

## ASX Announcement

6 November 2013

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### Scheme Booklet registered with ASIC

Cape Alumina Limited ACN 107 817 694 (**Cape**) is pleased to advise that ASIC has registered the scheme of arrangement booklet (**Scheme Booklet**) in relation to the proposed acquisition of 100% of the shares in Cape by MetroCoal Limited ACN 117 763 443 (**MetroCoal**). ASIC registration follows on from approval by the NSW District Registry of the Federal Court (**Court**) of the convening of the shareholders' meeting (**Scheme Meeting**) required to approve the Scheme.

A copy of Cape's Scheme Booklet is **attached**.

The Scheme Booklet contains a copy of the Independent Expert's Report in which the Independent Expert has determined that the proposed Scheme consideration of approximately 1.11 MetroCoal shares for every Cape share is fair and reasonable and accordingly is in the best interests of shareholders (in the absence of a superior proposal).

The Scheme Booklet will be distributed to Cape Shareholders on 8 November 2013 and should be read in its entirety.

Approval of the Scheme is subject to a number of conditions including Cape Shareholder approval in accordance with the requisite majorities at the Scheme Meeting to be held on 9 December 2013. A summary of all of the relevant conditions is contained in the Scheme Booklet.

Subject to the various conditions being satisfied and the relevant approvals being obtained (including approval of the Court at the second Court hearing), implementation of the Scheme is scheduled for 30 December 2013.



Mr Scott Waddell  
Company Secretary



# Scheme Booklet

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Cape Alumina Limited  
ACN 107 817 694

**For the acquisition by MetroCoal Limited ACN 117 763 443 (MTE)  
of all of the shares in Cape Alumina Limited ACN 107 817 694 (CBX)**

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**The Directors recommend that, in the absence of a superior proposal, CBX Shareholders vote in favour of the Scheme. The Directors intend to vote the CBX Shares controlled by them in favour of the Scheme, in the absence of a superior proposal. The Independent Expert has concluded that the Scheme is fair and reasonable and therefore in the best interests of the CBX Shareholders.**

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This is an important document and requires your immediate attention. It should be read in its entirety.  
If you are not sure what to do, you should consult your investment or other professional adviser.

Legal Adviser  
McCullough Robertson Lawyers



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# Key dates for CBX shareholders

<b>Date and time for deciding eligibility to vote at Scheme Meeting</b>	7 December 2013 at 7:00pm AEDT
<b>Last date and time to lodge proxies for Scheme Meeting</b>	7 December 2013 at 10:00am <sup>†</sup>
<b>Scheme Meeting<sup>†</sup></b>	9 December 2013 at 10:00am
<b>Second Court Date</b>	12 December 2013
<b>Record Date<sup>††</sup></b>	19 December 2013
<b>Implementation Date (despatch of Scheme Consideration to CBX Shareholders and transfer of CBX Shares to MTE)</b>	30 December 2013

<sup>†</sup> All dates following the Scheme Meeting are indicative only and are subject to change.

All times referred to in this Scheme Booklet are Queensland time, unless otherwise noted.

<sup>††</sup> CBX Shareholders on the register at 5.00pm on this date will be entitled to the Scheme Consideration.

# Important Notices

## This Scheme Booklet

This Scheme Booklet is the explanatory statement required to be given to CBX Shareholders under section 411(1) Corporations Act.

The fact that under subsection 411(1) of the Corporations Act 2001 (Cth) the Court has ordered that a meeting be convened and has approved the explanatory statement required to accompany the notices of the meeting does not mean that the Court:

- [a] has formed any view as to the merits of the proposed scheme or as to how members/creditors should vote (on this matter members/creditors must reach their own decision); or
- [b] has prepared, or is responsible for the content of, the explanatory statement.

You should read this Scheme Booklet in its entirety before deciding how to vote on the resolutions to be considered at the Scheme Meeting. This Scheme Booklet does not take into account the individual investment objectives, financial situation and particular needs of each CBX Shareholder. You should seek independent legal, financial, taxation, or other professional advice before making a decision as to whether or not to vote in favour of the Scheme.

Capitalised terms used in this Scheme Booklet are defined in the glossary.

## Responsibility for information

The CBX Information has been given by, and is the responsibility of, CBX. Neither MTE nor its advisers assume any responsibility for the accuracy or completeness of the CBX Information.

The MTE Information has been given by, and is the responsibility of, MTE. Neither CBX nor its advisers assume any responsibility for the accuracy or completeness of the MTE Information.

The Independent Expert has prepared the Independent Expert's Report in Annexure A. None of CBX, MTE or their advisers assume any responsibility for the accuracy or completeness of the Independent Expert's Report. However, CBX and MTE have given factual information that the Independent Expert has relied on in preparing the Independent Expert's Report. The accuracy and completeness of that information is the responsibility of CBX or MTE (as the case requires).

## ASIC involvement

A copy of this Scheme Booklet has been given to ASIC under section 411(2) Corporations Act. CBX has asked ASIC to give a statement that ASIC has no objection to the Scheme under section 411(17)(b) Corporations Act. If ASIC gives that statement, it will be produced at the Second Court Hearing. ASIC takes no responsibility for this Scheme Booklet.

## Court involvement

The orders of the Court convening the Scheme Meeting are not an endorsement by the Court of, or any other expression of opinion by it on, the Scheme.

## Disclosure about forward looking statements

This Scheme Booklet contains forward looking statements. Those statements may not be based on historical facts. They may reflect the

current expectations of CBX or, for the MTE Information, MTE, about future events or results. Those statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual events or results to differ materially from the statements. CBX Shareholders should review carefully all of the information in this Scheme Booklet. The forward looking statements included in this Scheme Booklet are made at the date of this Scheme Booklet. Neither CBX nor MTE can give any assurance to CBX Shareholders that the future events or results which are the subject of the statements will happen or be achieved.

## Foreign selling restrictions

This Scheme Booklet and the Scheme are subject to Australian disclosure requirements which may be different from those applicable in other jurisdictions. This Scheme Booklet and the Scheme do not in any way constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

In particular, this Scheme Booklet may not be released or distributed in the United States. This Scheme Booklet does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this document have not been, and will not be, registered under the US Securities Act of 1933 (as amended) and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the US Securities Act and applicable United States state securities laws.

## Privacy and personal information

CBX will need to collect personal information in connection with the Scheme. The personal information may include the names, contact details, details of shareholdings of CBX Shareholders and contact details of persons appointed by CBX Shareholders as proxies, corporate representatives or attorneys at the Scheme Meeting. The collection of some of this information is required or authorised by the Corporations Act. CBX Shareholders who are individuals, and other individuals whose personal information is collected, have rights to access the personal information collected about them and can contact CBX by calling +61 7 3009 8000 if they wish to exercise those rights.

The information may be disclosed to print and mail service providers, and to MTE, its related entities and their advisers in connection with the Scheme. If this information is not collected, CBX may be hindered in, or prevented from, conducting the Scheme Meeting or implementing the Scheme. CBX Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Scheme Meeting must inform that individual of these information matters.

## Defined Terms

Capitalised terms used in this Scheme Booklet are defined in the glossary in section 12 of this Scheme Booklet.

## Date

This Scheme Booklet is dated 4 November 2013.

## Queries

If you have any questions or require any further information, you can call Scott Waddell, Company Secretary on +61 7 3009 8000 (9:00am to 5:00pm on weekdays) or email him at [SWaddell@capealumina.com.au](mailto:SWaddell@capealumina.com.au).

# Letter from the Chairman of Cape Alumina Limited

4 November 2013

## Dear Shareholder

On 25 September 2013, Cape Alumina Limited ACN 107 817 694 (**CBX or Company**) and MetroCoal Limited ACN 117 763 443 (**MTE**) announced that they had agreed to merge and create a new bulk commodities company with substantial interests in bauxite and coal deposits in Queensland. The merger will be effected by a scheme of arrangement (**Scheme**) under which MTE will acquire all of the Company's issued capital (**CBX Shares**), subject to a number of conditions precedent, including regulatory, Court and CBX Shareholder approval (**Proposal**).

The major assets of the Merged Group will be the Company's Pisolite Hills and Bauxite Hills bauxite projects on western Cape York, with bauxite resources of approximately 200 million tonnes, and MTE's Columboola and Bundi coal deposits in Queensland's Surat Basin with thermal coal resources exceeding 4 billion tonnes. The asset mix provides the Merged Group with high quality bauxite resources which will be developed in the short to medium term and very well situated coal deposits which will be developed in the medium to longer term. This attractive project pipeline has the potential to create sustainable and growing value for shareholders over many years.

On implementation of the Scheme, it is expected that the Merged Group will have available cash resources of approximately \$9 million. The bulk of this will be available for advancing the development of the Pisolite Hills project.

On implementation of the Scheme CBX shareholders will collectively hold 55% of the Merged Group.

## The Proposal

On implementation of the Scheme, CBX Shareholders will receive approximately 1.11 MTE Shares per CBX Share that they hold at the Record Date<sup>1</sup>.

In addition, MTE has agreed to advance \$3 million to CBX to supplement the Company's working capital with a particular emphasis on progressing the Pisolite Hills project until the Scheme is implemented.

The advance will be provided in two tranches of convertible notes as follows:

- [3] initial tranche of \$1 million which has been advanced; and
- [4] subject to CBX Shareholder approval, which will be sought at the upcoming CBX annual general meeting, to be held on 19 November 2013, a final tranche of \$2 million, available to be drawn down at any time up to 31 December 2013 and secured by a charge over the assets of CBX (which also secures the repayment of the initial tranche).

## Directors' unanimous recommendation and vote

In considering their response to the Proposal, the Directors have carefully considered CBX's future growth opportunities, its challenges, risks and the uncertainties of delivering value to CBX Shareholders superior to the Scheme Consideration.

The Directors appointed an independent expert, InterFinancial Corporate Finance Limited (**Independent Expert**), to consider the Proposal. The Independent Expert has determined that the Scheme is fair and reasonable and in the best interests of CBX Shareholders. A full copy of the Independent Expert's Report is set out in Annexure A.

Based on the recommendation of the Independent Expert, and the other matters set out in section 3.1 of this Scheme booklet, **the Directors unanimously recommend that CBX Shareholders vote in favour of the Scheme in the absence of a superior proposal**. The Directors intend to vote the CBX Shares controlled by them in favour of the Scheme in the absence of a superior proposal.

## Action you should take

Information about the steps necessary to implement the Scheme is set out in section 9 of this Scheme Booklet.

The Scheme Booklet gives details of the Scheme, the Independent Expert's Report, reasons for voting in favour of or against the Scheme, and information on how to vote. Please read the Scheme Booklet in full before making your decision about the Scheme.

I encourage you to vote by attending the relevant Meetings or, if you are unable to attend, completing and returning the relevant proxy form accompanying this Scheme Booklet.

If you are not sure what to do, you should consult your investment or other professional adviser.

If you have any questions, or require any further information, you can contact Mr Scott Waddell, Company Secretary on +61 7 3009 8000 (9:00am to 5:00pm on weekdays) or email him at [SWaddell@capealumina.com.au](mailto:SWaddell@capealumina.com.au).

Your Directors believe that the Scheme provides a compelling opportunity to increase value for all shareholders of the Merged Entity and recommend that all CBX Shareholders vote in favour of it.

Yours faithfully



George Lloyd  
Chairman

1 Note: this estimate assumes that, prior to the Scheme proceeding, Resource Capital Fund IV IP (RCF) converts the RCF Note to 41,666,667 CBX Shares (at a conversion price of \$0.12 per CBX Share), CBX issues a further 1,369,863 CBX Shares to RCF as payment of interest on the RCF Note to the date of conversion and CBX issues a further 3,310,973 CBX Shares on exercise of the CBX Performance Rights. The 1,369,863 CBX Shares to be issued to RCF as payment of interest on the RCF Note is an estimate only, and the exact number will vary depending on timing of conversion of the RCF Note and the volume weighted average price of CBX Shares prior to such conversion.

# Overview of proposal

<b>The Proposal</b>	<p>On 25 September 2013, CBX announced the Proposal, by which MTE will acquire all shares in CBX for the Scheme Consideration. The Scheme Consideration, which is expected to be approximately 1.11 MTE Shares for each CBX Share held at the Record Date, is calculated in accordance with the formula below.* If the Scheme is implemented, CBX Shareholders will collectively hold 55% of the Merged Entity.</p> <p>The Proposal also includes MTE advancing \$3 million to CBX in exchange for the issue of convertible notes to supplement CBX's working capital.</p>
<b>Scheme Meeting</b>	There will be a Scheme Meeting to approve the Scheme.
<b>Date and time for Shareholder Meeting</b>	The Scheme Meeting will be held at the time specified in the 'Key Dates for Shareholders' section of this Scheme Booklet.
<b>Scheme Consideration</b>	<p>If the Scheme is approved, CBX Shareholders (other than Ineligible Foreign Shareholders) will receive <math>N</math> MTE Shares in accordance with the following formula:</p> $N = \frac{\frac{M}{0.45} - M}{C}$ <p>Where:</p> <ul style="list-style-type: none"><li><b>[a]</b> <math>N</math> is the number of MTE Shares for each CBX Share;</li><li><b>[a]</b> <math>M</math> is the number of MTE Shares on issue on the Implementation Date; and</li><li><b>[b]</b> <math>C</math> is the number of CBX Shares on issue on the Implementation Date (and includes the 41,666,667 fully paid CBX Shares issued to RCF by the CBX on conversion of the RCF Note at \$0.12 per Share, CBX Shares issued to RCF as payment of interest on the RCF Note to the date of conversion and the CBX Shares issued on exercise of the Performance Rights).</li></ul>
<b>Ineligible Foreign Shareholders</b>	MTE Shares that would otherwise be issued to Ineligible Foreign Shareholders will be issued to a Nominee who will sell those MTE Shares and account to the Ineligible Foreign Shareholders for the proceeds. For more information, refer to section 11.4.
<b>Directors' recommendation and vote</b>	<b>The Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a superior proposal.</b> The Directors intend to vote the CBX Shares controlled by them in favour of the Scheme, in the absence of a superior proposal.
<b>Independent Expert's conclusion</b>	The Independent Expert has concluded that the Scheme is fair and reasonable and therefore in the best interests of CBX Shareholders. The Independent Expert's Report is set out as Annexure A.

# MTE proposes to undertake a consolidation of its share capital, for which approval will be sought at MTE's upcoming annual general meeting on 29 November 2013. The consolidation has no effect on the value of MTE Shares received by CBX Shareholders under the Scheme. The MTE board anticipates that the consolidation would occur after implementation of the Scheme, in which case it will not affect the volume of MTE Shares received by CBX Shareholders under the Scheme.

# Considerations in relation to the Proposal

You should read this Scheme Booklet in full before deciding how to vote. Section 3 contains a more detailed assessment of the matters which your Directors consider are important.

## Reasons to support the Proposal

- [1] The Directors unanimously recommend that CBX Shareholders vote in favour of the Scheme, in the absence of a superior proposal.
- [2] The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of CBX Shareholders. The Independent Expert's Report details the likely advantages and disadvantages of the Scheme in section 11 (summarised on pages 56 and 57 of the report), which the Directors recommend that CBX Shareholders read in full.
- [3] Implementation of the Scheme will provide short to medium-term funding certainty (via access to MTE's cash balance), to enable the Merged Entity to progress the timely development of Cape Alumina's bauxite projects, in an environment where equity is difficult and would likely be at a significant discount to the current trading price of CBX Shares. Such funding will facilitate the timely development of Cape Alumina's bauxite projects, in a period of strong global bauxite markets, which, should one or more of CBX's projects be developed, will lead to the generation of positive cash flows to support the development of the Merged Entity's coal deposits.\*
- [4] If the Scheme is implemented, CBX Shareholders will be shareholders in a diversified bulk commodities company across bauxite and thermal coal. A key benefit of the Scheme is therefore asset and risk diversification and a stronger near-term and long-term project pipeline guided by an experienced leadership team.
- [5] At the date of this Scheme Booklet, the Board has not received a superior proposal.
- [6] If the Scheme is implemented, shareholders in the Merged Entity (including CBX Shareholders) may benefit from improved share liquidity and a reduction in overhead costs for the Merged Entity.

## Reasons not to support the Proposal

- [1] You may believe that the Scheme is not in the best interests of CBX Shareholders.
- [2] You may consider that a superior proposal may be made.
- [3] You may believe that CBX would be better placed pursuing funding separately (e.g. by capital raising) rather than merging with MTE, such that CBX remains focused exclusively on the development of its bauxite projects. You might form that view for a number of reasons, including a preference for CBX's bauxite projects over MTE's coal projects or a concern that the board of the Merged Entity may not direct sufficient funding to CBX's bauxite projects.
- [4] You may consider that there are better options for the Directors to realise value for CBX Shareholders, including a sale of the assets of CBX.
- [5] You may consider it preferable for the Directors to wait until CBX's projects are 'derisked' to a greater extent before undertaking a corporate transaction or raising further equity capital, for example, as a result of there being more clarity around the various legislative and approval regimes that affect CBX's projects (see section 5.3 for more detail).

The Directors believe the reasons to support the Proposal outweigh the reasons not to support the Proposal. Therefore, the Directors recommend that you vote in favour of the resolutions to be considered at the Scheme Meeting, in the absence of a superior proposal.

If you have any questions, you can call or email the Company Secretary, Mr Scott Waddell, on +61 7 3009 8000 (9:00am to 5:00pm on weekdays) or [SWaddell@capealumina.com.au](mailto:SWaddell@capealumina.com.au).

\* Irrespective of whether the Scheme is implemented, MTE has agreed to fund CBX up to \$3 million by way of convertible notes, the key terms of which are summarised in section 10.9.



# Answers to key questions

## About the Scheme

### What will I receive if the Scheme is implemented?

If the Scheme is implemented, you will receive the Scheme Consideration, unless you are an Ineligible Foreign Shareholder. The Scheme Consideration is calculated according to the formula below, and is expected to equate to approximately 1.11 MTE Shares for each CBX Share held at the Record Date.

This calculation assumes that:

- [1] RCF converts the RCF Note to 41,666,667 CBX Shares (at a conversion price \$0.12 per CBX Share);
- [2] CBX issues a further 1,369,863 CBX Shares to RCF as payment of interest on the RCF Note to the date of conversion\*; and
- [3] CBX issues a further 3,310,973 CBX Shares on exercise of the CBX Performance Rights.

If the Scheme is implemented, CBX Shareholders will own 55% of the Merged Entity.

\* This is an estimate only. The exact number of CBX Shares to be issued as payment of interest will vary depending on timing of conversion of the RCF Note and the volume weighted average price of CBX Shares prior to such conversion.

### How is the Scheme Consideration calculated?

The formula to determine the number of MTE shares for each CBX share is as follows:

$$N = \frac{\frac{M}{0.45} - M}{C}$$

Where:

- [a] **N** is the number of MTE Shares for each CBX Share;
- [b] **M** is the number of MTE Shares on issue on the Implementation Date; and
- [c] **C** is the number of CBX Shares on issue on the Implementation Date (and includes the 41,666,667 fully paid CBX Shares issued to RCF by the CBX on conversion of the RCF Note at \$0.12 per CBX Share, CBX Shares issued to RCF as payment of interest on the RCF Note to the date of conversion and the CBX Shares issued on exercise of the Performance Rights).

### When will I receive my MTE Shares?

If the Scheme is implemented, the Scheme Consideration will be issued by MTE on the Implementation Date, which CBX expects will be on or about 30 December 2013.

Within five Business Days after the Implementation Date, MTE will despatch or procure the despatch of an uncertificated holding statement in the name of the CBX Shareholder representing the MTE Shares issued to them under the Scheme.

### How will the proposed consolidation of MTE's share capital affect the Scheme Consideration I receive?

MTE proposes to undertake a consolidation of its share capital, for which approval will be sought at MTE's upcoming annual general meeting on 29 November 2013. The consolidation has no effect on the value of MTE Shares received by CBX Shareholders under the Scheme. The MTE board anticipates that the consolidation would occur after implementation of the Scheme, in which case it will not affect the volume of MTE Shares received by CBX Shareholders under the Scheme.

### What is an Ineligible Foreign Shareholder and what consideration do they receive?

An Ineligible Foreign Shareholder is any CBX Shareholder with an address on the register on the Record Date outside Australia, New Zealand, Cyprus and such other jurisdictions that the board of MTE may determine can be offered MTE Shares under that country's relevant securities legislation, without undue compliance burdens for MTE.

If you are an Ineligible Foreign Shareholder, the Scheme Consideration (and that of each other Ineligible Foreign Shareholder) will be issued to a Nominee who will sell the MTE Shares on-market and pay the proceeds to the Ineligible Foreign Shareholders (see section 11.4).

### What will the Merged Entity be called?

This is yet to be determined and will be finalised over the coming months. The new board of the Merged Entity will select a name that is appropriate for the Merged Entity, having regard to its assets.

<b>Are there any conditions precedent?</b>	There are a number of conditions precedent to the implementation of the Scheme. These are set out in section 10.2 of part A.
<b>What are the tax consequences?</b>	CGT rollover relief should be available on the transfer of your CBX Shares under the Scheme. Details of the general tax consequences of the Scheme are set out in section 8 of this Scheme Booklet. You should seek your own professional advice in respect of your individual tax issues.
<b>What do the Directors recommend?</b>	The Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a superior proposal. The Directors intend to vote the CBX Shares controlled by them in favour of the Scheme, in the absence of a superior proposal.
<b>What did the Independent Expert conclude?</b>	The Independent Expert concluded that the Scheme is fair and reasonable and therefore in the best interests of CBX Shareholders. The Independent Expert's Report is set out as Annexure A.
<b>Can I vote?</b>	All CBX Shareholders who are the registered holders of CBX Shares at 7:00pm AEDT on 7 December 2013 are entitled to vote at the Scheme Meeting.
<b>What voting majorities are required to approve the Scheme?</b>	There will be a Scheme Meeting to approve the Scheme. The Scheme must be approved at the Scheme Meeting by a majority in number (i.e. more than 50%) of CBX Shareholders present and voting (in person or by proxy) who hold at least 75% of the votes cast at the Scheme Meeting.
<b>Should I vote?</b>	You do not have to vote. However, the Directors believe that the Scheme presents an attractive opportunity for CBX Shareholders and recommend that you read this Scheme Booklet carefully and vote in favour of the Scheme, in the absence of a superior proposal.  See the 'How to Vote' section on page 13 for details on how to vote in person and by proxy.
<b>Why might I vote against the Scheme?</b>	You may believe that the Scheme is not in the best interests of the CBX Shareholders. Also, you may wish to remain a CBX Shareholder.  Other reasons why you may vote against the Scheme are set out in section 3.2.
<b>What happens if I vote against the Scheme?</b>	Just because you vote against the Scheme, this does not mean that the Scheme will not be implemented. If the Scheme is approved by the requisite majorities of CBX Shareholders and the Scheme is approved by the Court, your CBX Shares will be transferred to MTE even though you have voted against the Scheme and you will receive the Scheme Consideration for the CBX Shares that you hold at the Record Date.
<b>What happens if I do not vote on the Scheme?</b>	Even if you do not vote, if the Scheme is approved by the requisite majorities of CBX Shareholders and the Scheme is approved by the Court, your CBX Shares will be transferred to MTE and you will receive the Scheme Consideration for the CBX Shares that you hold at the Record Date.
<b>What happens if the Scheme is not implemented?</b>	You will retain your CBX Shares and not receive the Scheme Consideration.  More information about the implications for CBX if the Scheme is not implemented is set out in section 3.4.
<b>Can I sell my CBX Shares now?</b>	You can sell your CBX Shares at any time. However, if you do so, and you cease to be the registered holder before the Record Date, you will not be entitled to the Scheme Consideration.
<b>Who can help answer my questions?</b>	If you have any questions, you can contact the Company Secretary by phone on +61 7 3009 8000 (between 9:00am and 5:00pm on weekdays) or by email at SWaddell@capealumina.com.au.

## About CBX and the Merged Entity

### What will the Merged Entity's priority be?

Pisolite Hills will be the most advanced of the Merged Entity's projects and it is logical to advance this project first. This is especially the case given the strong demand and positive outlook for bauxite. By advancing the Pisolite Hills project in the near-term, the Merged Entity will look to capitalise on the strong global market for bauxite. However, the Merged Entity will continue to also advance the Bauxite Hills project and other business development opportunities in coal and bauxite as funds become available. More information on the intentions as to the development of assets of the Merged Entity is set out in section 6.7.

### Who will be the major shareholders in the Merged Entity?

On implementation of the Scheme, Resource Capital Funds III and IV (**RCF**) and Metallica Minerals Limited (**Metallica**) will be the largest shareholders in the Merged Entity, holding 23.6% and 21.0% respectively.

RCF is a mining investor with private equity funds that have mandates to make investments exclusively in the mining sector across a diversified range of hard mineral commodities and geographic regions. The funds are managed by RCF Management L.L.C. which has its principal office in Denver and additional offices in Perth, New York and Toronto. The committed capital of the funds is sourced primarily from US-based institutional investors. Since inception, RCF has supported 114 mining companies (and several mining-services companies) involving projects located in 39 countries and relating to 28 commodities. RCF's other ASX listed investments include Drummond Gold Limited, Finders Resources Limited, Mirabela Nickel Limited and Wolf Minerals Limited.

Metallica is an Australian scandium-cobalt-nickel and zircon-rutile resource development company with mineral projects in Queensland. The company was established in 1997 and listed on the ASX on 23 November 2004. The company's key project is its SCONI scandium project located inland of Townsville in North Queensland, which consists of a number of Ni-Co rich and scandium-rich lateritic deposits. Metallica also owns 100% of the Cape York Mineral Sands Project and Urquhart Point Project through its wholly owned subsidiary Oresome Australia Pty Ltd. Metallica also has interests in limestone projects, and is a joint venture partner for the Lucky Break nickel project, located inland of Townsville.

### What if there are approval issues or delays? Is there a back-up plan?

Dealing with delays is commonplace in the resources sector. While the Directors do not envisage any major delays in the Pisolite Hills project at this point in time, timing will depend on the outcome of the Cape York Regional Plan. Relevantly, the Queensland Government has declared Pisolite Hills a 'coordinated project for which an Environmental Impact Statement (EIS) is required' under section 26 (1) (a) of the State Development and Public Works Organisation Act 1971, and the project is therefore being assessed by the Queensland Coordinator General.

### At the date of the Scheme Booklet, the Cape York Regional Plan has not yet been released and the outcomes and potential regulatory impacts are as yet unknown. How is CBX preparing for the release of this plan and what impact could it have on the development of Pisolite Hills?

As part of the Cape York Regional Plan (**Plan**), the Queensland Government will potentially replace Wild River declarations covering Cape York. This will provide certainty for all companies with interests on Cape York.

CBX has been actively engaged with the Queensland Government in respect of the matters to be addressed under the Plan.

### The Pisolite Hills project has attracted strong opposition from environmental groups in the past. Is this likely to continue to be an issue?

The Directors believe that the Pisolite Hills project will have positive social, economic and environmental outcomes for the local community and broader Australian public and, should the Scheme be implemented, the board of the Merged Entity will work closely with key stakeholders, including environmental groups, to communicate those benefits.

### The merger will provide cash for Cape Alumina to proceed with environmental studies and approvals for Pisolite Hills but the project still requires significant finance to proceed to production. What plans are in place to secure project investors and how far advanced are these discussions?

The Merged Entity will seek to raise capital to advance its projects through a combination of debt and equity, however, will also consider joint ventures with key customers and other strategic partners.

**Are there already any secured customers or investors for the Pisolite Hills project? Are any off-take agreements in place?**

Yes, Cape Alumina has an off-take agreement in place with Xinfra, one of China's largest independent alumina-aluminium companies. Details on the off-take arrangement are set out in section 10.11.

The new entity will commence negotiations with other potential customers as the Pisolite Hills project advances through the stages of development.

**What if the Indonesian bauxite export ban doesn't come into effect? Will this impact the viability or outlook of the Pisolite Hills project?**

China is the largest alumina producer and consumer. Even if there are changes to the law that will allow Indonesian bauxite to continue to be exported, the Directors believe that China will continue to look for other reliable, long-term supply options for high-quality bauxite.

**What is the timeframe for development of the Bauxite Hills project?**

Bauxite Hills is likely to be developed after the Pisolite Hills project, however, timing will continue to be reviewed and earlier development may be possible if bauxite demand increases significantly due to the pending ban in January 2014 of Indonesian bauxite.

**Why did Cape Alumina pull out of the bid process to develop the Aurukun Bauxite deposit?**

While Cape Alumina, as part of a consortium, was short-listed to bid for the rights to develop the Aurukun bauxite deposit, the consortium was unable to agree on commercial terms and therefore did not submit a final bid.

Cape Alumina remains interested in the Aurukun bauxite area as well as other bauxite areas on Cape York. However, Cape Alumina's main focus will continue to be advancing the Pisolite Hills project, which is one of the most advanced bauxite projects on Cape York.

**About MTE**

**Who is MTE?**

MTE is an Australian coal company focused on thermal coal projects in the Surat Basin region of South East Queensland. Section 6 of this Scheme Booklet contains further information about MTE.

**What is the realistic timeframe for the development of MTE's thermal coal projects in the Surat Basin? These projects have significant barriers to market and with Xstrata announcing the Wandoan project is on hold indefinitely, what impact will this have on the development of critical rail and port infrastructure?**

Putting the Wandoan project on hold does not prejudice MTE's access to port capacity. The major impact is on the construction of the Surat Basin Railway. The other Surat Basin coal companies have formed an alliance aimed at finding an alternative solution to this.

In any event, due to current economic conditions it is now unlikely that rail will be available within five years, which means the development of the thermal coal assets will be a long-term focus for Merged Entity.

**What will happen to the MetroCoal projects in the short term? Will the company continue to invest in drilling programs and environmental studies for the Bundi project?**

Current work on the Bundi coal project has been suspended. MetroCoal has recently completed an exploration program at Bundi and will complete the geological model update based on this new information. Work on environmental approvals and timing of the mining lease application will be reviewed in light of the latest Surat Basin infrastructure. The Merged Entity's intention is to focus on the development of the bauxite projects, with the development of the Bundi and Columboola coal projects to be considered in the longer-term.

The long-term outlook for thermal coal remains strong with global demand forecast to increase over the coming decade.

# How to Vote

## Scheme Meeting

The Scheme Meeting (**Meeting**) will be held at McCullough Robertson's offices at Level 11, 66 Eagle Street, Brisbane, Queensland, on 9 December 2013 at 10:00am.

Those persons who are registered as CBX Shareholders at 7:00pm AEDT on 7 December 2013 will be eligible to vote at the Scheme Meeting.

The resolution at the Scheme Meeting must be passed by:

- [a] a majority in number of CBX Shareholders present and voting (in person or by proxy, attorney or corporate representative); and
- [b] at least 75% of the votes cast at the Scheme Meeting.

If all other Conditions Precedent have been satisfied or waived, the Court will then be asked to approve the Scheme.

## What should you do

- [1] Read this Scheme Booklet carefully.
- [2] If you have any questions, you can contact the Company Secretary by phone on +61 7 3009 8000 (between 9:00am and 5:00pm on weekdays) or by email at [SWaddell@capealumina.com.au](mailto:SWaddell@capealumina.com.au).
- [3] Exercise your right to vote in person or by completing the proxy form. Your Directors believe the Scheme is a matter of importance for all CBX Shareholders and therefore urge you to vote.

## Voting in person

If you intend to vote in person (including by attorney or corporate representative), you should arrive at the venue by 9:45am on 9 December 2013 so that shareholdings may be checked against the register and attendances noted. Attorneys must bring with them the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the meeting.

To vote in person, a corporation may appoint an individual to act as its representative. The appointment must comply with the requirements of section 250D Corporations Act. The representative must bring to the meeting evidence of their appointment, including the authority under which it is signed.

## Voting by proxy

Proxy forms accompany this Scheme Booklet. You may appoint a proxy. The proxy need not be a CBX Shareholder. You or your attorney must sign the proxy forms. If you are a corporation, the proxy form must be signed by two directors or by a director and a secretary or, for a proprietary company that has a sole director who is also the sole secretary, by that director, or by its attorney or duly authorised officer. Otherwise, the relevant authority (e.g. in the case of proxy forms signed by an attorney, the power of attorney) must either have been exhibited previously to CBX or be enclosed with the proxy form.

# Scheme of arrangement

## 2 Key features of the Scheme

### 2.1 Overview

MTE proposes to acquire all CBX Shares through a scheme of arrangement.

If the Scheme is implemented:

- [a]** your CBX Shares will be transferred to MTE;
- [b]** you will receive the Scheme Consideration in accordance with the prescribed formula<sup>\*</sup>; and
- [c]** CBX will become a wholly-owned subsidiary of MTE.

If the Scheme is implemented, CBX Shareholders will own 55% of the Merged Entity.

In addition, MTE has agreed to advance \$3 million to CBX in exchange for the issue of convertible notes to supplement the Company's working capital with a particular emphasis on progressing the Pisolite Hills project until the Scheme is implemented.

The advance will be provided in two tranches of convertible notes as follows:

- [a]** initial tranche of \$1 million which has been advanced; and
- [b]** subject to CBX Shareholder approval, which will be sought at the upcoming CBX annual general meeting to be held on 19 November 2013, a final tranche of \$2 million, available to be drawn down at any time up to 31 December 2013 and secured by a charge over the assets of CBX (which also secures the repayment of the initial tranche).

Further details are set out in section 10.9 of this Scheme Booklet.

A copy of the Scheme is set out in Annexure C of this Scheme Booklet.

<sup>\*</sup> The Scheme Consideration which would otherwise be issued to Ineligible Foreign Shareholders will be issued to a Nominee, who will sell those shares and account to the Ineligible Foreign Shareholders for the proceeds of sale (see section 11.4 for more information).

### 2.2 Directors' recommendation

Your Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a superior proposal. The Directors intend to vote the CBX Shares controlled by them in favour of the Scheme, in the absence of a superior proposal.

### 2.3 Independent Expert's Report

CBX commissioned the Independent Expert to give an opinion on whether the Scheme is in the best interests of CBX Shareholders.

The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of CBX Shareholders. The Independent Expert's Report details the likely advantages and disadvantages of the scheme in section 11 (summarised on pages 56 and 57 of the report), which the Directors recommend that CBX Shareholders read in full.

The Independent Expert's Report is set out as Annexure A.

## 2.4 CBX Shareholder and Court approvals required

### CBX Shareholder approval

The Court has ordered that a Scheme Meeting be convened. The resolution for the Scheme to be considered at the Scheme Meeting must be passed by:

- [a]** a majority in number (more than 50%) present and voting (in person or by proxy, attorney or corporate representative); and
- [b]** at least 75% of the votes cast at the Scheme Meeting (in person or by proxy, attorney or corporate representative).

If the resolution is not passed by the requisite majorities, the Scheme will not proceed.

### Court approval

If the Scheme is approved by the CBX Shareholders at the Scheme Meeting and all Conditions Precedent are satisfied or waived, CBX will ask the Court to approve the Scheme at the Second Court Hearing, expected to be held on 12 December 2013.

## 2.5 Conditions Precedent

Implementation of the Scheme is subject to the following Conditions Precedent:

- [a]** all necessary regulatory approvals being obtained;
- [b]** CBX Shareholders approving the Scheme and the Scheme being approved by order of the Court;
- [c]** there being no injunction or other order issued by any Court or other legal restraint or prohibition preventing the Scheme;
- [d]** there being no CBX Material Adverse Change or MTE Material Adverse Change;
- [e]** there being no CBX Prescribed Occurrence or MTE Prescribed Occurrence;
- [f]** the CBX Representations and Warranties being true and correct and the MTE Representations and Warranties being true and correct;
- [g]** CBX obtaining third party consents under a number of agreements;
- [h]** conversion of the RCF Note occurring in accordance with the RCF Note Conversion Agreement;
- [i]** the RCF Note Commitment Arrangements being completed in accordance with its terms;
- [j]** the CBX Performance Rights vesting and being exercised by the holders;
- [k]** no person being in material breach of the Implementation Agreement, MTE Note or RCF Note Conversion Agreement; and
- [l]** RCF providing to CBX its consent to change and control and any other consent to implement the Scheme.

Further details on the Conditions Precedent are set out in section 10.2 of this Scheme Booklet.

## 2.6 Tax implications

The tax implications of the Scheme are set out in section 8 of this Scheme Booklet.

### 3 Matters relevant to your vote

#### 3.1 Why you may vote in favour of the Scheme

##### Directors' recommendation

The Directors unanimously recommend that CBX Shareholders vote in favour of the Scheme, in the absence of a superior proposal.

The Directors intend to vote the CBX Shares controlled by them in favour of the Scheme, in the absence of a superior proposal.

The interests of all Directors are disclosed in section 11.1 of this Scheme Booklet.

The key decision for CBX Shareholders in considering whether to vote in favour of the Scheme, is whether they may expect to receive greater value in a reasonable time period by remaining CBX Shareholders or by receiving the Scheme Consideration, having regard to all relevant factors, including the risks inherent in CBX's business and other industry risks.

The Directors have carefully considered the matters set out in this section 3 (summarised in the section entitled 'Considerations in relation to the Proposal' on page 8).

The Directors believe that the reasons for CBX Shareholders to vote in favour of the Scheme outweigh the reasons to vote against the Scheme and, therefore, recommend that CBX Shareholders vote in favour of the Scheme.

These reasons and other relevant considerations for CBX Shareholders are set out in this section.

##### The Independent Expert's conclusion and recommendation

The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of CBX Shareholders. The Independent Expert's Report details the likely advantages and disadvantages of the scheme in section 11 (summarised on pages 56 and 57 of the report), which the Directors recommend that CBX Shareholders read in full.

A copy of the Independent Expert's Report is set out as Annexure A. The Directors recommend that you read the Independent Expert's Report carefully.

##### The Scheme will provide funding certainty

Implementation of the Scheme will provide short to medium-term funding certainty (via access to MTE's cash balance), to enable the Merged Entity to progress the timely development of Cape Alumina's bauxite projects, in an environment where equity is difficult to raise and would likely be at a significant discount to the current trading price of CBX Shares.

In particular, it is expected that the Merged Entity would have cash resources of approximately \$9 million on implementation of the Scheme.

Such funding will facilitate the timely development of Cape Alumina's bauxite projects, in a period of strong global bauxite markets. Should one or more of CBX's projects be developed, the Directors anticipate that the project will lead to the generation of positive cash flows to support the development of the Merged Entity's other projects, including MTE's coal deposits.

Separately, MTE has agreed to advance to CBX \$3 million (in consideration for the issue of convertible notes in CBX) to provide an immediate cash injection, allowing CBX to progress the technical and environmental studies required for the Pisolite Hills project. \$1 million of that funding has been made available, with the balance subject to CBX Shareholder approval, which

will be sought at the upcoming CBX annual general meeting to be held on 19 November 2013.

##### CBX Shareholders will become shareholders in the Merged Entity, which will be a diversified listed bulk commodities group

If the Scheme is implemented, CBX will become part of a diversified bulk commodities company across bauxite and thermal coal, providing asset and risk diversification. The Merged Entity will have a portfolio of major bauxite and thermal coal projects, which will provide resilience through commodity cycles.

The Merged Entity will have a strong near-term and long-term project pipeline guided by an experienced leadership team. The Scheme will facilitate the timely development of Cape Alumina's bauxite projects, in a period of strong global bauxite markets, which, should one or more of CBX's projects be developed, will lead to the generation of positive cash flows to support the development of the Merged Entity's coal deposits.

The immediate priority of the Merged Entity will be to develop CBX's bauxite assets on western Cape York, in particular the flagship Pisolite Hills mine and port project near Mapoon. This will enable the company to capitalise on the strong and growing global market for bauxite and to generate a positive cash flow.

##### No superior proposal

At the date of this Scheme Booklet, the Board has not received a superior proposal.

The Implementation Agreement imposes 'no talk' and 'no shop' obligations on CBX, which began on 24 September 2013 (when the Implementation Agreement was signed).

However, the Implementation Agreement does not prevent a third party from making an alternative proposal and does not prevent the Directors from responding to an unsolicited proposal if, and to the extent, necessary to discharge their fiduciary duties as Directors.

A summary of CBX's 'no talk' and 'no shop' obligations is set out in section 10.3.

##### Improved liquidity; reduced overhead costs for the Merged Entity

Shareholders of the Merged Entity may also benefit from greater share liquidity and reduced overhead costs for the Merged Entity.

##### The risks inherent in CBX's business and the resources industry

CBX Shareholders should consider the risks inherent in CBX's business and the mining and exploration industry generally. These risks are outlined in section 4.1 of this Scheme Booklet.

The Directors have carefully considered each of these risks, and the Board will continue to work to mitigate their impact on CBX if the Scheme is not approved. However, taking these risks into account, and the other matters set out in this Scheme Booklet, the Directors recommend that CBX Shareholders vote in favour of the Scheme, in the absence of a superior proposal.

#### 3.2 Why you may vote against the Scheme

While the Directors recommend that you vote in favour of the Scheme and the Independent Expert considers the Scheme is fair and reasonable and therefore in the best interests of CBX Shareholders, CBX Shareholders are not obliged to follow the Directors' recommendation or agree with the Independent Expert's conclusions. Factors that may lead you to vote against the Scheme include those set out below.

## Belief that the Proposal is not in best interests of CBX Shareholders

You may believe that the Scheme is not in your best interests.

CBX Shareholders are referred to the Independent Expert's Report which sets out the factors the Independent Expert considered when reaching its conclusion, including the disadvantages to CBX Shareholders. You should read the Independent Expert's Report in its entirety.

### Expectation of a superior proposal

You may consider that a potential alternative acquirer may emerge and a superior proposal may be made. No superior proposal has been put to the Directors at the date of this Scheme Booklet.

If a superior proposal was to emerge the Board will ensure that CBX Shareholders are given all material information on that proposal and sufficient time to consider that information.

### Better options to secure funding

You may believe that CBX would be better placed pursuing funding separately (e.g. by capital raising or project level joint ventures) rather than merging with MTE, such that CBX remains focused exclusively on the development of its bauxite projects.

You might form that view for a number of reasons, including:

- [a] a preference for CBX's bauxite projects over MTE's coal projects;
- [b] a concern that the board of the Merged Entity may not direct sufficient funding to CBX's bauxite projects;
- [c] a concern that the diversification of the Merged Entity might be a disadvantage (e.g. because shareholders are exposed to a more diverse range of risks, including risks inherent with the exploration, production and sale of thermal coal);
- [d] a belief that CBX's investment story is better maintained as a 'pure play' bauxite company; or
- [e] a general preference not to have exposure to coal projects.

### Realising value by sale of assets

You may consider that there are better options for the Directors to realise value for CBX Shareholders, including a sale of the assets of CBX.

### De-risking projects to increase value

You may consider it preferable for the Directors to wait until CBX's projects are 'derisked' to a greater extent before undertaking a corporate transaction or raising further equity capital, for example, as a result of there being more clarity around the various legislative and approval regimes that affect CBX's projects (see section 5.3 for more detail).

## 3.3 Other relevant considerations

### The Scheme may be implemented even if you vote against it

Even if you do not vote, or vote against the Scheme, the Scheme may still be implemented if approved by the requisite majority of CBX Shareholders and the Court. If this happens, your CBX Shares will be transferred to MTE and you will receive the Scheme Consideration of approximately 1.11 MTE Shares for each CBX Share that you hold at the Record Date.

## No stamp duty

MTE will pay any stamp duty in connection with the transfer of CBX Shares under the Scheme.

## 3.4 Implications of failure to approve the Scheme

If the Scheme is not approved by CBX Shareholders and the Court, CBX Shareholders will retain their CBX Shares. In the absence of a superior proposal, there is a risk that CBX Shareholders may not be able to realise a price for all of their CBX Shares (at least in the short term) comparable to the price that they would receive under the Scheme.

The consequences of the Scheme not being implemented include:

- [a] MTE will not pay the Scheme Consideration;
- [b] CBX Shareholders will retain their CBX Shares; and
- [c] if the Implementation Agreement is terminated, MTE will have the right to appoint a nominee director on the board of CBX for so long as an MTE Note is outstanding.

If the Scheme is not implemented, the Directors intend to continue to operate CBX in a manner consistent with current practices. The approval of the Scheme is not a condition to draw down on the second tranche of the MTE Note (refer to section 10.9). Shareholders will be exposed to any benefits and risks associated with their investment in CBX.

## 4 Risk factors

### 4.1 Risks applicable to CBX if the Scheme does not proceed

If the Scheme does not proceed, CBX Shareholders will continue to be exposed to risks associated with CBX and with the mining and exploration industry generally, including the following:

- [a] availability of funding;
- [b] government policy and regulation;
- [c] commodity prices and demand;
- [d] environmental risk;
- [e] operational risk;
- [f] loss of key personnel;
- [g] claims and litigation;
- [h] exploration risk;
- [i] liquidity of shares in CBX; and
- [j] general economic risks.

### Availability of funding

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



## Government policy and regulation

Changes in legislation, government policy or regulation could also adversely impact the performance of the business of CBX. In particular, the Queensland Government has recently announced that it is nearing release of a draft of the Cape York Regional Plan in November 2013. Following a consultation period, the plan is expected to be finalised by mid-2014, which will replace the Wild Rivers declaration in Cape York. That plan may be material to the future prospects and economic viability of CBX's bauxite projects. Accordingly, CBX has been actively engaged with the Government, both directly and through relevant industry groups, on development of the plan. In addition, if the amount and complexity of applicable legislation, policy or regulation increases, so too may the cost of compliance and the risk of non-compliance by CBX. CBX cannot predict the amount by which future legislation and regulatory change would impact on its business.

## Commodity prices and demand

CBX's future profits are dependent on the exploration, production and sale of bauxite. There are various factors which influence bauxite prices, including the outcome of future sales contract negotiations, general economic activity, industrial production levels, changes in the demand and supply of substitute and complementary products, changes in transportation and infrastructure costs, market changes in quality requirements and government regulation. Due to one or a combination of these factors, actual prices and demand may differ from the projections in this Booklet, which may adversely affect profitability.

## Environmental risk

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

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

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

## Operational risk

CBX's future operations will be subject to a number of factors beyond its control, that can cause material delays or changes in operation costs for varying lengths of time. Operational risks include weather conditions and natural disasters, disruption of energy supply, unexpected technical problems, unanticipated geological conditions, equipment failures and industrial

disruption. The impacts of these factors could potentially adversely impact the results and financial performance of CBX.

## Loss of key personnel

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

## General claims and litigation

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

## Exploration risk

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

## Market for shares in CBX

There can be no guarantee that a liquid market in CBX Shares will exist if the Scheme does not proceed. There may be relatively few potential buyers, or many sellers, of CBX Shares on ASX at any given time. This may affect the prevailing market price at which CBX Shareholders are able to sell their Shares. This may result in CBX Shareholders receiving a market price for their CBX Shares which is less than the value of the Scheme Consideration or the current market price at which CBX Shares currently trade on ASX.

## General economic risks

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

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

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

## 4.2 Risk factors applicable to the Merged Entity if the Scheme does proceed

If the Scheme is approved:

- [a]** CBX Shareholders will become holders of MTE Shares; and
- [b]** CBX will become part of the Merged Entity.

As the 100% owner of CBX, the Merged Entity would be exposed to all of the risks referred to in section 4.1 above. Most of these risks are associated with the mining and exploration industry more generally, so are equally applicable to MTE. There are also additional

risks associated with the implementation of the Scheme and with the business operations of MTE specifically. These are outlined below.

## Implementation risks

The respective boards of CBX and MTE have assumed a successful integration of CBX and MTE. Integration risks include possible differences in management culture, failure to achieve expected synergies and savings and loss of key personnel. There is no guarantee that integration will be successful, or that it will be achieved within the expected time frame and cost. Inability to effectively manage integration may adversely affect the performance of the Merged Entity and its future prospects. In addition, while the parties have undertaken due diligence on each other, there is a risk that not all material liabilities or risks were identified in the process.

## Diversification

As holders of MTE Shares pursuant to implementation of the Scheme, CBX Shareholders will be exposed to a more diversified business than CBX. Such diversification may continue in the future. A more diverse business may mean CBX Shareholders may be exposed to a more diverse range of risks. In particular, in addition to the risk of fluctuations in the price of and demand for bauxite, CBX Shareholders will now face those risks associated with the sale of coal.

## Market for shares in MTE

There can be no guarantee that a liquid market in MTE Shares will exist after implementation of the Scheme. There may be relatively few, or many, potential buyers or sellers of MTE Shares on ASX at any given time. This may affect the prevailing market price at which Shareholders are able to sell their shares.

## Commodity prices and demand

MTE's future viability is dependent on the production and sale of coal. There are various factors which influence coal prices, including the outcome of future sales contract negotiations, general economic activity, industrial production levels, changes in the demand and supply of substitute and complementary products, changes in transportation and infrastructure costs, market changes in quality requirements and government regulation. Due to one or a combination of these factors, actual prices and demand may differ from the projections in this Booklet, which may adversely affect profitability.

## 5 About CBX

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*This section of the Scheme Booklet contains information about CBX. The Independent Expert's Report in Annexure A contains further detailed information about CBX.*

### 5.1 Overview of CBX and its business

Brisbane-based, Cape Alumina Limited was established in February 2004 and has, since inception, been an Australian pure-play bauxite exploration company.

Cape Alumina is evaluating prospective projects on western Cape York, Queensland, one of Australia's largest undeveloped, export-quality bauxite provinces, for commercial development.

The company was listed on the Australian Securities Exchange (ASX) in January 2009, attracting over 500 shareholders and raising \$15 million to progress development of its Pisolite Hills mine and port project on western Cape York. Pisolite Hills is about 50 kilometres north-east of Weipa.

Initially, the Prefeasibility Study (PFS) undertaken for Pisolite Hills provided for initial bauxite exports in late 2013 and full production of seven million tonnes annually by 2016.

Arising from the PFS were comprehensive investigations of the marine and terrestrial environments on Cape York; these will be used as supporting documents to the environmental impact statement (EIS) to demonstrate that the development of the Pisolite Hills project can proceed with no significant environmental harm and that the project would bring substantial economic benefits to Far North Queensland.

The Pisolite Hills resource base is 134.6 Mt of *in-situ* bauxite, which is expected to yield 88.9 Mt (20.1 Mt Measured + 39.5 Mt Indicated + 29.3 Mt Inferred) of bauxite on a dry-product basis at average beneficiated grade of 53.1 per cent alumina (Al<sub>2</sub>O<sub>3</sub>) and 12.3 per cent silica (SiO<sub>2</sub>) of which 7.5 per cent is reactive silica at 150 degrees celsius.

However, the resources available for mining at Pisolite Hills were adversely impacted as a result of the previous Queensland Government's declaration of the Wenlock River Basin as a wild river area in June 2010.

Cape Alumina reacted positively by stepping up exploration at its tenements north of Pisolite Hills with the aim of establishing its second major bauxite project in the western Cape York bauxite province, at Bauxite Hills.

In February 2012 the company announced an Inferred Resource of 60 Mt of *in-situ*, high-quality, export-grade bauxite at Bauxite Hills. This is expected to yield 41 Mt of beneficiated, dry-product bauxite at average grades of 51.6 per cent alumina (Al<sub>2</sub>O<sub>3</sub>) and 9.5 per cent silica (SiO<sub>2</sub>).

The change of Government in Queensland, in March 2012, foreshadowed the repeal of the Wild Rivers legislation which had prevented the Pisolite Hills project from going ahead in 2010. The Queensland Government is now working towards a statutory 'Regional Plan' for Cape York which will deliver certainty for landholders, local communities and project proponents such as Cape Alumina.

In October 2012 the Queensland Government declared Pisolite Hills a 'coordinated project for which an Environmental Impact Statement (EIS) is required' under section 26 (1) (a) of the *State Development and Public Works Organisation Act 1971*.

In addition to its Pisolite Hills and Bauxite Hills tenements, the company holds exploration rights over a number of other areas in western Cape York which are prospective for bauxite and will be systematically explored over time.

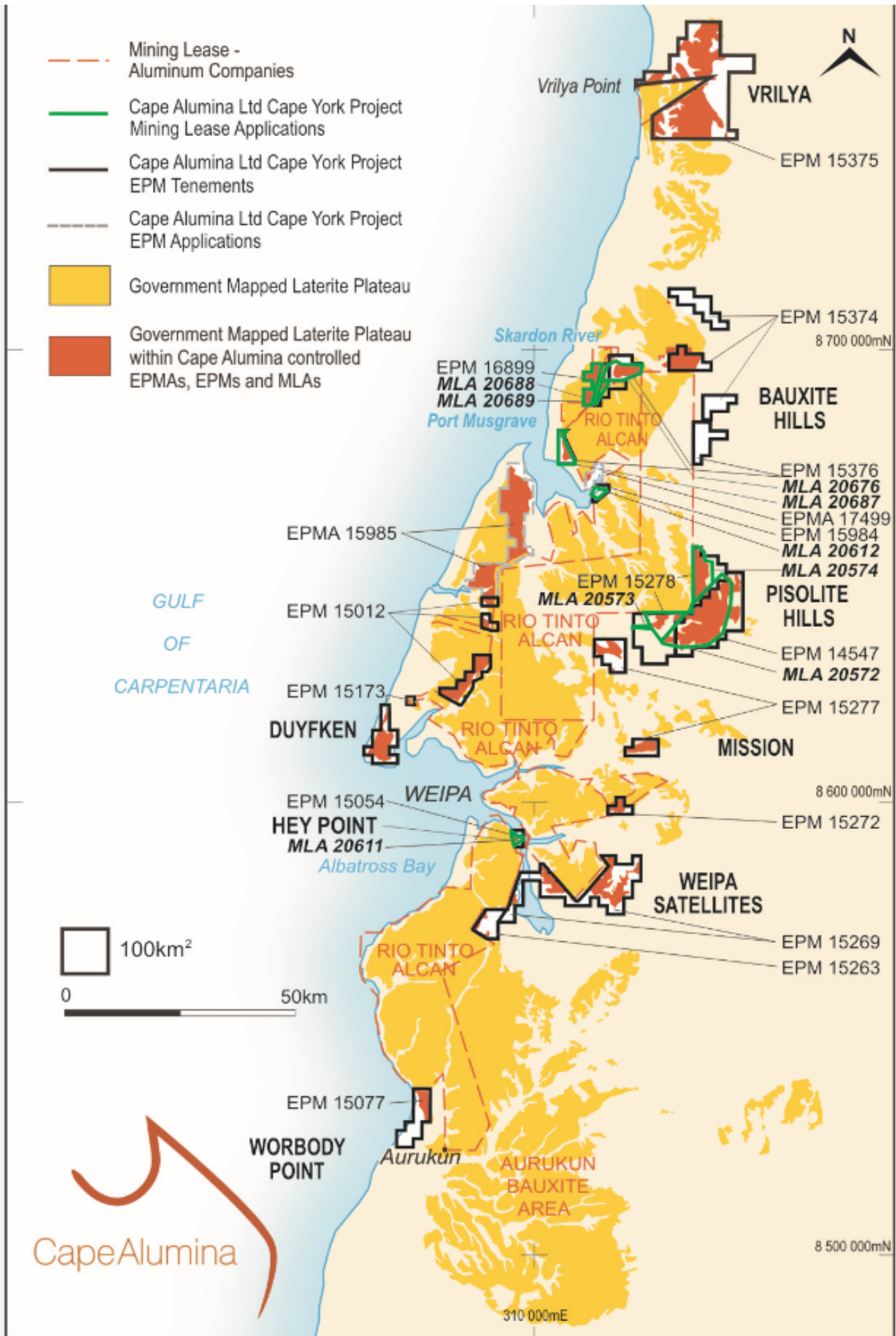
### Western Cape York

Cape Alumina controls approximately 1,500 square kilometres of exploration tenements in western Cape York, a region world-renowned for its high-quality, export-grade bauxite.

**Table 1: Weipa exploration and mining tenement schedule**

Tenement	Project Name	Holder/ Applicant	Status (Expiry date)	Area Ha (MLAs) No. Sub Block (EPM)	Commodity Targeted
MLA 20572	Pisolite Hills 1	Cape Alumina Ltd	Application	12311.4	Bauxite-Kaolin
MLA 20573	Pisolite Hills 2	Cape Alumina Ltd	Application	3207.9	Bauxite-Kaolin
MLA 20574	Pisolite Hills 3	Cape Alumina Ltd	Application	3885.5	Bauxite-Kaolin
MLA 20611	Hey Point	Cape Alumina Ltd	Application	370.7	Bauxite
MLA 20612	Port Musgrave	Cape Alumina Ltd	Application	1050.3	Bauxite
MLA 20676	Bauxite Hills 1	Aldoga Minerals Pty Ltd Cape Alumina Ltd	Application	2317.91	Bauxite
MLA 20687	Bauxite Hills 2	Aldoga Minerals Pty Ltd Cape Alumina Ltd	Application	1647.3	Bauxite
MLA 20688	Bauxite Hills 6 East	Aldoga Minerals Pty Ltd Cape Alumina Ltd	Application	530.9	Bauxite
MLA 20689	Bauxite Hills 6 West	Aldoga Minerals Pty Ltd Cape Alumina Ltd	Application	2052.4	Bauxite
<b>EPM 14547</b>	<b>Pisolite Hills</b>	<b>Cape Alumina Ltd</b>	<b>Granted (19/4/2016) Renewed</b>	<b>48</b>	<b>Bauxite</b>
<b>EPM 15012</b>	<b>Mapoon</b>	<b>Cape Alumina Ltd</b>	<b>Granted (30/11/2014)</b>	<b>19</b>	<b>Bauxite-Kaolin</b>
<b>EPM 15054</b>	<b>Hey Point</b>	<b>Cape Alumina Ltd</b>	<b>Granted (29/4/2017) Renewed</b>	<b>4</b>	<b>Bauxite</b>
<b>EPM 15077</b>	<b>Worbody</b>	<b>Cape Alumina Ltd</b>	<b>Granted (16/9/2018)</b>	<b>15</b>	<b>Bauxite</b>
<b>EPM 15173</b>	<b>Duyfken Point</b>	<b>Cape Alumina Ltd</b>	<b>Granted (23/2/2014)</b>	<b>16</b>	<b>Bauxite</b>
<b>EPM 15263</b>	<b>North Coconut</b>	<b>Cape Alumina Ltd</b>	<b>Granted (29/04/2017)</b>	<b>12</b>	<b>Bauxite</b>
<b>EPMA 15269</b>	<b>Aurukun North</b>	<b>Cape Alumina Ltd</b>	<b>Granted (3/2/2018)</b>	<b>55</b>	<b>Bauxite</b>
<b>EPM 15272</b>	<b>Weipa East</b>	<b>Cape Alumina Ltd</b>	<b>Granted (29/4/2014)</b>	<b>4</b>	<b>Bauxite</b>
<b>EPM 15277</b>	<b>Pisolite Hills South</b>	<b>Cape Alumina Ltd</b>	<b>Granted (22/12/2013)</b>	<b>20</b>	<b>Bauxite</b>
<b>EPM 15278</b>	<b>Pisolite Hills North</b>	<b>Cape Alumina Ltd</b>	<b>Granted (29/9/2014) Renewal lodged</b>	<b>53</b>	<b>Bauxite</b>
<b>EPM 15374</b>	<b>Dulhunty</b>	<b>Cape Alumina Ltd</b>	<b>Granted (21/9/2013) Renewal lodged</b>	<b>33</b>	<b>Bauxite</b>
<b>EPM 15375</b>	<b>Vriilya</b>	<b>Cape Alumina Ltd</b>	<b>Granted (21/10/2013) Renewal lodged</b>	<b>107</b>	<b>Bauxite</b>
<b>EPM 15376</b>	<b>Ducie River</b>	<b>Cape Alumina Ltd</b>	<b>Granted (29/9/2014)</b>	<b>29</b>	<b>Bauxite</b>
<b>EPM 15984</b>	<b>Port Musgrave</b>	<b>Cape Alumina Ltd</b>	<b>Granted (23/2/2014)</b>	<b>4</b>	<b>Bauxite</b>
EPMA 15985	Penefather	Cape Alumina Ltd	Application	45	Bauxite
<b>EPM 16899</b>	<b>Skardon River</b>	<b>Cape Alumina Ltd</b>	<b>Granted (16/12/2014)</b>	<b>14</b>	<b>Bauxite</b>
EPMA 17499	Euclid	Cape Alumina Ltd	Application	4	Bauxite

Notes: All tenements 100 per cent held by Cape Alumina Limited unless expressed otherwise.  
EPM = Exploration Permit for Minerals;  
EPMA = Application for Exploration Permit for Minerals; MLA = Application for Mining Lease.



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

## Central Queensland

Cape Alumina also holds two granted Exploration Permits for Minerals (EPM) over a Central Queensland bauxite project.

**Table 2: Central Queensland exploration and mining tenement schedule**

Tenement	Project Name	Holder/ Applicant	Status (Expiry date)	Area Ha (MLAs) No. Sub Block (EPM)	Commodity Targeted
EPM 15848	Toondoon	Cape Alumina Ltd	Granted (22/05/2018)	9	Bauxite
EPM 18281	Auburn	Cape Alumina Ltd	Granted (15/12/2016)	38	Bauxite

Notes: All tenements 100 per cent held by Cape Alumina Limited unless expressed otherwise. EPM = Exploration Permit for Minerals. EPMA = Application for Exploration Permit for Minerals

### 5.2 Pisolite Hills mine and and Bauxite Hills mine and port projects

To date, CBX has two projects in the advanced development stages – the Pisolite Hills mine and port project and the Bauxite Hills mine and port project.

#### Pisolite Hills

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

The Pisolite Hills resource, based on over 4,000 drill holes, is estimated to be 134.6 million tonnes (Mt) of *in-situ* bauxite, including the Musgrave deposit. The 134.6 Mt of in-situ bauxite at Pisolite Hills is expected to yield 88.9 Mt (20.1 Mt Measured + 39.5 Mt Indicated + 29.3 Mt Inferred) of bauxite on a dry-product basis at average beneficiated grade of 53.1 per cent alumina (Al<sub>2</sub>O<sub>3</sub>) and 12.3 per cent silica (SiO<sub>2</sub>) of which 7.5 per cent is reactive silica at 150 degrees celsius. Overall, this resource has the potential to yield up to a maximum of 7.5 million tonnes per annum (Mtpa) of dry-product bauxite, following initial ramp-up, over a 14-year period.

The Pisolite Hills mine and port project will provide the Traditional Land Owners and Aboriginal people of Mapoon and other western Cape York communities with social and economic benefits.

Following the Queensland Government's declaration of Pisolite Hills as a coordinated project, it released 'Draft Terms of Reference' for the environmental impact statement (EIS) dealing with the project for public comment. After considering the views of the community and key stakeholders, the Government released the final terms of reference for the EIS in December 2012.

As a result, Cape Alumina restarted work on technical and environmental studies for the project and consulting engineer GHD Limited updated the mining and costing aspects of the Pisolite Hills pre-feasibility study (PFS).

The updated PFS confirmed the technical and economic feasibility of Pisolite Hills as a 7.5 Mtpa bauxite mine producing high-quality, export-grade bauxite over a life of 14 years. The study also confirmed that Pisolite Hills is an attractive standalone project with a capital cost of \$396 million, a free on board (FOB) cash operating cost, at full production, of approximately \$23 per tonne of product bauxite (excluding royalties), and an internal rate of return of 25.6 per cent.

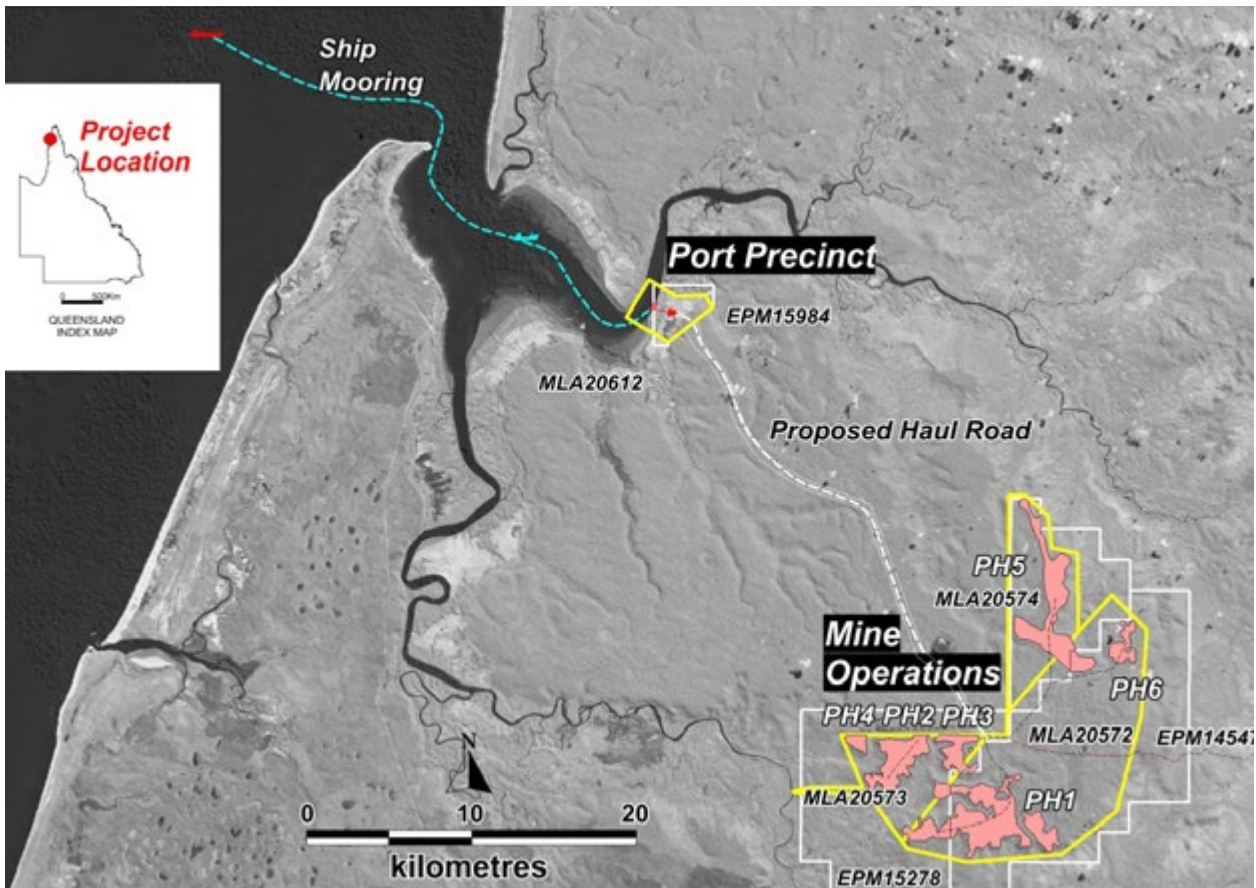
It is proposed that Pisolite Hills will commence production at an initial rate of approximately 3.4 Mtpa of dry beneficiated bauxite building to 7.5 Mtpa over two years. It is anticipated that production will commence in 2015, subject to the receipt of funding and the satisfaction of other matters generally required for project development to proceed, including completion of all environmental studies and the granting of all necessary State and Commonwealth government permits.

The shallow, free-digging bauxite averages 2.4 metres, and ranges up to 6 metres, in thickness with an average overburden depth of 0.4 metres resulting in very low strip ratios.

The proposed mine fleet includes front-end loaders and mine trucks, to load and transport the raw bauxite to the beneficiation plant, and road trains to transport the bauxite product to Port Musgrave.

Run of mine raw bauxite will be washed in three 650 tonne per hour beneficiation plants which incorporate crushing, sizing, screening and conveying.

Transshipping of the bauxite product is a key value driver for the operation and the use of barges, loading Panamax or Cape-size vessels, has been incorporated in the design.



Above: Cape Alumina's Pisolite Hills integrated mine and port project on western Cape York, Queensland.

## Bauxite Hills

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

Cape Alumina completed a concept study for the project in March 2011 - the first step towards creating a major new mining project on western Cape York.

An initial grid-based exploration and drilling program at the site was undertaken during August and September of 2011. This involved 2,569 drill holes for a total of 7,000 metres.

From this program, Cape Alumina estimated an Inferred Resource of 60 million tonnes (Mt) of *in-situ*, high-quality, export-grade bauxite. This is expected to yield 41 Mt of beneficiated, dry-product bauxite at average grades of 51.6 per cent alumina ( $Al_2O_3$ ) and 9.5 per cent silica ( $SiO_2$ ).

The resources at Bauxite Hills have low strip ratios and are very shallow, free-digging deposits. They are located close to coastal waters and international shipping routes, and have a high alumina content with low bauxite to alumina ratios, which mean lower shipping costs and lower overall refinery input costs compared to bauxite deposits outside the Weipa region.

The assay results from the project's BH1 area have indicated the presence of two types of bauxite - an upper layer of mixed bohemite-trihydrate bauxite (MBT) and an underlying layer of low monohydrate bauxite (LMB). The LMB product is expected to be suitable for refineries operating at low temperature.

In late 2012, Cape Alumina completed the Bauxite Hills PFS, which confirmed the technical and economic feasibility of the project. The study showed that Bauxite Hills could produce 5 million tonnes per annum (Mtpa) of high-quality, export-grade bauxite over a life of up to 10 years.

Studies undertaken by GHD Limited over the past year have shown that development of the Bauxite Hills project in conjunction with Pisolite Hills will bring significant synergistic benefits to Cape Alumina's operations. These include:

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

It is proposed that Bauxite Hills would commence production at an initial rate of 2.5 Mtpa of dry beneficiated bauxite building to 5 Mtpa over two years.

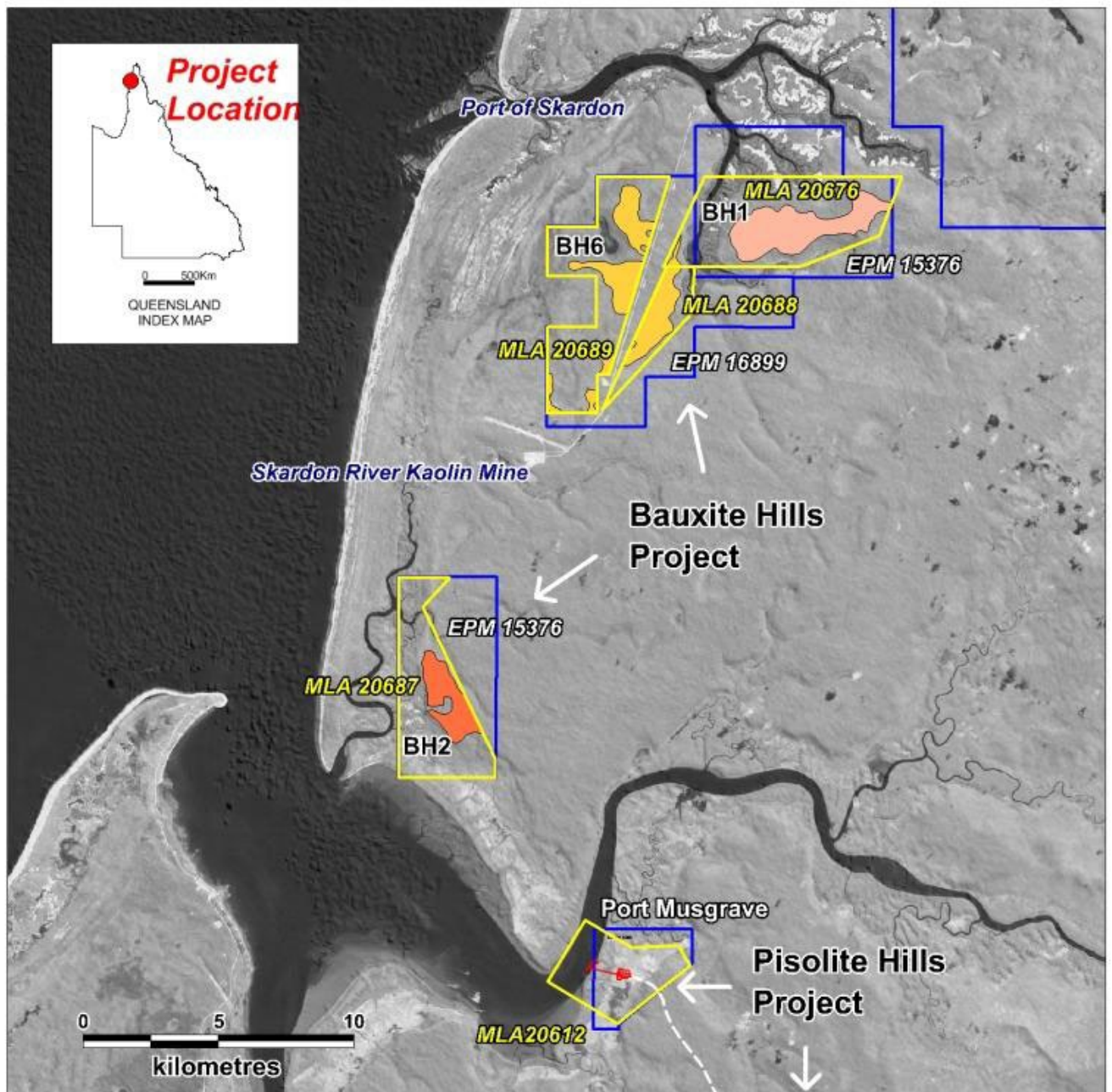
The shallow, free digging bauxite averages 2.4 metres thickness at BH1 and 1.8 metres at BH2 and BH6, and ranges up to 6 metres in thickness with a shallow overburden depth averaging 0.4 metres and resulting in very low strip ratios.

The mine fleet will include front-end loaders to load the bauxite, as well as mine trucks and road trains to transport the bauxite to the beneficiation plant.

Run of mine bauxite will be washed in the 1,300 tonnes per hour beneficiation plant which incorporates crushing, sizing, screening and conveying.

Transshipping of the bauxite product is the key to unlocking the operation and the use of barges, loading Panamax or Cape-size vessels, has been incorporated in the design.

The Bauxite Hills project will continue to be evaluated and progressed and is likely to be considered as a second stage development once Pisolite Hills is in production.



Above: Cape Alumina's Bauxite Hills integrated mine and port project on western Cape York, Queensland.

### 5.3 Cape York Regional Plan

The current Wild River Declarations over the Wenlock River imposes a 500 metre buffer around high preservation areas (springs) in the Wenlock River basin, which rendered the Pisolite Hills project unviable at the time of the declarations. The Queensland Government is in the process of settling a draft of the Cape York Regional Plan (**Plan**), which will replace the Wild River Declarations in Cape York (which includes the Wenlock River basin). In particular, on 18 September 2013, in a statement from the Deputy Premier, Minister for State Development, Infrastructure and Planning, The Honourable Jeff Seeney confirmed the Government's intention to open the Cape York region to economic diversity and opportunities, while balancing the protection of the Cape's unique environment.

It is anticipated that the Queensland Government will make a draft of the Cape York Regional Plan available for public comment in November 2013, with the final plan expected for release in mid-2014.

The content and timing of the final Plan may have a material financial effect on the Pisolite Hills project. For example, any significant delay in the Plan will delay removal of the Wild River Declarations in Cape York, which may in turn delay finalisation of the Pisolite Hills environmental impact statement. CBX will update the market on any developments material to the price or value of CBX Shares in accordance with its continuous disclosure policy and obligations.

## 5.4 Summary of CBX's financial information

The financial position of CBX as at 30 June 2013, extracted from its statutory, audited financial accounts, is set out below:

### Statement of financial Position as at 30 June 2013

	Consolidated Entity 2013	Consolidated Entity 2012
	\$	\$
<b>Current assets</b>		
Cash and cash equivalents	2,704,870	4,655,359
Trade and other receivables	33,684	61,772
Other financial assets	51,131	49,562
<b>Total current assets</b>	<b>2,789,685</b>	<b>4,766,693</b>
<b>Non-current assets</b>		
Assets held for sale	156,835	-
Exploration & evaluation assets	6,272,821	4,476,542
Plant and equipment	38,071	41,201
Other assets	88,695	86,560
<b>Total non-current assets</b>	<b>6,556,422</b>	<b>4,604,303</b>
<b>TOTAL ASSETS</b>	<b>9,346,107</b>	<b>9,370,996</b>
<b>Current liabilities</b>		
Trade and other payables	1,360,754	649,262
<b>Total current liabilities</b>	<b>1,360,754</b>	<b>649,262</b>
<b>Non-current liabilities</b>		
Loans and borrowings	3,523,896	2,772,073
Derivative liabilities	368,870	1,373,951
<b>Total non-current liabilities</b>	<b>3,892,766</b>	<b>4,146,024</b>
<b>TOTAL LIABILITIES</b>	<b>5,253,520</b>	<b>4,795,286</b>
<b>NET ASSETS</b>	<b>4,092,587</b>	<b>4,575,710</b>
<b>Equity</b>		
Issued capital	29,016,668	27,085,408
Reserves	631,765	403,731
Accumulated losses	(25,555,846)	(22,913,429)
<b>TOTAL EQUITY</b>	<b>4,092,587</b>	<b>4,575,710</b>

The cash balance of CBX as at 30 September 2013 was \$1.7 million.



## 5.5 CBX's Board

The current CBX Board comprises the following directors:

<b>George Lloyd</b> Non-executive independent chairman	
<b>Qualifications</b>	Master of Business Administration, BEngSc (Industrial Engineering), FAICD; FAusIMM, Stanford Executive Program
<b>Experience</b>	Ausenco Limited – appointed Non-Executive Director in 2005 and Chairman in 2013 – continuing
<b>Interest in CBX securities</b>	242,766 CBX Shares (includes indirect interests held)
<b>Special Responsibilities</b>	Chairman of the Audit Committee, Member of Remuneration Committee
<b>Directorships formerly held in other listed entities in the past three years</b>	None
It is proposed that Mr Lloyd become a director of the Merged Entity. A full profile of Mr Lloyd's experience is set out in section 7.4.	
<b>Graeme Sherlock</b> Managing Director	
<b>Qualifications</b>	BE (Mining), MBA (Technology), MAusIMM
<b>Experience &amp; Directorships</b>	Appointed managing director on 11 July 2011
<b>Interest in CBX securities</b>	2,130,000 CBX Shares and 978,876 CBX Performance Rights
<b>Special responsibilities</b>	None
<b>Directorships formerly held in other listed entities in the past three years</b>	None
It is proposed that Mr Sherlock become the managing director of the Merged Entity. A full profile of Mr Sherlock's experience is set out in section 7.4.	
<b>Rennie Fritschy</b> Non-executive independent director	
<b>Qualifications</b>	BE (Chem), B Econ, FAICD, FIEAust
<b>Experience</b>	Appointed director on 29 January 2009
<b>Interest in CBX securities</b>	112,000 CBX Shares (includes indirect interests held)
<b>Special responsibilities</b>	Member of Remuneration Committee (Chairman since 30 November 2011) and Audit Committee
<b>Directorships formerly held in other listed entities in the past three years</b>	None
It is proposed that Mr Fritschy become a director of the Merged Entity. A full profile of Mr Fritschy's experience is set out in section 7.4.	

## 5.5 CBX's Board (continued)

<b>Peter Nicholson</b> Non-executive director	
<b>Qualifications</b>	Bachelor of Engineering (Mining), GAICD, F Fin, MausImm
<b>Experience</b>	Appointed director on 26 March 2007
<b>Interest in CBX securities</b>	Peter is an employee of Resource Capital Funds Management Pty Ltd which is an entity associated with Resource Capital Fund III and IV L.P which together hold 55,570,236 CBX Shares
<b>Special responsibilities</b>	Member of Remuneration Committee and Audit Committee
<b>Directorships formerly held in other listed entities</b>	Metallica Minerals Limited – resigned 24 November 2010. Mirabella Nickel Limited
<b>Jijun Liu</b> Non-executive director	
<b>Qualifications</b>	Mr Liu studied thermal power plant engineering at Shandong Power Junior College
<b>Experience</b>	Appointed Director on 5 May 2008
<b>Interest in CBX securities</b>	Jijun Liu is an employee of China Xinfra Group Corporation Limited which (together with associated entities) holds 29,342,960 CBX Shares
<b>Special Responsibilities</b>	None
<b>Directorships formerly held in other listed entities in the past three years</b>	None
<b>Ken Xiao</b> Non-executive Alternate director to Jijun Liu	
<b>Qualifications</b>	Bachelor of Science (Computer) / Bachelor of Engineering (Computer) University of Newcastle, Master of Information Technology QUT
<b>Experience</b>	Appointed Alternate Director on 8 June 2007.
<b>Interest in CBX securities</b>	Ken Xiao is a consultant to China Xinfra Group Corporation Limited which (together with associated entities) holds 29,342,960 CBX Shares. Ken Xiao holds 41,572 CBX Shares.
<b>Special Responsibilities</b>	Member of Remuneration Committee and Audit Committee
<b>Directorships formerly held in other listed entities in the past three years</b>	None

## 5.6 CBX's capital structure

### CBX Shares

At the date of this Scheme Booklet, there are 183,181,133 CBX Shares on issue. All shares are ordinary shares, which have the same rights and obligations.

The top 20 CBX Shareholders in each class, as at 17 September 2013, is set out below:

CBX Shareholder	Number of CBX Shares	% of issued capital	Class of CBX Share
Merrill Lynch (Australia) Nominees Pty Limited <sup>#</sup>	53,787,202	29.65%	Ordinary
Metallica Minerals Limited	29,954,405	16.51%	Ordinary
China Xinha Group Corporation Limited	26,426,248	14.57%	Ordinary
Bondline Limited	20,865,291	11.50%	Ordinary
JP Morgan Nominees Australia Limited	10,317,170	5.69%	Ordinary
Victorian Ferries Pty Ltd	7,142,857	3.94%	Ordinary
Chiping Xinha Huaya Alumina Co Ltd	2,720,274	1.50%	Ordinary
Jien Mining Pty Ltd	2,221,873	1.22%	Ordinary
Mr Graeme Sherlock	2,130,000	1.17%	Ordinary
Mr Paul Messenger	1,015,000	0.56%	Ordinary
Mr Clifford Pratt	871,890	0.48%	Ordinary
Dr Wanfu Huang	735,571	0.41%	Ordinary
Australian Capital Markets Pty Ltd	692,813	0.38%	Ordinary
Golden Breed Pty Ltd	600,000	0.33%	Ordinary
Lorilaw Pty Ltd	500,000	0.28%	Ordinary
Carojon Pty Ltd	500,000	0.28%	Ordinary
Bondline Limited	491,096	0.27%	Ordinary
MBM Corporation Pty Ltd	489,897	0.27%	Ordinary
Mr Scott Waddell	355,882	0.20%	Ordinary
Select Resources Pty Ltd	333,334	0.18%	Ordinary

<sup>#</sup> Merrill Lynch (Australia) Nominees Pty Limited is the nominee of Resource Capital Fund (RCF). Further information on RCF is provided in 'Answers to key questions'.

### CBX Performance Rights

CBX Performance Rights have been issued at various times to CBX Group employees.

Each CBX Performance Right entitles the holder, on exercise, to one **ordinary** Share. At the date of this Scheme Booklet, there are 3,310,973 CBX Performance Rights on issue.

No holder of a CBX Performance Right has any right to participate in any other share issue of the Company or of any other entity.

## 5.7 Constitution

The rights attaching to CBX Shares are detailed in CBX's constitution (**Constitution**). The following is a summary of the key provisions of the Constitution.

### Shares

The Directors are entitled to issue, allot or otherwise dispose of Shares in the capital of CBX to such persons on such terms as the Directors think fit.

The Constitution also permits the issue of preference shares on terms determined by the Directors.

CBX may also sell a Share that is part of an unmarketable parcel of shares under the procedure set out in the Constitution.

### Variation of rights

The rights attached to any class of CBX Shares shall, unless their terms of issue state otherwise, only be varied with the consent in writing of members holding at least 75% of CBX Shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of Shares of that class.

### Calls

The Directors may at any time after allotment, make calls upon the Shareholders in respect of any money which remains unpaid on their shares, except where the conditions of allotment in respect of the shares made payments payable at fixed times. The Directors may require a call to be paid in instalments. The Directors may, on the issue of Shares, differentiate between the holders as to the amount of calls to be paid and the times of payment. A Shareholder shall pay the amount of any call made on it to the persons and at the times and places nominated by the Directors. Each Shareholder upon whom a call is to be made shall be given such prior notice prescribed under the Listing Rules before the due date for payment.

A call shall be deemed to have been made at the time when a resolution of the Directors authorising the call was passed. The Directors may by notice in writing to the Shareholders revoke the call at any time before the date nominated for payment of the call.

### Forfeiture and lien

The Directors may forfeit Shares to cover any call, or other amount payable in respect of Shares, which remains unpaid following any notice to that effect sent to a Shareholder. Forfeited Shares become the property of CBX and the Directors may reissue, sell or otherwise dispose of the Shares as they think fit.

A person whose Shares have been forfeited shall cease to be a Shareholder but shall remain liable to pay and shall pay to CBX all money which, at the date of forfeiture, was payable in respect of the Shares.

CBX has a first and paramount lien and charge for unpaid calls and unpaid instalments (and reasonable interest and expenses thereon) due in relation to a Shareholder's Shares. The lien extends to the Shares and any dividends from time to time declared in respect of such Shares. The Directors may at any time declare any Share to be wholly or in part exempt from the provisions of this rule.

### Transfer of shares

Securities may be transferred in any manner required or permitted by the Listing Rules or ASTC Settlement Rules, or in the form stipulated in the constitution. The transferor shall be deemed to remain the holder of the securities until the name of the transferee is entered in the share register. Every instrument of transfer shall be left, duly stamped or certified, at the office for registration accompanied by the share certificate and other such evidence as is reasonably required.

Except as required by law, CBX shall not refuse to register or fail to register or give effect to any transfer of shares in registrable form lodged with the company.

### Right to refuse registration of transfer

CBX shall not refuse, prevent, delay or in any way interfere with the registration of a Proper ASTC Transfer or seek to apply a holding lock to prevent a Proper ASTC Transfer unless permitted to do so by the Listing Rules or the ASTC Settlement Rules, as the case may be.

If, when permitted to do so, the Directors refuse to register a transfer of shares or apply a holding lock, CBX shall give to the lodging party written notice of the refusal and the precise reasons for such action within five business days after the date on which the transfer was lodged with the Company.

### General meetings

Each Shareholder, Director and auditor is entitled to receive notice of and attend any general meeting of CBX. Three Shareholders must be present to constitute a quorum for a general meeting and no business may be transacted at any meeting except the election of a chair and the adjournment of the meeting, unless a quorum is present when the meeting proceeds to business.

### Voting rights

A holder of ordinary shares shall be entitled to be present at any meeting, and to vote in respect of the ordinary shares held by her/him. Any Shareholder present at any meeting may decline to vote on any question put to that meeting, but shall not by so doing be considered absent from the meeting.

Every member present in person or by proxy or by attorney or (in the case of a body corporate) by Corporate Representative shall be entitled:

- [a] on a show of hands, to one vote; and
- [b] on a poll, to one vote for each share of which she/he is the holder.

### Appointment of Proxies

Proxies may be appointed to attend and vote at a meeting on behalf of a CBX Shareholder. The instrument appointing a proxy shall be in writing under the hand of the appointer or her/his attorney duly authorised in writing. It must be in the form stipulated in the constitution or in any form which the Directors approve or which may be required under the Corporations Act or Listing Rules.

### Dividends

The Directors shall be entitled to distribute profits by way of dividend, and payment of dividends upon the shares shall be in proportion to the amounts paid up on such shares respectively at the date of declaration of the dividend.

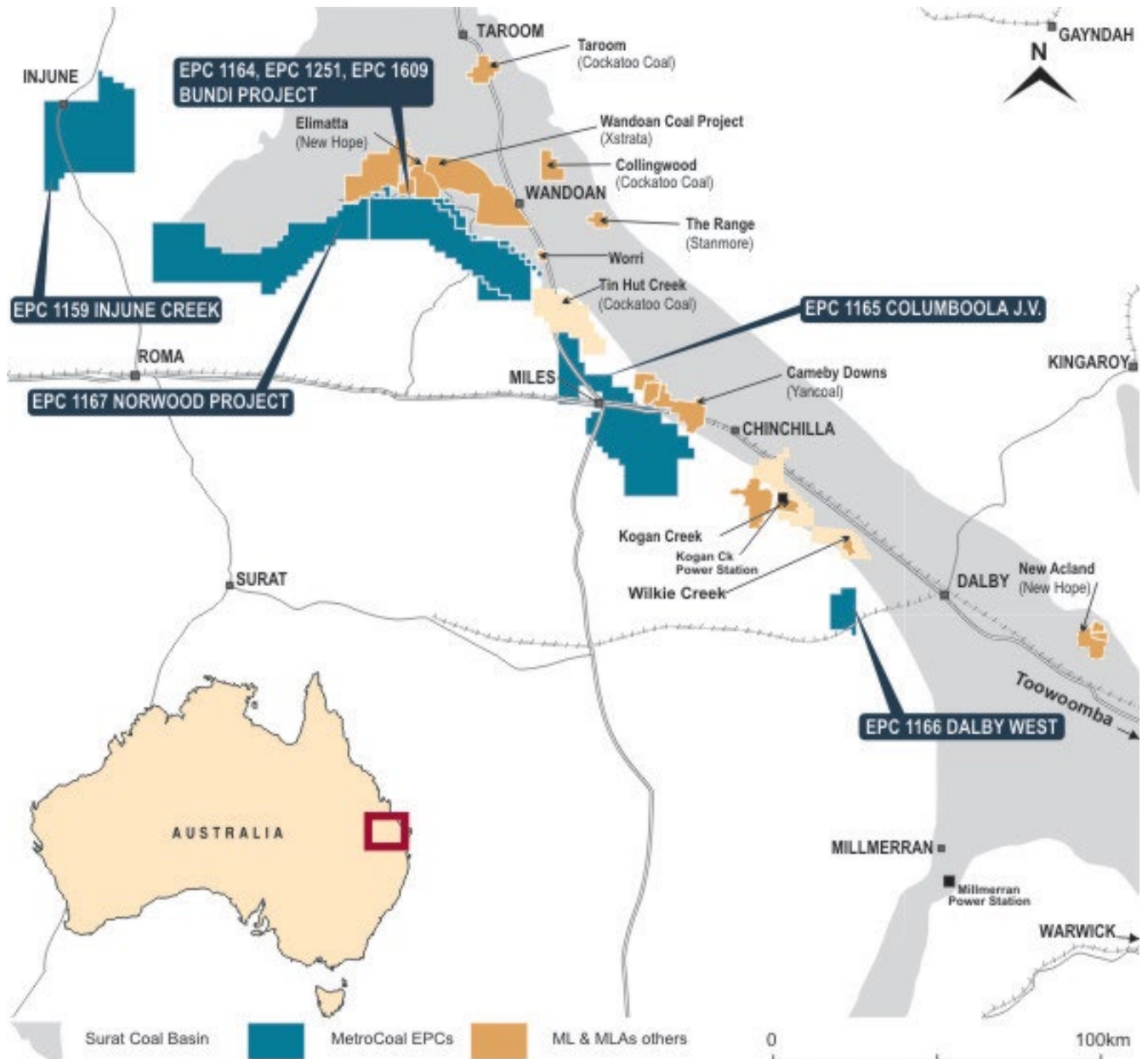
## 6 About MTE

### 6.1 Overview of MTE and its business

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

MetroCoal holds extensive coal exploration permits (EPCs) in the Surat Basin covering over 3,000 square kilometres and containing one of the largest thermal coal resources in Australia (see Figure 2 below).

Figure 2: MetroCoal's tenements and projects



On a 100% basis, MetroCoal's projects have a JORC resource of just over 4.4 billion tonnes (see Table 2 below).

**Table 2: MetroCoal's known resources in the Surat Basin**

Project	MetroCoal Ownership	Resources (Mt)			Reserves (Mt)
		Indicated	Inferred	Total	
Bundi (includes Juandah)	100%	296	1,705.6	2,001.6	
Columboola	49%	94.7	1,618	1,712.7	
Goombi	49%	4.9	13.8	18.7	26.2
Dalby West	100%		520	520	
Norwood	100%		156	156	
<b>TOTAL</b>		<b>395.6</b>	<b>4,013.4</b>	<b>4,409</b>	<b>26.2</b>

MTE ASX Announcement 24 October 2013 – Bundi Project Update

MTE ASX Announcement 19 July 2012 – Bundi Resource Upgrade and Project Update

MTE ASX Announcement 9 December 2011 – Dalby West Project – Maiden Inferred Resource of 520Mt

MTE ASX Announcement 6 September 2012 – Maiden Indicated Resource for Columboola JV plus 26% increase in Inferred Resource

MTE ASX Announcement 19 December 2012 – Goombi Maiden Reserve Announced

Over the past three years MetroCoal has completed significant exploration programs, drilling over 220 boreholes in its own and the Joint Venture tenements. Geological modelling, based on this exploration, confirms that the area contains continuous coal seams extending over very large areas that are suited to underground mining using modern, high productivity longwalls.

Within this huge resource MetroCoal is now focussed on two project areas both capable of supporting mines producing over 5 million tonnes per year, including:

- The Bundi Project, owned 100% by MetroCoal, situated south west of the town of Wandoan, adjoining Xstrata's Wandoan Project; and
- The Columboola Joint Venture owned by MetroCoal (49%) and SinoCoal Pty Ltd, the Australian subsidiary of China Coal (one of China's largest coal companies). The Columboola project is situated near Chinchilla adjoining Yancoal's Cameby Downs Mine.

In addition to its coal resources MetroCoal also holds a 20% interest in Tenement to Terminal Ltd (**3TL**) which has the rights to land in the Port of Gladstone that is considered ideally suited to the construction of a coal export terminal. This strategic interest provides MetroCoal with a pathway to coal export capacity and also the opportunity to influence the development timetable and costs.

## 6.2 Summary of MTE's financial information

The financial position of MTE as at 30 June 2013, extracted from its statutory, audited financial accounts, is set out below:

### Statement of financial Position as at 30 June 2013

	Note#	Consolidated Entity 2013 \$	Consolidated Entity 2012 \$
<b>Current assets</b>			
Cash and cash equivalents	7	1,127,970	5,015,040
Trade and other receivables	8	264,855	1,063,199
Financial assets	9	10,375,493	10,261,962
Other	10	78,777	56,098
<b>Total current assets</b>		<b>11,847,095</b>	<b>16,396,299</b>
<b>Non-current assets</b>			
Assets held for sale	13	-	-
Exploration and evaluation	14	23,359,081	19,992,258
Property, plant and equipment	12	112,124	226,016
Other assets		-	-
<b>Total non-current assets</b>		<b>23,471,205</b>	<b>20,218,274</b>
<b>TOTAL ASSETS</b>		<b>35,318,300</b>	<b>36,614,573</b>
<b>Current liabilities</b>			
Trade and other payables	15	984,706	1,677,420
Employee benefits	16	135,828	92,893
<b>Total current liabilities</b>		<b>1,120,534</b>	<b>1,770,313</b>
<b>Non-current liabilities</b>			
Loans and borrowings		-	-
Derivative liabilities		-	-
<b>Total non-current liabilities</b>		<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>1,120,534</b>	<b>1,770,313</b>
<b>NET ASSETS</b>		<b>34,197,766</b>	<b>34,844,260</b>
<b>Equity</b>			
Contributed equity	17	45,149,187	45,149,187
Reserves	18	5,586,507	5,497,915
Accumulated losses		-16,537,928	-15,802,842
<b>TOTAL EQUITY</b>		<b>34,197,766</b>	<b>34,844,260</b>

The cash balance of MTE dated 30 September 2013 was \$9.7 million.

# Note references are to the notes to the financial statements, which were lodged with ASX on 12 September 2013. This statement of financial position should be read in connection with those notes.

## 6.3 MTE's Board

### Information on directors

<b>Name:</b>	<b>Stephen Everett</b>
<b>Title:</b>	<b>Independent non-executive chairman</b>
<b>Age:</b>	61
<b>Qualifications:</b>	Bachelor of Engineering (Chem Eng. Honours)
<b>Experience and expertise:</b>	<p>Mr Everett has forty years management and board experience in the resources and construction industries and has held Chairman and non-executive director positions in Government Development Boards, Private, ASX listed and TSX listed companies.</p> <p>Mr Everett has also held senior executive positions included Managing Director and Chief Executive Officer of private and publicly listed companies.</p>
<b>Other current directorships:</b>	Global Resources Corporation Limited, appointed April 2009
<b>Former directorships (in the last 3 years):</b>	<p>IronRidge Resources Limited, appointed May 2011, resigned October 2012.</p> <p>Australian Solomons Gold Limited, appointed June 2004, resigned November 2009.</p>
<b>Special responsibilities:</b>	Member of the audit and risk committee and nomination and remuneration committee.
<b>Interests in shares:</b>	None
<b>Interests in options:</b>	1,000,000 options
<b>Name:</b>	<b>Andrew Gillies</b>
<b>Title:</b>	<b>Non-executive director</b>
<b>Age:</b>	50
<b>Qualifications:</b>	Bachelor of Science (Geology), MAusIMM.
<b>Experience and expertise:</b>	<p>Mr Gillies is a founding director of MetroCoal Limited. He has been instrumental in the selection and acquisition of all the mineral assets now held by the Metallica Group, Cape Alumina Limited and MetroCoal Limited. Mr Gillies' key strength is mineral resource management and strategic planning specialising in project generation, selection and acquisition. He has acquired a considerable database and significant knowledge of mineral deposits in Queensland.</p> <p>Since 1985 he has worked continuously as a geologist in the mining and exploration industry, accruing over 27 years experience across a range of commodities. Over the last 27 years he gained valuable experience in the exploration, feasibility, development, open pit and underground mining of mineral deposits.</p>
<b>Other current directorships:</b>	Metallica Minerals Limited, appointed 15 January 1997
<b>Former directorships (in the last 3 years):</b>	<p>Cape Alumina Limited, appointed 2 February 2004, retired 30 November 2011.</p> <p>Orion Metals Limited, appointed 27 November 2009, retired 3 August 2012.</p> <p>Planet Metals Limited, appointed 9 June 2009, retired 31 July 2012.</p>
<b>Special responsibilities:</b>	None.
<b>Interests in shares:</b>	470,000 ordinary shares.
<b>Interests in options:</b>	1,000,000 options.



<b>Name:</b>	<b>John Haley</b>
<b>Title:</b>	<b>Non-executive director/company secretary (Mr Haley resigned as a director and company secretary on 30 June 2013 and was appointed alternate director to Mr Gillies on 30 June 2013).</b>
<b>Age:</b>	51
<b>Qualifications:</b>	Bachelor of Commerce, MBA, GradCert (Marketing), Grad Dip CSP, FCA, FFINA, FTIA.
<b>Experience and expertise:</b>	<p>Mr Haley brings almost thirty years of senior corporate experience from positions in Canada and Australia to the board of MetroCoal. He has a diverse career in a range of industries including mineral exploration and has participated as a seed capitalist in a number of mineral exploration companies.</p> <p>With extensive experience in the preparation of prospectuses, he has had significant involvement in the listing of companies in Australia and Canada. He has previously worked with Coopers &amp; Lybrand and Arthur Andersen &amp; Co and in Australia in general management, financial reporting and company secretarial positions.</p>
<b>Other current directorships:</b>	Metallica Minerals Limited, appointed 22 December 2003.
<b>Former directorships (in the last 3 years):</b>	Cape Alumina Limited, appointed 1 February 2011 as the alternate director for Andrew Gillies, retired 30 November 2011.
<b>Special responsibilities:</b>	Member of the audit and risk committee until 30 June 2013.
<b>Interests in shares:</b>	120,000 ordinary shares
<b>Interests in options:</b>	1,000,000 options

<b>Name:</b>	<b>Michael Hansel</b>
<b>Title:</b>	<b>Non-executive director</b>
<b>Age:</b>	39
<b>Qualifications:</b>	Bachelor of Business, Commerce (Honours) and Law (Honours).
<b>Experience and expertise:</b>	<p>Mr Hansel is a partner of large Queensland law firm, HopgoodGanim Lawyers, is a member of the Australian Institute of Company Directors and is admitted to practice as a solicitor of the Supreme Court of Queensland.</p> <p>Mr Hansel joined HopgoodGanim in 1998 and practices in the corporate area, with an emphasis on capital raising, mergers and acquisitions, joint ventures, due diligence, takeovers and corporate restructuring. He acts for many publicly listed resource and industrial companies in Australia and regularly advises boards of directors on corporate governance and related issues. He has acted on numerous mergers and acquisitions and capital raisings in both the industrial and resources sectors.</p>
<b>Other current directorships:</b>	N/A
<b>Former directorships (in the last 3 years):</b>	N/A
<b>Special responsibilities:</b>	Chairman of the audit and risk committee and member of the nomination and remuneration committee
<b>Interests in shares:</b>	None
<b>Interests in options:</b>	1,000,000 options – held for the benefit of HopgoodGanim.

<b>Name:</b>	<b>Lindsay Ward</b>
<b>Title:</b>	<b>Non-executive director</b>
<b>Age:</b>	47
<b>Qualifications:</b>	Bachelor of Applied Science (Geology), Graduate Diploma Business Management GAICD
<b>Experience and expertise:</b>	<p>Mr Lindsay Ward is an experienced senior executive having worked in a broad range of industries including ports, mining, mineral processing, rail haulage, electricity generation, transport and logistics at both General Manager and CEO level. Mr Ward is currently Managing Director of Dart Mining NL (ASX-DTM), a Victorian based molybdenum-copper-silver explorer. Prior to joining Dart Mining, Mr Ward was General Manager – Patrick Ports and Pacific National Bulk Rail, a business unit of Asciano Ltd. As an integral part of this role, Lindsay was also the CEO of the Port of Geelong. Before joining Patrick, Lindsay was General Manager Production – Yallourn Energy, a Victorian based integrated mine and power generator.</p> <p>Lindsay started his career in the Mining Industry, spending 15 years working with various mining companies in WA, Queensland, NSW and Victoria in roles ranging from Mining Engineer through to Mine Manager and he has gained experience in gold and base metals exploration.</p>
<b>Other current directorships:</b>	Dart Mining NL, appointed May 2011.
<b>Former directorships (in the last 3 years):</b>	N/A
<b>Special responsibilities:</b>	Chairman of the nomination and remuneration committee.
<b>Interests in shares:</b>	None
<b>Interests in options:</b>	1,000,000 options

<b>Name:</b>	<b>Dongping Wang</b>
<b>Title:</b>	<b>Non-executive director</b>
<b>Age:</b>	53
<b>Qualifications:</b>	Bachelor of Coal Preparation
<b>Experience and expertise:</b>	<p>Mr Wang Dongping graduated from the China Mining University in 1981, with a Major in Coal Processing Technology. Mr Wang was Process Plant Manager, and later Director of Operations at PingshuoAntaibao coal mine for many years; a World Bank funder USA – China joint venture project. Mr Wang then worked for a time in the China Coal Ministry. He later became General Manager of Long-Airdox (Tianjin), where from 1997 he was instrumental in introducing modern coal process technology from Australia to China. Mr Wang became General Manager of Schenck (Tianjin) and worked there until 2007.</p> <p>He then helped establish the Dadi Engineering Group, now China's largest coal industry engineering group. Mr Wang is now Chairman of Dadi Engineering Development Group. Mr Wang Dongping has worked at the highest level within the Chinese coal industry for 30 years and is a highly renowned coal processing expert, and a prominent figure in the Chinese coal industry. Mr Wang brings extensive Management experience and an intimate knowledge of modern coal process technology to MetroCoal.</p>
<b>Other current directorships:</b>	Dadi Engineering Development Group, appointed 27 January 2010.
<b>Former directorships (in the last 3 years):</b>	N/A
<b>Special responsibilities:</b>	N/A
<b>Interests in shares:</b>	None
<b>Interests in options:</b>	500,000 options

<b>Name:</b>	<b>Robert Finch</b>
<b>Title:</b>	<b>Alternate director for Dongping Wang</b>
<b>Age:</b>	59
<b>Qualifications:</b>	N/A
<b>Experience and expertise:</b>	<p>Mr Robert Finch brings more than 24 years of Management experience to MetroCoal, including over 18 years in the Australian and Chinese coal industries. He has worked in Australia and throughout Asia for over 23 years. Robert has a strong association and sound knowledge of Chinese business culture, and both the Australian and Chinese Coal industries. Robert was instrumental in pioneering modern coal process technology into China and he worked in China for 4 years up to mid 2006 as Managing Director of Schenck Tianjin, a major process equipment manufacturing company.</p> <p>In 2008 he established and is Managing Director of Aury Australia, a coal process equipment manufacturing company based in Queensland, which supplies process equipment to the Australian and overseas coal and minerals industries. Robert offers both Australian and Chinese coal industry experience and Management skills to MetroCoal.</p>
<b>Other current directorships:</b>	N/A
<b>Former directorships (in the last 3 years):</b>	N/A
<b>Special responsibilities:</b>	N/A
<b>Interests in shares:</b>	299,000 ordinary shares
<b>Interests in options:</b>	500,000 options

#### 6.4 MTE's capital structure

The shareholder information set out below was applicable as at 11th September 2013.

##### Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	103
1,001 to 5,000	240
5,001 to 10,000	282
10,001 to 100,000	690
100,001 and over	144
	1,459
Holding less than a marketable parcel	639

## Equity security holders

*Twenty largest quoted equity security holders*

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
Metallica Minerals Limited	64,293,962	30.78
Dadi Engineering Development (Group) Co Ltd	28,800,000	13.79
Dadi Engineering Development (Group) Hong Kong Co Ltd	18,450,000	8.83
Ms Qing Xia	10,082,684	4.83
Merrill Lynch (Australia) Nominees Pty Limited	6,800,000	3.26
NLK Holdings Pty Ltd	3,200,000	1.53
Mr Jiexiong Wen	2,879,515	1.38
JP Morgan Nominees Australia Limited	2,777,422	1.33
ABN AMRO Clearing Sydney Nominees Pty Ltd	1,932,470	0.93
HSBC Custody Nominees (Australia) Limited	1,790,034	0.86
Focus Asset Management Pty Ltd	1,626,664	0.78
Mr Leigh David Kalazich	1,470,200	0.70
Merrill Lynch (Australia) Nominees Pty Limited	1,368,247	0.66
Mr Agustin Benito Argote	1,000,000	0.48
Mr Olivier Robert Dupuy & Mrs Julie Elizabeth Dupuy	1,000,000	0.48
Mathews Capital Partners Pty Limited	1,000,000	0.48
Oodachi Pty Ltd	1,000,000	0.48
Mr Stewart Graham Teague & Mrs Mary Lynne Teague	913,500	0.44
Mr William Joseph Hosemans	860,000	0.41
Dr Gary Robert Lillicrap & Mr Damian Gary Lillicrap & Mrs Imelda Anne Lillicrap	580,000	0.28
	<hr/>	
	151,824,698	72.71

## 6.5 MTE's constitution

The rights attaching to MTE Shares are detailed in MTE's constitution (Constitution). The following is a summary of the key provisions of the Constitution.

### Shares

The Directors are entitled to issue, allot or otherwise dispose of Shares in the capital of MTE to such persons on such terms as the Directors think fit.

The Constitution also permits the issue of preference shares on terms determined by the Directors.

MTE may also sell a Share that is part of an unmarketable parcel of shares under the procedure set out in the Constitution.

### Variation of rights

The rights attached to any class of MTE Shares shall, unless their terms of issue state otherwise, only be varied with the consent in writing of members holding at least 75% of MTE Shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of Shares of that class.

## Calls

The Directors may at any time after allotment, make calls upon the Shareholders in respect of any money which remains unpaid on their shares, except where the conditions of allotment in respect of the shares made payments payable at fixed times. The Directors may require a call to be paid in instalments. The Directors may, on the issue of Shares, differentiate between the holders as to the amount of calls to be paid and the times of payment. A Shareholder shall pay the amount of any call made on it to the persons and at the times and places nominated by the Directors. Each Shareholder upon whom a call is to be made shall be given such prior notice prescribed under the Listing Rules before the due date for payment.

A call shall be deemed to have been made at the time when a resolution of the Directors authorising the call was passed. The Directors may by notice in writing to the Shareholders revoke the call at any time before the date nominated for payment of the call.

## Forfeiture and lien

The Directors may forfeit Shares to cover any call, or other amount payable in respect of Shares, which remains unpaid following any notice to that effect sent to a Shareholder. Forfeited Shares become the property of MTE and the Directors may reissue, sell or otherwise dispose of the Shares as they think fit.

A person whose Shares have been forfeited shall cease to be a Shareholder but shall remain liable to pay and shall pay to MTE all money which, at the date of forfeiture, was payable in respect of the Shares.

MTE has a first and paramount lien and charge for unpaid calls and unpaid instalments (and reasonable interest and expenses thereon) due in relation to a Shareholder's Shares. The lien extends to the Shares and any dividends from time to time declared in respect of such Shares. The Directors may at any time declare any Share to be wholly or in part exempt from the provisions of this rule.

## Transfer of shares

Securities may be transferred in any manner required or permitted by the Listing Rules or ASTC Settlement Rules, or in the form stipulated in the constitution. The transferor shall be deemed to remain the holder of the securities until the name of the transferee is entered in the share register. Every instrument of transfer shall be left, duly stamped or certified, at the office for registration accompanied by the share certificate and other such evidence as is reasonably required.

Except as required by law, MTE shall not refuse to register or fail to register or give effect to any transfer of shares in registrable form lodged with the company.

## Right to refuse registration of transfer

MTE shall not refuse, prevent, delay or in any way interfere with the registration of a Proper ASTC Transfer or seek to apply a holding lock to prevent a Proper ASTC Transfer unless permitted to do so by the Listing Rules or the ASTC Settlement Rules, as the case may be.

If, when permitted to do so, the Directors refuse to register a transfer of shares or apply a holding lock, MTE shall give to the lodging party written notice of the refusal and the precise reasons for such action within five business days after the date on which the transfer was lodged with the Company.

## General meetings

Each Shareholder, Director and auditor is entitled to receive notice of and attend any general meeting of MTE. Three Shareholders must be present to constitute a quorum for a general meeting and no business may be transacted at any meeting except the election of a chair and the adjournment of the meeting, unless a quorum is present when the meeting proceeds to business.

## Voting rights

A holder of ordinary shares shall be entitled to be present at any meeting, and to vote in respect of the ordinary shares held by her/him. Any Shareholder present at any meeting may decline to vote on any question put to that meeting, but shall not by so doing be considered absent from the meeting.

Every member present in person or by proxy or by attorney or (in the case of a body corporate) by Corporate Representative shall be entitled:

- [a] on a show of hands, to one vote; and
- [b] on a poll, to one vote for each share of which she/he is the holder.

## Appointment of Proxies

Proxies may be appointed to attend and vote at a meeting on behalf of a MTE Shareholder. The instrument appointing a proxy shall be in writing under the hand of the appointer or her/his attorney duly authorised in writing. It must be in the form stipulated in the constitution or in any form which the Directors approve or which may be required under the Corporations Act or Listing Rules.

## Dividends

The Directors shall be entitled to distribute profits by way of dividend, and payment of dividends upon the shares shall be in proportion to the amounts paid up on such shares respectively at the date of declaration of the dividend.

## 6.6 Source of Scheme Consideration

The Scheme Consideration is approximately 1.11 MTE Shares for each CBX Share. MTE has capacity to issue the MTE Shares necessary to pay the Scheme Consideration without MTE Shareholder approval.

## 6.7 MTE's intentions for the Merged Entity

If the Scheme is implemented MTE will become the holder of all the CBX Shares and, accordingly, CBX will become a wholly owned subsidiary of MTE. In addition, it is the current intention of the board of MTE that, immediately after the Scheme becomes effective, the MTE board will be recomprised in accordance with section 7.4. The new board of MTE then intends to:

- [a] have as the immediate priority of the Merged Entity, the development of CBX's bauxite assets on western Cape York, in particular the flagship Pisolite Hills mine and port project near Mapoon, details of which are set out in section 5;
- [b] maintaining the coal assets in good stead for future development;
- [c] identify potential cost savings in the corporate overhead costs of the Merged Entity, including closing the current offices of MTE and relocating to CBX's offices and potential staff costs by removing duplicate administrative roles (e.g. company secretary);
- [d] MTE intends to arrange for CBX to be removed from the official list of the ASX after the Implementation Date.

Other than as set out above and elsewhere in this Scheme Booklet it is MTE's intention:

- [a] to continue the business of CBX;
- [b] not to make any major changes to the business of CBX nor to redeploy any of CBX's fixed assets; and
- [c] to continue the employment of CBX's employees where there is not duplication.

## Available information

These statements of present intention are based on the information about CBX (including information obtained during due diligence) and the general business environment which is known to MTE at the time of preparation of this Scheme Booklet. Final decisions will only be made once MTE undertakes a detailed review of CBX's activities to evaluate their long-term profitability and prospects. Accordingly, the statements set out in this section are statements of present intention only which may change as new information becomes available or circumstances change.

## 7 About the Merged Entity

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### 7.1 Overview

The CBX board believes that the Merged Entity's business will benefit from greater control of core activities through a wholly owned platform to advance its operations.

The Scheme should also enable the realisation of synergies in the short and medium term.

The board has assessed the strategic options currently available to it and believes that the Scheme provides the best opportunity for sustained profitable long-term growth.

The Directors of CBX have also considered the advantages and disadvantages of the Scheme and believe that the Scheme is in the best interests of CBX Shareholders.

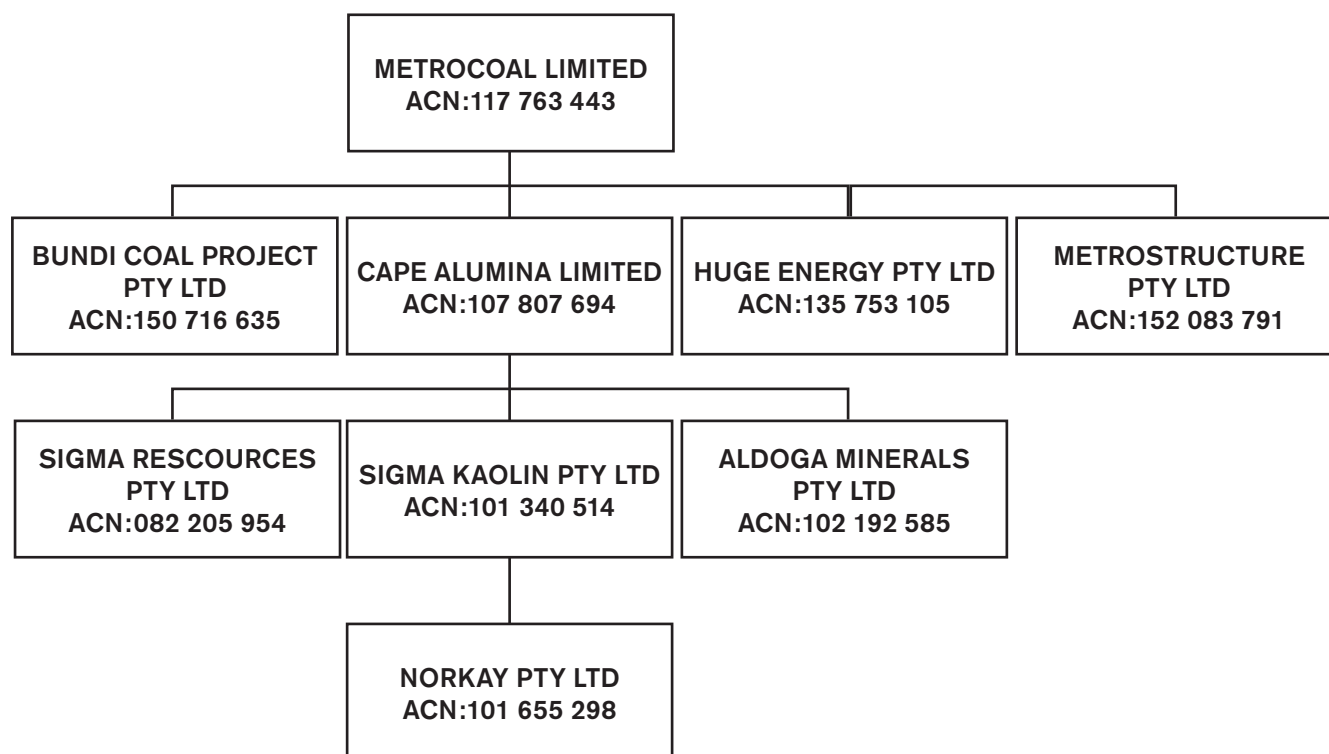
It is anticipated that the Merged Entity will have greater access to capital to fund organic growth and acquisitions, a diversified asset base and risk profile, a strong project pipeline and increased liquidity for shareholders.

### 7.2 Vision

The merger will create a diversified bulk commodities company with a portfolio of major bauxite and thermal coal assets. Flagship projects include the Pisolite Hills and Bauxite Hills mine and port projects and the Bundi and Columboola thermal coal projects.

### 7.3 Merged Entity

#### Corporate Structure of Merged Entity



## 7.4 Board

The Merged Entity will have a strengthened board and management team with extensive resource industry experience across bauxite and coal, a strong and committed vision and a track record in developing projects from exploration through to production.

The Merged Entity board will comprise the following members.

**[a] Stephen Everett BE (Chem Eng. Honours)  
(Chairman)**

Stephen Everett has more than 40 years board and management experience in the resources and construction industries both in Australia and overseas. He was formerly Chairman of BeMaX Resources NL, Australian Solomons Gold Limited and JMS Civil and Mining Pty Ltd and is currently Chairman of Global Resources Corporation Limited and IronRidge Resources Limited in addition to being Independent Company Chairman of MetroCoal.

**[b] Graeme Sherlock: BE (Mining), MBA (Technology),  
MAusIMM (Managing Director)**

Mr Sherlock is a qualified mining engineer with more than 25 years of resource industry experience. With senior business development positions within Peabody Energy Australia, Rio Tinto Coal Australia, and Mitsubishi Development and a long career with BHP Billiton, he has a strong record of achievement on several key major resource project developments, mergers, acquisitions and commercial negotiations across the Australian and international coal industry.

A Member of the Australasian Institute of Mining and Metallurgy, Graeme also has an MBA in Technology and a Postgraduate Diploma in Management.

**[c] Barry Casson: CA, MAICD (Non-Executive Director)**

Mr Casson is a chartered accountant with approximately 40 years accounting and primarily commercial experience and approximately 30 years' experience in the mining industry as finance director, chief financial officer or equivalent, and has held numerous public company directorships over that period of time. He has had extensive international experience in project financing and corporate transactions. He is a member of the Institute of Company Directors in Australia. He is currently a non-executive director of Metallica Minerals Ltd (ASX: MLM) and Archipelago Metals Limited, an unlisted public company, and as from January 2013 Mr Casson has joined the Board of Unitywater, a statutory water distribution and sewerage treatment authority in Queensland. Mr Casson is also Chairman of the Audit & Risk Committee of both Metallica Minerals Ltd and Unitywater, and is also Chairman and Member respectively of the Nominations & Remuneration Committees of Metallica Minerals and Unitywater.

**[d] Dongping Wang: (Bachelor of Coal Preparation)  
(Non-Executive Director)**

Mr Wang Dongping graduated from the China Mining University in 1981, with a Major in Coal Processing Technology. Mr Wang was Process Plant Manager, and later Director of Operations at PingshuoAntaibao coal mine for many years; a World Bank funder USA – China joint venture project. Mr Wang then worked for a time in the China Coal Ministry. He later became General Manager of Long-Airdox (Tianjin), where from 1997 he was instrumental in introducing modern coal process technology from Australia to China. Mr Wang became General Manager of Schenck (Tianjin) and worked there until 2007.

He then helped establish the Dadi Engineering Group, now China's largest coal industry engineering group. Mr Wang is now Chairman of Dadi Engineering Development Group. Mr Wang Dongping has worked at the highest level within the Chinese coal industry for 30 years and is a highly renowned coal processing expert, and a prominent figure in the Chinese coal industry. Mr Wang brings extensive Management experience and an intimate knowledge of modern coal process technology to MetroCoal.

**[e] Rob Finch: (Non-Executive Alternate Director to  
Dongping Wang)**

Mr Robert Finch brings more than 24 years of Management experience to MetroCoal, including over 18 years in the Australian and Chinese coal industries. He has worked in Australia and throughout Asia for over 23 years. Robert has a strong association and sound knowledge of Chinese business culture, and both the Australian and Chinese Coal industries. Robert was instrumental in pioneering modern coal process technology into China and he worked in China for 4 years up to mid 2006 as Managing Director of Schenck Tianjin, a major process equipment manufacturing company.

In 2008 he established and is Managing Director of Aury Australia, a coal process equipment manufacturing company based in Queensland, which supplies process equipment to the Australian and overseas coal and minerals industries. Robert offers both Australian and Chinese coal industry experience and Management skills to MetroCoal.

**[f] George Lloyd: MBA, BEngSc (Industrial Engineering), FAusIMM, FAICD Stanford Executive Program (Non-Executive Director)**

In addition to his role as Chairman of Cape Alumina, George Lloyd is Chairman of global resources industry engineering services group Ausenco Limited. He is also Chairman of Pryme Energy Limited, an ASX-listed oil and gas explorer and producer operating in the United States, and non-executive Chairman of AWR Lloyd, a private Asian-based firm providing mergers and acquisitions, corporate strategy, industrial research, and investor relations advisory services to the mining and energy industries in Asia and Australia.

Mr Lloyd holds a Bachelor of Engineering Science (Industrial Engineering) degree and a Master of Business Administration degree, both from the University of NSW. He is also a graduate of the Stanford Executive Program. Mr Lloyd is a Fellow of the Australian Institute of Company Directors (AICD) and a Fellow of the Australasian Institute of Mining and Metallurgy (AusIMM). He has over 30 years of resource industry experience including time as a senior executive and board member of listed and unlisted Australian resource companies with interests in minerals, energy and industry services.

**[g] Ronald (Rennie) Fritschy: BE (Chem), BEcon, Senior Management Program IMI Geneva, FAICD, FIEAust (Non-Executive Director)**

Rennie has had 28 years of design, commissioning, technical and operational management experience in bauxite mines and alumina plants. He has held the roles of Site Manager of the bauxite mine and alumina plant at Gove; and was Managing Director of Queensland Alumina, the then largest alumina plant in the world, from 1995 till 2002. The role at Gove included Indigenous relations and town management as Chairman of the Nhulunbuy Town Board. He has also held senior operational management roles in the petrochemical and textile industries.

He has been Chancellor of CQUniversity Australia since 2004 and a Board member of Cape Alumina since 2009. He was formerly a Director and Chairman of C\_MS Pty Ltd, a large private Tertiary Education provider in the Eastern States.

The Merged Entity will benefit from reduced overheads, including one management team based at CBX's office in Brisbane, and reduced regulatory and compliance costs.

## 7.5 Merged Entity capital structure and substantial shareholders

The Merged Entity will have approximately 464.2 million shares on issue. In addition, MTE granted 12,500,000 options over unissued shares, in accordance with the arrangements described in section 10.12 (which options are subject to vesting conditions) and a further tranche of approximately 16,500,000 options over unissued shares to be granted to RCF in accordance with the arrangements described in clause 3.2(n) of the Implementation Agreement (summarised in section 10.8).

Based on each of MTE's and CBX's annual reports for the financial year ended 30 June 2013, it is anticipated that the Merged Entity will have the following substantial shareholders:

Substantial Shareholder	# Shares	Per cent
Resource Capital Funds III and IV	109,718,492 <sup>#</sup>	23.6%
Metallica Minerals Limited	97,463,445	21.0%
China Xinfu Group Corporation Limited and Chiping Xinfu Huaya Alumina Co Ltd	32,420,685	7.0%
Dadi Engineering Development (Group) Co Ltd	28,800,000	6.2%
Dadi Engineering Development Hong Kong Co Ltd	18,450,000	4.0%

<sup>#</sup> This is an estimate only. The final interest of Resource Capital Funds III and IV will depend on the number of CBX Shares issued for payment of interest under the RCF Note. The estimate includes shares issued on conversion of the RCF Note (refer to section 10.8).



## 7.6 Merged Entity consolidated Statement of Financial Position

The pro forma financial position of the Merged Entity as at 30 June 2013 is set out below:

### Pro Forma Statement of financial Position as at 30 June 2013

	Consolidated Entity 2013 \$ (prior to adjustments)	Pro Forma Adjustment \$	Pro Forma Adjustment \$ (after adjustments)
<b>Current assets</b>			
Cash and cash equivalents	3,832,840		3,832,840
Trade and other receivables	298,539		298,539
Financial assets	10,426,624		10,426,624
Other	78,777		78,777
<b>Total current assets</b>	<b>14,636,780</b>		<b>14,636,780</b>
<b>Non-current assets</b>			
Assets held for sale	156,835		156,835
Exploration and evaluation	29,631,902		29,631,902
Property, plant and equipment	150,195		150,195
Other assets	88,695		88,695
<b>Total non-current assets</b>	<b>30,027,627</b>		<b>30,027,627</b>
<b>Total assets</b>	<b>44,664,407</b>		<b>44,664,407</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	2,345,460		2,345,460
Employee benefits	135,828		135,828
<b>Total current liabilities</b>	<b>2,481,288</b>		<b>2,481,288</b>
<b>Non-current liabilities</b>			
Loans and borrowings	3,523,896	(3,523,896)	-
Derivative liabilities	368,870	(368,870)	-
<b>Total non-current liabilities</b>	<b>3,892,766</b>	<b>(3,892,766)</b>	<b>-</b>
<b>Total liabilities</b>	<b>6,374,054</b>	<b>(3,892,766)</b>	<b>2,481,288</b>
<b>Net assets</b>	<b>38,290,353</b>	<b>3,892,766</b>	<b>42,183,119</b>
<b>Equity</b>			
Contributed equity	74,165,855	3,892,766	78,058,621
Reserves	6,218,272		6,218,272
Accumulated losses	-42,093,774		-42,093,774
<b>Total equity</b>	<b>38,290,343</b>	<b>3,892,766</b>	<b>42,183,119</b>

Notes:

- [a]** The consolidated Statement of Financial Position has been prepared from the Statements of Financial Position of CBX and MTE as at 30 June 2013 (refer to sections 5.4 and 6.2), and adjusted for the early conversion of the RCF Note and issue of 41,666,667 CBX Shares to RCF in connection with that conversion.
- [b]** No adjustment has been made in respect of the following:
- [i] issue of options over unissued shares in CBX to RCF for early conversion of the RCF Note;
  - [ii] CBX Shares issued on exercise of the performance rights;
  - [iii] issue of CBX Shares to RCF for payment of interest on the RCF Note;
  - [iv] issue of convertible note by CBX to MTE.
- [c]** The actual Statement of Financial Position of the Merged Entity will be different from the pro forma Statement of Financial Position above. Consolidation adjustments that will be necessary to comply with AASB 3 "Business Combinations" have not yet been determined.

The cash balance of the Merged Entity dated 30 September 2013 would have been \$11.4 million.

## 8 Tax implications of the Scheme

### 8.1 Introduction

The following is a general summary of the potential Australian income tax and capital gains tax (CGT) consequences for CBX Shareholders disposing of CBX Shares under the Scheme. This summary is based on the law and practice in effect at the date of this Scheme Booklet. However, the summary is not intended to be an authoritative or complete statement of the law applicable to the particular circumstances of every CBX Shareholder. In particular, the summary is only relevant to CBX Shareholders who hold CBX Shares on capital account for investment purposes and only considers the Australian tax position. CBX Shareholders who are residents of, or subject to, taxation in other countries will also need to obtain advice on the tax consequences of that country.

Each shareholder's circumstances will determine how the tax laws apply to them. A shareholder should obtain tax advice from a professional adviser on these issues. The Directors are not licensed under the tax agent services regime and cannot provide tax advice to shareholders.

All CBX Shareholders are advised to seek independent professional advice about their particular circumstances, including non resident shareholders on the foreign tax consequences of the Scheme.

### 8.2 Australian residents – CGT consequences

#### CGT event on disposal of CBX Shares

The disposal of CBX Shares will constitute a CGT event for Australian resident CBX Shareholders. This CGT event will occur on the Implementation Date.

Subject to the availability of rollover relief (discussed below), CBX Shareholders will derive a capital gain on the disposal of their CBX Shares to the extent the market value of the total

consideration received under the Scheme (capital proceeds) exceeds the tax cost base of their CBX Shares. Conversely, CBX Shareholders will incur a capital loss on the disposal of their CBX Shares to the extent that the market value of the total consideration received under the Scheme (capital proceeds) is less than the reduced tax cost base of their CBX Shares.

#### Capital proceeds received under the Scheme

The capital proceeds received for the disposal of the CBX Shares should be calculated by reference to the market value of MTE Shares each CBX Shareholder will receive.

The volume weighted average price of MTE Shares on the Implementation Date is the commonly used method to determine the market value of a MTE Share in these transactions.

#### Cost base

Generally, the tax cost base of any CBX Shares will be equal to the amount paid to acquire the CBX Shares. In addition, other incidental costs incurred by a CBX Shareholder in respect of their acquisition or ownership of CBX Shares (such as undeducted borrowing costs) may also be included in the cost base of the CBX Shares they own.

The sum of all capital gains incurred by a CBX Shareholder in the year in which the Implementation Date occurs, reduced by any capital loss incurred during that year, or carried forward from prior years (known as the net capital gain), should be included in the assessable income of the CBX Shareholder.

Alternatively, a CBX Shareholder will make a capital loss on the transfer of their shares to MTE, equal to the amount by which the reduced cost base of their CBX Shares is more than the capital proceeds (i.e. value of shares in MTE) they receive under the Scheme. A capital loss may be used to offset a capital gain made in the same income year or be carried forward to offset a capital gain made in a future income year (subject to the satisfaction of certain loss recoupment tests which apply if the CBX Shareholder is a company or trust).

#### Availability of CGT rollover relief

If a CBX Shareholder would make a capital gain on the disposal of the CBX Shares, they should be eligible to make a choice whether or not to seek CGT rollover relief to defer that gain.

If a CBX Shareholder elects to apply CGT rollover relief, a capital gain that they would otherwise make on the disposal will be disregarded.

The benefit of choosing scrip for scrip rollover relief will depend on the individual circumstances of each CBX Shareholder and CBX Shareholders should discuss this with their tax advisers.

Where rollover relief is chosen, the tax cost base of the MTE Shares received by the CBX Shareholders should be equal to the tax cost base of the CBX Shares that are disposed. This tax cost base will be allocated on a proportionate basis across the MTE Shares received.

For the purposes of determining whether the CGT discount applies on any subsequent disposal of the MTE Shares, the date on which the CBX Shareholders will be deemed to have acquired the MTE Shares will be the day they acquired their original CBX Shares.

Generally, where CBX Shareholders prepare their income tax return on the basis that scrip for scrip rollover has been applied, this will be sufficient evidence of making the choice to obtain rollover relief.

MTE, as the acquirer of the CBX Shares, can choose to prevent CBX Shareholders obtaining scrip for scrip rollover relief but, in order to do so, must notify the CBX shareholders in writing of this prior to the exchange of shares. [MTE has advised that it will not make this choice to prevent CBX shareholders obtaining scrip for scrip rollover relief should they choose.]

### CGT discount

Where CBX shareholders have a capital gain and do not choose rollover relief, they may be entitled to a 'CGT discount'.

Any Australian resident CBX Shareholder who is an individual, the trustee of a trust or a complying superannuation entity may be entitled to claim the CGT discount in calculating any capital gain which arises as a result of the exchange of shares under the Scheme if the CBX Shares were acquired at least 12 months before disposal under the Scheme.

The CGT discount is applied to reduce the capital gain which remains after any available capital losses are first offset against that capital gain.

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

A CBX Shareholder that is a complying superannuation entity may discount the capital gain by 33 1/3% and include 66 2/3% of the net capital gain in the taxable income of that complying superannuation entity.

No CGT discount is available to a CBX Shareholder that is a company.

## 8.3 Australian residents – Implications of holding MTE Shares

### Subsequent disposal of MTE Shares

If a CBX Shareholder sells their MTE Shares after the Implementation Date, any gain or loss will be subject to CGT as the MTE Shares received by the CBX Shareholder will be an asset for CGT purposes.

For CBX Shareholders who elect for scrip for scrip rollover relief to apply, the cost base or reduced cost base for the MTE Shares will reflect the cost base or reduced cost base for the CBX Shares that were exchanged by the CBX Shareholder. For the purposes of determining the availability of the CGT discount, the acquisition date for CBX Shareholders who elected for scrip for scrip rollover relief to apply will be the date their original CBX Shares were acquired.

If a CBX shareholder did not elect to apply scrip for scrip rollover relief on the exchange of their CBX shares, the cost base of the MTE Shares they receive will be equal to the market value of the replacement MTE Shares at the Implementation Date. The CGT discount will only be available once the CBX Shareholder has held their MTE Shares for at least 12 months.

### Dividends from MTE

Any dividends and franking credits received from MTE should be included in the assessable income of the shareholder.

Where the shareholder is a resident individual or complying superannuation fund, and the shareholder has excess franking credits available for the income year, those excess franking credits may be refunded to the shareholder.

Whilst corporate shareholders are not eligible to receive a refund of excess franking credits, they may be entitled to convert any

excess into a loss that may be used to offset income earned in future years (subject to satisfaction of the loss utilisation rules).

It is noted that shareholders are generally required to have held their shares 'at risk' for 45 days in order to be eligible for the franking benefits outlined above. Taxpayers should obtain their own advice on the application of these rules to their circumstances.

## 8.4 Stamp Duty

Neither the transfer of CBX Shares nor the issue of MTE shares under the scheme should give rise to any stamp duty liabilities for existing CBX Shareholders. MTE has agreed to pay the stamp duty, if any, in connection with the transfer of CBX Shares or the issue of MTE shares under the Scheme.

## 8.5 Goods & Services Tax

The sale of CBX Shares by existing shareholders as contemplated will not attract goods & services tax (GST). Similarly, no GST will be payable on the acquisition of MTE Shares.

Where shareholders are registered or required to be registered for GST, any GST incurred on expenses that relate to the sale of existing shares or acquisition of new shares may not be recoverable if the individual shareholder exceeds the financial acquisitions threshold as set out in the relevant GST legislation. However, a reduced input tax credit equal to 75% of the GST incurred may still be available if the acquisition constitutes a reduced credit acquisition.

Where CBX Shareholders are not registered, or required to be registered for GST, no GST implications should arise in relation to the Scheme.

## 8.6 Foreign Residents – Australian Tax Considerations

### Australian CGT

Most CBX Shareholders that are non residents of Australia for tax purposes, and those that do not carry on business in Australia at or through a permanent establishment in Australia, should not generally be subject to Australian CGT on the disposal of their CBX Shares.

Australian CGT will only apply for foreign resident CBX Shareholders if:

- the shareholder, together with their associates, own more than 10% of the shares in CBX for any continuous 12 month period in the two years preceding the Implementation Date (**Ownership Threshold**); and
- the CBX Shares are an indirect real property interest.

Shareholders that meet or exceed the Ownership Threshold should seek specialist advice on whether their CBX shares are an indirect real property interest, and if so whether they can meet the requirements for non residents to obtain scrip for scrip rollover relief.

### Dividends from MTE

Foreign resident CBX Shareholders will not be subject to Australian income or withholding tax in respect of dividends paid by MTE, to the extent that those dividends are fully franked.

If the dividends are not franked, or are only partially franked, foreign resident CBX Shareholders may be subject to a dividend withholding tax on the unfranked portion of the dividend at the rate of 30% or a reduced rate of dividend withholding tax under a tax treaty between Australia and the CBX Shareholder's country of residence, if applicable.

## 9 Implementation of the Scheme

### 9.1 Scheme Meeting

On the date of this Scheme Booklet, the Court ordered that a Scheme Meeting be convened as specified in the notice of Scheme Meeting in Annexure E and appointed Mr George Lloyd to chair the Scheme Meeting. The Scheme Meeting will begin at 10:00am on 9 December 2013.

Each CBX Shareholder registered on the CBX share register at 7:00pm AEDT on 7 December 2013 may attend and vote at the relevant Scheme Meeting, either in person or by proxy or attorney or, in the case of a body corporate, by its corporate representative appointed under section 250D Corporations Act. Voting at the Scheme Meeting will be by poll.

The resolution in favour of the Scheme must be passed at each Scheme Meeting by:

- [a] a majority in number (more than 50%) of CBX Shareholders present and voting at the Scheme Meeting (in person or by proxy); and
- [b] at least 75% of the votes cast on the resolution at the Scheme Meeting.

Instructions on how to attend and vote at the Scheme Meeting (in person or by proxy), are set out in the 'How to Vote' section and in the notes for the notice of Scheme Meeting.

### 9.2 Second Court Hearing

If:

- [a] the Scheme is approved by the requisite majorities of CBX Shareholders at the Scheme Meeting; and
- [b] all Conditions Precedent have been satisfied, including all regulatory approvals required for the Scheme have been obtained,

then CBX will apply to the Court for orders approving the Scheme. CBX expects the Second Court Date to be 12 December 2013.

Each CBX Shareholder has the right to appear at the Second Court Hearing.

### 9.3 Effective Date

The Scheme will become effective on the date an office copy of a Court order from the Second Court Hearing approving the Scheme is lodged with ASIC (**Effective Date**).

### 9.4 Record Date

Those CBX Shareholders on the register on the Record Date (i.e. at 5:00pm on the fifth Business Day after the date on which the Scheme becomes Effective) will become entitled to the Scheme Consideration for the CBX Shares they hold at that time.

### 9.5 Deciding persons entitled to Scheme Consideration

#### Dealings on or before the Record Date

To work out eligibility for Scheme Consideration, dealings in CBX Shares will only be recognised if CBX receives registrable transfers on or before the Record Date.

CBX must register transfers received by the Record Date. CBX will not accept for registration or otherwise recognise any transfer of CBX Shares received after the Record Date.

#### Dealings after the Record Date

The CBX share register will solely decide entitlements to Scheme Consideration.

From the Record Date, all certificates for CBX Shares cease to have effect as documents of title.

### 9.6 Implementation Date

On the Implementation Date, which CBX expects will be 30 December 2013, all CBX Shares will be transferred to MTE and the Scheme Consideration will be issued to CBX Shareholders. The Implementation Date is the fifth Business Day after the Record Date.

### 9.7 Stamp duty

MTE will pay any stamp duty on the transfer of CBX Shares under the Scheme.

## 10 Material agreements

### *Implementation Agreement*

#### 10.1 Overview

CBX and MTE entered into the Implementation Agreement on 24 September 2013. The terms of the Implementation Agreement included the following:

- [a] the Conditions Precedent to the Scheme (refer to section 10.2);
- [b] the steps that each party must take to implement the Scheme (refer to section 9);
- [c] the 'no shop' and 'no talk' arrangements (refer to section 10.3);
- [d] reimbursement costs payable in the event the Scheme does not proceed (refer to section 10.4); and
- [e] the ability to terminate the Implementation Agreement (refer to section 10.5).

The Implementation Agreement is set out in full as Annexure B.

#### 10.2 Conditions Precedent

Implementation of the Scheme is subject to the following Conditions Precedent:

- [a] **Regulatory Approvals:** ASIC, ASX, FIRB and any other relevant Regulatory Authority providing any necessary consents or approvals before 8.00 am on the Second Court Date;
- [b] **Court approval:** the Court approving the Scheme in accordance with section 411(4)(b) of the Corporations Act on or before the End Date;
- [c] **Shareholder approval:** the CBX Shareholders agreeing to the Scheme at the Scheme Meeting by the requisite majorities under the Corporations Act on or before the End Date;
- [d] **Restraints:** there being no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the Transaction in effect at 8.00 am on the Second Court Date;

- [e] **No CBX Material Adverse Change:** no CBX Material Adverse Change occurring between the date of the Implementation Agreement and 8.00 am on the Second Court Date
- [f] **No MTE Material Adverse Change:** no MTE Material Adverse Change occurring between the date of Implementation Agreement and 8.00 am on the Second Court Date;
- [g] **No CBX Prescribed Occurrence:** no CBX Prescribed Occurrence occurring between the date of Implementation Agreement and 8.00 am on the Second Court Date;
- [h] **No MTE Prescribed Occurrence:** no MTE Prescribed Occurrence occurring between the date of Implementation Agreement and 8.00 am on the Second Court Date;
- [i] **CBX Representations and Warranties:** the CBX Representations and Warranties being true and correct at the date of Implementation Agreement and at 8.00 am on the Second Court Date;
- [j] **MTE Representations and Warranties:** the MTE Representations and Warranties being true and correct at the date of Implementation Agreement and at 8.00 am on the Second Court Date;
- [k] **Third party consents:** the necessary third party consents being obtained before 8.00 am on the Second Court Date;
- [l] **MTE shareholder approval:** on or before the time for the Scheme Meeting, shareholders of MTE agreeing to the Scheme for the purposes of Listing Rules 11.1, 10.1 and 7.1 (if required);
- [m] **RCF Conversion:** on or before five Business Days from the date of Implementation Agreement, the parties entering into the RCF Note Conversion Agreement and conversion occurs in accordance with the RCF Note Conversion Agreement;
- [n] **RCF Note commitment:** before 8.00 am on the Second Court Date, MTE entering into the RCF Note Commitment Arrangements and the RCF Note Commitment Arrangement being completed in accordance with its terms;
- [o] **Performance Rights:** before 8.00am on the Second Court Date, the Performance Rights vesting and being exercised by the holders;
- [p] **Compliance with documentation:** no person being in material breach of Implementation Agreement, the MTE Note or the RCF Note Conversion Agreement as at 8.00am on the Second Court Date;
- [q] **RCF consent:** RCF giving to CBX and not revoking:
  - [i] its consent to change and control which will occur if the Scheme is implemented;
  - [ii] any consent which is required to implement the Scheme;
  - [iii] any consent required to enter into the MTE Note and CBX granting the General Security Deed.

The conditions precedent in paragraphs 10.2(b) and (c) cannot be waived. MTE may waive the Conditions Precedent in paragraphs 10.2(e), (g), (i), (k), and (o) at its discretion. CBX may waive the Conditions Precedent in paragraphs 10.2(f), (h) and (j) at its discretion. To the extent that they are capable of being waived, CBX and MTE can agree to waive the other Conditions Precedent. CBX is not aware of any reason why the Conditions Precedent will not be satisfied or waived.

### 10.3 'No shop' and 'no talk' obligations

#### No-shop

During the period from and including the date of the Implementation Agreement until the earlier of the termination of the Implementation Agreement and the End Date (**Exclusivity Period**), MTE or CBX must not directly or indirectly solicit, invite, facilitate, encourage or initiate any enquiries, negotiations or discussions, or communicate any intention to do any of these things, with a view to obtaining any approach, expression of interest, offer or proposal from any person in relation to a Competing Transaction.

#### No talk

During the Exclusivity Period, MTE or CBX must not directly or indirectly participate in any negotiations or discussions, provide or make available any information (including by way of providing information and access to perform due diligence), or communicate any intention to do any of these things in respect of any Competing Transaction, including in response to any unsolicited approach, expression of interest, offer or proposal by any person in relation to any Competing Transaction.

The 'no-talk' restriction is subject to a 'fiduciary out', where, in the opinion of the CBX Board or MTE Board (as the case requires) determined in good faith and based on the written opinion of Queens' Counsel or Senior Counsel:

- [a] the Competing Proposal could reasonably be considered to be a superior proposal; or
- [b] it would otherwise be unlawful not to respond.

#### Notification of approaches

During the Exclusivity Period, MTE and CBX must notify the other party promptly if it becomes aware of any:

- [a] negotiations or discussions;
- [b] approach or attempt to initiate any negotiations or discussions; or
- [c] intention to make such an approach or attempt to initiate any negotiations or discussions,

in respect of any approach, expression of interest, offer or proposal of a kind referred to in the 'no shop' or 'no talk' clauses made to MTE or CBX (as the case requires), and provide in writing to the other party the identity of the person and a copy or details of such approach, expression of interest or offer or proposal.

## 10.4 Reimbursement Fee

Under clause 7.3 of the Implementation Agreement,

- [a]** CBX (Reimbursing Party) agrees to pay MTE (Recipient Party) \$250,000 if at any time after the entry into the Implementation Agreement and before completion of the Transaction any of the following occurs:
- [i]** a superior proposal is publically announced which results in the proponent of the proposal receiving acceptances from holders of not less than 50% of all CBX Shares; or
  - [ii]** MTE terminates the Implementation Agreement as a result of CBX being in material breach of its obligations under the Implementation Agreement.
- [b]** MTE (Reimbursing Party) agrees to pay CBX (Recipient Party) \$250,000 if at any time after the entry into the Implementation Agreement and before completion of the Transaction any of the following occurs:
- [i]** a proposal is publically announced which results in the proponent of the proposal receiving acceptances from holders of not less than 50% of all MTE Shares; or
  - [ii]** CBX terminates the Implementation Agreement as a result of MTE being in material breach of its obligations under the Implementation Agreement.
- [c]** The reimbursement of costs by the Reimbursing Party to the Recipient Party provided for in this clause must be made within five Business Days of receipt of a written demand for payment by the Recipient Party.

The parties have agreed on the amount of \$250,000 as a genuine and reasonable pre-estimate of costs that each party will suffer in the event of the Scheme not proceeding.

The fee is not payable in the event that CBX Shareholders do not approve the Scheme at the Scheme Meeting.

## 10.5 Termination

The Implementation Agreement may be terminated:

- [a]** at any time prior to 8.00am on the Second Court Date if:
- [i]** the other party is in material breach of any provision of the Implementation Agreement;
  - [ii]** a Court or Government Agency has taken any action permanently restraining or otherwise prohibiting the Transaction, or has refused to do any thing necessary to permit the Transaction, and the action or refusal has become final and cannot be appealed;
  - [iii]** the other party breaches its obligations under the 'no shop' or 'no talk' clauses;
  - [iv]** there is a Material Adverse Change in relation to the other party; or
  - [v]** there is a Prescribed Occurrence in relation to the other party;
- [b]** at any time after the End Date if the Second Court Date does not occur on or before the End Date; or
- [c]** in the circumstances set out in, and in accordance with, clause 3.5(b) of the Implementation Agreement.

MTE or CBX may terminate the Implementation Agreement by written notice to the other at any time before 8.00am on the Second Court Date if CBX receives a superior proposal,

which MTE does not match or better within 3 Business Days of notification.

## 10.6 End Date

CBX and MTE have committed to implement the Scheme on or before the End Date, being 31 December 2013. If the Scheme is not effective by the End Date, either CBX or MTE may terminate the Implementation Agreement in which case the Scheme will not proceed.

## 10.7 Deed Poll

Under the terms of the Deed Poll, MTE agrees in favour of those persons who hold CBX Shares at the Record Date to observe and perform all obligations under the Scheme which relate to it, including the obligation to pay the Scheme Consideration under the terms of the Scheme.

## Funding arrangements

### 10.8 RCF Note

On 19 October 2011, CBX issued a convertible note to Resource Capital Funds IV L.P. (**RCF**) with a face value of \$5 million to further advance its Bauxite Hills project (specifically drilling and assaying) and other corporate activities (**RCF Note**). The funding provided to CBX by RCF through the RCF Note was to ensure that CBX retained a satisfactory level of working capital for its on-going exploration and drilling programs.

The issue of the RCF Note and the issue of CBX Shares on conversion of the RCF Note was approved by CBX Shareholders at the Company's 2011 annual general meeting held on 30 November 2011. The terms of the RCF Note allowed the Company to redeem the RCF Note at any time up to 60 days prior to the maturity date subject to the Company:

- [a]** repaying the total principal amount advanced under the RCF Note together with all accrued but unpaid interest up to the date of repayment; and
- [b]** issuing a number of options to acquire CBX Shares to RCF (**Options**) equal to the total principal amount advanced under the RCF Note, divided by the conversion price set out in the RCF Note terms (calculated at the time of the repayment), such Options expiring on the RCF Note maturity date.

RCF and CBX have agreed to convert the total moneys owing under the RCF Note by issuing 41,666,667 CBX Shares at a conversion price of \$0.12 per share, which conversion will occur shortly after the date of this Scheme Booklet and before the Scheme Meeting. In consideration of RCF agreeing to early conversion, the Company has agreed to the grant of 14,706,000 Options (**RCF Options**) to RCF. The RCF Options will have an exercise price of \$0.17 per share and a term of two years. The security held by RCF over CBX assets will be extinguished on the conversion of the note. As a Condition Precedent to the implementation of the Scheme, on or before 8:00 am on the Second Court Date, MTE has agreed to enter into arrangements with RCF to sell or cancel the RCF Options in exchange for equivalent options over unissued MTE Shares. Assuming the Scheme Consideration is 1.11 MTE Shares for each CBX Share, then MTE would grant RCF approximately 16,500,000 options over unissued shares in MTE at an exercise price of 15.28 cents with an expiry date of two years after grant.

## 10.9 MTE convertible notes

MTE has agreed to advance \$3 million to CBX in exchange for the issue of convertible notes (**MTE Advance**) to supplement the Company's working capital with a particular emphasis on progressing the Pisolite Hills project until the Scheme is implemented in accordance with the terms of a secured loan and convertible note deed on 24 September 2013 (**Secured Loan and Convertible Note Deed**).

The advance will be provided in two tranches of convertible notes as follows:

- [a] initial tranche of \$1 million which has been advanced (**Initial Loan Note**); and
- [b] subject to CBX Shareholder approval, which will be sought at the upcoming CBX annual general meeting to be held on 19 November 2013, a final tranche of \$2 million, available to be drawn down at any time up to 31 December 2013 and secured by a charge over the assets of CBX (which also secures the repayment of the initial tranche) (**Subsequent Loan Note**), collectively the '**MTE Notes**'.

The terms of MTE Advance and the MTE Notes pursuant to the Secured Loan and Convertible Note Deed are summarised below.

- [a] CBX must use the funds provided by MTE under the MTE Advance for approved purposes which include satisfying working capital requirements and progressing the Pisolite Hills project development.
- [b] If CBX Shareholder approval for the Subsequent Loan Note is not obtained by 31 December 2013 (or such later date as agreed by the parties), MTE will have no obligations to advance any further part of the MTE Advance and may elect for the moneys owing under the Initial Loan Note to be repaid immediately. Repayment would be made by the issue of CBX Shares to the extent of the Initial Loan Note and payment in cash for any other monies owing.
- [c] The MTE Advance will remain in place regardless of whether the Scheme is implemented (unless there has otherwise been an event of default entitling MTE to elect immediate repayment).
- [d] In the event the Implementation Agreement is terminated for any reason, MTE will have no obligations to advance any further part of the MTE Advance, and for as long as there are moneys owing by CBX to MTE under the MTE Notes, MTE will be entitled to nominate one director to the CBX's Board.
- [e] The MTE Notes will have a term of 24 months from the commencement date of the Secured Loan and Convertible Note Deed (which was 24 September 2013) (**Maturity Date**) during which time CBX may elect to convert part or all of the monies owing under the MTE Notes into CBX Shares.
- [f] The right to convert moneys owing into CBX Shares will cease if the Scheme becomes effective.
- [g] The conversion price for the MTE Notes is calculated as the volume weighted average price of CBX Shares over the 20 trading days immediately prior to the date of issue of the relevant conversion notice subject to a maximum conversion price of \$0.12 per CBX Share and a minimum conversion price of \$0.06 per Share (**Conversion Price**).

- [h] CBX may redeem the MTE Notes in whole or part at any time up to the Maturity Date by written notice given to MTE.
- [i] An interest rate of 10% per annum will apply from 1 January 2014. Interest will be capitalised and payable at the time the MTE Notes are repaid.

[j] Subject to obtaining CBX Shareholder approval for financial assistance, CBX will grant a general security over its assets to MTE as security for the MTE Advance. Following the conversion of the RCF Note, the MTE general security will be first ranking over the CBX's assets. Prior to the conversion of the RCF Note the MTE general security will be second ranking over the CBX's assets.

[k] Except as required by the Corporations Act, prior to the conversion of the MTE Notes into CBX Shares, the MTE Notes will not carry a right to vote at meetings or any entitlement to participate in future issues of securities by CBX.

CBX intends to obtain the approval of its shareholders at its upcoming annual general meeting for the Subsequent Loan Note (for the purposes of Listing Rule 7.1) and for granting a general security over its assets to MTE (for the purposes of 260A(1)(b) of the Corporations Act) and further details of the Secured Loan and Convertible Note Deed will be set out in the notice of meeting and explanatory memorandum.

CBX may elect to convert or redeem the MTE Advance prior to the Maturity Date, or repay the total moneys owing under the MTE Notes on the Maturity Date in accordance with the Secured Loan and Convertible Note Deed.

### **Other material commercial agreements**

#### **10.10 Hey Point**

CBX and Green Coast Resources Pty Limited ACN 094 234 732 (**GCR**) entered into an agreement for the acquisition by GCR of the Hey Point tenements (EPM 15054 and MLA 20611) on 18 June 2013. Consideration for the sale interest is the payment of a deposit and progress payments (of which the deposit and the first progress payment is non-refundable and has been paid) and the grant of a royalty to CBX. The second and third progress payments are tied to the shipments of bauxite produced from Hey Point. Completion of the Sale and Purchase Agreement (**SPA**) will occur ten business days after the last of the sale conditions has been satisfied or waived. Under the terms of the sale:

- [a] CBX has secured royalty payments of 2-3% depending on future bauxite prices.
- [b] CBX is the sole and exclusive agent for the sale of all bauxite from the tenement area of the sales and will be paid a marketing fee equal to 1% of FOB bauxite sales.
- [c] If GCR or a related body corporate proposes to sell or otherwise dispose of its interest in the Hey Point tenements, the mining information and the related environmental authorities (**Sale Interest**) to another non-related party, CBX has a pre-emptive right over the Sale Interest which must be exercised by CBX within 20 days of receipt of a Sale Notice from GCR.
- [d] Subject to the pre-emptive rights, CBX will receive 50% of the on-sale profit in the event of GCR undertaking an on-sale within 5 years from the date of completion of the SPA.

#### **Option terms**

MTE has advised CBX that the first and second tranches of options have expired. The details of the remaining two tranches are as follows:

[e] CBX has buy-back rights if:

- [i] production of at least 100,000tpa of bauxite from the Hey Point tenements does not commence within three years from 18 June 2013;
- [ii] once production of at least 100,000tpa of bauxite from the Hey Point tenements has been obtained, GCR fails to achieve that production rate for at least three years;
- [iii] GCR fails to make the second progress payment on or before 18 June 2015; or
- [iv] GCR fails to make the third progress payment on or before 18 June 2015.

As at the date of this Scheme Booklet, the conditions to sale that remained outstanding were receipt of all approvals for the sale (such as Ministerial approval), entry into final form of the marketing agreement and royalty deed (to reflect the terms summarised above), entry into a mortgage over the Hey Point tenements in favour of GCR and the assignment of two agreements with third parties from CBX to GCR.

#### **10.11 Xinfu off-take agreement**

CBX entered into a binding heads of agreement on 10 October 2008 with Chiping Xinfu Huayu Alumina Company Limited (Xinfu) for the off take of bauxite upon completion of development of the Pisolite Hills bauxite mine. That agreement required entry into a formal off-take agreement by 31 July 2010. Due to the Wenlock River basin being declared a Wild River under the Queensland Wild Rivers Act on the 4 June 2010, the company announced that the Pisolite Hills Project would be uneconomic under economic conditions at that time. As a result, a formal off-take agreement was not executed, however the heads of agreement continued in effect. The term of the agreement set out in the heads of agreement is five years commencing thirty days following completion of the mine, processing plant and associated haulage infrastructure and port facilities. The agreement contains a specified annual volume (1 million tonnes) to be purchased and supplied, as well as the purchase price per tonne. The bauxite supplied must be of metallurgical grade and meet detailed specifications. Relevantly, the agreement can be terminated if the infrastructure required to be completed is not completed by 31 December 2013.

#### **10.12 Capacity Priority Agreement and Investment and Shareholders Agreement**

##### **Overview**

MTE entered into an agreement with Tenement to Terminal Limited (**3TL**) on 16 August 2011 (**Capacity Priority Agreement**), pursuant to which 3TL granted to MTE a right to take-up 11.43 million tonnes of coal export capacity at the Yarwun coal export terminal (**Yarwun Facility**) at the Port of Gladstone. In consideration for the grant of this take-up right, MTE issued to 3TL four tranches of 6,250,000 options over unissued ordinary shares in MTE (being a total of 25,000,000 options). At the same time that the Capacity Priority Agreement was entered into, MTE also entered into an investment and shareholders' agreement with 3TL and the other shareholders of 3TL (**Investment and Shareholders' Agreement**), pursuant to which MTE subscribed for 20% of the shares in 3TL for \$3.5 million.



Tranche	No. of options	Milestone	Target Date	Expiry Date	Exercise Price
Third	6,250,000	Issue of EIS evaluation report providing conditional approval for the Yarwun Facility to proceed	16 January 2014	12 months after vesting date	Lesser of A\$0.875 or 80% of the VWAP for the 5 trading days prior to the vesting date
Fourth	6,250,000	Final investment decision for the Yarwun Facility	16 June 2014	12 months after vesting date	Lesser of A\$1.10 or 80% of the VWAP for the 5 trading days prior to the vesting date

The other terms of these two tranches of options are as follows:

- [a]** the options have been issued for no consideration;
- [b]** the options shall vest upon the occurrence of the milestone specified in the table above corresponding to that tranche of options and will be exercisable until the expiry date for that tranche of options;
- [c]** the failure of 3TL to reach a milestone for a particular tranche of options is not a breach of the agreement;
- [d]** if there is a "control event" in respect of MTE, then the options will vest on the same basis as if the relevant milestone had been achieved.

A "control event" for this purpose means any of the following:

- [a]** an offer is made by a person for the whole of the issued ordinary share capital of MTE;
- [b]** any other event which 3TL reasonably considers should be regarded as a control event;
- [c]** all options that have not been exercised by 16 August 2016 will lapse on that date;
- [d]** the third and fourth tranches of options are not transferable; and
- [e]** in the event of a reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of MTE, the number of options, the exercise price of the options, or both will be reconstructed in a manner consistent with the ASX Listing Rules, but with the intention that such reconstruction will not result in any benefits being conferred on the holders of the options other than to maintain the economic value of the options.

As at the date of this Scheme Booklet, MTE has advised CBX that it has received correspondence from 3TL indicating that 3TL believes that implementation of the Scheme will give rise to a change of control.

#### *Investment and Shareholders' Agreement*

As at the date of this Scheme Booklet, MTE holds 20% of the issued shares in 3TL. The Investment and Shareholders' Agreement contains standard provisions in relation to the issue and transfer of shares in 3TL. The Scheme does not trigger any change of control provisions under the Investment and Shareholders' Agreement.

## 11 Additional information

### 11.1 Interests of Directors

Except as set out below, no Director has any material interest in the Scheme.

#### **CBX Shares**

The table below sets out the interests<sup>†</sup> of each Director in CBX Shares and CBX Performance Rights as at the date of this Scheme Booklet:

Director	CBX Performance Rights	CBX Shares	Voting power in CBX
Mr George Alfred Lloyd	Nil	242,766	0.13%
Mr Ronald Fritschy	Nil	112,000	0.06%
Mr Graeme Sherlock	978,876	2,130,000	1.16%
Mr Peter Bruce Nicholson*	Nil	Nil	Nil
Mr Jijun Liu**	Nil	Nil	Nil
Mr Ken Xiao (alternative to Jijun Liu)***	Nil	41,572	0.02%

<sup>†</sup>Includes CBX Shares in which the Directors have a relevant interest or an interest because of those shares being held by close family members.

\* Peter Bruce Nicholson is an employee of Resource Capital Funds Management Pty Ltd, an entity related to Resource Capital Fund III and IV L.P. which together hold 55,570,236 shares in CBX.

\*\* Jijun Liu is a Director of China Xinfra Group Corporation Limited (together with associate entities), which holds 29,342,960 shares in CBX.

\*\*\* Ken Xiao is a consultant to China Xinfra Group Corporation Limited (together with associated entities), which holds 29,342,960 shares in CBX.

#### **MTE securities**

There are no MTE securities held by or for any Directors as at the date of this Scheme Booklet.

## Payments or other benefits to Directors, secretaries or executive officers

No payment or other benefit is proposed to be made or given to any Director, secretary or executive officer of CBX or of its related bodies corporate as compensation for loss of, or as consideration for or in connection with their retirement from, office in CBX or any related bodies corporate.

## Agreements or arrangements with Directors

Except as set out below, there are no other agreements or arrangements made between any Director and another person, including MTE, in connection with or conditional upon the outcome of the Scheme.

Graeme Sherlock will remain Managing Director of CBX. The Chairman of the merged entity will be Stephen Everett (MTE). The remaining four board positions are to be allocated evenly from existing MTE and CBX directors in accordance with section 7.4.

## Interests of Directors in contracts entered into by MTE

No Director has any interest in a contract entered into by MTE.

## 11.2 MTE's relevant interests in CBX Shares

At the date of this Scheme Booklet:

- [a] Andrew Gillies (a director of MTE) holds 600,000 CBX Shares;
- [b] Other than noted above in respect of Andrew Gillies, no CBX Shares are held by or for any MTE directors;
- [c] MTE has no relevant interest in any of the CBX Shares on issue; and
- [d] MTE has no voting power in CBX.

## 11.3 Dealings in CBX Shares

Other than as specified in the Implementation Agreement, neither MTE nor any Associate has given, or agreed to give, consideration for any CBX Shares under a purchase or agreement during the four months ended on the day immediately before the date of this Scheme Booklet.

Other than as specified in the Implementation Agreement, during the period of four months ended on the day immediately before the date of this Scheme Booklet, neither MTE nor any Associate has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an Associate, to:

- [a] vote in favour of the Scheme; or
- [b] dispose of CBX Shares,

and the benefit has not been offered to all CBX Shareholders.

## 11.4 Sale of MTE Shares by a nominee

Ineligible Foreign Shareholders will not receive MTE Shares in connection with the Scheme. Instead the MTE Shares that would otherwise have been issued to Ineligible Foreign Shareholders will be issued to a nominee (**Nominee**) on the Implementation Date who will sell these securities on the ASX with Ineligible Foreign Shareholders to be paid their proportion of the proceeds received from that sale (less any costs, including brokerage).

CBX, MTE and the Nominee give no assurance as to the price that will be achieved for the sale of MTE Shares described above. The proceeds that Ineligible Foreign Shareholders will receive may be

more or less than the current market value of MTE Shares. Sale of the MTE Shares by the Nominee may result in a significant number of MTE Shares being offered for sale at the same time. This may have the effect of depressing the sale price of those shares.

The net proceeds of the sale of the MTE Shares will be paid to each relevant shareholder as soon as reasonably practicable following the sale of such shares by the Nominee, by making a deposit into an account with an Australian bank nominated by the shareholder to the MTE share registry as at the Record Date. If the relevant shareholder does not have a nominated Australian bank account which has been notified to the MTE share registry as at the Record Date, the shareholder will be sent a cheque drawn on an Australian bank in Australian currency for the net proceeds of the sale of the MTE Shares. If the relevant shareholder's whereabouts are unknown as at the Record Date, the relevant cash consideration will be paid into a separate bank account and held until claimed or applied under laws dealing with unclaimed moneys.

Under the Scheme, each Ineligible Foreign Shareholder appoints MTE as its agent to receive on its behalf any financial services guide or other notices which may be issued by the Nominee.

At the date of this Scheme Booklet, the board of MTE has determined that CBX Shareholders with a registered address in New Zealand and Cyprus will not be deemed 'Ineligible Foreign Shareholders'.

## 11.5 Consents to be named

InterFinancial Corporate Finance Limited (**Independent Expert**) has consented to the inclusion of the Independent Expert's Report in Annexure A and to the references to the Independent Expert's Report in this Scheme Booklet being made in the form and context in which each reference is included and has not withdrawn that consent before the date of this Scheme Booklet. Other than in respect of the Independent Expert's Report and any other statements attributed to the Independent Expert, the Independent Expert has not authorised or caused the issue of this Scheme Booklet, and has not made, or purported to make, any statement in this Scheme Booklet.

McCullough Robertson Lawyers has given and has not withdrawn its consent to be named as legal adviser to CBX in the form and context in which it is named and has not withdrawn that consent before the date of this Scheme Booklet. Other than in respect of those statements attributed to McCullough Robertson Lawyers, McCullough Robertson Lawyers has not authorised or caused the issue of this Scheme Booklet, and has not made, or purported to make, any statement in this Scheme Booklet.

MTE has consented to the inclusion of the MTE Information in the form and context in which that information appears and has not withdrawn that consent before the date of this Scheme Booklet. Other than in respect of those statements attributed to MTE, MTE has not authorised or caused the issue of this Scheme Booklet, and has not made, or purported to make, any statement in this Scheme Booklet.

## 11.6 Information lodged with ASIC

### CBX continuous disclosure

CBX is a 'listed disclosing entity' for the purposes of the Corporations Act and is subject to periodic reporting and continuous disclosure obligations.

Publicly disclosed information about CBX is available at its website, <http://www.capealumina.com.au/>.

In addition, CBX is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC by CBX may be obtained from, or inspected at, ASIC offices.

### MTE continuous disclosure

MTE is a 'listed disclosing entity' for the purposes of the Corporations Act and is subject to periodic reporting and continuous disclosure obligations.

Publicly disclosed information about MTE is available at its website, <http://metrocoal.com.au/>.

In addition, MTE is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC by MTE may be obtained from, or inspected at, ASIC offices.

### 11.8 No unacceptable circumstances

The Directors believe that the Scheme does not involve any circumstances in relation to the affairs of any CBX Shareholder that could reasonably be characterised as constituting 'unacceptable circumstances' for the purposes of section 657A Corporations Act.

### 11.9 Other material information

Other than as contained or referred to in this Scheme Booklet there is no information material to the making of a decision by CBX Shareholders whether or not to vote in favour of the Scheme that is known to any Director and which has not previously been disclosed to CBX Shareholders.

## 11.7 Lodgement of this Scheme Booklet

This Scheme Booklet was given to ASIC on 17 October 2013 as required by section 411(2)(b) Corporations Act.

## 12 Glossary

<b>Annexure</b>	means an annexure to this Scheme Booklet.
<b>ASTC Settlement Rules</b>	means the settlement rules of the Securities Clearing House.
<b>Board</b>	means the board of directors of CBX.
<b>Business Day</b>	has the meaning given to that term in clause 1.1 of the Implementation Agreement.
<b>CBX</b>	means Cape Alumina Limited ABN 107 817 694.
<b>CBX Share</b>	means a fully paid ordinary share in the capital of CBX.
<b>CBX Shareholders</b>	means a person who is the registered holder of CBX Shares.
<b>CBX Information</b>	means the information in this Scheme Booklet, other than the MTE Information and the Independent Expert's Report.
<b>CBX Material Adverse Change</b>	has the meaning given to that term in clause 1.1 of the Implementation Agreement.
<b>CBX Performance Rights</b>	means rights to acquire CBX Shares, the exercise of which is subject to performance conditions.
<b>CBX Prescribed Occurrence</b>	has the meaning given to that term in clause 1.1 of the Implementation Agreement.
<b>CBX Representations and Warranties</b>	has the meaning given to that term in clause 1.1 of the Implementation Agreement.
<b>Competing Transaction</b>	has the meaning given to that term in clause 1.1 of the Implementation Agreement.
<b>Corporations Act</b>	means the <i>Corporations Act 2001</i> (Cth).
<b>Court</b>	means the Federal Court of Australia.
<b>Deed Poll</b>	means the deed poll dated 24 September 2013 signed by MTE and set out in Annexure D.
<b>Director</b>	means a director of CBX (from time to time).
<b>Effective Date</b>	means the date on which an office copy of a Court order under section 411(10) Corporations Act approving the Scheme is lodged with ASIC.
<b>End Date</b>	means 31 December 2013.
<b>Implementation Agreement</b>	means the merger implementation agreement dated 24 September 2013 between MTE and CBX, set out in Annexure B.
<b>Ineligible Foreign Shareholder</b>	means a Shareholder whose address as shown in the Cape Alumina Share Register at 4.00 pm on the Record Date is a place outside: <ul style="list-style-type: none"> <li>[a] Australia and its external territories;</li> <li>[b] New Zealand; or</li> <li>[c] a jurisdiction determined by the board of MTE to be eligible in accordance with the Merger Implementation Agreement.</li> </ul>
<b>Implementation Date</b>	means the fifth Business Day after the Record Date.
<b>Independent Expert</b>	means InterFinancial Corporate Finance Limited ACN 136 962 966
<b>Independent Expert's Report</b>	means the report of the Independent Expert about the Proposal, set out in Annexure A.

<b>Insolvency Event</b>	has the meaning given to that term in clause 1.1 of the Implementation Agreement.
<b>Listing Rules</b>	means the listing rules of ASX Limited.
<b>Meeting</b>	means the Scheme Meeting.
<b>Merged Entity</b>	means the merged entity after the Scheme is implemented.
<b>MTE</b>	means MetroCoal Limited ACN 117 763 443.
<b>MTE Information</b>	means information in sections 6, 11.2 and 11.3.
<b>MTE Material Adverse Change</b>	has the meaning given to that term in clause 1.1 of the Implementation Agreement.
<b>MTE Note</b>	means the 'secured loan and convertible note deed' entered into by MTE and CBX on 24 September 2013, in the form contained in Annexure G of the Implementation Agreement under which CBX issues redeemable convertible notes to MTE.
<b>MTE Prescribed Occurrence</b>	has the meaning given to that term in clause 1.1 of the Implementation Agreement.
<b>MTE Representations and Warranties</b>	has the meaning given to that term in clause 1.1 of the Implementation Agreement.
<b>MTE Share</b>	means a fully paid ordinary share in the capital of MTE.
<b>MTE Shareholder</b>	means a person who is the registered holder of MTE Shares.
<b>Nominee</b>	has the meaning given to that term in clause 11.4.
<b>Proper ASTC Transfer</b>	has the meaning ascribed in Regulation 1.0.02 of the Corporations Regulations
<b>Proposal</b>	means the proposed acquisition of CBX Shares by MTE under the Scheme.
<b>RCF</b>	means Resource Capital Fund IV IP of 1400, 16th Street, Suite 200, Denver, CO8020, USA.
<b>RCF Conversion</b>	means the conversion by RCF of the RCF Note.
<b>RCF Note</b>	means the note issued under the secured convertible note deed dated 19 October 2011 between CBX and Resource Capital Fund IV L.P.
<b>RCF Note Conversion Agreement</b>	means the agreement between CBX and Resource Capital Fund IV L.P. in respect of the conversion of the RCF Note in substantially the form of Annexure H of the Implementation Agreement.
<b>RCF Note Commitment Arrangements</b>	has the meaning given to that term in clause 3.1(n) of the Implementation Agreement.
<b>RCF Options</b>	means 14,706,000 options over unissued CBX shares (with a term of 2 years and an exercise price of \$0.17) issued to RCF pursuant to the RCF Note Conversion Agreement.
<b>Record Date</b>	means 5.00pm on the fifth Business Day after the date on which the Scheme becomes Effective.
<b>Reimbursement Fee</b>	means \$250,000.
<b>Scheme</b>	means the scheme of arrangement in Annexure C.
<b>Scheme Booklet</b>	means this scheme booklet, issued under section 412 Corporations Act.
<b>Scheme Consideration</b>	<p>means the transfer of N MTE Shares to CBX Shareholders in accordance with the following formula:</p> $N = \frac{\frac{M}{0.45} - M}{C}$ <p>Where:</p> <p><b>[d]</b> N is the number of MTE Shares for each CBX Share;</p> <p><b>[e]</b> M is the number of MTE Shares on issue on the Implementation Date; and</p> <p><b>[f]</b> C is the number of CBX Shares on issue on the Implementation Date (and includes the 41,666,667 fully paid CBX Shares issued to RCF by the CBX on conversion of the RCF Note at \$0.12 per Share, CBX Shares issued to RCF as payment of interest on the RCF Note to the date of conversion and the CBX Shares issued on exercise of the Performance Rights).</p>
<b>Scheme Meeting</b>	means the meeting of CBX Shareholders to consider and, if thought fit, approve the Scheme, ordered by the Court to be convened under section 411(1) Corporations Act.
<b>Second Court Date</b>	means the first day on which the Second Court Hearing is heard.
<b>Second Court Hearing</b>	means, for the Scheme, the hearing of an application made to the Court for an order approving the Scheme under section 411(4)(b) Corporations Act.
<b>Transaction</b>	has the meaning given to that term in clause 1.1 of the Implementation Agreement.



## Cape Alumina Limited

October 2013



*Independent Expert's Report*

**CLAIRFIELD  
INTERNATIONAL**

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CORPORATE FINANCE | MERGERS & ACQUISITIONS | PRIVATE EQUITY

### About us

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

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

### Financial services we are authorised to provide

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

### General financial product advice

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

### Remuneration, commissions and other benefits

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

### Associations and relationships

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

### Risks associated with our advice

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

### Compensation arrangements

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

### Complaints

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

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

### Privacy & use of information

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

15<sup>th</sup> October 2013

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

Dear Directors

## INDEPENDENT EXPERT'S REPORT – MERGER WITH METROCOAL

### Introduction

On 25 September 2013, Cape Alumina Limited (“**Cape Alumina**” or “**the Company**” or “**CBX**”) announced to the Australian Securities Exchange (“**ASX**”) that it had signed a Merger Implementation Agreement (“**MIA**”) with MetroCoal Limited (“**MetroCoal**” or “**MTE**”) which proposes to merge the two companies (the “**Merger**”). The scrip proposed Merger will result in Cape Alumina shareholders holding shares in MetroCoal with Cape Alumina a subsidiary of MetroCoal. The effect of the Merger will be that the Cape Alumina shareholders will collectively hold 55% of the merged group.

The Merger will be implemented by a Scheme of Arrangement (“**the Scheme**”) pursuant to the Australian Corporations Act 2001 (the “**Act**”). The effect of the Scheme will be a Merger of Cape Alumina into MetroCoal, this will consolidate ownership of the assets of each company into MetroCoal.

Pursuant to the terms of the MIA it has been agreed:

- MetroCoal will offer approximately 1.11277 ordinary shares in MetroCoal for every one ordinary share in Cape Alumina;
- MetroCoal will provide Cape Alumina with a \$3 million convertible note, \$1 million on execution of the MIA and \$2 million subject to approval by Cape Alumina shareholders; and
- Resource Capital Funds III and IV (“**RCF**”) will convert its \$5 million convertible note into Cape Alumina shares at 12 cents per share and the accrued interest at the share price at the conversion date.

The directors of Cape Alumina (“**Directors**”) have requested InterFinancial Corporate Finance Limited (“**IFL**”, “**us**” or “**we**”), to prepare an independent expert's report (“**Report**”) expressing an opinion as to whether the Merger is “in the best interests” of the shareholders and option holders of Cape Alumina not associated with the Merger (“**Non-Associated Shareholders**”).

The post-Merger capital structure is detailed below:

**Table 1: Post Merger Ratio**

	Ordinary Shares Pre-transaction	Post RCF Note Conversion and Performance Rights	Shares Post Transaction	%
Cape Alumina	183,181,132	229,428,635	255,302,255	55.00%
MetroCoal	208,883,663	208,883,663	208,883,663	45.00%
<b>Total</b>	<b>392,064,795</b>	<b>438,312,298</b>	<b>464,185,918</b>	<b>100.00%</b>

### Summary of Opinion

In our opinion, the Merger is fair and reasonable to the Shareholders and as a result is in their best interests.

### Fairness

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

**Table 2: Fair value of the Merger**

	Ref	Low Value	High Value
Fair Value of Consideration	9.0	0.10	0.12
<b>Fair Value of Cape Alumina Share</b>	<b>7.4</b>	<b>0.09</b>	<b>0.12</b>
<b>Premium / (Discount)</b>		<b>0.01</b>	<b>0.00</b>
Percentage Premium /(Discount)		<b>7%</b>	<b>0%</b>

Source: IFL Analysis

IFL has assessed that the fair market value of the consideration provided by MetroCoal is in the range \$0.10 and \$0.12. By comparison, the assessed value of the Cape Alumina shares is in the range \$0.09 to \$0.12 and as a result the Merger is fair.

### **Reasonableness**

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

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

### **Advantages of Approving the Merger**

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

#### ***The Merger provides short term funding certainty***

The Merger provides certainty with regard to the short term funding of the current exploration program. This will enable Cape Alumina to continue with developing the Pisolite Hills project to bankable feasibility stage and the exploration of Bauxite Hills tenement. It should be noted that in the current market conditions the ability for explorers to raise capital is constrained and the value of like assets vary. Equity raising in the current circumstances is difficult and requires a significant discounts to trading prices.

Cape Alumina currently has minimal working capital which, with only essential activity being undertaken, would take it through to the middle of 2014. Cape Alumina will require another capital raising, sale of assets, joint venture or farm-in arrangement to enable it to sustain itself in the longer term.

#### ***Continues Development of Mining Tenements***

Approval and completion of the Merger will result in the merged entity having approximately \$9 million in cash. These funds will allow Cape Alumina to develop its current projects towards the bankable feasibility stage. It also allows time to look for the next stage of funding required including farm-in or joint venture arrangements or further capital raisings for the purpose of transitioning to a producer.

#### ***Improved liquidity***

The Merger will result in an enlarged company. The Merger may improve the liquidity of the shares of the enlarged company compared with the liquidity in Cape Alumina's shares currently. The enlarged company will have increased size and as a result is likely to have improved liquidity. In our opinion, any improvement in the liquidity for Cape Alumina's shareholders will be an advantage to Cape Alumina's Non-Associated Shareholders.

#### ***Diversification of risk***

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



## Disadvantages of Approving the Restructure

### *Dilution of shares*

The Merger will result in a dilution of shares for existing shareholders in Cape Alumina. Following the Restructure, Cape Alumina's shareholders will receive approximately 1.112 shares in MetroCoal for each share held in Cape Alumina. Cape Alumina's shareholders will therefore share collective control of the enlarged company with MetroCoal shareholders and will have to share in any future potential financial upside in the merged company with MetroCoal shareholders.

### *Broader commodity base*

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

## Implications for Cape Alumina Shareholders of Rejecting the Restructure

### *Reduction in liquidity*

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

### *Funding Future Exploration*

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

### *Forgiveness of diversification*

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

### *Potential decline in share price*

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

## Availability of alternative transaction

Cape Alumina has been actively looking at capital raising alternatives with major shareholders declining to contribute additional capital. A capital raising through stock brokers would have required a 30% plus discount to the current share price. Without a cash injection the Company will be limited in its ability to develop its bauxite tenements.

## Shareholder circumstances

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

## Other Matters

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

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

This Report will form part of the Scheme Booklet to be provided by the Directors to the Cape Alumina Non-Associated Shareholders entitled to vote on the Scheme ("**the Scheme Booklet**"). This Report has been prepared

to assist the Directors to fulfil their obligation to the Shareholders and to assist the Non-Associated Shareholders in deciding whether or not to approve the Scheme. IFL acknowledges that this Report may be lodged by the Directors with the ASX.

## Conclusion

We have concluded that the Offer is “fair and reasonable” and as a result in the “best interests” of Shareholders.

This summary opinion should be read in conjunction with the following Report that sets out in full the purpose, scope, basis of evaluation, limitations, valuation analysis and other findings. A glossary of terms used throughout the Report is set out in Table 3 of the Report.

Yours Faithfully



Brett Plant - Authorised Representative

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## Glossary of Terms

**Table 3: Glossary**

<b>Term</b>	<b>Meaning</b>
Act	Corporations Act 2001
AFSL	Australian Financial Services Licence
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
AUASB	Australian Auditing and Assurance Standards Board
Company, CBX, or Cape Alumina	Cape Alumina Limited
Directors	Directors of Cape Alumina
Engagement	Our engagement by the Directors of Cape Alumina to prepare this Report in connection with the Merger
Enterprise Value	The total value of the business and is equal to Debt + Equity
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FY	Financial Year
IFL or we or us or our	InterFinancial Corporate Finance Limited
JORC Code	The Code for Reporting of Mineral Resources and Ore Reserves
Non-Associated Shareholders	Shareholders and option holders of Cape Alumina not associated with the Merger.
Management	Management of Cape Alumina
Merger	Proposed merger of Cape Alumina and MetroCoal announced on 25 September 2013
MetroCoal or MTE	MetroCoal Limited
MIA	Merger Implementation Agreement
Report	This Independent Expert's report commissioned by the Directors
RCF	Resource Capital Funds III and IV
RG 111	Regulatory Guide 111 "Content of Expert Reports"
Scheme	A Scheme of Arrangement pursuant to the Act
Scheme Booklet	The Scheme booklet provided to Cape Alumina Non-Associated Shareholders entitled to vote on the Scheme
Share	Share in Cape Alumina
Shareholders	Shareholders of Cape Alumina
SWOT	Strength Weaknesses Opportunities and Threats analysis
VWAP	Volume Weighted Average Price

Source: IFL

# 1. Outline of the Merger

## 1.1 Introduction and Background

Cape Alumina has announced that it has signed a MIA to merge with MetroCoal. The key conditions of the Merger are:

- Merger to be implemented via a Scheme of Arrangement, subject to Cape Alumina Shareholder and court approval;
- MetroCoal to offer approximately 1.11277 MetroCoal shares for every 1 Cape Alumina share;
- MetroCoal to provide Cape Alumina with a \$3 million convertible note to supplement Cape Alumina's working capital to accelerate work on the Pisolite Hills project (with \$1 million available on execution of the MIA and a further \$2 million available subject to the approval of Cape Alumina shareholders);
- Major Cape Alumina shareholder RCF will convert its \$5 million convertible note into Cape Alumina shares at 12 cents per share prior to the merger proceeding and the accrued interest at the share price at the conversion date. The conversion of the note will mean that the security held by RCF over the assets of Cape Alumina will be removed; and
- As a result of the early (approximately 1 year early) conversion of the convertible note RCF will be issued with an option to compensate for the loss of interest. The option will be for 14.7 million shares with an exercise price of \$0.17 per share and a term of 2 years.

If approved the merger is envisaged to be effective by late December 2013, pending the necessary approvals.

## 1.2 Conversion Formula

The number of MetroCoal shares to be issued for every Cape Alumina share is calculated such that Cape Alumina shareholders will collectively hold 55% of the merged group. The formula to determine the number of MetroCoal shares for each Cape Alumina share ( $N$ ) is detailed as follows:

$$N = \frac{M / 0.45 - M}{C}$$

$N$  - is the number of MetroCoal shares for each Cape Alumina share;

$M$  - is the number of MetroCoal shares on issue on the Implementation Date; and

$C$  - is the number of Cape Alumina shares on issue on the Implementation date.

## 1.3 Merger Outcome

We have completed analysis of the post-Merger shareholding based on the top 10 shareholders at 17 September 2013 we have also included the additional shares that would be issued as part of the conversion of the \$5 million RCF convertible note and the shares issued for the performance rights.

If the Merger is approved then the reconstituted share structure for Cape Alumina shareholders immediately prior to the Merger would be as follows:

**Table 4: Dilutionary Effect**

Shareholder	Ordinary Shares held	%	RCF Conver. and Perform. Rights *	Number of Ordinary Shares held	%	Post Merger ratio Shareholding
Resource Capital Funds III and IV**	55,562,536	30%	43,036,530	98,599,066	43%	109,670,690
Metallica Minerals Limited	29,807,920	16%		29,807,920	13%	33,155,032
China Xinfu Group Corporation	26,426,248	14%		26,426,248	12%	29,393,634
Bondline Limited	20,865,291	11%		20,865,291	9%	23,208,241
JP Morgan Nominees Australia	10,316,870	6%		10,316,870	4%	11,475,345
Victorian Ferries Pty Ltd	7,142,857	4%		7,142,857	3%	7,944,924
Chiping Xinfu Huaya Alumina Co	2,720,274	1%		2,720,274	1%	3,025,732
Jien Mining Pty Ltd	2,221,873	1%		2,221,873	1%	2,471,366
Mr Graeme Sherlock	2,130,000	1%	978,876	3,108,876	1%	3,457,970
Mr Paul Messenger	1,015,000	1%		1,015,000	0.4%	1,128,974
<b>Top 10 Shareholders</b>	<b>158,208,869</b>	<b>86%</b>	<b>44,015,406</b>	<b>202,224,275</b>	<b>88%</b>	<b>224,931,906</b>
Other Shareholders	24,972,263	14%	2,332,097	27,304,360	12%	30,370,349
<b>Total Issued Shares</b>	<b>183,181,132</b>	<b>100%</b>	<b>46,347,503</b>	<b>229,528,635</b>	<b>100</b>	<b>255,302,255</b>

Source: IFL Analysis

\*In relation to the additional interest on the RCF Note that would be payable up to conversion we have based the calculation on a Cape Alumina share price of \$0.05 and conversion of the note on 19 Nov 2013;

\*\*RCF Shareholding includes 1.8 million shares granted to RCF on 8 October 2015 for payment of interest on the RCF convertible note for the quarter ending 30 September 2013.

We have completed an analysis below of the top 10 Shareholders post the Merger based on the top 10 shareholders for Cape Alumina at 17 September 2013 and MetroCoal at 4 October 2013. We have also included the shares that would be issued to RCF for the conversion of the note and the additional shares issued to employees for performance rights.

**Table 5: Top Ten Shareholders Post merger**

Shareholder	Number of Ordinary Shares held	Percentage held of issued Ordinary Capital
Resource Capital Funds III and IV	109,718,492	23.64%
Metallica Minerals Limited	97,463,445	21.00%
China Xinfu Group Corporation	29,406,446	6.34%
Dadi Engineering Development (Group) Co Ltd	28,800,000	6.20%
Bondline Limited	23,218,357	5.00%
Dadi Engineering Development Hong Kong Co Ltd	18,450,000	3.97%
JP Morgan Nominees Australia	11,480,346	2.47%
Ms Qing Xia	10,082,684	2.17%
Victorian Ferries Pty Ltd	7,948,387	1.71%
Merrill Lynch (Australia) Nominees	6,800,000	1.46%
<b>Top 10 Shareholders</b>	<b>343,368,156</b>	<b>73.97%</b>
Other Shareholders	120,817,762	26.03%
<b>Total Issued Shares</b>	<b>464,185,918</b>	<b>100%</b>

Source: IFL Analysis

## 2. Purpose, Scope and Limitations

### 2.1 Legislative Requirements

The Merger is subject to Section 411 of the Corporations Act 2001 (“the Act”) and Regulation 8303 of Part 3 of Schedule 8 of the Corporations Regulations 2001 (“**Regulation 8303**”).

Section 411 of the Act (“**Section 411**”) governs schemes of arrangements between a company and its members, creditors or any class of members or creditors. Part 3 of Schedule 8 of the Corporations Regulations prescribes the information to be sent to shareholders in relation to members’ schemes of arrangement.

Regulation 8303 requires an independent expert’s report in relation to a scheme of arrangement to be prepared:

- when a party to the scheme of arrangement has a prescribed shareholding (being defined as an interest in the company’s issued securities of 30% or more); or
- where any of acquiring company’s directors are also directors of the company subject of the scheme.

Pursuant to Regulation 8303, the independent expert’s report must state whether or not, in the opinion of the expert, the proposed Scheme is “in the best interests” of the members of the company the subject of the Scheme and setting out the reasons for that opinion.

### 2.2 Purpose of Report

The Directors have engaged IFL to prepare an independent expert’s report in relation to the Merger and to express an opinion as to whether or not the Merger is “in the best interests” of the Shareholders of Cape Alumina for the purposes of Regulation 8303, and to provide reasons for that opinion.

This Report has been prepared for use by the Shareholders to provide them with information relating to the Merger and should not be used by any other person or for any other purpose. This Report will be provided to Shareholders to assist them to make an informed decision as to whether to vote in favour of the Merger. This Report should be read in full, including all of the assumptions upon which our work is based. The Report should be read together with the Scheme Booklet and any other information provided to Shareholders in connection with the Merger. The specific terms of the resolution to be approved by Shareholders are set out in the Notice of Meeting and Scheme Booklet accompanying this Report.

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

### 2.3 Scope

For the purposes of assisting the Directors to satisfy the requirements of Regulation 8303, the Directors requested IFL to prepare this Report expressing our opinion as to whether the Merger is “in the best interests” of Shareholders. Our work has been limited to those procedures we believed were required in order to form our opinion. Our procedures, in the preparation of this Report, do not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards issued by the Australian Auditing and Assurance Standards Board (**AUASB**) or its predecessors.

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

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

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



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

It is IFL's understanding that this Report will accompany the Notice of Meeting and Scheme Booklet to be sent to the Cape Alumina shareholders by Cape Alumina. The sole purpose of this Report is to provide the Directors and Shareholders with an expression of IFL's opinion as to whether the Merger is fair and reasonable.

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

## 2.4 Basis of Evaluation

The Act does not define the expression "in the best interests of the members of the company". ASIC's Regulatory Guide 111 (RG 111) states that a Scheme will be "in the best interests of the members" if it is "fair and reasonable".

RG 111 draws a distinction between "fair" and "reasonable". An offer is fair if the consideration is equal to or greater than the value of the securities subject to the offer. The comparison must be made assuming 100% ownership of the target company irrespective of the percentage holding of the bidder or its associates in the target company.

- RG 111 considers an offer to be "reasonable" if:
- The offer is "fair"; or
- Despite not being "fair", the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher offer.

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

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

In our opinion, the Merger will be fair if the value of the consideration is greater than that market value of the securities in Cape Alumina.

In considering whether the Merger is reasonable, other factors that have been considered include

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

## 2.5 Reliance on Information

This Report is based upon financial and other information provided by Cape Alumina. IFL has considered and relied upon this information. IFL believes the information provided to be reliable, complete and not misleading, and we have no reason to believe that any material facts have been withheld. The information provided was evaluated

through analysis, inquiry and review for the purpose of forming an opinion as to whether the Offer is fair and reasonable.

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

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

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

## 2.6 Current Market Conditions

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

## 2.7 Sources of Information

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

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

## 2.8 Assumptions

In forming our opinion, the following has been assumed:

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

## 3. Cape Alumina Company Profile

### 3.1 Company overview

Cape Alumina is a public company listed on the Australian Stock Exchange (**ASX:CBX**). Cape Alumina was formed in February 2004 to explore for metallurgical bauxite resources in Queensland, securing key untenured areas of potential bauxite mineralisation in western Cape York. Cape Alumina listed on the ASX in January 2009 through an initial public offer and now has 181 million ordinary shares on issue to approximately 2,000 shareholders as at 17 September 2013.

Major shareholders in Cape Alumina as at 17 September 2013, include:

- Resource Capital Funds III and IV (29.7%), a resources focused private equity fund,
- ASX-listed Metallica Minerals Limited (MLM) (16.5%), and
- China Xinfu Group Corporation Limited (14.6%).

Cape Alumina controls approximately 1,900 km<sup>2</sup> of exploration tenements in western Cape York. This is the second largest tenement holding in the region outside the Rio Tinto Alcan (RTA) mining leases. Cape Alumina has identified seven priority bauxite exploration areas, with JORC compliant bauxite resources of 202.4 Mt within the Pisolite Hills and Bauxite Hills mine and port projects.

Pisolite Hills is situated 50km NE of Weipa. In October 2012, the Queensland Government defined Pisolite Hills as a “significant project” which requires an Environmental Impact Statement (EIS) under s26(1)(a) of the State Development and Public Works Organisation Act 1971. The Pisolite Hills resource is estimated to be 134.6 Mt of in situ bauxite with the potential to yield up to 7.5 Mt of dry-product bauxite over a 14 year period. Subject to the successful completion of all environmental studies and the granting of all necessary State and Commonwealth government permits, Cape Alumina expects to commence construction in late 2014 followed by first production in early to mid-2015.

Bauxite Hills, located 95km NW of Weipa and 5km from the existing port, is a 60 Mt JORC compliant resource with the potential to yield up to 5 Mt pa of dry-product bauxite over a 10 year period. A pre-feasibility study was completed in 2012 which confirmed the technical and economic feasibility of the project.

### 3.2 Company history

Key milestones in the Company history are shown in Table 6 below.

**Table 6: Cape Alumina Company Historical Milestones**

Year	Milestone
2004	<ul style="list-style-type: none"> <li>▪ Cape Alumina was formed on 2 February 2004</li> <li>▪ In March 2004 Cape Alumina expanded into Cape York</li> </ul>
2005	<ul style="list-style-type: none"> <li>▪ In February 2005 Cape Alumina changed its name to Cape Alumina Pty Ltd, reflecting the shift in primary focus to western Cape York.</li> <li>▪ Cape Alumina then set about securing key untenured areas of potential bauxite mineralisation in western Cape York. A funding arrangement between Metallica Minerals and Anegada Metals Corporation was agreed in May 2005 to advance the project.</li> </ul>
2008	<ul style="list-style-type: none"> <li>▪ On 11 November 2008, Cape Alumina opened its Initial Public Offer (IPO), which closed on 20 January 2009 resulting in the issuing of 30 million shares at \$0.50 per share.</li> </ul>
2009	<ul style="list-style-type: none"> <li>▪ Cape Alumina listed on the ASX on 29 January 2009, raising \$15 million.</li> <li>▪ JORC resource of 130 Mt confirmed on 2 July 2009.</li> <li>▪ In October 2009 Cape Alumina conducted a Bankable Feasibility Study (BFS) following completion of a pre-feasibility study review of the Pisolite Hills project.</li> </ul>

2010	<ul style="list-style-type: none"> <li>In June 2010 the Queensland Government declared the Wenlock River Basin as a wild river area. This jeopardises development of the Pisolite Hills project. Work on the Environmental Impact Statement (EIS), BFS and Indigenous Land Use Agreement (ILUA) is put on hold.</li> <li>Pisolite Hills project declared unviable under forecast economic conditions on 18 October 2010 due to Wild River Declaration.</li> <li>Cape Alumina lodged a Mining Lease Application (MLA) for the BH1 Plateau at Bauxite Hills.</li> </ul>
2011	<ul style="list-style-type: none"> <li>New concept study confirms major project potential for Bauxite Hills.</li> <li>In June 2011 Cape Alumina announced it secured \$1.8 million in funding from three of the Company's largest shareholders through the issue of Convertible Notes.</li> <li>Mr Graeme Sherlock commenced in the role of Managing Director in July 2011.</li> <li>In September 2011 Cape Alumina raised \$5 million through the issue of a convertible note to its largest shareholder.</li> <li>Cape Alumina raised \$1.17 million through the issue of nearly 10 million shares following the completion of a partially underwritten Share Purchase Plan.</li> </ul>
2012	<ul style="list-style-type: none"> <li>Project Feasibility Study completed, confirming the technical and economic feasibility of Bauxite Hills.</li> <li>In October 2012 the Queensland Government defined Pisolite Hills as a "significant project for which an Environmental Impact Statement (EIS) is required" under section 26 (1) (a) of the <i>State Development and Public Works Organisation Act 1971</i>.</li> </ul>
2013	<ul style="list-style-type: none"> <li>During the year raised \$1.5 million through the issue of ordinary shares.</li> <li>Cape Alumina entered into an agreement for the sale of its Hey Point bauxite tenements and mineral sands interests located at the Duyfken tenement.</li> <li>In July 2013, an updated Project Feasibility Study confirms the technical and economic feasibility of Pisolite Hills.</li> </ul>

Source: Cape Alumina

### 3.3 Operations

#### 3.3.1 Exploration and Development

##### 3.3.1.1 Western Cape York

Cape Alumina controls approximately 1,900 km<sup>2</sup> of exploration tenements in western Cape York (Queensland), a region known for its high-quality, export-grade bauxite. This is the largest tenement holding in the region outside the Rio Tinto Alcan (RTA) mining leases.

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

To date, Cape Alumina has identified seven priority bauxite exploration areas. Significant drilling has been conducted at the Pisolite Hills and Bauxite Hills deposits and with approximately 202.4 Mt of in-situ bauxite resources defined at these areas.

Over 4,000 drill holes have been completed at Pisolite Hills a 2,569-hole grid-based drill program has been completed at Bauxite Hills

Cape Alumina plans further scouting, exploration and drilling programs to advance more projects in the future, including at Duyfken, Weipa Satellites and Vrilya areas.

##### 3.3.1.2 Central Queensland

Cape Alumina also holds two granted Exploration Permits for Minerals (EPM) and one EPM Application (EPMA) over its Central Queensland bauxite project.

#### 3.3.2 Pisolite Hills

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

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

On 2 October 2012, the Queensland Government declared Pisolite Hills a 'significant project for which an Environmental Impact Statement (EIS) is required' under section 26 (1) (a) of the State Development and Public Works Organisation Act 1971. This is indicative of the strategic importance of the project to the State of Queensland and in particular the western Cape York region.

The Queensland Government then released 'Draft Terms of Reference' for the EIS to the public for comment during October and November 2012. After considering the views of the community and key stakeholders, the Government released the final terms on 21 December 2012.

As a result, Cape Alumina restarted work on technical and environmental studies for the project. Consulting engineer GHD Limited updated the mining and costing aspects of the pre-feasibility study (PFS) for the project.

Subject to the successful completion of all environmental studies and the granting of all necessary State and Commonwealth government permits, Cape Alumina expects to be in production by 2015.

### **3.3.2.1 Pisolite Hills Pre Feasibility Study Results**

The updated PFS confirms the technical and economic feasibility of Pisolite Hills as a 7.5 Mtpa dry product bauxite mine producing high quality, export grade bauxite over a life of 14 years. The study also confirmed that Pisolite Hills is an attractive standalone project with a capital cost of \$396 million, a Free on Board (FOB) cash operating cost, at full production, of approximately \$23 per tonne of product bauxite (excluding royalties), and an internal rate of return of 25.6%.

The proposed mine fleet includes front-end loaders and mine trucks, to load and transport the raw bauxite to the beneficiation plant, and road trains to transport the bauxite product to Port Musgrave.

Run of mine raw bauxite will be washed in three 650 tonne per hour beneficiation plants which incorporate crushing, sizing, screening and conveying.

Transshipping of the bauxite product is a key value driver for the operation and the use of 6,000 to 10,000 tonne barges, loading 71,000 tonne Panamax or 166,000 tonne Cape-size vessels, has been incorporated in the design.

Further optimisation to be completed during the Bankable Feasibility Study is currently underway.

### **3.3.3 Musgrave Deposit**

The Musgrave deposit will be developed as part of the Pisolite Hills mine and port project.

During 2009 and 2010, investigations were carried out to determine the suitability of mining bauxite from the Musgrave deposit (EPM15984) for dry screening and sale as Direct Shipping Ore (DSO) without any need for screening. This work included an 88-hole aircore drilling program over the Musgrave plateau on an 80 metre by 80 metre grid in order to determine the deposit resource grade and volumes.

An Indicated Resource of 2.2 Mt of dry-product bauxite has been estimated. Alternatively, the Musgrave resource will yield 1.6 Mt of beneficiated bauxite.

### **3.3.4 Bauxite Hills**

The proposed Bauxite Hills integrated mine and port project is Cape Alumina's second major project.

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

Cape Alumina completed a concept study for the project in March 2011.

An initial grid-based exploration and drilling program at the site was undertaken during August and September 2011. This involved 2,569 drill holes for a total of 7,000 metres.

From this program, Cape Alumina announced to the ASX in February 2012 the identification of an Inferred Resource estimate of 60 Mt of in-situ, high-quality, export-grade bauxite. This is expected to yield 42 Mt of beneficiated, dry-product bauxite.

The resources at Bauxite Hills have extremely low strip ratios and are very shallow, free-digging deposits. They are very close to coastal waters and international shipping routes, and they have high alumina content and low bauxite to alumina ratios, which means lower shipping costs and lower overall refinery input costs compared to bauxite deposits outside the Weipa region.

In late 2012, Cape Alumina completed the Bauxite Hills PFS, which confirmed the technical and economic feasibility of the project. The study showed that Bauxite Hills could produce 5 Mtpa of high-quality, export-grade bauxite over a life of up to 10 years.

Studies undertaken over the past year have shown that development of the Bauxite Hills project in conjunction with Pisolite Hills will bring significant synergistic benefits to Cape Alumina's operations. This includes:

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

It is proposed that Bauxite Hills would commence production at 2.5 Mtpa of dry beneficiated bauxite building to 5 Mtpa over two years.

The Bauxite Hills project will continue to be evaluated and progressed and is likely to be considered as a second stage development once Pisolite Hills is in production.

### 3.3.5 Other Projects

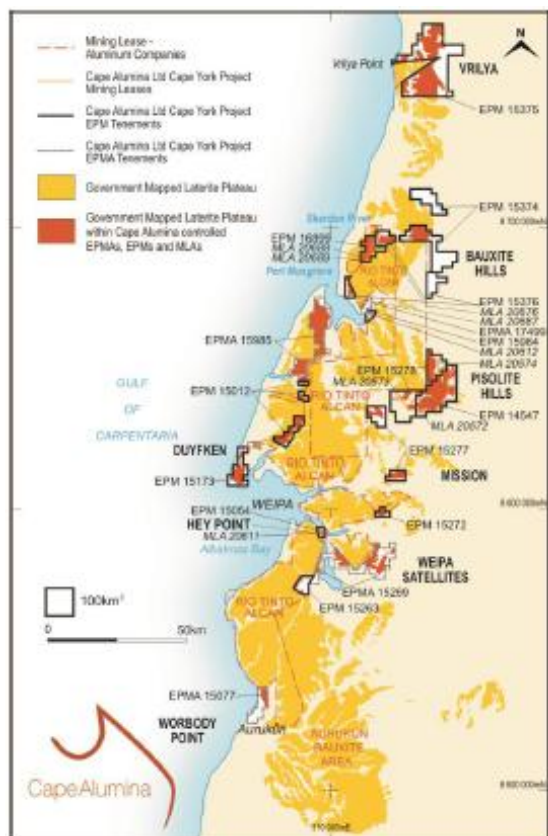
In addition to the resources defined at the integrated mine and port project sites at Bauxite and Pisolite Hills, an Inferred Resource of 3.8 Mt of bauxite has been estimated for the BH4 and BH5 plateaus in the Bauxite Hills project area. The exploration program has also enabled the estimation of an Inferred Resource of 3.8 Mt of bauxite at the Hey Point project area, which is located at the Duyfken tenement adjacent to Rio Tinto Alcan's South of Embley Project.

Cape Alumina has entered into an agreement for the sale of its Hey Point bauxite tenements and mineral sands interests, with completion subject to certain conditions. Consideration receivable under the agreement includes cash payments of \$1,500,000 (spread over a number of tranches) with \$250,000 received during FY2013. The company will receive royalties of 2% to 3% on all future gross sale proceeds on bauxite sold from the project. The book value of the assets being sold under the agreement was \$156,835 at 30 June 2013.

### 3.3.6 Cape Alumina's exploration permits

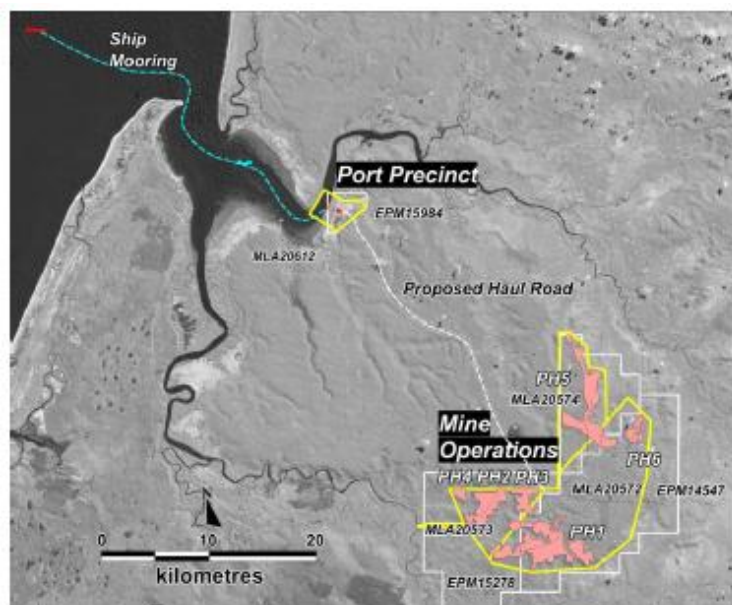
The figure below depicts Cape Alumina's exploration permits in Cape York.

**Figure 1: Cape Alumina's Exploration Permits**



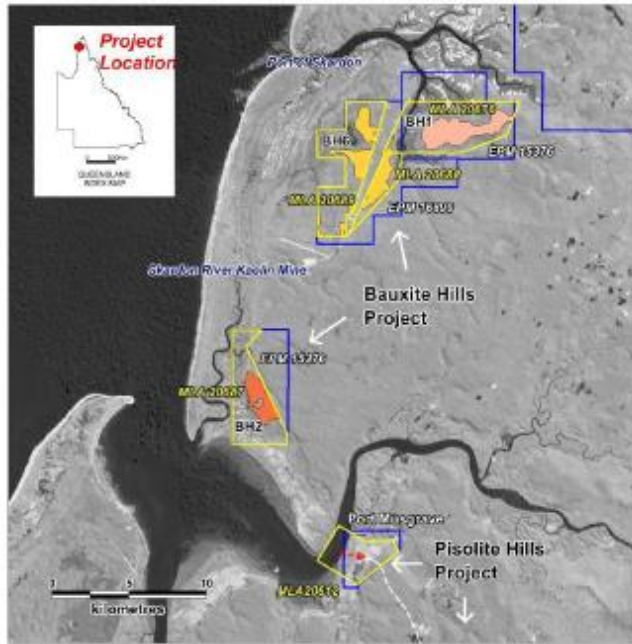
Source: Cape Alumina

**Figure 2: Pisolite Hills Project Area**



Source: Cape Alumina

Figure 3: Bauxite Hills Project Area



Source: Cape Alumina

Figure 4: Cape Alumina resources and projects

Area	Resource category	In-situ dry tonnes (Mt)	Beneficiated dry tonnes (Mt)	Total Al <sub>2</sub> O <sub>3</sub> (wt %)	Total SiO <sub>2</sub> (wt %)
<b>Pisolite Hills mine and port project</b>					
Pisolite Hills	Measured	27.5	20.1	54.4	10.8
Pisolite Hills	Indicated	56.1	37.9	53.5	12.5
Pisolite Hills	Inferred	48.8	29.3	53.1	13.2
Musgrave	Indicated	2.2	1.6	52.8	11.2
<b>Bauxite Hills mine and port project</b>					
BH1, 2 & 5	Inferred	60.2	41.3	51.6	9.6
BH4 & 5	Inferred	3.8	2.0	49.5	11.0
<b>Other projects</b>					
Hey Point	Inferred	3.8	2.5	55.3	9.8
<b>Total</b>	<b>All categories</b>	<b>202.4</b>	<b>134.7</b>	<b>52.9</b>	<b>11.4</b>

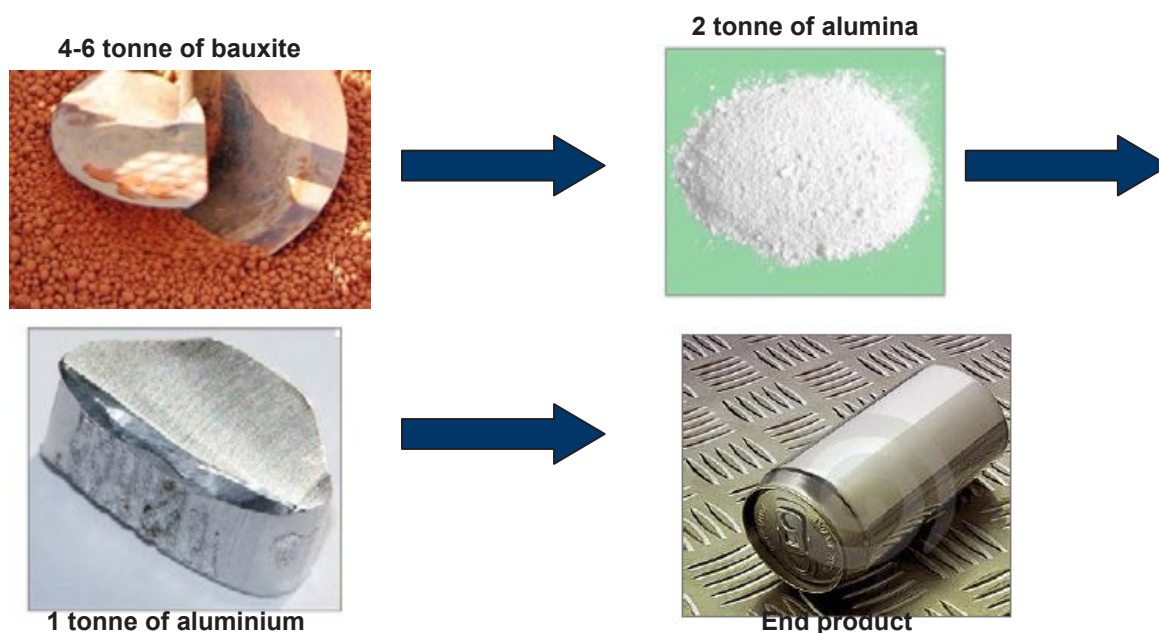
Source: Cape Alumina



### 3.4 Products and Markets

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

**Figure 5: Bauxite to aluminium**



Source: Cape Alumina

Cape Alumina has identified its market as the Asia-Pacific market. The bauxite found on the company's tenements is:

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

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



### 3.5 Competitive Position or SWOT Analysis

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

**Table 7: SWOT Analysis**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>▪ Maintain Focus on developing Pisolite Hills.</li> <li>▪ Government support indicated by declaring Pisolite Hills a significant project for Queensland.</li> <li>▪ Progress of the Wild River legislation being overturned as indicated by the preliminary draft Cape York Regional Plan</li> <li>▪ Strong Board, shareholder support and management team.</li> <li>▪ Market for bauxite is strong and growing, with prices expected to increase over coming years.</li> <li>▪ Indonesia has legislated to ban unprocessed bauxite exports from 12 January 2014, which will further open up the market for exports from Australia.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Limited diversification amongst other commodities.</li> <li>▪ Low cash position, as is common amongst many explorers.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>▪ Optimisation work on Pisolite Hills may improve project economics.</li> <li>▪ Possibility of developing the Bauxite Hills project as an expansion to Pisolite Hills.</li> <li>▪ Improving bauxite price / foreign exchange rates may assist with project profitability.</li> <li>▪ Other joint venture opportunities with consumers of bauxite.</li> <li>▪ Synergies with other neighbouring bauxite tenement holders or operators.</li> <li>▪ Expectation that Cape Alumina will be able to market and receive royalties for bauxite sold from Hey Point tenements.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Indonesia may not implement full ban on unprocessed bauxite exports from 12 January 2013.</li> <li>▪ Permitting / Approvals issues or delays (ILUA, EIS, Wild Rivers Declaration etc.).</li> <li>▪ Adverse bauxite price / foreign exchange rates decrease project profitability.</li> <li>▪ Fund raising.</li> </ul>

Source: Cape Alumina

### 3.6 Board and Management

**Table 8: Board members and Key Management**

Name	Title
Mr George Lloyd, Chairman	Mr Lloyd has more than 30 years' experience working in the resources industry in senior executive and board roles. He is currently the Chairman of Ausenco Limited, an ASX-listed global resources industry engineering services group, and also Chairman of Pryme Energy Limited, an ASX-listed oil and gas explorer and producer operating in the United States of America.
Mr Ronald Fritschy, Independent Non-Executive Director	Mr Fritschy has 30 years' experience in the bauxite and alumina industries, including Managing Director of QAL, Gladstone, which was the world's largest alumina refinery at the time, and Managing Director of Gove Bauxite -Alumina operations. He is currently the Chancellor of CQ University, Director of C_Management Services –a higher education provider with campuses in Brisbane, Sydney, Melbourne and the Gold Coast.
Mr Peter Nicholson, Non-Executive Director	Mr Nicholson is a partner at Resource Capital Funds Management Pty Ltd, a mining-focused private equity firm with approximately \$2 billion subscribed funds, and a Non-Executive Director of Mirabela Nickel Limited.

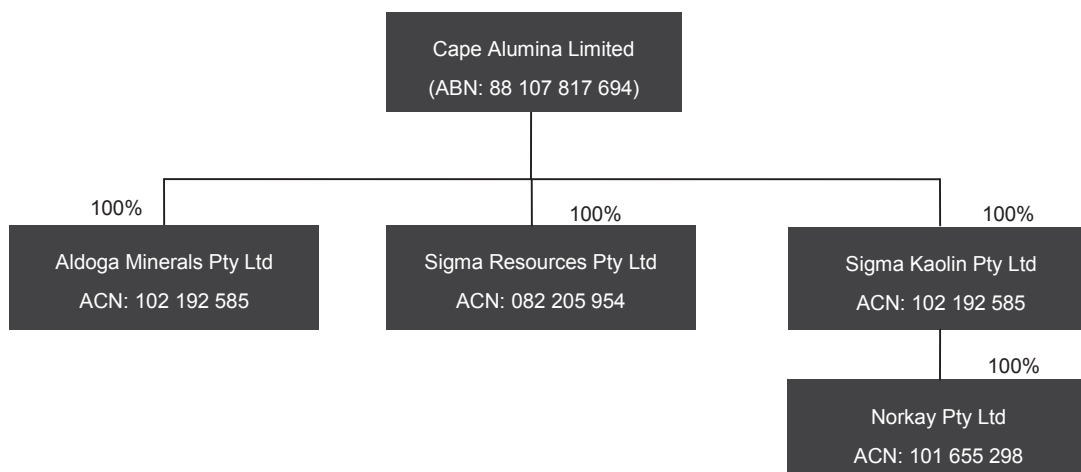
Name	Title
Mr Jijun Liu, Non-Executive Director	Mr Liu is currently the Managing Director of China Xinfu Group Company Limited, China's largest independent Alumina-Aluminium company with current and planned capacity for production of around 12 Mtpa of alumina and 2 Mtpa of Aluminium.
Mr Ken Xiao Non-Executive Alternate Director to Mr Jijun Liu	Mr Xiao is a consultant to China Xinfu Group Company Limited.
Mr Graeme Sherlock, MD & Chief Executive Officer	Mr Sherlock is a qualified mining engineer with more than 20 years of resource industry experience. With senior business development positions within Peabody Energy Australia, Rio Tinto Coal Australia and Mitsubishi Development and a long career with BHP Billiton, he brings a strong record of achievement on several key major resource project developments, mergers, acquisitions and commercial negotiations across the Australian and international coal industry. A Member of the Australasian Institute of Mining and Metallurgy, Graeme also has an MBA in Technology and a Postgraduate Diploma in Management.
Mr Scott Waddell, Chief Financial Officer and Company Secretary	Mr Waddell was appointed Cape Alumina's CFO and Company Secretary in June 2010. Prior to joining Cape Alumina, he served as Head of Finance for the Monash Energy project in Victoria's La Trobe Valley. His resources experience has been gained over nine years with Anglo Coal and eight years with Rio Tinto Alcan (RTA). He has a deep understanding of the global bauxite and resources sectors.

Source: Cape Alumina

### 3.7 Ownership and Capital Structure

The corporate structure of Cape Alumina is detailed below.

**Figure 6: Cape Alumina's Corporate Structure**



Source: Cape Alumina

As at 1 October 2013, Cape Alumina had approximately 181 million ordinary shares on issue. The top 10 shareholders and total issued ordinary shares of Cape Alumina as at 1 October 2013 are summarised below.

**Table 9: Top 10 Shareholders as at 1 October 2013**

Shareholder	Number of Ordinary Shares held	Percentage held of issued Ordinary Capital
Resource Capital Funds III and IV	55,562,536	30.33%
Metallica Minerals Limited	29,807,920	16.27%
China Xinfra Group Corporation Limited	26,426,248	14.43%
Bondline Limited	20,865,291	11.39%
JP Morgan Nominees Australia Limited	10,316,870	5.63%
Victorian Ferries Pty Ltd	7,142,857	3.90%
Chiping Xinfra Huaya Alumina Co Limited	2,720,274	1.49%
Jien Mining Pty Ltd	2,221,873	1.21%
Mr Graeme Sherlock	2,130,000	1.16%
Mr Paul Messenger	1,015,000	0.55%
<b>Top 10 Shareholders</b>	<b>158,208,869</b>	<b>86.37%</b>
<b>Other Shareholders</b>	<b>24,972,263</b>	<b>13.63%</b>
<b>Total Issued Shares</b>	<b>183,181,132</b>	<b>100.00%</b>

Source: Cape Alumina

The top 10 shareholders hold approximately 86% of the total shares on issue in Cape Alumina, whilst the remaining shareholders hold parcels which are individually less than 0.5% of the total shares on issue.

**Table 10: Substantial shareholders as at 1 October 2013**

Substantial shareholders	Number of Ordinary Shares held	Percentage held of issued Ordinary Capital
Resource Capital Funds III and IV	55,562,536	30.33%
Metallica Minerals Limited	29,807,920	16.27%
China Xinfra Group Corporation Limited	26,426,248	14.43%
Bondline Limited	20,865,291	11.39%

Source: Cape Alumina

In December 2011, Cape Alumina obtained \$5 million in funding through the issue of a secured Convertible Note to its largest shareholder, RCF, for the purposes of progressing the bauxite projects and working capital needs. The Convertible Note will be converted into Cape alumina shares at 12c per share prior to the proposed Merger completing. As part of the proposed Merger, 14,706,000 options will be granted to RCF around 19 November 2013 in exchange for RCF redeeming the convertible note early.

As at 25 September 2013, the following unlisted options which are exercisable over unissued shares in Cape Alumina were on issue:

**Table 11: Issued Options/performance rights**

Issue Date	Expiry Date	Number of Options	Exercise Price	Vesting Date
30-Jan-12	30-Jun-15	514,118	Nil	
12-Dec-12	5-Jan-16	1,398,428	Nil	7-Jul-14
12-Dec-12	5-Jan-16	1,398,427	Nil	7-Jul-15
<b>Total Issued Options</b>		<b>3,310,973</b>		

Source: Cape Alumina

### 3.8 Historical Financial Performance

Cape Alumina's historical P&L for FY2011 to FY2013 is shown in the table below.

**Table 12: Cape Alumina's Historical P&L**

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

Source: Cape Alumina

Notes to the Profit and Loss Statement:

- Exploration expenditure was written off in FY2011 when the Pisolite Hills project was deemed unviable as a result of the Wild Rivers legislation. Since then, in October 2012 the Queensland Government has declared the Pisolite Hills project a "significant project" and formalised a process to overturn the declaration of the Wenlock River as a Wild River. Subsequent to the declaration of the "significant project", Cape Alumina has restarted the project and has capitalised new costs incurred against the Pisolite Hills asset. The impairment of costs capitalised prior to FY2011 in relation to the Pisolite Hills asset is expected to be reversed once the Queensland Government has completed the process to remove the declaration of the Wenlock River as a Wild River.
- An embedded derivative liability has been recognised with the issue of the convertible note and was subsequently revalued at FY2013.
- The source of the other income is a research and development tax refund.

### 3.9 Financial Position

Table 13: Cape Alumina's Historical Balance Sheet

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

Source: Cape Alumina

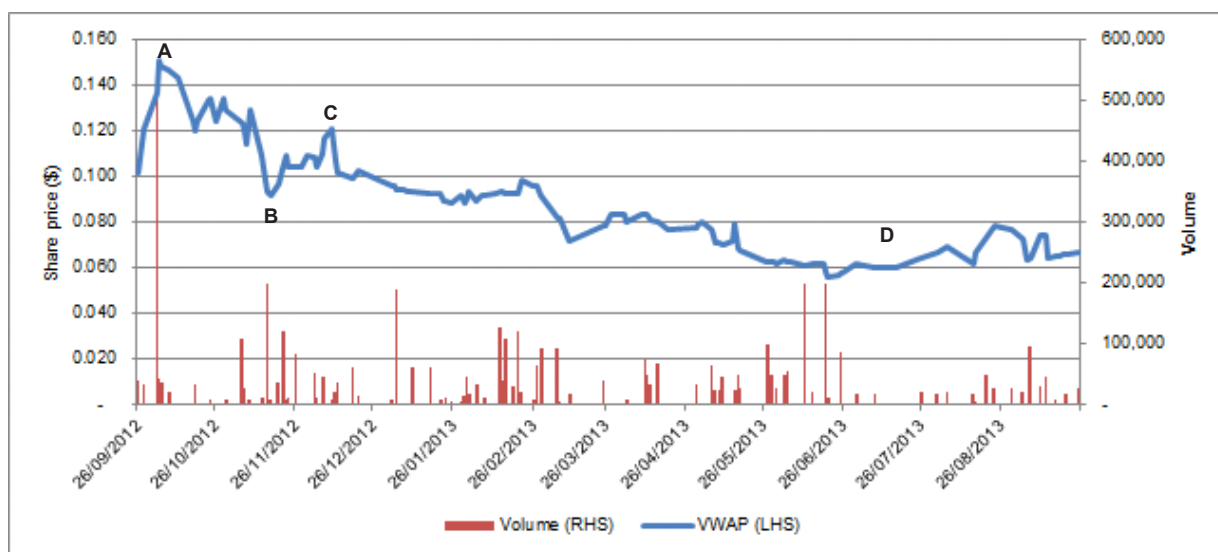
Notes to the balance sheet:

- Assets held for sale – During FY2013 Cape Alumina entered into an agreement for the sale of its Hey Point bauxite tenements and mineral sands interests, completion of which is subject to certain conditions. The book value of the assets being sold was \$156,835 at 30 June 2013. During the year the assets were reclassified from exploration and evaluation assets to assets held for sale.
- Trade and other payables at 30 June 2013 included \$250,000 of deferred income for a non-refundable deposit for the sale of the Hey Point bauxite tenements.
- A convertible note was obtained in December 2011 and is recognised in non-current liabilities.
- Provision for employee entitlements is classified within trade and other payables.

### 3.10 Share Price Analysis

We have analysed Cape Alumina's daily share close price and volume traded over the past 12 months. The VWAP for Cape Alumina for the 30 days prior to the announcement was \$0.069.

**Figure 7: Share price analysis**



Source: Capital IQ (26 September 2012 to 25 September 2013)

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

**Table 14: Cape Alumina's Recent Company Announcements**

Date	Chart Reference	Announcement Details
3 October 2012	A	Queensland Government declares Pisolite Hills a significant project.
2 November 2012	B	Cape Alumina announces the sale of the Hey Point tenements and \$456,000 share placement.
10 December 2012	C	Placement of \$500,000 at 14c per share.
8 July 2013	D	Pre-feasibility study confirms attractive financial returns for Pisolite Hills

Source: Cape Alumina ASX Announcements

Of the total shares on issue of 181 million, over 80% are held by long term institutional investors who are not trading their shares. Of the shareholders who are trading their shares they hold approximately million shares. In order to establish the liquidity without the institutional investors we have analysed the share volumes assuming the traded shares are 25 million.

Table 15 below outlines Cape Alumina's average daily and weekly share volume turnover for the 12 months to 25 September 2013. Based on the average daily and weekly turnover, it would take over 1,470 weeks or 28 years, for 100% of the tradable stock to trade.

**Table 15: Cape Alumina's share trading turnover**

Company	Issued Shares (m)	Traded Shares (m)	Daily Turnover (m)	Weekly Turnover (m)	Trading weeks to Turnover 100% free float	Trading weeks to Turnover 100% shares issued
Cape Alumina	183.18	30.71	0.04	0.20	155.3	926.3

Source: Capital IQ

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



## 4. MetroCoal Company Profile

### 4.1 Company overview

MetroCoal is a public company listed on the Australian Stock Exchange (**ASX:MTE**), focused on thermal coal projects Surat Basin region of south east Queensland. The Company was formed in January 2006 and listed on the ASX in December 2009 through an initial public offer (**IPO**). MetroCoal now has 209 million ordinary shares on issue to approximately 1,500 shareholders as at 4 October 2013.

Major shareholders in MetroCoal, as at 4 October 2013, include:

- Metallica Minerals Limited (30.8%)
- DADI Eng. Dev. Group (22.6%); and
- Ms Qing Xia (4.8%).

MetroCoal possesses 7 EPCs exceeding 3,500 km<sup>2</sup>. The most advanced projects are the Bundi and Columboola projects. MetroCoal is currently moving from exploration into the next phase of development, progressing mining and environmental studies.

The MetroCoal has a clear path to market with a 20% interest in the Yarwun Coal Terminal in Gladstone Harbour, and the company is focused on both the Bundi and Columboola projects securing access to rail and port infrastructure.

### 4.2 Company history

Key milestones in the Company history are shown in **Table 16** below.

**Table 16: MetroCoal Historical Milestones**

Year	Milestone
2006	<ul style="list-style-type: none"><li>▪ MetroCoal formed in January 2006.</li></ul>
2007	<ul style="list-style-type: none"><li>▪ Acquisition of the coal tenements in December 2007.</li></ul>
2008	<ul style="list-style-type: none"><li>▪ In June 2008, MetroCoal raised \$1.5 million through the sale of 15 million shares to fund the preliminary exploration program and preparation of the prospectus for the IPO.</li><li>▪ First drilling program commenced in September 2008.</li></ul>
2009	<ul style="list-style-type: none"><li>▪ Maiden JORC resource declared in May 2009.</li><li>▪ Pre IPO capital raising of \$1.0 million completed in August 2009.</li><li>▪ MetroCoal debuts on the ASX in December 2009.</li></ul>
2010	<ul style="list-style-type: none"><li>▪ In April 2010 MetroCoal entered into a Joint Venture Agreement (JVA) with China Coal Import &amp; Export Company (CCIEC), a wholly owned subsidiary of China National Coal Group Corp (China Coal).</li></ul>
2011	<ul style="list-style-type: none"><li>▪ In August 2011 MetroCoal executed a Capacity Priority Agreement and an Investment Agreement with Tenement to Terminal Limited (3TL), providing MetroCoal with a 20% investment and priority access for up to 11.47 Mtpa at the proposed Yarwun Coal Terminal in Gladstone.</li><li>▪ In November 2011 DADI completes an investment \$24 million, an approximate 15% shareholding, in MetroCoal, increasing their shareholding to 19.6%.</li></ul>
2012	<ul style="list-style-type: none"><li>▪ Scoping Study released in September 2012 confirms the financial and technical viability of the Bundi Project.</li><li>▪ In December 2012 the Columboola JV announced an open cut indicated reserve of 26.2 Mt.</li></ul>
2013	<ul style="list-style-type: none"><li>▪ Bundi Project recommences drilling program in May 2013.</li><li>▪ Co-Development Agreement for the Columboola project finalised with QGC in July 2013.</li></ul>

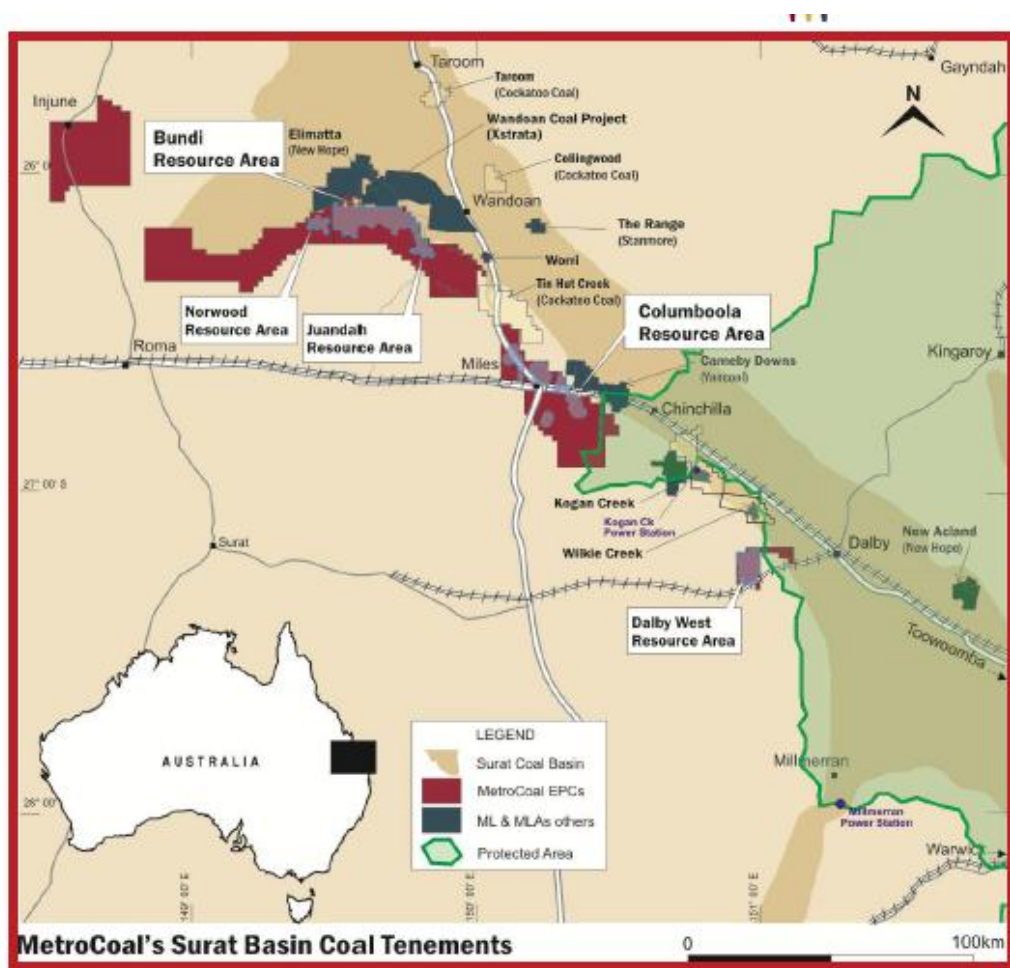
Source: MetroCoal



### 4.3 Operations

MetroCoal has 7 EPCs exceeding 3,500 km<sup>2</sup> that are located down dip of other major mines/projects.

Figure 8: MetroCoal's Surat Basin Tenements



Source: MetroCoal

MetroCoal is progressing 2 key projects.

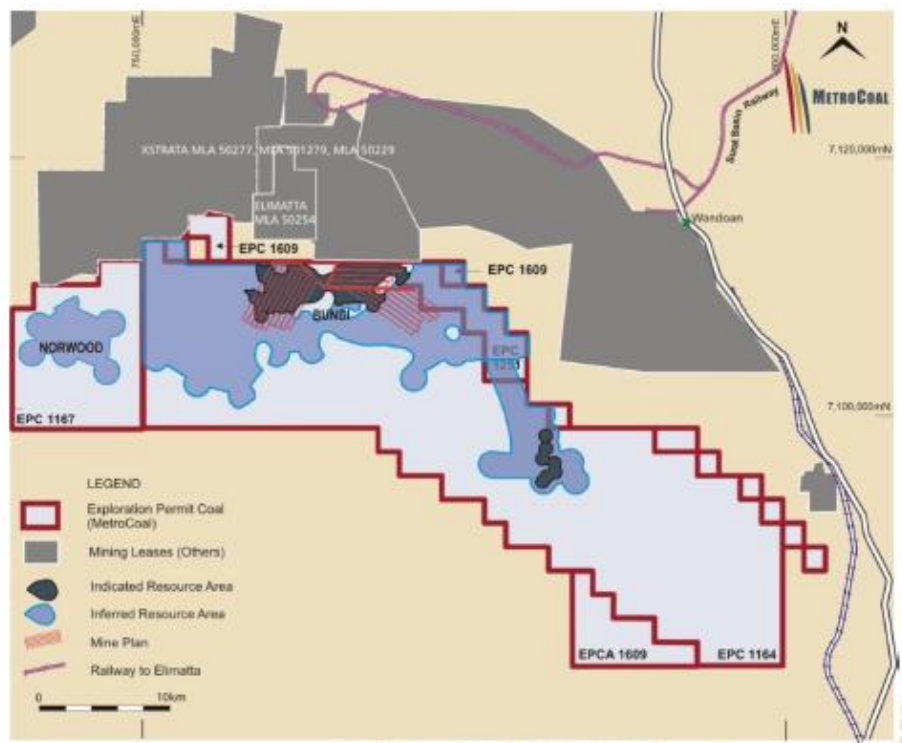
#### 4.3.1 Bundi Project

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

Exploration has commenced with 140 holes completed and drilling ongoing. The Environmental Impact Statement (EIS) has commenced. The PFS has commenced and a Mining Lease Application (MLA) is planned for late 2013/early 2014.

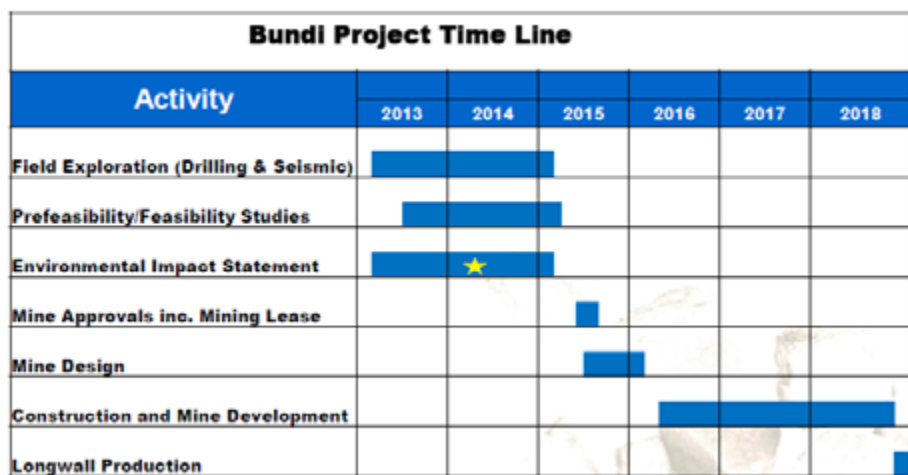
There has been interest in joint venture opportunities with Indian and Chinese entities for the Bundi project. The first of a number of expected visits to the Bundi project was held early in 2013 with a significant Chinese group.

Figure 9: Bundi Project



Source: MetroCoal

Figure 10: Bundi Project timeline to production



Source: MetroCoal

The scoping study, completed in September 2012, assumes construction commences mid-2015, with first development coal at the end of 2016. Longwall installation is scheduled for 2018, reaching full production in 2019.

### 4.3.2 Columboola Project

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

The exploration program and the structure of the EIS have been finalised.

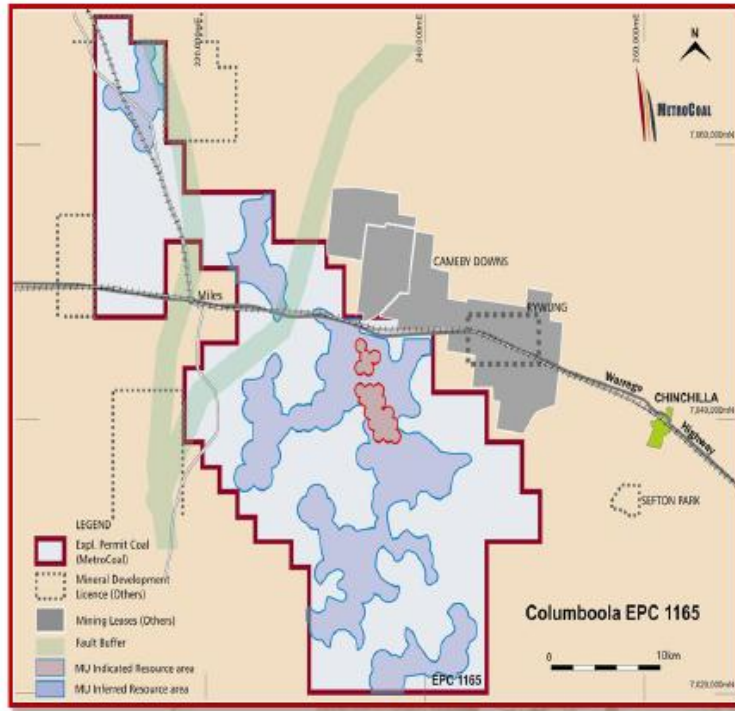
Work is currently being undertaken towards obtaining a mining lease following the finalisation of the Co-Development Agreement with the Queensland Gas Company (QGC) in July 2013. QGC has been granted a petroleum lease covering a portion of the Columboola site.

A maiden indicated resource of 94.7 Mt of thermal coal has been announced. In December 2012 the JV announced an open cut indicated resource of 26.2 Mt for the Goombi Project located within the Columboola Project area. This has increased the project's total resource from 1,297 Mt to 1,731 Mt, presenting an opportunity to potentially commence production exporting through the Port of Brisbane subject to approvals and final economic assessment, ahead of completion of the infrastructure connecting Columboola to the Port of Gladstone.

The focus for the remainder of 2013 is to start the EIS process and progress the resource evaluation to an appropriate level so a MLA can be made in late 2013.

Progress continues with the Central Surat Rail Group (CSR) with a number of potential coal shippers considering this project as a solution for future rail infrastructure.

**Figure 11: Columboola Project**



Source: MetroCoal

MetroCoal possesses total resources of 4.2 Bt, by project in the figure below:

**Figure 12: MetroCoal's resources**

Project	MTE Ownership	Resources (Mt)			Reserves (Mt)
		Indicated	Inferred	Total	
<b>Columboola</b>	<b>49%</b>	<b>94.7</b>	<b>1,618</b>	<b>1,712.7</b>	
<b>Goombi</b>	<b>49%</b>	<b>4.9</b>	<b>13.8</b>	<b>18.7</b>	<b>26.2</b>
<b>Bundi</b>	<b>100%</b>	<b>246.3</b>	<b>1,315.8</b>	<b>1,562.1</b>	
<b>Dalby West</b>	<b>100%</b>		<b>520</b>	<b>520</b>	
<b>Juandah</b>	<b>100%</b>	<b>24.4</b>	<b>224</b>	<b>248.4</b>	
<b>Norwood</b>	<b>100%</b>		<b>156</b>	<b>156</b>	
<b>TOTAL</b>		<b>370.3</b>	<b>3847.6</b>	<b>4217.9</b>	<b>26.2</b>

Source: MetroCoal

## 4.4 Infrastructure

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

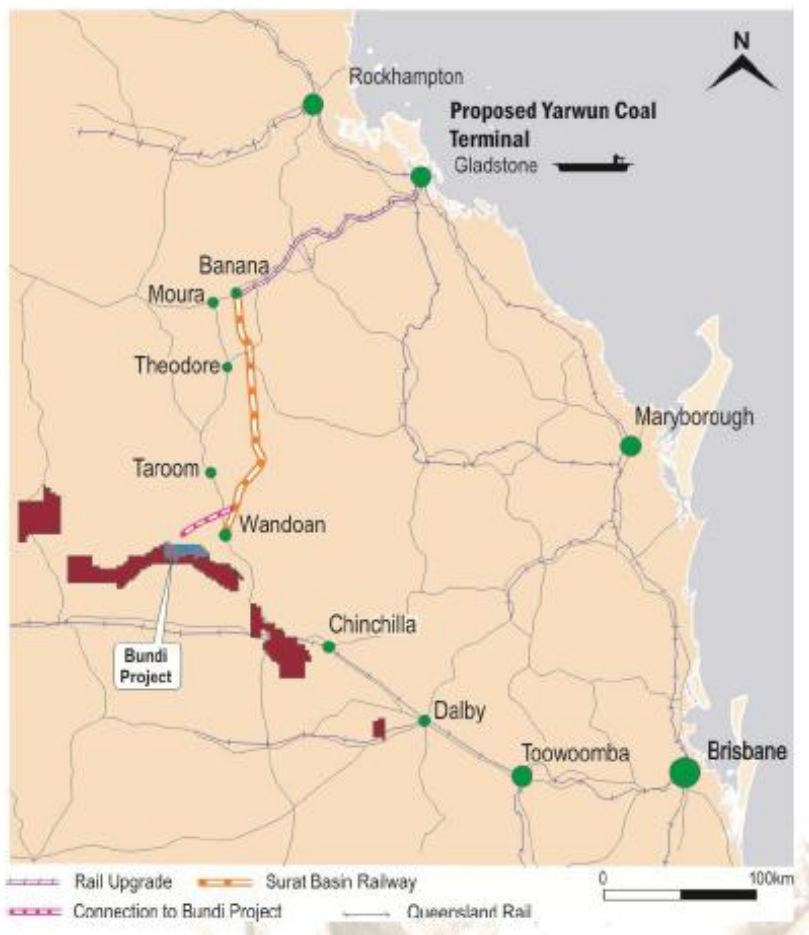
- The Surat Basin Rail;
- Stage 2 of Wiggins Island Coal Export Terminal ('WICET'); and
- Tenement to Terminal Limited's ('3TL') Yarwun Coal Terminal project (a proposed coal terminal in the Port of Gladstone). Construction on the rail connection is expected to commence in 2015, with completion expected for 2017/2018. Initial capacity is forecast to be 22 to 32 Mtpa with ultimate capacity up to 80 Mtpa.

The Surat Basin Rail, also known as the "Southern Missing Link", is a proposed multi user open access 210km rail line that would connect the existing railway system near Wandoan (230km north west of Toowoomba) with the Moura railway network at Banana (130km west of Gladstone). The expansion of the Surat Basin Rail corridor is being developed by a joint venture between Australian Transport and Energy Corridor Limited (ATEC), Glencore Xstrata and Aurizon. Construction is expected to commence mid 2014 with completion in 2017.

The economic feasibility of the Surat Basin Rail, however, is dependent on tonnes from the Glencore Xstrata Wandoan mine – projected at 30 Mtpa of thermal coal. As of September 2013, Glencore Xstrata had announced that it is uncertain as to whether the Wandoan coal mine would be developed within the next few years as they are placing a hold on any greenfield projects within the near to medium term. The ability of MetroCoal to unlock their thermal coal resources will be highly dependent on economically feasible rail and port access.

The diagram below shows the proposed Surat Basin rail link.

**Figure 13: Proposed Surat Basin Rail Link**



Source: MetroCoal

MetroCoal has entered into a Feasibility Funding Deed with Wiggins Island Coal Export Terminal Pty Ltd (WICET) to fund a proportion of feasibility costs in return for securing terminal capacity for the planned port expansion at Wiggins Island, Gladstone. The Company has committed \$2 million for the feasibility phase of Stage 2 of the WICET development project which is anticipated to be completed in 2015. MetroCoal is seeking to have access to 12 Mtpa of capacity at the WICET facility.

MetroCoal has held a 20% shareholding in Tenement to Terminal Limited (3TL), an unlisted Australian public company since FY2012. This investment secures up to 11.43 Mtpa of capacity at the proposed port facility in Gladstone. This priority right is subject to MetroCoal meeting various capacity commitment criteria including mining project development progress, future feasibility funding and eventual take or pay contract commitments. In consideration for the investment, 3TL will receive options to subscribe for 25 million ordinary shares in MetroCoal Limited in four equal tranches of 6,250,000 shares subject to achievement of certain project milestones. Two of these tranches have expired and have not been exercised. MetroCoal's investment in 3TL of \$7,354,877 comprising cash payments totalling \$3,500,000 and the issue of options that have been independently valued at \$3,854,877, were fully impaired during FY2012 as this project is at an early stage in its development and does not have operating cash flows.

MetroCoal is also working with a number of coal companies who have formed the Central Surat User Group to investigate the development of a rail corridor.

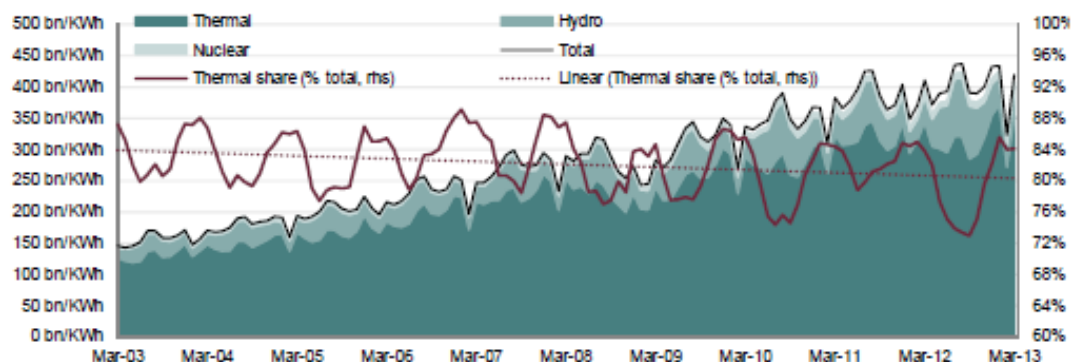
#### 4.5 Products and Markets

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

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

**Figure 14: China's electricity output by type**

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



Source: CBA

## 4.6 Competitive Position or SWOT Analysis

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

**Table 17: SWOT Analysis**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>▪ Good quality thermal coal that is marketable</li> <li>▪ Connected coal seams capable of being longwall mined, with a lower environmental impact from longwall mining</li> <li>▪ Strong Board, shareholder support and management team</li> <li>▪ Expected continuing strong growth in demand for thermal coal</li> <li>▪ 20% shareholding in 3TL, securing port access</li> <li>▪ Investment in WICET expansion</li> <li>▪ Support from key shareholders</li> <li>▪ Strong relationship with JV partner SinoCoal</li> <li>▪ Strong cash position</li> </ul>	<ul style="list-style-type: none"> <li>▪ Limited diversification amongst other commodities.</li> <li>▪ Small and vulnerable company</li> <li>▪ Difficulty in raising capital required</li> <li>▪ Inability to directly participate in port and rail infrastructure</li> <li>▪ Ability of the current management and board to transition from a prospector to developer to miner</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>▪ Securing JV partner for Bundi project</li> <li>▪ Increasing world demand for energy sources</li> <li>▪ Surat Basin as an emerging energy hub</li> <li>▪ Improving relations with the investment community and capital markets</li> <li>▪ Improving coal price / foreign exchange rates may assist with project profitability.</li> <li>▪ Take 3TL from concept to an operating port</li> </ul>	<ul style="list-style-type: none"> <li>▪ Infrastructure availability</li> <li>▪ Perception you can't longwall mine in the Surat Basin</li> <li>▪ Permitting / Approvals issues or delays</li> <li>▪ Adverse coal price / foreign exchange rates decrease project profitability</li> <li>▪ Fund raising</li> </ul>

Source: MetroCoal

## 4.7 Board and Management

**Table 18: Board members and Key Management**

Name	Title
Mr Stephen Everett Chairman	Has 40 years management and board experience in the resources and construction industries and has held Chairman and non-executive director positions in Government development boards, private, ASX listed and TSX listed companies.  Current directorships include Global Resources Corporation Limited, IronRidge Resources Limited and Australian Solomons Gold Limited.
Mr Andrew Gillies Non-Executive Director	Founding director of MetroCoal Limited, with key strengths in mineral resources management and strategic planning specializing in project generation, selection and acquisition. 27 years of experience as a geologist in the mining and exploration industry across a range of commodities.  Current directorships include Metallica Minerals Limited, Orion Metals Limited and Planet Metals Limited.
Mr Michael Hansel Non-Executive Director	Partner of Hopgood Ganim Lawyers, is a member of the AICD and is admitted to practice as a solicitor in the Supreme Court of Queensland.  Joined Hopgood Ganim in 1998 and practices in the corporate area with an emphasis on capital raising, mergers and acquisitions, joint ventures, due diligence, takeovers and corporate restructuring.

Name	Title
Mr John Haley Alternate Director to Mr Gillies	Brings nearly 30 years of senior corporate experience from positions in Canada and Australia to the board of MetroCoal. He has a diverse career in a range of industries including mineral exploration and has participated as a seed capitalist in a number of mineral exploration companies. Currently also a director of Metallica Minerals Limited
Mr Lindsay Ward Independent Non-Executive Director	An experienced senior executive having worked in ports, mining, mineral processing, rail haulage, electricity generation, transport and logistics at both General Manager and CEO level. Currently Managing Director of Dart Mining NL, a Victorian based molybdenum-copper-silver explorer. Previously General Manager – Patrick Ports and Pacific National Bulk Rail within Asciano Limited.
Mr Wang Dongping Non-Executive Director	Established Dadi Engineering Group, China's largest coal industry engineering group, and is now Chairman of Dadi Engineering Development Group. Brings extensive management experience and an intimate knowledge of modern coal process technology to MetroCoal.
Mr Robert Finch Alternate Director to Mr Wang	Brings more than 24 years of management experience to MetroCoal, including over 18 years in the Australian and Chinese coal industries. Instrumental in pioneering modern coal process technology in China and was Managing Director of Schenck Tianjin in China for four years up to 2006.
Mr Mike O'Brien Chief Executive Officer	Brings more than 36 years of mining and mineral experience to MetroCoal including 25 years extensive management experience with Shell Coal and Anglo Coal. He has worked in operational roles as general manager of a large underground longwall mine, general manager of a very large opencast mine that included a coal seam gas operation.
Mr Theo Psaros Company Secretary and Chief Operating Officer	A chartered accountant with previous roles with Coopers & Lybrand and PwC and previously CEO of Queensland Rugby Union and CEO of the Porsche Carrera Cup Australia. Specialist skills and expertise include business advisory services, valuations and corporate finance transactions.

Source: MetroCoal

## 4.8 Ownership and Capital Structure

The corporate structure of MetroCoal is detailed below.

**Figure 15: MetroCoal's Corporate Structure**



Source: MetroCoal

In April 2010 MetroCoal entered into a Joint Venture Agreement (JVA) with China Coal Import & Export Company (CCIEC), a wholly owned subsidiary of China National Coal Group Corp (China Coal). Under the JVA, CCIEC acquired a 51% interest in MetroCoal's Columboola project for an agreed commitment of \$30m. The funds will be used for exploring and evaluating the potential for future commercialisation options within the Columboola tenement. Exploration thus commenced in 2011. The Columboola JVA requires a minimum expenditure of \$4m within the first two years of the agreement and this amount has been expended. Approximately \$24m has been expended on the project to date.

As at 4 October 2013, MetroCoal had approximately 209 million ordinary shares on issue. The top 10 shareholders and total issued ordinary shares of MetroCoal as at 4 October 2013 are summarised below.

**Table 19: Top 10 Shareholders as at 4 October 2013**

Shareholder	Number of Ordinary Shares held	Percentage held of issued Ordinary Capital
Metallica Minerals Limited	64,293,962	30.78%
Dadi Engineering Development (Group) Co Ltd	28,800,000	13.79%
Dadi Engineering Development Hong Kong Co Ltd	18,450,000	8.83%
Ms Qing Xia	10,082,684	4.83%
Merrill Lynch (Australia) Nominees	6,800,000	3.26%
NLK Holdings Pty Ltd	3,200,000	1.53%
Mr Jiexiong Wen	2,879,515	1.38%
JP Morgan Nominees Australia Limited	2,777,422	1.33%
Focus Asset Management Pty Ltd	2,370,219	1.13%
Golden Breed Pty Ltd	1,961,315	0.94%
<b>Top 10 Shareholders</b>	<b>141,615,117</b>	<b>67.80%</b>
Other Shareholders	67,268,546	32.20%
<b>Total Issued Shares</b>	<b>208,883,663</b>	<b>100%</b>

Source: MetroCoal

The top 10 shareholders hold approximately 68% of the total shares on issue in Cape Alumina, whilst the remaining shareholders hold parcels which are individually less than 0.9% of the total shares on issue.

**Table 20: Substantial shareholders as at 4 October 2013**

Substantial shareholders	Number of Ordinary Shares held	Percentage held of issued Ordinary Capital
Metallica Minerals Limited	64,293,962	30.78%
Dadi Engineering Development (Group) Co Ltd	28,800,000	13.79%
Dadi Engineering Development Hong Kong Co Ltd	18,450,000	8.83%

Source: MetroCoal

As at 30 June 2013, the following unlisted options which are exercisable over unissued shares in Cape Alumina were on issue:

**Table 21: Issued Options**

Issue Date	Expiry Date	Number of Options	Exercise Price	Vesting Date
1 July 2009	4 December 2014	500,000	\$0.250	
24 November 2010	19 November 2013	3,250,000	\$0.400	
18 May 2013	18 May 2014	750,000	\$0.500	
16 August 2011	16 January 2015	6,250,000	\$0.620	
16 August 2011	16 June 2015	6,250,000	\$0.640	
24 November 2011	30 November 2013	2,500,000	\$0.750	
24 November 2011	30 November 2013	2,500,000	\$0.780	
20 November 2012	11 July 2015	1,000,000	\$0.235	
20 November 2012	11 July 2015	1,000,000	\$0.500	
<b>Total Issued Options</b>		<b>24,000,000</b>		

Source: MetroCoal



## 4.9 Historical Financial Performance

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

**Table 22: MetroCoal's Historical P&L**

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

Source: MetroCoal

### Notes to the Profit and Loss Statement:

- During FY2013 the Dalby West EPC was impaired by \$963,086 on the basis that there is unlikely to be any further exploration activity in the near term. MetroCoal still holds title on Dalby West and is of the view that it is still prospective for future development.
- During FY2012 MetroCoal incurred feasibility costs of \$852,000 in relation to the Wiggins Island Coal Export Terminal Pty Ltd Feasibility Funding deed to secure terminal capacity for the planned Wiggins Island port expansion.
- During prior years MetroCoal invested in an early exploration stage company called UniCoal based in Indonesia. The directors' assessment of the investment at 30 June 2011 resulted in the full impairment of this investment.
- During FY2012 MetroCoal invested 20% in Tenement to Terminal Limited (3TL), an unlisted Australian public company. This investment secures up to 11.43 Mtpa of capacity at the proposed port facility in Gladstone. This priority right is subject to MetroCoal meeting various capacity commitment criteria including mining project development progress, future feasibility funding and eventual take or pay contract commitments. In consideration for the investment, 3TL will receive options to subscribe for 25 million ordinary shares in MetroCoal Limited in four equal tranches of 6,250,000 shares subject to achievement of certain project milestones. Two of these tranches have expired and have not been exercised. MetroCoal's investment in 3TL of \$7,354,877 comprising cash payments totalling \$3,500,000 and the issue of options that have been independently valued at \$3,854,877, were fully impaired during FY2012 as this project is at an early stage in its development and does not have operating cash flows.
- There were two impairment charges during FY2011. \$150,000 for the full impairment of early stage feasibility costs for Stage 2 of WICET and \$836,245 for the full impairment of MetroCoal's investment in Indonesian company UniCoal.

## 4.10 Financial Position

**Table 23: MetroCoal's Historical Balance Sheet**

\$	30-Jun 2011	30-Jun 2012	30-Jun 2013
<b>Current Assets</b>			
Cash and cash equivalents	1,587,495	5,015,040	1,127,970
Trade and other receivables	373,202	1,063,199	264,855
Financial assets (term deposit)	10,000,000	10,261,962	10,375,493
Other assets (prepayments)	49,435	56,098	78,777
<b>Total Current Assets</b>	<b>12,010,132</b>	<b>16,396,299</b>	<b>11,847,095</b>
<b>Non-Current Assets</b>			
Investments in associate		0	0
Property plant and equipment	162,645	226,016	112,124
Exploration and evaluation assets	7,947,929	19,992,258	23,359,081
<b>Total Non-Current Assets</b>	<b>8,110,574</b>	<b>20,218,274</b>	<b>23,471,205</b>
<b>TOTAL ASSETS</b>	<b>20,120,706</b>	<b>36,614,573</b>	<b>35,318,300</b>
<b>Current Liabilities</b>			
Trade and other payables	800,333	1,677,420	984,706
Borrowings (convertible notes payable)	1,000,000	0	0
Employee benefits	46,669	92,893	135,828
<b>Total Current Liabilities</b>	<b>1,847,002</b>	<b>1,770,313</b>	<b>1,120,534</b>
<b>TOTAL LIABILITIES</b>	<b>1,847,002</b>	<b>1,770,313</b>	<b>1,120,534</b>
<b>NET ASSETS</b>	<b>18,273,704</b>	<b>34,844,260</b>	<b>34,197,766</b>
<b>EQUITY</b>			
Contributed equity	22,622,308	45,149,187	45,149,187
Reserves	599,305	5,497,915	5,586,507
Accumulated losses	(4,947,909)	(15,802,842)	(16,537,928)
<b>TOTAL EQUITY</b>	<b>18,273,704</b>	<b>34,844,260</b>	<b>34,197,766</b>

Source: MetroCoal

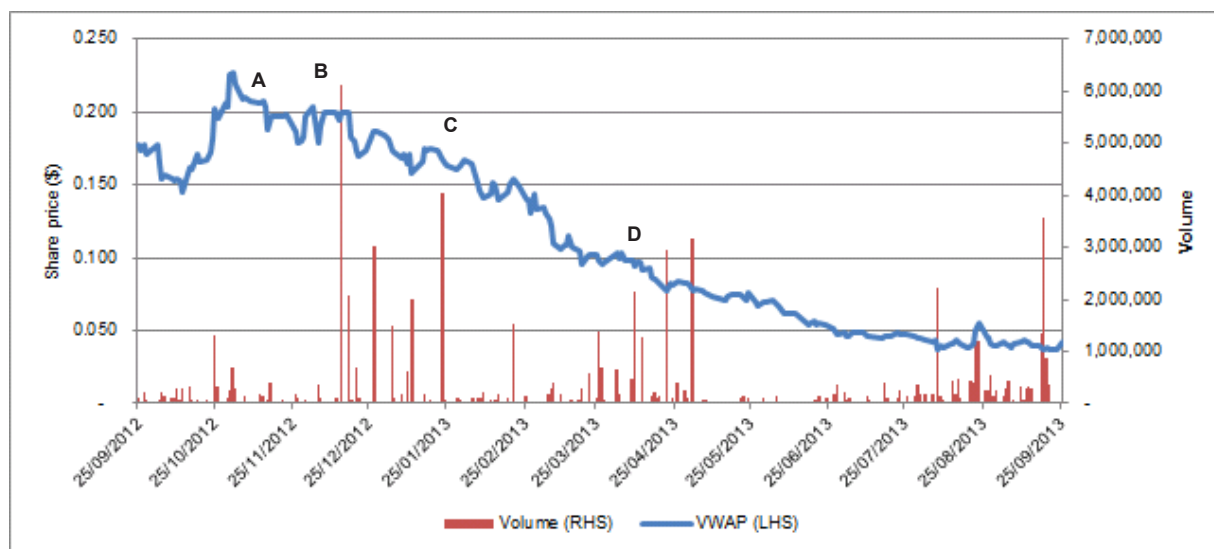
Notes to the balance sheet statement:

- During prior years MetroCoal invested in an early exploration stage company called UniCoal based in Indonesia. The directors' assessment of the investment at 30 June 2011 resulted in the full impairment of this investment.
- The provision for employee entitlements is for annual leave accrued only.

## 4.11 Share Price Analysis

We have analysed MetroCoal's daily share close price and volume traded over the past 12 months. The VWAP for MetroCoal Shares for the 30 days prior to the announcement was \$0.04.

**Figure 16: Share price analysis**



Source: Capital IQ (25 September 2011 to 25 September 2013)

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

**Table 24: MetroCoal's Recent Company Announcements**

Date	Chart Reference	Announcement Details
19 November 2012	A	MetroCoal announced maiden indicated resource of 31.1 Mt at the Goombi in the Columboola project.
19 December 2012	B	Goombi reserve upgraded to probable reserve of 26.2 Mt.
25 January 2013	C	Key shareholder, Merrill Lynch (Australia) Futures Ltd sold 4 million shares.
2 April 2013	D	DADI increases its shareholding in MetroCoal by 6.25 million shares, taking their holding to 22.6%.

Source: MetroCoal ASX Announcements

Of the total shares on issue of 209 million, at least 111 million are held by long term institutional investors who are not trading their shares. Of the shareholders who are trading their shares they hold approximately 98 million shares. In order to establish the liquidity without the institutional investors we have analysed the share volumes assuming the traded shares are 98 million.

The table below outlines MetroCoal's average daily and weekly share volume turnover for the 12 months to 25 September 2013. Based on the average daily and weekly turnover, it would take over 60 weeks or over one year, for 100% of the tradable stock to trade.

**Table 25: MetroCoal's share trading turnover**

Company	Ticker	Issued Shares (m)	Traded Shares (m)	Avg Daily Turnover (m)	Avg Weekly Turnover	Trading weeks to Turnover 100%
MetroCoal Limited	MTE	208.88	98.00	0.323	1.616	60.6

Source: Capital IQ

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

## 5. Industry Analysis – Bauxite Mining

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

### 5.1 Overview

Australia is the largest producer of bauxite in the world, accounting for approximately 30% of global output<sup>1</sup>. Australia's bauxite production is expected to be about 75 million tonnes in FY2013, compared with 63 million tonnes in FY2008. Most bauxite that is mined within Australia is processed into alumina locally, however over 9 million tonnes (valued at ~\$269 million) is expected to be exported in FY2013.

The Bauxite Mining industry is expected to generate revenue of \$2.1 billion in FY2012. This is an increase from FY2008 of 1.7% (average annual growth). Despite this increase, industry revenue is expected to grow by just 0.7% in FY2013, as weaker prices largely offset higher levels of output.

The industry's profit before interest and tax is expected to be \$883 million in FY2013 and it will provide employment for over 2,000 people. Industry performance is expected to make substantial gains during the next five years, as production increases in response to recovering global growth and rising aluminium output. Industry revenue is expected to expand at an average annual rate of 3.9% over the next five years, to reach \$2.6 billion in FY2018. This growth assumes Rio Tinto will proceed with its South of Embley mine near Weipa in far north Queensland.

### 5.2 Price & Demand

Demand for bauxite is dependent upon the levels of aluminium demand. Aluminium is used in a large and diverse range of products, from aircraft to packaging materials. In Australia bauxite is generally refined by the same company that mines it and so there is no arm's length price. There is also no internationally traded price for bauxite. Contract sales of bauxite are based on terms that are kept confidential, however shifts in aluminium and alumina prices provide a guide to trends in the price for bauxite. The high Australian dollar will lead to a small fall for the metal in AUD terms. However the effect of weaker prices on revenue will be more than offset by higher output, allowing revenue to rise marginally.

Figure 17: World price and demand



Source: IBISWorld Industry Report B0802 – Bauxite Mining in Australia, April 2013

Australia's bauxite output is expected to be approximately 75 million tonnes in FY2013, up from 63 million tonnes in FY2008. The growth in output reflects increased alumina production capacity and consequently an increased requirement for bauxite. Both improving global economic conditions and the low-cost status of Australian alumina

<sup>1</sup> IBISWorld Industry Report B0802 – Bauxite Mining in Australia, April 2013

and bauxite producers were responsible for the increases in output over the past five years. Alumina capacity has been expanded at the Gove (NT), Yarwun (QLD) and Worsley (WA) refineries.

Despite the fact that much of Queensland was affected by heavy rains and cyclonic activity in early 2011, the Industry's operations in the affected area fared relatively well, with only a small decline in output occurring and production restored quickly.

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

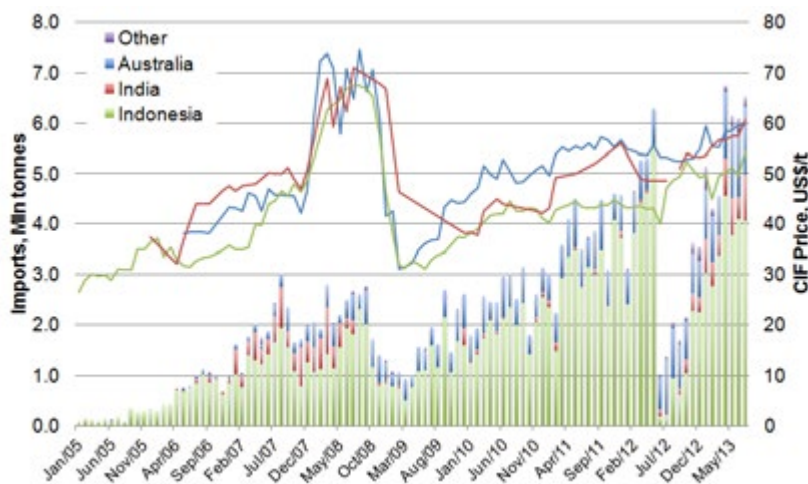
Australia is presently the largest producer of bauxite in the world. Indonesia is also a large bauxite exporter, however has recently legislated to ban bauxite exports from January 2014 to encourage value-add processing of bauxite prior to export. Once this ban is effective, it is expected that demand for bauxite from Australia will increase. The bauxite resources in the Cape York region in Australia are well positioned to access the export market.

### 5.3 Products & Markets

Australia is the world's largest producer of bauxite, accounting for about one-third of global output. Most (about 87%) of the bauxite mined in Australia is processed into alumina locally. Exports in the industry are medium and increasing, as global demand and Australian production increase.

China is Australia's largest importer of bauxite, accounting for over 50% of Australian exports. Volumes from Australia have increased in recent years as depicted by the following diagram.

**Figure 18: Chinese imports of bauxite by source**



Source: CM Group

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

### 5.4 Life cycle

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

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

However, the volume of production is trending up and is expected to expand solidly until FY2018, in response to general rising world demand for aluminium.

### 5.5 Barriers to Entry

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

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

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

## 5.6 Key Success Factors

Key success factors in the Industry include:

- Availability of resource – firms require access to large, high-grade deposits of bauxite. This availability allows companies to have lower operating costs;
- Downstream ownership links – this integration, of processing the bauxite into alumina, provides a higher return;
- Ability to prepare environmental impact statements – to secure mining licences firms must be able to assess and deal with environmental issues on their tenements;
- Ability to deal with contract miners – mine owners must be able to secure attractive pricing with the large contract mining firms who play an important role in the development and operations of bauxite mines.

## 5.7 Outlook

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

- Firming growth in the global demand for aluminium and alumina over the five years through FY2018 will support an expansion in Australia's bauxite production. By the end of the period, bauxite output is expected to be approximately 94 million tonnes;
- A continuing recovery in world economic activity is expected to underpin solid growth in the demand for aluminium, and therefore the production of alumina and bauxite, over the next five years;
- China is expected to account for a substantial proportion of the growth in world aluminium consumption, reflecting strong growth in that country's manufacturing output;
- Exports of bauxite are also expected to grow as firms strive to secure economies of scale when expanding their mining projects.

## 5.8 Conclusion on Industry Analysis

From our analysis, the performance of the bauxite industry is expected to make significant gains over the next five years. Demand from China is ever increasing; this will lead to further increases in exports from Australia. Despite the high Australian dollar (AUD) leading to a small fall for the metal in AUD terms in the short term, this effect will be more than offset by higher output, allowing revenue to continue to rise.

## 6. Industry Analysis – Black Coal Mining

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

### 6.1 Overview

Coal has many important uses worldwide, the most significant uses being electricity generation, steel production, cement manufacturing and as a liquid fuel. Since 2000, global coal consumption has grown faster than any other fuel. The largest coal users are China, USA, India, Russia and Japan, accounting for 76% of total global coal use<sup>2</sup>. The single biggest market for coal is Asia (China, Japan, Taiwan and Korea), which currently accounts for over 67% of global coal consumption.

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

Australia is a major global coal producer and the biggest exporter of seaborne coal<sup>3</sup>. Australian black coal exports account for over 20% of the seaborne trade in steaming coal and nearly 60% of the seaborne trade in coking coal.

The Black Coal Mining industry is expected to generate revenue of \$59.4 billion in FY2013. This is an average annualised increase from FY2008 of 9.5% (average annual fall). This strong growth has occurred due to higher annual coal prices and growing production over the past five years. These factors have contributed to an increase in industry profitability over the same period, however industry revenue is expected to fall by 4.0% in FY13 as lower coal prices more than offset higher output and export volumes.

Industry revenue is expected to grow at an annualised 2.1% over the next five years to reach \$66.0 billion in FY2018, starting with an increase of 8.4% in FY2014. Key drivers of this growth are expected to be improving global economic conditions, supporting demand for Australian coal exports. There may be some constraint on coal process from ample coal supplies and competition from natural gas electricity. Profit is expected to grow more slowly than revenue, due to rising wage and fuel costs, the Minerals Resource Rent Tax (MRRT) and carbon pricing.

### 6.2 Price & Demand

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

Demand for steaming coal (thermal coal) is dependent upon the demand for electricity production. Electricity has increased over the past five years which has supported demand for the industry.

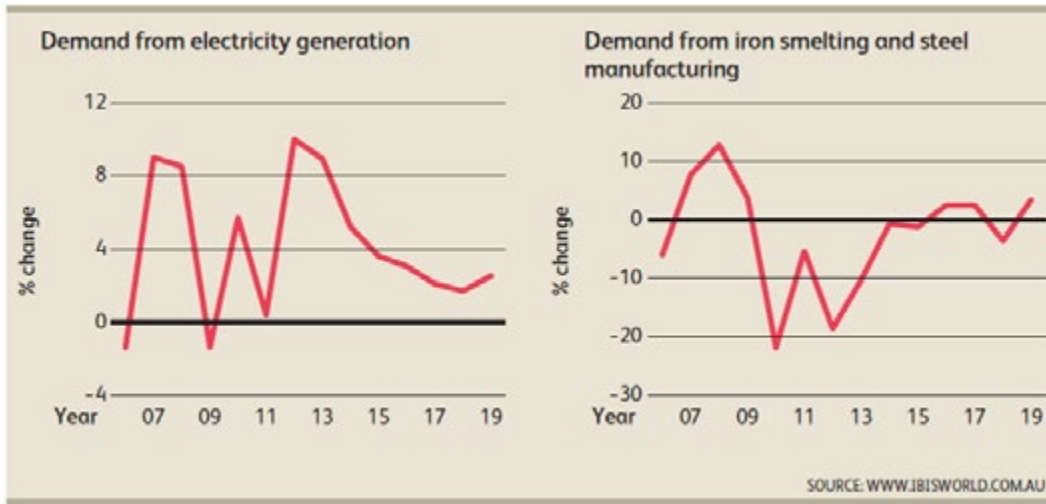
Black coal prices are set in US dollars, and variations in the exchange rate affect the AUD returns available to Australian producers. IBISWorld expects the exchange rate to fall 2.0% over the FY2013 year, average \$1.02 over the period. Interest rate cuts add to downward pressure on the AUD.

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<sup>2</sup> World Coal Association

<sup>3</sup> IBISWorld Industry Report B0601 – Black Coal Mining in Australia, June 2013

Figure 19: World demand



Source: IBISWorld Industry Report B0601 – Black Coal Mining in Australia, June 2013

The industry has been impacted by weather events in recent years. In 2011, extensive flooding across the east coast of Australia led to the closure of much of Queensland's coal mining activity. Mines closed and rail links from mines to ports were damaged. This depressed production and severely restricted worldwide supply for that year, resulting in increased prices. Prices dropped again once the mines recovered from the flooding.

Another impact on domestic production volumes can be industrial disputes.

Industry performance is contingent on global coal prices, which are linked to production volumes and global economic growth. Fluctuations in global and domestic production over the past five years have caused large swings in global prices and therefore industry revenue. Some recent examples of various events having a significant impact on prices:

- 2011 flooding in Queensland, resulting in reduced production and higher prices, not only for those mines affected by the flooding but also unaffected operators benefited from the higher prices.
- In 2010 the global financial crisis slowed global growth worldwide, dampening demand for coal and caused a drastic decline in prices for both contracts and spot prices.
- In 2008 China suspended coal exports in response to an extremely cold winter and the associated increased heating requirements. Severe power shortages in South Africa led to further increases in coal spot prices.
- In 2007 there was severe congestion at Newcastle and Dalrymple Bay coal terminals, combined with port problems in Russia and South Africa, resulting in a steep increase in spot prices of steaming coal.

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

### 6.3 Products & Markets

Australia's coal output is split 40.5% metallurgical (coking) coal and 59.5% thermal (steaming) coal. 46.1% of exports are from coking coal and 53.9% thermal coal.

The industry derives 80.9% of its revenue from export sales. In FY2013, coking coal exported to steel producers will account for 62% of the value of total coal exports and steaming coal exported to power generators will account for 38%.

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

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



The main market for Australia's coal exports is Japan, which accounts for 44% of steaming coal exports and 27% of coking coal exports. Japanese demand for steaming coal is expected to remain high over the medium term due to doubts over nuclear safety linked to the 2011 meltdown of the Fukushima and other nuclear plants.

India and China are growing rapidly as key destinations for coking coal and steaming coal, reflecting the expansion of both the steel and power generating industries. Both countries are major regional producers of coal, however they are expected to remain net importers due to rapid economic growth, high demand for coal fired electricity and difficulties in producing high quality steaming coal. In FY2012, India accounted for 21% of the volume of coking coal exports, and China absorbed 8% of coking coal exports and 18% of steaming coal exports.

## 6.4 Life cycle

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

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

## 6.5 Barriers to Entry

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

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

These factors provide significant barriers to entry.

## 6.6 New taxes impacting the coal mining industry

The coal industry in Australia was subject to two new taxes in July 2012.

The carbon tax is a starting rate of \$23 per tonne of carbon dioxide equivalent emitted. The rate will increase by 2.5% over the following two years, before a market based emissions trading scheme commences on 1 July 2015. Coal producers are liable to pay for greenhouse gas emissions, mainly methane, that occur as coal seams are mined. However, there is uncertainty surrounding carbon pricing, as the newly elected Federal Government has stated that it will repeal the carbon tax once in office.

The Minerals Resource Rent Tax (MRRT) on coal and iron ore has been set at 30% applied to a profit threshold equal to the government's long term bond rate plus 7.0%. There are exemptions for small projects making a profit of less than \$50 million per year, and miners are able to write off investment made after 1 July 2012 immediately against profit. In addition, they are able to claim a 25% extraction allowance.

## 6.7 Key Success Factors

Key success factors in the Industry include:

- Location that facilitates effluent disposal – thick coal seams close to the surface result in lower production costs.
- Access to high quality inputs.
- Access to a highly skilled workforce – senior employees who are skilled in regulatory processes provide miners with a competitive advantage.

- Proximity to key markets – a location close to a port.
- Production of premium coal that does not require washing and mining a high grade product.

## 6.8 Outlook

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

- Improving global economic conditions boosting demand for coal.
- Continued growth in coal volumes will be partly offset by subdued pricing in USD, which is expected to remain a feature of the industry. Australian producers will gain an additional benefit if the local currency continues to weaken against the USD.

## 6.9 Conclusion on Industry Analysis

From our analysis, the Industry performance is expected to make significant gains over the next five years. Demand from Asia is continuing to increase; this will lead to further increases in exports from Australia. Subdued global prices will be more than offset from an increase in output from Australia.

# 7. Valuation of Cape Alumina Shares

## 7.1 Valuation Methodology

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

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

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

In our opinion, the most appropriate method to value Cape Alumina is market value of resources and the share price that RCF has agreed to convert its convertible note at.

This method is appropriate for the following reasons:

- Cape Alumina is an exploration company and as such does not presently generate earnings. A valuation based on a capitalisation of future maintainable earnings is therefore not appropriate;
- Cape Alumina's shares are thinly traded and as such may not provide a reliable valuation methodology;
- Pisolite Hills was recently listed as a significant project by the Queensland government and with the expected repeal of the Wild Rivers legislation this project is now a priority. Cape Alumina currently has a pre-feasibility study on Pisolite Hills indicating economic viability. With the repeal of the Wild Rivers Legislation there is additional work required to bring the project to a bankable feasibility stage. Given the present uncertainties in the timing and quantum of the future cash flows we believe that a valuation based on the DCF method could not be reliably made; and
- We have been unable to locate comparable tenement transactions.

## 7.2 Market-based Valuation

### 7.2.1 Share Price

The 30 day VWAP for the shares prior to the announcement was \$0.069. As discussed in section 3.10 we have concluded that the shares are thinly traded and as a result we have not used the share price to value Cape Alumina as they may not provide a reliable measure of value.

### 7.2.2 Capital Raising

Cape Alumina has reached agreement with RCF with regard to the conversion share price for the Convertible Note that it holds and we have used this price as the high end of our valuation range.

#### RCF Convertible Note

As part of the Merger, RCF have agreed to convert their note to shares in Cape Alumina at \$0.12. Under the convertible note deed RCF had the right to convert at a price that is equal to the lower of:

- 120% times the 30 trading day volume weighted average market price for Cape Alumina (**30 day VWAP**) as at the date of acceptance of the offer;

- 120% of the 30 day VWAP of a share in Cape Alumina (**Share**) on the ASX as at the date of the announcement by CBX;
- 120% of the 30 day VWAP at the date of the draw down;
- The offer price of any capital raising conducted by CBX to raise not less than \$5 million in aggregate; or
- 20 cents per Share.

RCF have agreed to convert at the price of \$0.12 despite raisings to date being less than the specified \$5 million in the convertible note.

RCF is a sophisticated mining investor with private equity funds with mandates to make investments exclusively in the mining sector across a diversified range of hard mineral commodities and geographic regions. Since inception, RCF has supported 114 mining companies (and several mining-services companies) involving projects located in 39 countries and relating to 28 commodities. RCF's other ASX listed investments include Drummond Gold Limited, Finders Resources Limited, Mirabela Nickel Limited and Wolf Minerals Limited.

### 7.2.3 Comparable Companies

We considered the listed peers and their current market values. There are a limited number of comparable companies and only one company, other than Cape Alumina, that we consider is comparable.

**Table 26: Listed Bauxite Company Peers**

Company	Market Cap (\$mills)	Enterprise Value (\$mills)	EV/Total Resources (\$/t)
Australian Bauxite Limited	20.5	18.8	0.160
Bauxite Resources Limited	27.8	-15.6	*
Cape Alumina Limited	12.8	14.0	0.104
Source: CapitalIQ - 29 October 2013		Average	0.132
* Excluded because Enterprise Value negative		High	0.160
		Low	0.104

Source: Capital IQ; IFL Analysis

We have applied the average resource to enterprise value calculated above to the Cape Alumina resource as the low end of our valuation range.

**Table 27: Low end of Valuation Range**

Value	
Indicated Resources at 30 June 2013	135
Enterprise Value per Resource t	0.132
Enterprise Value on a minority basis	17.8
Less Net Debt	1.2
Equity Value on a minority basis	16.6

Source: IFL Analysis

Our view is that market value analysis and the RCF conversion price indicate an equity value of between \$16.6 million and \$22 million. We have used this valuation range as the basis for our valuation of a Cape Alumina share.

## 7.3 Premium for Control

When valuing a controlling interest, an appropriate allowance should be made for the premium for control, given the strategic benefit that a controlling interest would provide. Empirical evidence on premiums for control indicate that these premiums tend to range between 15% and 40%. Given the nature of the transaction we do not consider that it is appropriate to apply a premium for control to the Cape Alumina shares:

- the Cape Alumina major shareholders will be the major shareholders post the Merger;
- there will be no shareholder with outright control of the merged group; and
- the post-Merger board of directors will have equal representation from both Cape Alumina and MetroCoal.

## **7.4 Valuation of Cape Alumina shares**

We have assessed the fair market value of Cape Alumina shares to be in the range of \$0.09 to \$0.12 cents per share.

## **7.5 Valuation Cross Check**

We have reviewed the share placements completed by the company in the past 12 months. There have been 2 share placements in the past 12 months as follows.

Racle Resources Placement - 02 November 2012

Cape Alumina announced a placement of approximately 7.1 million shares at \$0.14 per share with Racle Resources Pty Ltd for gross proceeds of \$1,000,000 on November 2, 2012.

Retail Placement - 19 December 2012

On December 19, 2012, Cape Alumina announced a private placement of 3.8 million shares at \$0.12 per share raising gross proceeds of \$456,000 from clients of RBS Morgans.

While both of these raisings we more than 6 months ago, we believe that these share placements provide a reasonable cross check for our primary valuation.

## 8. Valuation of MetroCoal Shares

### 8.1 Valuation Methodology

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

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

In our opinion, the most appropriate method to value a share in MetroCoal is the Market Value of coal resources. This method is appropriate for the following reasons:

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

### 8.2 Share Price

The MetroCoal VWAP for the 30 days prior to the announcement was \$0.042. MetroCoal is a thinly traded stock with it taking greater than 1 year (60 weeks) for 100% turnover, our view as discussed in section 4.11, is that the shares not liquid enough to use the share price as the primary valuation method.

### 8.3 Market Value to Coal Resources

We have assessed the fair market value of MetroCoal based on the Market value to Coal Resources. In undertaking the valuation of MetroCoal we have had regard to:

- Comparable Companies at a similar stage with similar coal deposits;
- The Cash position of MetroCoal as at 30 September 2013; and
- The applicability of a premium for control.

### 8.4 Comparable Companies

We considered the listed peers and their current market values.

**Table 28: Listed Coal Company Peers**

Company	Market Cap (\$mills)	Enterprise Value (\$mills)	EV/M&I resources (\$/t) *	EV/Total Resources (\$/t)
Acacia Coal	10.8	5.4	n/a	0.036
Bandanna Energy Limited	121.6	47.1	n/a	0.025
Carabella Resources	33.5	23.3	n/a	**
Coalbank Limited	6.77	7.3	n/a	0.006
Cuesta Coal Limited	21.5	11.1	n/a	0.080
East Energy Resources	18.5	17.2	n/a	0.010
Guildford Coal Limited	85.7	116.9	n/a	0.058
International Coal Limited	12.1	10.6	n/a	0.015
Nucoal Resources	50.7	40.6	n/a	0.079

Stanmore Coal	30.2	21	n/a	**
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Source: CapitalIQ - 1 October 2013

Average 0.039

\* M&I is Measured & Reserves

High 0.080

\*\* Excluded as include metallurgical coal in resource

Low 0.006

Source: Capital IQ; IFL Analysis

We also note that in the current thermal coal market conditions, buyers are placing less emphasis on inferred resources in valuing tenements and are focussing more on the indicated resources. We have used the average value of coal resources of the listed peers, in **Table 28** and applied it to the MetroCoal measured & indicated resource as the low end of our valuation range.

**Table 29: Low end of Valuation Range**

<b>Enterprise Value</b>	
Indicated Resources at 30 June 2013	370
Enterprise Value per Resource t	0.039
Enterprise Value on a minority basis	14.3

Source: IFL Analysis

## 8.5 Recent Tenement Transactions

We also considered recent transactions of tenements as detailed below:

**Table 30: Recent Coal Company and tenement transactions**

Date	Project/Acquisition	Parties	Consideration (\$m)	Total resource (000 t)	Value per Resource t	Key Project/ Resource Issues
Current	Plachett Resource – Hunter Valley	NuCoal acquiring from Bloomfield Collieries	10.3	155,900	0.066	– greater access to infrastructure and better quality coal
Current	Coalbank	Take-over offer recommended by directors	7.7	1,300	0.0059	– no mining lease and no railway so similar issues to MetroCoal
May-13	Hume Coal project (30%) – Southern Coalfields	Cockatoo Coal sold to POSCO who already owned 70%	18.6	451,000	0.0412	– smaller scale and longer time frame includes metallurgical coal
Dec-12	Orion Coal Project – West Bowen Basin	Cuesta Coal acquired from Hannigan & Associates	18.2	136,300	0.1335	– near term project potential
Oct-12	Endocoal	Takeover by U&D Mining	71	514,000	0.1381	– near term development opportunity. Synergy benefits and some metallurgical coal.

Source: Capital IQ; Company Announcements; IFL Analysis

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

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

The most similar transaction listed above is the takeover of Coalbank. We have selected the Coalbank transaction as the high end of our valuation range and applied that to MetroCoal in **Table 31**.

**Table 31: High end of Valuation Range**

Value of Coal Resource	Total Resource
Total Resources at 30 June 2013	4,218
Value per Resource t	0.005923
Valuation of Resources on a controlling basis	25.0
Discount for minority interest	30%
Valuation on a minority basis	17.5

Source: IFL Analysis

Having considered the current market conditions, listed comparable companies and the recent tenement transactions, we have determined that the appropriate Enterprise Value range for MetroCoal is \$14.3 million to \$17.5 million.

## 8.6 Premium for Control

When valuing a controlling interest, an appropriate allowance should be made for the premium for control, given the strategic benefit that a controlling interest would provide. Empirical evidence on premiums for control indicate that these premiums tend to range between 15% and 40%. Our view is that MetroCoal should be valued on a minority basis as:

- no individual shareholder of Cape Alumina will end up with control of MetroCoal. Post-Merger there will be no shareholder holding more than 25% and two shareholders holding greater than 20%; and
- the post-Merger board of directors will have equal representation from both MetroCoal and Cape Alumina.

## 8.7 Valuation of MetroCoal Shares

IFL's value of MetroCoal derived from the net asset realisation is summarised as follows:

**Table 32: Summary of MetroCoal Valuation**

	Fair Market Value (Low)	Fair Market Value (High)
Enterprise Value on a minority basis / Tenement Value	\$14,300,000	\$17,500,000
Cash on hand / Net Assets excluding Tenements	\$9,674,424	\$9,206,972
Equity value on a minority basis	\$23,974,424	\$26,706,972
Number of shares on issue	208,883,663	208,883,663
<b>Equity value per MetroCoal share on a Minority Basis</b>	<b>\$0.115</b>	<b>\$0.128</b>

Source: IFL Analysis

We have assessed the value of MetroCoal to be in the range \$0.115 to \$0.128 per share.

## 8.8 Valuation Cross Check

We consider that the recent share transaction is the most appropriate cross check for our primary valuation method. On 2 April 2013 DADI Engineering acquired from Mathews Capital Partners an additional 6.25 million shares representing a 2.99% stake in MetroCoal at \$0.10.

We believe that this transaction supports our primary valuation methodology.



## 9. Value of Merged Group

We have determined the value of the merged group for the purposes of assessing the consideration received by Cape Alumina shareholders. Under the Merger the Cape Alumina shareholders will hold 55% of the issued share capital in the merged group.

In considering the value of the merged group we have considered the following transactions which will be implemented as part of the Merger:

- the issue of the \$3 million convertible note to Cape Alumina and the conversion of the Note as part of the Merger;
- conversion of the RCF convertible note before the end of its term and at a price higher than the terms agreed to under the convertible note deed; and
- the issue of options to RCF as a result of the early conversion of the convertible note.

**Table 33- Merged Group Valuation**

	Low Value	High Value
Value of Merged Group	40,574,424	48,688,708
Issued Share Capital Post Merger	464,185,918	464,185,918
Value of MetroCoal share Merged Group	0.09	0.10
Merger Ratio	1.112	1.112
Consideration received per Cape Alumina Share	0.10	0.12

Source: IFL Analysis

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

## 10. Assessment of Fairness

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

**Table 34: Value of Proposal**

	Ref	Low Value	High Value
Fair Value of Consideration	9.0	0.10	0.12
Fair Value of Cape Alumina Share	7.4	0.09	0.12
Premium / (Discount)		0.01	0.00
Percentage Premium /(Discount)		7%	0%

Source: IFL Analysis

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

# 11. Assessment of Reasonableness

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

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

## 11.1 Advantages of Approving the Merger

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

### *The Merger provides short term funding certainty*

The Merger provides certainty with regard to the short term funding of the current exploration program. This will enable Cape Alumina to continue with developing the Pisolite Hills project to bankable feasibility stage and the exploration of Bauxite Hills tenement. It should be noted that in the current market conditions the ability for explorers to raise capital is constrained and the value of like assets vary. Equity raising in the current circumstances is difficult and requires a significant discounts to trading prices.

Cape Alumina currently has minimal working capital which, with only essential activity being undertaken, would take it through to the middle of 2014. Cape Alumina will require another capital raising, sale of assets, joint venture or farm-in arrangement to enable it to sustain itself in the longer term.

### *Continues Development of Mining Tenements*

Approval and completion of the Merger will result in the merged entity having approximately \$9 million in cash. These funds will allow Cape Alumina to develop its current projects towards the bankable feasibility stage. It also allows time to look for the next stage of funding required including farm-in or joint venture arrangements or further capital raisings for the purpose of transitioning to a producer.

### *Improved liquidity*

The Merger will result in an enlarged company. The Merger may improve the liquidity of the shares of the enlarged company compared with the liquidity in Cape Alumina's shares currently. The enlarged company will have increased size and as a result is likely to have improved liquidity. In our opinion, any improvement in the liquidity for Cape Alumina's shareholders will be an advantage to Cape Alumina's Non-Associated Shareholders.

### *Diversification of risk*

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

## 11.2 Disadvantages of Approving the Restructure

### *Dilution of shares*

The Merger will result in a dilution of shares for existing shareholders in Cape Alumina. Following the Restructure, Cape Alumina's shareholders will receive approximately 1.112 shares in MetroCoal for each share held in Cape Alumina. Cape Alumina's shareholders will therefore share collective control of the enlarged company with MetroCoal shareholders and will have to share in any future potential financial upside in the merged company with MetroCoal shareholders.

### *Broader commodity base*

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

### **11.3 Implications for Cape Alumina Shareholders of Rejecting the Restructure**

#### ***Reduction in liquidity***

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

#### ***Funding Future Exploration***

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

#### ***Forgiveness of diversification***

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

#### ***Potential decline in share price***

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

## 12. Qualifications, Declarations and Consents

### 12.1 Qualifications

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

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

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

### 12.2 Declarations

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

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

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

### 12.3 Independence

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

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

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

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

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

## 12.4 Indemnity

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

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

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

## 12.5 Consents

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

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

## 12.6 Other

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

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

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

## 13. Appendix A – Basis of Information

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

- Cape Alumina's audited FY11, FY12 and FY13 audited accounts;
- Cape Alumina's media and ASX releases;
- IFL has also held discussions with, and obtained information from, senior management of Cape Alumina;
- MetroCoal's audited FY11, FY12 and FY13 audited accounts;
- MetroCoal's media and ASX releases;
- IFL has also held discussions with, and obtained information from, senior management of MetroCoal;
- Publicly available information;
- Data from Standard & Poors' Capital IQ database
- Research reports from various sources including IBIS World and stock brokers;
- Discussions with management;
- Financial forecasts; and
- Other confidential correspondence, project presentations, and working papers.

## 14. Appendix B – Metro Coal Comparable Companies

Company	Description
Acacia Coal	Acacia Coal Limited is engaged in the exploration and development of coal properties in Australia. It holds 100% interests in three granted coal exploration tenements in the Queensland's Bowen Basin.
Bandanna Energy Limited	Bandanna Energy Limited is engaged in the exploration, project evaluation, and development of thermal and pulverized coal injection coal assets located in Queensland, Australia. The company's principal coal projects include the South Galilee located in the Eastern Galilee Basin; the Springsure Creek located in the Bowen Basin, Emerald; and the Dingo West project located in the west of the township of Dingo. It also holds 100% interests in 5 oil shale tenements and 2 mineral tenements for bentonite exploration in Queensland.
Carabella Resources	Carabella Resources Limited explores and develops coal resources in Australia. The company holds interests in a portfolio of coal exploration tenements covering a total exploration area of approximately 4,200 square kilometers in the coal basins of Queensland. It primarily focuses on the development of Grosvenor West hard coking coal project in the Northern Bowen Basin; and the Bluff PCI project near Blackwater.
Coalbank Limited	Coalbank Limited invests in and develops early stage upstream energy projects. It holds interests in various coal exploration permit areas located in Queensland with tenements situated in the Surat, Galilee, Eromanga, and Bowen Basins. The company primarily owns interest in the Blackall Coal project located in Central Queensland.
Cuesta Coal Limited	Cuesta Coal Limited engages in the exploration of coal properties in Australia. The company holds interests in four key projects areas in the Queensland Coal Basins. It has a portfolio of thermal and coking coal exploration prospects in the Bowen, Surat, and Galilee basins; and core projects situated geographically with over 11,000 square kilometers of exploration ground.
East Energy Resources	East Energy Resources Limited (EER) is a mineral exploration company, focusing on coal exploration in central Queensland. EER currently focuses on its flagship Blackall Coal Project (EPC 1149).
Guildford Coal Limited	Guildford Coal Limited engages in the exploration and extraction of coal in Australia and Mongolia. It holds coal exploration tenements located in Queensland, Australia; and 7 exploration tenements in Mongolia. The company's principal projects in Queensland include the Hughenden project located in the northern end of Galilee basin; the White Mountain project located on the north eastern edge of the Galilee basin; the Pentland project located in the north eastern Galilee basin; and the Springsure project located in the central-western Bowen basin. Its principal projects in Mongolia comprise the South Gobi project that consists of 1 mining license, 1 mineral development license, and 3 exploration licenses located in the South Gobi province; and the Mid Gobi project, which includes 2 exploration licenses covering an area of 36,000 hectares located in the Ongi Gol basin, Dundgovi province.
International Coal Limited	International Coal Limited, a resource company, engages in the acquisition, exploration, and development of coal projects in Queensland, Australia. The company explores for coking and thermal coal deposits. Its projects include South Blackall Project located in Eromanga Basin and the south Galilee Basin; and Bundaberg project located in the Maryborough basin.
Nucoal Resources	NuCoal Resources Limited explores and develops coal mines in Australia. It owns 100% of the Doyles Creek coal project located in the Hunter Valley coalfield, New South Wales; and Savoy Hill project and Dellworth project exploration licences near Jerrys Plains, New South Wales.
Stanmore Coal	Stanmore Coal Limited identifies, explores, and develops thermal, coking, and PCI coal deposits in the coal bearing regions of eastern Australia. It primarily holds 100% interests in the Belview underground coking coal project covering an area of 120 km <sup>2</sup> located to the east of Blackwater, Bowen Basin; and the Range open cut thermal coal project covering an area of approximately 92 km <sup>2</sup> located to the south-east of Wandoan, Surat basin.



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## Merger implementation agreement

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Cape Alumina Limited

MetroCoal Limited

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# Merger implementation agreement

Dated 24 September 2013

## Parties

- Bidder**                      **MetroCoal Limited ACN 117 763 443**  
of Cnr Lytton Road and Stafford Street, East Brisbane Qld 4169
- Target**                      **Cape Alumina Limited ACN 107 817 694**  
of Level 8, 300 Adelaide Street, Brisbane, Qld 4000

## Background

- A        Target and Bidder have agreed to merge by scheme of arrangement under Part 5.1 of the Corporations Act between Target and the Target Shareholders.
- B        Target and Bidder have agreed in good faith to implement the scheme of arrangement on the terms of this document.
- C        The immediate priority of Target and Bidder after implementation of the scheme is to develop the Target's bauxite assets in Cape York, Queensland.

## Agreed terms

### 1 Definitions and interpretation

#### 1.1 Definitions

In this document:

Term	Definition
<b>ASIC</b>	means the Australian Securities and Investments Commission.
<b>ASX</b>	means the ASX Limited ABN 98 008 624 691.
<b>Bidder Board</b>	means the board of directors of Bidder.
<b>Bidder Group</b>	means Bidder and each of its Subsidiaries.
<b>Bidder Indemnified Parties</b>	means each member of the Bidder Group and each of their respective directors, officers and employees.
<b>Bidder Information</b>	means information regarding the Bidder Group provided by Bidder to Target in writing for inclusion in the Scheme Booklet.
<b>Bidder Material Adverse Change</b>	means any matter, event or circumstance which occurs, is announced or becomes known to Target after the date of this

Term	Definition
	<p>document which (individually or when aggregated with all such matters, events or circumstances) has resulted in or is likely to result in either:</p> <ul style="list-style-type: none"> <li>(a) the value of consolidated net assets of the Bidder Group being reduced by at least \$2.5 million against what they would have been but for the matters, events or circumstances; or</li> <li>(b) the Bidder Group having less than \$6.8 million in cash or cash equivalents (including the face value of the Bidder Note) which is solely available for expenditure on Target's projects, plus additional cash or cash equivalents to offset the following: <ul style="list-style-type: none"> <li>(i) all current liabilities;</li> <li>(ii) expenditure commitments for the forthcoming 12 months on projects other than those of Target;</li> <li>(iii) estimated employee redundancy costs including accrued entitlements and bonuses,</li> </ul> </li> </ul> <p>but does not include:</p> <ul style="list-style-type: none"> <li>(c) any matter, event or circumstance arising from changes in economic or business conditions (including changes in commodity prices or currency exchange rates) which impact on Bidder and its competitors in a similar manner;</li> <li>(d) any change in taxation rates or the law relating to taxation, interest rates or general economic conditions which impact on Bidder and its competitors in a similar manner;</li> <li>(e) any reduction in the value of the consolidated net assets of the Bidder Group as a consequence of any impairment of the assets of the Bidder Group in accordance with relevant accounting policy and accounting standards;</li> <li>(f) any change in accounting policy required by law;</li> <li>(g) any change occurring directly or indirectly as a result of any matter, event or circumstance required by this document, the Scheme or the transactions contemplated by them; or</li> <li>(h) anything which is fully and fairly disclosed in an ASX filing by the Bidder prior to the Execution Date.</li> </ul>
<b>Bidder Note</b>	<p>means the note issued by Bidder to Target pursuant to the 'redeemable convertible note deed' entered into by Bidder and Target on or about the date of this document, in the form contained in Annexure G.</p>
<b>Bidder Prescribed Occurrence</b>	<p>means:</p> <ul style="list-style-type: none"> <li>(a) <b>(conversion)</b>: Bidder converts all or any of its shares into a larger or smaller number of shares;</li> <li>(b) <b>(reduction of share capital)</b>: Bidder resolves to reduce its share capital in any way;</li> <li>(c) <b>(buy-back)</b>: Bidder: <ul style="list-style-type: none"> <li>(i) enters into a buy-back agreement; or</li> <li>(ii) resolves to approve the terms of a buy-back</li> </ul> </li> </ul>

Term	Definition
	agreement under the Corporations Act;
(d)	<b>(distribution)</b> : Bidder makes or declares, or announces an intention to make or declare, any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie);
(e)	<b>(issuing or granting shares or options)</b> : a member of the Bidder Group: <ul style="list-style-type: none"> <li>(i) issues shares;</li> <li>(ii) grants an option over its shares; or</li> <li>(iii) agrees to make such an issue or grant such an option,</li> </ul> in each case to a person outside the Bidder Group;
(f)	<b>(securities or other instruments)</b> : a member of the Bidder Group: <ul style="list-style-type: none"> <li>(i) issues securities or other instruments convertible into shares or debt securities; or</li> <li>(ii) agrees to issue securities or other instruments convertible into shares or debt securities,</li> </ul> in each case to a person outside Bidder Group;
(g)	<b>(constitution)</b> : a member of the Bidder Group adopts a new constitution or modifies or repeals its constitution or a provision of it;
(h)	<b>(disposals)</b> : a member of the Bidder Group disposes, or agrees to dispose of the whole or a substantial part of its business or property;
(i)	<b>(acquisitions, disposals or tenders)</b> : a member of the Bidder Group: <ul style="list-style-type: none"> <li>(i) acquires or disposes of (including by farm-out);</li> <li>(ii) agrees to acquire or dispose of; or</li> <li>(iii) offers, proposes, announces a bid or tenders for, any business, assets, interest in a joint venture, entity or undertaking, the value of which exceeds \$200,000;</li> </ul>
(j)	<b>(Encumbrances)</b> : a member of the Bidder Group creates any Encumbrance over the whole or a substantial part of its business or property (other than in the ordinary course of business and other than a lien which arises by operation of law or legislation securing an obligation not yet due and consistent with past practice);
(k)	<b>(employment arrangements)</b> : a member of the Bidder Group: <ul style="list-style-type: none"> <li>(i) materially increases the remuneration of, or otherwise varies the employment arrangements with, any of its directors or employees;</li> <li>(ii) accelerates the rights of any of its directors or employees to compensation or benefits of any kind; or</li> <li>(iii) pays any of its directors or employees a termination or retention payment (otherwise than in accordance with an existing contract which, at the date of this</li> </ul>

Term	Definition
	document, is in place and has been disclosed to Target),
	other than in the ordinary course of business, or as a result of contracted arrangements that are consistent with past practice and in effect at the date of this document;
(l)	<b>(commitments and settlements):</b> a member of the Bidder Group: <ul style="list-style-type: none"> <li>(i) enters into any contract or commitment involving revenue or expenditure by the Bidder Group of more than \$200,000 over the term of the contract or commitment;</li> <li>(ii) terminates or amends in a material manner any contract material to the conduct of the Bidder Group's business or which involves revenue or expenditure of more than \$200,000 over the term of the contract;</li> <li>(iii) waives any material third party default where the financial impact on the Bidder Group will be in excess of \$200,000; or</li> <li>(iv) accepts as a settlement or compromise of a material matter (relating to an amount in excess of \$200,000) less than the full compensation due to Bidder or a Subsidiary of Bidder;</li> </ul>
(m)	<b>(financial arrangements):</b> a member of the Bidder Group amends (or agrees to amend) in any material respect any arrangement with its financial advisers in respect of the transactions contemplated by this document;
(n)	<b>(capital expenditure):</b> a member of the Bidder Group undertakes or agrees to undertake capital expenditure in excess of \$200,000 in aggregate;
(o)	<b>(insolvency):</b> an Insolvency Event occurs in relation to any member of the Bidder Group;
(p)	<b>(financial indebtedness)</b> a member of the Bidder Group provides financial accommodation (irrespective of what form of Financial Indebtedness that accommodation takes) in excess of \$200,000;
(q)	<b>(derivatives)</b> a member of the Bidder Group enters into any agreement, arrangement or transaction with respect to derivative instruments (including swaps, futures contracts, forward commitments, commodity derivatives or options) or similar instruments, except foreign currency hedges made in the ordinary course of business and in accordance with past practice;
(r)	<b>(breach of law)</b> a member of the Bidder Group takes or omits to take action which results in a breach of law material to a member of the Bidder Group;
(s)	<b>(accounting policy)</b> a member of the Bidder Group changes any accounting policy applied by them to report their financial position unless required by law;
(t)	<b>(related party)</b> a member of the Bidder Group enters



Term	Definition
	<p>into or resolves to enter into a transaction with any related party of Bidder as defined in section 228 of the Corporations Act; or</p> <p>(u) <b>(tax liability)</b> Bidder or any other member of the Bidder Group does anything that results in a taxable gain for the Bidder Group by either causing a Subsidiary to cease being a member of the Bidder Group or causing the Bidder Group to cease being a Consolidated Group,</p> <p>provided that a Bidder Prescribed Occurrence does not include:</p> <p>(v) any issue of Bidder Shares pursuant to the exercise of options over unissued Bidder Shares, which options were granted before the date of this document;</p> <p>(w) any matter required to be done or procured by Bidder pursuant to this document or which is contemplated by the Scheme; or</p> <p>(x) any other matter, the undertaking of which Target has approved in writing.</p>
<b>Bidder Representations and Warranties</b>	means the representations and warranties of Bidder set out in Schedule 2.
<b>Bidder Share</b>	means a fully paid ordinary share in Bidder.
<b>Bidder Shareholders</b>	means each registered as the holder of Bidder Shares.
<b>Business Day</b>	means a business day as defined in the Listing Rules.
<b>Competing Transaction</b>	<p>means a transaction or arrangement under which a person other than Bidder, the Target or their associates will, if the transaction or arrangement is entered into or completed:</p> <p>(a) acquire (whether directly or indirectly) or become the holder of, or otherwise acquire, have a right to acquire or have an economic interest in:</p> <p>(i) all or a substantial part of the assets (on a consolidated basis) of the party; or</p> <p>(ii) 20% or more of one or more classes of securities in the party;</p> <p>(b) acquire control (as determined in accordance with section 50AA of the Corporations Act) of the party;</p> <p>(c) otherwise acquire or merge with the party; or</p> <p>(d) enter into any agreement, arrangement or understanding requiring the party to abandon, or otherwise fail to proceed with, the Transaction.</p> <p>For the purposes of paragraph (a)(i), the acquisition of an interest in a part of the assets (on a consolidated basis) of a party will be substantial if the assets represent 5% or more of the total consolidated assets of that party, but excludes any transaction or arrangement under which the counterparty would become a minority joint venture partner in an existing asset.</p>
<b>Confidentiality Deed</b>	means the confidentiality deed dated 11 June 2013 between Target and Bidder.
<b>Consolidated Group</b>	has the same meaning as in the Tax Act.

Term	Definition
<b>Corporations Act</b>	means the <i>Corporations Act 2001</i> (Cth).
<b>Court</b>	means the Federal Court or such other court of competent jurisdiction under the Corporations Act agreed to in writing by Target and Bidder.
<b>Deed Poll</b>	means a deed poll substantially in the form of Annexure B.
<b>Effective</b>	means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme.
<b>Effective Date</b>	means the date on which the Scheme becomes Effective.
<b>Encumbrance</b>	means: <ul style="list-style-type: none"> <li>(a) any mortgage, charge, pledge or lien, and any security interest or a preferential or adverse interest of any kind;</li> <li>(b) a title retention arrangement;</li> <li>(c) a right of any person to purchase, occupy or use assets (including under a hire purchase agreement, option, licence, lease, or agreement to purchase);</li> <li>(d) a right to set-off or right to withhold payment of a deposit or other money;</li> <li>(e) an easement, restrictive covenant, caveat or similar restriction over property (except, in the case of land, a covenant noted on the certificate of title to the land concerned);</li> <li>(f) an agreement to create any of the items referred to in paragraphs (a) to (e) above or to allow any of those items to exist;</li> <li>(g) a notice under section 255 <i>Income Tax Assessment Act 1936</i> (Cth), subdivision 260-A in schedule 1 <i>Taxation Administration Act 1953</i> (Cth), or any similar legislation; or</li> <li>(h) any other interest which constitutes a "security interest" as that term is defined in the PPS Act.</li> </ul>
<b>End Date</b>	means 31 December 2013.
<b>Exclusivity Period</b>	means the period from and including the date of this document to the earlier of: <ul style="list-style-type: none"> <li>(a) the termination of this document in accordance with its terms; and</li> <li>(b) the End Date.</li> </ul>
<b>Financial Indebtedness</b>	means any debt or other monetary liability (whether actual or contingent) in respect of moneys borrowed or raised or any financial accommodation including under or in respect of any: <ul style="list-style-type: none"> <li>(a) bill, bond, debenture, note or similar instrument;</li> <li>(b) acceptance, endorsement or discounting arrangement;</li> <li>(c) guarantee;</li> <li>(d) finance or capital lease;</li> <li>(e) agreement for the deferral of a purchase price or other payment in relation to the acquisition of any asset or</li> </ul>

Term	Definition
	<p>service; or</p> <p>(f) obligation to deliver goods or provide services paid for in advance by any financier.</p>
<b>FIRB</b>	means the Foreign Investment Review Board.
<b>First Court Date</b>	means the first day on which an application made to the Court, in accordance with clause 5.1(g), for orders under section 411(1) of the Corporations Act convening the Scheme Meeting to consider the Scheme is heard.
<b>Foreign Shareholder</b>	means a Scheme Shareholder whose address in Target's register of members is a place outside Australia.
<b>General Security Deed</b>	means the general security deed securing the performance by Target of obligations under the Bidder Note in the form annexed to the Bidder Note.
<b>Government Agency</b>	means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any State.
<b>GST</b>	means a goods and services or similar tax imposed in Australia.
<b>GST Act</b>	means the <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth).
<b>Implementation Date</b>	means the fifth Business Day after the Record Date.
<b>Independent Expert</b>	means the independent expert appointed by Target and responsible for preparing the Independent Expert's Report.
<b>Independent Expert's Report</b>	means the report prepared by the Independent Expert expressing an opinion, for inclusion in the Scheme Booklet, on whether the Scheme is in the best interests of the Target Shareholders.
<b>Ineligible Foreign Shareholder</b>	<p>means a Scheme Shareholder whose address as shown in the Target register of members at 4.00 pm on the Record Date is a place outside:</p> <p>(a) Australia and its external territories;</p> <p>(b) New Zealand; or</p> <p>(c) A jurisdiction determined by the board of the Bidder to be eligible (in accordance with clause 4.3).</p>
<b>Input Tax Credit</b>	has the meaning it has in the GST Act.
<b>Insolvency Event</b>	<p>means any of the following events occurring in relation to a party:</p> <p>(a) a liquidator, receiver, receiver and manager, administrator, official manager or other controller (as defined in the Corporations Act), trustee or controlling trustee or similar official is appointed over any of the property or undertaking of the party;</p> <p>(b) the party is, or becomes unable to, pay its debts when they are due or is or becomes unable to pay its debts within the meaning of the Corporations Act, or is</p>

Term	Definition
	presumed to be insolvent under the Corporations Act; (c) the party ceases to carry on business; or (d) an application or order is made for the liquidation of the party or a resolution is passed or any steps are taken to liquidate or pass a resolution for the liquidation of the party, otherwise than for the purpose of an amalgamation or reconstruction.
<b>Listing Rules</b>	means the official listing rules of the ASX.
<b>Material Adverse Change</b>	means a Target Material Adverse Change or a Bidder Material Adverse Change, as the case requires.
<b>Nominee</b>	Has the meaning set out in clause 4.4.
<b>Notifying Party</b>	has the meaning set out in clause 10.5.
<b>Performance Rights</b>	means 3,210,973 performance rights granted by the Company.
<b>PPS Act</b>	means <i>Personal Property Securities Act</i> .
<b>Prescribed Date</b>	means the date on which the voting entitlements for the Target's Shareholder meeting to consider and vote on the Scheme, is determined pursuant to Regulation 7.11.37 of the <i>Corporations Regulations 2001</i> (Cth).
<b>Prescribed Occurrence</b>	means a Target Prescribed Occurrence or a Bidder Prescribed Occurrence, as the case requires.
<b>RCF</b>	means Resource Capital Fund IV IP of 1400, 16 <sup>th</sup> Street, Suite 200, Denver, CO8020, USA.
<b>RCF Conversion</b>	means the conversion by RCF of the RCF Note.
<b>RCF Note</b>	means the note issued under the secured convertible note deed dated 19 October 2011 between Target and Resource Capital Fund IV L.P.
<b>RCF Note Conversion Agreement</b>	means the agreement between Target and Resource Capital Fund IV L.P. in respect of the conversion of the RCF Note in substantially the form of Annexure H.
<b>RCF Options</b>	means 14,706,000 options over unissued Target shares (with a term of 2 years and an exercise price of \$0.17) issued to RCF pursuant to the RCF Note Conversion Agreement.
<b>Record Date</b>	means 5.00 pm on the fifth Business Day after the date on which the Scheme becomes Effective.
<b>Regulator's Draft</b>	the draft of the Scheme Booklet in a form acceptable to both parties which is provided to ASIC for approval under section 411(2) of the Corporations Act.
<b>Regulatory Approvals</b>	has the meaning given to that term in clause 3.1(a).
<b>Regulatory Authority</b>	includes: (d) ASX, ASIC, the Foreign Investment Review Board and the Australian Taxation Office; (e) a Government Agency; (f) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation

Term	Definition
	of any government; and (g) any regulatory organisation established under statute.
<b>Scheme</b>	means the scheme of arrangement between Target and the Scheme Shareholders, in the form set out as Annexure A.
<b>Scheme Booklet</b>	means the information described in clause 5.1(a) to be approved by the Court and despatched to the Target Shareholders.
<b>Scheme Consideration</b>	means the number of Bidder Shares for each Scheme Share described in clause 4.2.
<b>Scheme Meeting</b>	means the meeting of Target Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act.
<b>Scheme Shareholders</b>	means the Target Shareholders at the Record Date.
<b>Scheme Shares</b>	means Target Shares held by Scheme Shareholders.
<b>Second Court Date</b>	means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard.
<b>Subsidiaries</b>	has the meaning given to it in the Corporations Act.
<b>Superior Proposal</b>	means a publicly announced Competing Transaction for Target or Bidder (as the case requires) that, taking into account all aspects of the Competing Transaction, is: (a) reasonably capable of being completed; and (b) more favourable to Target Shareholders or Bidder Shareholders (as the case requires) than the Scheme.
<b>Target Board</b>	means the board of directors of Target.
<b>Target Group</b>	means Target and each of its Subsidiaries.
<b>Target Indemnified Parties</b>	means each member of the Target Group and each of their directors, officers and employees.
<b>Target Material Adverse Change</b>	means any matter, event or circumstance which occurs, is announced or becomes known to Bidder after the date of this document which (individually or when aggregated with all such matters, events or circumstances) has resulted in or is likely to result in the value of consolidated net assets of the Target Group being reduced by at least \$2.5 million against what they would have been but for the matters, events or circumstances, but does not include: (a) any matter, event or circumstance arising from changes in economic or business conditions (including changes in commodity prices or currency exchange rates) which impact on Target and its competitors in a similar manner; (b) any change in taxation rates or the law relating to taxation, interest rates or general economic conditions which impact on Target and its competitors in a similar manner; (c) any change in accounting policy required by law; (d) any change occurring directly or indirectly as a result of any matter, event or circumstance required by this

Term	Definition
<b>Target Prescribed Occurrence</b>	document, the Scheme or the transactions contemplated by them; or
	(e) anything which is fully and fairly disclosed in an ASX filing by the Bidder prior to the Execution Date
	means:
	(a) <b>(conversion)</b> : Target converts all or any of its shares into a larger or smaller number of shares;
	(a) <b>(reduction of share capital)</b> : Target resolves to reduce its share capital in any way;
	(b) <b>(buy-back)</b> : Target: <ul style="list-style-type: none"> <li>(i) enters into a buy-back agreement; or</li> <li>(ii) resolves to approve the terms of a buy-back agreement under the Corporations Act;</li> </ul>
	(c) <b>(distribution)</b> : Target makes or declares, or announces an intention to make or declare, any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie);
	(d) <b>(issuing or granting shares or options)</b> : a member of the Target Group: <ul style="list-style-type: none"> <li>(i) issues shares;</li> <li>(ii) grants an option over its shares; or</li> <li>(iii) agrees to make such an issue or grant such an option,</li> </ul>
	in each case to a person outside the Target Group;
	(e) <b>(securities or other instruments)</b> : a member of the Target Group: <ul style="list-style-type: none"> <li>(i) issues securities or other instruments convertible into shares or debt securities; or</li> <li>(ii) agrees to issue securities or other instruments convertible into shares or debt securities,</li> </ul>
in each case to a person outside the Target Group;	
(f) <b>(constitution)</b> : a member of the Target Group adopts a new constitution or modifies or repeals its constitution or a provision of it;	
(g) <b>(disposals)</b> : a member of the Target Group disposes, or agrees to dispose of the whole or a substantial part of its business or property;	
(h) <b>(acquisitions, disposals or tenders)</b> : a member of the Target Group: <ul style="list-style-type: none"> <li>(i) acquires or disposes of (including by farm-out);</li> <li>(ii) agrees to acquire or dispose of; or</li> <li>(iii) offers, proposes, announces a bid or tenders for, any business, assets, interest in a joint venture, entity or undertaking, the value of which exceeds \$200,000;</li> </ul>	
(i) <b>(Encumbrances)</b> : a member of the Target Group creates any Encumbrance over the whole or a substantial part of its business or property (other than in the ordinary course of business and other than a lien which arises by	

Term	Definition
	operation of law or legislation securing an obligation not yet due and consistent with past practice);
(j)	<p><b>(employment arrangements):</b> a member of the Target Group:</p> <ul style="list-style-type: none"> <li>(i) materially increases the remuneration of, or otherwise varies the employment arrangements with, any of its directors or employees;</li> <li>(ii) accelerates the rights of any of its directors or employees to compensation or benefits of any kind; or</li> <li>(iii) pays any of its directors or employees a termination or retention payment (otherwise than in accordance with an existing contract which, at the date of this document, is in place and has been disclosed to Bidder),</li> </ul> <p>other than in the ordinary course of business or as a result of contracted arrangements that are consistent with past practice and in effect at the date of this document;</p>
(k)	<p><b>(commitments and settlements):</b> a member of the Target Group:</p> <ul style="list-style-type: none"> <li>(i) enters into any contract or commitment involving revenue or expenditure by the Target Group of more than \$200,000 over the term of the contract or commitment;</li> <li>(ii) terminates or amends in a material manner any contract material to the conduct of the Target Group's business or which involves revenue or expenditure of more than \$200,000 over the term of the contract;</li> <li>(iii) waives any material third party default where the financial impact on the Target Group will be in excess of \$200,000; or</li> <li>(iv) accepts as a settlement or compromise of a material matter (relating to an amount in excess of \$200,000) less than the full compensation due to Target or a Subsidiary of Target;</li> </ul>
(l)	<p><b>(financial arrangements):</b> a member of the Target Group amends (or agrees to amend) in any material respect any arrangement with its financial advisers in respect of the transactions contemplated by this document;</p>
(m)	<p><b>(capital expenditure):</b> a member of the Target Group undertakes or agrees to undertake capital expenditure in excess of \$200,000 in aggregate;</p>
(n)	<p><b>(insolvency):</b> an Insolvency Event occurs in relation to any member of the Target Group;</p>
(o)	<p><b>(financial indebtedness)</b> a member of the Target Group provides financial accommodation (irrespective of what form of Financial Indebtedness that accommodation takes) in excess of \$200,000;</p>

Term	Definition
	<p>(p) <b>(derivatives)</b> a member of the Target Group enters into any agreement, arrangement or transaction with respect to derivative instruments (including swaps, futures contracts, forward commitments, commodity derivatives or options) or similar instruments, except foreign currency hedges made in the ordinary course of business and in accordance with past practice;</p> <p>(q) <b>(breach of law)</b> a member of the Target Group takes or omits to take action which results in a breach of law material to a member of the Target Group;</p> <p>(r) <b>(accounting policy)</b> a member of the Target Group changes any accounting policy applied by them to report their financial position, unless required by law;</p> <p>(s) <b>(related party)</b> a member of the Target Group enters into or resolves to enter into a transaction with any related party of Target as defined in section 228 of the Corporations Act;</p> <p>(t) <b>(tax liability)</b> Target or any other member of the Target Group does anything that results in a taxable gain for the Target Group by either causing a Subsidiary to cease being a member of the Target Group or causing the Target Group to cease being a Consolidated Group;</p> <p>(u) <b>(off-take)</b> a member of the Target Group entering into off-take or similar arrangements with respect to production from the Pisolite Hills or Bauxite Hills projects, provided that a Target Prescribed Occurrence does not include:</p> <p>(v) any issue of Target Shares pursuant to: (i) the exercise of options over unissued Target Shares, which options were granted before the date of this document; (ii) the vesting or exercise of employee rights or like interests, which were committed before the date of this document (ii) the conversion of the RCF Notes in accordance with the terms of the RCF Note Conversion Agreement;</p> <p>(w) any grant of options over unissued Target Shares in accordance with the RCF Note Conversion Agreement;</p> <p>(x) any matter required to be done or procured by Target pursuant to this document or which is contemplated by the Scheme;</p> <p>(y) anything in connection with the Bidder Note (including entry into documents in connection with the Bidder Note);</p> <p>(z) entry into, or completion of transactions contemplated by, agreements in respect of the transfer of EPM15054 and MLA20611 (the Hey Point tenements); or</p> <p>(aa) any other matter, the undertaking of which Bidder has approved in writing.</p>
<b>Target Representations and Warranties</b>	means the representations and warranties of Target set out in Schedule 2.
<b>Target Shareholders</b>	means each registered as the holder of Target Shares.
<b>Target Share</b>	means a fully paid ordinary share in Target.



<b>Term</b>	<b>Definition</b>
<b>Tax Act</b>	means the <i>Income Tax Assessment Act 1997</i> (Cth).
<b>Timetable</b>	means the indicative timetable included in Schedule 3.
<b>Transaction</b>	means the acquisition of Target by Bidder under the Scheme, in accordance with the terms of this document.

## **1.2 Interpretation**

In this document:

- (a) a singular word includes the plural and vice versa;
- (b) a word which suggests one gender includes the other gender;
- (c) a reference to a clause, schedule, annexure or party is a reference to a clause of, and a schedule, annexure or party to, this document and references to this document include any schedules or annexures;
- (d) a reference to a party to this document or any other document or agreement includes the party's successors, permitted substitutes and permitted assigns;
- (e) if a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- (f) a reference to a document or agreement (including a reference to this document) is to that document or agreement as amended, supplemented, varied or replaced;
- (g) a reference to this document includes the agreement recorded by this document;
- (h) a reference to legislation or to a provision of legislation (including subordinate legislation) is to that legislation as amended, re-enacted or replaced, and includes any subordinate legislation issued under it;
- (i) if any day on or by which a person must do something under this document is not a Business Day, then the person must do it on or by the next Business Day;
- (j) a reference to a person includes a corporation, trust, partnership, unincorporated body, government and local authority or agency, or other entity whether or not it comprises a separate legal entity; and
- (k) a reference to 'month' means calendar month.

## **2 Agreement to proceed with the transaction**

- (a) Target agrees to propose the Scheme upon and subject to the terms of this document.
- (b) Bidder agrees to assist Target to propose the Scheme upon and subject to the terms of this document.

### 3 Conditions precedent and pre-implementation steps

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#### 3.1 Conditions precedent

Subject to this clause 3, the obligations of Bidder under clause 4.2 are not binding, until each of the following conditions precedent is satisfied or waived to the extent and in the manner set out in clauses 3.2 and 3.3.

- (a) **Regulatory Approvals:** subject to clause 3.7 ASIC, ASX, FIRB and any other relevant Regulatory Authority issue or provide any consents or approvals or do other acts necessary or desirable to implement the Transaction (together **Regulatory Approvals**) before 8.00 am on the Second Court Date.
- (b) **Court approval:** the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act on or before the End Date.
- (c) **Shareholder approval:** the Target Shareholders agree to the Scheme at the Scheme Meeting by the requisite majorities under the Corporations Act on or before the End Date.
- (d) **Restraints:** no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the Transaction is in effect at 8.00 am on the Second Court Date.
- (e) **No Target Material Adverse Change:** no Target Material Adverse Change occurs between the date of this document and 8.00 am on the Second Court Date.
- (f) **No Bidder Material Adverse Change:** no Bidder Material Adverse Change occurs between the date of this document and 8.00 am on the Second Court Date.
- (g) **No Target Prescribed Occurrence:** no Target Prescribed Occurrence occurs between the date of this document and 8.00 am on the Second Court Date.
- (h) **No Bidder Prescribed Occurrence:** no Bidder Prescribed Occurrence occurs between the date of this document and 8.00 am on the Second Court Date.
- (i) **Target Representations and Warranties:** the Target Representations and Warranties that:
  - (i) are qualified as to materiality are true and correct; and
  - (ii) are not so qualified, are true and correct in all material respects,
 in each case at the date of this document and at 8.00 am on the Second Court Date as though made on and as of that time (except to the extent any such representation or warranty expressly relates to an earlier date, in which case, as of that date).
- (j) **Bidder Representations and Warranties:** the Bidder Representations and Warranties that:
  - (i) are qualified as to materiality are true and correct; and
  - (ii) are not so qualified, are true and correct in all material respects,

in each case at the date of this document and at 8.00 am on the Second Court Date as though made on and as of that time (except to the extent any such representation or warranty expressly relates to an earlier date, in which case, as of that date).

- (k) **Third party consents:** before 8.00 am on the Second Court Date, every person who has or will have a right or rights (whether subject to conditions or not) under any agreement or arrangement:
- (i) which agreement or arrangement is material in the context of Target's business;
  - (ii) to which Target or any member of the Target Group is a party; and
  - (iii) which results, or could result, in any such agreement or arrangement being terminated or varied or any action being taken or arising there under as a result of the implementation of the Scheme (including the exercise of a pre-emptive or similar right),
- provides to Target or any member of the Target Group (as the case may be):
- (iv) their consent to the change in control which will occur if the Scheme is implemented;
  - (v) any consent which is required to implement the Scheme; or
  - (vi) an enforceable, irrevocable and unconditional waiver or release in writing of such right or rights,
- and Target provides a copy of that waiver or release to Bidder.
- (l) **Bidder shareholder approval:** on or before the time for the Scheme Meeting, shareholders of the Bidder agree to the Scheme for the purposes of Listing Rules 11.1, 10.1 and 7.1 (if required).
- (m) **RCF Conversion:** on or before five Business Days from the date of this document, the parties enter into the RCF Note Conversion Agreement and conversion occurs in accordance with the RCF Note Conversion Agreement.
- (n) **RCF Note commitment:** before 8.00 am on the Second Court Date, Bidder enters into binding arrangements satisfactory to Bidder pursuant to which Resource Capital Fund IV L.P. agrees to sell or cancel the RCF Options in exchange for options over unissued Bidder Shares (Bidder Options), where: (i) the number of Bidder Options to be granted is equal to the number of RCF Options multiplied by "n" (as defined in clause 4.2); (ii) the exercise price per Bidder Option is equal to the number of RCF Options multiplied by \$0.17, divided by the number of Bidder Options to be granted; and (iii) the term of the Bidder Options is two years  
**(RCF Note Commitment Arrangements)** and the RCF Note Commitment Arrangement is completed in accordance with its terms.
- (o) **Performance Rights:** before 8.00am on the Second Court Date, the Performance Rights vest and are exercised by the holders.
- (p) **Compliance with documentation:** no person is in material breach as at 8.00am on the Second Court Date of:
- (i) this document;

- (ii) the Bidder Note;
  - (iii) the RCF Note Conversion Agreement.
- (q) **RCF consent:** RCF has given to the Target and has not revoked:
- (i) its consent to change and control which will occur if the Scheme is implemented;
  - (ii) any consent which is required to implement the Scheme;
  - (iii) any consent required to enter into the Bidder Note and Target granting the General Security Deed.

### 3.2 Best endeavours

- (a) Target must use its best endeavours to procure that the conditions precedent in clauses 3.1(e), 3.1(g), 3.1(i), 3.1(m), 3.1(n) and 3.1(o) are satisfied.
- (b) Bidder must use its best endeavours to procure that the conditions precedent in clauses 3.1(f), 3.1(h), 3.1(j), 3.1(l), and 3.1(n) are satisfied.
- (c) Bidder must notify ASX as soon as practicable after execution of this document of the proposed Scheme and transaction in order to obtain an in-principle determination in relation to whether shareholder approval (or compliance with chapters 1 and 2 of the Listing Rules) is required in relation to the Scheme, pursuant to Listing Rule 11.1, as contemplated by the Conditions Precedent in clause 3.1(a) and clause 3.1(l).
- (d) Bidder and Target must each use their best endeavours to procure that the conditions precedent in clauses 3.1(a), 3.1(b), 3.1(c), 3.1(d) and 3.1(k) are satisfied.
- (e) Without limiting clause 3.1(a), each party must apply for, and take any steps to, promptly and without delay, obtain, all relevant Regulatory Approvals and provide to the other a copy of all documents in that regard and any other information requested about the Regulatory Approval.

### 3.3 Waiver of conditions precedent

- (a) The conditions precedent in clauses 3.1(b) and 3.1(c) cannot be waived.
- (b) The conditions precedent in clause 3.1(a), 3.1(d), 3.1(l), 3.1(m), 3.1(n) and 3.1(q) are for the benefit of both parties and any breach or non-fulfilment of that those conditions may only be waived by both parties in writing.
- (c) The condition precedent in clause 3.1(p) is for the benefit of the other party who is not material breach (**Non-Breaching Party**) and may only be waived by the Non-Breaching Party.
- (d) The conditions precedent in clauses 3.1(e), 3.1(g), 3.1(i), 3.1(k), and 3.1(o) are for the sole benefit of Bidder and may be waived by Bidder in writing.
- (e) The conditions precedent in clauses 3.1(f), 3.1(h) and 3.1(j) are for the sole benefit of Target and may be waived by Target in writing.
- (f) If a party waives the breach or non-fulfilment of any of the conditions precedent in clause 3.1, that waiver does not prevent it from suing the other party for any breach of this document that resulted in the breach or non-fulfilment of the condition precedent.

### 3.4 Specific Target Obligations

- (a) Target must:
  - (i) not do anything or fail to do anything that would result in the Target waiving or be deemed to be waiving any right under the RCF Note Conversion Agreement, the RCF Note Commitment Arrangement or any document related to or arising from these documents (**Prescribed Agreements**); and
  - (ii) use its best endeavours to take all action necessary or appropriate that is within its power or control to enforce its rights under and require specific performance of the Prescribed Agreements.
- (b) Target must do all things necessary or appropriate that are within its power or control to ensure that it satisfies its obligations under the Prescribed Agreements.
- (c) Target acknowledges and agrees that a breach of or failure to comply with the obligation in this clause 3.4 will constitute the Target being in material breach of its obligations under this document.

### 3.5 Consultation on failure of condition precedent

- (a) If (except as the result of a default under this document):
  - (i) any event occurs which would prevent any of the conditions precedent in clause 3.1 being satisfied by the date specified for its satisfaction; or
  - (ii) the Scheme has not become Effective by the End Date,

the parties must consult in good faith to determine whether to:

  - (iii) proceed with the Transaction by way of alternative means or methods;
  - (iv) change the date of or adjourn the application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme to another date agreed to in writing by the parties (being a date no later than five Business Days before the End Date); or
  - (v) extend the relevant date or End Date.
- (b) If the parties are unable to reach agreement under clause 3.4(a) within five Business Days of becoming aware of the relevant occurrence, then, unless:
  - (i) that condition precedent is waived by Target or Bidder as provided in clause 3.3; or
  - (ii) the relevant occurrence, failure of the condition precedent to be satisfied or failure of the Scheme to become Effective arises out of a breach of this document by the terminating party,

either party may terminate this document without any liability to the other party because of that termination.

### **3.6 Certain notices**

- (a) Each party must promptly advise the other party of any change or event which causes (or, so far as can reasonably be foreseen, would cause):
  - (i) a representation or warranty provided by the party in this document to be false;
  - (ii) a breach or non-fulfilment of any of the conditions precedent; or
  - (iii) a material breach of this document by the party.
- (b) If an event that will prevent the satisfaction of a condition precedent occurs before the time specified for satisfaction of that condition precedent:
  - (i) the party with knowledge of that event must immediately give the other party written notice of that event; and
  - (ii) a party that has the right to waive that condition precedent must give written notice to the other party as soon as practicable, specifying:
    - (A) the relevant condition precedent; and
    - (B) whether or not it waives the breach or non-fulfilment of that condition precedent.
- (c) A waiver of a breach or non-fulfilment in respect of one condition precedent does not constitute:
  - (i) a waiver of breach or non-fulfilment of any other condition precedent resulting from the same event; or
  - (ii) a waiver of breach or non-fulfilment of that condition precedent resulting from any other event.

### **3.7 Regulatory Approval**

For the purposes of clause 3.1(a), a Regulatory Approval will be regarded as having been obtained if the parties agree in writing to treat the approval as having been obtained, even if a condition has been attached to that Regulatory Approval.

### **3.8 ASX Approval**

Despite anything in this document or clause 3.7 any Regulatory Approval imposed by ASX requiring, as a condition of that Regulatory Approval that Bidder must comply with Listing Rule 11.1.3 will not be regarded as that Regulatory Approval being obtained.

## **4 Transaction steps**

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### **4.1 Scheme**

Target must propose a scheme of arrangement under which:

- (a) all of the Scheme Shares will be transferred to Bidder; and

- (b) the Scheme Shareholders will be entitled to receive the Scheme Consideration in accordance with clauses 4.2, 4.3 and 4.4.

#### 4.2 Scheme Consideration

Bidder must, in consideration of the transfer to Bidder of each Scheme Share pay the Scheme Consideration, calculated as set out below, to each Scheme Shareholder in accordance with the Scheme and the Deed Poll subject to clauses 4.3 and 4.4:

$$N = \frac{\frac{M}{0.45} - M}{C}$$

Where:

- (a) **N** is the number of Bidder Shares for each Target Share;
- (b) **M** is the number of Bidder Shares on issue on the Implementation Date; and
- (c) **C** is the number of Target Shares on issue on the Implementation Date (and includes the 41,666,667 fully paid Target Shares issued to RCF by the Target on conversion of the RCF Note at \$0.12 per Share, Target Shares issued to RCF as payment of interest on the RCF Note to the date of conversion and the Target Shares issued on exercise of the Performance Rights).

#### 4.3 Ineligible Foreign Shareholders

- (a) A Target shareholder residing in a jurisdiction outside of Australia or New Zealand (as shown in the register of Target shareholders) will be an Ineligible Foreign Shareholder, unless the Bidder in its sole discretion determines that the laws of that Target shareholder's jurisdiction permit the offer and issue of the Scheme Consideration, either unconditionally or after compliance with conditions which Bidder in its sole discretion regards as acceptable and not unduly onerous.
- (b) The Bidder acknowledges that it will use its reasonable endeavours to ensure that Target Shareholders residing in Cyprus (as shown in the register of Target shareholders) will not be Ineligible Foreign Shareholders.

#### 4.4 Obligations to provide the Scheme Consideration

- (a) Bidder will be under no obligation to issue any Bidder shares under the Scheme to any Ineligible Foreign Shareholder and instead the Bidder Shares that would otherwise have been issued to Ineligible Foreign Shareholders will be issued to a nominee (**Nominee**) on the Implementation Date.
- (b) Bidder will use its best and reasonable endeavours to:
- (i) procure that the Nominee sells all of the Bidder Shares issued to the Nominee within 15 Business Days after the Implementation Date; and
- (ii) procure the remittance to the Ineligible Foreign Shareholders of their proportion of the net proceeds, which amount will satisfy in full the rights of each Ineligible Foreign Shareholder to the Scheme Consideration.

- (c) The Ineligible Foreign Shareholder will receive an amount equivalent to such fraction of the proceeds of sale (after deduction of reasonable fees of the Nominee, brokerage, taxes and other reasonable costs of sale) as is equal to the number of MTE Shares which would have been issued to the Ineligible Foreign Shareholder under the Scheme divided by the total number of MTE Shares issued to the Nominee under the Scheme.
- (d) The Bidder Shares will be sold on ASX on behalf of the Ineligible Foreign Shareholders in such manner and at such price and on such other terms as the Nominee determines in its absolute discretion (and at the risk of the Ineligible Foreign Shareholder).
- (e) Target, Bidder and the Nominee give no assurance as to the price that will be achieved for the sale of MTE Shares described above.
- (f) The net proceeds of the sale of the Bidder Shares will be paid to each relevant Ineligible Foreign Shareholder as soon as reasonably practicable following the sale of such Bidder Shares by the Nominee, by making a deposit into an account with an Australian bank nominated by the Ineligible Foreign Shareholder to the Bidder share registry as at the Record Date. If the relevant Ineligible Foreign Shareholder does not have a nominated Australian bank account which has been notified to the Bidder share registry as at the Record Date, the Ineligible Foreign Shareholder will be sent a cheque drawn on an Australian bank in Australian currency for the net proceeds of the sale of the Bidder Shares. If the relevant Ineligible Foreign Shareholder's whereabouts are unknown as at the Record Date, the relevant cash consideration will be paid into a separate bank account and held until claimed or applied under laws dealing with unclaimed moneys.
- (g) Under the Scheme, each Ineligible Foreign Shareholder appoints Bidder as its agent to receive on its behalf any financial services guide or other notices which may be issued by the Nominee.

## 5 Implementation

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### 5.1 Target's obligations

Target must take all necessary steps to implement the Scheme in accordance with the Timetable and otherwise as soon as practicable, including doing any acts on behalf of Target Shareholders, and including each of the following:

- (a) **Preparation of Scheme Booklet:** Target must prepare and despatch the Scheme Booklet in accordance with all applicable laws and in particular:
  - (i) the Corporations Act;
  - (ii) ASIC Regulatory Guide 60;
  - (iii) ASIC Regulatory Guide 142; and
  - (iv) the Listing Rules,

in consultation with Bidder as to the content and presentation of the Scheme Booklet (which consultation must include obtaining Bidder's consent to the inclusion of the Bidder Information). The Scheme Booklet must include:

  - (v) the Scheme;



- (vi) an explanatory statement complying with the requirements of the Corporations Act;
  - (vii) an Independent Expert's Report;
  - (viii) notices of meeting and proxy forms in the form the parties agree; and
  - (ix) a statement that the members of the Target Board unanimously recommend that Target Shareholders vote in favour of the Scheme;
- (b) **Independent Expert:** promptly appoint the Independent Expert and provide assistance and information reasonably requested by the Independent Expert to enable it to prepare its report for the Scheme Booklet as soon as practicable;
  - (c) **Bidder Information:** obtain written approval from Bidder as to the form and content of the Bidder Information which is to appear in the Scheme Booklet;
  - (d) **ASIC review period:** provide the Regulator's Draft to ASIC and liaise with ASIC during the period of its consideration of the Regulator's Draft;
  - (e) **access to information:** provide to Bidder and its authorised representatives reasonable access to employees, offices and other facilities, and to the books and records, of Target and its Subsidiaries for the purpose of implementing the Transaction;
  - (f) **section 411(17)(b) statement:** apply to ASIC for the production of a statement under section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme;
  - (g) **court direction:** apply to the Court for orders directing Target to convene the Scheme Meeting;
  - (h) **Scheme Meeting:** convene the Scheme Meeting to approve the Scheme in accordance with the orders made by the Court under section 411(1) of the Corporations Act;
  - (i) **shareholder approval:** seek the approval of Target Shareholders for the Scheme;
  - (j) **Court approval:** (subject to all conditions precedent in clause 3.1 being satisfied or waived other than the condition precedent mentioned in clause 3.1(b)) apply to the Court for orders approving the Scheme as approved by the Target Shareholders at the Scheme Meeting;
  - (k) **lodge copy of Court order:** lodge with ASIC an office copy of the Court order approving the Scheme as agreed to by the Target Shareholders at the Scheme Meeting on the day the office copy is received (or such later date as agreed in writing by Bidder) and notify ASX in accordance with the Listing Rules;
  - (l) **information:** provide all information about the Scheme and Target Shareholders to Bidder which Bidder reasonably requires in connection with the Scheme, including to order to facilitate the provision by Bidder of the Scheme Consideration;
  - (m) **appeal process:** if the Court refuses to make any orders directing Target to convene the Scheme Meetings or approving the Scheme, appeal the Court's decision to the fullest extent possible (except to the extent that the parties agree otherwise, or an independent Queen's Counsel or Senior Counsel acceptable to Bidder (acting reasonably) indicates that, in his or her view, an appeal would have no reasonable prospect of success);

- (n) **registration:** register all transfers of Target Shares on the Implementation Date.

## 5.2 Bidder's obligations

Bidder must take all necessary steps to implement the Scheme in accordance with the Timetable and otherwise as soon as is reasonably practicable, including doing each of the following:

- (a) **Bidder Information:** Bidder must prepare and provide to Target the Bidder Information for inclusion in the Scheme Booklet;
- (b) **Independent Expert's report:** Bidder must provide any assistance or information reasonably requested by the Independent Expert in connection with the preparation of the Independent Expert's Report to be sent together with the Scheme Booklet;
- (c) **Representation:** Bidder must procure that it is represented by counsel (who may be a sufficiently qualified lawyer, solicitor or barrister) (**Legal Representative**) at the Court hearings convened for the purposes of section 411(4)(b) of the Corporations Act, at which through its Legal Representative, Bidder will undertake (if requested by the Court) to do all such things and take all such steps within its power as are necessary in order to ensure the fulfilment of its obligations under this document and the Scheme;
- (d) **review of Scheme Booklet:** as soon as practicable after delivery, review the drafts of the Scheme Booklet prepared by Target and provide comments in good faith;
- (e) **approval of Scheme Booklet:** as soon as practicable after the review by ASIC of the Scheme Booklet, procure that a meeting of the Bidder Board (or a committee of the Bidder Board appointed for the purpose) is convened to consider approving those sections of the Scheme Booklet that relate to Bidder as being accurate and in a form appropriate for despatch to the Target Shareholders subject to approval of the Court;
- (f) **Deed Poll:** prior to the First Court Hearing, execute the Deed Poll;
- (g) **Share transfer:** if the Scheme becomes Effective, Bidder must accept a transfer of the Scheme Shares as contemplated by the Scheme; and
- (h) **Scheme Consideration:** if the Scheme becomes Effective, Bidder must issue the Scheme Consideration in accordance with the Scheme, the Deed Poll and clause 4.

## 5.3 Indicative timetable

- (a) The parties acknowledge that the Timetable has been prepared on the basis of the parties' best estimate of the timing of key events for the Scheme, and that certain events may be delayed for reasons outside of the control of the parties, including without limitation:
  - (i) the period of consideration by ASIC of the draft Scheme Booklet;
  - (ii) the Court hearing to obtain orders to convene the Scheme Meeting may occur after the time specified in the above timetable; and
  - (iii) the Court hearing to obtain orders approving the Scheme may occur after the time specified in the above timetable.
- (b) In the case of any delay, the parties will in good faith endeavour to agree to a substitute Timetable (to the extent possible, with the same relative timing between events), while

having regard to (amongst other things) the desire of each party to complete the Transaction as soon as is practicable.

#### **5.4 Conduct of Business**

Other than with the prior approval of Bidder or as required by this document, Target and Bidder must, during the period from the date of this document up to and including the Implementation Date:

- (a) take all reasonable steps to conduct its business in the ordinary and proper course and in substantially the same manner as previously conducted;
- (b) use all reasonable endeavours to identify any change of control or similar provisions in any significant contracts or any joint venture documentation and obtain the consents of relevant persons who have rights in respect of those contracts to the transactions contemplated in the Scheme; and
- (c) use best endeavours to meet their respective budgets in the Bidder Note, Annexure E and Annexure F (being the total expenditures under those budgets, rather than individual line items), and otherwise minimise expenditure, including, to the extent practicable, reducing contractor, employee and project expenditure;
- (d) notify the other party of any material departure from their budgets in the Bidder Note, Annexure E and Annexure F.

#### **5.5 Board and management changes**

As soon as practicable on the Implementation Date, the Bidder will do all things within its control to procure that the Bidder Board and management of the Bidder Group is reconstituted, such that:

- (a) Bidder will nominate the chairman of Bidder;
- (b) Target will nominate the managing director of Bidder;
- (c) Bidder will nominate a director to represent the interests of Metallica Minerals Limited and one additional non-executive director of the Bidder;
- (d) Target will nominate two independent non-executive directors of Bidder;
- (e) the current chairman of Target, the current chairman of Bidder and the managing director nominated under clause (b) will agree the management positions of Bidder to be put to the Board for approval as soon as practicable and, in any event, before lodgement of the Scheme Booklet in accordance with clause 5.1(d);
- (f) any other directors of the Target Board and Bidder Board not appointed in accordance with this clause will resign and provide written notice that they have no claim outstanding for loss of office, remuneration or otherwise against Target or Bidder (as the case requires).

The Board nominations referred to in this clause 5.5 will be made as soon as practicable and, in any event, before lodgement of the Scheme Booklet in accordance with clause 5.1(d). It is proposed that the chairman of the audit committee of Bidder will be appointed from the independent directors nominated above, however, in the longer term, the reconstituted Bidder Board will consider appointing an appropriately qualified non-executive director to the Bidder Board who will serve as chairman of the audit committee of Bidder.

## **5.6 Bidder's access to information**

Prior to the Implementation Date, Target must keep Bidder informed of all material developments relating to or affecting the Target Group, its financial position and its prospects.

## **5.7 Target Board recommendation**

- (a) Subject to clause 5.7(b):
  - (i) the Target Board must unanimously recommend that Target Shareholders vote in favour of the Scheme, and any other resolutions, at the Scheme Meeting; and
  - (ii) the Scheme Booklet must include a statement by the Target Board to that effect.
- (b) The Target Board must not change, withdraw or modify its recommendation in favour of the Transaction unless the Target Board, in good faith, has first obtained written advice from a Queen's Counsel or Senior Counsel who is acceptable to Bidder that the Target Board is, by virtue of its fiduciary duties, required to change, withdraw or modify its recommendation.
- (c) If clause 5.7(b) applies, a copy of the written advice (including all reasoning forming the basis for that advice) must be provided to Bidder prior to the change, withdrawal or modification of the Target Board's recommendation.

## **5.8 Bidder shareholder approval**

- (a) To the extent that Bidder shareholder approval is required to satisfy the condition precedent in clause 3.1(l), or otherwise, at the Bidder's next annual general meeting, the Bidder Board must seek the necessary Bidder Shareholder approvals and unanimously recommend that Bidder Shareholders vote in favour of the resolution(s), and must propose resolutions to consolidate Bidder's share capital on a 1 for 10 basis.
- (b) As soon as is reasonable and practicable following the Bidder Board and Target Board agreeing in consultation on a new name for the Bidder (subject to and conditional upon Implementation of the Scheme) the Bidder must propose and recommend a resolution at a meeting of Bidder shareholders to vote on the proposed new name in accordance with the Corporations Act and any other requirements regarding changing a company name.

## **5.9 Implementation and joint management committee**

To plan the implementation of the Scheme, and the conduct of the business of the merged entity, the parties will form an implementation committee on or about the date of this document, one representative (and an alternate) for each of Bidder and Target, and those persons will meet on a regular basis to coordinate implementation of the Scheme. In addition, the parties will form a joint management committee (**JMC**) of executives on or about the date of this document, to ensure that the management team of each party is aware of the activities of the other. The JMC will ensure that each party is given a copy of all board papers (in advance of the relevant board meeting) and all board minutes (promptly after the relevant board meeting) of the other party, redacted to the extent that the papers or minutes address matters connected to the Scheme that may be inappropriate to provide.

## **6 Representations and warranties**

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### **6.1 Bidder Representations and Warranties**

Bidder represents and warrants to Target (in its own right and separately as trustee for each of the other Target Indemnified Parties) each of the Bidder Representations and Warranties.

### **6.2 Bidder warranty certificate**

By 5.00pm on the Business Day immediately prior to the Second Court Date, Bidder must GIVE Target a certificate signed by a director of Bidder and made in accordance with a resolution of the Bidder Board stating that, at that date:

- (a) the representations and warranties given by Bidder in clause 6.1 remain true and accurate; or
- (b) if any such representation or warranty is not true and accurate at that date, providing complete particulars of the facts and matters which make the representation or warranty untrue or inaccurate.

### **6.3 Bidder's indemnity**

Bidder agrees with Target (in its own right and separately as trustee for each of the other Target Indemnified Parties) to indemnify the Target Indemnified Parties against any claim, action, damage, loss, liability, cost, expense or payment of whatever nature and however arising which any of the Target Indemnified Parties suffers, incurs or is liable for arising out of any breach of any of the representations and warranties in clause 6.1.

### **6.4 Target Representations and Warranties**

Target represents and warrants to Bidder (in its own right and separately as trustee for each of the other Bidder Indemnified Parties) each of the Target Representations and Warranties.

### **6.5 Target warranty certificate**

By 5.00pm on the Business Day immediately prior to the Second Court Date, Target must provide to Bidder a certificate signed by a director of Target and made in accordance with a resolution of the Target Board stating that, at that date:

- (a) the representations and warranties given by Target in clause 6.4 remain true and accurate; or
- (b) if any such representation or warranty is not true and accurate at that date, providing complete particulars of the facts and matters which make the representation or warranty untrue or inaccurate.

### **6.6 Target's indemnity**

Target agrees with Bidder (in its own right and separately as trustee or nominee for each Bidder Indemnified Party) to indemnify Bidder and each of the other Bidder Indemnified Parties from any claim, action, damage, loss, liability, cost, expense or payment of whatever nature and however arising which Bidder or any of the other Bidder Indemnified Parties suffers, incurs or is liable for arising out of any breach of any of the representations and warranties in clause 6.4.

## 6.7 Survival of representations

Each representation and warranty in clauses 6.1 and 6.4:

- (a) is severable;
- (b) survives the termination of this document; and
- (c) is given with the intention that liability under it is not confined to breaches which are discovered before the date of termination of this document.

## 6.8 Survival of indemnities

Each indemnity in this document (including those in clauses 6.3 and 6.6):

- (a) is severable;
- (b) is a continuing obligation;
- (c) constitutes a separate and independent obligation of the party giving the indemnity from any other obligations of that party under this document; and
- (d) survives the termination of this document.

## 6.9 Timing of warranties

Each representation and warranty made or given under clauses 6.1 or 6.4 is given:

- (a) at the date of this document;
- (b) on each day from the date of this document to the Second Court Date; and
- (c) at 8.00 am on the Second Court Date,

except to the extent any such representation or warranty expressly relates to an earlier date (in which case, at that date).

## 7 Break fee

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### 7.1 Acknowledgements

- (a) Each party acknowledges that the other has incurred or will incur significant external advisory costs, internal costs of a similar kind and opportunity costs (**Costs**) in relation to the Scheme (**Transaction**) and will incur further Costs if the Transaction is announced but does not proceed to completion.
- (b) Each party acknowledges that:
  - (i) it has received legal advice on this document and the operation of this clause;
  - (ii) it would not have entered into this document without the benefit of this clause and that it would not have entered into and continue the negotiations leading up to this document unless the other party had agreed to enter into a clause of this kind; and

- (iii) it considers this clause to be fair and reasonable and that it is appropriate to agree to the terms in this clause in order to secure the significant benefits to it (and its shareholders) resulting from the Transaction.

## 7.2 Agreement on costs

- (a) The parties acknowledge that the amount of the costs is inherently unascertainable and that, even after termination of this document, the Costs will not be able to be accurately ascertained. As a genuine and reasonable pre-estimate of Costs that each party will suffer in the event of the Transaction not proceeding, the parties agree that for the purposes of this clause (and in particular for the purposes of clause 7.3), the Costs will be an amount being \$250,000.
- (b) In the event that it is finally judicially or administratively determined that this clause or the reimbursement of all or any part of the Costs is or was or would be:
  - (i) a breach of the duties of the directors of the party; or
  - (ii) illegal on any other basis;

then the reimbursement to that extent only will not be made or, if made, will be refunded.

## 7.3 Reimbursement of costs

- (a) Target (**Reimbursing Party**) agrees to reimburse Bidder (**Recipient Party**) for the total Costs of the Recipient Party as quantified by clause 7.2 if at any time after the entry into this document and before completion of the Transaction any of the following occurs:
  - (i) a Superior Proposal is publically announced which results in the proponent of the proposal receiving acceptances from holders of not less than 50% of all Target Shares; or
  - (ii) Bidder terminates this document as a result of Target being in material breach of its obligations under this document.
- (b) Bidder (**Reimbursing Party**) agrees to reimburse Target (**Recipient Party**) for the total Costs of the Recipient Party as quantified by clause 7.2 if at any time after the entry into this document and before completion of the Transaction any of the following occurs:
  - (i) a proposal is publically announced which results in the proponent of the proposal receiving acceptances from holders of not less than 50% of all Bidder Shares; or
  - (ii) Target terminates this document as a result of Bidder being in material breach of its obligations under this document.
- (c) The reimbursement of Costs by the Reimbursing Party to the Recipient Party provided for in this clause must be made within five Business Days of receipt of a written demand for payment by the Recipient Party.

## 8 Public announcement

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Immediately after the execution of this document, Target and Bidder must issue public announcements in a form previously agreed to in writing, including a statement that:

- (a) it is the unanimous recommendation by the directors of Target to the Target Shareholders that they vote in favour of the Scheme; and
- (b) all the members of the Target Board intend to vote all the Target Shares controlled by them in favour of the Scheme.

## **9 Confidentiality**

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### **9.1 Confidentiality deed**

Each party continues to be bound by the Confidentiality Deed after the date of this document.

### **9.2 Survival of obligations**

The rights and obligations of the parties under the Confidentiality Deed survive termination of this document.

## **10 Exclusivity**

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### **10.1 No existing discussions**

Each of Target and Bidder represents and warrants to the other that, other than the discussions with the other party in respect of the Scheme, it is not currently in negotiations or discussions in respect of any Competing Transaction with any person.

### **10.2 No-talk**

During the Exclusivity Period, each of Target and Bidder must ensure that no member of the Target Group, the Bidder Group, nor any of their directors, employees, officers or agents (as the case requires) directly or indirectly:

- (a) participate in any negotiations or discussions;
- (b) provide or make available any information (including by way of providing information and access to perform due diligence); or
- (c) communicate any intention to do any of the things described in paragraphs (a) and (b) above,

in respect of any Competing Transaction, including in response to any unsolicited approach, expression of interest, offer or proposal by any person in relation to any Competing Transaction.

### **10.3 No-shop**

During the Exclusivity Period, each of Target and Bidder must ensure that no member of the Target Group, the Bidder Group, nor any of their directors, employees, officers or agents (as the case requires) directly or indirectly:

- (a) solicits, invites, facilitates, encourages or initiates any enquiries, negotiations or discussions; or
- (b) communicates any intention to do any of these things,



with a view to obtaining any approach, expression of interest, offer or proposal from any person in relation to a Competing Transaction.

#### **10.4 Limitation to no-talk**

Clause 10.2 does not prevent a party from undertaking an act otherwise prohibited by clause 10.2 with respect to a Competing Proposal if not undertaking that act would, in the opinion of the Target Board or the Bidder Board (as the case requires) determined in good faith and based on the written opinion of Queens' Counsel or Senior Counsel:

- (a) that the Competing Proposal could reasonably be considered to be a Superior Proposal; or
- (b) otherwise be unlawful.

Prior to undertaking an act that is otherwise prohibited by clause 10.2 but permitted by this clause 10.4, each party must provide to the other party a copy of the written legal opinion, including all reasoning forming the basis for that opinion.

#### **10.5 Notification of approaches**

During the Exclusivity Period, each of Target and Bidder must notify the other party promptly if it becomes aware of any:

- (a) negotiations or discussions;
- (b) approach or attempt to initiate any negotiations or discussions; or
- (c) intention to make such an approach or attempt to initiate any negotiations or discussions,

in respect of any approach, expression of interest, offer or proposal of a kind referred to in clause 10.2 or 10.3 made to Target or Bidder (as the case requires), and provide in writing to the other party the identity of the person and a copy or details of such approach, expression of interest or offer or proposal.

### **11 Conduct of court proceedings**

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- (a) Target and Bidder are entitled to separate representation at all Court proceedings affecting the Transaction.
- (b) This document does not give Target or Bidder any right or power to give undertakings to the Court for or on behalf of the other party without that party's consent.
- (c) Target and Bidder must give all undertakings to the Court in all Court proceedings which are reasonably required to obtain Court approval and confirmation of the Transaction as contemplated by this document.

### **12 Termination**

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#### **12.1 Termination**

- (a) Without prejudice to any other rights of termination under this document, either party may terminate this document by written notice to the other party:

- (i) at any time before 8.00 am on the Second Court Date if:
    - (A) the other party is in material breach of any provision of this document, the party wishing to terminate has given written notice to the other party setting out the relevant circumstances and stating an intention to terminate, and the relevant circumstances continue to exist 10 Business Days (or any shorter period ending at 5.00 pm on the day before the Second Court Date) from the time the notice is given;
    - (B) a Court or Government Agency has taken any action permanently restraining or otherwise prohibiting the Transaction, or has refused to do any thing necessary to permit the Transaction, and the action or refusal has become final and cannot be appealed;
    - (C) the other party breaches its obligations under clauses 10.2 or 10.3;
    - (D) there is a Material Adverse Change in relation to the other party; or
    - (E) there is a Prescribed Occurrence in relation to the other party;
  - (ii) at any time after the End Date if the Second Court Date does not occur on or before the End Date; or
  - (iii) in the circumstances set out in, and in accordance with, clause 3.5(b).
- (b) Bidder or Target may terminate this document by written notice to the other at any time before 8.00am on the Second Court Date if Target receives a Superior Proposal, which the Bidder does not match or better within 3 Business Days of notification.

## **12.2 Effect of termination**

If this document is terminated by either Target or Bidder under clauses 3.5(b) or 12.1:

- (a) this document becomes void and has no effect (other than the provisions of this clause 12 and of clauses 6.1, 6.7, 6.8, 9, 13.1, 13.2, 14, 15.8 and 15.11, which will remain in force after termination); and
- (b) no party has any rights against or obligations to the other party under this document except to the extent that those rights and obligations accrued prior to termination.

## **12.3 Terminable in writing**

This document is terminable if agreed to in writing by Bidder and Target.

# **13 Duty, costs and expenses**

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## **13.1 Stamp duty**

Bidder must pay all stamp duties and any fines and penalties with respect to stamp duty in respect of this document or the Scheme or the steps to be taken under this document or the Scheme.

### **13.2 Costs and expenses**

Except for costs in negotiating this document and other related transaction documents (including the RCF Note Conversion Agreement and any agreements required to satisfy any of the conditions precedent, for example, the agreement to be entered into under clause 3.1(m) or 3.1(n)), each party must share equally the costs and expenses in connection with implementation of the Scheme, including preparation of the Scheme Booklet, legal and counsel's fees, application fees and like costs and expenses.

## **14 GST**

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- (a) The consideration specified under this document is exclusive of GST.
- (b) If GST is or becomes payable on a supply made under or in connection with this document, an additional amount is payable by the recipient equal to the amount of GST payable on that supply as calculated by the supplier in accordance with the GST Act.
- (c) The additional amount payable under clause 14(b) is payable at the same time and in the same manner as the consideration for the supply.
- (d) If the amount of GST payable on a supply varies from the additional amount payable under clause 14(b), the parties must adjust the additional amount.
- (e) If a party is entitled to be reimbursed or indemnified under this document, the amount payable does not include any amount for GST for which the party is entitled to an Input Tax Credit.
- (f) Any reference in this clause to an Input Tax Credit to which a party is entitled includes an Input Tax Credit arising from a creditable acquisition by that party but to which the representative member of a GST group of which the party is a member is entitled.

## **15 General**

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### **15.1 No representation or reliance**

Each party acknowledges:

- (a) that no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this document, except for representations or inducements expressly set out in this document;
- (b) that it does not enter into this document in reliance on any representation or other inducement by or on behalf of any other party, except for any representation or inducement expressly set out in this document; and
- (c) that clauses 15.1(a) and (b) do not prejudice any rights a party may have in relation to information which has been filed by the other party with any Regulatory Authority.

### **15.2 Amendments**

This document may only be amended by written agreement between all parties.

### **15.3 Assignment**

A party may only assign this document or a right under this document with the written consent of the other party.

### **15.4 Counterparts**

This document may be executed in any number of counterparts. All counterparts together make one instrument.

### **15.5 Entire agreement**

- (a) This document supersedes all previous agreements about its subject matter and embodies the entire agreement between the parties.
- (b) To the extent permitted by law, any statement, representation or promise made in any negotiation or discussion has no effect except to the extent expressly set out or incorporated by reference in this document.

### **15.6 Further assurances**

Each party must do all things reasonably necessary to give effect to this document and the transactions contemplated by it.

### **15.7 No waiver**

- (a) The failure of a party to require full or partial performance of a provision of this document does not affect the right of that party to require performance subsequently.
- (b) A single or partial exercise of or waiver of the exercise of any right, power or remedy does not preclude any other or further exercise of that or any other right, power or remedy.
- (c) A right under this document may only be waived in writing signed by the party granting the waiver, and is effective only to the extent specifically set out in that waiver.

### **15.8 Governing law and jurisdiction**

- (a) Queensland law governs this document.
- (b) Each party irrevocably submits to the non-exclusive jurisdiction of the Queensland courts and courts competent to hear appeals from those courts.

### **15.9 Severability**

- (a) A clause or part of a clause of this document that is illegal or unenforceable may be severed from this document and the remaining clauses or parts of the clause of this document continue in force.
- (b) If any provision is or becomes illegal, unenforceable or invalid in any jurisdiction, it is to be treated as being severed from this document in the relevant jurisdiction, but the rest of this document will not be affected.

### 15.10 Consents

Any consent referred to in, or required under, this document from any party may not be unreasonably withheld, unless this document expressly provides for that consent to be given in that party's absolute discretion.

### 15.11 Notices

- (a) A notice, consent or communication under this document is only effective if it is:
- (i) in writing, signed by or on behalf of the person giving it;
  - (ii) addressed to the person to whom it is to be given; and
  - (iii) given as follows:
    - (A) delivered by hand to that person's address;
    - (B) sent by prepaid mail (and by prepaid airmail if the person is overseas) to that person's address; or
    - (C) sent by fax to that person's fax number where the sender receives a transmission confirmation report from the despatching machine indicating the transmission has been made without error and showing the relevant number of pages and the correct destination fax number or name of recipient.
- (b) A notice, consent or communication delivered under clause 15.11(b) is given and received:
- (i) if it is hand delivered or sent by fax:
    - (A) by 5.00pm (local time in the place of receipt) on a Business Day – on that day; or
    - (B) after 5.00pm (local time in the place of receipt) on a Business Day, or at any time on a day that is not a Business Day – on the next Business Day; and
  - (ii) if it is sent by post:
    - (A) within Australia – three Business Days after posting; or
    - (B) to or from a place outside Australia – seven Business Days after posting.
- (c) A person's address and fax number are those set out below, or as the person notifies the sender:
- (i) **Bidder**

Address	1 Potts Street, East Brisbane, Queensland 4169
Attention	Mike O'Brien, CEO

Telephone (07) 3249 3045  
Fax (07) 3891 9199  
Email mobrien@metrocoal.com.au

***Copy to:***

Address HopgoodGanim, Level 8 Waterfront Place,  
1 Eagle Street Brisbane QLD 4000  
Attention Michael Hansel, Partner  
Email m.hansel@hopgoodganim.com.au  
Telephone (07) 3024 0328  
Fax (07) 3024 0028

(ii) **Target**

Address Level 8, 300 Adelaide St, Brisbane Qld  
4000  
Attention Scott Waddell, Company Secretary  
Telephone (07) 3009 8000  
Fax (07) 3221 4811  
Email swaddell@capealumina.com.au

***Copy to:***

Address McCullough Robertson, Level 11 Central  
Plaza Two 66 Eagle St Brisbane Qld 4000  
Attention Derek Pocock, Partner  
Email dpocock@mccullough.com.au  
Telephone (07) 3233 8628  
Fax (07) 3229 9949

## Schedule 1

### Bidder Representations and Warranties

---

Bidder represents and warrants to Target (in its own right and separately as trustee for each of the other Target Indemnified Parties) that:

- (a) it is a validly existing corporation registered under the laws of its place of incorporation. No proceedings have been taken or authorized by Bidder in respect of the bankruptcy, reorganisation, insolvency, liquidation, dissolution or winding up of Bidder;
- (b) at the date of this document:
  - (i) Bidder's issued equity securities comprise 208,883,663 Bidder Shares at the date of this document;
  - (ii) Bidder has outstanding 10,250,000 options over unissued Bidder Shares;
  - (iii) there are no preference shares of any class on issue; and
  - (iv) neither Bidder nor any of its Subsidiaries are under any obligation to issue shares outside the Bidder Group and have not granted any person outside the Bidder Group the right to call for the issue of any shares or other securities in Bidder or any of its Subsidiaries.
- (c) each of Bidder's subsidiaries are duly incorporated, validly existing and in good standing under the laws of the jurisdiction of incorporation;
- (d) the execution and delivery of this document by Bidder has been properly authorised by all necessary corporate action and Bidder has full corporate power and lawful authority to execute and deliver this document and to perform or cause to be performed its obligations under this document;
- (e) Bidder has all necessary corporate power, authority and capacity to own or lease their respective assets and carry on their respective businesses as currently being conducted.
- (f) subject to laws generally affecting creditors' rights and the principles of equity, this document constitutes legal, valid and binding obligations on Bidder and execution and performance of this document will not:
  - (i) result in a breach of or default under Bidder's constitution or any agreement or deed of any writ, order or injunction, rule or regulation to which Bidder or any of its Subsidiaries is a party or to which they are bound (except for such breaches or defaults as would not have a material adverse effect on the consolidated financial position of Bidder); or
  - (ii) require any consent, approval, authorisation or permit from any Government Agency, except for the Regulatory Approvals;
  - (iii) constitute an event which would permit any party to any agreement or other commitment with Bidder to terminate that agreement, or to accelerate the maturity of any indebtedness of Bidder, or other obligation of Bidder;
  - (iv) result in the creation or imposition of any encumbrance on Bidder Shares; or

- (v) will not require any consent, approval or waiver of a party under any agreement or other commitment to which Bidder is a party in order to complete the transactions contemplated by this document;
- (g) the Bidder Information provided to Target for inclusion in the Scheme Booklet at the date it is despatched will comply with the Corporations Act;
- (h) it will provide Target all such further or new information of which it becomes aware that arises after the Scheme Booklet has been despatched until the date of the Scheme Meeting where that information is necessary to ensure that the Scheme Booklet continues to comply with the Corporations Act;
- (i) so far as it is aware (after making reasonable enquiries), all information provided by or on behalf of Bidder to Target during the course of negotiations in relation to the Transaction and preparation of the Scheme Booklet is complete, accurate and not misleading in all material respects (including by omission), including the following matters:
  - (i) that there are no material contracts that have not already disclosed to the Target as part of its due diligence investigations;
  - (ii) as at 22 August 2013, Columboola has \$5.8 million (**Existing JV Funds**) in joint venture funds remaining;
  - (iii) as at 13 September 2013, the Columboola joint venture partner has advised that it will not be contributing further funds after the current \$5.8 million in joint venture funds has been spent;
  - (iv) if the Columboola joint venture partner does not contribute further funds then after the Existing JV Funds, then there will be no cash call on the Bidder or the Bidder's joint venture interest being diluted.
  - (v) as at 13 September 2013, the Bidder has no financial obligations to the 3TL project and holds a 20% interest in that project;
  - (vi) as at 13 September 2013, the Bidder has been advised that the Bidder's 2012/2013 R&D return may be a tax refund on cash of approximately \$200,000 to \$300,000.
- (j) it has complied with its continuous disclosure obligations under the Listing Rules and the Corporations Act, and its accounts are prepared on a consistent basis with past practices and in accordance with all relevant accounting standards;
- (k) the Bidder Information contained in the Scheme Booklet will be included in good faith and on the understanding that Target and its directors will rely on that information for the purposes of considering and approving the Scheme Booklet before it is despatched, and implementing the Scheme;
- (l) it and its Subsidiaries have complied in all material respects with the material laws and regulations applicable to the operation of the businesses conducted by them;
- (m) The accounts of Bidder for the financial year ended 30 June 2013, annexed as Annexure C, represent a true and fair view of the financial position and performance of Bidder and are not misleading or deceptive in any material respect;
- (n) Bidder is in material compliance with its budgets in the Bidder Note, Annexure E and Annexure F; and



- (o) Other than immaterial liabilities in the ordinary course or liabilities of which the Target is already aware, the liabilities of Bidder at the date of this document are as follows:
  - (i) Under a feasibility funding deed, Bidder may be called to advance funds in the amount of \$325,000 to WICET for Bidder's contribution to WEXP2.

## Schedule 2

### Target Representations and Warranties

---

Target represents and warrants to Bidder (in its own right and separately as trustee or nominee for each of the other Bidder Indemnified Parties) that:

- (a) it is a validly existing corporation registered under the laws of its place of incorporation. No proceedings have been taken or authorized by Target in respect of the bankruptcy, reorganisation, insolvency, liquidation, dissolution or winding up of Target;
- (b) each of Target's subsidiaries are duly incorporated, validly existing and in good standing under the laws of the jurisdiction of incorporation.
- (c) Target has all necessary corporate power, authority and capacity to own or lease their respective assets and carry on their respective businesses as currently being conducted.
- (d) at the date of this document:
  - (i) Target's issued equity securities comprise 181,406,098 Target Shares at the date of this document (excluding any Target Shares to be issued under the RCF Note Conversion Agreement and the secured convertible note deed dated 19 October 2011 between Target and Resource Capital Fund IV L.P (**Note Deed**));
  - (ii) Target has outstanding 3,210,973 performance rights under the Target performance rights plan;
  - (iii) there are no preference shares of any class on issue; and
- (e) other than as contemplated by this document, neither Target nor any of its Subsidiaries are under any obligation to issue shares outside the Target Group and have not granted any person outside the Target Group the right to call for the issue of any shares or other securities in Target or any of its Subsidiaries as at the Prescribed Date (following the RCF Conversion), the total securities Target on issue are as follows:
  - (i) 226,283,738 (plus any additional shares issued to RCF for capitalised interest under the Note Deed) Target Shares; and
  - (ii) 14,706,000 of Target options;
  - (iii) neither Target or any subsidiary of Target has issued (or is actually or contingently required to issue) any other securities or instruments that are still outstanding (or may become outstanding) and that may convert into Target securities;
- (f) the execution and delivery of this document by Target has been properly authorised by all necessary corporate action and Target has full corporate power and lawful authority to execute and deliver this document and to perform or cause to be performed its obligations under this document;
- (g) subject to laws generally affecting creditors' rights and the principles of equity, this document constitutes legal, valid and binding obligations on it and execution and performance of this document will not:

- (i) result in a breach of or default under Target's constitution or any agreement or deed or any writ, order or injunction, rule or regulation to which Target or any of its Subsidiaries is a party or to which they are bound (except for such breaches or defaults as would not have a material adverse effect on the consolidated financial position of Target); or
  - (ii) require any consent, approval, authorisation or permit from any Government Agency, except for the Regulatory Approvals;
  - (iii) constitute an event which would permit any party to any agreement or other commitment with Target to terminate that agreement, or to accelerate the maturity of any indebtedness of Target, or other obligation of Target;
  - (iv) result in the creation or imposition of any encumbrance on Target Shares; or
  - (v) will not require any consent, approval or waiver of a party under any agreement or other commitment to which Target is a party in order to complete the transactions contemplated by this document.
- (h) so far as it is aware (after making reasonable enquiries), all information provided by or on behalf of Target to Bidder during the course of negotiations in relation to the merger of the parties and preparation of the Scheme Booklet is complete, accurate and not misleading in all material respects (including by omission);
- (i) the Target Information contained in the Scheme Booklet will be included in good faith and on the understanding that Bidder and its directors will rely on that information for the purposes of considering and approving the Scheme Booklet before it is despatched, approving the entry into the Deed Poll and implementing the Scheme;
- (j) it is not in breach of its continuous disclosure obligations under the Listing Rules and the Corporations Act, and its accounts are prepared on a consistent basis with past practices and in accordance with all relevant accounting standards;
- (k) to the extent information provided to Bidder, whether under due diligence or not, in connection with this document, includes forward looking statements, those forward looking statements are based on assumptions which Target believes, at the date the information was provided, and continues to believe, to be reasonable;
- (l) it and its Subsidiaries have complied in all material respects with all material laws and regulations applicable to the operation of the businesses conducted by them;
- (m) the accounts of Target for the financial year ended 30 June 2013, annexed as Annexure D, represent a true and fair view of the financial position and performance of Target and are not misleading or deceptive in any material respect; and
- (n) Target is in material compliance with its budgets in the Bidder Note, Annexure E and Annexure F; and
- (o) Other than immaterial liabilities in the ordinary course, the liabilities of Target at the date of this document are as follows:
- (i) the RCF Note (with a face value of \$5 million) plus interest accruing accordance with its terms, which interest can be paid in cash or shares at the Target's election;

- (ii) commitments as specified in Note 23 of the Target's financial statements;
- (iii) trade payables of less than \$100,000 as at 20 September 2013, which is within the ordinary course of business; and
- (iv) employee liabilities of less than \$120,000 as at 20 September 2013, which is within the ordinary course of business. Note this excludes relevant termination provisions.

## Schedule 3

### Indicative Timetable

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<b>Event</b>	<b>Date</b>
Target lodges draft Scheme Booklet with ASIC	16 October 2013
Deed Poll executed by Bidder	4 November 2013
First Court Date	4 November 2013
Scheme Booklet registered by ASIC and released on ASX	4 November 2013
Scheme Booklet despatched to Target Shareholders	6 November 2013
Scheme Meeting	9 December 2013
Second Court Date	12 December 2013
Effective Date: office copy of Court order approving the Scheme lodged with ASIC	12 December 2013
Record Date	19 December 2013
Implementation Date	30 December 2013

# Execution

Executed as an agreement.

Executed by  
Cape Alumina Limited ACN 107 817 694 by:

▲ \_\_\_\_\_  
Director

▲ \_\_\_\_\_  
Director/Secretary

▲ \_\_\_\_\_  
Full name of Director

▲ \_\_\_\_\_  
Full name of Director/Secretary

Executed by  
MetroCoal Limited ACN 117 763 443 by:

▲ \_\_\_\_\_  
Director

▲ \_\_\_\_\_  
Director/Secretary

▲ \_\_\_\_\_  
Full name of Director

▲ \_\_\_\_\_  
Full name of Director/Secretary



## Annexure C

Scheme of arrangement

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## Scheme of arrangement

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Cape Alumina Limited ACN 107 817 694

Scheme Shareholders

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# Scheme of arrangement

Dated 2013

## Parties

<b>Target</b>	Cape Alumina Limited ACN 107 817 694 of Level 8, 300 Adelaide Street, Brisbane, Qld 4000
<b>Scheme Shareholders</b>	Each Target Shareholder as at the Record Date

## Agreed terms

### 1 Definitions and interpretation

#### 1.1 Definitions In this document:

Term	Definition
ASIC	means the Australian Securities and Investments Commission.
ASX	means ASX Limited ACN 008 624 691 or the securities exchange operated by it (as the case requires).
ASX Settlement	means ASX Settlement Pty Ltd ACN 008 504 532.
Bidder	means MetroCoal Limited ACN 117 763 443 of Cnr Lytton Road and Stafford Street, East Brisbane Qld 4169.
Bidder Option	means an option to subscribe for any form of security in Bidder.
Bidder Register	means the register of members of Bidder maintained by Bidder Share Registry in accordance with section 168(1) Corporations Act.
Bidder Share	means a fully paid ordinary share in Bidder.
Bidder Share Registry	means Link Market Services.
Business Day	means a business day as defined in the Listing Rules.
CHESS	means the Clearing House Electronic Sub-register System of share transfers operated by ASX Settlement for the clearing and settlement of transactions in CHESS approved securities, the transfer of securities and the registration of transfers.
Corporations Act	means the Corporations Act 2001 (Cth).
Court	means the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act agreed to in writing by Target and Bidder.
Deed Poll	means the deed poll executed by Bidder substantially in the form of Annexure B of the Merger Implementation Agreement under which Bidder covenants in favour of each Scheme Shareholder to perform its obligations under the Scheme and under the Merger Implementation Agreement.
Effective	means the coming into effect, under section 411(10) Corporations Act, of the Court order approving the Scheme (with or without modification, pursuant to section 411(4)(b) Corporations Act).
Effective Date	means the date on which the Scheme becomes Effective.
End Date	means 31 December 2013.
Implementation Date	means the fifth Business Day following the Record Date.

Term	Definition
Ineligible Foreign Shareholder	means a Shareholder whose address as shown in the Cape Alumina Share Register at 4.00 pm on the Record Date is a place outside: <ul style="list-style-type: none"> <li>[a] Australia and its external territories;</li> <li>[b] New Zealand; or</li> <li>[c] a jurisdiction determined by the board of Bidder to be eligible in accordance with the Merger Implementation Agreement.</li> </ul>
Listing Rules	means the listing rules of the ASX as amended from time to time.
Merger Implementation Agreement	means the Merger Implementation Agreement entered into by Target and Bidder dated 24 September 2013.
Nominee	has the meaning given to that term in clause 5.3.
Registered Address	means, in relation to a Scheme Shareholder, the address shown in the Target Register at the Record Date.
Record Date	means 5.00pm on the fifth Business Day after the date on which the Scheme becomes Effective.
Scheme	means this scheme of arrangement between Target and the Scheme Shareholders, under which all of the Scheme Shares will be transferred to Bidder under Part 5.1 Corporations Act as described in clause 4, in consideration for the Scheme Consideration, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) Corporations Act and approved by Target and Bidder.
Scheme Consideration	means the number of Bidder Shares for each Scheme Share described in clause 4.2 of the Merger Implementation Agreement.
Scheme Date	means the date on which the Merger Implementation Agreement is executed by all parties to the document.
Scheme Meeting	means the meeting of Target Shareholders ordered by the Court to be convened pursuant to section 411(1) Corporations Act.
Scheme Shareholders	means each person who is a Target Shareholder at the Record Date.
Scheme Shares	means all Target Shares held by Scheme Shareholders, and for the avoidance of doubt includes any Target Shares issued on or before the Record Date.
Scheme Share Transfer	means, for each Scheme Shareholder, a duly completed and executed proper instrument of transfer of the Scheme Shares held by that Scheme Shareholder for the purposes of section 1071B Corporations Act, which may be a master transfer of all Scheme Shares.
Second Court Date	means the first day on which the application made to the Court for an order approving this Scheme pursuant to section 411(4)(b) Corporations Act is heard, or if the hearing of the application is adjourned for any reason, the first day of the adjourned hearing.
Target Note	means the note issued under the secured convertible note deed dated 19 October 2011 between Target and Resource Capital Fund IV L.P.
Target Performance Rights	means rights to acquire Target Shares, the exercise of which is subject to performance conditions.
Target Register	means the register of members of Target maintained by Target Share Registry on behalf of Target in accordance with section 168(1) Corporations Act.
Target Share	means a fully paid ordinary share in Target.
Target Share Registry	means Link Market Services.
Target Shareholder	means a registered holder of Target Shares.

## 1.2 Interpretation

In this Scheme, unless the context requires otherwise:

- [a]** a reference:
  - [i] to the singular includes the plural and vice versa;
  - [ii] to a document or instrument (including a reference to this Scheme) is a reference to that document or instrument as amended, consolidated, supplemented, novated or replaced;
  - [iii] to a party means a party to this Scheme;
  - [iv] to a clause, paragraph, Schedule or Annexure is to a clause, paragraph, Schedule or Annexure of or to this Scheme;
  - [v] to a person (including a party) includes:
    - [a] an individual, company, other body corporate, association, trust, partnership, firm, joint venture, unincorporated body, government and local authority or agency or other entity whether or not it comprises a separate legal entity; and
    - [b] the person's successors, permitted assigns, substitutes, executors and administrators;
  - [vi] to a law includes any legislation, judgment, rule of common law or equity or rule of any applicable stock exchange, and is a reference to that law as amended, consolidated, supplemented or replaced and includes a reference to any regulation, by-law or other subordinate legislation;
  - [vii] to any time is to Brisbane time;
  - [viii] to '\$' is to the lawful currency of Australia; and
- [b]** the word 'includes' in any form is not a word of limitation;
- [c]** where a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- [d]** headings are for convenience only and do not affect interpretation;
- [e]** if a payment or other act must (but for this clause) be made or done on a day that is not a Business Day, then it must be made or done on the next Business Day; and
- [f]** if a period must be calculated from, after or before a day or the day of an act or event, it must be calculated excluding that day.

## 2 Preliminary

### 2.1 Target

- [a]** Target is a public company limited by shares, incorporated in Australia and registered in Queensland. Its registered office is at Level 8, 300 Adelaide Street, Brisbane, Queensland Australia 4000.
- [b]** Target is listed on the ASX and the Target Shares are quoted on the ASX.
- [c]** As at the Scheme Date, Target had 181,406,098 Target Shares (excluding any Target Shares to be issued pursuant to the conversion of the Target Note), 3,310,973 Target Performance Rights and the Target Note on issue.

### 2.2 Bidder

- [a]** Bidder is a public company limited by shares, incorporated in Australia and registered in Queensland. Its registered office is at Cnr Lytton Road and Stafford Street, East Brisbane Qld 4169.
- [b]** Bidder is listed on the ASX and the Bidder Shares are officially quoted on ASX.
- [c]** As at the Scheme Date, Bidder had 208,883,663 Bidder Shares and 11,500,000 Bidder Options on issue.

### 2.3 Effect of Scheme

If this Scheme becomes Effective,

- [a]** on the Implementation Date, in consideration of the transfer of all Scheme Shares to Bidder, Bidder will issue to each Scheme Shareholder or the Nominee in respect of Ineligible Foreign Shareholders the Scheme Consideration in respect of each Scheme Share held by the Scheme Shareholder and seek quotation on the ASX of the Bidder Shares, in accordance with the terms of this Scheme and the Deed Poll; and
- [b]** subject to Bidder having complied in full with its obligations in clause 5 and in the Deed Poll:
  - [i] all of the Scheme Shares will be transferred to Bidder on the Implementation Date; and
  - [ii] Target will enter the name and address of Bidder in the Target Register as the holder of all of the Scheme Shares.

### 2.4 Merger Implementation Agreement and Deed Poll

- [a]** Target and Bidder have entered into the Merger Implementation Agreement which sets out the terms on which Target and Bidder have agreed to implement this Scheme.
- [b]** The Bidder has executed the Deed Poll in favour of each Scheme Shareholder pursuant to which the Bidder has covenanted to perform its obligations under this Scheme, including to provide the Scheme Consideration.

## 3 Conditions precedent

### 3.1 Conditions precedent to Scheme

This Scheme is conditional on:

- [a]** as at 8.00am on the Second Court Date, neither the Merger Implementation Agreement nor the Deed Poll having been terminated;
- [b]** all of the conditions precedent set out in clause 3.1 of the Merger Implementation Agreement (other than the condition precedent in clause 3.1(b) of the Merger Implementation Agreement regarding Court approval pursuant to section 411(4)(b) Corporations Act) having been satisfied or waived in accordance with the terms of the Merger Implementation Agreement as at 8.00am on the Second Court Date;

[c] the Court having approved this Scheme with or without modification, pursuant to section 411(4)(b) Corporations Act and if applicable, Target and Bidder having accepted in writing any modification required by the Court; and

[d] Target having lodged with ASIC an office copy of any order made by the Court pursuant to section 411(4)(b) of the Corporations Act approving the Scheme,

and the provisions of clauses 4 to 9 (inclusive) will not come into effect unless and until each of these conditions precedent has been satisfied.

### 3.2 Certificate in relation to conditions precedent

[a] On the Second Court Date, Target and Bidder will each provide to the Court a certificate (or such other evidence as the Court requests) confirming whether or not all of the conditions precedent set out in clause 3.1 of this Scheme (other than the conditions precedent in clause 3.1(c) and 3.1(d) of this Scheme) have been satisfied or waived as at 8.00am on the Second Court Date.

[b] The giving of a certificate by each of Target and the Bidder under clause 3.2(a) will be conclusive evidence of the matters set out in the certificate.

### 3.3 Termination of Merger Implementation Agreement

Without limiting rights under the Merger Implementation Agreement, in the event that the Merger Implementation Agreement is terminated in accordance with its terms before 8.00am on the Second Court Date, Target and Bidder are each released from:

- [a] any further obligation to take steps to implement the Scheme;
- [b] any liability with respect to the Scheme; and
- [c] in the case of the Bidder, any liability under the Deed Poll.

### 3.4 End Date

This Scheme will lapse and be of no further force or effect if the Effective Date has not occurred on or before the End Date.

## 4 Implementation of Scheme

### 4.1 Lodgement of Court order

Following approval of this Scheme by the Court pursuant to section 411(4)(b) Corporations Act, Target will, as soon as reasonably practicable, lodge with ASIC an office copy of the Court order approving this Scheme pursuant to section 411(10) Corporations Act, at which time the Scheme will be Effective.

### 4.2 Effect of this Scheme becoming Effective

If this Scheme becomes Effective:

- [a] it will override the constitution of Target, to the extent of any inconsistency;
- [b] the Bidder must (pursuant to its obligations under the Deed Poll) provide the Scheme Consideration in the manner contemplated by this Scheme;

[c] subject to the provision of the Scheme Consideration as contemplated by clause 4.2(b), all the Scheme Shares (together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date) will be transferred to the Bidder; and

[d] Target will enter the name of Bidder in the Target Register in respect of all the Scheme Shares.

### 4.3 Transfer of Scheme Shares

On the Implementation Date, but subject to Bidder having actually provided the Scheme Consideration for the Scheme Shares in the manner contemplated in clause 5.2 and 5.3:

[a] all of the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares at the Implementation Date, will be transferred to Bidder without the need for any further act by any Scheme Shareholder (other than acts performed by Target as attorney and agent for Scheme Shareholders under clause 9.1) by:

- [i] Target delivering to Bidder a duly completed Scheme Share Transfer executed on behalf of the Scheme Shareholders for execution by Bidder; and
- [ii] Bidder duly executing the Scheme Share Transfer and delivering it to Target for registration; and

[b] Target will enter the name and address of Bidder in the Target Register as the holder of all of the Scheme Shares as soon as practicable following receipt of the duly executed Scheme Share Transfer from Bidder under clause 4.3(a)(ii).

### 4.4 Entitlement to Scheme Consideration

On the Implementation Date, in consideration for the transfer to Bidder of the Scheme Shares, each Scheme Shareholder will be entitled to receive from Bidder the Scheme Consideration in respect of each of their Scheme Shares and Bidder must procure that Bidder provides the Scheme Consideration in accordance with clause 5.

### 4.5 Fractional entitlements

If a fractional entitlement to a Bidder Share arises from the calculation of the Scheme Consideration payable to a Scheme Shareholder in respect of its Scheme Shares, then the fractional entitlement to a Bidder Share will be rounded to the nearest whole number and will be rounded up if the fractional entitlement is one half.

### 4.6 Shareholding splitting or division

If Target and Bidder are of the opinion that a Scheme Shareholder has been a party to a shareholding splitting or division in an attempt to gain an advantage by reference to the rounding provided for in the calculation of each Scheme Shareholder's entitlement to the Scheme Consideration, then Target and Bidder reserve the right to round the entitlement of such holdings so as to provide only the number of Bidder Shares that would have been received but for the splitting or division.

## 5 Provision of Scheme Consideration

### 5.1 Scheme Consideration

The Bidder Shares to be issued by Bidder under this Scheme will be duly and validly issued, fully paid and will, upon their issue, rank equally in all respects with all other Bidder Shares then on issue.

### 5.2 Obligations to provide the Scheme Consideration

Subject to clause 5.3, the obligation of Bidder to provide the Scheme Consideration to the Scheme Shareholders in respect of each Scheme Share registered in the name of the Scheme Shareholders will be satisfied by Bidder:

- [a] on the Implementation Date, passing a resolution of directors and doing all other things necessary to validly issue the Bidder Shares and entering the name and Registered Address of that Scheme Shareholder in the Bidder Register as the holder of the Bidder Shares issued to that Scheme Shareholder;
- [b] within five Business Days after the Implementation Date, dispatching or procuring the dispatch to that Scheme Shareholder by pre-paid post to their Registered Address, of an uncertificated holding statement in the name of that Scheme Shareholder representing the Bidder Shares issued to them under the Scheme; and
- [c] making an application to ASX for the quotation of the Bidder Shares on ASX in accordance with clause 6.

### 5.3 Ineligible Foreign Shareholders

- [a] Bidder will be under no obligation to issue any Bidder Shares under this Scheme to any Ineligible Foreign Shareholder and instead, the Bidder Shares that would otherwise have been issued to Ineligible Foreign Shareholders will be issued to a nominee (**Nominee**) on the Implementation Date.
- [b] Bidder will use its best and reasonable endeavours to:
  - [i] procure that the Nominee sells all of the Bidder Shares issued to the Nominee within 15 Business Days after the Implementation Date; and
  - [ii] procure the remittance to the Ineligible Foreign Shareholders their proportion of the net proceeds, which amount will satisfy in full the rights of each Ineligible Foreign Shareholder to the Scheme Consideration.
- [c] Each Ineligible Foreign Shareholder will receive an amount equivalent to such fraction of the proceeds of sale (after deduction of reasonable fees of the Nominee, brokerage, taxes and other reasonable costs of sale) as is equal to the number of Bidder Shares which would have been issued to the relevant Ineligible Foreign Shareholder under the Scheme divided by the total number of Bidder Shares issued to the Nominee under the Scheme.
- [d] The Bidder Shares will be sold on ASX on behalf of the Ineligible Foreign Shareholders in such manner and at

such price and on such other terms as the Nominee determines in its absolute discretion (and at the risk of the Ineligible Foreign Shareholder).

- [e] Target, Bidder and the Nominee give no assurance as to the price that will be achieved for the sale of Bidder Shares described above.
- [f] The net proceeds of the sale of the Bidder Shares will be paid to each relevant Ineligible Foreign Shareholder as soon as reasonably practicable following the sale of such Bidder Shares by the Nominee, by making a deposit into an account with an Australian bank nominated by the Ineligible Foreign Shareholder to the Bidder share registry as at the Record Date. If the relevant Ineligible Foreign Shareholder does not have a nominated Australian bank account which has been notified to the Bidder share registry as at the Record Date, the Ineligible Foreign Shareholder will be sent a cheque drawn on an Australian bank in Australian currency for the net proceeds of the sale of the Bidder Shares. If the relevant Ineligible Foreign Shareholder's whereabouts are unknown as at the Record Date, the relevant cash consideration will be paid into a separate bank account and held until claimed or applied under laws dealing with unclaimed moneys.
- [g] Under the Scheme, each Ineligible Foreign Shareholder appoints Bidder as its agent to receive on its behalf any financial services guide or other notices which may be issued by the Nominee.

### 5.4 General

Each Scheme Shareholder to whom Bidder Shares are to be issued under this Scheme agrees:

- [a] to become a member of Bidder for the purposes of section 231 Corporations Act;
- [b] to have their name and Registered Address entered in the Bidder Register; and
- [c] to be bound by the constitution of Bidder as in force from time to time in respect of the Bidder Shares.

### 5.5 Binding instruction or notification

- [a] Except for a Scheme Shareholder's tax file number, any binding instruction or notification between a Scheme Shareholder and Target relating to Scheme Shares at the Record Date (including, without limitation, any instructions relating to payment of dividends or to communications from Target) will from the Record Date be deemed to be a similarly binding instruction or notification to, and accepted by, Bidder in respect of the Bidder Shares issued to the Scheme Shareholder until that instruction or notification is revoked or amended in writing addressed to Bidder at the Bidder Share Registry.
- [b] Any such instructions or notifications accepted by Bidder will apply to and in respect of Bidder Shares issued as part of the Scheme Consideration only to the extent that they are not inconsistent with the other provisions of this Scheme.

### 5.6 Joint holders

In the case of Scheme Shares held in joint names any uncertificated holding statements or certificates for Bidder Shares to be issued to Scheme Shareholders will record the

joint holders as the registered holder of the Bidder Shares and will be forwarded to the holder whose name appears first in the Target Register at the Record Date.

## 6 Quotation of Bidder Shares

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Bidder will use its best endeavours to procure that the Bidder Shares to be issued pursuant to this Scheme will be quoted on ASX:

- [a] initially on a deferred settlement basis on and from the Business Day after the Effective Date (or, if Bidder Shares are subject to a trading halt on that day, on the first Business Day after the trading halt has ended); and
- [b] on an ordinary settlement basis on and from the Business Day after the Implementation Date.

## 7 Dealings in Target Shares

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### 7.1 Determination of Scheme Shareholders

- [a] For the purpose of determining the persons that are Scheme Shareholders, dealings in the Target Shares will only be recognised:
  - [i] in the case of dealings of the type effected by CHESSE, if the transferee is registered in the Target Register as the holder of the relevant Target Shares by the Record Date; and
  - [ii] in all other cases, if transfers or transmission applications in respect of those dealings are received on or before the Record Date at the place where the Target Register is kept.
- [b] Target will register registrable transfers or transmission applications of the kind referred to in clause 7.1(a) by the Record Date.
- [c] Target will not accept for registration, nor recognise for any purpose, any transfer or transmission application in respect of Target Shares received after the Record Date.
- [d] If the Scheme becomes Effective, a holder of Target Shares (and any person claiming through that holder) must not dispose of or purport to agree to dispose of any Target Shares or any interest in them after the Effective Date and any such disposal will be void and of no legal effect whatsoever.

### 7.2 Maintenance of Target Register

For the purpose of determining entitlements to the Scheme Consideration, Target will, until the Scheme Consideration has been provided, maintain or procure the maintenance of the Target Register in accordance with this clause 7. The Target Register in this form will solely determine entitlements to the Scheme Consideration.

### 7.3 Effect of certificates and holding statements

After the Record Date (other than statements of holding in favour of Bidder and its successors in title after the Implementation Date), all share certificates and holding statements for the Scheme Shares will cease to have effect as documents of title. Subject to provision of the Scheme Consideration by Bidder and registration of the transfer to Bidder contemplated in clause 4.3 after the Record Date, each entry on the Target Register at the Record Date (other than entries in respect of Bidder and its

successors in title) will cease to have any effect other than as evidence of an entitlement to the Scheme Consideration.

### 7.4 Information to be made available to Bidder

Target will procure that, as soon as reasonably practicable after the Record Date, details of the names, Registered Addresses and holdings of Scheme Shares of every Scheme Shareholder as shown in the Target Register at the Record Date are made available to Bidder in such form as Bidder reasonably requires.

## 8 Quotation of Target Shares

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### 8.1 Suspension of trading on the ASX

Target will apply to the ASX to suspend trading in the Target Shares on the ASX at the close of normal trading on the ASX on the Effective Date.

### 8.2 Removal from the official list of the ASX

Provided that the Scheme has been fully implemented in accordance with its terms, Target will apply to the ASX to end quotation of the Target Shares and to remove Target from the official list of the ASX, on a date after the Implementation Date as reasonably determined by Bidder.

## 9 General Scheme provisions

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### 9.1 Appointment of Target as agent and attorney

Upon this Scheme becoming Effective, each Scheme Shareholder, without the need for any further act:

- [a] irrevocably appoints Target and each of the directors and secretaries of Target, jointly and severally, as its agent and attorney for the purpose of:
  - [i] enforcing the Deed Poll against Bidder; and
  - [ii] executing any document or doing any other act necessary or desirable to give full effect to this Scheme and the transactions contemplated by it, including executing a Scheme Share Transfer, and Target accepts such appointment; and
- [b] will be deemed to have authorised Target to do and execute all acts, matters, things and documents on the part of each Scheme Shareholder necessary to implement this Scheme, including executing, as agent and attorney of each Scheme Shareholder, a Scheme Share Transfer as contemplated by clause 9.1(a).

### 9.2 Scheme Shareholders' consent

Each Scheme Shareholder consents to Target doing all things and executing all deeds, instruments, transfers and other documents as may be necessary or desirable to give full effect to this Scheme and the transactions contemplated by it.

### 9.3 Agreement by Scheme Shareholders

Each Scheme Shareholder agrees to the transfer of all of their Scheme Shares to Bidder in accordance with the terms of this Scheme.

#### 9.4 Warranty by Scheme Shareholders

Each Scheme Shareholder is deemed to have warranted to Bidder, and is deemed to have authorised Target to warrant to Bidder as agent and attorney for the Scheme Shareholder by virtue of this clause, that:

- [a]** all of their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) transferred to Bidder under this Scheme will, on the date of the transfer, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests of third parties of any kind, whether legal or otherwise (but acknowledging that a security interest holder may potentially have an interest in the Consideration in accordance with the terms of such security interest); and
- [b]** subject to any restrictions in the terms of issue, they have the full power and capacity to sell and transfer their Scheme Shares (including any rights and entitlements attaching to the Scheme Shares).

#### 9.5 Title to Scheme Shares

Subject to provision of the Scheme Consideration for the Scheme Shares in accordance with clause 5.2, on and from the Implementation Date and pending registration by Target of Bidder in the Target Register as the holder of all of the Scheme Shares, Bidder will be beneficially entitled to all of the Scheme Shares transferred to it under this Scheme.

#### 9.6 Appointment of Bidder as sole proxy

- [a]** Subject to provision of the Scheme Consideration for the Scheme Shares in accordance with clause 5.2, on and from the Implementation Date and pending registration by Target of Bidder in the Target Register as the holder of all of the Scheme Shares, each Scheme Shareholder:
  - [i]** is deemed to have irrevocably appointed Bidder and each of its directors and officers as their sole proxy and, where applicable, corporate representative, to attend shareholders' meetings of Target, exercise the votes attached to the Scheme Shares registered in their name and sign any shareholders' resolutions, whether in person, by proxy or by corporate representative;
  - [ii]** must not attend or vote at any shareholders' meetings of Target, or sign any resolutions, whether in person, by proxy or by corporate representative, other than in accordance with this clause 9.6(a); and
  - [iii]** must take all other actions in the capacity of the registered holder of Scheme Shares as Bidder directs.
- [b]** Target undertakes in favour of each Scheme Shareholder that it will appoint the Chairman of Bidder as that Scheme Shareholder's proxy or, where applicable, corporate representative, in accordance with this clause 9.6(a).

#### 9.7 Scheme alterations and conditions

If the Court proposes to approve this Scheme subject to any alterations or conditions, Target may, by its counsel or solicitors, and with the consent of Bidder, consent to those alterations or conditions on behalf of all persons concerned, including, for the avoidance of doubt, all Scheme Shareholders, provided that in no circumstances will Target be obliged to do so.

#### 9.8 Effect of Scheme

This Scheme binds Target and all Scheme Shareholders (including any Scheme Shareholders who do not attend the Scheme Meeting, do not vote at that meeting or vote against this Scheme) and, to the extent of any inconsistency and to the extent permitted by law, overrides the constitution of Target.

#### 9.9 Enforcement of Deed Poll

Target undertakes in favour of each Scheme Shareholder to enforce the Deed Poll against Bidder on behalf of and as agent and attorney for the Scheme Shareholders.

#### 9.10 No liability when acting in good faith

Neither Target nor Bidder, nor any of their respective officers, will be liable for anything done or omitted to be done in the performance of this Scheme in good faith.

#### 9.11 Notices

Where a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Target, it will not be deemed to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Target's registered office or by Target Share Registry, as the case may be.

#### 9.12 Further assurances

Subject to clause 9.7, Target will execute all deeds, instruments, transfers and other documents and do all acts and things (on its own behalf and on behalf of each Scheme Shareholder) as may be necessary or desirable to give full effect to this Scheme and the transactions contemplated by it.

#### 9.13 Costs and stamp duty

Bidder will pay any stamp duty payable on the transfer by Scheme Shareholders of the Scheme Shares to Bidder.

### 10 Governing law and jurisdiction

This Scheme is governed by the laws in force in Queensland. Each party irrevocably and unconditionally:

- [a]** submits to the non-exclusive jurisdiction of the courts exercising jurisdiction in Queensland; and
- [b]** waives, without limitation, any claim or objection based on absence of jurisdiction or inconvenient forum.





## Annexure D

Deed Poll

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## Deed poll

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MetroCoal Limited ACN 117 763 443

Scheme Shareholders

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# Scheme Shareholders deed poll

Dated 2013

## Parties

**Bidder** MetroCoal Limited ACN 117 763 443  
of Cnr Lytton Road and Stafford Street, East  
Brisbane Qld 4169

## In favour of

**Scheme Shareholders** Each Target Shareholder at  
the Scheme Record Date

## Background

- [a] Bidder and Target and have entered into the Merger Implementation Agreement.
- [b] Under the Merger Implementation Agreement, Bidder has agreed subject to the satisfaction or waiver of certain conditions, to take all necessary steps to implement and complete the Scheme as soon as is reasonably practicable, including executing this Deed Poll and providing the Scheme Consideration.
- [c] The effect of the Scheme will be that all of the Scheme Shares will be transferred to Bidder in exchange for the Scheme Consideration.
- [d] Bidder is entering into this Deed Poll for the purpose of covenanting in favour of each Scheme Shareholder to perform its obligations under the Scheme and, in particular, to provide or procure the provision of the Scheme Consideration in accordance with the Scheme.

## Agreed terms

### 1 Definitions and interpretation

#### 1.1 Definitions

In this document terms defined in the Scheme have the same meanings when used in this document:

Term	Definition
<b>Deed Poll</b>	means this document.
<b>Ineligible Foreign Shareholder</b>	means a Shareholder whose address as shown in the Cape Alumina Share Register at 4.00pm on the Record Date is a place outside: <ul style="list-style-type: none"> <li>[a] Australia and its external territories;</li> <li>[b] New Zealand; or</li> <li>[c] a jurisdiction determined by the board of Bidder to be eligible in accordance with the Merger Implementation Agreement.</li> </ul>
<b>Merger Implementation Agreement</b>	means the merger implementation agreement entered into by Target and Bidder dated 24 September 2013.
<b>Nominee</b>	has the meaning given to that term in clause 4.4.
<b>Scheme</b>	means the scheme of arrangement under Part 5.1 Corporations Act between the Target and the Scheme Shareholders substantially in the form set out in Annexure A of the Merger Implementation Agreement, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) Corporations Act and approved by Bidder and Target.
<b>Target</b>	means Cape Alumina Limited ACN 107 817 694.
<b>Target Shareholder</b>	means a registered holder of fully paid ordinary shares issued in the Target.

#### 1.2 Interpretation

- [a] In this Deed Poll unless the context requires otherwise, all other words and phrases defined in the Scheme have the same meaning in this Deed Poll.
- [b] Clause 1.2 of the Scheme applies to the interpretation of this Deed Poll except that references to 'this Scheme' in that clause are to be read as references to 'this Deed Poll'.

## 2 Nature of deed poll

Bidder acknowledges that this Deed Poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it.

## 3 Conditions precedent and termination

### 3.1 Conditions precedent

Bidder's obligations under clause 4 are subject to the Scheme becoming Effective.

### 3.2 Termination

Subject to clause 6, Bidder's obligations under this Deed Poll will automatically terminate and the terms of this Deed Poll will be of no further force or effect if, and only if:

- [a] the Merger Implementation Agreement is terminated in accordance with its terms prior to the Court approving the Scheme; or
  - [b] the Scheme does not become Effective on or before the End Date,
- unless Bidder and Target agree otherwise in writing.

### 3.3 Consequences of termination

If this Deed Poll is terminated under clause 3.2, then, in addition and without prejudice to any other rights, powers or remedies available to Scheme Shareholders:

- [a] Bidder is released from its obligations to further perform this Deed Poll except those obligations which by their nature survive termination; and
- [b] the Scheme Shareholders retain the rights they have against Bidder in respect of any breach of this Deed Poll which occurs before it is terminated.

## 4 Provision of Scheme Consideration

### 4.1 Compliance with Merger Implementation Agreement obligations generally

Subject to clause 3, Bidder will comply with its obligations under the Merger Implementation Agreement to do all acts and things as may be necessary or desirable on its part to give full effect to the Scheme.

### 4.2 Provision of Scheme Consideration

Subject to clause 3, in consideration of the transfer to Bidder of all of the Scheme Shares, Bidder undertakes in favour of each Scheme Shareholder to provide the Scheme Consideration to each Scheme Shareholder or the Nominee in respect of Ineligible Foreign Shareholders in accordance with the Scheme.

### 4.3 Obligation to issue Scheme Consideration

Subject to clause 4.4, the obligation of Bidder to issue the Scheme Consideration to the Scheme Shareholders in respect of each Scheme Share registered in the name of the Scheme Shareholders will be satisfied by Bidder:

- [a] on the Implementation Date, passing a resolution of directors and doing all other things necessary to validly issue the Bidder Shares and entering the name and Registered Address of each Scheme Shareholder in the Bidder Register as the holder of the Bidder Shares (in each case rounded as required by the Scheme) issued to each Scheme Shareholder;
- [b] within five Business Days after the Implementation Date, dispatching or procuring the dispatch to each Scheme Shareholder by pre-paid post to their Registered Address, of an uncertificated holding statement in the name of the Scheme Shareholder representing the Bidder Shares issued to them under the Scheme; and
- [c] making an application to ASX for the quotation of the Bidder Shares on ASX in accordance with clause 4.7.

### 4.4 Ineligible Foreign Shareholders

- [a] Bidder will be under no obligation to issue any Bidder Shares under this Scheme to any Ineligible Foreign Shareholder and instead, the Bidder Shares that would otherwise have been issued to Ineligible Foreign Shareholders will be issued to a nominee (**Nominee**) on the Implementation Date.
- [b] Bidder will use its best and reasonable endeavours to:
  - [i] procure that the Nominee sells all of the Bidder Shares issued to the Nominee within 15 Business Days after the Implementation Date; and
  - [ii] procure the remittance to the Ineligible Foreign Shareholders their proportion of the net proceeds, which amount will satisfy in full the rights of each Ineligible Foreign Shareholder to the Scheme Consideration.
- [c] Each relevant Ineligible Foreign Shareholder will receive an amount equivalent to such fraction of the proceeds of sale (after deduction of reasonable fees of the Nominee, brokerage, taxes and other reasonable costs of sale) as is equal to the number of Bidder Shares which would have been issued to the relevant Ineligible Foreign Shareholder under the Scheme divided by the total number of Bidder Shares issued to the Nominee under the Scheme.
- [d] The Bidder Shares will be sold on ASX on behalf of the Ineligible Foreign Shareholders in such manner and at such price and on such other terms as the Nominee determines in its absolute discretion (and at the risk of the Ineligible Foreign Shareholder).
- [e] Target, Bidder and the Nominee give no assurance as to the price that will be achieved for the sale of Bidder Shares described above.

[f] The net proceeds of the sale of the Bidder Shares will be paid to each relevant Ineligible Foreign Shareholder as soon as reasonably practicable following the sale of such Bidder Shares by the Nominee, by making a deposit into an account with an Australian bank nominated by the Ineligible Foreign Shareholder to the Bidder share registry as at the Record Date. If the relevant Ineligible Foreign Shareholder does not have a nominated Australian bank account which has been notified to the Bidder share registry as at the Record Date, the Ineligible Foreign Shareholder will be sent a cheque drawn on an Australian bank in Australian currency for the net proceeds of the sale of the Bidder Shares. If the relevant Ineligible Foreign Shareholder's whereabouts are unknown as at the Record Date, the relevant cash consideration will be paid into a separate bank account and held until claimed or applied under laws dealing with unclaimed moneys.

[g] Under the Scheme, each Ineligible Foreign Shareholder appoints Bidder as its agent to receive on its behalf any financial services guide or other notices which may be issued by the Nominee.

#### 4.5 Joint holders

In the case of Scheme Shares held in joint names any uncertificated holding statements for Bidder Shares will be issued to Scheme Shareholders in the names of the joint holders and will be forwarded to the holder whose name appears first in the Target Register at the Scheme Record Date.

#### 4.6 Status of Bidder Shares

The Bidder Shares to be issued under this Scheme will be duly and validly issued, fully paid and will, upon their issue, rank equally in all respects with all other Bidder Shares then on issue.

#### 4.7 Trading of Bidder Shares

Bidder will use its best endeavours to procure that the Bidder Shares to be issued pursuant to the Scheme will be quoted on ASX:

- [a] initially on a deferred settlement basis on and from the Business Day after the Effective Date (or, if Bidder Shares are subject to a trading halt on that day, on the first Business Day after the trading halt has ended); and
- [b] on an ordinary settlement basis on and from the Business Day after the Implementation Date.

## 5 Representations and warranties

### 5.1 Representations and warranties of Bidder

Bidder represents and warrants that:

- [a] it is a corporation properly incorporated and validly existing under the laws of its place of registration;
- [b] it has the legal right and full corporate power to enter into and perform its obligations under this Deed Poll and to carry out the transactions contemplated by this Deed Poll;
- [c] it has taken all necessary corporate action to authorise the entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll and to carry out the transactions contemplated by this Deed Poll;
- [d] it is solvent and no resolutions have been passed nor has any other step been taken or legal proceedings commenced or threatened against it for its winding up or dissolution or for the appointment of a liquidator, receiver, administrator or similar officer over any or all of its assets (or any event under law which is analogous to, or which has a substantially similar effect to, any of the events referred to in this paragraph);
- [e] as at the date of this Deed Poll and so far as it is aware, no regulatory action of any nature has been taken which would prevent, inhibit or otherwise have a material adverse effect on its ability to fulfil its obligations under this Deed Poll; and
- [f] this Deed Poll is valid and binding upon it and enforceable against it in accordance with its terms.

## 6 Continuing obligations

This Deed Poll is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of:

- [a] Bidder fully performing its obligations under this Deed Poll; or
- [b] the termination of this Deed Poll under clause 3.2.

## 7 Notices

### 7.1 Notice to Bidder

- [a]** Any notice or other communication given to Bidder under or in connection with this Deed Poll must be:
- [i] in legible writing;
  - [ii] addressed to Bidder at the address or fax number set out below:

Attention:	Mike O'Brien, CEO
Address:	MetroCoal Limited, Cnr Lytton Road and Stafford Street, East Brisbane Qld 4169
Fax no:	(07) 3891 9199

- [iii] signed by the sender or a person duly authorised by the sender; and
  - [iv] sent to Bidder by hand, prepaid post (airmail if to or from a place outside Australia) or fax.
- [b]** Without limiting any other means by which a party may be able to prove that a notice has been received by Bidder, a notice will be considered to have been received:
- [i] if sent by hand, when left at the address of Bidder;
  - [ii] if sent by pre-paid post, three Business Days (if posted within Australia to an address in Australia) or ten Business Days (if posted from one country to another) after the date of posting; or
  - [iii] if sent by fax, on receipt by the sender of an acknowledgment or transmission report generated by the sender's machine indicating that the whole fax was sent to Bidder's fax number,

but if a notice is served by hand, or is received by Bidder's fax, on a day that is not a Business Day, or after 5.00pm on a Business Day, the notice will be considered to have been received by Bidder at 9.00am on the next Business Day.

## 8 General

### 8.1 Stamp duty

Bidder will:

- [a]** pay all stamp duty (including fines, penalties and interest) on or in connection with this Deed Poll, the performance of this Deed Poll and each transaction effected by or made, or any instrument executed, under this Deed Poll (including the transfer of the Scheme Shares to Bidder); and
- [b]** indemnify each Scheme Shareholder on demand against any liability arising from failure to comply with clause 8.1(a).

### 8.2 Waiver

- [a]** Waiver of any right arising from a breach of this Deed Poll or of any right, power, authority, discretion or remedy arising upon default under this Deed Poll must be in writing and signed by the party granting the waiver.
- [b]** A failure or delay in exercise, or partial exercise, of:
  - [i] a right arising from a breach of this Deed Poll; or
  - [ii] a right, power, authority, discretion or remedy created or arising upon default under this Deed Poll,
 does not result in a waiver of that right, power, authority, discretion or remedy.
- [c]** A party is not entitled to rely on a delay in the exercise or non-exercise of a right, power, authority, discretion or remedy arising from a breach of this Deed Poll or on a default under this Deed Poll as constituting a waiver of that right, power, authority, discretion or remedy.
- [d]** A party may not rely on any conduct of another party as a defence to exercise of a right, power, authority, discretion or remedy by that other party.

### 8.3 Variation

A provision of this Deed Poll may not be varied unless:

- [a]** before the Second Court Date, the variation is agreed to in writing by Target; or
- [b]** on or after the Second Court Date, the variation is agreed to in writing by Target and is approved by the Court,

in which event Bidder will enter into a further deed poll in favour of each Scheme Shareholder giving effect to the amendment.

### 8.4 Rights cumulative

The rights, powers and remedies of Bidder and of each Scheme Shareholder under this Deed Poll are cumulative and do not exclude any other rights, powers or remedies provided by law or equity independently of this Deed Poll.

### 8.5 Assignment

The rights and obligations of Bidder and of each Scheme Shareholder under this Deed Poll are personal and must not be assigned, encumbered or otherwise dealt with at law or in equity and no person may attempt or purport to do so without the prior written consent of Bidder and Target.

### 8.6 Further assurances

Bidder will execute all deeds and other documents and do all acts and things (on its own behalf or on behalf of each Scheme Shareholder) as may be necessary or desirable to give full effect to this Deed Poll and the transactions contemplated by it.

### 8.7 Governing law and jurisdiction

- [a]** This document is governed by and will be construed according to the laws in force in Queensland.
- [b]** Bidder irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of, and exercising jurisdiction in, Queensland and courts competent to hear appeals from those courts.

# Execution

## Executed as a deed poll.

Signed sealed and delivered

by  
MetroCoal Limited ACN 117 763 443 by: \_\_\_\_\_

• Director ù Director/Secretary

ù Full name of Director ù Full name of Director/Secretary



## **Notice of Scheme Meeting**

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## **Notice of Court ordered Scheme Meeting of Shareholders of Cape Alumina Limited ACN 107 817 694**

Notice is given that, by an order of the Federal Court of Australia, a meeting of Shareholders of CBX Limited (**CBX**) will be held at McCullough Robertson Lawyers, Level 11, 66 Eagle Street, Brisbane, Queensland, on 9 December 2013 at 10:00am (**Scheme Meeting**).

### **Business**

The purpose of the Scheme Meeting is to consider, and if thought fit, to approve a scheme of arrangement (with or without modification) (**Scheme**) between CBX and the holders of ordinary shares in CBX as at the Record Date (**Scheme Shareholders**) under part 5.1 *Corporations Act 2001* (Cth) (**Corporations Act**).

To assist you in making an informed voting decision, further information on the Scheme is set out in the Scheme Booklet accompanying this notice. A copy of the Scheme is set out in Annexure C to the Scheme Booklet and its purpose and effect is explained throughout that document.

Terms used in this notice, including in the resolution set out below, have the same meaning as set out in the glossary of the Scheme Booklet which accompanies this notice.

### **Resolution**

To consider and, if thought fit, to pass the following resolution:

That, under section 411 Corporations Act, the scheme of arrangement proposed to be entered into between CBX Limited and holders of its fully paid ordinary shares (**Scheme**) is approved and the board of directors of CBX is authorised to agree to those modifications or conditions which are thought appropriate by the Federal Court of Australia (**Court**) and, subject to approval of the Scheme by the Court, to implement the Scheme with any of those modifications or conditions.

The Scheme is subject to the approval of the Court under section 411(4)(b) Corporations Act.

CBX intends to apply to the Court for approval of the Scheme, subject to this resolution being passed by the requisite majorities at the Scheme Meeting.

### **Requisite majority**

In accordance with section 411(4)(a)(ii) Corporations Act, this resolution must be passed by a majority in numbers of holders of Shares present and voting (either in person or by proxy) and representing at least 75% of the votes cast on the resolution. The vote will be conducted by poll.

### **Court approval**

The Scheme (with or without modification) is subject to the approval of the Federal Court of Australia.

Dated: 4 November 2013



Mr Scott Waddell  
Company Secretary

## Notes

### Voting entitlement

Shares will be taken to be held by the persons who are the registered holders at 7.00pm AEDT on 7 December 2013. All Shareholders at that time are entitled to vote at the Meeting.

### How to vote

Shareholders entitled to vote at the Meeting can vote:

- [a] by attending the meeting and voting in person;
- [b] by appointing an attorney to attend the meeting and vote on their behalf, or, in the case of corporate shareholders, a corporate representative to attend the meeting and vote on its behalf; or
- [c] by appointing a proxy to attend and vote on their behalf in their place, using the proxy form accompanying this notice of Scheme Meeting.

### Voting in person (or by attorney or corporate representative)

Shareholders or their attorneys who plan to attend the Meeting should arrive at the venue by 9:45am on 9 December 2013 so that shareholdings may be checked against the register and attendances noted. Attorneys must bring with them the original or a certified copy of the power of attorney under which they have been authorised to attend and vote at the meeting.

To vote in person at the Meeting, a corporation which is a Shareholder may appoint an individual to act as its representative. The appointment must comply with the requirements of section 250D Corporations

Act. The representative must bring to the meeting evidence of their appointment, including the authority under which it is signed.

### Voting by proxy

- [1] A proxy form accompanies this notice of Scheme Meeting.
- [2] A Shareholder has a right to appoint a proxy.
- [3] The proxy need not be a CBX Shareholder.
- [4] A Shareholder entitled to cast two or more votes may appoint two proxies to attend and vote for them. If you want to appoint two proxies, an additional proxy form will be supplied by CBX on request. Where two proxies are appointed, both forms should be completed with the nominated proportion or number of votes each proxy may exercise. Otherwise each proxy may exercise half of the votes.
- [5] Proxy forms must be signed by the Shareholder or the Shareholder's attorney. If the Shareholder is a corporation, the proxy form must be signed by two directors or by a director and a secretary, or if it is a proprietary company that has a sole director who is also the sole secretary, by that director, or under hand of its attorney or duly authorised officer. If the proxy form is signed by a person who is not the registered holder of Shares (e.g. an attorney), then the relevant authority (e.g. in the case of proxy forms signed by an attorney, the power of attorney) must either have been exhibited previously to CBX or be enclosed with the proxy form.
- [6] The proxy form sent to you with this notice of Scheme Meeting should be used for the Meeting. To be effective, the proxy form must be sent, delivered or faxed to:

#### Mail to:

Cape Alumina Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235

#### Deliver to:

Link Market Service Limited  
Level 12  
680 George Street  
Sydney NSW 2000

**Fax to:** +61 2 9287 0309

**by 10.00 am on 7 December 2013.**





**By mail:**  
Cape Alumina Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235 Australia

**By fax:** +61 2 9287 0309

**All enquiries to:** Telephone: +61 1300 554 474



**X99999999999**

**SHAREHOLDER PROXY FORM**

I/We being a member(s) of Cape Alumina Limited and entitled to attend and vote hereby appoint:

**STEP 1**

**APPOINT A PROXY**

**the Chairman of the Meeting (mark box)** OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy and to vote for me/us on my/our behalf at the Scheme Meeting of the Company to be held at **10:00am on Monday, 9 December 2013**, at **McCullough Robertson Lawyers, Level 11, 66 Eagle Street, Brisbane, Queensland** and at any adjournment or postponement of the meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business.

Proxies will only be valid and accepted by the Company if they are signed and received no later than **48 hours** before the meeting. Please read the voting instructions overleaf before marking any boxes with an **X**

**STEP 2**

**VOTING DIRECTIONS**

**Resolution 1**

That, under section 411 Corporations Act, the scheme of arrangement proposed to be entered into between CBX Limited and holders of its fully paid ordinary shares (**Scheme**) is approved and the board of directors of CBX is authorised to agree to those modifications or conditions which are thought appropriate by the Federal Court of Australia (**Court**) and, subject to approval of the Scheme by the Court, to implement the Scheme with any of those modifications or conditions.

	<b>For</b>	<b>Against</b>	<b>Abstain*</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

\* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

**STEP 3**

**SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED**

Shareholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Shareholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Shareholder 3 (Individual)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

**CBX PRX301**



## HOW TO COMPLETE THIS PROXY FORM

### Your Name and Address

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

### Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the Company. A proxy may be an individual or a body corporate.

### Votes on Items of Business - Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

### Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together.

### Signing Instructions

You must sign this form as follows in the spaces provided:

**Individual:** where the holding is in one name, the holder must sign.

**Joint Holding:** where the holding is in more than one name, either shareholder may sign.

**Power of Attorney:** to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

### Corporate Representatives

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry.

## Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am on Saturday, 7 December 2013**, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy Forms may be lodged using the reply paid envelope or:



**ONLINE** >

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Login to the Link website using the holding details as shown on the proxy form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the proxy form).



**by mail:**

Cape Alumina Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia



**by fax:**

+61 2 9287 0309



**by hand:**

delivering it to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

If you would like to attend and vote at the Scheme Meeting, please bring this form with you.  
This will assist in registering your attendance.

# Corporate directory

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## **Directors**

Mr George Lloyd – Chairman

Mr Graeme Sherlock - Managing Director

Mr Ronald Fritschy - Non-Executive Director

Mr Peter Nicholson - Non-Executive Director

Mr Jijun Liu - Non-Executive Director

Mr Ken Xiao - Alternate Non-Executive Director to Jijun Liu

## **Company Secretary**

Mr Scott Waddell

## **Registered Office**

Level 8, 300 Adelaide Street

Brisbane QLD 4000

## **Lawyers**

McCullough Robertson Lawyers

Level 11, 66 Eagle Street

Brisbane QLD 4000

## **Independent Expert**

InterFinancial Corporate Finance Limited

Level 3, 145 Eagle Street

Brisbane QLD 4000

## **Auditors**

BDO Audit Pty Ltd

Level 10, 12 Creek Street

Brisbane QLD 4000

## **Web Site**

<http://www.capealumina.com.au/>



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## Cape Alumina Limited

**Office** Level 8, 300 Adelaide Street,  
Brisbane, Qld 4000

**Postal** PO Box 10955,  
Adelaide Street,  
Brisbane, Qld 4000

**Phone** + 61 7 3009 8000

**Facsimile** + 61 7 3221 4811

**Email** [info@capealumina.com.au](mailto:info@capealumina.com.au)

**Web** [www.capealumina.com.au](http://www.capealumina.com.au)

**ABN** 88 107 817 694

