry of Transaction	Transaction Period	Number of Transactions	Average Deal Value (US$m)	Average Control Premium
Worldwide Transactions				
Engineering	2006 - 2009	23	597	9%
Rail	2006 - 2007	3	1,245	23%
Transport	2006 - 2008	32	1,046	21%
Logistics	2006 - 2008	10	244	29%
Freight	2006 – 2008	10	487	10%
Fabrication	2007 - 2008	2	130	5%
Total Worldwide Transactions	**2006 - 2009**	**70**	**725**	**16%**
Australian Transactions	**2008 - 2009**	**25**	**1,072**	**33%**

Source: Mergerstat BVR Control Premium Study

The table above includes all completed transactions during the transaction period that are recorded by Mergerstat. As noted in Section 9.3.1 GRD has recently received a takeover offer from AMEC Plc which was at a premium to the closing share price prior to the announcement of 34%. This transaction is not complete and Amec Plc is yet to control GRD, however, we note that the GRD directors have recommended shareholders accept the offer.

The table above indicates a wide range of average control premia depending on the industry that each target was exposed to. We have also found that the average control premium paid for an Australian company is higher than the average control premium paid for a company elsewhere.

We have selected a control premium of 30%. In selecting our control premium we have placed higher consideration on observed Australian control premia and the recent control premium proposed for the shares of GRD.

9.5 Summary of Future Maintainable Earnings Value

The application of the multiple and control premium calculated above results in the values shown below:

		Low Value $'000	High Value $'000
FME	9.2	$10,000	$10,000
PE Multiple	9.3	6.0	7.0
Minority Value		**$60,000**	**$70,000**
Control premium	9.4	30%	30%
FME Value		**$78,000**	**$91,000**

Once the FME value has been calculated we need to add any surplus assets and deduct any surplus liabilities. This is because the balance sheet of a company includes all the assets and liabilities required to generate income. However, if there are surplus assets or liabilities then these can be considered additional to the FME value because they are not required to generate income and would have been excluded from the normalised future maintainable earnings.

We do not consider there to be any surplus assets or liabilities held by Coote.

Coote currently has 123,075,146 shares on issue. Therefore, we have assessed the FME value of a Coote share to be between $0.634 and $0.739.

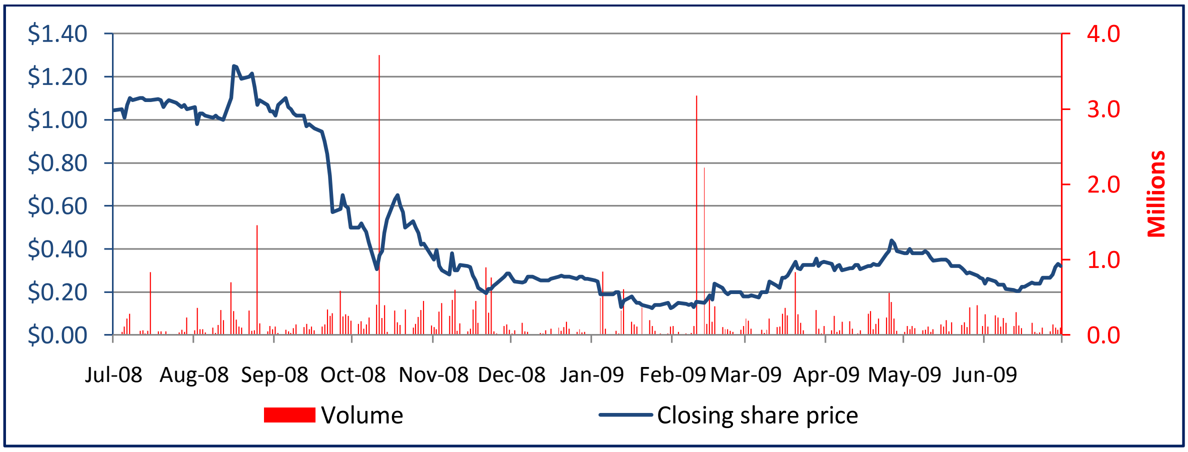
We note that this value is less than the net assets of Coote as at 30 June 2009 of approximately $1.10 per share. However, of the net assets as at 30 June 2009, 76% was made up of intangible assets related to the businesses operated under Coote. This value of this goodwill is implicit in our FME valuation. Eliminating intangible assets from the net assets of Coote results in a value of $0.26 per share.

10 QUOTED MARKET PRICE VALUE FOR A COOTE SHARE

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company. As such, we must also add a premium for control to a QMP value. Therefore, our QMP valuation has been calculated in two parts. The first is to calculate the minority interest and the second is to add the premium for control.

10.1 Minority interest value

The following chart provides a summary of the share price movement over the period from 18 July 2008 to 17 July 2009, being the last trading day prior to the announcement of the Transaction.



Source: Bloomberg

The daily price of Coote shares from 18 July 2008 to 17 July 2009 has ranged from a high of $1.30 on 2 September 2008 to a low of $0.12 on 18 February 2009.

On 17 June 2009 Coote announced that it was divesting the South Spur logistics business. We note that this did not result in a significant increase in the number of shares traded but that the share price trended lower over the next ten trading days.

Coote is not well covered by analysts. The only analyst actively covering Coote was Bell Potter. On 6 November 2008, 3 March 2008 and 18 March 2008 Bell Potter issued sell recommendations for Coote's shares. On 18 March 2009 Bell Potter ceased covering Coote, citing Coote's gearing and lack of transparency surrounding the Greentrains transaction as the reasons for ceasing coverage. There did not appear to be any significant trades as a result of Bell Potter's recommendations.

To provide further analysis of the market prices for Coote shares, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 17 July 2009.

	17 July 2009	10 Days	30 Days	60 Days	90 Days
Closing price	$0.320				
Weighted Average price		$0.279	$0.257	$0.312	$0.301

Source: Bloomberg

The above weighted average prices are prior to the date of the announcement of the Transaction to avoid the influence of any change in the price of Coote shares that has occurred since the Transaction was announced.

Our assessment of the value of a Coote share based on the quoted market price is between $0.26 and $0.32.

In order to demonstrate the liquidity of Coote's shares we have analysed the volume of trading in Coote shares for the period to 17 July 2009 as set out below:

Trading Period in Days	Low $	High $	Cumulative Volume	Issued Capital
1	0.320	0.340	101,536	0.08%
10	0.225	0.365	822,333	0.67%
30	0.200	0.365	4,133,772	3.36%
60	0.200	0.445	8,526,890	6.93%
90	0.175	0.445	13,198,711	10.72%
180	0.120	0.540	32,818,175	26.67%
365	0.120	1.300	50,522,218	41.05%

Source: Bloomberg

This table indicates that Coote shares display a very low level of liquidity, with approximately 11% of the Company's current issued capital being traded over the last 90 trading days to 17 July 2009. We note that the 180 trading day period includes the acquisition by Elph of more than 5 million shares.

For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.53 indicates that a 'deep' market should be liquid and active. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded over five days;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in the share price.

A company's shares should meet all of the above criteria to be considered 'deep', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the quoted market price of its shares cannot be considered relevant.

In the case of Coote, while the shares are not highly liquid they are traded on a regular basis. However, the share price is volatile and small changes in share price can result in a significant change in the market capitalisation of Coote. We consider that the quoted market price can be relied upon as an indicator of the value of a Coote share when compared with alternative valuation methods.

Our assessment is that a range of values for Coote shares based on market pricing, after disregarding post announcement pricing, is between $0.26 and $0.32.

10.2 Quoted market price including control premium

Applying a control premium to Coote's quoted market share price results in the following quoted market price value including a premium for control:

Coote Industrial Ltd	Low $	High $
Quoted market price value	0.26	0.32
Control premium	30%	30%
Quoted market price valuation including a premium for control	**0.338**	**0.416**

Therefore, our valuation of a Coote share based on the quoted market price method and including a premium for control is between $0.338 and $0.416.

11 ASSESSMENT OF COOTE VALUE

The results of the valuations performed are summarised in the table below:

Valuation		Value per share	
	Ref	Low $	High $
FME Value	9	0.634	0.739
ASX Market Value	10	0.338	0.416

Based on the results above, in our opinion the value of a Coote share is between $0.634 and $0.739. We have placed a greater reliance on the FME value as we do not consider Coote's shares to be liquid enough to indicate a standalone value.

We note that the value of a Coote share is highly dependent upon Coote being able to complete debt reduction expectations in FY10 and then renegotiate the lending terms for the remaining debt due for renewal in February 2010.

12 VALUATION OF CONSIDERATION

As noted in Section 4, Elph will pay $2,136,011 for the 12,457,694 Tranche 2 convertible notes.

The funds received by Coote will be used in part to acquire shares in Greentrains. Elph also holds an interest in Greentrains. As a result of this, Elph will receive an interest in a portion of the funds paid for the Tranche 2 convertible notes. Therefore, the value of the consideration paid by Elph should be reduced by the interest that Elph will retain in the funds originally lent to Coote. We have set out the interest retained by Elph in the consideration below:

Consideration paid by Coote for shares in Greentrains	$3,500,000
Elph's interest in Greentrains	19.8%
Elph's interest in consideration	$693,000

The value of the consideration paid by Elph for the Tranche 2 convertible notes is set out below:

Initial consideration paid for Tranche 2 convertible notes	$2,136,011
Less retained interest in consideration	($693,000)
Value of consideration paid for shares	$1,443,011

Elph will receive 12,457,694 shares in Coote if the convertible notes are converted. Therefore, the consideration to be paid by Elph per Coote share is $0.116.

13 IS THE TRANSACTION FAIR?

The value of a Coote share and the consideration to be paid by Elph are compared below:

	Ref	Low $	High $
Value of a Coote share	11	0.634	0.739
Value of consideration	12	0.116	0.116

The table above indicates that the value of a Coote share is greater than the per share value of the consideration provided by Elph. Therefore, in our opinion the Transaction is not fair to Shareholders.

14 IS THE TRANSACTION REASONABLE

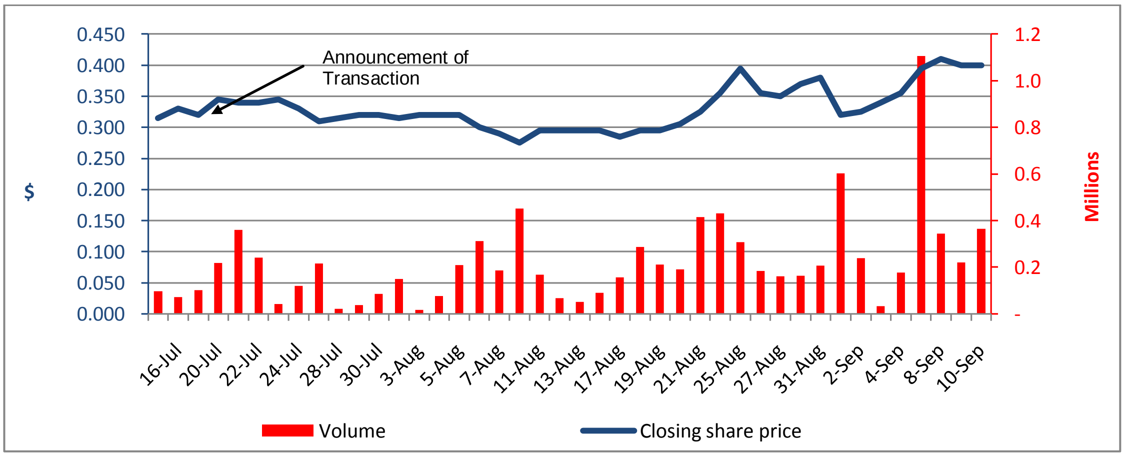
14.1 Alternative Proposal

We are unaware of any alternative proposal that might offer the Shareholders of Coote a premium over the value ascribed to that resulting from the Transaction. Coote investigated a number of different options prior to choosing the Transaction.

14.2 Implications if the Transaction is Not Approved

14.2.1 Change in Share Price Following the Announcement of the Transaction

We have analysed movements in Coote's share price since the Transaction was announced. A graph of Coote's share price since the announcement is set out below.



Source: Bloomberg

Coote's share price closed at $0.320 on Friday 17 July 2009. The announcement regarding the settlement of the convertible notes was made after the close of the ASX on 17 July 2009; therefore, the announcement did not affect the price of Coote shares until 20 July 2009. Coote opened at $0.33 on Monday 20 July 2009, reached a maximum value of $0.345 and closed at $0.345.

The volume of trades post announcement does not indicate that the announcement has had a significant effect on the share price of Coote. The 5 trading days post announcement saw Coote's share price range from a high of $0.345 to a low of $0.33.

We consider that there has not been a significant market reaction to the announcement of the Transaction. The lack of significant activity in Coote's shares following the announcement of the Transaction indicates that if the Transaction is not approved then the quoted market value of a Coote share could remain at its current value.

Given the relationship between Elph, Coote and Greentrains, if the Transaction is not approved then this could adversely affect the relationship of Elph, Coote and Greentrains which could have an adverse affect on Coote going forward with regards to transactions with Greentrains and its relationship with Elph.

14.2.2 Repayment of Loan

The terms of the Tranche 2 convertible notes require that if the issue and conversion of the convertible notes is not approved then Coote must repay the $2,136,011 already advanced by Elph within five business days. This will have an impact on Coote's working capital, especially considering the convertible notes have been issued for the purpose of working capital.

The ability of Coote to repay the loan will be dependent on Coote's cash balance at the time. Coote's cash balance as at 30 June 2009 was approximately $1.9 million which indicates that Coote would likely be required to raise additional capital to fund the loan repayment. This would likely be detrimental to Shareholders, either through additional funding costs or dilution. However, given Coote's current share price, it is likely that any share issue would be at a premium to the consideration paid by Elph, which would benefit Shareholders.

14.3 Practical Level of Control

If the Transaction is approved then Elph will potentially hold an interest of approximately 25% in Coote.

This means that Elph will have the capacity to block special resolutions. However, Elph's ability to influence the activities of Coote are limited because Elph cannot pass general or special resolutions and will not have control of the Board. Therefore, in our opinion, while Elph will hold a 25% interest in Coote and have some influence over the Company, it will not be able to exercise a similar level of control as if it held 100% of Coote.

14.4 Advantages of Approving the Transaction

If the Transaction is approved, in our opinion, the potential advantages to the Shareholders include those listed in the table below:

Advantage	Description
No immediate repayment of loan	Pre-payment for the convertible notes has been received in the form of a loan. As noted above, this loan is repayable within five days if the issue of Tranche 2 convertible notes is not approved. Coote used a portion of the funds received to acquire shares in Greentrains which means that Coote does not possess the cash received for the issue of the convertible notes which means it would have to source the cash from working capital. If the Transaction is approved then Coote will not be required to repay the loan immediately.
Interest rate is reasonable	The interest rate on the convertible notes is 8%. In the current banking environment 8% is a reasonable interest charge. It is likely that Coote would be required to pay an interest rate of approximately 10% if a short term loan was secured through a banking facility.
Improves relationship with Elph	Coote intends to work with Elph to generate new cash flow streams from maintenance and refurbishment of rolling stock. If Elph has substantial interest in Coote then it is more likely that Elph will be incentivised to assist in the future success of Coote.
Transaction required by bank	The Transaction has been required in part by Coote's lender. If Coote did not implement a transaction of a type similar to the Transaction then the lender may have required additional payments from Coote or may not renew Coote's lending facilities in February 2010.

14.5 Disadvantages of Approving the Transaction

If the Transaction is approved, in our opinion, the potential disadvantages to the Shareholders include those listed in the table below:

Disadvantage	Description
Convertible notes favour Elph	The nature of convertible notes is such that they favour the party that receives them. This is because if the note holder perceives there is no prospect of the share value of the issuer exceeding the redemption value then they can request that the notes are redeemed. However, if the note holder perceives future value in the issuer or the share price is in excess of the conversion price of the convertible notes then the note holder is likely to convert them to shares. This means that Shareholders are likely to be disadvantaged in any situation once the expiry date of the convertible notes is reached.
Dilution of Existing shareholders	If the Tranche 2 convertible notes are converted then Coote will issue 12,457,694 shares to Elph. This will result in a dilution in the interest held by Shareholders in Coote from 89.2% to 75.2% (assuming that Elph converts both Tranche 1 and Tranche 2 convertible notes).
Elph having greater control	If the Tranche 1 and Tranche 2 convertible notes are all converted, Elph will hold approximately 25% of the issued shares in Coote. This means that Elph will be able to block special resolutions without the support of other Shareholders. However, we note that Michael Coote controls approximately 34.8% of shares on issue which means that the capacity for a single shareholder to block special resolutions currently exists.
Two shareholders with a combined interest in excess of 50%	If the Tranche 1 and Tranche 2 convertible notes are converted then the combined interests of Michael Coote and Elph in Coote will exceed 50%. This means that, together, Michael Coote and Elph can pass ordinary resolutions.
Shares being issued at a discount of approximately 71% to current share price	Since March 2009 equity markets and company share prices have improved considerably. Over 250 companies have been able to raise equity through share issues. The average discount to share price of shares issued during 2009 is approximately 17%. This compares to the current discount to Cootes share price of approximately 71% being offered to Elph. Sourcing alternative funding could be more beneficial to Shareholders than approving the Transaction. We note, however, that sourcing funds can be uncertain, time consuming and costly and this may offset any advantage gained by raising cheaper funds.

15 CONCLUSION

We have considered the terms of the Transaction as outlined in the body of this report and have concluded that the Transaction is not fair but reasonable to Shareholders.

16 SOURCES OF INFORMATION

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Audited financial statements of Coote for the years ended 30 June 2007, 30 June 2008, and the half year ended 31 December 2008;
- Loan and Convertible Note Deed between Coote and Elph;
- Forecast financial information for the period from 1 February 2009 to 30 June 2010;
- Shareholder Analysis Report on Coote from Thomson Reuters as at 30 June 2009;
- Bloomberg Data Services, Mergerstat and other similar data services;
- Information in the public domain; and
- Discussions with Directors and Management of Coote.

17 INDEPENDENCE

BDO Kendalls Corporate Finance (WA) Pty Ltd is entitled to receive a fee of approximately $60,000 (excluding GST and reimbursement of out of pocket expenses). Except for this fee, BDO Kendalls Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Kendalls Corporate Finance (WA) Pty Ltd has been indemnified by Coote in respect of any claim arising from BDO Kendalls Corporate Finance (WA) Pty Ltd's reliance on information provided by the Coote, including the non provision of material information, in relation to the preparation of this report.

BDO Kendalls Corporate Finance (WA) Pty Ltd is wholly owned by BDO, a member of BDO International. Prior to accepting this engagement BDO Kendalls Corporate Finance (WA) Pty Ltd has considered its independence with respect to Coote and Elph and any of their respective associates with reference to ASIC Regulatory Guide 112 “Independence of Experts”. In BDO Kendalls Corporate Finance (WA) Pty Ltd’s opinion it is independence of Coote and Elph and their respective associates.

Neither the two signatories to this report nor BDO Kendalls Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with Coote, or their associates, other than in connection with the preparation of this report.

A draft of this report was provided to Coote 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.

18 QUALIFICATIONS

BDO Kendalls Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Kendalls Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes, Adam Myers, Peter Gray and Steve van Nierop of BDO Kendalls Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty years experience working in the audit and corporate finance fields with BDO Kendalls and its predecessor firms in London and Perth. He has been responsible for over 100 public company independent expert's reports under the Corporations Act or ASX Listing Rules. These experts' reports cover a wide range of industries in Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 11 years in the Audit and Assurance and Corporate Finance areas.

19 DISCLAIMERS AND CONSENTS

This report has been prepared at the request of Coote for inclusion in the Information Memorandum which will be sent to all Coote Shareholders. Coote engaged BDO Kendalls Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the proposal to issue 12,457,694 convertible notes to Elph Pty Ltd.

BDO Kendalls Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Explanatory Statement. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Kendalls Corporate Finance (WA) Pty Ltd.

BDO Kendalls Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Explanatory Statement other than this report.

BDO Kendalls Corporate Finance (WA) Pty Ltd has not independently verified the information and explanations supplied to us, nor has it conducted anything in the nature of an audit of Coote or Elph. However, we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld.

The forecasts provided to BDO Kendalls Corporate Finance (WA) Pty Ltd by Coote and its advisers are based upon assumptions about events and circumstances that have not yet occurred. Accordingly, BDO Kendalls Corporate Finance (WA) Pty Ltd cannot provide any assurance that the forecasts will be representative of results that will actual be achieved. BDO Kendalls Corporate Finance (WA) Pty Ltd disclaims any possible liability in respect of these forecasts.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Kendalls Corporate Finance (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully
BDO KENDALLS CORPORATE FINANCE (WA) PTY LTD

Sherif Andrawes
Director

Adam Myers
Associate Director
Authorised Representative

Appendix 1 – Glossary of Terms

Reference	Definition
The Act	The Corporations Act
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO Kendalls	BDO Kendalls Corporate Finance (WA) Pty Ltd
The Company	Coote Industrial Ltd
Coote	Coote Industrial Ltd
DCF	Discounted Future Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Elph	Elph Pty Ltd
FME	Future Maintainable Earnings
Grentrains	Greentrains Limited
IMF	International Monetary Fund
The Notes	The convertible notes issued under Tranche 2
NTA	Net Tangible Assets
QMP	Quoted Market Price
Our Report	This Independent Expert's Report prepared by BDO Kendalls
RG 111	Regulatory Guide 111 – Content of Expert's Reports
RG 112	Regulatory Guide 112 – Independence of Experts
Shareholders	Shareholders of Coote Industrial Ltd
Tranche 1	Issue of 10,871,200 convertible notes raising $1,863,989
Tranche 2	Issue of 12,457,694 convertible notes raising $2,136,011 and the subject of our Report
The Transaction	The issue of 12,457,694 convertible notes to Elph Pty Ltd
VWAP	Volume Weighted Average Price

Appendix 2 – Industry and Economic Background

1. Current Economic Conditions

The general consensus amongst commentators is that the prolonged economic crisis will impact global economic activity beyond levels that were previously anticipated. According to a recent forecast from the International Monetary Fund ("**IMF**"), the global economy will shrink by 1.3% percent on an annual average basis in 2009, before recovering gradually during the course of 2010.

Since the latter months of 2007, the global economy has been characterised by sinking confidence and trade volumes, negative macroeconomic data and unrelenting financial turmoil. Governments and central banks have reacted with expansionary fiscal and monetary policy while the banking sector has been leveraging their balance sheets to reduce exposure to risky and emerging market assets. To date, the effect of expansionary monetary policy measures has been limited by the space available for reductions in the cash rate, stringent lending conditions by commercial banks, higher perceived default rates being priced into lending rates and the collapse of many traditional funding sources. Expansionary fiscal policy in the form of government stimulus packages have been well below the 2% of GDP that has been recommended by the IMF and this also looks to be the case in the immediate future.

In the past decade, growth in the Australian economy has been sustained predominantly by demand for commodities from developing countries such as China and India. Commodity and oil prices are expected to remain low while the current economic conditions persist.

Risk aversion has resulted in the global deleveraging of risky assets and assets in emerging markets due to the perceived risk associated with these economies. The IMF has anticipated that capital flows to emerging markets are likely to continue to be scaled back, meaning that entities in these economies will have to become proactive in sourcing funds domestically. Lower economic activity in these countries is likely to affect the demand for Australian commodities.

2. Rollingstock and Rail Services

The outlook for rollingstock and rail services such as repair, refurbishment, manufacture, supply of components etc are directly related to the outlook for the rail industry. The rail industry can be divided into Passenger and Freight, with the focus of this industry review being Freight.

2.1 Overview of Industry

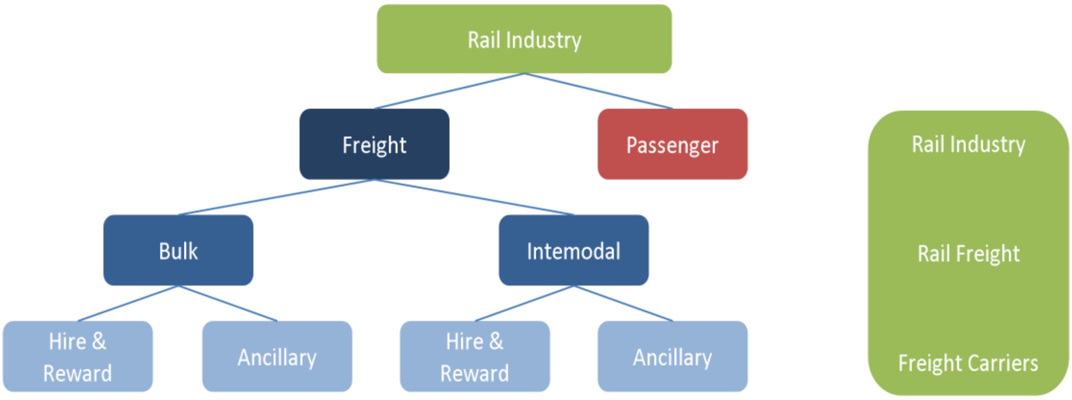
The rail transport industry in Australia is a national industry and a key element in the country's logistics supply chain. The industry is made up of privatised and corporatised freight operators that carry bulk commodities such as coal, iron ore, grain, minerals, etc, and containerised general freight, which is also known as intermodal freight.

The rail networks are managed by both public and private infrastructure owners, with an estimated $3.6 billion invested in rail infrastructure across Australia in 2007. Rail delivers approximately 38% of Australia's freight task on a tonnes per kilometre basis, and in total carries approximately 25% of the country's total freight. Rail is also a significant contributor to Australia's rural and regional economies, producing economic benefits estimated to be $7.7 billion per annum. There are in excess of 300 companies in the rail sector employing tens of thousands, with the Australian rail network comprises approximately 40,000km of track that is used in the haulage of freight.

Rail freight can be divided into two main categories, namely Intermodal and Bulk. Intermodal freight refers to freight that is transported in a standardised container which can be transported by various modes of transport including rail, ship and truck. Bulk freight refers to freight that is transported unpackaged in large quantities and has to be transferred from one type of container to another. Bulk freight consists of predominantly mineral and agricultural products such as coal, ores, grain and sugar. Bulk freight is most commonly intended for export and is generally transported interstate, from the area of production to the closest port. Some key determinants of demand for Australian commodities, and by extension, demand for bulk freight services, are world commodity prices, exchange rates and world commodity stock levels.

Freight carriers are classified as either Hire and Reward (H&R) or Ancillary. H&R refers to transport operators that carry freight for third party entities on a commercial fee for service basis. Ancillary refers to the movement of an entity's own freight by in-house operators. Examples include BHP Billiton Iron Ore, Pilbara Rail Company and Sugar Cane Railways.

The diagram below gives a breakdown of the various classifications of the rail industry, type of rail freight and type of freight carrier:



The rail freight operator sector is comprised of a limited number of companies of which the two major national operators are Queensland Rail and Pacific National. Other large players include Specialised Container Transport (SCT), Genesee & Wyoming and Freightlink.

The table below shows the size of the above mentioned rail freight operators as measured by revenue and the number of employees. It is worth noting that Queensland Rail and Pacific National are significantly larger than any of the other rail freight operators.

	Revenue ($'m)	Employees
Rail freight companies		
Queensland Rail	3,500.0	15,000
Pacific National	1,622	4,000
SCT Logistics	240	800
Genesee & Wyoming	105.8	200
Freightlink	68.3	n/a

Sources: IBIS World (2008), Queensland Rail, Pacific National

2.2 Freight Carried

Between 1985 and 2005 freight carried by Australian rail services more than doubled, increasing 110% from 320.3 million tonnes to 672.7 million tonnes. The table below shows using 1985 as the reference year, by far the largest percentage of this growth occurred during the second half of the time period, with the growth between 1995 and 2005 contributing 78.5% of the total growth for the period, compared to 31.5% growth between 1985 and 1995.

Year Ending June	Tonnes (m)	Growth from 1985
1985	320.3	n/a
1995	421.3	31.5%
2005	672.7	78.5%
		110.0%

Source: Apelbaum Consulting Group

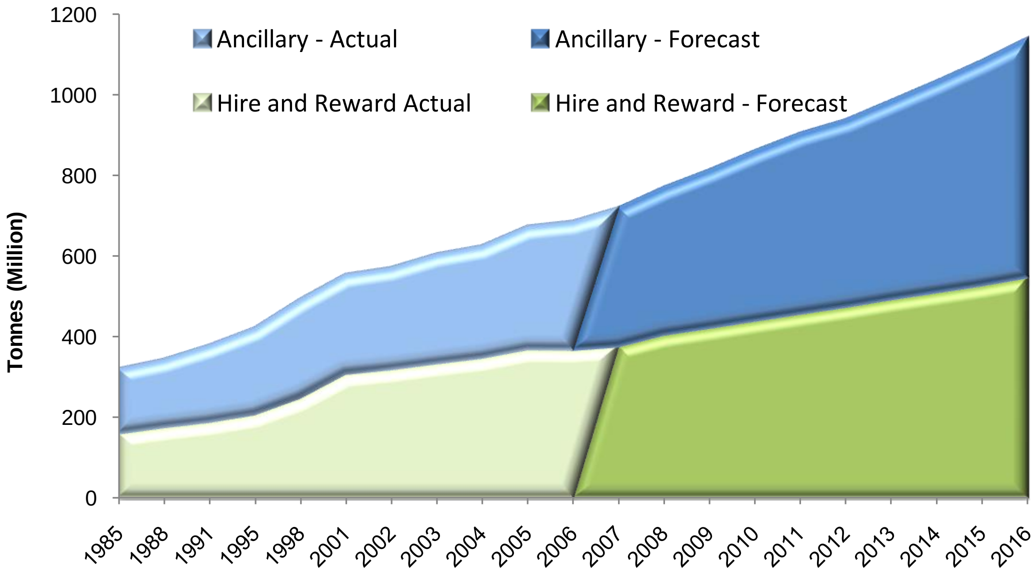
A lot of this increase emanated from the growing demand for Australian commodities including bauxite and iron ore. The increase in tonnes of freight carried for 2006 was less than the average for the preceding 20 years of 17.6 tonnes, increasing only 12.2 tonnes in 2006. This was mainly due to the drought and its subsequent impact on grain movements.

The role of H&R (hire and reward) rail services compared to ancillary services continues to decline, equating to 53.7% of total tonnes carried in 2006 compared with 54.8% in the previous year. This trend is projected to continue with the H&R share declining to 48% by 2016. It is expected that tonnes carried by ancillary services may exceed that of H&R by 2013, as evidenced by more companies such as Fortescue, BHP and Rio Tinto investing in new rail infrastructure.

Looking forward projections indicate that by 2016 total freight tonnes transported per annum is expected to increase by 453.5 million tonnes, or 66.2%, to 1138.4 million tonnes.

The chart below shows historic tonnes of freight carried between 1985 and 2006 categorised by H&R and ancillary, as well as the forecast tonnes expected to be carried over the 10 year period from 2006 to 2016. (Information for 2007-2009 was not available at time of writing).

Rail Freight Tonnes Transported



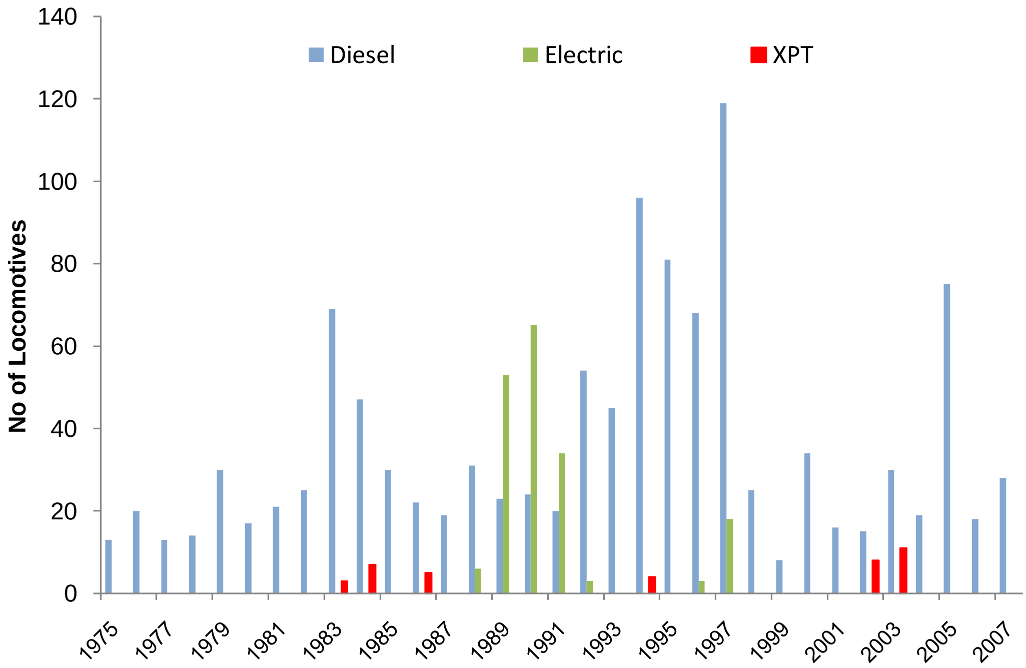
Source: Apelbaum Consulting Group

2.3 Locomotive Age Profile

In 2007 there were 1,829 locomotives servicing the Australian non-urban passenger and freight sectors. Of these locomotives some 88% were diesel powered, 10% electric and the remaining 2% XPT (Express Passenger Train). This was a reduction of 34 locomotives when compared with 2005. However, locomotive productivity as measured by million tonne-kilometres per locomotive, increased by 9.2%, more than offsetting the 1.8% decline in number of locomotives.

Approximately 50% of the locomotive fleet was seventeen years old or younger as of June 2007. Diesel locomotives were the oldest followed by XPT and then electric locomotives. The chart below illustrates the number of locomotives by category that were manufactured per year between 1975 and 2007 which were still in service as of June 2007. At this date there were also 440 locomotives in service that were manufactured before 1975.

Locomotive Manufacture and Age Profile



Source: Apelbaum Consulting Group, Australian Rail Operators and Managers

The chart above shows that between 1975 and 1997, the number of locomotives manufactured per year has on average been increasing, culminating in 137 locomotives being manufactured in 1997 that are still in service today. However, with the exception of 2005 the average number of locomotives manufactured per annum has fallen significantly, indicating that looking forward the average age of locomotives in service will be increasing.

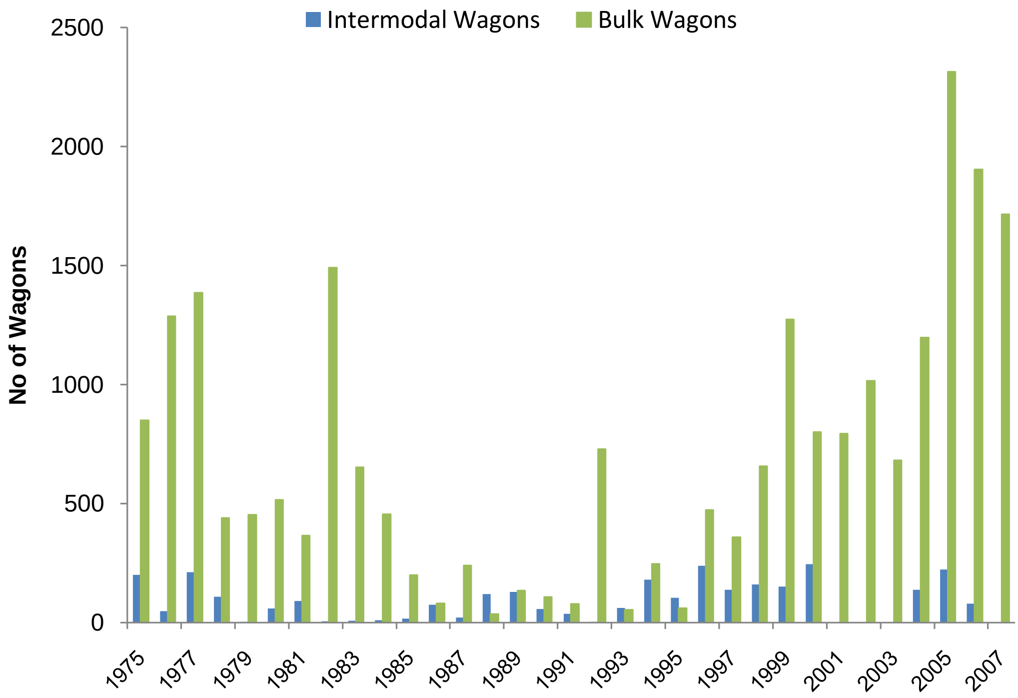
An aging locomotive fleet bodes well for rollingstock and rail services as older locomotives will require more upkeep and repair as well as increasing the demand for certain components.

2.4 Wagon Age Profile

As of June 2007 the Australian rail industry operated 39,169 wagons. Of these, 85.4% were bulk wagons with the remaining 14.6% being intermodal wagons. Of the bulk wagons, 50% were aged twenty-five years or less compared with approximately 50% of intermodal wagons aged thirty-two years or less. Overall 50% of wagons in service were aged twenty-five years or younger with 33.8% older than thirty-two years of age.

The chart below shows the number of wagons, sorted by bulk and intermodal, manufactured per year between 1975 and 2007, that were still in service at June 2007. In additions to this there were a total of 13,245 wagons of which 10,413 were bulk and 2,832 were intermodal, which were manufactured before 1975 and still in service in June 2007.

Wagon Manufacture and Age Profile



Source: Apelbaum Consulting Group, Australian Rail Operators and Managers

The chart illustrates that for the twelve year period between 1985 and 1997 the average number of wagons manufactured per annum was low compared to preceding periods. However, between 1997 and 2005 the average number of wagons manufactured per annum had been steadily increasing peaking at 2,535 wagons manufactured in 2005. Even though 2006 and 2007 saw lower numbers of wagons manufactured at 1,982 and 1,714 respectively, this is still much higher than the preceding years' average of 656 wagons manufactured per annum between 1975 and 2004.

A higher average number of wagons manufactured per annum will increase the demand for services such as the supply of components and manufacturing services.

It is however important to note that the past year's decline in demand for commodities will have a significant effect on tonnes of freight transported and subsequently on the demand for wagons. This effect is not yet reflected in available statistics.

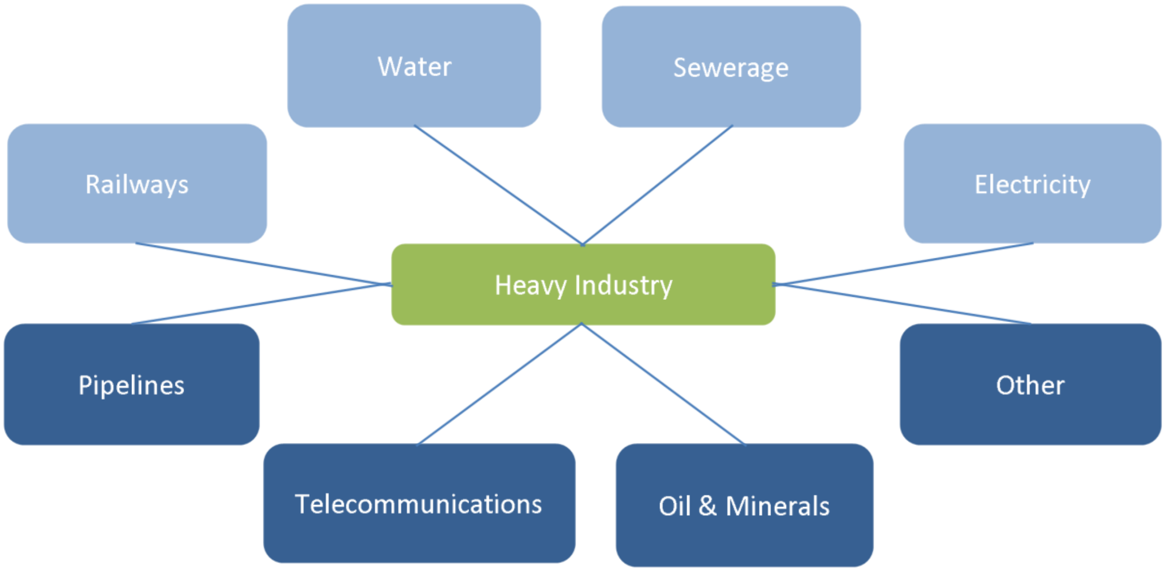
3. Heavy Industry

3.1 Introduction

Analysis of engineering firms serving heavy industry is limited to the small amount of information available in the public domain. Given the down stream nature of service providers to this industry, macro and microeconomic factors that determine heavy industry performance have a similar affect on engineering service providers. As such, the following industry analysis uses heavy industry as a proxy for engineering service providers to heavy industry.

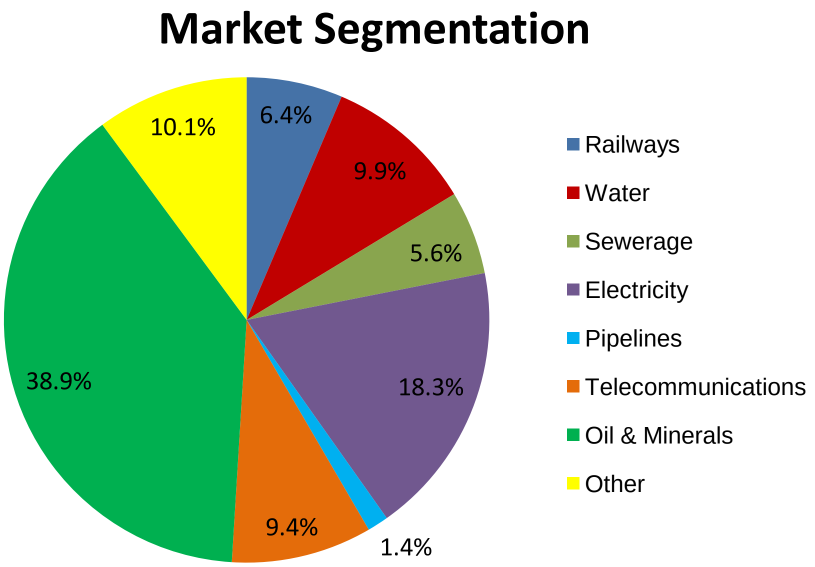
3.2 Industry Overview

Broadly, heavy industry can be divided into engineering projects or infrastructure development. Heavy Industry activities can be further divided into the broad catagories illustrated in the diagram below.



In Australia, industry activity relates to mine construction, electricity generation and distribution facilities, construction of oil refineries and chemical plants, water supply and storage infrastructure, treatment plants, telecommunication facilities, railway infrastructure and sewerage and drainage facilities. Essentially, the provision of products and services can be broken down into two distinct categories. The planning, design and management of projects (project engineering) and the development and construction of assets and infrastructure (project development).

In the past ten years, industry activity has been dependant on two factors; the population distribution and private sector investment. Until the early 1990's, public utilities were developed and managed by the public sector. Many public utilities have since become privatised. This propensity to privatise utilities, together with proportionately high levels of private investment in mineral and infrastructure projects (primarily in WA and Queensland due to buoyant commodity prices) mean that public funding in this sector has trended steadily downwards. With these industry characteristics in mind, project funding is determined largely by government policy on public sector ownership and the end use of the infrastructure.



Source: IBIS World (Heavy Industry and Other Non-Building Construction in Australia - Industry Report**)**

Private investment decisions are directly related to unit pricing, down stream demand and the business cycle. In relation to public investment decisions, the role of government means that government expenditure is usually countercyclical or even independent of economic conditions and unit pricing. The determinants of public and private investment decisions together with the proportionate increase in private sector investment in heavy industry mean that the volatility of heavy industry activity is high.

3.3 Key Companies & Competition Characteristics

	Market Share	Employees
Heavy Industry Companies		
Leighton Holdings Limited	8%	37,000
Lend Lease Corporation Limited	6%	10,000
Downer EDI Limited	6%	24,000
Bilfinger Berger Australia	3.5%	50,000

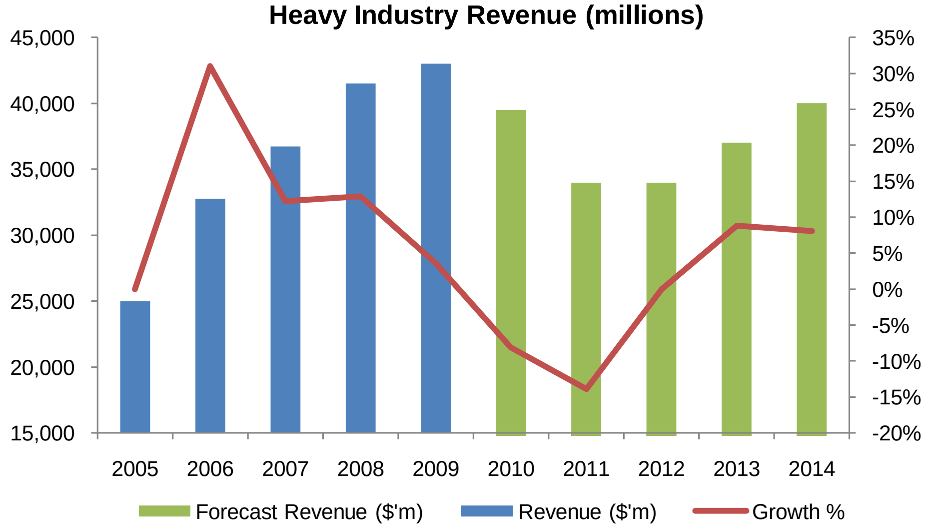
Source: IBIS World (Heavy Industry and Other Non-Building Construction in Australia - Industry Report) & Annual Reports

Approximately 135,000 persons are directly employed in heavy industry. However, the reliance on subcontracted labour suggests that the industry’s full-time equivalent workforce is approximately 300,000 to 350,000. Companies typically lease equipment and use subcontracted labour in an effort to minimise financial risk and maintain flexibility. Compared to other domestic industries, competition is moderate in that the 50 largest contractors account for only half of the industry’s revenue.

There are no regulatory or natural barriers to entry in heavy industry. However, industry assistance is low and contracts are typically allocated through business relationships, industry knowledge and proven performance. These issues mean that it is difficult for new competitors to enter the market. New competitors are likely to be faced with difficulties competing with companies that have developed strong business relationships and have a proven track record.

3.4 Industry Performance

For the year ended 30 June 2009, total heavy industry revenue was approximately $43 billion, a 3.6% increase from the following year. Over the past five years heavy industry total revenue growth has averaged 14.9% per annum, primarily due to high commodity prices and the consequent downstream demand from the mining sector. This growth rate is more than four times the pace of Australia's GDP, which averaged 2.6% per annum for the same period. As a result of growing industry demand there has also been a steady flow of new entrants into the industry.



Source: IBIS World (Heavy Industry and Other Non-Building Construction in Australia - Industry Report) & Annual Reports

As shown in the graph above, industry activity has moderated in the past 18 months following the collapse of financial markets, falling commodity prices and general deterioration of economic conditions; all of which are determinants of heavy industry private investment. Low investor sentiment and inaccessible debt markets are causing projects to be delayed or even cancelled. Similarly, low commodity prices are reflected in moderating demand for mine construction and related investments. The industry's reliance on funding from the private sector has exacerbated the moderation in activity.

3.5 Future Outlook

It is expected that there will be a significant industry contraction over the next five years lead by lower investment in mining and energy projects. This will be partly offset by the new Gorgon gas project. Weak Chinese demand for Australian commodities and flat commodity prices have delayed, and will continue to delay mining projects. It is expected that investment in mining and energy infrastructure will fall by 4.4% per annum on average until 2014. Similarly, railway and harbour investment is expected to fall before stabilising in 2012 and 2013. Competitive forces are expected to squeeze profit margins and cause some participants to leave the industry (especially in WA and Queensland). This will have a significant impact on the performance of companies, particularly those servicing the resource and energy sectors.

Despite the industry's poor outlook, total industry revenue is expected to remain 3% above the estimated average for the previous five years to June 2009. To some extent, poor performance in heavy industrial construction will be offset by investment into water and sewerage infrastructure, pipeline construction and electric power generation projects. Ongoing large scale developments in the mining, oil and gas industries (particularly in Western Australia) will also provide some insulation from the slowdown.

While activity in heavy industrial construction is likely to decline over the next five years, a recovery of global investment conditions and expansionary fiscal policy at the state and federal levels suggests that it will stabilise in 2012. Industry recovery is expected in 2013 or 2014, driven by strong investment into water supply, pipeline, telecommunications and electric power projects. Despite lower investment into oil and mineral infrastructure projects over the forecast period, activity in this market is expected to remain well above the levels of the late 1990s and early 2000s. Industry revenue is forecast to climb in line with downstream demand to reach a record $40 billion in the year to June 2014, remaining 7% below its current record level, but around twice the level of the early 2000s.

Appendix 3 – Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

1.1 Net tangible asset value on a going concern basis ("NTA")

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when entities are not profitable, a significant proportion of the entity's assets are liquid or for asset holding companies.

1.2 Quoted Market Price Basis

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a "deep" market in that security.

1.3 Capitalisation of future maintainable earnings ("FME")

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ("**EBIT**") or earnings before interest, tax, depreciation and amortisation ("**EBITDA**"). The capitalisation rate or "earnings multiple" is adjusted to reflect which base is being used for FME.

1.4 Discounted future cash flows ("DCF")

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

Appendix 4 – Comparable Companies

United Group Limited

United Group is a diversified engineering, construction, facilities management and maintenance company. Its four operational segments comprise; UGL Infrastructure, offering construction, engineering and operational and maintenance services; UGL Rail, a rail technology provider supplying outsourced asset management and rolling stock maintenance services; UGL Resources which provides multi-discipline services to the resources sector; and UGL Services, providing outsourcing services including facilities management, accounting and procurement. .

Downer EDI Limited

Downer EDI Limited provides engineering and infrastructure management services to the energy, communications, resources and transport sectors. The company operates various business divisions including infrastructure, engineering, mining, resource and railway. Services Downer provides include development, asset management and maintenance of public and private infrastructure assets, electrical and mechanical contracting services, telecommunication, and rolling stock services.

Monadelphous Group Limited

Monadelphous Group Limited is a leading provider of engineering and construction services to the resources and petrochemical industries in Australia. The company also provides maintenance and industrial services to the energy and infrastructure sectors. Services include mining equipment refurbishment, process plant and project maintenance, freight loading, plant commissioning, equipment installation and aviation support.

Macmahon Holdings Limited

Macmahon Holdings Limited is an Australian based civil engineering and contract mining company. The company operates two business segments, mining and construction, in Australasia and South East Asia, with the bulk of operations within Australia. Macmahon's contract engineering services are available for roadwork, mining, ports, dams, railways, airports and bridges.

GRD Limited

GRD Limited is an Australian based engineering, development and operating company that offers design and construction services for mineral and waste to resource projects. The company also offers fabrication services to the resources, infrastructure, oil and navy sectors. Recent revenues reflect increased income from the engineering construction business segment of the group.

Toll Holdings Limited

Toll Holding Limited is an integrated transport and logistics provider offering express freight transport by road, rail and sea. The company provides logistics and distribution systems, including port operations, specialized warehousing, vehicle transportation, shipping and rail line haul operations for freight and passengers and bulk liquid transport.

K & S Corporation Limited

K & S Corporation Limited provides transportation, warehousing, fuel distribution and logistics solutions in Australia. The company offers a range of international transport by road, rail, air and sea, and global supply chain management services. In addition the company offers electronic card fuelling and inbound/outbound logistics services.

Asciano Group

Asciano Group owns and operates transportation infrastructure in Australia and New Zealand. The company offers interstate rail freight services to freight forwarders and steel manufacturers, port services, bulk haulage of industrial products, and line haul services for containerized freight for shipping companies.

Bradken Limited

Bradken Limited manufactures and supplies industrial products and maintenance services to the mining, minerals processing, rail and industrial markets. The company operates through five divisions; industrial, mining, mineral processing, rail, and power and cement. Main products include wear components for mining and earthmoving equipment, equipment and consumables for mineral processing and quarrying, freight rolling stock products, cast, machined and fabricated components, and foundry consumables.

Cardno Limited

Cardno Limited provides consulting engineering services for the construction, infrastructure and natural environments industries. The company's operations are predominantly focused in Australia and South East Asia; however there are also operations on North America, the United Kingdom and Africa. Cardno has expanded its operations in recent years by making strategic acquisitions in the engineering sector.

National Hire Group Limited

National Hire Group Limited manufactures, assembles, sells and supports lighting, power generation, access, temporary accommodation and dewatering equipment. The company operates throughout Australia and recently acquired Coates Hire Limited. Some of its wholly owned subsidiaries include DWB Unit Trust, NAHI Pty Limited, National Hire Administration Pty Limited, National Hire Operations Pty Limited and National Hire Properties Pty Limited.

Sedgman Limited

Sedgman Limited is an Australian based company supplying engineering and operational services to the resources industry. The company also provides coal processing and materials handling technologies. The segments of the company are engineering services and operations. The operations segment includes operation and ownership of coal handling and preparation plants and ore crushing and screening plants.

RCR Tomlinson Limited

RCR Tomlinson Limited provides integrated engineering solutions comprising design, manufacture, service, construction, repair and maintenance to the Australian resources and construction industries. The company is made up of RCR Engineering, RCR Energy Systems & Industrial Services, RCR Construction & Maintenance and RCR Positron Electrical Services.

Lycopodium Limited

Lycopodium Limited is engaged in engineering consulting in the mining, metallurgical and manufacturing industries. The company's four operating segments are engineering, procurement and construction management, design and construct, and study services and project services. Lycopodium operates in Australia and Africa.

Boom Logistics Limited

Boom Logistics Limited is one of the leading suppliers of equipment for lifting operations on Australia. The company offers mobile, tower and project cranes, maintenance services, platforms and boom lifts to various industrial markets including resources and commercial construction. Booms lifting solutions cover almost any type of construction, Australia wide.

Forge Group Limited

Forge Group Limited provides engineering and construction services to the resource and mining industries, steel fabrication services, and maintenance services for the Australian Navy. Its subsidiaries are Cimeco Pty Ltd, Alanthus Nominees Pty Ltd, Abesque Engineering & Construction Limited and Webb Construction West Africa Limited.

Regional Express Holdings Limited

Regional Express Holdings Limited offers scheduled air passenger and freight transportation services within Australia. The Rex Group comprises Regional Express, air freight and charter operator Pel-Air Aviation and Dubbo-based regional airline Air Link, as well as the pilot academy Australian Airline Pilot Academy.

Wridgeways Australia Limited

Wridgeways Australia Limited provides specialised logistic services to government bodies, the corporate sector and private individuals. The company offers various transportation services, assists in issues related to budget preparation, project management and relocation planning, and provides cleaning services to clients.

Lindsay Australia Limited

Lindsay Australia Limited is an integrated transport, logistics and rural supply company. The company services customers primarily in the food processing, food services, fresh produce, rural and horticultural industries. The company’s transport division operates under the brand name, Lindsay Transport, and its rural supplies division operates as Lindsay Rural.

Scott Corporation Limited

Scott Corporation Limited provides bulk haulage of materials, warehousing and distribution, materials handling, and waste management. The company’s Bulktrans division handles bulk solid materials including coal, metal scrap, mineral concentrates, excavated material and waste. The other division, Chemtrans, is the national bulk chemical and fertiliser transport specialist.