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18 September 2009

Dear Shareholder,

Extraordinary General Meeting

At an Extraordinary General Meeting to be held at Perth Convention Exhibition Centre on Wednesday 21 October 2009, at 10.30 a.m, you will be asked to consider three resolutions, which seek shareholder approval for the issue of shares and convertible notes to Elph Pty Ltd, a company controlled by Mr Dale Elphinstone. These are:

Resolution 1 – Ratification and Approval of Issue of Shares by Directors

Resolution 2 – Ratification and Approval of Issue of Convertible Notes by Directors

Resolution 3 – Approval of Issue of Convertible Notes and the Issue of Shares upon the Conversion of Convertible Notes

Details surrounding those resolutions are provided in the enclosed documentation, which includes:

1. The Notice of EGM, together with Explanatory Statement.
2. Proxy Forms for EGM, together with instructions.
3. Appointment of Corporate Representative for EGM.
4. Independent Expert's Report

Here, the Board is providing relevant information regarding the background and subsequent events, which influenced the Board's decision to support the issue of both shares and convertible notes.

Background Regarding the Sale of Rollingstock to Greentrains Ltd

During FY08, Coote Industrial Limited ("Coote Industrial") acquired a number of businesses, including rail operator, South Spur Rail Services ("South Spur"). South Spur owned a number of locomotives and rail wagons and was renting additional rolling-stock assets from Allrail, a subsidiary of Allco Finance. This rented rolling-stock was to be maintained under contract by RTSG (a rolling-stock maintenance provider and then associate of Allrail).

RTSG lacked the maintenance capability required by South Spur to support the fleet and to meet South Spur's operational requirements. The leased assets were mostly of locomotive classes currently in operation with the fleets of the major Australian rail operators, however they required major refurbishment, as did other rolling-stock assets owned by South Spur.



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Coote Industrial, through its rolling-stock maintenance business, Gemco Rail, acquired the entire fleet of assets from Allrail. A programme of work was commenced to provide South Spur with a reliable, efficient rail fleet and to realise the significant underlying value of the rolling-stock.

During the six months prior to 30 June 2008, Gemco Rail rebuilt and refurbished a number of these locomotives and wagons. As asset ownership is not core to Coote Industrial's business these locomotives were sold to Greentrains Limited ("Greentrains"). Greentrains is a separate, low-operational-cost, infrastructure entity incorporated for the purpose of owning the rolling-stock and leasing rollingstock to rail operators, including South Spur. The sale assets were independently valued and probable market rental rates for the assets were determined by taking into account approximate cost of funding.

Unfortunately, the sale of rolling-stock from Coote Industrial to Greentrains occurred at the time that the global financial crisis was emerging and Greentrains could not complete the transaction as originally intended. Over a period of twelve months, the directors of Greentrains approached potential investors in both debt and equity markets in Australia and internationally but were unsuccessful in attracting suitable interest.

As noted in previous announcements, the receivable due from Greentrains to Coote Industrial originally was \$82.7m, of which more than \$57m had been invested in the refurbishment programme.

As announced on 17 July 2009, Greentrains finalised the sale of an initial tranche of rolling-stock with a payment of \$44 million, of which Coote Industrial applied \$34m to debt and the balance to working capital. To achieve settlement of the outstanding receivable for this first tranche, Coote Industrial agreed to convert \$16.5m of the original receivable of \$82.7m to equity in Greentrains. This materially reduced the funds Coote Industrial expected to have available for debt reduction and working capital.

Absence of these critical funds to repay debt and to provide working capital, hampered Coote Industrial's ability to continue to invest in further integration and other important programmes. Financial constraints prevented Coote Industrial from procuring inventory and to fund work required to adequately meet customers' immediate needs. Significantly, in part due to the sharp, world-wide contraction in liquidity, Coote Industrial encountered increased debt funding costs, which were much higher than expected.

Elph Pty Ltd Communications

During the lengthy process of working with the directors of Greentrains to secure suitable investment, in Greentrains to enable Greentrains to pay the receivable due to Coote Industrial. Coote Industrial approached Dale Elphinstone to determine his interest in investing in both Coote Industrial and Greentrains. Mr Elphinstone's company, Elph Pty Ltd ('Elph'), agreed



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to invest in Greentrains and Coote Industrial, as announced on 24 April 2009. Elph subsequently made a further investment in Coote Industrial as outlined in the announcement on 17 July 2009. Coote Industrial used these further funds to acquire equity in Greentrains and for working capital. The additional equity investment in Greentrains enabled Greentrains to meet minimum equity requirements securing funding to finalise the initial tranche of rollingstock.

This demonstration of confidence by Elph enabled Greentrains to complete the first tranche transaction, thereby providing much-needed working capital for Coote Industrial. Subsequently, this has attracted further investment interest in Greentrains, with attention from investors where stable, long-term returns are required. These include other Australian industry parties and international leasing entities seeking entry into the Australian market.

Board Recommendation

The Board has considered this situation thoroughly and has placed particular emphasis on:

- (a) the circumstances surrounding both Australian and global debt and equity markets (particularly for small-cap companies) and the continuing ambiguity in economic conditions;
- (b) the uncertain outlook for Coote Industrial if the transactions do not proceed; and
- (c) the potential synergies and other benefits that are expected to be derived in strategically important markets for Coote Industrial where Elph and its related entities already have an established presence and considerable experience. These benefits are expected to be of significant value to Coote Industrial.

The Board unanimously supports the resolutions and strongly recommends them to shareholders.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Donald Hector'.

Donald Hector
Chairman
For and on behalf of the Board
Coote Industrial Limited