coote INDUSTRIAL

The Directors of Coote Industrial Limited **unanimously recommend that you REJECT** the Elph offer

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION
If you are in doubt as to its contents, please contact your professional adviser

Target's Statement

by Coote Industrial Limited ABN 99 120 432 144

Financial Advisor
GRESHAM INVESTMENT HOUSE

Legal Advisor
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IMPORTANT NOTICES

This Target's Statement dated 12 April 2010 is given by Coote Industrial Limited ABN 99 120 432 144 **(Coote)** under Part 6.5 of the Corporations Act in response to the Offer made by Elph Pty Ltd ABN 52 070 012 252 **(Elph)** to acquire up to 35% of the Coote Shares it does not have a relevant interest in pursuant to the Bidder's Statement dated 17 March 2010. Coote Shareholders should read this Target's Statement in its entirety.

Defined terms

Defined terms are explained in the glossary in Section 9 of this Target's Statement.

No account of personal circumstances

This Target's Statement does not take into account the individual investment objectives, financial or tax situation or particular needs of each Coote Shareholder. Coote Shareholders may wish to seek independent financial and taxation advice before making a decision whether or not to accept the Elph Offer for their Coote Shares.

Disclaimer regarding forward looking statements

This Target's Statement contains forward looking statements. Coote Shareholders should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industries in which Coote operates as well as general economic conditions and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and such deviations are both normal and to be expected. None of Coote, its Directors, any of its officers, any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. Coote Shareholders are cautioned not to place undue reliance on those statements.

ASIC and ASX disclaimer

A copy of this Target's Statement has been lodged with ASIC and sent to the ASX. None of ASIC, ASX nor any of their respective officers takes any responsibility for the content of this Target's Statement.

Additional shareholder information

Coote Shareholders requiring additional information should call the company on **+61(0)8 9251 8000.**
Announcements relating to the Elph Offer can be obtained from Coote's website at **www.coote.com.au.**

Key dates

Date of Elph Offer (beginning of Offer Period)	31 March 2010
Date of this Target's Statement	12 April 2010
Date for Elph to give notice of status of conditions (subject to change if Offer Period extended)	23 April 2010
Closing date of Elph Offer (unless extended or withdrawn)	3 May 2010

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CHAIRMAN'S LETTER

Dear Shareholder,

On 3 March 2010, Elph Pty Ltd (**Elph**), a 24.95% shareholder in Coote, announced its intention to make an unsolicited proportional takeover offer for 35% of the issued Coote Shares that it does not already own (the **Elph Offer**). This Target's Statement sets out your Directors' formal response to the Elph Offer as set out in Elph's Bidder's Statement.

The Coote Directors unanimously recommend that you **REJECT the Elph Offer**.

Your Board is of the view that Elph has opportunistically timed its Offer to exploit weakness in the Coote Share Price before the benefits of Coote acting to strengthen its balance sheet and simplify its business model can be properly realised and the expected results flow through to a significantly stronger share price.

We believe the Offer fails to recognise Coote's growth potential across its core businesses which have established specialist niche positions not only within the rail sector, but also within the resources, maritime, defence, and power generation sectors at a domestic and international level. Significant escalation of activity is currently being experienced within the resources and rail sectors in particular, and some Coote businesses are already benefitting from steadily increasing demand. This increase in activity may be reflected in the second half earnings result for this financial year, but the impact is likely to be more pronounced in the 2010/11 fiscal year.

Your Board is concerned about Elph's stated intent to use its influence to focus Coote's business predominantly upon the rail sector. It is important to note that while the rail sector accounts for around a half of current revenues, group businesses achieve significantly higher margins in other sectors. Coote has well established expertise in the design, manufacture, maintenance and support of heavy industrial equipment used within a wide range of industries. Our diversity is a strength which mitigates the risks associated with heavy dependence upon a single industry sector.

Your Board has already made progress in dealing with restructuring the business, with the recently announced divestment of the South Spur Rail Services business representing an important milestone. Successful conclusion of this transaction is expected to positively impact both the recapitalisation of Coote, and the financial separation of the Greentrains subsidiary. This and other initiatives will allow Coote to concentrate on delivering value to our loyal shareholders.

Coote has been engaged in discussions with Elph for some time prior to the announcement of the Offer regarding greater cooperation between the two companies. The Board recognises the substantial commercial acumen of the Elphinstone Group's founder, Mr Dale Elphinstone, and the value that a cooperative strategic relationship with the Elphinstone Group could bring to Coote's ongoing success. We indicated that we would be prepared to invite Mr Elphinstone to join the Board, together with one or more appropriately qualified independent, non-executive directors. Mr Elphinstone has not accepted this offer, which remains open.

In the view of your Board, the Elph's proportional Offer simply does not represent a fair deal for Coote's Shareholders. This view is confirmed by the Independent Expert's Report, which has concluded that the Elph Offer is not fair and not reasonable to Coote Shareholders. The benefits that Elph could bring to Coote do not justify your acceptance of the Elph Offer. Therefore, our firm recommendation is that you reject the Elph Offer.

Yours sincerely

Donald Hector
Chairman

I. WHY YOU SHOULD REJECT THE ELPH OFFER

Your Directors unanimously recommend that you REJECT the Elph Offer for the following reasons:

- **x The Elph Offer is structured to achieve control of Coote at the lowest possible price**

- **x The Independent Expert has concluded that the Elph Offer is NOT FAIR and NOT REASONABLE**

- **x The Elph Offer does not provide any material benefits to Coote or its shareholders**

- **x The Elph Offer is opportunistically timed to capture the potential benefits of Coote's current business initiatives**

- **x The Elph Offer does not recognise Coote's growth potential across its various businesses**

Coote's Directors (who in aggregate hold 16.75% of Coote Shares) intend to **REJECT the Elph Offer** in respect of the Coote Shares they own or control.

Further information in relation to the reasons your Directors are recommending you **REJECT the Elph Offer** are detailed in the following pages.

The Elph Offer is structured to achieve control of Coote at the lowest possible price

Your Directors consider Elph's fundamental objective is to secure effective control of Coote at the lowest possible price.

While the Offer is at a premium to recent pre-announcement trading, as can be seen from the Coote Share price graph below, the premium is not substantial relative to the price at which Coote Shares have traded since the beginning of this financial year.

Coote Share Price Performance

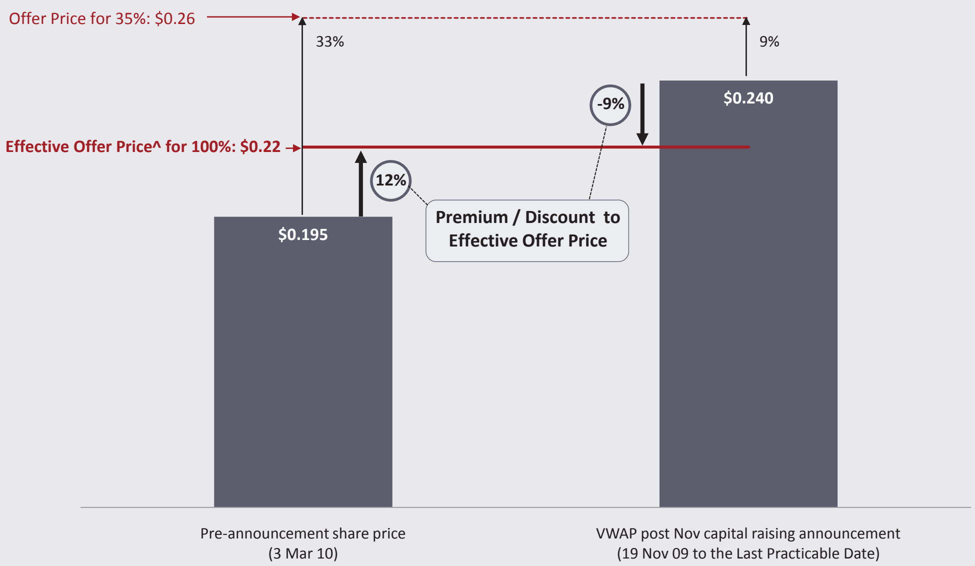
Source: IRESS, Company announcements. IRESS has not consented to the use of its trading data in this Target's Statement.

Elph has sought to justify its Offer based on trading in Coote Shares since the start of calendar year 2010. While Elph suggests the Offer premium falls within a typical takeover range, it is important to consider the following:

- Based on the volume weighted average price (**VWAP**) of Coote Shares since the announcement of Coote's capital raising on 18 November 2009, the premium falls to only 9%, well below the typical bid premium range alluded to by Elph.
- In any event, your Directors do not consider that the short-term, pre-announcement market price is necessarily a fair representation of the underlying value of Coote Shares over the medium term for the reasons set out in this section and in the report of the Independent Expert (and subject to the risks outlined in Section 2).
- Even if the pre-announcement trading price was a fair reflection of underlying value, which your Directors do not accept, Elph is only offering to acquire up to 35% of your Coote Shares, meaning that 65% of the value of the Elph Offer is represented by the price of Coote Shares following the close of the Elph Offer.
- Elph is encouraging you to accept its Offer with the suggestion that you face the risk that "any takeover premium in the Coote Share price may disappear following the close of the Elph Offer". If this indeed is the case, and Coote Shares return to pre-announcement share price of $0.195, then Coote Shareholders will have seen control pass to Elph for an overall **takeover premium** of only two to three cents per share.

In its Bidder's Statement, Elph has also stated its intentions to appoint Mr Vincent De Santis to the Coote Board, as well as seek to appoint other nominees to the Board of Coote depending on the extent of success of the Elph Offer. This provides further evidence of Elph's intention to achieve effective control at the lowest possible price.

Elph Offer – Overall Takeover Premium Analysis



Note: ^ The Effective Offer Price of $0.22 is calculated as 35% x $0.26 + 65% x $0.195 (being the pre-announcement share price).

Fundamentally, Elph is asking you to give up control of Coote for only a modest short term gain on a maximum 35% of your Shares. If control does pass to Elph, the prospects of you receiving another offer from anyone other than Elph will be greatly reduced, and you will hold shares in a relatively illiquid listed company (Elph itself states in the Bidder's Statement that it has no intention of privatising Coote).

Elph has acquired its 24.95% current interest in Coote at an average cost of approximately $0.21 per Share. Elph is now seeking to increase its interest to a maximum of 51.21% through its 35% proportional take-over offer at $0.26 per share. Given that your Directors, with 16.75% of the Company, have stated they intend to reject to the Elph Offer, the maximum holding Elph could achieve if all other shareholders accepted the Elph Offer in full is 45.35%.

However, even if half of the remaining Coote Shareholders accept the Elph Offer in full, Elph's interest in Coote will move to 35%. Given the nature of Coote's widely spread register, this may still provide Elph with effective control of Coote. Elph has made it abundantly clear in its Bidder's Statement that it intends to exert this control through the appointment of its representatives to the Coote Board of Directors and by undertaking a broad-ranging review of the business.

Elph's current shareholding may not give it enough votes at a shareholder's meeting to elect its nominees to the Board. Your Directors are, therefore, concerned that the proportional takeover Offer is merely a device for Elph to acquire more shares that it can vote at such a meeting at the lowest possible price. However, even if you wish to support any Board changes proposed by Elph, you do not need to sell your shares at an unfair value to do so. You have other choices:

- First, you can support the current Board, which is prepared to support the appointment of Mr Elphinstone to the Board together with the appointment of one or more additional independent, non executive Directors.
- Second, you can vote your shares how you wish if Elph calls a shareholders' meeting. By accepting the Offer you will be giving some of your votes to Elph and reducing your choices. You will be giving up 35% of your voting rights now.

If you just want to sell your Coote Shares for cash, you can do so on market, where you can sell all of your shares. At the date of this Target's Statement, Coote Shares were trading at about the Offer Price under the Elph Offer.

In summary, your Directors unanimously consider that the effective overall takeover premium of only a few cents per share is clearly not sufficient to enable them to recommend you accept the Elph Offer.

The Independent Expert has concluded that the Elph Offer is NOT FAIR and NOT REASONABLE

Coote engaged BDO Corporate Finance (WA) Pty Ltd (**BDO**) to prepare an Independent Expert's Report in relation to the Elph Offer. A full copy of the Independent Expert Report is included with this Target's Statement as Annexure 1. You are encouraged to read this report in its entirety.

BDO has concluded as follows:

- BDO has determined the value of a Coote Share to lie in the range of $0.36 to $0.50, as against the Elph Offer price of $0.26, and has therefore concluded that the Elph Offer is **not fair**.
- BDO has expressed the view that the Elph Offer is **not reasonable**, on the basis that the disadvantages of the Elph Offer (including loss of control, reduced liquidity, dilution of your interest in Coote, less likelihood of a takeover, potential tax consequences and misalignment of Elph's objectives compared with Shareholders' objectives) outweigh the advantages.

The Elph Offer does not provide any material benefits to Coote or its Shareholders

In the Board's view, the Elph Offer does not provide any material benefits to Coote or its Shareholders, for the following reasons:

- **Price:** Elph argues you will benefit from receiving a takeover premium for up to 35% of your Shares and that if you do not accept, the Coote Share Price may fall once the Offer closes; and
- **Other benefits:** Elph argues you will share in the longer term value for the remaining 65% of your Coote Shares that that will flow from the experience, relationships and skills of the directors it will nominate to the Coote Board.

As discussed earlier, your Directors believe that on its own, the price argument is insufficient to warrant recommending acceptance of the Elph Offer and control passing to Elph. This view is also supported by the Independent Expert's conclusion that the price under the Elph Offer is **not fair**.

In addition, after due consideration, your Directors are of the view that the "Other benefits" of the Elph Offer are not sufficiently compelling to outweigh the cost of accepting the low Offer Price. As set out below, your Directors **do not** consider the Elph Offer brings any other material benefits to justify us recommending you accept.

1. Elph Board representation is available regardless of the outcome of the Elph Offer

Elph states in its Bidder's Statement that it intends to seek to appoint at least two representatives to the Coote Board "*to assist with delivering shareholder value*".

Regardless of the outcome of the Elph Offer, your Directors would welcome Mr Dale Elphinstone to the Board, subject to the identification of one or more suitably qualified, independent, non-executive directors. The Board's view is that one board seat would be sufficient to enable the Company to benefit from the commercial acumen of the Elphinstone Group and Mr Elphinstone. This would provide Elph with one Board representative of five (assuming the appointment of one other non-executive director), broadly in line with Elph's current shareholding.

You do not have to accept the Elph Offer in order to benefit from Mr Elphinstone's skills and experience.

2. Potential conflict of interest

Coote also has concerns with the conflict of interest that may come with greater representation for Elph on the Coote Board. In its Bidder's Statement, Elph strongly promotes itself as the saviour of Coote, yet also states that its parent Elphinstone Holdings Pty Ltd has a "present intention" to exercise its Greentrains Put Option, which could place increased financial pressure on Coote.

There is a conflict of interest between the Elphinstone Group, as a Coote shareholder, wanting to secure control through board representation, and its stated intention to exercise the Greentrains Put Option. Your Directors expect this matter will need to be further discussed prior to any Elph representative being appointed to the Coote Board.

3. Elph's focus on the rail sector is not in Coote's best interests

Elph has stated that it intends to conduct a review of Coote's assets and operations to evaluate their role in the achievement of "*a focused business strategy for Coote…with a particular focus on the provision of equipment and services to the Australian rail industry*".

Coote is already substantially progressed upon a business simplification pathway and, as evidenced by the South Spur Rail Services transaction (refer to Section 5.6), is quite prepared to divest businesses that do not fit with the strategy.

However, your Directors consider it **neither necessary nor wise to restrict the focus of the Coote business primarily to the rail industry**, particularly at a time when the overall resources sector appears to be entering a new growth stage. To do so would diminish the optionality inherent in a diversified engineering and technical services business, with established expertise across a wide range of industries. Coote's diversity is a strength which mitigates the risks associated with heavy dependence upon a single industry sector.

4. Elph's Caterpillar relationship is of limited value

Elph argues that through its "*strong and valued relationships with Caterpillar*" it can play a key role in realising the considerable business potential for Coote in its dealings with Progress Rail Services (a wholly owned subsidiary of Caterpillar Inc).

Coote entered into an exclusive Australian distribution rights agreement with Progress Rail Services in July 2008. This relationship is still in its formative stages and while it has not yet realised material value for Coote, it is recognised as being of strategic importance to the rail business.

Coote has a track record of successfully dealing with a wide range of suppliers and has in excess of a dozen similar important strategic alliances. Your Directors do not believe that having Elph as more substantial shareholder would make a material difference to the business potential of the relationship with Progress Rail Services business.

The Elph Offer is opportunistically timed to capture the expected benefits of Coote's current business initiatives

Your Directors recognise that Coote still faces challenges, in particular the recapitalisation of the Company and achievement of an effective financial separation of the Greentrains business. Elph has been aware of decisions made to date, and has demonstrated its support by the provision of funding in the form of convertible notes and participation in placements.

Value is clearly about the future and not the past. In your Directors' view, the Elph Offer is intended to capture more of the value that might otherwise flow to all Coote Shareholders in the short to medium term from the successful implementation of the business initiatives the Company is pursuing.

- Coote has already undertaken a number of steps in the current financial year to strengthen its balance sheet and simplify its business model, including the $31 million equity capital raising announced in November 2009 and subsequent substantial reduction in gearing;
- Coote announced to the ASX on 5 March 2010 (subsequent to completion of the Company's financial report for the half-year ended 31 December 2009) that it had received an offer from the Commonwealth Bank of Australia (the **Bank**) for an extension of its existing credit facilities until 28 February 2011, and is in the advanced stage of finalising documentation for the extended facilities;
- Coote also announced to the ASX on 23 March 2010 the signing of a binding term sheet with POTA Holdings Pty Ltd for the sale of its South Spur Rail Services business, which will enable Coote to focus more clearly on its core business as a service provider to heavy industry. The proceeds will also be used to reduce debt further; and
- With the sale of South Spur Rail Services on target for the second quarter of 2010, the potential to finalise the recapitalisation of Greentrains is enhanced, meaning that the business simplification process announced to the market early in the year is well advanced.

Your Directors consider that the timing of announcement of the Elph Offer on 3 March 2010 is no coincidence and was opportunistically timed to coincide with short term weakness in the Coote Share Price. The Elph Offer was announced:

- just two days before Coote announced the extension of Coote's finance facilities on 5 March 2010; and
- three weeks before the announcement of the South Spur Rail Services transaction on 23 March 2010, which although still uncertain and confidential, was known to Elph in broad terms prior to announcement of the Elph Offer.

The Board continues to work diligently on finalisation of new debt facility documentation for Coote (see Section 2.4) and on achieving a funding solution for Greentrains. The refinancing of Greentrains will facilitate the settlement of the second tranche of rollingstock which Greentrains has committed to purchase from Gemco Rail and will also allow the Company to be de-consolidated, which will substantially improve the overall gearing levels of the Coote Group.

Subject to the risks outlined in Section 2, the Board believes that the finalisation of new funding facilities for Coote, the sale of the South Spur Rail Services business and the expected recapitalisation of Greentrains would be reflected in a strengthening Coote Share price, and that the Elph Offer is timed to capture a greater proportion of that value.

The Elph Offer does not recognise Coote's growth potential across its various businesses

The Board considers that the Elph Offer does not recognise the growth potential which is inherent in Coote's various businesses.

Following the business simplification process, Coote now operates through the following five key businesses:

- **Convair:** Bulk storage and transportation tankers
- **Momentum:** Rail infrastructure construction and maintenance
- **Industrial Powertrain:** Diesel engine and powertrain systems maintenance
- **Drivetrain Power and Propulsion:** Power, propulsion and powertrain systems and ancillary equipment
- **Gemco Rail:** Railroad rollingstock design, manufacture and servicing

Each of these businesses is focused on engineering and technical services, and enjoys excellent operational leverage to the economic recovery currently being experienced in Australia and other markets benefitting from strength in commodity prices.

As noted above, the Board is concerned by Elph's statement that it may seek to cause Coote to dispose of certain assets or businesses that do not meet unspecified performance thresholds. Elph appears predominantly focussed on the rail related activities of Coote's business. However, while Coote's rail business currently generates approximately half of its revenues, other businesses within the group operate at significantly higher margins.

The Board is concerned that Elph's intention may be to limit Coote's focus on the rail sector, where there are the greatest potential synergies with the Elphinstone Group's other businesses, particularly William Adams, which is the authorised dealer of Caterpillar equipment in Victoria and Tasmania. While this may be in the best interests of the Elphinstone Group, it does not necessarily represent the best outcome for **all** Coote Shareholders.

As a Board, while we will continue to pursue opportunities for simplification in the business and driving of additional efficiencies, we remain committed to operating a diversified engineering and technical services business, and, as noted above, consider our diversity to be a strength, not a weakness.

2. RISKS OF REJECTING THE ELPH OFFER

2.1 Possible fall in Coote Share price

It is possible the Coote Share price may fall from its current level at the end of the Elph Offer. However, given the positives associated with the sale of South Spur Rail Services, strengthening underlying business fundamentals and the fact the Elph Offer is only a 35% proportional offer, it is certainly not a foregone conclusion that this will occur.

2.2 The Elphinstone Group may exercise its Greentrains Put Option

Elphinstone Holdings Pty Ltd, the parent company of Elph, has stated its present intention is to exercise its Greentrains Put Option at a yet to be determined time before expiry of the Greentrains Put Option on 17 July 2010. If this happens, Coote will need to make a cash payment to Elphinstone Group of $6.5 million. This will clearly place additional financial pressure on Coote. The Board is of the view that this cash would be better put to use reducing other debt or supplementing working capital.

If the Greentrains Put Option is exercised, Coote will have to source $6.5 million. As at the date of this Target's Statement, Coote does not have $6.5 million from available cash flow and current facilities to fully meet this obligation. Your Directors have considered possible sources of this cash, which may include one or a combination of the following:

- First, Coote could request that its Bank allows $6.5 million of the proceeds of the sale of South Spur Rail Services business to be made available to meet this obligation. For this to occur, the South Spur Rail Services transaction must settle no later than 20 business days after the exercise of the Greentrains Put Option, and the Bank would have to consent to the payment of $6.5m out of the proceeds of the sale. As at the date of this Target's Statement, the Bank is requiring that $13m of the expected $15m proceeds from the sale of the South Spur Rail Services business be applied to the reduction of debt. There is therefore no guarantee that the conditions to the availability of this funding will be fulfilled.
- Second, Coote may be in a position to meet the obligation to pay $6.5m out of a combination of future operational cash flow and new facilities currently under negotiation with the Bank. While this is possible, it depends on a number of factors outside Coote's control, including the timing of the exercise of the Greentrains Put Option, the short term performance of the Coote business between the date of this Target's Statement and the date the amount is due under the Greentrains Put Option, and the position finally reached with the Bank in respect of the facility agreements which are currently being negotiated (see Section 2.4).
- Third, Coote could issue new equity, either through a rights issue or a placement. This would breach the conditions of the Elph Offer, and a placement (without shareholder approval) would also require a waiver of Listing Rule 7.9, if made within 3 months of announcement of the Elph Offer. Any such equity is likely to be raised at a discount to the market price. In the time available, it may be difficult for equity to be raised by a rights issue.

Each of these approaches raises risks and uncertainties for Coote. Therefore it is clearly at odds for Elph to be offering to assist shareholders to grow value in Coote whilst at the same time its parent (the directors of which are all also directors of Elph) is stating a current intention to exercise the Greentrains Put Option.

At the date of this Target's Statement, the Elphinstone Group has not provided any further information in relation to its intentions to exercise the Greentrains Put Option.

2.3 The recapitalisation of Greentrains is not certain

Work is presently continuing on the preparation of a prospectus for an initial public offering (**IPO**) of Greentrains. Under the offer, Greentrains is seeking to raise new equity which, in combination with new debt facilities, will assist with the discharge of Greentrains obligation to purchase a second tranche of rollingstock from Coote's subsidiary Gemco Rail.

It should be noted that as at the date of this Target's Statement, an underwriter has not been mandated for the Greentrains IPO and a prospectus has yet to be lodged. Therefore, it is not certain whether the funds sought under the IPO will actually be raised.

In addition, Greentrains will also require additional debt facilities in order to discharge its obligations to purchase rollingstock from Gemco Rail. While discussions with financiers are continuing, at this point Greentrains does not have the necessary facilities in place.

2.4 Coote requires the continued support of the Bank

Given Coote is currently in breach of its lending covenants, it requires the continued support of the Bank in order to meet its financial obligations. In the short term, Coote's working capital position is likely to be constrained.

The Bank's ongoing support is dependent on Coote continuing to reduce its debt to the Bank (currently $106.7 million) through a payment from the proceeds of the sale of South Spur Rail Services. Coote is in the final stages of negotiating terms of the rolled over bank facilities which will also address current covenant breaches.

Elph is well aware of this fact, and the Board is of the view that its highly conditional proportional takeover Offer (coupled with the threat to exercise the Greentrains Put Option) is designed to place maximum pressure on Coote and its Directors to recommend the Elph Offer. However, as stated above, the Elph Offer does not provide any solution to the Company's current financial constraints, nor do anything to address the potential risk of removal of the Bank's ongoing support for Coote.

It should also be noted that if the Bank's support was removed, this is likely to trigger one or more of the conditions to the Elph Offer, which if not waived, could result in the Elph Offer being withdrawn or contracts formed on acceptance of the Elph Offer being voidable at Elph's election.

3. YOUR CHOICES

While, as set out above, your Directors unanimously recommend you reject the Elph Offer, you have three principal choices as a Coote Shareholder in responding to the Elph Offer. These are summarised below.

3.1 REJECT the Elph Offer

To REJECT the Elph Offer, simply do not respond to any documents sent to you by Elph.

3.2 Sell your Coote Shares on market

During the Offer Period, you may sell some or all of your Coote Shares through the ASX for cash (less brokerage), provided you have not accepted the Elph Offer.

If you sell your Coote Shares on market, you will receive cash for the sale of your Coote Shares. However, you:

- will lose the ability to accept the Elph Offer and receive the Offer Consideration (and any possible increase in the Offer Consideration) in relation to those Coote Shares;
- will lose the ability to accept any higher offer for Coote Shares that may or may not eventuate from a third party;
- will lose the opportunity to receive future returns from Coote;
- may incur a tax liability as a result of the sale; and
- may incur a brokerage charge.

If you sell you Coote Shares on market you will receive a certain cash outcome. As long as the Elph Offer remains conditional, there can be no certainty that the sale of up to 35% of your Coote Shares will complete and you will receive the Offer Consideration.

You should contact your broker for information on how to sell your Coote Shares on ASX and your tax adviser to determine your tax implications of such a sale.

If you do not accept the Offer in respect of up to 35% of your Coote Shares, you may sell your Coote Shares on market and the transferee will then be entitled to accept the Offer in respect of up to 35% of the Coote Shares.

3.3 Accept the Elph Offer

If you accept the Elph Offer you will receive $0.26 per share for up to 35% of the Coote Shares you own, subject to Elph declaring its Offer unconditional. You will also retain the remainder of your shares, unless you have a small shareholding interest in Coote (refer to Section 7.3). If Elph increases its Offer Consideration you will benefit from any increase.

Details of the Offer Consideration and timing of payments that you will receive if you accept the Elph Offer are set out in the Bidder's Statement.

Subject to the withdrawal rights referred to in Section 7.9, if you accept the Elph Offer you:

- may incur a tax liability as a result of your acceptance;
- will be unable to accept any higher offer for your Coote Shares that may eventuate from a third party; and
- 35% of your Coote Shares will no longer be available to sell on market.

If you do accept the Elph Offer in respect of up to 35% of your Coote Shares, you are not entitled to accept the Offer for your remaining Coote Shares (**Remaining Shares**), nor can a transferee of your Remaining Shares. You may however sell your Remaining Shares on the ASX on an "ex-Offer" basis. If you are considering this option you should be aware:

- a separate ASX code will be established for these ex-Offer Coote Shares;
- ex-Offer Shares cannot be accepted into the Offer and will trade separately to Coote Shares which can be accepted into the Offer during the Offer Period;
- the market price of the ex-Offer Shares may be lower than the market price of Coote Shares which may be accepted into the Offer; and
- settlement of trades of ex-Offer Shares will be deferred until after completion of the Offer.

If your Shares were issued to you after the Register Date, they cannot be accepted into the Offer and may only be traded as ex-Offer Shares on a deferred settlement basis.

Elph has stated that its Offer remains open until 7.00pm (AEST) on the closing date for the Elph Offer, which is 3 May 2010 (unless the Elph Offer is extended or withdrawn).

It is possible that Elph will choose to extend the Offer Period in accordance with the Corporations Act (see Section 7.7 of this Target's Statement).

4. ANSWERS TO FREQUENTLY ASKED QUESTIONS

Question	Answer
What is Elph offering for my Coote Shares?	Elph is offering to acquire up to 35% of your Coote Shares. The consideration that Elph is offering for up to 35% of your Coote Shares is 26 cents per share.
What are the Coote Directors' recommendations?	Your Directors unanimously recommend that you **REJECT** the Elph Offer. Each Director of Coote intends to reject the Elph Offer in relation to those Coote Shares held by him or which he controls. This represents approximately 16.75% of the Coote Shares on issue.
What is a "proportional" takeover bid?	A proportional takeover bid (such as the Elph Offer) is a takeover bid for a specified proportion of the securities in a class of securities. Under the Corporations Act, the specified proportion must be the same for all holders of securities in that class. The specified proportion for the Elph Offer is up to 35% of the Coote Shares held by you.
What happens if I accept the Elph Offer now?	You will be unable to sell or transfer 35% of your Coote Shares (on ASX or otherwise); or accept any other bid for 35% of your Coote Shares, unless either the Elph Offer is unsuccessful or you withdraw your acceptance in circumstances where the Elph Offer is extended by a period of more than one month while it remains conditional. If you accept the Elph Offer and it becomes unconditional, you will be obliged to sell those Coote Shares for which you have accepted the Elph Offer to Elph and you will receive 26 cents per share for those Coote Shares.
Can I withdraw my acceptance?	You may only withdraw your acceptance of the Elph Offer if: • it is still subject to a defeating condition (these are broadly summarised in Sections 7.11 of this Target's Statement); and • the Elph Offer is varied in a way that postpones, for more than one month, the time when Elph needs to meet its obligations under the Offer. This may occur if Elph extends the Offer Period by more than one month while the Elph Offer is still subject to a defeating condition.
Can I accept the Elph Offer for only some of my Coote Securities?	Yes, you may accept the Elph Offer in respect of any number of Coote Shares you hold up to the maximum 35% amount.

Question	Answer
What if I want to sell my Coote Shares on market?	During the Offer Period, you may sell your Coote Shares through the ASX for cash (less brokerage), provided you have not accepted the Offer for those Coote Shares. You should contact your broker for information on how to sell your Coote Shares on ASX and your tax adviser to determine your tax implications of such a sale. If you accept the Offer in respect of 35% of your Coote Shares, you are not entitled to accept the Offer for your Remaining Shares, nor can a transferee of your Remaining Shares. You may sell your Remaining Shares on an "ex-Offer" and deferred settlement basis. A separate ASX code will be established for these ex-Offer Coote Shares. Ex-Offer Shares cannot be accepted into the Offer and will trade separately to those Coote Shares which can be accepted into the Offer during the Offer Period. The market price of the ex-Offer Shares may be lower than the market price of Coote Shares which may be accepted into the Offer. Settlement of trades of ex-Offer Shares will be deferred until after completion of the Offer. If you do not accept the Offer in respect of up to 35% of your Coote Shares, you may sell your Coote Shares on market and the transferee will then be entitled to accept the Offer in respect of up to 35% of the Coote Shares. If you sell some of your Coote Shares, a new 35% Offer is deemed to be made for your retained Coote Shares and a corresponding 35% Offer is deemed to be made to the transferee in relation to the transferred Coote Shares. If your Coote Shares were issued to you after the Register Date, they cannot be accepted into the Offer and may only be traded as ex-Offer Shares on a deferred settlement basis.
When do I have to accept the Elph Offer by?	You can accept the Elph Offer up until the end of the Offer Period, which is currently scheduled to end at 7.00pm (AEST) on 3 May 2010. If the Elph Offer remains conditional, Elph must indicate no later than seven (7) days before the end of the Offer Period whether it intends to extend the Offer Period. If the Elph Offer is declared free from its conditions, the Offer Period may be extended at any time before the end of the Offer Period.
If I do not accept, can I be forced to sell my Coote Shares?	You cannot be forced to sell your Coote Shares under the terms of the Elph Offer. Due to the proportional nature of the Elph Offer it will not be possible for Elph to become entitled to proceed to compulsory acquisition of the remaining Coote Shares under the Corporation Act as a result of the Elph Offer
What if there is a competing transaction?	The Directors will carefully consider the merits of any competing transaction and advise you accordingly of their recommendation.
What will happen if Elph increases its Offer?	If the Elph Offer is increased, your Directors will carefully consider the revised offer and advise you accordingly of their recommendation.
When does the Elph Offer close?	The closing date for the Elph Offer is currently 7.00pm (AEST) on 3 May 2010, but the Elph Offer can be extended or withdrawn by Elph before that date (subject to the Corporations Act).
The Elph Offer is conditional. What does that mean?	The conditions of the Elph Offer must be satisfied or waived by Elph before any sale contract between yourself and Elph can complete. If the conditions are not satisfied or waived before the end of the Offer Period, the Elph Offer will lapse and all contracts resulting from the acceptance of the Elph Offer will be void. You will then be able to deal freely with your Coote Shares. The conditions are detailed in Annexure 1 of the Bidder's Statement and, and are summarised in Section 7.11 of this Target's Statement.

Question	Answer
Should I wait until the Elph Offer is unconditional before considering acceptance?	Your Directors recommend that you **REJECT** the Elph Offer in its present form. However, should you decide to accept the Elph Offer, we recommend that you delay your acceptance until after all conditions are waived or until the final week of the Elph Offer, when you will know whether or not the Elph Offer is unconditional. If the Elph Offer remains conditional, there is a risk that one or more of these conditions will not be satisfied or waived by the closing date. If this occurs, Coote Shareholders who wish to accept the Elph Offer, will continue to hold 100% of their current holdings in Coote (unless you otherwise sell your Coote Shares).
What happens if the conditions to the Elph Offer are not satisfied or waived?	If the conditions of the Elph Offer are not satisfied or waived by the closing date, the Elph Offer will lapse and you will continue to be a Coote Shareholder (unless you otherwise sell your Coote Shares).
If I accept, when do I receive the Offer Consideration?	If you accept the Elph Offer, you may have to wait until the earlier of: • one month after the Elph Offer is validly accepted by you or, if the Elph Offer is subject to a defeating condition, within one month of the Elph Offer becoming unconditional; and • 21 days after the end of the Offer Period, provided the Elph Offer has become unconditional, before you will be paid. It is uncertain when (if ever) the Elph Offer will become unconditional. See Section 7.11 for further details.
What are the tax consequences of the Elph Offer?	Accepting the Elph Offer may have significant tax consequences. See section 3 of the Bidder's Statement for further details.
What happens if I only have a small number of Coote Shares?	If, despite the Directors' recommendation, you choose to accept Elph Offer and by accepting the Elph Offer you will be left holding less than $500 worth of Coote Shares, then Elph must buy your remaining shares in Coote for $0.26 per share in cash. If you are not sure whether you would be left with a shareholding in Coote that is worth less than $500, please contact your stockbroker or financial adviser.
What does the Independent Expert recommend?	The Independent Expert has concluded that the Elph Offer is **not fair and not reasonable**. The Independent Expert's report accompanies this Target's Statement in Annexure 1.
What if I have other questions?	If you have any further questions please call Coote on +61 (0)8 9251 8000 between 8.30am and 5.00pm (WST) Monday to Friday.

5. INFORMATION ON COOTE

5.1 Historical overview

Coote commenced operations in 1989 as a sole proprietor business focussed on the sale of large frame diesel engine turbochargers and components and related technical support services. During the 1990s, the Company derived the greater majority of its revenues through sales to the rail industry. The onset of privatisation of this industry in the mid 1990's and uncertainties arising from the vested interests of new owners with regard to their maintenance arrangements prompted a strategy of diversification by Coote into related engineering and manufacturing fields, as well as specialised road logistics for servicing the mining sector.

This strategy was to provide both timely and successful given the fluid nature of the rail industry for the next decade, with ownership of some large railways changing hands a multiple of times. Coote's engineering expertise saw it develop innovative road trains which, for a time, was the largest on-road vehicle in the country and which provided unprecedented cost savings for the mining operators who were deployed them.

Coote also established its core diesel engineering expertise during this time and was eventually successful in penetrating the defence sector, initially in support of the power and propulsion systems onboard the Royal Australian Navy's amphibious landing ships Manoora and Kanimbla. The Company received several commendations for its work on these vessels and was subsequently appointed the Royal Australian Navy's design authority for the engines onboard these vessels.

Further contracts followed for works on a number of warships and support vessels and eventually, after passing protracted audit and competency regimes, Coote was appointed as a preferred supplier for the Collins class submarines. The Company's role with the submarines was later cemented by its purchase of the Swedish engine manufacturer, Hedemora Diesel AB.

Having honed its capabilities within the highly rigorous Defence sector, Coote then went on to establish itself as a respected maintainer of locomotive engine systems, at the same time developing strategic supply chain arrangements with key international manufacturers for the supply of new equipment and spares for the various types of plant supported by its engineering expertise.

The Company continued to expand progressively through organic growth and small acquisitions, before listing on the ASX in December 2006. Coote grew rapidly in size after listing assisted by a series of more substantive acquisitions, the most prominent of which were the Drivetrain Australia, Gemco Rail and South Spur Rail Services businesses, and subsequently set about the task of integrating those new businesses and restructuring the group in order to shape itself into a mature, cohesive and focussed enterprise.

Some aspects of the South Spur Rail Services acquisition were to prove problematic. While Coote had successfully explored its opportunities as both operator and maintainer in the road transportation arena for almost a decade, its venture into rail operations was, subsequent to the acquisition of Gemco Rail, brought it into conflict with several customers for whom it performed high value maintenance activities. This, combined with the onset of the global financial crisis and declining revenues in the transportation sector, plus a need to simplify its business model, led the Company to determine that its future was best based on the strong engineering and technical capabilities which it had accumulated, and for which sustained demand exists across industry and geographical boundaries.

As a consequence, Coote has embarked along a pathway which should eventually result in complete divestiture of all its logistics interests, of which the recently announced sale of the South Spur rail operations business is an important first step.

5.2 Present operations

Coote is an engineering and technical sales and services provider, primarily to customers who rely upon heavy industrial equipment for propulsion or power generation capabilities. The Company currently operates from over 44 locations in seven countries, and employs in excess of 1,300 personnel.

5.2.1 What does Coote do?

Engineering is an extremely wide and diversified field which covers a multitude of disciplines and applications.

Coote's expertise is primarily in the areas of the provision of mechanical engineering and related services, including equipment design, manufacture, sales, maintenance and spare parts; in support of heavy industrial plant delivering propulsion (rail, road, sea), or power generating capabilities.

Many industries utilise heavy industrial plant - whether it be underground mining vehicles, locomotives, a power station or cargo ship, that plant will employ power and / or propulsion equipment. Hence, a wide range of industries provide a significant potential customer base for Coote to deliver its services.

5.2.2 Coote's Services

Coote's service offering is a relatively straightforward proposition which can be broken down into three main elements:

Professional Engineering Services

These consist primarily of mechanical engineering and associated disciplines which support the design, manufacture, commissioning and installation of heavy plant and equipment. Coote's capabilities includes systems engineering, project management, technical feasibility, failure investigation analysis and a range of related engineering services.

Maintenance, Repair and Overhaul (MRO) Services

The provision of MRO services for a wide range of heavy plant and equipment forms represents an important part of Coote's service offering. Coote has established service centres throughout Australia, and within New Zealand, Singapore, Philippines and Sweden. Field service teams also deliver onsite MRO services to customer throughout the world in urban centres, at remote mine sites and onboard ships and oil rigs.

Products

Coote businesses have forged an impressive list of strategic supply chain arrangements with international manufacturers. The products supplied by these companies, together with equipment manufactured by Coote's Drivetrain Power and Propulsion, Gemco Rail and Convair businesses, form a solid core of Coote Group revenues.

Products manufactured by Coote's businesses include HS Turbochargers, Drivetrain Power and Propulsion heat exchangers, Hedemora diesel engine parts, and cryogenic equipment produced by Drivetrain Power and Propulsion; and rail rollingstock (locomotives, wagons) produced by Gemco Rail within Australia.

Current international supply chain partners include:

- A. Stucki Company (USA) – world leader in the development of railcar dynamic control products and services with a portfolio of subsidiaries offering turnkey railway solutions.
- AxleTech International (USA) – a General Dynamics company and global manufacturer, and supplier of axles, axle components, planetary axles, brakes, and aftermarket parts for commercial specialty trucks, military vehicles, and off-highway machines used in the construction, material handling, forestry, mining, and agricultural markets.
- Cattron-Thiemeg (USA) – part of the world-wide Cattron-Group and a leading manufacturer of industrial radio remote control and data communications systems.
- Dana Holding Corporation (USA) – a world leader in the design, engineering, and manufacture of value-added products and systems for off-highway vehicles.
- EMD Services International (USA) – OEM supplier of diesel engines for marine and power generation from Electro-Motive Diesel – the world's largest producer of heavy diesel engines.
- Feldbinder Spezialfahrzeugwerke (Germany) – world leader in aluminium tanker design and manufacture.
- Geismar (France) – international provider of the most comprehensive range of dedicated equipment for track and Over Head Line (**OHL**) laying and maintenance.
- Globe Turbocharger Specialties (USA) – OEM manufacturer of ALCO and aftermarket EMD / General Electric (**GE**) replacement large-frame turbochargers for rail, marine, power and pipeline industries.
- Guascor Power (Spain) – international manufacturer of high energy efficiency liquid, gas, dual fuel and bio fuel engines for power and marine.
- NRP Jones (USA) – manufacturer of industrial hydraulic hoses and fittings.
- Penn Machine Company (USA) – major supplier of traction gearing to the world's railroads, including carburized and hardened gears and pinions, resilient transit wheels, axles, wheelsets and gearboxes.
- Progress Rail (USA) – rail division of the Caterpillar Inc – the world's largest manufacturer of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines.
- Williams Controls (USA) - world leader in Electronic Throttle Controls for commercial vehicles.

5.2.3 Coote's core businesses

At the time of listing in 2006, Coote consisted of just four businesses. Following its rapid growth between 2007 and 2008 the Company at one point was comprised of 24 distinct businesses. From mid 2008 through to the present a process of ongoing review has resulted in significant business restructuring and integration, complemented by the establishment of enterprise-wide business systems, improved management and financial controls and new business leadership.

Today, Coote is comprised of five core businesses (excluding the South Spur Rail Services business), each a material engineering business in its own right, and each with a portfolio of well-developed technical expertise with specific types of plant and equipment. Each business has also established strategic supply chain arrangements with key manufacturers and suppliers to ensure they are able to deliver a comprehensive range of complementary products and services in support of the plant their customers employ.

While potential remains to further streamline Coote's enterprise, there is no immediate intention to embark upon a course of action which might jeopardise actions being taken by these businesses to complete their internal integration processes, or interrupt efforts to achieve further gains within each of their respective niche markets.

Coote's core businesses (excluding South Spur Rail Services) are as follows:

Manufacture of bulk storage tankers for road transportation

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 in the construction and transportation market sectors. Convair is the exclusive Australian sales and service agent for Feldbinder Spezialfahrzeugwerke GmbH of Germany, arguably Europe's leading manufacturer of aluminium dry bulk tankers. Convair operates from a single facility in Victoria.

Rail infrastructure maintainer and workforce provider

Momentum provides rail track construction, maintenance and workforce services to the rail and resources sectors, and maintains operating bases in all mainland states of Australia except the Northern Territory.

Maintainer of power and propulsion systems for marine and stationary power

Industrial Powertrain specialises in the repair and overhaul of power and propulsion equipment for heavy industrial plant and is also the approved EMD sales and service centre for marine, industrial and stationary power generation customers in Australasia. Powertrain is a generic term for equipment involved in the transfer of power including gearbox, driveshaft and similar equipment. Industrial Powertrain operates from Western Australia and primarily services the maritime, resources and construction sectors.

Power and propulsion engineering, technical sales and through-life support

Drivetrain Power and Propulsion has a strategic global presence and strong capabilities across the engineering product life cycle in heavy powertrain and propulsion systems; heavy diesel and gas engine systems/cogeneration; large frame turbochargers; cryogenic solutions; and thermal and fluid handling products. These capabilities are underpinned by unique intellectual property, deep knowledge and strong supply chain arrangements.

Drivetrain Power and Propulsion customers are engaged in manufacturing and servicing above/below ground mining, heavy and specialised vehicles; defence asset through life support; oil and gas production; aerospace; locomotive maintenance; heavy truck and automotive production; and marine maintenance. Drivetrain Power and Propulsion's core offering includes engineering sales and services; spares and maintenance/repair/overhaul; design and unit/small batch manufacturing of specialised products.

Drivetrain Power and Propulsion effectively integrates Coote's power and propulsion focused businesses, brands and acquisitions. Drivetrain Power and Propulsion's operating bases are established in Australasia, Europe, North and South America including 16 locations in 7 countries and more than 260 full time equivalent team members.

GEMCORAIL

Rail rollingstock manufacturer and maintainer

Gemco Rail is a rapidly growing manufacturer and maintainer of rollingstock (locomotives, carriages and wagons) and maintenance equipment for the Australian rail industry. Gemco Rail offers engineering design, MRO and product services.

From a small Western Australia based company with a single site, and single mission of repairing rail wagons, Gemco Rail now has established operating facilities in five States and in doing so, a platform for truly national operations. Having established its credentials for remanufacturing locomotives and successfully completing numerous rebuilds, Gemco Rail is now in a position to manufacture its own branded line of new rail rollingstock which in the not too distant future may also include locomotives, with which to challenge the established status quo of rollingstock provisioning within Australia.

Gemco Rail's customers include all Australian freight rail operators, resources rail operators and rollingstock maintainers and lessors. Gemco Rail maintains facilities in all mainland states of Australia except the Northern Territory.

5.2.4 Coote's customers

The strength and diversity of Coote's service offering is evident in its blue chip customer base, which includes:

Argyle Diamond Mines	ARTC	ASC Ltd
Ball Aerospace	BASF	BHP Billiton
Conoco Phillips	DCNS	Diamond Offshore
DownerEDI	Fortescue Metals Group	Glencore International
IIRR	John Holland	Laing O'Rourke
MAN Diesel	NASA	Newcrest Mining
Pacific National	Pilbara Rail	Queensland Rail
RailCorp	Rio Tinto	Rolls Royce
Royal Australian Army	Royal Australian Navy	Sandvik
SCT Logistics	Singapore Navy	SNCF
Straits Resources	Swedish Navy	Thales
Tidewater	Wartsila	Wellops

5.3 Non-core business

In addition to the above core businesses, Coote also has a 61.1% controlling interest in Greentrains, which is considered to be non-core:

GREENTRAINS

Rail rollingstock lessor

Greentrains owns locomotives and wagons that are leased to rail industry participants, including South Spur Rail Services. Further information is provided in Section 5.7.

5.4 Our Industry Focus

5.4.1 Defence

Coote has provided technical services to the Australian military for the past 15 years and in more recent years to other foreign navies. Services primarily relate to power and propulsion systems onboard submarines, warships and other surface vessels; and powertrain products for all terrain vehicles.

5.4.2 Maritime

Coote provides power and propulsion services and equipment for vessels ranging from small pleasure and work boats through to ocean-going cargo ships and offshore oil rigs. Revenue streams flow from the provision of high value diesel engines, turbochargers and ancillary equipment, as well as maintenance, repair and overhaul services provided at company facilities or in the field.

The company services both its own Hedemora engine base as well as the engines of other manufacturers.

5.4.3 Power Generation

Coote has been involved in the power generation business from its formative years with early activities predicated upon providing maintenance, repair and overhaul (MRO) services for diesel engine based stationary power. The Coote Group has tangible opportunities for market development in gas engine-based power generation and is exploring a range of alternate technologies in response to demand for renewable / greener power generation options.

5.4.4 Rail

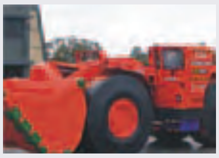
The rail industry is a large and important aspect of the Coote business and recent years have seen significant growth in activity in this sector. From a base of providing turbochargers and components to the rail industry, Coote has expanded its service offering through acquisition as well as sustained organic growth to the point where it now has the capability to manufacturer and / or maintain complete locomotives, wagons, rail maintenance equipment and rail track infrastructure, as well as provide a broad range of complementary services including engineering design, technical inspection and evaluation, and comprehensive spares support.

The forecast doubling of the Australian domestic freight task over the next 20 years effectively means a doubling of the quantity of rollingstock the rail industry will require to meet this task. Supply of this rollingstock and flow-on benefits for rollingstock and rail infrastructure maintenance provide a significant source of future growth opportunities for the group.

New investment in rail infrastructure and initiatives to encourage modal shift from road to rail, particularly in urban centres, provides opportunities for several Coote businesses. Group businesses have identified and are pursuing numerous opportunities for growth in line with those capabilities.

By expanding its geographical presence to all states of Australia (with current exceptions being Tasmania and the Northern Territory), and by developing its internal capabilities to include locomotive design and manufacture, Gemco Rail has established a firm foundation for future growth within the rail sector.

5.4.5 Resources



The resources industry, comprising above / below ground mining and oil and gas, is one in which all Coote businesses participate within their niche / specialty areas. Current activities include the provision of power and or propulsion equipment for mining vehicles, oil rigs, stationary power plant, rail and road rollingstock, together with the associated technical, MRO and products which support this equipment.

The vast array and diversity of plant and equipments which this industry utilises in fulfilling its mission provides immense future opportunity for the Coote at both a domestic and international level. The recent expansion of facilities in Port Hedland provides a footprint in the Pilbara region through which the group can better establish its Australian services base.

This and Coote's growing list of supply chain arrangements with respected international manufacturers and suppliers, together with its own original equipment offerings underpins a strong foundation for increased participation around the globe.

5.4.6 Other

Other industry sectors from which Coote derives revenues include agriculture and forestry, civil construction, on-highway transportation and aerospace.

These industries represent a largely untapped market for Coote and hold real future potential when the group is in a position to further expand its technological base and geographical presence in order to penetrate these markets further.

5.5 Future

Coote has developed a solid platform of core technical capabilities and strategic supply chain arrangements on which to base future growth. The inherent strength of that platform is lies in its ability to be deployed across industry sectors and geographical boundaries.

Group businesses are firmly focussed on a number of key opportunities of immediate relevance as follows:

Turbochargers

Following the purchase of Turbomeca's turbocharger division and subsequent rebranding of its product line to "HS Turbochargers" in 2009, Drivetrain has seen a doubling in sales of its Swedish operations, with a further doubling expecting in the next year.

HS turbochargers are high performance, cutting edge products which are amongst the most efficient units available to the market, and the current and future significance of this product to the Coote Group cannot be overstated. As of late 2009, HS turbochargers are being offered as original equipment (OEM) for some of the latest generation large-frame diesel engines in the world, and can also be retrofitted to a wide range of other engine models.

Drivetrain is considering replicating its manufacturing base for these turbochargers in the United States to facilitate sales opportunities in the material North and South American markets. Future revenues will not only be driven through sales of new equipment, but also by provision of through life technical and spares support activities.

Rail Rollingstock

Gemco Rail's newly established national presence and ongoing enhancements to its facilities has established greater exposure to national rail opportunities in rollingstock maintenance which were not previously possible. The development of locomotive rebuild and maintenance competencies means that Gemco Rail is also now able to bid on the full range of customer rollingstock requirements.

Future growth in rail is also being facilitated by the design and manufacture by Gemco Rail of freight rail bogies and wagons, with partial offshore manufacture delivering significant cost savings which will enhance Gemco Rail's ability to compete with both imported and locally produced equipment.

The combination offering of new equipment together with Gemco Rail's in-country warranty and maintenance capability not only provides a strong competitive advantage, but will also provide substantial annuity revenue streams from maintenance over the lifetime of the products sold.

Broad-based technical services

The resurgence of resource and rail related activity is providing many current opportunities and Coote businesses are actively consolidating their niche market positioning by expanding their technical competencies and by establishing additional strategic supply chain arrangements.

Momentum is establishing a portfolio of rail maintenance equipment to provide a further dimension to its rail infrastructure project activities. Convair has secured contracts for the new Gorgon project in the North West of Western Australia and in doing so has enhanced its already established strategic supply chain arrangements to supplement its overall technical offering; reduce manufacturing costs and increase overall market opportunities.

Drivetrain's international footprint is starting to provide new opportunities for its established industrial equipment maintenance and provisioning activities across a number of industry sectors, supported by both existing and newly negotiated supply chain arrangements.

Defence

Drivetrain continues to work closely with the Royal Australian Navy and related Defence agencies in relation to the Collins class submarines. The Company is also actively pursuing initiatives to secure involvement in future works associated with engine systems and ancillary equipment to be incorporated onboard any new generation submarines and warships.

5.6 Sale of South Spur Rail Services business

Coote has entered into a binding terms sheet for the sale of its South Spur Rail Services business with POTA Holdings Pty Ltd (**POTA**). The sale is being pursued as it has been determined that South Spur Rail Services no longer fits with Coote's strategy of developing a substantial technical based sales and service enterprise and also because of conflicts associated with South Spur Rail Services competing with Coote's major customers.

The Directors consider that this transaction will be of significant benefit to Coote, for the following reasons:

- The proceeds from the sale will used to reduce debt and provide ongoing working capital, which will materially improve the overall balance sheet strength of Coote.
- The new owner of South Spur Rail Services, POTA, is a well funded Company, and the perception of counterparty risk for the Greentrains leasing business should therefore be greatly reduced. This should in turn lead to an increase in value for the Greentrains business and enhance the prospects of its recapitalisation, as detailed below.
- Contract completion is scheduled for the end of April 2010 for a total sale price of $16 million, including $1 million of prepayment for maintenance services.

5.7 Additional information in relation to Greentrains

5.7.1 Background and ownership

Prior to acquisition of South Spur Rail Services by Coote in May 2007, South Spur Rail Services had purchased the rail contracts of Silverton Tramway in a consortium with the RTS Group Pty Ltd (**RTSG**) (rollingstock maintainer), with Allco Finance subsidiary Allrail (STCL) Pty Ltd (**Allrail**) holding the rollingstock assets and leasing back to Southern and Silverton.

Between late 2007 and mid 2008, Coote made a number of rollingstock purchases from Allrail and RTSG. Together with existing rollingstock (gained with the South Spur Rail Services acquisition) these assets were delivered to Gemco Rail for progressive refurbishment and upgrade in order to significantly improve operational performance and reliability. Fleet refurbishment costs were in the order of $57 million.

During 2008 Greentrains was incorporated as a Special Purpose Vehicle to hold the high value rollingstock acquired through the earlier transactions. It was established by Coote for the specific purpose of creating a pool of efficient, cost effective locomotives for lease to Australian rail operators, including South Spur Rail Services.

In June 2008, Coote sold some $82.7 million of refurbished and upgraded locomotives and wagons to Greentrains, with the sale price based upon independent valuation. The onset of the global financial crisis and subsequent deterioration of financial and economic conditions saw Greentrains unable to raise the necessary debt and equity to complete the purchase.

Coote and Greentrains continued to work towards a solution in trying economic circumstances.

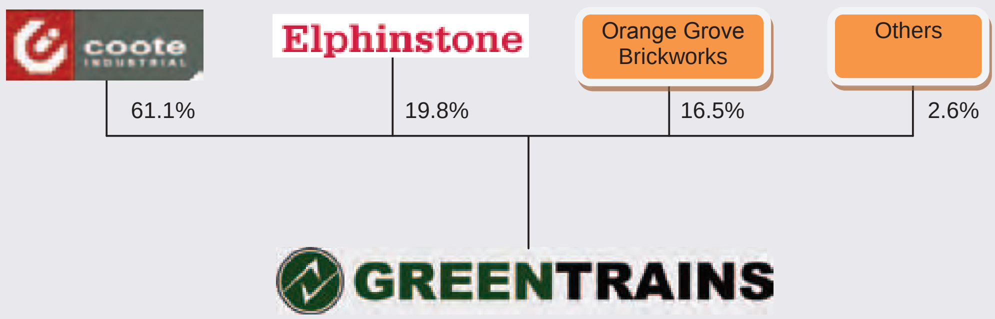
A partial solution was subsequently completed in the form of a $15 million equity injection as follows:

- An initial amount of $5.0 million of equity was raised from Orange Grove Brickworks Pty Ltd (**OGB**) in the form of a convertible note in late 2008. The note was converted to equity on receipt of the balance of the equity requirement.
- In April 2009, Elph agreed to a $6.5 million placement underpinned by a put option and subject to receiving the balance of the $15 million requirement and agreement from the Bank to provide the required debt.
- In June 2009 the balance of $3.5m was provided in a transaction where Elph provided a $4 million convertible note to Coote (which was later converted) and Coote then provided $3.5 million to Greentrains to make up the full $15 million requirement. A number of other smaller shareholders also invested in Greentrains at that time.

On 17 July 2009, agreement was reached with the CBA for an amended version of the full asset sale. Seven locomotives and a number of wagons were removed from the sale, and settlement was arranged for 35 locomotives and a quantity of wagons for a total amount of approximately $66 million. The balance of rollingstock assets were returned to the Coote balance sheet.

Under the agreement, CBA provided a $34 million debt facility which, combined with the $10 million of new equity in 2009, facilitated a payment of $44 million to Coote from Greentrains. Added to the $5 million previously paid by OGB, payments to Coote totalled $49 million. A further due amount of $16.5 million was exchanged for equity resulting in ownership structure of Greentrains as shown in the following diagram:

Greentrains Ownership Structure



Orange Grove Brickworks is owned by the parents of Michael Coote (Coote's Managing Director). Michael Coote is the sole director of OGB but is specifically excluded as a beneficiary.

5.7.2 Assignment of Greentrains Put Option

Coote has approved Elph's transfer of its Greentrains shares and Greentrains Put Option to its parent company Elphinstone Holdings Pty Ltd. In its Bidder's Statement, Elph stated that it has been advised that Elphinstone Holdings Pty Ltd intends to exercise its Greentrains Put Option before its expiry on 17 July 2010, although it has not indicated the exact timing.

5.7.3 Proposed recapitalisation of Greentrains

While the arrangements detailed above partially addressed the issues between Coote and Greentrains, they do not provide a complete solution for the following reasons:

- As a consequence of its 61.1% level of ownership, Coote is required to consolidate Greentrains and thereby include the full $34 million of Greentrains debt on its balance sheet. Coote is also required to provide parent company guarantees for the debt until half the debt is repaid.

- Coote, as a service provider, does not believe it is appropriate for it to carry the rail assets on its balance sheet; and
- Additional capital (both debt and equity) is still required to enable Greentrains to pay the remaining $35 million owed to Coote for the second tranche rollingstock

5.8 Summary of financial position

Elph has made much of the financial position of the Company. Your Directors acknowledge that further strengthening of the balance sheet is required and that risks remain, as outlined in Section 2. The sale of South Spur Rail Services is the first step and, as noted above, the recapitalisation of Greentrains remains a priority. Coote is currently able meet its normal obligations as and when they fall due out of operating cash flow, and is indeed making such payments.

Elph has drawn attention to an increase in the difference between consolidated current assets and liabilities of the Coote Group as at 31 December 2009. Your Directors do not consider the selective presentation of the Coote balance sheet fairly shows the change in the financial position of the Company. Two critical points have been overlooked by Elph:

- Firstly, net debt actually **decreased by $34.5 million** between 30 June 2009 and 31 December 2009 (from $147.3 million to $112.8 million), and will be reduced further when the proceeds of the sale of South Spur Rail Services business are received in April 2010.
- Secondly, the classification of debt as short term in the half year report was due to the timing of expiry of the existing Bank facilities on 28 February 2010. Had the extension of the facilities been approved at time of publishing of the half year accounts, rather than a matter of a few days later, a significant portion of the debt would have been classified as non-current.

5.8.1 Banking covenants

As noted in the financial report for the Coote Group for the half-year ended 31 December 2009, Coote is currently not in compliance with the terms of its lending facilities and is therefore in default under those facilities. However, it is working co-operatively with the Bank to address these issues and finalise the terms of the extended facilities.

Despite an improved balance sheet at 31 December 2009, Coote was in breach of its Leverage Ratio Covenant (Net Debt / EBITDA) with the reported ratio of 4.5 times compared to the maximum covenant of 3.5 times. Coote was also in breach of its Interest Cover Ratio Covenant (EBITDA / Net Interest Expense) with a ratio of 2.8 times compared to a minimum covenant of 3.0 times.

However, the following points should be noted:

- These covenants are based on rolling twelve months of actual (historical) results, not current or expected financial performance.
- The Interest Cover Ratio was adversely impacted by the fact that in the determination of the 31 December 2009 ratio, total interest expense for the previous twelve months only included one month of the benefit of the $20 million reduction of debt following the $31 million November 2009 capital raising (completed in December 2009).
- If the $16 million South Spur Rail Services consideration (to be received in April 2010) was applied to net debt at 31 December 2009, the Leverage Ratio would have fallen below 3.7 times, only just exceeding the maximum 3.5 times ratio.
- As announced to the ASX on 5 March 2010, Coote has accepted an offer from its financier to extend the provision of credit facilities until 28 February 2011, and is currently negotiating new facility documentation with the Bank.
- It should also be noted that on the assumption that the recapitalisation of Greentrains is successfully achieved, with the result that the T2 transaction is settled and the existing debt of Greentrains is no longer consolidated within the Coote Group, overall gearing would fall to well within the lending covenants.

5.8.2 Potential further recapitalisation

To date, Coote has focused on a strategy to raise additional capital within Greentrains through the issue of ordinary equity to new, third party investors in the business, and is preparing a prospectus for this purpose.

However, Coote is also investigating other potential funding options for the business which could include, in addition to equity; new debt facilities, structured or asset finance style arrangements, or a combination of these.

While Coote had the objective of achieving the recapitalisation of Greentrains by the end of the first quarter of 2010, as at the date of this Target's Statement, that recapitalisation has not been achieved. Coote is continuing in its discussions with potential funding providers and believes that this process will be enhanced by the announced sale of the South Spur Rail Services business, as described elsewhere in this document.

5.8.3 Financial outlook

Coote does not expect to be in a position to satisfy the financial covenant conditions under the rolled-over facilities for the March 2010 quarter. Accordingly, Coote currently requires the continued support of the Bank in order to meet its financial obligations and in the short term, Coote's working capital position is likely to be constrained.

The guidance outlook for EBITDA FY2010 is broadly in line with that provided at the time of the $31 million capital raising announced in November 2009. However, the Board currently expects increased finance charges associated with the extension of Coote's facilities with the Bank and expenses associated with responding to the unsolicited Elph Offer are likely to impact reported net profits after tax.

5.8.4 Response to specific issues raised by Elph

In its Bidder's Statement, Elph noted that Coote was unable to pay an outstanding interest bill of approximately $147,000 to Elph. This amount has been approved for payment, subject to discharge of security interests held by Elph. This matter is anticipated to be finalised as soon as practicable.

Elph also asserts that representations made by Coote at the time of the November 2009 capital raising were inconsistent with the expected position under Coote's financing facilities as noted in Section 5.8 above. While Coote concedes that the presentation lodged with ASX in relation to the raising is open to the interpretation argued by Elph, Coote had stated at the time of the capital raising, that it was Coote's expectation that, on completion of the capital raising, it would be in compliance with the relevant covenants on a pro-forma basis, given the then expected full year result for 2010.

6. INTEREST OF DIRECTORS

6.1 Directors of Coote

The Directors of Coote as at the date of this Target's Statement are as follows:

Donald Charles Alexander Hector ***Non-Executive Chairman***	Dr Hector has 15 years experience in senior executive management and CEO positions with industrial companies. He was Managing Director of Dow Corning Australia Pty Ltd, the Australian subsidiary of Dow Corning Corporation and was Managing Director of Asia Pacific Specialty Chemicals Ltd, an ASX-listed chemical company. Dr Hector is a non-executive director of SEMF Pty Ltd, a multidisciplinary engineering consulting firm. He is also on the board of Engineering Sydney at the University of Sydney and is a Council member of one of Sydney's leading independent schools.
Michael Charles Coote ***Managing Director***	Mr Coote initially worked in the family transport business. After completing his Mechanical Engineering Degree in 1985 he was involved with heavy mining equipment, waste crushing, conveying projects and locomotive maintenance for Mt. Newman Mining (BHP). In mid 1989 he founded Globe Turbocharger Specialties Australia as a sole proprietor, providing large diesel engine operators with quality aftermarket spares. Utilising his experience in heavy vehicle design, diesel engines and projects management, Mr Coote developed the business into a diversified technical services group across multiple industries before listing the Company in 2006, and subsequently took on the role of founding Managing Director.
Donnie James Patterson ***Director and Chief Executive Officer***	Mr Patterson was employed in accounting roles in heavy engineering before joining Wesfarmers – Rural Division, leaving after 5 years to take up senior management positions in the finance, retailing and hospitality industries. Prior to joining Coote Engineering in 2002 he spent five years in commercial property development with Citygate Properties. Mr Patterson initially assumed the role of Financial Controller, then additionally General Manager of subsidiary GTSA Engineering. Over the following four years Mr Patterson has implemented considerable structural reform, planning and other improvements in preparation for the Company's listing on the ASX, subsequently joining the Board of Coote as a founding Director.

6.2 The Directors intend to reject the Elph Offer

Each of the Directors intends to **REJECT** the Elph Offer in respect of the Coote Shares held by him or which he controls.

6.3 Interests of Directors in Coote Shares

The number of Coote Shares in which each of the Directors has a Relevant Interest is set out in the table below as at 8 April 2010 (the Last Practicable Date).

Director	Direct Interest in Coote Shares	Indirect Interest in Coote Shares	Total
Donald Charles Alexander Hector	Nil	55,650	**55,650**
Michael Charles Coote	7,100,000	35,711,164	**42,811,164**
Donnie James Patterson	800,000	957,787	**1,757,787**

6.4 Dealings by Directors in Coote Shares

There have been no acquisitions or disposals of Coote Shares by any Director in the four months ending 8 April 2010 (the **Last Practicable Date**). Any subsequent acquisitions or disposals by the Directors will be announced to the ASX in accordance with legal requirements.

6.5 Interests and dealings in Elph securities

At the date of this Target's Statement, no Director has a Relevant Interest in any securities of Elph (or any Related Body Corporate of Elph).

There have been no acquisitions or disposals of securities in Elph or any Related Body Corporate of Elph by Coote, any Associate of Coote, or any of the Directors in the four months ending on the day preceding the date of this Target's Statement.

6.6 Conditional agreements

No agreement has been made between any of the Directors and any other person in connection with or conditional upon the outcome of the Elph Offer.

6.7 Interests in contracts with Elph

No Director has any interest in any contract entered into by Elph.

7. IMPORTANT INFORMATION ABOUT THE ELPH OFFER

7.1 Who is Elph

Elph is a member of the Elphinstone Group of companies, which is controlled by Mr Dale Elphinstone. The Elphinstone Group operates the Caterpillar equipment dealerships in Victoria and Tasmania through its William Adams subsidiary and also has other business interests in Australia and New Zealand. Dale Elphinstone is also a non-executive director of ASX listed company National Hire Group Limited, in which the Elphinstone Group holds a substantial interest.

7.2 Consideration

Elph is offering to acquire up to 35% of your Coote Shares with the consideration being 26 cents cash per share for each of the Coote Shares it acquires.

7.3 Small shareholding interests

If by accepting the Elph Offer you will be left holding less than $500 worth of Coote Shares, then Elph will buy all of your Coote Shares for 26 cents per share in cash. If you accept the Elph Offer and it becomes unconditional, you will receive the cash consideration on or before the earlier of:

- one month after the later of the Elph Offer being validly accepted by you and the Elph Offer (or the contract resulting from acceptance of the Elph Offer) becoming unconditional; and
- 21 days after the end of the Offer Period.

7.4 Offer Period

The Offer Period closes at 7.00pm (AEST) on 3 May 2010 (unless extended or withdrawn).

7.5 Elph's current shareholding interest in Coote

Elph currently holds a 24.95% interest in Coote. This was acquired in a series of investments as described below.

Elph's interest in Coote

Period	Nature of change in interest	Number of shares	Price	Total
Up to March 2009	On market acquisitions	6,772,116	≈$0.18	$1,225,196
May 2009	Placement	6,500,000	$0.20	$1,300,000
Nov 2009	Participation in $30 million placement	29,863,846	$0.26	$7,764,599
Dec 2009	Conversion of convertible notes	23,328,894	$0.17	$4,000,000
Totals		**66,464,856**	**$0.21**	**$14,289,796**

As described in Section 5.7, Elph's parent, Elphinstone Holdings Pty Ltd, has 19.8% interest in Greentrains, (making it Greentrains' second largest shareholder) and a Greentrains Put Option enabling it to sell its 19.8% interest in Greentrains to Coote by 16 July 2010. Elph has stated in its Bidder's Statement that Elphinstone Holdings Pty Ltd's current intention is to exercise this option, although the time of its exercise has not yet been determined.

7.6 Potential outcomes of the Elph Offer

Elph currently holds a 24.95% interest in Coote and the Elph Offer is for up to 35% of the issued shares in Coote which Elph does not currently own. If it secures full acceptance from all other shareholders, Elph's maximum shareholding would move from 24.95% to 51.21%. Coote's Directors hold 16.75% of Coote Shares and have stated they intend to reject the current Elph Offer. Therefore the maximum shareholding interest that Elph would be able to attain if all other shareholders accepted the Elph Offer in full is 45.35%. If half of the remaining Coote Shareholders accept the Elph Offer in full, Elph interest in Coote would move to 35%.

7.7 Extension of the Offer Period

Elph may extend the Offer Period before the end of the Offer Period in accordance with the Corporations Act. To extend the Offer Period, Elph must lodge a notice of variation with ASIC and give a notice to Coote and to each Coote Shareholder to whom an offer was made under the Elph Offer.

In addition, there will be an automatic extension of the Offer Period if, within the last seven days of the Offer Period:

- Elph improves the consideration under its Offer; or
- Elph's voting power in Coote increases to more than 50%.

If either of these events occurs, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

7.8 Notice of status of conditions

Elph is required by section 630 of the Corporations Act to give a notice of status of conditions. The Bidder's Statement states that Elph will give notice of the status of conditions on 23 April 2010 at the latest, pursuant to section 630(1) of the Corporations Act, subject to variation in accordance with section 630(2) of the Corporation Act in the event that the Offer Period is extended.

Elph is required to set out in its notice of status of conditions:

- whether the Elph Offer is free from any or all conditions;
- whether, so far as Elph knows, any of the conditions have been fulfilled; and
- Elph's then current voting power in Coote.

If the Offer Period is extended before the time by which the notice of status of condition is to be given, the date for giving the notice of status of condition will be taken to be postponed for the same period. In the event of such an extension, Elph is required, as soon as practicable after the extension, to give a notice to ASX and Coote that states the new date for the giving of the notice of status of condition. If a condition is fulfilled (so that the Elph Offer becomes free of that condition) during the bid period but before the date on which the notice of status of condition is required to be given, Elph must, as soon as practicable, give ASX and Coote a notice that states that the particular condition has been fulfilled.

7.9 Limited rights to withdraw your acceptance

You may only withdraw your acceptance of the Elph Offer if:

- it is still subject to a defeating condition (this is broadly summarised in Section 7.11 of this Target's Statement below); and
- the Elph Offer is varied in a way that postpones, for more than one month, the time when Elph needs to meet its obligations under the Elph Offer.

This may occur if Elph extends the Offer Period by more than one month and the Elph Offer is still subject to a defeating condition.

7.10 Effect of accepting the Elph Offer

If you accept the Elph Offer, subject to any withdrawal rights set out in Section 7.9 of this Target's Statement:

- you will be unable to accept any higher takeover bid that may be made by a third party or any alternative transaction that may be recommended by the Directors; and
- you will be unable to sell the Coote Shares for which you have accepted on the ASX.

However, you will have no guarantee of payment until the Elph Offer becomes unconditional.

7.11 Offer conditions

Coote Shareholders should note that the Elph Offer (and each contract resulting from acceptances of the Elph Offer) is subject to certain conditions, and that the Elph Offer will lapse unless the conditions are either satisfied or waived by Elph. These conditions are set out in full in Annexure 1 of the Bidder's Statement.

Some of these conditions are broadly summarised below:

- no restraint adversely affecting Elph’s takeover bid;
- no event occurring that has or could be reasonably expected to have, a material adverse effect on the business, assets, liabilities, financial or trading position, profitability or prospect of Coote and its Related entities taken as a whole;
- conditions relating to certain material transactions, access to information and the conduct of Coote’s business;
- no agreement or instruments resulting in money borrowed becoming repayable, no such agreement or instrument being terminated or modified, no interest of Coote or any Related Entity of Coote being terminated, modified or required to be transferred or redeemed, nor the business of Coote or any Related Entity of Coote being adversely affected;
- conditions relating to third party change of control rights;
- except for any distribution which has been publicly announced by Coote before the Announcement Date, Coote does not make or declare any distribution; and
- no prescribed occurrences specified in section 652C of the Corporation Act happening.

As at the date of this Target’s Statement, Coote is not aware of any conditions of the Elph Offer being breached, other than a potential breach in relation to the divestment of South Spur Rail Services, which was waived by Elph in its announcement to the ASX on 31 March 2010.

7.12 Risks in relation to the Elph Offer

Risks related to the Elph Offer include the following:

- It is possible that if the Elph Offer lapses, there may be a reduction in the market price for Coote Shares.
- It is also possible that Elph may obtain control (or practical control) of Coote by the close of its Offer. In such a situation, Coote’s stock market liquidity may be reduced and Elph would have the ability to control the composition of the Coote Board and Coote's strategic direction.
- The Elphinstone Group may secure control of Coote through its offer and still exercise its Greentrains Put Option and thereby put Coote under additional financial pressure.

These risks are summarised in detail in Sections 1 and 2.

8. ADDITIONAL INFORMATION

8.1 Issued securities

The total number of Coote Shares as at the date of this Target's Statement is [266,438,788]. There are currently 3,000,000 unlisted options convertible into Coote Shares with the expiry dates and exercise price shown in the table below.

Coote: Options on Issue

Date of expiry	Exercise price $	Number
29 Aug 2011	$3.00	1,000,000
29 Aug 2011	$3.50	1,000,000
29 Aug 2011	$4.00	1,000,000

8.2 Changes in Coote's financial position

Apart from the matters disclosed elsewhere in this Target's Statement, so far as is known to the Directors, there have been no material changes to Coote's financial position since the date of the last balance sheet published by Coote (being the balance sheet as at 30 June 2009), which have not been announced to the ASX.

8.3 Taxation considerations

The taxation consequences of accepting the Elph Offer depend on a number of factors and will vary depending on your particular circumstances. Your income tax and CGT liabilities will depend on your personal circumstances and the decisions you make. It is strongly recommended that you seek independent taxation advice in regard to your personal situation.

Please refer to section 3 of the Bidder's Statement for further details on possible Australian tax implications for Coote Shareholders. Neither Coote nor any of its officers or advisers accepts any liability or responsibility in respect of any statement concerning taxation consequences, or in respect of the taxation consequences themselves.

8.4 Material litigation and disputes

As at the date of this Target's Statement, Coote is not aware of any current or proposed material litigation or dispute.

8.5 No other material information

There is no information that is known to any of the Directors that holders of Coote Shares and their professional advisers would reasonably require to make an informed assessment whether or not to accept the Elph Offer and reasonably expect to find in this Target's Statement other than:

- the information set out in the Bidder's Statement;
- the information set out in this Target's Statement; and
- information that has previously been disclosed to the holders of Coote Shares or disclosed to ASX or ASIC under the regular reporting and disclosure obligations to which Coote is subject as a disclosing entity for Corporations Act purposes.

However, the Directors do not take any responsibility for the content of the Bidder's Statement and are not to be taken to be endorsing, in any way, any or all of the statements contained in it.

8.6 Consents

8.6.1 Consents

Each of the persons listed below has given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn their consent to the inclusion of the following information in this Target's Statement in the form and context in which it is included and to all references in this Target's Statement to that information in the form and context in which they appear:

- each Director – to being named as a Director and to the inclusion of statements made by him;
- Gresham Advisory Partners Ltd – to being named as financial adviser to Coote; and
- Cochrane Lishman Carson Luscombe – to being named as legal adviser to Coote.

BDO has given its consent to be named as the Independent Expert and to the inclusion of its Independent Expert's Report in this Target's Statement (and statements based on the Independent Expert's Report) in the form and in the context which they appear and has not withdrawn that consent before the date of this Target's Statement. BDO has not authorised or caused the issue of this Target's Statement. The interests of BDO are disclosed in the Independent Expert's Report.

8.6.2 Disclaimer regarding statements made and responsibility

Except for the Directors, each person named in Section 8.6.1 above as having given its consent to the inclusion of a statement or to being named in this Target's Statement:

- does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based other than, in the case of a person referred to above as having given their consent to the inclusion of a statement, a statement included in this Target's Statement with the consent of that person; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name and, in the case of a person referred to above as having given their consent to the inclusion of a statement, any statement or report which has been included in this Target's Statement with the consent of that party.

8.7 Transaction costs

Coote currently expects the costs and expenses likely to be incurred in responding to the Elph Offer to be approximately $750,000, assuming the Elph Offer is unsuccessful and no new or revised offer is made.

8.8 Publicly available information

As permitted by ASIC Class Order 01/1543, this Target's Statement may contain statements which are made, or based on statements made, in documents lodged with ASIC or ASX in compliance with the ASX Listing Rules.

Pursuant to Class Order 01/1543, the consent of such persons to whom such statements are attributed is not required for the inclusion of those statements in this Target's Statement.

Any Coote Shareholder who would like to receive a copy of those documents may obtain a copy free of charge during the Offer Period by calling the Company on +61 (0)8 9251 8000.

Copies of all announcements by Coote may also be obtained from its website at www.coote.com.au, or from www.asx.com.au.

8.8.1 Approval of Target's Statement

This Target's Statement has been approved by a resolution passed by the Directors on 12 April 2010.

Signed for and on behalf of Coote by **Donald Hector**, the Chairman of Coote who is authorised to sign pursuant to the resolution referred to above.

Donald Hector
Chairman

9. DEFINITIONS AND INTERPRETATION

9.1 Definitions

AEST means Australian Eastern Standard Time.

Announcement Date means the date on which Elph publicly proposed to make offers under a takeover bid.

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited ABN 98 008 624 691, or as the context requires, the financial market operated by it.

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

Bank and **CBA** means Commonwealth Bank of Australia

Board means the current board of directors of Coote.

Bidder's Statement means the bidder's statement in relation to the Elph Offer, prepared by Elph and dated 17 March 2010.

Coote means Coote Industrial Limited ABN 99 120 432 144.

Coote Group means Coote and its Related Entities.

Coote Shares means fully paid ordinary shares in Coote.

Coote Shareholder means a registered holder of a Coote Share.

Corporations Act means the Corporations Act 2001 (Cwlth).

Director(s) means the current directors of Coote.

Effective Offer Price means $0.22 calculated as 65% x $0.195 + 35% x $0.26, as defined in Section 1.

Elph means Elph Pty Ltd ABN 52 070 012 252.

Elph Offer and **Offer** mean the takeover offer by Elph to acquire up to 35% of your Coote Shares under Chapter 6 of the Corporations Act as described in the Bidder's Statement.

Elphinstone Group means Elph, its Related Entities and other entities controlled by Mr Dale Elphinstone or in which Mr Dale Elphinstone has at least a 20% interest.

Greentrains means Greentrains Limited ABN 21 131 890 545

Greentrains Put Option means the option granted to Elph Pty Ltd to sell shares in Greentrains to Coote for $6.5 million under an agreement dated 17 July 2009.

Independent Expert means BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045

Independent Expert's Report means the report prepared by the Independent Expert as to whether the Elph Offer is fair and reasonable.

Last Practicable Date means 8 April 2010, the last practicable date before finalisation of this Target's Statement.

Offer Consideration means the consideration offered under the Elph Offer, which at the date of this Target's Statement is $0.26 cash per Coote Share for up to 35% of your Coote Shares.

Offer Period has the meaning given to that term in the Bidder's Statement.

Offer Price means the consideration under the offer of $0.26 per Coote Share for up to 35% of your Coote Shares.

Register Date has the meaning given to that term in the Bidder's Statement, being 17 March 2010.

Related Body Corporate has the meaning given to that term in the Corporations Act.

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

Remaining Shares has the meaning given to that term in Section 3.3.

Section means a section within this Target's Statement.

Shareholder means a person registered in the register of members of Coote as a holder of one or more Coote Shares.

Target's Statement means this document.

VWAP means the volume weighted average price.

WST means Western Standard Time.

9.2 Interpretation

Unless the context otherwise requires:

- headings used in this Target's Statement are inserted for convenience and do not affect the interpretation of this Target's Statement;
- words or phrases defined in the Corporations Act have the same meaning in this Target's Statement;
- a reference to a section is a reference to a section of this Target's Statement;
- a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- the singular includes the plural and vice versa;
- the word "person" includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency; and
- Australian dollars, dollars, A$ or $ is a reference to the lawful currency of Australia.

ANNEXURE 1

COOTE INDUSTRIAL LIMITED
Independent Expert's Report

12 April 2010

BDO Corporate Finance (WA) Pty Ltd
38 Station Street Subiaco WA 6008
PO Box 700 West Perth WA 6872
Phone 61 (0)8 6382 4600
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ABN 27 124 031 045
AFS Licence No. 316158

Financial Services Guide

12 April 2010

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ("**BDO**" or "**we**" or "**us**" or "**ours**" as appropriate) has been engaged by Coote Industrial Ltd ("**Coote**") to provide an independent expert's report on Elph Pty Ltd's ("**Elph**") Offer to acquire 35% of the issued shares it does not currently own in Coote for $0.26 per share ("**the Offer**"). 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 Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO 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 (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 $45,000.

Except for the fees referred to above, neither BDO, 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.

Other Assignments
We were engaged by Coote to prepare an independent expert's dated 17 September 2009 on the proposal to issue convertible notes to Elph and received a fee of $60,000.

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 Corporate Finance (WA) Pty Ltd, PO Box 700 Subiaco WA 6872.

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
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12 April 2010

The Directors
Coote Industrial Limited
Level 1
10 Kings Park Road
West Perth WA 6005

Dear Sirs

INDEPENDENT EXPERT'S REPORT

1. Introduction

On 3 March 2010, Elph Pty Ltd ("**Elph**") announced it would make an all cash off-market proportional takeover offer to acquire up to 35% of the issued shares in Coote Industrial Limited ("**Coote**" or "**the Company**") that it does not already own for $0.26 per share ("**the Offer**").

Whilst there is no statutory or regulatory requirement for our report, Coote has instructed us to provide an opinion as to whether the Offer is fair and reasonable to Coote shareholders.

2. Summary and opinion

2.1. Purpose of the report

The directors of Coote have requested that BDO Corporate Finance (WA) Pty Ltd ("**BDO**") prepare an independent expert's report ("**our Report**") to express an opinion as to whether or not the Offer for Elph to acquire up to 35% of the issued shares in the Company that it does not already own is fair and reasonable to the non associated shareholders of Coote ("**Shareholders**").

Our Report is to be included in the Target's Statement for Coote to be sent to all Shareholders to assist them in deciding whether to accept the Offer.

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 Offer as outlined in the body of this report. We have considered:

- How the value of a Coote share prior to the Offer compares to the value of the consideration offered by Elph;
- The likelihood of a superior alternative offer being available to Coote;
- Whether a premium for control is being offered for the Coote shares;

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BDO is a national association of
separate partnerships and entities

- Other factors which we consider to be relevant to Shareholders in their assessment of the Offer; and
- The position of Shareholders should they not accept the Offer.

2.3. Opinion

We have considered the terms of the Offer as outlined in the body of this report and have concluded that the Offer is neither fair nor reasonable to Shareholders.

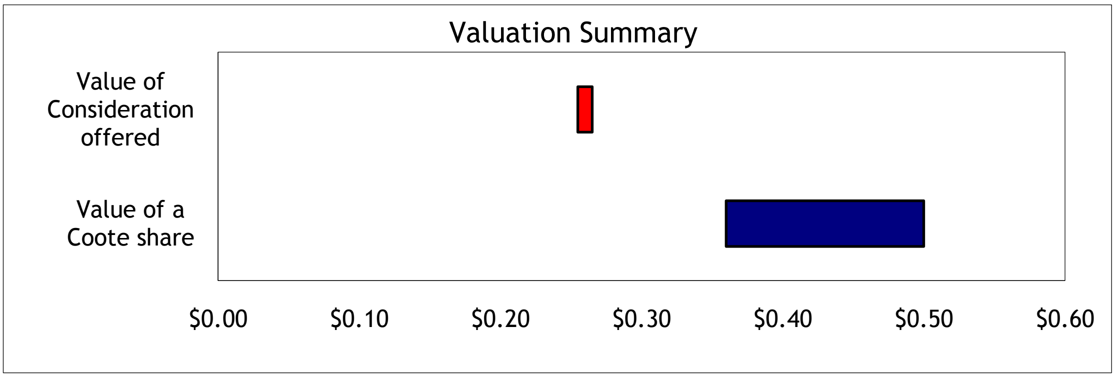
In our opinion, the Offer is not fair because the value offered by Elph of $0.26 per share is less than the value we have attributed per Coote share of between $0.36 and $0.50. We consider the Offer to be not reasonable because the disadvantages of the Offer to Shareholders outweigh the advantages. In particular, the offer is not fair, Elph could gain control of Coote while only paying a premium for 35% of Coote's shares and Shareholders will have a reduced interest in Coote while many of the advantages of the Offer could be achieved without the Offer being successful.

2.4. Fairness

In Section 10 we determined that the Offer consideration compares to the value of a Coote share, as detailed hereunder.

	Ref	Low $	High $
Value of a Coote share	8	0.36	0.50
Value of consideration offered	9	0.26	0.26

The above valuation ranges are graphically presented below:



The above pricing indicates that, in the absence of any other relevant information the Offer is not fair for Shareholders.

2.5. Reasonableness

We have considered the analysis in Section 11 of this report, in terms of both

- advantages and disadvantages of the Offer; and
- alternatives, including the position of Shareholders if the Offer is not accepted.

In our opinion, there are insufficient reasons for Shareholders to accept the Offer. Accordingly, in the absence of any other relevant information we believe that the Offer is not reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
11.6.1	Improved market perception	11.7.1	The offer is not fair
11.6.2	Premium to existing share price	11.7.2	Loss of control
11.6.3	Ability to realise cash now and retain an exposure to Coote	11.7.3	Two shareholders with a combined interest in excess of 50%
		11.7.4	Reduced liquidity
		11.7.5	Dilution of your interest in Coote
		11.7.6	Less likelihood of a takeover
		11.7.7	Potential tax consequences
		11.7.8	Elph's objectives may not align with Shareholders' objectives

Other key matters we have considered include:

Section	Description
11.1	Alternative offers
11.2	Practical level of control
11.3	Board structure
11.4	Implications of not accepting the offer
11.5	Unmarketable parcels

3. Scope of the Report

3.1. Purpose of the Report

There is no requirement under the ASX Listing Rules or Corporations Act Regulations for Coote to engage an independent expert in relation to the Offer. Our report has been prepared at the request of the directors of Coote.

3.2. Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject of the offer. When considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium.

Further to this, RG 111 states that a transaction 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 has completed this comparison in two parts:

- A comparison between the Offer consideration and the value of each Coote share being acquired (fairness – see Section 10 "Is the Offer 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 11 "Is the Offer Reasonable?").

This assignment is a Valuation Engagement as defined by APES 225 Valuation Services. A Valuation Engagement means an engagement or assignment to perform a valuation and provide a valuation report where we determine an estimate of value of the Company by performing appropriate valuation procedures and where we apply the valuation approaches and methods that we consider to be appropriate in the circumstances.

4. Outline of the Offer

On 3 March 2010, Elph announced that it will make an all cash off-market proportional takeover offer to acquire up to 35% of the issued shares in Coote which Elph does not currently own for $0.26 per share.

	Pre Offer		Post Offer (if all Shareholders accept)	
	No. of Shares	%	No. of Shares	%
Elph	66,464,856	24.95	121,471,818[1]	45.59
Other shareholders	199,973,932	75.05	144,966,970	54.41
TOTAL	266,438,788	100.00	266,438,788	100.00

[1] The calculation of Elph's interest in Coote if the Offer is accepted by all Shareholders assumes that Michael Coote will not accept the Offer as publicly announced on 8 March 2010.

Elph intends to change the Coote Board structure to ensure it has at least two independent directors. Elph will also seek to have at least two representatives on the board to assist with delivering shareholder value. If successful with its Offer, Elph may seek to nominate additional directors (resulting in a Board with up to six members, two of these members being independent).

Shareholders can accept Elph's Offer for anywhere between 1% and 35% of their shareholdings.

5. Valuation approach adopted

There are a number of methodologies which can be used to value a business or 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 2.

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

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 for Coote's shares. In order for the quoted market price to be considered appropriate, trading in 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 7.
- Coote does not prepare long term forecasts. Therefore, we are not able to use the DCF methodology.

6. Future maintainable earnings value of Coote

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. We have chosen to use the earnings before interest, tax, depreciation and amortisation ("**EBITDA**") to value Coote because this excludes interest payments that have been historically erratic. We have adjusted for Coote's gearing once the future maintainable earnings value has been calculated.

In undertaking an FME valuation we must consider potential adjustments to the profit reported in 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 and forecasts of Coote and for each of the periods, made adjustments to EBITDA 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:

- Convair Engineering
- Coote Energy
- Coote Logistics
- Drivetrain Power & Propulsion
- Gemco Rail
- Hedemora
- Industrial Powertrain
- Momentum and
- South Spur Logistics.

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. The forecast for the year ending 30 June 2010 is made of actual results for the eight months to 28 February 2010 and a forecast for four months to 30 June 2010. This forecast has been prepared by the management of Coote.

We have assumed Greentrains will continue to be consolidated into Coote and although it has been announced that Coote is looking to divest part of its interest in Greentrains, it is still currently consolidated in the Company.

6.1. Normalised Earnings

The objective of normalising earnings is to determine the underlying profitability expected to be maintained by Coote in the future. 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 (actuals to Feb 10) $'000	FY2009 Actual $'000	FY2008 Actual $'000
EBITDA excluding Greentrains		29,700	21,900	47,501
Normalisation Adjustments				
Redundancy costs	6.1.1	-	1,850	-
Foreign exchange loss/(gain)	6.1.2	(1,244)	2,615	(1,323)
Other	6.1.3	414	(647)	541
Greentrains transactions	6.1.4	-	(6,233)	(20,000)
Discontinued operations	6.1.5	665	613	(5,241)
Total Normalisation Adjustments		(165)	(1,802)	(26,023)
Normalised EBITDA excluding Greentrains		**29,535**	**20,098**	**21,478**
Greentrains EBITDA	6.1.6	9,693	9,300	9,300
Normalised EBITDA assuming Greentrains remaining part of Coote		**39,228**	**29,398**	**30,778**

Normalisation Adjustments:

6.1.1. 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 made a number of redundancies during FY2009.

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.

6.1.2. 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. It is to be noted that the normalisation adjustment made to the FY2010 figure has been calculated on the year to date foreign exchange loss as well as forecast foreign exchange losses.

6.1.3. 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.

6.1.4. Greentrains transactions

During the years ended 30 June 2008 and 30 June 2009, Coote recognised income from the sale of rolling stock to Greentrains. Coote recognised a gross profit of approximately $25.1 million in FY2008 and $7.8 million in FY2009. We have adjusted the earnings of Coote due to Greentrains now being consolidated in the accounts of Coote and this profit being considered as "intercompany". It has also been adjusted to account for the minority interest in Greentrains.

The forecasts we have been provided with did not contain any income or expenses for Coote relating to Greentrains and as such no adjustment has been made in FY2010.

6.1.5. Discontinued operations

On 23 March 2010 Coote announced that it had signed a binding term sheet for the sale of South Spur Rail Services ("**SSRS**"). Assuming the sale of SSRS is successful, the earnings of SSRS will no longer be included in the future earnings of Coote. As such, we have removed the earnings of SSRS from the historic EBITDA.

6.1.6. Greentrains EBITDA

Greentrains commenced operation in July 2009 and was consolidated into the Coote accounts from that date. As such, there has been no reporting of the performance of Greentrains in the historic Coote financial statements for FY2008 or FY2009. We have inserted a notional EBITDA value for Greentrains in FY2008 and FY2009 for the purpose of calculating a future maintainable EBITDA figure for Coote, and have done this by extrapolating the Greentrains EBITDA figure for the half year ended 31 December 2009.

The EBITDA figure for Greentrains in FY2010 is the combination of the actual EBITDA figure for the half year period ended 31 December 2009 with the forecast EBITDA for the six month period to 30 June 2010.

6.2. 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 predominantly for the year ending 30 June 2010 because this provides the best support to what future maintainable earnings may be. We note that future earnings of Coote for the year ending 30 June 2010 include actual results for the eight months ended 28 February 2010.

We have assumed that Greentrains will remain a consolidated entity of Coote. We note that Coote intends to divest part of its interest in Greentrains, however, at the date of our report there is no guarantee that this will occur and, as such, we have assumed that Greentrains is included in our assessment of future maintainable earnings. We have also assumed that Elph will exercise its put option. Elph was granted a put option to sell the Greentrains shares it holds to Coote. The put option is exercisable on or before 16 July 2010 at an exercise price of $6.5 million. Elph has transferred the put option to its parent entity, which has advised Elph that it intends to exercise the put option. The exercise of the put option will increase Coote's interest in Greentrains to approximately 80%.

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

6.2.1. Actual earnings to 28 February 2010

Actual EBITDA for the eight months ended 28 February 2010 excluding EBITDA from Greentrains is approximately $10 million. Extrapolating this figure for the year ending 30 June 2010 would indicate an EBITDA excluding Greentrains of approximately $15 million.

6.2.2. Forecast earnings

Forecast EBITDA for the year ending 30 June 2010 is based substantially on Coote's forward order book and a number of new contracts. We have placed some emphasis on Coote's forecast EBITDA for the year ending 30 June 2010, including the likelihood of new contracts being awarded, when considering our FME.

6.2.3. 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.

6.2.4. Economic Conditions

Global economic conditions have improved dramatically over the past 6 months. Capital markets have improved in light of strong gains in most securities exchanges, supportive government policy and the strengthening of international banks' balance sheets. Despite this, the outlook for the global economy remains challenging.

The Australian economy has been particularly resilient to the challenging global economic environment caused by the global financial crisis. Australia's economic growth for 2009 was much stronger than originally expected, with economic growth of 0.5% for the quarter ended 30 September 2009 and 1% for the year. This is a small disruption relative to the strong contractions seen in most other countries, the result of a number of contributing factors discussed below.

Firstly, Australia has a strong financial system. Australian banks have low exposure to risky assets, are well capitalised and have remained profitable throughout the financial downturn. In addition to this, the Australian government guarantees bank deposits and banks' wholesale funding. The health of the debt markets in Australia is evidenced by the popularity and success of bond issuances by major banks in recent months.

Collectively, these factors have allowed Australian banks to maintain their high credit ratings and access to relatively cheap capital funding. While banks remain risk averse in their lending criteria, the health of the Australian financial sector is having a flow on effect to other parts of the economy by supporting credit availability, private investment and general economic stability.

Secondly, the RBA and the Australian government have been proactive in their response to the global downturn. The RBA reduced the official cash rate from 7.5% to 3.0% in the year to September 2009. The Australian economy has since shown signs of recovery and through a series of interest rate decisions the RBA has increased the official cash rate to 4.25% at March 2010. These measures have allowed the RBA to maintain flexibility should there be an unexpected change in the economic climate. The health of Australian banks means that these changes in the cash rate have been passed on to the end borrower.

The Australian government's fiscal policy has been expansionary through the introduction of the first home buyer's grant, the Australian government stimulus package and planned infrastructure investment. The first home owners grant stimulated housing demand by encouraging new entrants into the market and in doing so, added support to home prices. The government stimulus package provided an artificial support for retail sales in the first half of 2009. While retail sales fell slightly in the September quarter consumer sentiment remains strong. Government stimulus will continue throughout 2010 in the form of public sector investment in educational facilities and broader infrastructure.

The third factor that has contributed to the relatively good performance of the Australian economy is the strong recovery of China's economy. China's recovery has been much quicker than expected. This is predominantly due to China's financial sectors not being impaired to the extent that they were in many developed countries and significant fiscal stimulus.

Another contributor to the performance of the Australian economy is the recovery of equity and real estate markets, both of which have improved significantly from their lows. This trend means that much of the decline in household wealth that occurred during 2008 and early 2009 has been reversed. As a result, improved investor and consumer sentiment is having a flow on effect to other sectors of the economy.

Recent business surveys suggest that business conditions are continuing to improve. Capital utilisation has regained from lows and businesses are contemplating hiring addition labor capital. Employment increased in October 2009 and the unemployment rate has been around 5.75% for the past 6 months. Wages have moderated however. While business investment fell in the later half of 2009, engineering construction was high and is expected to rise further with the development of large LNG projects in Western Australia.

Australia's total exports were approximately 1.5% lower for the year to October 2009 while imports were approximately 4.4% lower for the same period. As a result, Australia's trade deficit decreased significantly during this period. Global commodity prices are continuing to improve inline with the depreciating US dollar. The appreciation of the Australian dollar has absorbed much of these gains for Australian exporters with revenue denominated in US dollars.

The RBA predicts that economic conditions will continue to improve in 2010 and that inflation will be inline with the RBA's target range. Australia's trade relationship with China and China's strong economic performance are likely to continue to provide insulation from the continuing weak economic conditions that are expected for the rest of the world. However, should economic conditions in China change it is likely that demand for Australian exports will fall. Should this occur it will poise an issue for Australian economic growth.

6.2.5. Summary – Future Maintainable Earnings

After considering Coote's historic and forecast earnings we estimate a future maintainable EBITDA range between $32 million and $36 million.

6.3. 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 EBITDA multiple. The observed trading multiples of comparable companies reflect trades in marketable parcels of shares which do not include a premium for control. The comparable companies are detailed in Appendix 3. In determining an appropriate EBITDA 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
- 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 EBITDA multiples of the comparable companies and also sets out the industry average EBITDA multiples.

ASX Code	Company Name	Enterprise Value at 31 March 2010 ($m)	Trailing 12 Month EBITDA (31 December 2009)	Trailing 12 Month EBITDA Multiple	Current Year Forecast EBITDA Multiple	Next Year Forecast EBITDA Multiple
Rolling Stock and Rail Engineering						
DOW	Downer EDI	3,035	429	5.5	6.3	5.8
UGL	United Group	2,741	266	9.9	9.9	8.7
	Average	**2,887.7**	**347.5**	**7.7**	**8.1**	**7.2**
Engineering Services						
DOW	Downer EDI	3,035	429	5.5	6.3	5.8
UGL	United Group	2,741	266	9.9	9.9	8.7
BKN	Bradken Ltd	1,329	159	N/A	8.2	7.2
MND	Monadelphous	1,184	114	N/A	9.1	8.3
MAH	Macmahon	511	58	8.0	4.8	4.5
CDD	Cardno Ltd	372	53	7.2	6.3	5.5
SDM	Sedgman Ltd	333	51	6.3	6.2	5.2
BOL	Boom Logistics	279	69	1.9	5.5	4.1
NHR	National Hire Group	242	7	68.7	N/A	N/A
RCR	RCR Tomlinson Ltd	203	39	N/A	5.4	4.5
FGE	Forge Group	168	19	10.5	N/A	N/A
LYL	Lycopodium Ltd	136	19	12.8	10.4	9.2
MXI	Maxitrans	84	12	9.1	4.8	3.5
	Average	**816.7**	**99.6**	**14.0**	**7.0**	**6.0**
Transport and Logistics						
AIO	Asciano	8,579	634	3.5	11.8	9.7
TOL	Toll Holdings Ltd	5,991	582	10.1	9.6	8.3
KSC	K & S Corp	237	45	4.9	4.5	4.1
REX	Regional Express Holdings	147	33	4.5	N/A	N/A
LAU	Lindsay Australia	89	19	1.6	4.1	4.0
WWA	Wridgeways Australia	78	10	N/A	N/A	N/A
SCC	Scott Corporation	40	11	1.7	N/A	N/A
	Average	**2,165.9**	**190.6**	**4.4**	**7.5**	**6.5**

ASX Code	Company Name	Enterprise Value at 31 March 2010 ($m)	Trailing 12 Month EBITDA (31 December 2009)	Trailing 12 Month EBITDA Multiple	Current Year Forecast EBITDA Multiple	Next Year Forecast EBITDA Multiple
	Overall Average			**10.1**	**7.3**	**6.3**
	Overall Median			**6.8**	**6.3**	**5.8**

Source: Bloomberg

The EBITDA multiples included in the table above have been calculated using the trailing 12 month EBITDA for the six months ended 31 December 2010. In arriving at our multiple range we have considered the following factors.

6.3.1. Comparable Transaction - Takeover offer for GRD Ltd

On 11 July 2009 GRD Ltd ("**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 16 November 2009 was $0.545. 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 16 November 2009 includes a 32% premium for control which means the earnings multiple is also reflecting a premium for control. The takeover was successful on 17 November 2009 for $0.55 per share. If we deduct the premium for control from GRD's earnings multiple the result is a current earnings multiple of 6.8.

6.3.2. Coote's scale of operations

Coote's market capitalisation was approximately $52 million prior to the announcement of the Offer and its total revenue for the six months to 31 December 2009 was approximately $129 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 EBITDA multiple for Boom to be applicable to Coote. If Boom and National Hire (abnormal EBITDA multiples) are removed from the table above the average EBITDA multiple reduces to approximately 8.7.

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 for companies with smaller market capitalisation.

6.3.3. Debt risk

Coote extended a significant proportion of its bank loans due in February 2010 to February 2011. It is, however, in breach of two covenants with its bankers. Coote needs to further reduce its debt and will not be able to do so without the sale of South Spur and the subsequent recapitalisation of Greentrains. The recapitalisation is dependent on a successful capital raising and trading conditions to remain buoyant. These events are currently 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.

At any time Coote may be charged penalty fees for not repaying its debt on time, or could be called upon by its bankers to repay its debt, while it is in breach of any covenants.

6.3.4. Summary – Earnings Multiple

In selecting a multiple range, we have relied upon the current EBITDA multiples of comparable companies, as well as the forecast multiples.

We have selected an EBITDA multiple of 5.4 for Coote. This is less than that of comparable companies due to Coote still being under a relatively high level of debt stress.

6.4. Summary of Future Maintainable Earnings Value

The application of the multiple calculated in section 6.3 to the future maintainable earnings calculated in section 6.2 results in the values shown below:

	Low Value $m	High Value $m
Future Maintainable EBITDA (on a minority interest basis)	32.0	36.0
EBITDA Multiple	5.4	5.4
Minority Interest Enterprise Value	172.8	194.4

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 material surplus assets or liabilities held by Coote.

By applying an EBITDA multiple to a maintainable EBITDA figure we arrive at the enterprise value. In order to arrive at equity value we must deduct net operating debt. The equity value is stated below:

	Low Value $m	High Value $m
Minority Interest Enterprise Value	172.8	194.4
Add: Existing cash	2.1	2.1
(Less): Existing debt	(114.9)	(114.9)
Add: Application of South Spur funds [1]	8.5	8.5
Add: Proportion of net Greentrains debt attributable to minority interests [2]	5.9	5.9
Minority Interest Equity Value	74.4	96.0

1. Calculated as $15m from the sale of South Spur, less $6.5m as payment to Elph for the exercise of the put option.
2. Net debt a result of Greentrains cash less debt as at 31 December 2009.

6.5. Control Premium

RG 111.10 states that when considering the value of a company's shares for the purposes of a takeover this should be done assuming 100% ownership of the target. 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 111.12 states that the expert can then consider an acquirer's pre-existing voting power when considering reasonableness. This has been included in Section 11.

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	31	358.99	10.97
Rail	2006 - 2009	3	1,244.15	23.10
Transport	2006 - 2009	34	994.15	20.38
Logistics	2006 - 2009	10	243.73	29.45
Freight	2006 - 2009	10	486.61	10.40
Fabrication	2006 - 2009	4	605.34	10.53
Total Worldwide Transactions	**2006 - 2009**	**92**	**634.65**	**16.77**
Australian Transactions	**2009 - 2010**	**38**	**467.40**	**57.96**

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 6.3 GRD received a takeover offer from AMEC Plc which was at a premium to the closing share price prior to the announcement of 34%. The transaction was completed in November 2009 and therefore we can rely upon this transaction being comparable to Coote.

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. However, these Australian transactions are across all industries and not specifically to the industries that Coote competes in.

The control premia stated above have been calculated on the 100% sale of companies, and as such is a control premium based on 100% of the equity being acquired. In the takeover offer proposed by Elph only 35% of the equity of Coote not already held by Elph is sought to be acquired, however, it will essentially give Elph control of Coote due to Elph currently holding 24.95% of Coote. As such, the shares Elph is looking to acquire have a control premium of 100% associated with them. If Elph is successful in acquiring the shares subject to the Offer, it would be unlikely that further takeover offers for Coote would eventuate due to Elph having control of Coote. We conclude that the control premium on the 35% of shares sought to be acquired should be greater than the control premium if 100% of the Coote shares are acquired.

We have selected a control premium range of between 30% and 40%. In selecting our control premium we have placed higher consideration on observed Australian control premia, the recent control premium paid for the shares of GRD, and also the Offer being a proportional takeover.

6.6. Summary of Future Maintainable Earnings Value

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

	Ref	Low Value $m	High Value $m
Minority Interest Equity Value		74.4	96.0
Control premium		30%	40%
Equity Value		96.7	134.4

Coote currently has 266,438,788 shares on issue. Therefore, we have assessed the FME value of a Coote share to be between $0.36 and $0.50.

We note that this value is less than the net assets of Coote as at 31 December 2009 of approximately $0.68 per share. However, of the net assets as at 31 December 2009, 56% was made up of intangible assets related to the businesses operated under Coote. Eliminating intangible assets from the net asset of Coote results in a value of $0.30 per share. The value of a company's net tangible assets may be taken to be the minimum value which would be realised upon an orderly realisation of these assets without attributing any value to its goodwill or other intangible assets.

7. 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.

7.1. Minority interest value

The following chart provides a summary of the share price movement over the period from 4 March 2009 to 3 March 2010, being the last trading day prior to the announcement of the Offer.

Source: Bloomberg

The daily price of Coote shares from 4 March 2009 to 3 March 2010 has ranged from a high of $0.445 on 13 May 2009 to a low of $0.175 on 16 February 2010.

During this period a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement $ (movement)	Closing Share Price Three Days After Announcement $ (movement)
1-Mar-10	Half Yearly Report and Accounts	0.215 (▼2%)	0.240 (▲12%)
18-Nov-09	A$40 Million Capital Raising	0.290 (0%)	0.270 (▼7%)
9-Nov-09	Market Update	0.350 (▲3%)	0.345 (▼1%)
29-Oct-09	Distribution Agreement with Guascor Power SAU	0.350 (0%)	0.335 (▼4%)
15-Sep-09	Greentrains funding activities & future direction	0.380 (▼5%)	0.370 (▼3%)
1-Sep-09	Preliminary Final Report	0.325 (▲2%)	0.395 (▲22%)

Date	Announcement	Closing Share Price Following Announcement $ (movement)	Closing Share Price Three Days After Announcement $ (movement)
17-Aug-09	Gemco Rail awarded $8m Wagon Contract	0.295 (▲4%)	0.325 (▲10%)
6-Aug-09	Market Update	0.290 (▼3%)	0.275 (▼5%)
17-Jul-09	Settlement of Greentrains Transaction & Execution of Convertible Note Deed	0.345 (▲8%)	0.345 (0%)

Source: www.asx.com

The three days after the announcement on 1 March 2010 of the half yearly report and accounts is when the announcement for the offer was made, hence the 12% increase in the Coote share price.

To provide further analysis of the market price for a Coote share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 3 March 2010.

	3 March 2010	10 Days	30 Days	60 Days	90 Days
Closing price	$0.195				
Weighted Average price		$0.211	$0.204	$0.227	$0.236

Source: Bloomberg data service

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

Our assessment of the value of a Coote share based on the quoted market price is between $0.195 and $0.236.

In order to demonstrate the liquidity of Coote's shares we have analysed the volume of trading in Coote shares for the period to 2 March 2010 as set out below:

Trading Period in Days	Low $	High $	Cumulative Volume	Issued Capital
1	$0.185	$0.200	413,943	0.16%
10	$0.185	$0.220	3,794,334	1.42%
30	$0.175	$0.235	14,188,535	5.33%
60	$0.175	$0.260	30,367,741	11.40%
90	$0.175	$0.350	38,093,266	14.30%
180	$0.175	$0.410	52,665,214	19.77%
365	$0.175	$0.440	65,448,483	24.56%

Source: Bloomberg data service

This table indicates that Coote shares display a medium level of liquidity, with approximately 15% of the Company's current issued capital being traded over the last 90 trading days to 3 March 2010.

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, and have traded relatively higher since November 2009, 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 $0.195 and $0.236.

7.2. 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	0.195	0.236
Control premium	30%	40%
Quoted market price valuation including a premium for control	0.254	0.330

Therefore, our valuation of a Coote share based on the quoted market price method and including a premium for control is between $0.254 and $0.330.

8. 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	6	0.360	0.500
ASX Market Value	7	0.254	0.330

Based on the results above, in our opinion the value of a Coote share is between $0.36 and $0.50. We have placed a greater reliance on the FME value as we do not consider Coote's shares to be liquid enough to provide a reliable valuation range.

9. Value of consideration offered

The cash consideration offered by Elph is $0.26 per Coote share.

10. Is the Offer fair?

The value of the Offer is compared below:

	Ref	Low $	High $
Value of a Coote share	8	0.36	0.50
Value of consideration offered	9	0.26	0.26

We note from the table above that the value offered by Elph of $0.26 per share is less than the value we have calculated per Coote share being between $0.36 and $0.50. Therefore, we consider that the Offer is not fair.

11. Is the Offer reasonable?

11.1. Alternative Offer

We are unaware of any alternative Offer that might offer the Shareholders of Coote a premium over the value ascribed to that resulting from the Offer.

11.2. Practical level of control

If the Offer is accepted by all Shareholders except Managing Director Michael Coote (and his associated holdings) then Elph will hold approximately 45.6%.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution requires 75% of shares on issue to be voted in favour to approve a matter. If the Offer is accepted then Elph will be able to block special resolutions and will, at most, only need a small number of additional supporting votes to pass general resolutions.

Elph's control of Coote if the Offer is accepted will be significant when compared to all other shareholders and will also be a significant change from its current control position. In our opinion, Elph will be able to significantly influence the activities of Coote by gaining an interest of almost 50%.

11.3. Board structure

Elph intends to seek to appoint two representatives to the Board. These representatives are Mr Dale Elphinstone and Mr Vincent De Santis. Mr Elphinstone is the founder of the Elphinstone Group of companies which, among other things, has an interest in Caterpillar dealerships in Victoria and Tasmania. Mr De Santis is the Managing Director of the Elphinstone Group.

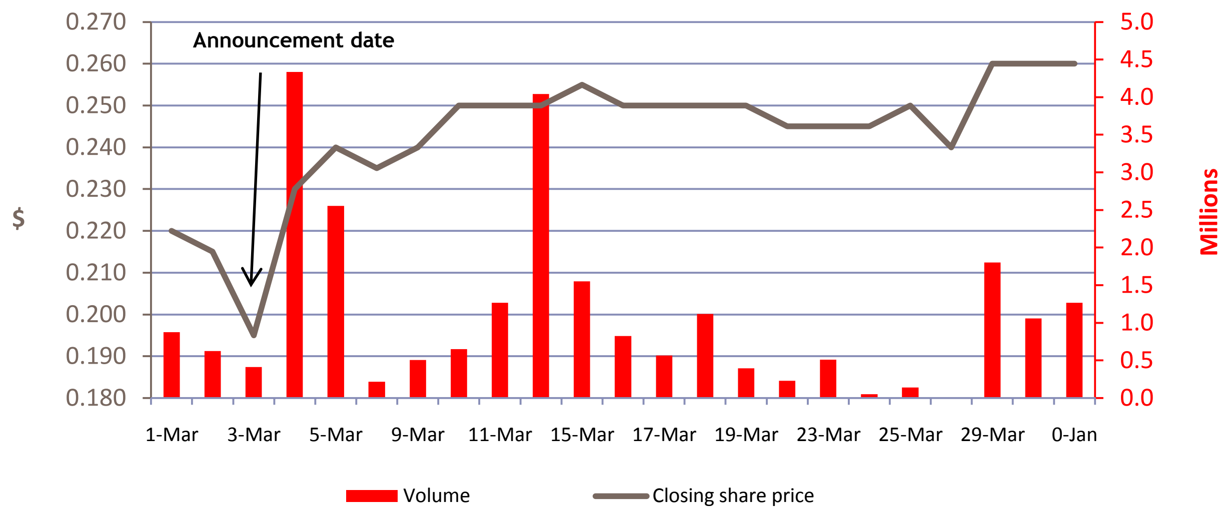
It is to be noted that Mr Elphinstone and Mr De Santis are not guaranteed to be voted on to the Board, and Mr Elphinstone has previously been offered a seat on the Coote Board. Coote currently has three Board members, one of whom is independent. Elph has stated that it also intends to ensure there are two independent Board members. This means that there could be up to six Board members, two of which are Elph representatives. However, Elph has also stated that, depending on the level of acceptances, it will seek to appoint other directors to the Board. As such, Elph will have an interest of at least 33.3% on the Coote Board and is likely to increase this interest if possible and possibly secure Board control.

Elph will also have a significant influence on the Board and could even achieve control of the Board. It will not, however, be able to exercise a similar level of control as if it held 100% of Coote.

11.4. Implications of not accepting the Offer

Post announcement pricing

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



Source: Bloomberg

Following the announcement of the Offer Coote's share price increased to near Elph's Offer price and has remained around these levels since the announcement.

During the above period we noted that on 5 March 2010 Coote announced the extension of its banking facilities, and on 23 March 2010 it had signed a Binding Term Sheet for the sale of South Spur.

Given the appreciation of Coote's share price following the Offer it is possible that, if the Offer is not accepted, then Coote's share price may decline. However, we consider this unlikely due to the announcements of the extension of the banking facilities and the sale of South Spur.

Will not receive a premium

If the Offer is not accepted then Shareholders will not receive the premium offered by Elph on 35% of their shareholding. Also, Elph is only offering to acquire 35% of Coote shares, and as such, is only offering to pay a premium for 35% of Coote shares. However, if Elph was to be successful in its offer, it would have effective control of Coote and would have done so by only offering a premium on 35% of Coote shares.

Potential to retain interest and upside

By not accepting the Offer, Shareholders will continue to hold their current interest in Coote. If Elph achieves sufficient interest in Coote that will allow it to achieve its stated goals, then Shareholders who do not accept the Offer will be exposed to the benefits this may bring without being diluted. However, Shareholders who do not accept the Offer may forego a premium to the pre announcement share price for 35% of their shareholding.

11.5. Unmarketable parcels

If, as a result of accepting the Offer, a Shareholder is left with an unmarketable parcel of shares, Elph will acquire the entire shareholding. This will remove from such Shareholders any interest in the ongoing business of Coote. However, these Shareholders will be able to realise a premium for their entire shareholding.

11.6. Advantages of accepting the Offer

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

Notes	Advantages	Description
11.6.1	Improved market perception	If Elph gained all but Michael Coote's acceptances then Elph will hold a 45.6% interest in Coote. The increased shareholder support and reputation of the Elphinstone Group could provide improved market certainty in relation to Coote's future operations which may result in more support for Coote's shares.
11.6.2	Premium to existing share price	The Offer was at a 33.3% premium to the closing share price immediately prior to the announcement and is at a premium to Coote's 10, 30, 60 and 90 day volume weighted average share prices. Whilst our FME value is greater than the QMP, there is no guarantee that the QMP will reflect our FME value while the current level of debt remains in Coote as well as Greentrains remaining consolidated in the Company.
11.6.3	Ability to realise cash now and retain exposure	The Offer is an opportunity for Shareholders to realise up to 35% of their shareholding as cash now. As the Offer is only for 35% of individual shareholdings, Shareholders will maintain an exposure to any potential upside of Coote's business going forward.

11.7. Disadvantages of accepting the Offer

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

	Disadvantages	Description
11.7.1	The Offer is not fair	The Offer is not fair to Shareholders. We have determined that the value of a Coote share is greater than the value of the consideration offered.
11.7.2	Loss of control	If all acceptances are received except for Michael Coote's, then Elph will hold 45.6% of Coote. This means that, with little other shareholder support, Elph will be able to pass general resolutions. Elph will also be able to block special resolutions. We note, however, that a single shareholder who was able to block special resolutions has, until recently, been a characteristic of Coote's shares.
11.7.3	Two shareholders with a combined interest in excess of 50%	If all acceptances are received except for Michael Coote's, then the combined interests of Michael Coote and Elph in will exceed 50% of the voting rights in Coote. This means that, together, Michael Coote and Elph can pass ordinary resolutions.
11.7.4	Reduced liquidity	Approximately 61.7% of Coote's shares will be held by two strategic shareholders if Elph receives the maximum acceptances. This means that, at most, only 38.3% of shares on issue will be freely tradable. As such, it is likely that Coote's shares will be less liquid than they are at present. This may affect the ability to dispose of shares in an orderly manner.
11.7.5	Dilution of your interest in Coote	By accepting the Offer you will reduce your interest in Coote by 35%. This means that you will have less interest in the future performance of Coote.
11.7.6	Less likelihood of a takeover	Having a controlling shareholder typically deters potential acquirers from making takeover offers. This is likely to be the case for Coote, as having Elph as a controlling shareholder is likely to deter possible takeover offers. If further takeover offers were to be made, there is little chance that an offer would be made with a premium on the share price as control would not be gained by the potential acquirer. However we note that Coote shares have typically traded with a significant shareholder.
11.7.7	Potential tax consequences	The disposal of Coote shares held on capital account will be considered a taxable event by the Australian Tax Office. This means that, depending on the circumstances of individual Shareholders, a capital gain may be realised during this financial year.
11.7.8	Elph's objectives may not align with Shareholders'	Elph has stated that if the Offer is successful, it will seek to change the Coote Board to reflect its proportionate ownership interest and conduct a review of Coote's strategic objectives. The strategic objectives of Elph may not align with those currently pursued by Coote and minority shareholders will have no control over this direction.

12. Conclusion

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

13. Sources of information

This report has been based on the following information:

- Audited financial statements of Coote for the years ended 30 June 2009 and 30 June 2008
- Reviewed financial statements of Coote for the half year ended 31 December 2009
- Financial forecasts of Coote for the four months ending 30 June 2010
- Elph Bidder's Statement dated 31 March 2010
- Draft target statement prepared by the directors of Coote
- Bloomberg data service
- Share registry information
- Information in the public domain and
- Discussions with Directors and Management of Coote.

14. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of approximately $45,000 (excluding GST and reimbursement of out of pocket expenses). Except for this fee, BDO 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 Corporate Finance (WA) Pty Ltd has been indemnified by Coote in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by Coote, including the non provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO 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 Corporate Finance (WA) Pty Ltd's opinion it is independent of Coote and Elph and their respective associates.

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.

BDO is the brand name for the BDO International network and for each of the BDO Member firms.

BDO (Australia) Ltd, an Australian company limited by guarantee, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of Independent Member Firms. BDO in Australia, is a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International).

15. Qualifications

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

BDO 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 and Adam Myers of BDO 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 and were supported by other BDO staff.

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 and its predecessor firms in London and Perth. He has been responsible for over 120 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 12 years in the Audit and Assurance and Corporate Finance areas.

16. Disclaimers and consents

This report has been prepared at the request of Coote for inclusion in the Target's Statement which will be sent to all Coote Shareholders. Coote engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider Elph's Offer to acquire an additional 35% of the issued shares in Coote for $0.26 per share.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Target's 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 Corporate Finance (WA) Pty Ltd.

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

BDO 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 or review of Coote or Elph in accordance with standards issued by the Auditing and Assurance Standards Board. 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. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Elph. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

The forecasts provided to BDO 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 Corporate Finance (WA) Pty Ltd cannot provide any assurance that the forecasts will be representative of results that will actual be achieved. BDO Corporate Finance (WA) Pty Ltd disclaims any possible liability in respect of these forecasts.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Offer, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Coote, or any other party.

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 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 CORPORATE FINANCE (WA) PTY LTD

Sherif Andrawes	**Adam Myers**
Director	Associate Director
	Authorised Representative

APPENDIX 1 – GLOSSARY OF TERMS

Reference	Definition
APES	Accounting Professional & Ethical Standards
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty 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
FMD	Future Maintainable Dividends
FME	Future Maintainable Earnings
FSG	Financial Services Guide
GFC	Global Financial Crisis
MEE	Multiple of Exploration Expenditure
NTA	Net Tangible Assets
Our Report	This Independent Expert's Report prepared by BDO
QMP	Quoted Market Price
RBA	Reserve Bank of Australia
RG 111	Regulatory Guide 111 – Content of Expert's Reports
RG 112	Regulatory Guide 112 – Independence of Experts
ROC	Return of Capital
Shareholders	Shareholders of Coote not associated with Elph
SSRS	South Spur Rail Services
The Act	The Corporations Act
The Company	Coote Industrial Ltd
The Offer	The Offer to acquire 35% of the issued shares in Coote that Elph does not already own for $0.26 per share
VWAP	Volume Weighted Average Price

APPENDIX 2 – VALUATION METHODOLOGIES

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

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.

2 *Quoted Market Price Basis ("QMP")*

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.

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.

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 3 – COMPARABLE COMPANIES

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

Maxitrans Industries Limited

Maxitrans Industries Limited designs, manufactures, rents and sells transport equipment and spare parts including refridgerated, insulated and dry freight trailers and containers. The group's products are sold to customers in the road, shipping and rail transport industries of Australia and New Zealand.

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.

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.

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.

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.

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.

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.

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.

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.

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.

APPENDIX 4 – PROFILE OF COOTE INDUSTRIAL LTD

History

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's rental agreement with Allrail did not provide any recourse for non-performance 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)
- Don Patterson (Executive Director)

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. The Board of Coote has expressed its intention to deconsolidate Greentrains from the Group.

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 March 2010, 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
- Coote Energy
- Coote Logistics
- Drivetrain Power & Propulsion
- Gemco Rail
- Hedemora
- Industrial Powertrain
- Momentum and
- South Spur Logistics.

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

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.

Coote Energy

Coote Energy is a new entrant to the energy and power generation industry with a charter to deliver low emission distributed power solutions. The company is focused on exploiting power generation opportunities within the resources, property, industrial and government sectors by harnessing technological improvements in the areas of cogeneration, coal seam/land fill and biogas, solar thermal HVAC and heat recovery. Coote Energy project manages power plant design, installation and commissioning.

Coote Energy provide a range of engineering services such as mechanical engineering design, power generation and ancillary systems, consultancy services for distributed power, cogeneration, alternate power solutions and electrical power distribution and control systems.

Coote Energy also provides repair and maintenance services though life support for power generation plants and associated equipment.

Coote Logistics

Coote Logistics is a provider of ports services and specialist road transportation solutions. Coote Logistics' customers are predominantly engaged in industrial and mine-site construction or transportation/handling of construction, mine-site, and agricultural materials.

Coote Logistics offers:

- mine-site and specialised transportation logistics
- road freight
- mining and agricultural produce freight management
- mine products storage and distribution
- mine-site transportable housing relocation and
- road freight transportation operations.

Port handling services include dry and refrigerated container storage facility, accredited Australian Customs and Australian Quarantine and Inspection Service facility, gantry and AQIS approved wash pad services for containers, mining, agriculture and industrial equipment, mass container import/export freight forwarding services and break-bulk freight management.

Coote Logistics operates in the agricultural, transportation and resources market sectors.

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.

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.

In August 2009 Gemco Rail was awarded an $8.3m wagon contract to design and manufacture 16 alumina rail wagons and 5 caustic soda rail tankers by BHP for its Worsley Alumina project, with deliveries scheduled between Q3 2010 and Q2 2011.

Hedemora Diesel AB

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. Hedemora Diesel AB is also the original equipment manufacturer of (OEM) for the Hedemora range of diesel engines which includes those in operation onboard Australia's Collins Class Submarines.

Engineering services include mechanical and electrical/electronic design and consultancy services, as well as engineering project management. Hedemora Diesel AB provides manufacturing and fabrication services such as diesel engines, ancillaries and components, electronic/electrical asset control systems and portable plant (lighting towers, arrow and message boards and generators).

Repair and maintenance services include diesel and gas engines for rail, marine and power generation; turbochargers, pumps, fuel injection and other ancillary equipment. Electronic/electric equipment including navigation systems, asset control and monitoring as well as custom electronic equipment are also among Hedemora's capabilities.

Hedemora Diesel AB provide comprehensive spare parts provisioning for diesel engines, ancillaries and other industrial equipment, and operates in the defence, resources, maritime, power generation and rail market sectors.

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.

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.

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.

On 23 March 2010 the company announced it entered into a Binding Terms Sheet for the sale of South Spur Rail Services business with POTA Holding Pty Ltd ('POTA'). POTA will acquire 100% of the issued capital of South Spur Rail Services Pty Ltd, the entity which conducts the South Spur Rail Services business for a total consideration of $16m, payable in cash at completion. Under the terms of the sale Coote will provide maintenance services to POTA to support the South Spur rollingstock fleet, as well as POTA's existing fleet. The consideration for the sale includes a pre-payment for maintenance work of $1m.

Historical balance sheet

Balance Sheet	As at 31 Dec 09 $'000	As at 30 Jun 09 $'000	As at 30 Jun 08 $'000
CURRENT ASSETS			
Cash and cash equivalents	2,097	1,946	-
Trade and other receivables	45,528	150,020	130,994
Inventories	48,829	51,771	65,124
Other current assets	1,147	1,998	2,087
TOTAL CURRENT ASSETS	**97,601**	**205,735**	**198,205**
NON-CURRENT ASSETS			
Trade and other receivables	3,031	3,173	2,255
Inventories	36,415	17,608	7,200
Financial assets	155	127	5,004
Property, plant & equipment	123,144	46,324	34,672
Deferred tax assets	5,995	3,967	3,192
Intangible assets	102,525	102,748	93,515
TOTAL NON-CURRENT ASSETS	**271,265**	**173,947**	**145,838**
TOTAL ASSETS	**368,866**	**379,682**	**344,043**

Balance Sheet	As at 31 Dec 09 $'000	As at 30 Jun 09 $'000	As at 30 Jun 08 $'000
CURRENT LIABILITIES			
Trade and other payables	47,826	72,652	41,756
Financial liabilities	71,211	128,958	43,501
Current tax liabilities	9,196	9,290	10,117
Short-term provisions	9,584	9,961	4,286
TOTAL CURRENT LIABILITIES	**137,817**	**220,861**	**99,660**
NON-CURRENT LIABILITIES			
Financial liabilities	43,731	20,326	98,314
Long-term provisions	2,349	1,934	1,766
Deferred tax liabilities	2,650	1,930	288
TOTAL NON-CURRENT LIABILITIES	**48,730**	**24,190**	**100,368**
TOTAL LIABILITIES	**186,547**	**245,051**	**200,028**
NET ASSETS	**182,319**	**134,631**	**144,015**
EQUITY			
Issued Capital	152,819	119,222	117,632
Reserves	106	697	1,329
Non-controlling interest	10,381	-	-
Retained earnings	19,013	14,712	25,054
TOTAL EQUITY	**182,319**	**134,631**	**144,015**

Source: Coote Industrial Limited Financial Statements for 30 June 2008, 30 June 2009 and 31 December 2009.

- On 17 July 2009 Coote Investments Pty Ltd (a 100% subsidiary of Coote Industrial Ltd) acquired a 61% controlling interest in Greentrains.
- The balance sheet was significantly impacted by the settlement of the Greentrains debtor for the first tranche of rolling-stock sold from Gemco Rail Pty Ltd to Greentrains Ltd in June 2008 for $82,713,000. In order to settle the receivable Coote acquired the interest in Greentrains, retained rolling stock valued at $17m and received a cash payment of $44m. On settlement $34.12m was applied to debt reduction in Coote Industrial Ltd. As part of the acquisition Coote acquired property, plant and equipment at a fair value of $80.1m.

- On 17 November 2009 Coote also announced it had completed $30m share placement to institutional and sophisticated investors, and an additional $1.2m under a Share Purchase Plan, offered to all existing shareholders with more than $20m of funds received having since been applied to debt reduction with the balance applied to working capital.

Historical income statements

Income Statement	Half year ended 31 Dec 2009 $000	Year ended 30 June 2009 $000	Year ended 30 June 2008 $000
Revenue	128,688	317,187	346,311
Other Income	1,789	175	1,582
Total Revenue	**130,477**	**317,362**	**347,893**
Expenses			
Changes in inventories of finished goods and work in progress	(2,942)	(2,945)	43,015
Raw materials and consumables	(41,368)	(153,080)	(217,637)
Employee benefits expense	(42,207)	(85,715)	(82,071)
Depreciation and amortisation expense	(6,272)	(10,455)	(8,525)
Impairment recovered	860	(1,060)	-
Finance costs	(6,728)	(14,779)	(8,943)
Subcontract freight	(1,091)	(2,616)	(1,767)
Repairs and maintenance	(2,414)	(6,353)	(6,006)
Insurance	(1,774)	(3,850)	(2,161)
Rent and outgoings	(5,750)	(10,612)	(6,818)
Vehicle expenses	(918)	(1,908)	(1,791)
Fuel	(2,580)	(8,445	(7,765)
Foreign exchange movement	(374)	(2,615	-
Other expenses	(11,458)	(15,819)	(15,249)
Profit / (loss) before income tax expense	**5,461**	**(2,890)**	**(32,175)**
Income tax expense	(1,269)	(1,651)	(10,163)
Net Profit for the period from continuing operations	**4,192**	**(4,541)**	**22,012**

Source: Coote Industrial Limited Financial Statements for 30 June 2008, 30 June 2009 and 31 December 2009.

- Profitability improved considerably during the six months ended 31 December 2009. This is partly the result of the affect sales to Greentrains had on Coote during the year ended 30 June 2009. It is also noted that trading conditions for mining services companies were poor during the year ended 30 June 2009.

- Net Profit after tax for the half year ended 31 December 2009 was a result of strong performance from key businesses, Drivetown Power and Propulsion and Industrial Powertrain, with EBITDA well up on last year. However this was also adversely affected by poor performance of Gemco Rail with revenues of $26.81m achieved 57.6% down on the corresponding period in FY09. EBITDA at, $1.1 million, was also well down with delayed completion on two key projects being the primary reason for the poor result.

Capital structure

The share structure of Coote as at 26 March 2010 is outlined below:

Description	Number
Total Ordinary Shares on Issue	266,438,788
Top 20 Shareholders	183,971,395
Top 20 Shareholders - % of shares on issue	**69.0%**

Source: CXG Sharetrak report

The range of shares held in Coote as at 11 March 2010 is as follows:

Range of Shares Held	No. of Ordinary Shareholders	No. of Ordinary Shares	Issued Capital (%)
1-1,000	113	67,700	0.0%
1,001-5,000	544	1,737,480	0.7%
5,001-10,000	407	3,292,095	1.2%
10,001-100,000	880	33,593,748	12.6%
100,001 – and over	238	227,747,765	85.5%
TOTAL	**2182**	**266,438,788**	**100.0%**

Source: CXG Share registry as at 11 March 2010

The ordinary shares held by the most significant shareholders as at 26 March 2010 are detailed below:

Name	No of Ordinary Shares Held	Percentage of Issued Shares (%)
Elph	66,464,857	24.9%
Mr Michael C Coote	42,811,164	16.1%
SG Hiscock & Co	27,185,220	10.2%
Thorney Investments	13,274,523	5.0%
Total Top 4	**149,735,764**	**56.2%**
Others	116,703,024	43.8%
Total Ordinary Shares on Issue	**266,438,788**	**100.0%**

Source: CXG Sharetrak report

Options which are currently on issue in Coote as at 26 March 2010 are outlined below:

Coote options currently on issue	Number of Options	Exercise Price ($)	Expiry Date
Unlisted options	1,000,000	$3.00	29 August 2011
Unlisted options	1,000,000	$3.50	29 August 2011
Unlisted options	1,000,000	$4.00	29 August 2011
Total Number of Options	**3,000,000**		
Cash Raised if Options Exercised	**$10,500,000**		

Source: ASX announcement

APPENDIX 5 – PROFILE OF ELPH PTY LTD

History

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.

Relationship with Coote

Elph currently has an existing relationship with Coote. Elph already holds 24.95% of the issued shares in Coote. In addition to this, Elph holds 19.8% of Greentrains.

As part of the subscription of shares in Greentrains, Elph was granted a put option to sell the Greentrain shares it holds to Coote. The put option is exercisable on or before 16 July 2010 at an exercise price of $6.5 million. Elph has transferred the put option to its parent entity, which has advised Elph that it intends to exercise the put option.

Previous Share Transactions with Coote

In July 2009, Coote agreed to issue convertible notes to Elph in consideration for Elph advancing $4 million to Coote. The convertible notes comprised two tranches:

- 10,871,200 convertible notes issued for $1,864,000 and
- 12,457,694 convertible notes issued for $2,136,000.

The shares issued upon conversion of the convertible notes on a 1 for 1 basis were issued to Elph on 9 December 2009.

Elph also acquired shares in Coote in November and December 2009, as part of Coote's $30 million share placement and $10 million share purchase plan. Elph was issued 29,863,846 shares at $0.26 each.

APPENDIX 6 – INDUSTRY BACKGROUND

Introduction - modal choice

The rail freight transportation industry in Australia is a major player in the overall freight transportation industry in Australia, accounting for approximately 40% of the domestic freight task on a tonnes per kilometre basis. Comparatively road transportation accounts for 35% and coastal shipping 25% of the overall domestic freight task. Modal choice is strongly influenced by the characteristics of the goods such as type, mass, fragility and density.

Freight cargo is generally classified as ‘bulk’ or ‘non-bulk’. Bulk typically consists of minerals (predominantly iron-ore and coal) and agricultural products and most commonly is intended for export and transported intrastate, from the area of production to the closest port. Approximately 65% of all freight cargo are categorised as bulk, with rail accounting for 48% of total bulk freight.

Non-bulk includes containerised intermodal freight supplied by forwarding agents and other general freight. Non-bulk cargoes are generally shipped interstate and from rural areas to port. Rail freight represents approximately 22.5% of total non-bulk items. Other bulk commodities include grain, mineral sands, uranium, timber and paper.

The table below shows the volume of freight transported measured in billion tonne kilometres (“**btks**”) and sorted according to the mode of freight transportation.

	Bulk (btks)	Bulk (% Type)	Bulk (% Total)	Intermodal (btks)	Intermodal (% Type)	Intermodal (% total)	Total (btks)	Total (%)
Sea	117.9	35.5%	23.3%	8	4.6%	1.6%	125.9	24.83%
Rail	159.3	48.0%	31.4%	39.4	22.5%	7.8%	198.7	39.19%
Road	54.7	16.5%	10.8%	127.7	72.9%	25.2%	182.4	35.98%
Total	331.9	100%	65%	175.1	100%	35%	507.0	100%

Source: Australian transport statistics yearbook 2009, BITRE, 2009, Canberra ACT

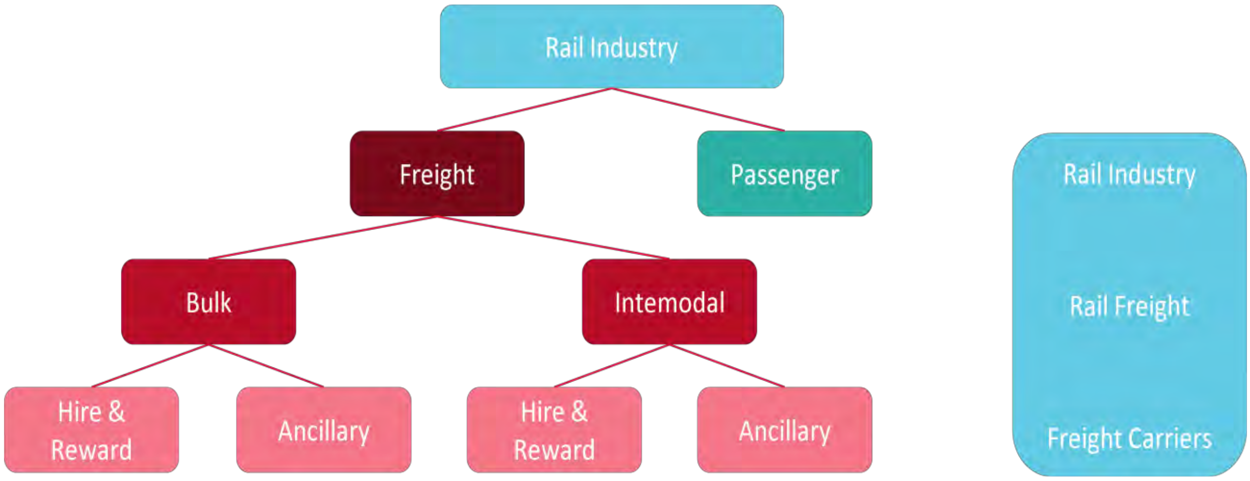
Rail is also a significant contributor to Australia’s rural and regional economies, producing economic benefits estimated to be $7.7 billion per annum. There are in excess of 300 companies in the rail sector employing tens of thousands, with the Australian rail network comprising approximately 40,000km of track that is used in freight haulage.

Rail freight transportation is the most cost effective mode of land transport for journeys over 1500km and with increasing liquid fuel prices, will enjoy absolute price advantage for all non-urban journeys. Rail freight is estimated to be up to 10 times more fuel efficient than road freight as well as up to 9 times safer.

Type of Freight Carriers

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:



Size and Trend of the Rail Freight Industry

In Australia the freight rail industry carries close to 6 million tonnes of freight each year and generates annual revenues of almost $4 billion.[1] The Australian domestic freight task measured 521 billion tonne kilometres in 2007, with 40% carried by rail.2 The Rail Freight Industry in Australia has outpaced economic growth over the last 5 years on the back of the resources boom.

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 the total tonnes of freight carried over the last two decades and the growth rate over each decade since 1985.

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

[1] Freight Rail Operators Group
2 Rail Freight Performance Indicators 2007-08 - Statistical Report

Source: Apelbaum Consulting Group

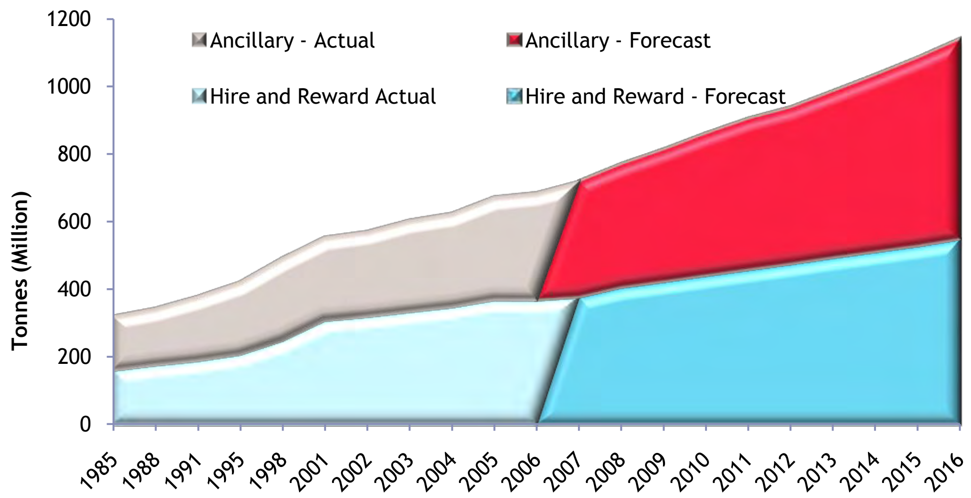
A lot of this increase emanated from the growing demand for Australian commodities including bauxite and iron ore.

The role of H&R 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

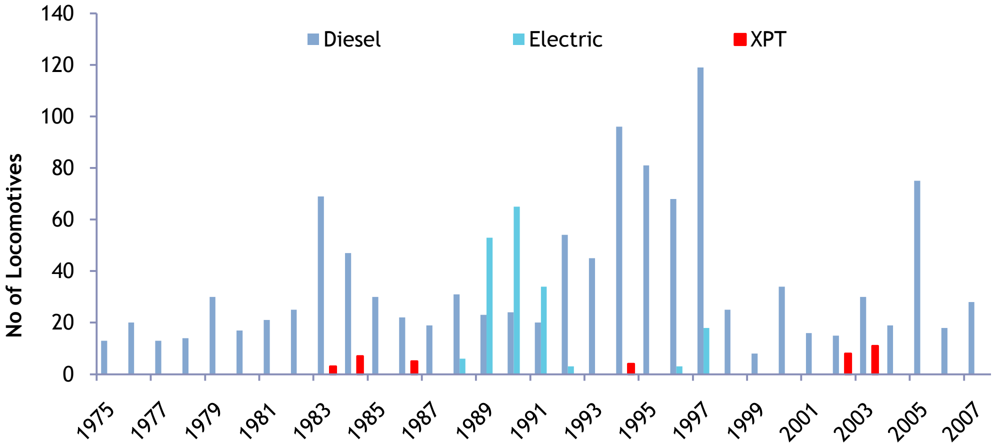
Locomotive Age Profile

In 2007 there were 1,829 locomotives servicing the Australian non-urban passenger and freight sectors. Of these locomotives, 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 17 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 categories that were manufactured each 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 2007, the number of locomotives manufactured per year has increased on average, 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.

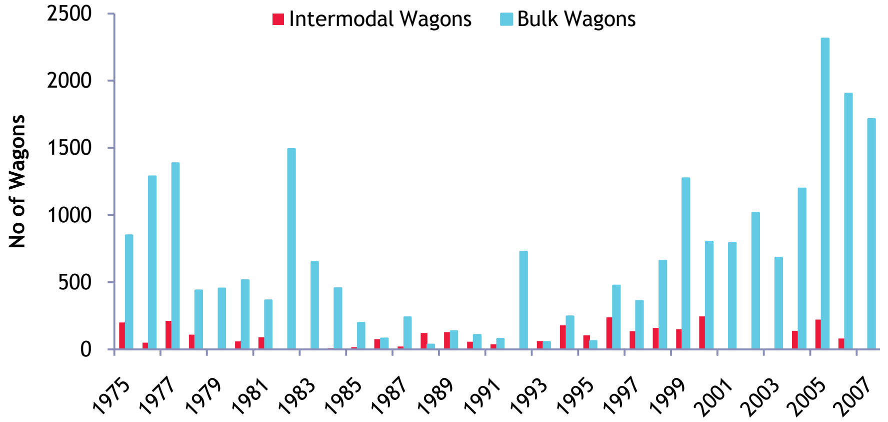
An aging locomotive fleet bodes well for rolling stock and rail services as older locomotives will require more upkeep and repair.

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 the 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 featured fewer manufactured wagons 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.

Key Players

In Australia, most railway network infrastructures used to be predominantly government owned until significant privatisation activities took place in the mid 1990s. Today, private companies operate the majority of trains in Australia. The rail freight transportation industry is highly concentrated; characterised by a number of dominant freight rail operators due to high barriers to entry including high capital costs associated with start-up and heavy regulation.

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, 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 ("**QR**") and Pacific National are significantly larger than any of the other rail freight operators.

	Revenue ($'m)	Employees
Rail freight companies		
Queensland Rail	3,500	15,000
Pacific National	1,622	4,000
SCT Logistics	240	800
Genesee & Wyoming	106	200
Freightlink	68	n/a

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

In December 2009, the Queensland State Government announced that the combination of QR Coal and QR Freight business under the company name, QR National which will be floated through a share offer. The Company is set to be a top 50 ASX listed company as well as Australia's biggest coal transport and freight business. The company moved 244 million tonnes in 2007/08 which is more than any other company in Australia and has a fleet of over 700 locomotives and 15,000 wagons.3 QR Freight has an annual turnover of $1.2 billion and QR National Coal has an annual turnover of $1.3 billion. QR Limited has a combined capital investment program of over $5 billion over the coming years, primarily for Central Queensland Coal and South East Queensland passengers; and the capital investment program also includes about $1 billion of investment outside Queensland.

Pacific National, a part of Asciano Limited, is Australia's second largest coal haulage operator in Australia which has a significant fleet of rolling stock consisting of 234 locomotives and 4,800 wagons. PN estimated revenue of $1.6 billion for the year ended 30 June 2008.

A number of private iron ore haulage railways also operate in the Pilbara region of Western Australia by major iron mining companies including BHP Billiton, Hamersley Iron and Fortescue Metals Group. A sixth iron ore railway line has been proposed to the port of Oakajee, North of Geraldton, and will be open to any iron ore mine wishing to use it.

[3] QR Limited Annual Report 2008/09

Future Outlook

The rail freight industry is closely integrated with the Australian commodities market, as it is the essential mode of transport for mining operations. Therefore, the industry outlook is closely tied with the outlook of the Australian Resources and Minerals industry, predominantly iron ore and coal. With the high level of demand for Australian coal and iron ore by China and India; the outlook for the rail freight industry appears vibrant. The key determinants of demand for Australian commodity exports are world commodity prices, exchange rates and world commodity stock levels.

The Federal government has placed transportation, and in particular freight transport, as a central plank to promoting the productivity growth in Australia, given the projected increase of freight tasks by two folds and the importance transportation will play in ensuring Australia's international competitiveness due to its integration with commodities markets.[4]

Over the next 5 years, Australia's coal production is estimated to increase by 28.5% to a record 450 mtpa compared with 350 mtpa produced now. In particular, the Hunter Valley region in New South Wales is set to undergo significant growth over the next 5 years, with coal production forecast to more than double from 97 mtpa currently to over 200 mtpa by the end of 2014, and could potentially reach as high as 300 mtpa. To assist with this growth, Australian Rail Track Corporation ("**ARTC**") has invested $1 billion into a Hunter Valley Investment Strategy aimed at improving coal carrying capacity in the region, with a further $5 billion in new infrastructure by government and private investment over the next 4 years to 2013.

As a consequence, rail freight transportation task is expected to double between 2009 and 2030 in line with the forecast doubling in domestic freight task. Rail freight transportation's share of the domestic freight task is expected to remain steady at about 39% of total domestic freight or increase as a result of a modal shift from road to rail transportation due to the greater safety, environmental and cost efficiencies. Consequently, significant infrastructure programs are planned to increase the use of rail.

Under the Australian Government's current five year infrastructure program, the Government and ARTC are investing around $2.4 billion to improve rail transit times throughout the interstate rail network, particularly in the North-South corridor. Overall, current Commonwealth investment in railway infrastructure equates to around $5.2 billion, which together with private investment will significantly enhance the rail transportation's ability to increase market share of domestic freight industry over the coming decades.

According to a report released by the Victorian Freight and Logistics Council ("**VFLC**") in February 2010, private sector spending on Victoria's rail freight is more than double the federal and state investment of $1.2 billion. The report, titled *The Growth and Revival of Rail Freight in Victoria* shows a significant revival of the rail freight sector as well as what is needed to equip it for an increased role in the future.

[4] K Rudd Speech

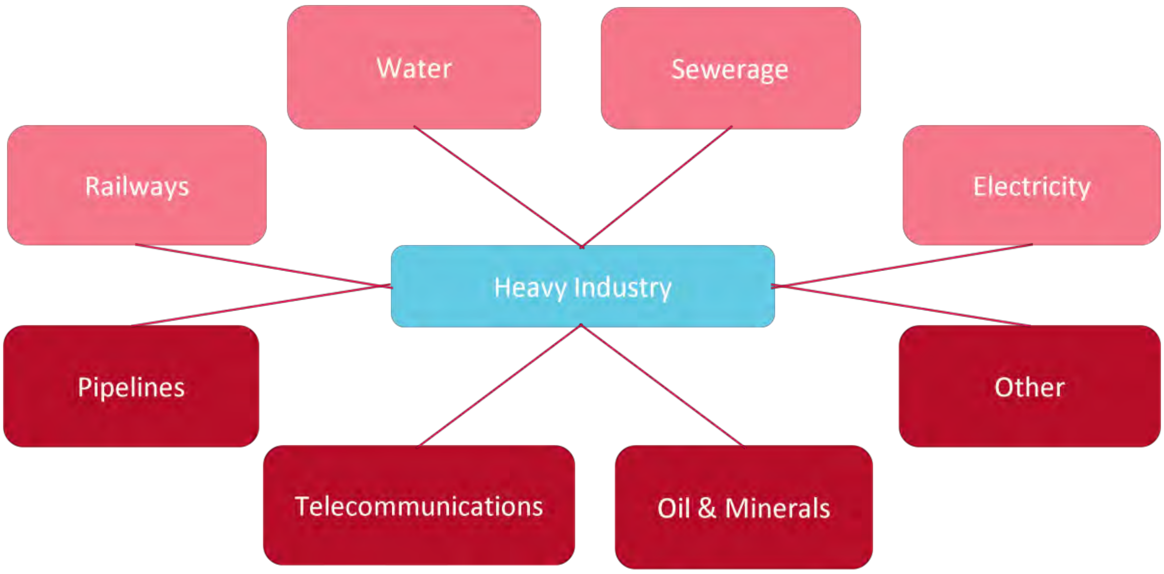
Heavy Industry

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 effect on engineering service providers. As such, the following industry analysis uses heavy industry as a proxy for engineering service providers to heavy industry.

Industry Overview

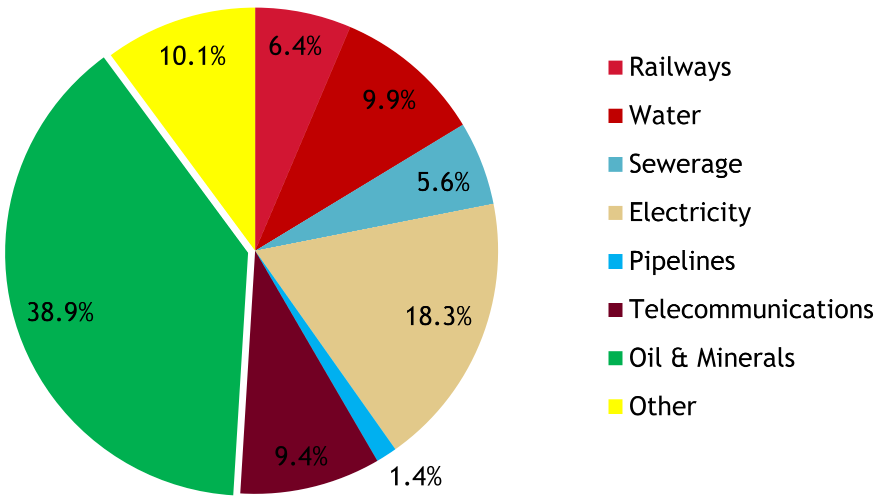
Broadly, heavy industry can be divided into engineering projects or infrastructure development. Heavy industry activities can be further divided into the broad categories illustrated in the diagram below.



In Australia, heavy 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.

In the past ten years, industry activity has been dependent 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) meant 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.

Market Segmentation



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.

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

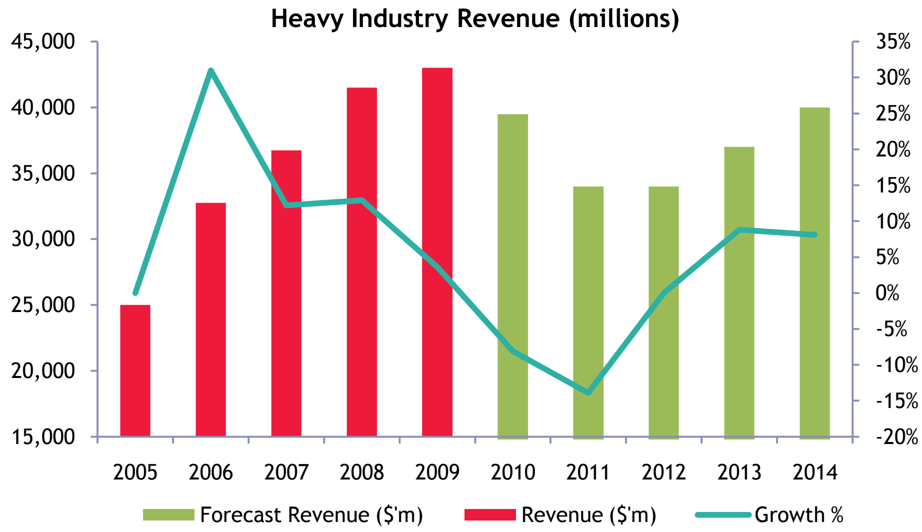
Source: IBIS World (Heavy Industry and Other Non-Building Construction in Australia - Industry Report) & Annual Reports

Approximately 135,000 persons are directly employed in the 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.

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 have caused 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.

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.

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