



Coote Industrial Limited
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25 October 2010

Dear Shareholder,

Notice of 2010 Annual General Meeting

Details of the 2010 Annual General Meeting of Coote Industrial Ltd are as follows:

Date and Time: Thursday, 25 November 2010 at 2:00 pm (WST)
Registration: 1:30 pm (WST)
Venue: Level 1, Meeting Room 10
Perth Convention & Exhibition Centre
21 Mounts Bay Road
Perth, Western Australia

Proxy Forms

If you are attending the Annual General Meeting and have not lodged a Proxy Form, please bring the blank Proxy Form with you to assist with registration.

If you are not attending the Annual General Meeting you can lodge a completed Proxy Form by returning it in the enclosed envelope or alternatively by facsimile. Please be aware that Proxy Forms need to be received by the Company by no later than 2:00 pm (WST) on 23 November 2010. Further details on completion and lodgement of your Proxy Form can be found on the reverse side of the Proxy Form.

Annual Report

Coote Industrial has adopted regulations that enable the Company to no longer distribute a hard copy annual report, unless a shareholder has elected to receive a hard copy.

In accordance with the Corporations Act, the Company advises that a copy of the Annual Report for the year ended 30 June 2010 is available on the Company's website www.coote.com.au by following the links to Investor Centre > Annual Reports.

Please note that if you have previously elected to continue to receive a hard copy of the Company's Annual Report, it will be mailed to you no later than 21 days before the Annual General Meeting.

Agenda

Annual Financial Statements, Directors' Report and Auditor's Report

To receive and consider the Annual Financial Statements, Directors' Report and Auditor's Report for the financial year ended 30 June 2010.

Ordinary Business

Item 1 Adoption of the Remuneration Report (non-binding resolution)

"To adopt the remuneration report (contained in the Directors' Report) for the year ended 30 June 2010."

Note: Pursuant to section 250R(3) of the Corporations Act the vote on this resolution is advisory only and does not bind the Directors or the Company.

Item 2 Directors' Fees

To consider and, if thought fit, pass the following as an ordinary resolution:

"That for the purposes of Article 11.15 of the Constitution and ASX Listing Rule 10.17, the maximum aggregate remuneration that may be paid to all Non Executive Directors, by the Company and any subsidiaries of the Company, for their services as Directors of the Company or of such subsidiaries, be increased from \$220,000 to \$500,000 per annum, in respect of each financial year commencing on or after 1 July 2010, with such remuneration to be divided among the Non Executive Directors in such proportion and manner as the Directors determine."

Please refer to the Voting Exclusion Statement in the Explanatory Notes section of the attached Information Sheet.

Item 3 Re-Election of Directors

3(a) To consider, and if thought fit, to pass the following as an ordinary resolution:

"That Mr. Dale Elphinstone who was appointed by the Directors during the year as an additional Director and who holds office until this meeting in accordance with Coote Industrial Limited's Constitution, being eligible for re-election, be re-elected as a Director of Coote Industrial Limited."

3(b) To consider, and if thought fit, to pass the following as an ordinary resolution:

"That Mr. Vincent De Santis who was appointed by the Directors during the year as an additional Director and who holds office until this meeting in accordance with Coote Industrial Limited's Constitution, being eligible for re-election, be re-elected as a Director of Coote Industrial Limited."

Item 4 Approval of the sale of rolling stock by Coote subsidiary, Gemco Rail Pty Ltd to Elph Pty Ltd

To consider and, if thought fit, to pass the following as an ordinary resolution:

"That for the purposes of ASX Listing Rule 10.1 and for all other purposes, shareholders ratify and approve the sale of 194 container wagons (rolling stock) by Coote subsidiary, Gemco Rail Pty Ltd to Elph Pty Ltd in accordance with a sale agreement made between the parties."

Please refer to the Voting Exclusion Statement in the Explanatory Notes section of the attached Information Sheet, and the enclosed Independent Expert's Report from BDO Corporate Finance (WA) Pty Ltd.

Special Business

Item 5 Change of Company name

To consider and, if thought fit, to pass the following as a special resolution:

"That the name of the Company be changed from "Coote Industrial Limited" to "Engenco Limited."

Voting Entitlements

For the purpose of the Corporations Act, the Company has determined that all securities of the Company that are quoted securities at 4.00pm on 23 November 2010 (WST) will be taken, for the purpose of the Meeting, to be held by the persons who held them at that time. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

By order of the Board,



Roland Stampalia
Company Secretary

- Enclosures:
1. Information sheet
 2. Proxy form
 3. Reply paid envelope
 4. Independent Expert's Report - BDO Corporate Finance (WA) Pty Ltd



Explanatory Notes

Ordinary Business

Receive and consider the financial and other reports

This item does not require voting by Shareholders. It is intended to provide an opportunity for Shareholders to raise questions on the reports themselves and on the performance and management of the Company.

Item 1 - Adopt the Remuneration Report for the year ended 30 June 2010 (Non-binding Resolution)

The Corporations Act requires that the remuneration report be presented to the Shareholders of the Company for consideration and adoption.

The Directors' Report contains within it, a separate and clearly identified section which contains the Remuneration Report.

The vote on this resolution is advisory only and does not bind the Directors or the Company.

Shareholders will also be given a reasonable opportunity, as a whole, to ask questions about, and make comments on, the Remuneration Report.

Item 2 - Directors' fees (Ordinary Resolution)

The Shareholders will be asked to approve an increase in the maximum aggregate fees which may be paid to the non-executive Directors of CIL. This aligns with the Board's intention to increase the number of non-executive Directors taking Board seats.

The new maximum aggregate amount, subject to the passing of the resolution, will be A\$500,000.

The new maximum aggregate amount does not necessarily mean that this will be utilised in full however the Board considers it appropriate to increase the maximum aggregate remuneration for non-executive Directors to provide it with the flexibility to attract and remunerate Directors with relevant experience in the future.

Voting exclusion statement

The Company will disregard any votes cast on this resolution by any Director of the Company and any of their associates.

However, the Company will not disregard a vote if:

- it is cast by a person as proxy for another person who is entitled to vote, in accordance with a direction on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Item 3 - Re-election of Director (Ordinary Resolution)

(a) Mr. Dale Elphinstone, FAICD

Non-executive Director since July 2010. Chairman of the Board of Directors.

Mr Elphinstone, age 59, is Executive Chairman of the Elphinstone Group which he founded in 1975 and which is the largest shareholder in Coote Industrial Limited. Mr Elphinstone has

considerable experience in the engineering, manufacturing and heavy machinery industries and is one of the longest serving Caterpillar dealer principals in Australia having acquired the Caterpillar dealership in Victoria and Tasmania in 1987. He was a director of Caterpillar subsidiary, Caterpillar Underground Mining Pty Ltd until December 2008 and of the former publicly listed Queensland Gas Company Limited from October 2002 until November 2008. Mr Elphinstone is also currently a director of ASX listed National Hire Group Limited.

(b) Mr Vincent De Santis, B.Com LLB (Hons)

Non-executive Director since July 2010.

Mr De Santis, age 41, is currently acting Managing Director of Coote Industrial Limited and is also Managing Director of Elphinstone Group, the largest shareholder of Coote Industrial Limited. He is a director of various other Elphinstone Group companies and is the alternate director for Mr Dale Elphinstone on the Board of National Hire Group Limited. Prior to joining Elphinstone Group, Vince was a Senior Associate in the Energy Resources and Projects work group of national law firm Corrs Chambers Westgarth based in Melbourne.

Item 4 - Approval of the sale of rolling stock by CIL subsidiary, Gemco Rail Pty Ltd to Elph Pty Ltd (Ordinary Resolution)

CIL subsidiary Gemco Rail Pty Ltd (Gemco) has entered into a sale agreement with Elph Pty Ltd (Elph), CIL's largest shareholder, to sell 194 container wagons for a total consideration of approximately A\$16.9 million.

The rolling stock, as their manufacture is progressively completed, is to be leased by Gemco to IMX Resources Limited (ASX: IXR) subsidiary, Termite Resources NL, on commercial terms. The details of this contract, in which the Elphinstone Group's facilitation and support role was key, were announced by Coote to the ASX on 25 May 2010. Elph will now continue as lessor under this arrangement on the same commercial terms.

The agreement provides for a deposit of A\$2.5 million plus an immediate progress payment of A\$2.5 million from Elph to Gemco for rolling stock that has already been manufactured or is currently being manufactured by Gemco. Subsequent progress payments will be made as the rolling stock is completed and delivered. The total contract value of approximately A\$16.9 million is expected to be delivered before the end of Q3 of FY 2011.

This sale has been made to provide CIL with much needed financial flexibility by releasing the capital committed to the rolling stock project, whilst allowing Gemco to undertake a significant volume of fabrication work to complete the manufacture of the rolling stock and provide ongoing maintenance of the wagons under a five year maintenance contract with the operator.

Given the transaction is with Elph, which is a related party of CIL as defined under the ASX Listing Rules, an Independent Expert's Report has been commissioned by the Board and is provided as an appendix to this explanatory statement which has concluded that the transaction is fair and reasonable to CIL shareholders.

The resolution is an Ordinary Resolution.



Voting Exclusion Statement

The Company will disregard any votes cast on this resolution by Elph and associates of Elph.

However, the Company will not disregard a vote if:

- it is cast by a person as proxy for another person who is entitled to vote, in accordance with a direction on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Special Business

Item 5 - Change the name of the Company to Engenco Limited (Special Resolution)

Shareholders would be aware of the significant changes to the ownership structure, strategic direction, Board, management and other areas which have been implemented over the past months at your Company. These changes are all aimed at turning around the performance of your Company and improving shareholder returns.

To reflect these changes and to reflect the Company's renewed, more focussed approach to dealing with customers, shareholders and all other stakeholders, the Board and management consider it appropriate to change the Company's name. The new name proposed is 'Engenco Limited'.

The resolution is a Special Resolution and will be passed if at least 75% of the votes that are cast by Shareholders entitled to vote on the resolution are voted in favour of the resolution. If the change of name is approved by Shareholders, application will immediately be made to ASIC to alter the details of the Company's registration by registering the new name.

Your Directors unanimously recommend that Shareholders approve the change of name of 'Coote Industrial Limited' to 'Engenco Limited'.

Proxies and Voting

Eligibility to Vote

You will be eligible to vote at the meeting if you are registered as a holder of CIL shares at 4.00 pm (WST) on Tuesday, 23 November 2010.

Appointing a Proxy

If you are entitled to attend and vote at the meeting, you can appoint a proxy to attend and vote on your behalf. A proxy need not be a shareholder of CIL and may be an individual or a body corporate. A proxy form is included with this Notice of Meeting. If you are entitled to cast two or more votes, you may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If you do not specify a proportion or number, each proxy may exercise half of the votes. If you require a second proxy form, please contact the Company Secretary on +61 (0)8 9251 8000.

How the Chair of the Meeting will vote undirected Proxies

The Chair of the meeting will vote undirected proxies in favour of all of the motions. CIL encourages all shareholders who submit proxies to direct their proxy how to vote on each item of business.

Questions from Shareholders

In addition to asking questions at the meeting, written questions to the Chairman about the management of CIL or to CIL auditors about the content of the Auditor's Report and the conduct of the audit, may be submitted no later than Thursday, 19 November 2010 by:

- post to The Chairman, C/- Company Secretary, Coote Industrial Ltd at PO Box 270, Maddington WA 6989
- faxing it to +61 0(8) 9452 2186; or
- Email: investor.relations@coote.com.au

Copies of written questions and answers will be available at the meeting.

Corporate Shareholders

Corporate shareholders who wish to appoint a representative to attend the meeting on their behalf must provide that person with a properly executed letter or other document confirming that they are authorised to act as the company's representative. The authorisation may be effective either for this meeting only or for all meetings of CIL. Shareholders may obtain an 'Appointment of Corporate Representative' form from the Company's share registry.

Your Privacy

Attendees at the meeting may be video recorded and the tapes may be used at the discretion of ASX for security or broadcast purposes.

Glossary

ASX means ASX Limited ABN 98 008 624 691.

Company or "**CIL**" means Coote Industrial Limited (ACN 120 432 144).

Corporations Act 2001 means the Corporations Act, 2001 (Commonwealth).

Directors means the directors of the Company.

Explanatory Notes means the Explanatory Notes included in the Notice which convened this meeting.

Notice means the Notice of Annual General Meeting.

Remuneration Report means the Remuneration Report which forms part of the Directors' Report of CIL for the financial year ended 30 June 2010 and which is set out on pages 10 to 13 of the 2010 Annual Report.

Resolutions means the resolutions proposed in the Notice.

Shareholder means a shareholder of the Company and **Shareholders** has a corresponding meaning.

INDEPENDENT EXPERT'S REPORT
Coote Industrial Limited

21 October 2010



Financial Services Guide

21 October 2010

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 (“BDO” or “we” or “us” or “ours” as appropriate) has been engaged by Coote Industrial Ltd (“Coote”) to provide an independent expert’s report on the proposed sale of 194 wagons (“Rollingstock”) by Gemco Rail Pty Ltd (“Gemco”), a wholly owned subsidiary of Coote, to Elph Pty Ltd (“Elph”) (“the Transaction”). You will be provided with a copy of our report as a retail client because you are a shareholder of Coote.

Financial Services Guide

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

This FSG includes information about:

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

Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

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

Financial services we are licensed to provide

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

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

General Financial Product Advice

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

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



Fees, Commissions and Other Benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee for this engagement is approximately \$20,000.

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

Other Assignments -

In September 2009 BDO Corporate Finance (WA) Pty Ltd prepared an independent expert's report for Coote Industrial Ltd to express an opinion on a proposed issue of convertible notes to Elph Pty Ltd.

In April 2010 BDO Corporate Finance (WA) Pty Ltd prepared an independent expert's report for Coote Industrial Ltd to express an opinion on Elph Pty Ltd's offer to acquire 35% of the issued shares of Coote Industrial Ltd.

Other than these engagements neither the signatories to this report nor BDO have had within the past two years, any professional relationship with Coote, or their associates, other than in connection with this report.

Remuneration or other benefits received by our employees

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

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

Referrals

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

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 Subiaco WA 6872.

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

Referral to External Dispute Resolution Scheme

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

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

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

Contact details

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

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21 October 2010

The Directors
Coote Industrial Limited
PO BOX 270
Maddington WA 6989

Dear Sirs

Independent Expert's Report

1 Introduction

BDO Corporate Finance (WA) Pty Ltd (“BDO”) has been engaged by Coote Industrial Limited (“Coote”) to prepare an independent expert’s report (“our Report”) to express an opinion as to whether or not entering into the proposed rollingstock sales agreement (“Rollingstock Sales Agreement”) with Elph Pty Ltd (“Elph”) (“the Transaction”), a 44.34% shareholder in Coote, is fair and reasonable to non-associated shareholders (“Shareholders”) of Coote.

Our Report is to be included in the Explanatory Memorandum for Coote to be sent to all Shareholders to assist them in deciding whether to approve the Transaction.

2 Summary and Opinion

2.1 Purpose of the Report

The Directors of Coote have requested that BDO prepare an independent expert’s report to express an opinion as to whether or not the Transaction is fair and reasonable to the non associated shareholders of Coote.

Our Report is prepared pursuant to ASX Listing Rule 10.1 in order to assist Shareholders in their decision whether or not to approve the Transaction.

2.2 Opinion

We have considered the terms of the Transaction as outlined in the body of this Report and have concluded that the Transaction is fair and reasonable to Shareholders.

2.3 Fairness and Reasonableness

We have considered the analysis in Sections 7 and 8 of this Report, in terms of both:

- Advantages and disadvantages of approving the Transaction; and
- Alternatives, including the position of Shareholders if the Transaction is not approved.

If the advantages of the Transaction outweigh the disadvantages of the Transaction then the Transaction can be considered fair and reasonable.

In our opinion, the position of Shareholders if the Transaction is approved is more advantageous than the position if the Transaction is not approved. Accordingly, we consider the Transaction to be fair and reasonable for Shareholders.

The respective advantages and disadvantages of approving the Transaction are summarised below:

Advantages and Disadvantages of Approving the Transaction			
Section	Advantages	Section	Disadvantages
7.1.1	Guaranteed sale of the Rollingstock at a profit	7.2.1	Loss of future income from leasing the wagons and any other future benefits of ownership
7.1.2	Receipt of Deposit		
7.1.3	Pre-payment for part of Rollingstock prior to completion		
7.1.4	Significant cash injection ensuring sufficient working capital is available to complete the manufacture of the Rollingstock		
7.1.5	Significant cash injection alleviating short term working capital strain within Coote		
7.1.6	Maintenance agreement with SBR will proceed with no change to the terms of the agreement		
7.1.7	Management time can be dedicated to running the business as opposed to seeking other sources of working capital		

Other key matters we have considered include:

Section	Description
8.1	Interest charges on \$2.5 million deposit and \$2.5 million WIP purchase payment
8.2	Alternative sources of debt funding

3 Scope of the Report

3.1 Purpose of the Report

ASX Listing Rule 10.1 requires that a listed entity must obtain shareholders' approval before it acquires or disposes of a substantial asset, when the consideration to be paid for the asset or the value of the asset being disposed constitutes more than 5% of the equity interest of that entity at the date of the last audited accounts.

Listing Rule 10.1 applies where the vendor or acquirer of the relevant assets is a related party of the listed entity.

It is of our opinion that the potential sale of the Rollingstock by Gemco to Elph will be greater than 5% of Coote's current equity interest. The 100% equity interest in Coote as at 30 June 2010 was \$53.6 million, equating to a 5% equity interest of \$2.7 million. The value of the consideration received for the Rollingstock of \$16.9 million will be significantly greater than this figure.

The Coote Annual Report submitted to the ASX on 1 October 2010, discloses that Elph has a 44.34% interest in Coote, making it a related party.

Listing Rule 10.10.2 requires the Notice of Meeting for shareholders' approval to be accompanied by a report by an independent expert expressing their opinion as to whether the Transaction is fair and reasonable to the shareholders whose votes are not to be disregarded in respect of the Transaction.

Accordingly, an independent expert's report is required for the Transaction. The report should provide an opinion by the expert stating whether or not the terms and conditions in relation thereto are fair and reasonable to non-associated shareholders of Coote.

3.2 Regulatory Guidance

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

RG 111 does not provide specific guidance in relation to a fair and reasonable report required by the ASX. However, RG 111 provides guidance on how a control transaction should be considered. We do not consider the Transaction to be a control transaction. As such, we have used RG 111 as a guide for our analysis, but have considered the Transaction as if it were not a control transaction.

RG 111.9 states that in a takeover scenario or a control transaction, 'fair' and 'reasonable' are two distinct criteria, that is 'fair and reasonable' is not regarded as a compound phrase. However, it is common practice to treat 'fair and reasonable' as a compound phrase for reports required to be prepared under the ASX Listing Rules which do not relate to control transactions.

In determining whether the advantages of the Transaction outweigh the disadvantages, we have had regard to the views expressed by ASIC in RG 111. This Regulatory Guide suggests that an opinion as to whether the advantages of a transaction outweigh the disadvantages should focus on the purpose and outcome of the transaction, that is, the substance of the transaction rather than the legal mechanism to affect it.

3.3 Adopted basis of Evaluation

In forming our opinion as to whether the Transaction is fair and reasonable we have treated the concepts of fairness and reasonableness as a single opinion, that is, the Transaction is, or is not, fair and reasonable. The Transaction cannot be fair but not reasonable, or not fair but reasonable.

For the purposes of our Report, we have treated “fair and reasonable” as a compound phrase as this is a non-control transaction for listing rule purposes.

The concept of fair and reasonableness focuses on whether the Transaction is in the best interests of the Shareholders.

In forming our opinion as to whether the Transaction is fair and reasonable we have considered, amongst others, the following factors:

- The advantages and disadvantages of approving the Transaction to the non-associated shareholders of Coote; and
- Alternatives, including the position of Shareholders if the Transaction is not approved.

4 Outline of the Transaction

4.1 Background

On 24 May 2010 a Master Agreement (“**Master Agreement**”) was entered into between Gemco and Termite Resources NL (“**Termite**”), whereby Gemco agreed to lease 194 wagons to Termite for an initial term of five years. In addition to the lease of the wagons, the Master Agreement stipulated that Termite and Specialised Bulk Rail (“**SBR**”) would enter into a Rail Haulage Agreement whereby SBR would provide rail haulage services to Termite using the leased wagons. The Master Agreement also stated that SBR would be required to maintain the wagons, though it stated that Gemco and Termite intended that the maintenance of the wagons would be subcontracted by SBR to Gemco under a Maintenance Agreement (“**Maintenance Agreement**”) between SBR and Gemco.

The Maintenance Agreement between SBR and Gemco was entered into on 24 May 2010 whereby Gemco agreed to provide maintenance for the 194 wagons that would be leased by Termite.

Gemco is currently in the process of manufacturing the 194 wagons, with more than \$3 million already spent on the manufacturing process. It is expected that at least another \$7 million will need to be spent before mid December 2010 when the first wagons will be ready for delivery and when the first lease revenue will be received.

The wagons are expected to be completed and ready for delivery at a rate of about 20 wagons per week commencing mid January 2010 with the last wagon expected to be completed and delivered by the end of March 2011.

However, at present Coote’s working capital position is not strong enough to accommodate this additional expenditure of \$7 million, with Coote’s group finance facility already significantly drawn.

To strengthen its working capital position and ensure the completion of the wagons, Gemco and Elph have agreed to enter into the Rollingstock Sales Agreement whereby subject to obtaining all required consents of the shareholders of Coote and management of Termite, Gemco will sell the Rollingstock to Elph.

4.2 Terms of the Rollingstock Sales Agreement

Under the terms of the Rollingstock Sales Agreement:

- The purchase price payable by Elph to Gemco for the Rollingstock is \$87,000 (excluding GST) per wagon for an aggregate of \$16,878,000 (excluding GST) (“**Purchase Price**”) for the 194 wagons.
- A deposit of \$2.5 million (“**Deposit**”) is payable by Elph to Gemco on execution of the Rollingstock Sales Agreement. Interest will be payable by Gemco on the Deposit at an interest rate of 10% per annum.
- On execution of the Rollingstock Sales Agreement, Elph will purchase the current work in progress (“**WIP**”) with respect to the Rollingstock for \$2.5 million (excluding GST). Interest will be payable by Gemco on the \$2.5 million paid for the WIP at an interest rate of 10% per annum. Under the agreement Gemco will maintain and store the WIP on behalf of Elph at no cost to Elph ensuring the WIP is insured and kept in good condition.
- Gemco will continue the manufacture of the Rollingstock to completion.
- Once Gemco has delivered to Termite completed wagons to the value of the \$2.5 million Deposit plus the interest that has accrued on this amount, Gemco will purchase back from Elph, ignoring the

subsequent change in value to the WIP, an amount of WIP that represents the value of the completed wagons that at that stage have been delivered to Termite.

- Once Gemco has delivered to Termite completed wagons to the value of the \$2.5 million (excluding GST) WIP payment plus the interest that has accrued on this amount, Elph will pay Gemco for the completed wagons that have been delivered to Termite at an amount of \$87,000 (excluding GST) per wagon. The payment will be made by either cheque or telegraphic transfer.

The purpose and outcome of the above transactions is for Elph to provide Gemco with a \$2.5 million deposit upon the execution of the Rollingstock Sales Agreement (the Deposit), as well as providing a \$2.5 million pre-payment for the purchase of the Rollingstock (the purchase of the WIP). The substance of the transactions is to provide Gemco with sufficient working capital to complete the manufacture of Rollingstock.

- The balance of the Purchase Price will be paid pro rata as items of Rollingstock are delivered at a time and place as Elph and Gemco agree to. The implication of this will be that Elph purchases the wagons as they are completed and delivered.
- The Deposit will be refunded by Gemco to Elph if the arrangements set out in the Rollingstock Sales Agreement are terminated as a result of:
 - The Shareholders of Coote not approving the Transaction;
 - Termite does not give consent to the Transaction;
 - Prior to the payment of the Purchase Price, Gemco at any time terminates the arrangement in writing;
 - If an insolvency event occurs in relation to Gemco or any of its related bodies corporate;
 - If Gemco has breached a representation or warranty or if Gemco is in breach of any part of the Rollingstock Sales Agreement provided Gemco has been notified by Elph in writing of the breach and the relevant circumstances still exist three days after the time such notice is given.

5 Profile of Coote Industrial Limited

5.1 History

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

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

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

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

One of the businesses acquired during FY 2008 was rail operator South Spur Rail Services ("**South Spur**"), which at the time owned 17 locomotives and a number of wagons and was renting another 24 locomotives from Allco Finance Group Limited's subsidiary, Allrail. This rollingstock was to be maintained under contract by RTS Group (a rollingstock maintenance provider, a controlled entity of Allrail).

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

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

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

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

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

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

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

In March 2010 Coote entered into an agreement for the sale of South Spur, keeping with its strategy to progressively develop a simplified business model and reduce debt. On 11 June 2010 the sale of South Spur was completed resulting in a net loss of \$10.2 million. This ceased Coote's activities as an operator in the rail operations sector. Under the terms of the sale, South Spur will continue to lease its retained rollingstock fleet from Greentrains.

On 3 March 2010, Elph announced that it would make an all cash off-market proportional takeover offer to acquire up to 35% of the issued shares in Coote which Elph did not already own. The offer was at \$0.26 per share. At the time Elph had a 24.95% shareholding in Coote.

Coote's board initially recommended that Coote's shareholders reject the offer. However, on 21 May 2010, in light of a marked deterioration in general trading conditions and given a constrained working capital position, the board recommended that shareholders accept the Elph offer in the absence of a superior proposal.

On 11 June 2010 Elph announced that its proportional takeover offer for up to 35% of Coote's shares was closed, with Elph holding 38.54% of the issued share capital of Coote. In July 2010 Elph's shareholding increased to 44.34% following the issue of additional shares pursuant to a non-renounceable entitlement offer.

On 19 July 2010 Mr Dale Elphinstone and Mr Vincent De Santis were appointed as non executive directors to the board of Coote. Three days later, on 22 July 2010, it was announced that Mr Don Patterson, Coote's CEO and a director on the board, as well as Michael Coote, Coote's Managing Director, resigned from the board.

The directors of Coote are as follows:

- Dale Elphinstone (Chairman)
- Vince De Santis (Managing Director)
- Donald Hector (Non-Executive Director)

5.2 Greentrains

On 17 July 2009 Coote received an interest in Greentrains as part consideration for the rollingstock sold to Greentrains in June 2008. In addition to this, \$3.5 million of the funds received from Elph for the convertible notes was used to acquire an additional interest in Greentrains, taking Coote's total interest to 61.1%. This interest was increased to 81% on 11 June 2010 when Elphinstone Holdings Pty Ltd exercised a put option.

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

Greentrains delivered a small trading loss for the year ended 30 June 2009. Currently, Greentrains has a debt facility of approximately \$28.2 million which was drawn down on 17 July 2009, and is guaranteed by Coote until half of the original debt is sold down. The Board of Coote has expressed its intention to deconsolidate Greentrains from the Group.

5.3 Service Provisions

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

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

As at June 2010, Coote employed over 1,000 personnel and has operations in Australia, New Zealand, Singapore, Philippines, Indonesia, United States of America and Sweden.

Coote's core business units are:

- Convair Engineering
- Coote Logistics
- Coote Investments
- Drivetrain Power & Propulsion
- Gemco Rail
- Hedemora
- Industrial Powertrain and,
- Momentum

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

5.4 Convair Engineering

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

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

5.5 Coote Logistics

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

Coote Logistics offers:

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

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

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

5.6 Drivetrain Power & Propulsion

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

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

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

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

5.7 Gemco Rail

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

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

5.8 Hedemora Diesel AB

Hedemora Diesel AB provides a range of mechanical and electrical/electronic engineering services to the defence, resources, maritime, power generation and rail industries, including engineering design, repair and maintenance and spares support with key niche expertise in delivering power and propulsion solutions. Hedemora Diesel AB is also the original equipment manufacturer (OEM) of the Hedemora range of diesel engines which includes those in operation onboard Australia's Collins Class Submarines.

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

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

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

5.9 Industrial Powertrain

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

5.10 Momentum

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

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

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

5.11 Historical Balance Sheet

Balance Sheet	As at 30 Jun 10 \$'000	As at 30 Jun 09 \$'000	As at 30 Jun 08 \$'000
CURRENT ASSETS			
Cash and cash equivalents	2,727	1,946	-
Trade and other receivables	44,424	150,020	130,994
Inventories	44,751	51,771	65,124
Other current assets	2,359	1,998	2,087
TOTAL CURRENT ASSETS	94,261	205,735	198,205
NON-CURRENT ASSETS			
Trade and other receivables	2,255	3,173	2,255
Inventories	5,921	17,608	7,200
Financial assets	157	127	5,004
Property, plant & equipment	82,459	46,324	34,672
Deferred tax assets	4,915	3,967	3,192
Intangible assets	52,295	102,748	93,515
TOTAL NON-CURRENT ASSETS	148,002	173,947	145,838
TOTAL ASSETS	242,263	379,682	344,043
CURRENT LIABILITIES			
Trade and other payables	56,381	72,652	41,756
Financial liabilities	81,070	128,958	43,501
Current tax liabilities	2,860	9,290	10,117
Short-term provisions	9,947	9,961	4,286
TOTAL CURRENT LIABILITIES	150,258	220,861	99,660
NON-CURRENT LIABILITIES			

Balance Sheet	As at 30 Jun 10 \$'000	As at 30 Jun 09 \$'000	As at 30 Jun 08 \$'000
Financial liabilities	32,113	20,326	98,314
Long-term provisions	1,950	1,934	1,766
Deferred tax liabilities	4,311	1,930	288
TOTAL NON-CURRENT LIABILITIES	38,374	24,190	100,368
TOTAL LIABILITIES	188,632	245,051	200,028
NET ASSETS	53,631	134,631	144,015
EQUITY			
Issued Capital	152,808	119,222	117,632
Reserves	(882)	697	1,329
Non-controlling interest	2,759	-	-
Retained earnings	(101,054)	14,712	25,054
TOTAL EQUITY	53,631	134,631	144,015

Source: Coote Industrial Limited Financial Statements for 30 June 2008, 30 June 2009 and 30 June 2010.

- The balance sheet was significantly impacted by the settlement of the Greentrains debtor for the first tranche of rolling-stock sold from Gemco Rail Pty Ltd to Greentrains Ltd in June 2008 for \$82,713,000. In order to settle the receivable Coote acquired the interest in Greentrains, retained rolling stock valued at \$17m and received a cash payment of \$44m. On settlement \$34.12m was applied to debt reduction in Coote Industrial Ltd. As part of the acquisition Coote acquired property, plant and equipment at a fair value of \$80.1m.
- On 17 July 2009 Coote Investments Pty Ltd (a 100% subsidiary of Coote Industrial Ltd) acquired a 61% controlling interest in Greentrains. This interest was increased to 81% on 11 June 2010 when Elphinstone Holdings Pty Ltd exercised a put option.
- On 17 November 2009 Coote also announced it had completed a \$30m share placement to institutional and sophisticated investors, and an additional \$1.2m under a Share Purchase Plan, offered to all existing shareholders with more than \$20m of funds received having since been applied to debt reduction with the balance applied to working capital.
- On 11 June 2010 the sale of South Spur Rail services was settled resulting in a loss of \$10.2 million.
- Group borrowings have been reduced with net debt of \$110.5 million as at June 2010, compared with \$147.3 million as at June 2009.

5.12 Historical Income Statement

Income Statement	Half ended 30 June 2010 \$000	Year ended 30 June 2009 \$000	Year ended 30 June 2008 \$000
Revenue	188,679	317,187	346,311
Other Income	3,380	175	1,582
Total Revenue	192,059	317,362	347,893
Expenses			
Changes in inventories of finished goods and work in	(18,707)	(2,945)	43,015
Raw materials and consumables	(77,607)	(153,080)	(217,637)
Employee benefits expense	(67,191)	(85,715)	(82,071)
Depreciation and amortisation expense	(13,059)	(10,455)	(8,525)
Goodwill write-downs	(44,224)	-	-
Impairment recovered	(11,491)	(1,060)	-
Finance costs	(15,622)	(14,779)	(8,943)
Subcontract freight	(1,949)	(2,616)	(1,767)
Repairs and maintenance	(8,645)	(6,353)	(6,006)
Insurance	(3,254)	(3,850)	(2,161)
Rent and outgoings	(10,822)	(10,612)	(6,818)
Vehicle expenses	(1,247)	(1,908)	(1,791)
Fuel	(6,955)	(8,445)	(7,765)
Foreign exchange movement	(182)	(2,615)	-
Other expenses	(12,609)	(15,819)	(15,249)
Profit / (loss) before income tax expense	(101,505)	(2,890)	(32,175)
Income tax expense	(5,259)	(1,651)	(10,163)
Net Profit for the period from continuing operations	(106,764)	(4,541)	22,012

Source: Coote Industrial Limited Financial Statements for 30 June 2008, 30 June 2009 and 30 June 2010.

- Net Profit after tax for the year ended 30 June 2010 was well below 2009 due to low revenues and a \$44.2 million write-down of goodwill. Revenue was well below expectations for a number of the Group's trading operations.

- A major component to the write-down of goodwill was derived from the Gemco business (\$24.4 million) and quarantine and logistics business (\$13.1 million).

5.13 Capital Structure

The share structure of Coote as at 28 September 2010 is outlined below:

Description	Number
Total Ordinary Shares on Issue	532,027,576
Top 20 Shareholders	417,310,542
Top 20 Shareholders - % of shares on issue	78.4%

Source: Coote Industrial Ltd Statutory Annual Report FY2010

The distribution of shareholders in Coote as at 28 September 2010 is outlined below:

Range of Shares Held	No. of Ordinary Shareholders	No. of Ordinary Shares	Issued Capital (%)
1-1,000	111	53,043	5.64 %
1,001-5,000	480	1,554,668	24.39 %
5,001-10,000	320	2,589,840	16.26 %
10,001-100,000	796	29,925,777	40.45 %
100,001 - and over	261	497,904,248	13.26 %
TOTAL	1968	532,027,576	100.0%

Source: Coote Industrial Ltd Statutory Annual Report FY2010

The ordinary shares held by the most significant shareholders as at 28 September 2010 are detailed below:

Name	No of Ordinary Shares Held	Percentage of Issued Shares (%)
Elph	235,914,636	44.3%
Equity Trustees Ltd (SGH PI Smaller Co's Fund)	39,920,639	7.5%
Ganesha Nominees Pty Ltd	35,700,411	6.7%
UBS Nominees Pty Ltd	24,947,241	4.7%
Total Top 4	336,482,927	63.2%
Others	195,544,649	36.8%
Total Ordinary Shares on Issue	532,027,576	100.0%

Source: Coote Industrial Ltd Statutory Annual Report FY2010

Options which are currently on issue in Coote as at 30 June 2010 are outlined below:

Coote options currently on issue	Number of Options	Exercise Price (\$)	Expiry Date
Unlisted options	1,000,000	\$3.00	29 February 2011
Unlisted options	1,000,000	\$3.50	29 August 2011
Unlisted options	1,000,000	\$4.00	29 February 2012
Total Number of Options	3,000,000		
Cash Raised if Options Exercised	\$10,500,000		

Source: Coote Industrial Ltd Statutory Annual Report FY2010

6 Profile of Elph Pty Ltd

6.1 History

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

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

6.2 Relationship with Coote

Elph currently has an existing relationship with Coote. Elph already holds 44.3% of the issued shares in Coote. In addition to this, Elph holds 19.8% of Greentrains.

As part of the subscription of shares in Greentrains, Elph was granted a put option to sell the Greentrains shares it holds to Coote. The put option was exercisable on or before 16 July 2010 at an exercise price of \$6.5 million. Elph transferred the put option to its parent entity, Elphinstone Holdings Pty Ltd which has exercised the option. This resulted in Coote’s shareholding of Greentrains increasing to 81%.

The loans by Elph to Coote, for the purposes of funding working capital and to fund settlement of the Greentrains put option, were repaid in full following the completion of Coote’s July 2010 rights issue.

6.3 Previous Share Transactions with Coote

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

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

The convertible notes converted on a 1 for 1 basis and were issued to Elph on 9 December 2009.

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

7 Is the Transaction Fair and Reasonable?

In accordance with our adopted basis of evaluation (Section 3.3) we have investigated significant factors to which Shareholders might give consideration prior to approving the Transaction. We have also considered the position of Shareholders if they reject the Transaction.

7.1 Advantages of Approving the Transaction

We have considered the following advantages of approving the Transaction when assessing whether the Transaction is fair and reasonable.

Ref	Advantage	Description
7.1.1	Guaranteed sale of the Rollingstock at a profit	The sale of the Rollingstock to Elph will ensure that Gemco realises a profit on the sale. The Rollingstock Sales Agreement outlines that Elph will pay \$87,000 (excluding GST) per wagon, which is a mark up on the manufacturing cost per wagon. It is also highly probable that the Purchase Price paid by Elph will be significantly higher than that achieved by a distressed or forced sale of the wagons currently under construction if sufficient working capital is not found to complete the manufacture of the Rollingstock.
7.1.2	Receipt of Deposit	If the Transaction is approved, Gemco will receive an initial deposit of \$2.5 million from Elph following the execution of the Rollingstock Sales Agreement. This could be as early as 22 October 2010 and will enable Gemco to continue the manufacture of its Rollingstock.
7.1.3	Pre-payment for part of Rollingstock prior to completion	The \$2.5 million purchase payment for WIP, which is effectively a pre-payment for the completed Rollingstock, will enable Gemco to continue the manufacture of its Rollingstock.
7.1.4	Significant cash injection ensuring sufficient working capital is available to complete the manufacture of the Rollingstock	The combined \$5 million that will be received from Elph following the execution of the Rollingstock Sales Agreement, will ensure that Gemco has sufficient working capital to complete the manufacture of the Rollingstock. If this cash is not received it is likely that Gemco would not be able to complete all 194 wagons in the required timeframe. This would have numerous knock on effects including Gemco having to hold incomplete stock on which no lease revenue could be earned but would end up costing Gemco money to hold. The sales value of the incomplete stock would also be lower than what could be realised if the wagons were sold as completed units.

Ref	Advantage	Description
7.1.5	Significant cash injection alleviating short term working capital strain within Coote	In addition to ensuring the completion of the Rollingstock, the \$5 million cash injection and guaranteed balance of the Purchase Price will alleviate the short term working capital strain that Coote is currently operating under. The combined \$5 million will be used to fund working capital requirements with regard to the manufacture of the Rollingstock. If the Deposit and WIP purchase payment are not received, and funding cannot be obtained from other sources, Coote would ultimately not be in a position to meet its financial obligations as and when they fall due.
7.1.6	Maintenance agreement with SBR will proceed with no change to the terms of the agreement	The terms of the Maintenance Agreement between Gemco and SBR will not be affected by the sale of the Rollingstock to Elph. This will ensure that Gemco will receive a revenue stream from the maintenance of the Rollingstock for a minimum period of five years with the option to extend the contract. The maintenance revenue is an attractive revenue stream for Coote via Gemco, and is estimated by the Directors to be approximately \$10 million over the five year period.
7.1.7	Management time can be dedicated to running the business as opposed to seeking other sources of working capital	If the Transaction is approved it will free up significant management time that will otherwise have to be spent seeking other sources of working capital from non related parties. The approval of the Transaction will enable management to spend more time on the daily operations of Coote as well as focusing on the strategic direction of the Company without the distraction of the current working capital impediment.

7.2 Disadvantages of Approving the Transaction

We have considered the following disadvantages of approving the Transaction when assessing whether the Transaction is fair and reasonable.

Ref	Disadvantage	Description
7.2.1	Loss of future income from leasing the wagons and any other future benefits of ownership	The Master Agreement between Gemco and Termite stipulates that Termite will lease the Rollingstock for a minimum period of five years (with options to extent) at \$1,035 (excluding GST) per wagon per month from the date of acceptance. Over the five year period this equates to lease income for Gemco of approximately \$12 million (excluding GST), while still retaining ownership of the Rollingstock at the end of the period. If the Transaction is approved Gemco will forfeit this income as well as losing ownership of the Rollingstock and any future benefits that could be derived from such.

8 Other Considerations

8.1 Interest Charges on \$2.5 million Deposit and \$2.5 million WIP Purchase Payment

The Rollingstock Sales Agreement stipulates that Elph will pay Gemco a deposit of \$2.5 million on the execution of the Rollingstock Sales Agreement as well as purchasing the WIP for an amount of \$2.5 million. Interest will accrue on these amounts, payable by Gemco to Elph at an interest rate of 10%, until wagons to the value of \$5 million plus the interest accrued on this amount has been delivered to Termite. It is intended that the Deposit and WIP purchase payment will initially be offset against Coote's overdraft facility.

The combined amount of \$5 million will then systematically be drawn down to be used as working capital to complete the Rollingstock. Management has indicated that the draw down will commence almost immediately upon the receipt of the Deposit and WIP purchase payment.

Even though interest will accrue on the Deposit and WIP purchase payment, the net effect on Coote's interest payments as a result of initially offsetting the \$5 million against the group overdraft facility, even if only temporarily, will be a reduction in interest payments, as the 10% charged by Elph is less than the interest on Coote's overdraft facility.

The interest payments are also less than what would be required if Coote were to source additional debt funding.

8.2 Alternative Sources of Debt Funding

Coote's bank debt is covered by the following key financial covenants as outlined below:

- I. minimum net worth of \$100 million;
- II. annual leverage of less than 3.5 times (total leverage of the Coote less cash, divided by the annual EBITDA of Coote); and
- III. net annual interest cover of greater than 3 times (annual EBITDA of Coote divided by, Coote's annual interest cost less interest income).

Coote is currently in breach of all the above covenants. It is therefore very unlikely that Coote's bank will consent to further debt being advanced to Coote. It will also be challenging for Coote to access debt funding from another bank or third party financier as these parties will be aware that Coote is in breach of its covenants.

Given the state of Coote's financial covenants, additional sources of debt funding will be challenging to come by and may not be a viable alternative at this time.

9 Conclusion

In our opinion, the Transaction is fair and reasonable to the Shareholders of Coote. In our opinion the advantages of accepting the Transaction outweigh the disadvantages of accepting the Transaction and therefore we consider the Transaction to be fair and reasonable to Shareholders.

10 Sources of Information

This report has been based on the following information:

- Audited financial statements of Coote Industrial Limited for the years ended 30 June 2010, 30 June 2009 and 30 June 2008;
- The Gemco Rail and Termite Resources Master Agreement;
- The Gemco Rail and Specialised Bulk Rail Maintenance Agreement;
- Rollingstock cash flow forecasts;
- Rollingstock manufacturing costings;
- Rollingstock maintenance cash flow forecasts;
- Share registry information;
- Information in the public domain; and
- Discussions with Management of Coote.

11 Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$20,000 (excluding GST and reimbursement of out of pocket expenses). Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

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

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Coote and Elph and any of their respective associates with reference to ASIC Regulatory Guide 112 "Independence of Experts". In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of Coote and Elph and their respective associates.

A draft of this report was provided to Coote and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

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

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

12 Qualifications

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

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

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

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty years experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 130 public company independent expert's reports under the Corporations Act or ASX Listing Rules. These experts' reports cover a wide range of industries in Australia.

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

13 Disclaimers and Consents

This report has been prepared at the request of Coote for inclusion in the Explanatory Memorandum which will be sent to all Coote Shareholders. Coote engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the Transaction for Coote to approve the Rollingstock Sales Agreement with Elph Pty Ltd.

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

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

BDO Corporate Finance (WA) Pty Ltd has not independently verified the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or review of Coote or Elph in accordance with standards issued by the Auditing and Assurance Standards Board. However, we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Coote. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

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

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

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



Yours faithfully
BDO CORPORATE FINANCE (WA) PTY LTD

A handwritten signature in black ink, appearing to read 'Sherif Andrawes', written in a cursive style.

Sherif Andrawes
Director

A handwritten signature in black ink, appearing to read 'Adam Myers', written in a cursive style.

Adam Myers
Associate Director
Authorised Representative

APPENDIX 1 Glossary of Terms

Reference	Definition
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BFS	Bankable Feasibility Study
BDO	BDO Corporate Finance (WA) Pty Ltd
CFR	Cost and Freight
CISA	China Iron & Steel Association
FOB ST	Free on Board Stowed
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
Hanlong Group	Sichuan Hanlong Group Co Ltd
Hanlong Mining	Hanlong Mining Investment Pty Ltd
Kallenia	Kallenia Mines Pty Ltd
Coote	Coote Industrial Limited
Coote Metals	Coote Metals Australia Pty Ltd
MTPA	Million tonnes per annum
Our Report	This Independent Expert's Report prepared by BDO
PFS	Pre Feasibility Study
RG 111	Regulatory Guide 111 - "Content of Expert's Reports"
Shareholders	Shareholders of Coote Industrial Limited not associated with The Hanlong Group
TCW	Trust Company of the West
The Act	The Corporations Act
The Company	Coote Industrial Limited
The Transaction	The Transaction relates to the Iron Ore Sales Agreement with Hanlong Mining as defined in section 4 of this report
TSI	The Steel Index
TSX	Toronto Stock Exchange

