

27 June 2008

The Company Announcements Office  
Australian Stock Exchange Limited

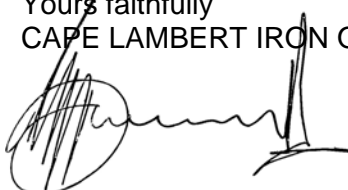
**Via E Lodgement**

## **Notice of Meeting – General Meeting of Shareholders**

The Company are pleased to advise a General Meeting of Shareholders of Cape Lambert Iron Ore Limited is scheduled on 28<sup>th</sup> July 2008 at 9.30am (WST).

The Company is in the process of dispatching the Notice of Meeting to all current shareholders, please find a copy to follow.

Yours faithfully  
CAPE LAMBERT IRON ORE LIMITED



**Timothy Turner**  
Company Secretary

**For more information please contact:**

**Cape Lambert Iron Ore Limited**  
Timothy Turner

+61 8 9380 9555

**Website**

[www.capelam.com.au](http://www.capelam.com.au)

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## CAPE LAMBERT IRON ORE LIMITED

ABN 71 095 047 920

### NOTICE OF GENERAL MEETING

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**TIME:** 9.30am

**DATE:** 28 July 2008

**PLACE:** Kailis Bros Fish Market & Café Leederville, Function Centre  
101 Oxford Street  
Leederville WA 6007

*This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.*

*Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (08) 9380 9555.*

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## CONTENTS

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NOTICE OF GENERAL MEETING .....	3
EXPLANATORY STATEMENT .....	7
GLOSSARY .....	33

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## TIME AND PLACE OF MEETING AND HOW TO VOTE

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### VENUE

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The General Meeting of the Shareholders of Cape Lambert Iron Ore Limited which this Notice of Meeting relates to will be held at 9.30am on 28 July 2008 at Kailis Bros Fish Market & Café Leederville, Function Centre, 101 Oxford Street, Leederville, Western Australia.

### YOUR VOTE IS IMPORTANT

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The business of the General Meeting affects your shareholding and your vote is important.

### VOTING IN PERSON

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To vote in person, attend the General Meeting on the date and at the place set out above.

### VOTING BY PROXY

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To vote by proxy, please complete and sign the proxy form enclosed and either send the proxy form by:

- (a) in person to Computershare Investor Services, Level 2, 45 St George's Terrace Perth, Western Australia 6000; or
- (b) post to Computershare Investor Services, PO Box 242 Melbourne, Victoria 3001; or
- (c) facsimile to Computershare Investor Services on facsimile number (08) 9323 2033 (International: +61 8 9323 2033),

so that it is received not later than 9.30am WST on 26 July 2008.

**Proxy forms received later than this time will be invalid.**

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## NOTICE OF GENERAL MEETING

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Notice is given that the General Meeting of Shareholders of Cape Lambert Iron Ore Limited will be held at Kailis Bros Fish Market & Café Leederville, Function Centre, 101 Oxford Street, Leederville, Western Australia at 9.30am WST on 28 July 2008.

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the General Meeting. The Explanatory Statement and the proxy form are part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the General Meeting are those who are registered Shareholders at 7.30am (WST) on 28 July 2008.

Terms and abbreviations used in this Notice of Meeting and Explanatory Statement are defined in the Glossary.

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## AGENDA

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### 1. RESOLUTION 1 – DISPOSAL OF MAIN UNDERTAKING

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

*"That, for the purposes of Listing Rule 11.2 of the ASX Listing Rules, Rule 15 of the AIM Rules for Companies, clause 31 of the Company's Constitution and for all other purposes, approval is given for the Company to sell its 100% interest:*

*(a) in Exploration Licence E47/1462 and Prospecting Licences P47/1302, P47/1303 and P47/1383, held by Mt Anketell Pty Ltd (the Company's wholly owned subsidiary); and*

*(b) in Exploration Licences E47/1248, E47/1271 and E47/1233,*

*on the terms and conditions described in the Explanatory Statement accompanying this Notice of Meeting."*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed, and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions 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.

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### 2. RESOLUTION 2 – EQUAL REDUCTION OF CAPITAL

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

*"That, subject to the passing of Resolution 1 and settlement of the Transaction contemplated in the Sale Agreement, for the purposes of Sections 256B and 256C of the Corporations Act 2001 and for all other purposes, approval is given for:*

*(a) the paid up share capital of the Company to be reduced by up to approximately \$37,700,000; and*

- (b) *such reduction to be effected and satisfied by the Company paying Shareholders who are registered as Shareholders of the Company on the Record Date, an amount per Share to be determined,*

*on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting”.*

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### 3. RESOLUTION 3 – APPROVAL TO ISSUE OPTIONS TO EMPLOYEES AND CONSULTANTS

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

*“That, for the purposes of Listing Rule 7.1 of the ASX Listing Rules and for all other purposes, Shareholders approve the allotment and issue of 8,350,000 Options to the persons and on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any person who may participate in the issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions 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.

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### 4. RESOLUTION 4 – ISSUE OF DIRECTOR OPTIONS – MR IAN BURSTON

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of Section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to allot and issue 3,000,000 Director Options to Mr Ian Burston (or his nominee) on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by Mr Ian Burston (or his nominee) or any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions 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.

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### 5. RESOLUTION 5 – ISSUE OF DIRECTOR OPTIONS – MR TONY SAGE

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of Section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to allot and issue 3,000,000 Director Options to Mr Tony Sage (or his nominee) on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by Mr Tony Sage (or his nominee) or any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with

the directions 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.

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**6. RESOLUTION 6 – ISSUE OF DIRECTOR OPTIONS – MR TIMOTHY TURNER**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of Section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to allot and issue 2,000,000 Director Options to Mr Timothy Turner (or his nominee) on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by Mr Timothy Turner (or his nominee) or any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions 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.

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**7. RESOLUTION 7 – ISSUE OF DIRECTOR OPTIONS – MR PETER LANDAU**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of Section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to allot and issue 2,000,000 Director Options to Mr Peter Landau (or his nominee) on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by Mr Peter Landau (or his nominee) or any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions 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.

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**8. RESOLUTION 8 – ISSUE OF DIRECTOR OPTIONS – MR BRIAN MAHER**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purposes of Section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to allot and issue 1,000,000 Director Options to Mr Brian Maher (or his nominee) on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by Mr Brian Maher (or his nominee) or any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions 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.

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DATED: 20 JUNE 2008

BY ORDER OF THE BOARD

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

TONY SAGE  
DIRECTOR  
CAPE LAMBERT IRON ORE LIMITED

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## EXPLANATORY STATEMENT

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This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the General Meeting to be held at Kailis Bros Fish Market & Café Leederville, Function Centre, 101 Oxford Street, Leederville, Western Australia on 28 July 2008 at 9.30am (WST).

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Meeting.

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### 1. GENERAL INFORMATION

#### 1.1 Background

On 11 June 2008, the Company announced that the Company and its wholly owned subsidiary Mt Anketell Pty Ltd (**Mt Anketell**) had entered into a formal sale agreement with MCC Mining (Western Australia) Pty Ltd (**MCC**) pursuant to which the Company and Mt Anketell has agreed to sell and MCC has agreed to purchase:

- (a) Exploration Licence E47/1462 (the **Project**) and Prospecting Licences PL47/1302, PL47/1303 and PL47/1383, owned by Mt Anketell;
- (b) Exploration Licences E47/1248, E47/1271 and E47/1233 owned by the Company (**Additional Tenements**); and
- (c) all information (including mining and technical information), reports and data relating to the above tenements,

(together referred to as the **Tenements**),

for \$400,000,000 on the terms and conditions set out in the sale agreement (**Sale Agreement**).

The Tenements are prospective for iron ore and are located in the northern, coastal Pilbara region of Western Australia. The Project has been subject to various drilling programs, metallurgical, engineering, infrastructure and environmental studies as precursors to the preparation of a bankable feasibility study for the development of a standalone, open pit mining operation producing 15 million tonnes per annum of magnetite concentrate.

The Board believes that the consideration for the Tenements will position the Company to enable it to evaluate, acquire and add value to other early stage iron ore and associated iron making assets. Except in their capacity as Shareholders, the Directors or entities associated with them will not receive any fees or other securities as a result of the transaction.

Refer to section 1.4 for a summary of the material terms of the Sale Agreement.

#### 1.2 Indicative Timetable

Subject to the ASX Listing Rules, AIM Rules and Corporations Act requirements, the Company anticipates completion of the Transaction in accordance with the following timetable (which is subject to change by the Company):



Event	Date
Announcement of Transaction	26 February 2008
Execution of Sale Agreement	11 June 2008
Despatch Notice of Meeting	27 June 2008
General Meeting to approve Resolutions	28 July 2008
Satisfaction/waiver of all conditions in Sale Agreement	28 July 2008
Settlement of Transaction	31 July 2008
Payment of Second Tranche of Consideration	15 September 2008

### 1.3 Background of the Tenements

#### *Location*

The Tenements are located in the northern, coastal Pilbara region of Western Australia, between the towns of Karratha, Roebourne and Wickham. The Tenements are crossed by the North West Coastal Highway, two gas pipelines, power transmission lines, a railway, and are approximately 10km from the coast.

The Tenements have a total area of approximately 369km<sup>2</sup>.

#### *Recent Re-evaluation and plans for the future*

The Company acquired the Project (via acquiring Mt Anketell) in December 2005, and the Additional Tenements in October 2007. The Project was originally operated by Robe River Mining Co. Pty. Ltd. (**Robe**) who between 1994 and 1996 completed three drilling campaigns for 182 reverse circulation (**RC**) holes (21,988m) and 3 diamond holes (542m).

Since acquiring the Project, the Company has completed two drilling programs, one in 2006 and one in 2007. The objective of the drilling programs was to define sufficient magnetite iron ore resources to underpin the development of a standalone, open pit mining operation capable of producing 15 million tonne per annum of magnetite concentrate over a minimum 20 year mine life.

The 2006 drilling program commenced in July and concluded in December with 69 RC holes completed for a total advance of 18,052m. The 2007 drilling program commenced in April 2007 and concluded in March 2008. A total of 113 RC and 26 diamond holes were completed during the program for a total advance of 37,615m and 5,774m respectively.

In April 2007, international mining consultancy group, Golder Associates Pty Ltd (**Golder**) was commissioned to prepare an interim mineral resource estimate for the Project. This resource estimate incorporated the earlier Robe drilling and 2006 drilling. This resource estimate was subsequently upgraded in late 2007 with the inclusion of 65 RC holes from the 2007 drilling program. The resultant resource estimate of 1.56 billion tonnes grading 31.2% Fe is the current Project resource estimate and is summarised in Table 1 below. Assay results for the remaining RC and diamond holes from the 2007 drilling program have now been received and entered into the geological database.

**Table 1: Summary Mineral Resource Estimate**

Resource Classification	Million tonnes	Fe (%)	SiO <sub>2</sub> (%)	Al <sub>2</sub> O <sub>3</sub> (%)	P (%)	S (%)	LOI (%)
Indicated	979	31.4	40.2	2.25	0.03	0.14	5.95
Inferred	577	30.8	41.0	2.22	0.03	0.13	7.38
<b>Total</b>	<b>1,556</b>	<b>31.2</b>	<b>40.5</b>	<b>2.24</b>	<b>0.03</b>	<b>0.13</b>	<b>6.48</b>

Note: Refer ASX release dated 30 January 2008 for full details of the mineral resource and competent persons attribute.

In conjunction with the drilling programs and resource determination, native title consultation, base line environmental monitoring and preliminary engineering and infrastructure studies have been undertaken.

A review of historical metallurgical information has been completed and a conceptual process flow sheet developed. The proposed flow sheet utilises conventional and mature mineral processing technology to upgrade magnetite mineralisation (~31% Fe) to a product suitable for the manufacture of blast furnace feed pellets (+65% Fe and ≤ 5% [SiO<sub>2</sub> + Al<sub>2</sub>O<sub>3</sub>]). The proposed flow sheet is subject to validation through detailed metallurgical test work using representative core samples from the 2007 drilling program.

The preliminary engineering and infrastructure studies have identified the key infrastructure to be constructed to support a standalone mining operation, which includes a 300 mega watt power station, workforce accommodation village, desalination plant, and a port for concentrate load out.

In October 2007, the Company acquired the Additional Tenements, which are strategically important given their proximity to the Project and the extension of iron mineralisation into these tenements. The Company has since completed a helicopter borne magnetic survey over the Additional Tenements. This survey has identified several highly prospective magnetic anomalies in close proximity to, and east of, the Project resource. The largest magnetic anomaly has a strike length in excess of 2km and a width of 300m. Drill testing of the anomalies has not been undertaken.

#### **1.4 Summary of the Sale Agreement**

On 11 June 2008, the Company, Mt Anketell and MCC entered into the Sale Agreement pursuant to which the Company and Mt Anketell agreed to sell and MCC agreed to acquire the Tenements held by the Company and Mt Anketell.

Settlement of the Transaction is subject to and conditional upon:

- (a) the Company obtaining all necessary Shareholder approvals (as referred to in this Notice of Meeting);
- (b) MCC obtaining all necessary approvals from Chinese state and provincial authorities to give effect to the Transaction (**Chinese Approvals**);
- (c) the Parties obtaining all necessary statutory and regulatory approvals to give effect to the Transaction; and

- (d) all approvals by third parties necessary to give effect to the Transaction being obtained;

(together, the **Conditions**).

Each party must use its best efforts within their own capacity and at its own expense to ensure that each Condition is fulfilled as expeditiously as possible but in any event the Conditions are to be satisfied or, in respect of the Chinese Approvals, waived by no later than 45 days from execution of the Sale Agreement (being 28 July 2008) unless extended by the parties (**Satisfaction Date**). In the event that one or more of the Conditions are not satisfied or, in respect of the Chinese Approvals, waived by the Satisfaction Date, either party may terminate the Sale Agreement.

The consideration payable by MCC (\$400,000,000) to the Company for the Tenements is to be satisfied as follows:

- (a) a deposit of AUD\$10,000,000 which has already been paid (**Deposit**);
- (b) AUD\$230,000,000 in immediately available funds to the Company on 31 July 2008, when the Company transfers the Tenements to MCC (**Settlement**) (**Tranche 1 Payment**);
- (c) AUD\$80,000,000 in immediately available funds to the Company 45 days after Settlement (**Tranche 2 Payment**); and
- (d) AUD\$80,000,000 (**Tranche 3 Payment**) in immediately available funds to the Company within 7 days of the Company procuring for MCC all necessary approvals and permits, including all State and Federal statutory and regulatory approvals and permits (including in particular any required environmental, construction, mining and project commencement approvals (except for operating, post construction approvals)) and concentrate exploring licence and all necessary private agreements, approvals and permits in respect of the Tenements (the **Mining Lease Approvals**). The Mining Lease Approvals are to be obtained within 2 years of the date of the Sale Agreement. If MCC does not act in good faith and use its reasonable endeavours and do all things the Company reasonably requests to assist it to satisfy the Mining Lease Approvals, MCC will be required to pay the Company the Tranche 3 Payment within 7 days of the expiration of the 2 year period. If the Mining Lease Approvals are not obtained within the 2 year period because MCC has not complied with its obligations to act in good faith and assist the Company, or because of an event or occurrence outside of the control of the Company, the 2 year period will be extended accordingly.

(together, the **Consideration**).

The Tranche 2 Payment and the Tranche 3 Payment are secured by a parent guarantee given by China Metallurgical Group Corporation, the parent company of MCC.

If Settlement does not occur as a result of the Company's actions or regulatory, third party or Shareholder approvals not being obtained, the whole of the Deposit will be refunded to MCC. If the Chinese Approvals are not obtained or Settlement does not occur as a result of MCC's non compliance with the terms

of the Sale Agreement, the Company will be entitled to the whole of the Deposit.

The Company has provided in favour of MCC standard warranties and undertakings in the Sale Agreement with respect to the Tenements.

The Company has undertaken to provide MCC for 2 years after Settlement with reasonable information, explanation, guidance and assistance in respect of native title, heritage and environmental issues and will procure the grant of the Mining Lease Approvals. MCC will pay all costs of third parties and consultants engaged by CFE for the purpose of satisfying the Mining Lease Approvals.

Prior to Settlement, the Company must establish a committee who have experience in all aspects of the maintenance and operations on the Tenements to provide MCC with such information, explanation, guidance and assistance as MCC requires in respect of all information in respect of the Tenements provided to MCC and maintenance of and operations on the Tenements for 120 business days after Settlement.

MCC has provided in favour of the Company standard warranties in respect to its capacity to enter into the Sale Agreement.

The Sale Agreement contains other standard clauses typical for an agreement of this type.

## 1.5 Use of funds

It is intended to apply funds raised from the Transaction (being \$400,000,000) as follows:

Use	Funds
In-specie distribution to Shareholders (Resolution 2)	Up to approximately \$37,700,000
Possible unfranked dividend	Up to approximately \$62,300,000 <sup>1</sup>
Commission for introduction of Transaction	\$38,000,000 <sup>2</sup>
Taxation costs as a result of Transaction	\$87,000,000
Proposed exploration expenditure on existing projects	\$3,355,000
Working capital and new projects	\$171,145,000 <sup>3,4</sup>
Expenses of Transaction	\$500,000
<b>Total</b>	<b>\$400,000,000</b>

**Note 1:** The Company proposes to declare an unfranked dividend of a maximum amount of approximately \$62,300,000. Further details will be provided to Shareholders at the relevant time. The Directors will determine the amount of dividend payable after receipt of the audited 30 June 2008 financial accounts.

**Note 2:** The recipient of the commission is not a related party of the Company and is only payable upon settlement of the Transaction occurring.

**Note 3:** \$80,000,000 of the Consideration will not be received until the receipt of the Mining Lease Approvals (a minimum 2 years from the date of the Sale Agreement).

**Note 4:** CFE is actively seeking new projects and to this end has recently applied for new tenements in the Pilbara and other regions in Western Australia.

## 1.6 Capital Structure

The capital structure of the Company as at 18 June 2008 and following implementation of all Resolutions in this Notice is set out below.

Shares	Number
Shares currently on issue	320,512,270
<b>Total Shares on issue after implementation of all Resolutions</b>	<b>320,512,270</b>

Options	Number
Options currently on issue <sup>1</sup>	184,377,956
Options to be issued to employees and consultants (Resolution 3)	8,350,000
Issue of Options to Directors (Resolutions 4 - 8)	11,000,000
<b>Total Options on Issue after implementation of all Resolutions</b>	<b>203,727,956</b>

### Note:

1 Options on issue are the following:

Number	Class
98,427,956	Options exercisable at \$0.277 each on or before 31 October 2008.
50,000,000	Options exercisable at \$0.327 each on or before 31 October 2009.
28,000,000	Options exercisable at \$0.377 each on or before 31 October 2010.
500,000	Options exercisable at \$0.427 each on or before 22 October 2008.
500,000	Options exercisable at \$0.367 each on or before 9 February 2009.

3,300,000	Options exercisable at \$0.90 each on or before 30 June 2008.
3,300,000	Options exercisable at \$1.40 each on or before 30 June 2009.
350,000	Options exercisable at \$0.49 each on or before 30 June 2008.

## 1.7 Pro-Forma Balance Sheet

Set out in Schedule 1 is an unaudited consolidated balance sheet of the Company as at 31 March 2008, together with the pro-forma balance sheet following implementation of all of the resolutions contained in the Notice.

## 1.8 Remaining Assets of the Company

The Company has excluded Exploration License Application ELA47/1493 and Exploration Licenses E80/3502 and E70/2504 from the Transaction.

### ELA47/1493 (CFE 100%)

This license application is approximately 35km<sup>2</sup> in area and abuts the south boundary of tenement E47/1462. It is prospective for magnetite iron ore and gold. The license is expected to be granted in the September 2008 quarter.

### *Magnetite Exploration*

The south, eastern portion of the license application contains a large linear magnetic anomaly. This anomaly is mapped as Cleaverville Formation. The Cleaverville Formation hosts the Project resource (Refer Section 1.3), which is located 5km to the northeast. The anomaly is approximately 3km long and 250m wide and consists of intercalated Banded Iron Formation and basalt units in surface outcrops.

There has been no previous exploration on this anomaly. The planned exploration program comprises an initial phase of geophysical modelling, and once the license is granted geological mapping, rock chip sampling and reconnaissance RC drilling. This would be followed up by RC and diamond resource delineation drilling. The cost of the planned exploration program is shown in the following table:

Activity	Cost AUD\$
Surface Mapping and Sampling	50,000
Reconnaissance RC drilling	250,000
Laboratory /Assay work	50,000
Geophysics	100,000
Follow-up RC and Diamond Drilling	1,000,000
Laboratory /Assay work	200,000

Field Administration and Management - 6 months	600,000
<b>Total</b>	<b>2,250,000</b>

The objective of the exploration program is to define an inferred iron ore resource.

#### *Gold Exploration*

The western section of the license application lies within the Nickol River Formation. This area hosts several narrow, high-grade gold prospects, which have been subject to limited exploration and mining. The gold mineralisation is located in several east-west trending quartz veins associated with a structural break over 5km long.

The Company is intending to complete a reconnaissance gold exploration program, before offering the gold rights for joint venture.

The planned exploration program comprises initial surface geological mapping and soil sampling, followed by a first pass of Aircore drilling along strike of the known gold occurrences. The cost of the planned exploration program is shown in the following table:

<b>Activity</b>	<b>Cost AUD\$</b>
Surface Mapping and Sampling	50,000
Reconnaissance Aircore drilling	100,000
Laboratory /Assay work	30,000
Field Administration and Management - 3 months	300,000
<b>Total</b>	<b>480,000</b>

#### **E80/3502 (CFE 100%)**

This license is approximately 36km<sup>2</sup> in area and is located 30km west-south-west of Kununurra in the North Kimberley region of WA. It is prospective for gold, base metals and uranium.

There has been no modern exploration within this license. Occurrences of gold, base metals and uranium have been noted by government mapping surveys in similar rocks to the east and southwest of E80/3502 during the 1970s. The planned exploration program comprises geological mapping and regional geochemical sampling. Any anomalous areas would be tested by reconnaissance Aircore drilling.

The cost of the planned exploration program is shown in the following table:

<b>Activity</b>	<b>Cost AUD\$</b>
Surface Mapping and Orientation Survey	25,000

Geochemical Sampling and Analysis	50,000
Regional Geophysical Survey	75,000
Reconnaissance Aircore drilling	100,000
Laboratory /Assay work	25,000
Field Administration and Management - 4 months	350,000
<b>Total</b>	<b>625,000</b>

**E70/2504 (CFE 100% reducing to 20%)**

This tenement is approximately 25km<sup>2</sup> in area and covers the Jubuk Kaolin Project. Jubuk is located 200km east-south-east of Perth and 20km west of Corrigin in WA.

Jubuk consists of 8 drill defined shallow kaolin deposits. Previous work has included reconnaissance and infill drilling, bulk sampling, pilot testwork and scoping studies.

In 2005, Mineral Engineering Technical Services Pty Ltd entered into an agreement with the Company to earn 80% of Jubuk by sole funding and delivering a Pre-Feasibility Study. This work is ongoing.

**New Applications**

The Company is actively seeking new iron ore projects and to this end has recently applied for new tenements in the Pilbara, and other iron ore regions in West Australia.

**Future Acquisitions**

On successful completion of the Transaction, the Board intends to follow an investment strategy to acquire assets at either company or project level. The Company is currently reviewing assets in West Africa and throughout Australia in anticipation of the Transaction closing.

**1.9 Advantages of the Transaction**

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on the proposed Transaction:

- (a) the Transaction will allow the Company to seek to evaluate and acquire other early stage iron ore and associated iron making assets with the objective of adding Shareholder value;
- (b) after completion of the Transaction, the Company will return up to \$100,000,000 to Shareholders on the basis of a reduction of capital and unfranked dividend, which represents an upfront return of Project value to Shareholders;
- (c) if the Transaction does not complete, the Company will need to raise significant equity or debt or enter into a farm in or purchase agreement



to finance the continued development of the Project. Any equity financing is likely to dilute Shareholders' interest in the Company. Further, there is no guarantee the Company would be successful in securing debt finance or on favourable terms; and

- (d) the Company has established a relationship with MCC, which may reduce the barriers to exploiting iron ore occurrences that may be delineated on ELA47/1493 through access to infrastructure.

#### **1.10 Disadvantages of the Transaction**

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on the proposed Transaction:

- (a) the Company will no longer hold the Project or any interest in it;
- (b) the Company will be changing the scale of its activities by a significant extent, which may not be consistent with the investment objectives of all Shareholders; and
- (c) there may be taxation implications to Shareholders as a result of the Transaction and subsequent return to Shareholders; and
- (d) the Tranche 3 Payment is deferred for a minimum of 2 years.

#### **1.11 Plans for the Company if the Transaction does not proceed**

If the Transaction does not complete the Company will continue to explore and develop the Project but will need to either raise significant equity or debt or enter into a farm in or purchase agreement with another party to finance the continued development of the Project. As outlined elsewhere in this Explanatory Statement, if Settlement does not occur as a result of the Company's actions or regulatory, third party or Shareholder approvals not being paid, the whole of the Deposit will be refunded to MCC. If the Chinese Approvals are not obtained or Settlement does not occur as a result of MCC's non compliance with the terms of the Sale Agreement, the Company will be entitled to the whole of the Deposit.

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## **2. RESOLUTION 1 – CHANGE IN THE NATURE AND SCALE OF ACTIVITIES**

Listing Rule 11.2 states a listed entity that is proposing to make a significant change, either directly or indirectly, by disposing of its main undertaking, must get the approval from Shareholders and comply with any requirements of ASX in relation to the Notice of Meeting.

The Company has provided ASX with full details of the Transaction in accordance with Listing Rule 11.2. In accordance with Listing Rule 11.2, ASX has required the Company to seek Shareholder approval of the Transaction and for the notice of meeting to contain full disclosure of the Transaction and its impact on the Company (refer to Section 1 of this Explanatory Statement) but does not require the Company to re-comply with ASX Listing Rules 1 and 2.

Rule 15 of the AIM Rules for Companies, also requires that any disposal by an AIM company which, when aggregated with any other disposal or disposals over the previous twelve months, exceeds 75% in any of the class tests, is

deemed to be a disposal resulting in a fundamental change in business is conditional on the consent of its shareholders being given in a general meeting.

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### **3. RESOLUTION 2 – EQUAL REDUCTION OF CAPITAL**

#### **3.1 Background and Overview of the Proposal**

Subject to completion of the Sale Agreement occurring, the Company proposes to undertake an equal reduction of capital via a cash distribution of up to approximately \$37,700,000 (**Return Amount**). The exact amount to be distributed to each Shareholder will be determined by the number of Shares held by Shareholders on the Record Date. The \$37,700,000 is based on the unaudited accounts of the Company for the nine months ending 31 March 2008. The audited accounts of the Company as at 30 June 2008 may disclose a different amount that the Company can distribute by capital return. The Company seeks Shareholder approval to return up to the maximum amount permitted in the 30 June 2008 audited accounts.

The Directors also propose to pay an unfranked dividend to Shareholder such that the amount paid to Shareholders by way of capital reduction and the unfranked dividend is up to approximately \$100,000,000. The exact amount that is paid to Shareholders by way of unfranked dividend will be resolved by the Directors after receipt of the audited 30 June 2008 accounts. The Directors will make an announcement at that time and advise Shareholders of the timetable applicable to the dividend.

#### **3.2 Effect of Proposed Equal Capital Reduction on the Company**

If the equal reduction is approved, the net assets of the Company will be reduced by up to approximately \$37,700,000 in the form of a capital reduction. The exact amount will not be known until after the audited 30 June 2008 accounts of the Company are received.

A pro-forma statement of financial position of the Company is contained in Schedule 1 which shows the financial impact of the capital reduction on the Company (assuming \$37,700,000 is returned to Shareholders) and the financial impact of the implementation of all other Resolutions contained in the Notice.

#### **3.3 Effect of Proposed Equal Reduction on Shareholders in the Company**

The effect of the proposed equal reduction is that Shareholders in the Company will receive a pro-rata distribution of an amount to be determined per Share held on the record date. Assuming \$37,700,000 is returned to Shareholders and assuming no Options are exercised prior to the Record Date, approximately \$0.11 per Share will be paid to Shareholders.

#### **3.4 Advantages and Disadvantages of the Proposal**

The principal advantages and disadvantages to Shareholders of the proposed equal reduction are as follows:

(a) **Advantages**

- Returns immediate value to Shareholders following the sale of the Company's primary asset.

- Provides efficient capital management by distributing cash, in excess of initial forecast requirements for growth, to Shareholders.
- The Directors consider that the retained cash within the Company will enable the initial funding of its growth strategies after distribution of approximately \$37,700,000.

(b) **Disadvantages**

- There may be tax implications for Shareholders of the pro rata distribution and Shareholders must seek their own independent advice.
- The medium to long term funding of the Company's growth strategies may require the raising of new capital.

### 3.5 Additional Important Information for Shareholders

In accordance with Section 256C of the Corporations Act and the ASX Listing Rules, the Company provides the following information to Shareholders:

- (a) the capital reduction is conditional upon Shareholders approving the capital reduction and completion of the Sale Agreement occurring.
- (b) the capital structure of the Company as at 18 June 2008:

Number of Shares	Number of Options <sup>1</sup>
320,512,270	184,377,956

The Company has the following options on issue:

Number	Class
98,427,956	Options exercisable at \$0.277 each on or before 31 October 2008.
50,000,000	Options exercisable at \$0.327 each on or before 31 October 2009.
28,000,000	Options exercisable at \$0.377 each on or before 31 October 2010.
500,000	Options exercisable at \$0.427 each on or before 22 October 2008.
500,000	Options exercisable at \$0.367 each on or before 9 February 2009.
3,300,000	Options exercisable at \$0.90 each on or before 30 June 2008.
3,300,000	Options exercisable at \$1.40 each on or before 30 June 2009.
350,000	Options exercisable at \$0.49 each on or before 30 June 2008.

- (c) the **Record Date** will be 5.00pm WST on that date which is 6 business days after the later of payment of the Second Tranche Payment pursuant to the Sale Agreement and receipt of the audited 30 June 2008 accounts. The Company will make an announcement after the later of receipt of the Second Tranche Payment and receipt of the audited 30 June 2008 accounts containing details of the relevant dates for the capital reduction;
- (d) the share capital of the Company as at the Record Date will be reduced by up to approximately \$37,700,000 based on the unaudited accounts of the Company as at 31 March 2008 (final amount to be determined by the Directors after receipt of the 30 June 2008 audited accounts);
- (e) the **Return of Capital** will be effected by a pro-rata distribution of up to the Return Amount proportionately to all of the Company's Shareholders:
  - (i) registered as such as at 5.00pm WST on the Record Date; or
  - (ii) entitled to be registered as a Shareholder in the Company by virtue of a transfer of Shares executed before 5.00pm WST on the Record Date and lodged with the Company at that time; and
- (f) in accordance with ASX Listing Rule 7.22.3 all Options on issue in the Company at the Record Date will have their exercise price per Option reduced by the same amount as the Return Amount per Share.

### 3.6 Section 256C of the Corporations Act

The capital return is to be effected by way of an equal capital reduction. Under Section 256C of the Corporations Act, this must be approved by an ordinary resolution passed at a general meeting of the Company. The capital return will apply equally to each holder of Shares in proportion to the number of Shares they hold at the Record Date. No Shares will be cancelled as a result of the capital return.

Under Section 256B of the Corporations Act, the Company may only reduce its capital if it:

- (a) is fair and reasonable to Shareholders as a whole;
- (b) does not materially prejudice the Company's ability to pay its creditors; and
- (c) is approved by Shareholders in accordance with Section 256C of the Corporations Act.

The Directors believe that the capital reduction is fair and reasonable to Shareholders for the reasons set out throughout this Explanatory Statement and that the capital reduction will not prejudice the interests of Shareholders or the Company's ability to pay its creditors.

### 3.7 Directors' Interests and Recommendations

Set out below is a table which indicates the securities in which the Directors have an interest prior to the capital reduction (assuming no Options they hold are exercised and assuming a Return Amount of \$37,700,000) and the amount they are likely to receive if Resolution 2 is passed and implemented:

Director	Cape Lambert Shares	Amount to be received if Resolution 2 is passed
Mr Burston	1,750,000	\$192,500
Mr Sage	20,604,250	\$2,266,467
Mr Turner	457,858	\$50,364
Mr Landau	Nil	Nil
Mr Maher	738,000	\$81,180

After considering all relevant factors, the Directors recommend the Company's Shareholders vote in favour of Resolution 2 for the following reasons:

- (a) after a full and proper assessment of all available information they believe that the proposed transaction is in the best interests of the Company's Shareholders; and
- (b) in the opinion of the Directors, the benefits of the proposed transaction outweigh its disadvantages as referred to in Section 3.4.

### 3.8 Information on Cape Lambert post completion of the equal reduction

On completion of the equal capital reduction, the focus of the Company will be on the remaining assets of the Company referred to in Section 1.8 and the Company will seek to acquire additional projects.

### 3.9 Information concerning Cape Lambert Shares

The rights attaching to the Shares in Cape Lambert will not alter.

For the information of Shareholders, the highest and lowest recorded sale prices of the Company's Shares as traded on ASX during the 12 months immediately preceding the date of this Explanatory Statement, and the respective dates of those sales were:

Date	Highest Price	Date	Lowest Price
25 June 2007	\$0.80	22 January 2008	\$0.25

The latest available closing price of the Shares on ASX prior to the date of this Notice was \$0.75 on 19 June 2008.

The Company's Shares are also currently admitted to trading on AIM, a market operated by London Stock Exchange plc.

### 3.10 Disclosure to ASX and AIM

Cape Lambert, as a company whose Shares are quoted on the stock market of ASX and AIM, is a disclosing entity and, as such, is subject to regular reporting and disclosure obligations. Copies of documents lodged in relation to Cape Lambert may be obtained for a fee from, or inspected at, an office of the ASIC.

### 3.11 Taxation

The following comments provide an overview of the potential Australian income tax implications of the proposed return of capital to Shareholders.

The views expressed in this overview:

- (a) are based upon the application of Australian income tax legislation current at the date of this Explanatory Statement. Subsequent changes to the legislation and/or administration of the legislation may impact the views expressed;
- (b) are general in nature and not intended as specific advice to Shareholders. The application of the Australian income tax legislation may vary according to the individual circumstances of the Shareholder. In this regard, the comments below are only relevant to those Shareholders that:
  - (i) are residents of Australia for taxation purposes; and
  - (ii) hold their Shares on capital account (i.e. have not been held for the purpose of resale or as trading stock);
- (c) should not be relied upon by Shareholders as a substitute for professional advice. The Australian income tax implications advised may not be applicable to the Shareholder's particular circumstances.

The Company has obtained advice from PKF Chartered Accountants and Business Advisers ("PKF") regarding the Australian income tax implications for Australian resident Shareholders of the proposed return of capital.

#### **Australian Income Tax Implications for Australian Resident Shareholders**

##### *Overview*

A distribution of capital to shareholders is generally only a dividend, to the extent that it exceeds the amount debited to the share capital account.

The Australian income tax legislation however has rules that operate in general terms where the Commissioner of Taxation ("the Commissioner") considers that a company has distributed capital in substitution for a dividend. Depending on an individual taxpayer's specific circumstances, the return of capital is usually more tax effective than the receipt of a dividend.

The Australian Taxation Office ("ATO") has issued two practice statements in relation to the application of these rules; *PSLA 2007/9* concerns the application of the rules in relation to share buy-backs and *PSLA 2008/10* concerns the application of the rules to share capital reductions.

PKF note that practice statements provide administrative and technical guidance only to tax officers who are considering whether or not these rules will

apply to an arrangement. In this sense they do not create precedential ATO views and therefore cannot be considered as binding.

Before the Commissioner applies these rules there are a number of matters the Commissioner is obliged to identify and weigh up, to determine whether the company returning capital had the object of delivering a tax preferred receipt to shareholders comprises more than an incidental purpose of the arrangement.

*In PSLA 2008/10 at paragraph 63 the following is noted,*

*"A capital distribution that is attributable to share capital should reflect circumstances which show that the share capital distributed is genuinely surplus to the company's need of it and that it is not merely a cash distribution debited against share capital on the basis of shareholder tax preference. For instance, the capital distribution may coincide with the disposal of a significant part of the business structure which can be identified as releasing share capital. However, if the disposal also realises a profit the ensuing distribution should, subject to all the other relevant circumstances, be considered in terms of attribution to both share capital and the profit from the disposal."*

Further, at paragraph 73 of *PSLA 2008/10*, the following is noted,

*"... if the capital distribution is attributable to the disposal of assets of the business, a reasonable approach should be taken in determining the extent to which share capital was invested in the disposed assets and is available to be distributed to shareholders. In some instances the capital may be traced directly to the asset and in others it may be a matter of inferring its allocation on a reasonable basis. For example, it may be appropriate to allocate capital across the enterprise as a whole, based on valuing assets according to their market value. This is sometime referred to as the 'slice approach' to the compilation of assets as between and profit."*

Further description of the "Slice Approach" is provided in *PSLA 2007/9* where, at paragraph 63 the following is noted,

*"Another acceptable method of determining the capital/dividend split, in an established company, is to calculate the ration of share capital to retained earnings on a company's most recent balance sheet. It is sometimes referred to as the "Slice Approach". This ratio should then be reflected in any capital/dividend split proposed."*

Although it is not free from doubt, PKF consider that the ATO should accept the application of the "Slice Approach" to the Company's circumstances at hand.

In accordance with the Company's unaudited draft special purpose financial report for the nine months ended 31 March 2008, the Company has a share capital account balance of A\$69,219,155. PKF have estimated that prior to the return of capital, the Company will have retained earnings of A\$183,200,000 (approximately). It is stressed that these amounts are estimates only and that on subsequent audit of the financial position of the Company, there may be adjustments to these amounts. Further, depending on when the dividends are actually paid, the Company's financial position could change significantly from the position as at 31 March 2008. Accordingly, these amounts should be viewed as indicative only and subject to change.

Applying the ATO's comments above, should it be agreed that at least A\$37,700,000 (approximately) be returned to Shareholders, the ATO should

accept this as a capital reduction. Should the amount returned to Shareholders exceed this amount of A\$37,700,000 (approximately) ("the excess"), the excess is likely to be viewed by the ATO as a dividend for Australian income tax purposes.

PKF have summarised the Australian income tax implications for Shareholders on the receipt of a capital return and/or unfranked dividend.

### ***Capital Return***

The proposed return of capital may create an immediate Australian capital gains tax ("CGT") liability for Shareholders.

A return of capital on Shares acquired after 19 September 1985 will generally reduce the CGT cost base of the Shares held by the Shareholders. This reduction in cost base may result in an increased capital gain, or reduced capital loss, upon eventual disposal of the Shares.

A return of capital will create an immediate CGT liability for the Shareholder at the time of payment, if the amount received per Share by the Shareholder is in excess of the cost base of the relevant Share. The amount of the capital gain that will arise will equal the excess.

The Australian income tax treatment of that capital gain in the hands of the Shareholder and whether the Shareholder is entitled to a reduction in the amount of the taxable capital gain (in the form of a CGT discount) will depend upon the Shareholder's own particular circumstances.

### ***Unfranked Dividends***

A Shareholder is likely to receive an unfranked dividend on the return of capital to Shareholders, should it be agreed that the amount returned to Shareholders (as a whole), exceed the capital reduction estimate of A\$37,700,000 (approximately).

- (a) To the extent a Shareholder receives an unfranked dividend, the amount received must be included within the Shareholder's assessable income.
- (b) Since there is no franking credit attached to the unfranked amount of the dividend there is no additional amount to include in assessable income and no tax offset as in the case of franked dividends.
- (c) The unfranked dividend will be taxed at:
  - (i) the individual's marginal tax rate (which could be up to 46.5%) for Shareholders who are individuals;
  - (ii) the corporate tax rate of 30% for Shareholders who are companies; and
  - (iii) a tax rate of 15% for Shareholders who are superannuation funds.
- (d) If a Shareholder chooses not to provide their tax file number details, the Company may be required to withhold tax (currently at a rate of 46.5%) from unfranked dividend payments. A Shareholder may instead quote the Australian Business Number if the Shares are acquired in the furtherance of an enterprise carried on by the Shareholder.



Where an amount of tax has been withheld from an unfranked dividend payment, a Shareholder is entitled to a credit for the tax withheld in their income tax return for the year in which the tax is withheld.

### **Anti-avoidance provisions**

The Australian tax law contains very broad anti-avoidance provisions which, if apply, allow the Commissioner to tax as unfranked dividends, capital distributions made to shareholders. Accordingly, the application of these provisions to the Company's proposed return of capital has been considered by PKF.

### **Section 45A of the Income Tax Assessment Act 1936 ("the Act")**

Broadly, the anti-avoidance provisions of section 45A of the Act apply in circumstances where capital benefits are streamed to certain shareholders (the advantaged shareholders) who derive a greater benefit from the receipt of capital and it is reasonable to assume that the other shareholders (the disadvantaged shareholders) have received or will receive dividends.

Although the Company will be providing the Shareholders with a 'capital benefit', the capital benefit will be provided to all of the Shareholders in direct proportion to their individual shareholding. Since all Shareholders will benefit equally from the return of capital, PKF is of the view there should be no 'streaming' of capital benefits to some Shareholders and not to others.

### **Section 45B of the Act**

Broadly, the anti-avoidance provisions of section 45B of the Act will apply to deem a return of capital to be an unfranked dividend paid out of profits if:

- (a) There is a scheme under which a capital benefit is provided by the Company;
- (b) Under the scheme, the Shareholders obtain a tax benefit; and
- (c) Having regard to the relevant circumstances of the scheme, the Company carried out the scheme for a purpose (other than a merely incidental purpose) of enabling the Shareholders to obtain a tax benefit.

These anti-avoidance rules were introduced by the Taxation Laws Amendment (Company Law Review) Bill 1998. In the Explanatory Memorandum to the Taxation Laws Amendment (Company Law Review) Bill 1998 at paragraph 1.35 the following is stated:

*"...if a company makes a profit from a transaction for example the disposal of business assets, and then returns capital to shareholders equal to the amount of the profit, that would suggest that the distribution of capital is a substituted dividend. On the other hand, if a company had disposed of a significant part of its business at a profit and distributed an amount of share capital which could reasonably be regarded as the share capital invested in that part of the business, the distribution of capital would not be seen as a substituted dividend because no amount would be attributable to profits".*

Further the ATO considers that the rules are not triggered when the relevant company can satisfy that the return of capital to shareholders is considered to be in excess of its ongoing requirements.

The rules require the Commissioner to make a determination based on his consideration of the facts. PKF considers that, on balance, there are no obvious reasons why the Commissioner should determine that the rules should be applied in these circumstances, for the following reasons:

- (a) The proposed return of capital is largely attributable to the disposal of a substantial part of the Company's business and therefore could reasonably be regarded as the return of share capital invested in that part of the business.
- (b) The proposed return of capital will not equal the profit made by the Company on disposal of the Project and additional tenements.
- (c) The Company does not have a pattern of distributing dividends or capital to current Shareholders.
- (d) The Shareholder base of the Company is large, with a diverse range of shareholder tax profiles, which accordingly does not indicate that there was any particular purpose in making the capital distribution.

It is strongly recommended that each Shareholder seeks their own independent taxation advice in respect to the Australian taxation consequences of the return of capital. Neither the Company nor any of its officers, or its advisers, accepts liability or responsibility with respect to such consequences.

### **3.12 Lodgement with the Australian Securities and Investments Commission**

The Company has lodged with the ASIC a copy of this Notice and the Explanatory Statement in accordance with Section 256C(5) of the Corporations Act. If Resolution 2 is passed the reduction of capital is required to take effect in accordance with the timetable set out in Appendix 7A of the ASX Listing Rules after an announcement by the Company that the Second Tranche Payment under the Sale Agreement has been paid and the Company had received the audited 30 June 2008 accounts.

### **3.13 Other Material Information**

There is no information material to the making of a decision by a Shareholder in the Company whether or not to approve Resolution 2 (being information that is known to any of the Directors and which has not been previously disclosed to Shareholders in the Company) other than as disclosed in this Explanatory Statement and all relevant annexures.

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## **4. RESOLUTION 3 – APPROVAL TO ISSUE OPTIONS - EMPLOYEES AND CONSULTANTS**

### **4.1 Background**

In February 2008, the Directors resolved to issue, subject to Shareholder approval, 8,350,000 Employee Options to employees and contractors of the Company as a reward and incentive to promote motivation, company ownership and loyalty. None of the Employee Options will be issued to related parties of the Company (as defined in the Corporations Act).

Resolution 3 seeks Shareholder approval pursuant to ASX Listing Rule 7.1 for the issue of those Options.

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue during any 12 month period any equity securities, or other securities with rights to conversion to equity (such as an option), if the number of those securities exceeds 15% of the number of securities in the same class on issue at the commencement of that 12 month period.

The effect of Resolution 3 will be to allow the Directors to issue the Employee Options during the period of 3 months after the date of the Meeting (or a longer period if allowed by ASX) without using the company's 15% annual placement capacity.

#### 4.2 Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to Resolution 3:

- (a) the maximum number of securities that will be issued is 8,350,000 Employee Options;
- (b) the Employee Options will be issued for nil cash consideration as they are being issued to employees and consultants of the Company in consideration for their services to the Company and to promote motivation, company ownership and loyalty. Accordingly, no funds will be raised from the issue;
- (c) the Employee Options will be issued on the terms and conditions set out in Section 4.3 of this Explanatory Statement. As at the date of this Notice, the Share price is trading on ASX above the exercise price of the Employee Options. The Board resolved to issue the Employee Options, subject to Shareholder approval, on the terms and conditions set out in this Notice of Meeting at the time of announcement of the memorandum of understanding with MCC (26 February 2008), when the Share price was trading on ASX below the exercise price of the Employee Options (being \$0.50) but Shareholder approval has not been able to be obtained until this General Meeting;
- (d) the Employee Options will be issued to the following parties:

Name of Allottee	Number of Employee Options
Giuseppe Vince Ariti	3,000,000
Kim Bischoff	1,500,000
Jeffrey Charles Hamilton	1,500,000
Lloyd Arthur Berrey	1,125,000
Neil Robert Fraser	150,000
Rita Care	150,000
Eloise von Puttkammer	350,000
Judy Tonkin	300,000

Emily O 'Connell	125,000
Candice Damopoulos	75,000
Kelly-Anne Dyne	75,000
<b>TOTAL</b>	<b>8,350,000</b>

- (e) the Employee Options will be issued no later than 3 months after the date of the Meeting (or such other date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment will occur on the same date.

#### 4.3 Terms and Conditions of the Employee Options

The terms and conditions of the Employee Options are as follows:

- (a) each Employee Option entitles the holder to one Share;
- (b) the Employee Options are exercisable at any time on or prior to 5.00pm (WST) on 30 June 2010 (**Expiry Date**) by completing an option exercise form and delivering it together with the payment for the number of Shares in respect of which the Employee Options are exercised to the registered office of the Company;
- (c) the Employee Option exercise price is \$0.52 per Employee Option;
- (d) subject to paragraph (i), an Employee Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Employee Option can be exercised;
- (e) subject to the Corporations Act, the ASX Listing Rules and the Company's Constitution, the Employee Options are freely transferable;
- (f) all Shares issued upon exercise of the Employee Options will rank pari passu in all respects with the Company's then issued Shares;
- (g) the Company will not apply for quotation of the Employee Options. The Company will apply for quotation of the Shares issued upon exercise of the Employee Options;
- (h) there are no participating rights or entitlements inherent in the Employee Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Employee Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 business days after the issue is announced. This will give Employee Option holders the opportunity to exercise their Employee Options prior to the date for determining entitlements to participate in any such issue; and
- (i) if at any time the issued capital of the Company is reconstructed, all rights of a Employee Option holder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules.

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## 5. RESOLUTIONS 4 TO 8 – ISSUE OF DIRECTOR OPTIONS

### 5.1 General

The Company has agreed subject to obtaining Shareholder Approval, to allot and issue a total of 11,000,000 Options (**Director Options**) to Messrs Ian Burton, Tony Sage, Tim Turner, Peter Landau and Brian Maher (**Related Parties**) on the terms and conditions set out below.

For a public company to give a financial benefit to a related party of the public company, the public company must:

- (a) obtain the approval of the public company's members in the manner set out in Sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in Sections 210 to 216 of the Corporations Act.

In addition, ASX Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

The grant of the Director Options to the Related Parties requires the Company to obtain Shareholder approval because the grant of Director Options constitutes giving a financial benefit and as Directors, Messrs Ian Burton, Tony Sage, Tim Turner, Peter Landau and Brian Maher are related parties of the Company.

It is the view of the Directors that the exceptions set out in Sections 210 to 216 of the Corporations Act and ASX Listing Rule 10.12 do not apply in the current circumstances. Accordingly, Shareholder approval is sought for the grant of Director Options to the Related Parties.

### 5.2 Shareholder Approval (Chapter 2E of the Corporations Act and Listing Rule 10.11)

Pursuant to and in accordance with the requirements of Sections 217 to 227 of the Corporations Act and ASX Listing Rule 10.13, the following information is provided in relation to the proposed grant of Director Options:

- (a) the related parties are Messrs Ian Burton, Tony Sage, Tim Turner, Peter Landau and Brian Maher and they are related parties by virtue of being Directors;
- (b) the maximum number of Director Options (being the nature of the financial benefit being provided) to be granted to the Related Parties is:
  - (i) 3,000,000 Director Options to Mr Ian Burton (or his nominee);
  - (ii) 3,000,000 Director Options to Mr Tony Sage (or his nominee);
  - (iii) 2,000,000 Director Options to Mr Tim Turner (or his nominee);
  - (iv) 2,000,000 Director Options to Mr Peter Landau (or his nominee); and

- (v) 1,000,000 Director Options to Mr Brian Maher (or his nominee);
- (c) the Director Options will be granted to the Related Parties no later than 1 month after the date of the General Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the Director Options will be issued on one date;
- (d) the Director Options will be granted for nil cash consideration, accordingly no funds will be raised;
- (e) the terms and conditions of the Director Options are set out in Schedule 2;
- (f) the value of the Director Options and the pricing methodology is set out in Schedule 3;
- (g) the relevant interests of the Related Parties in securities of the Company are set out below;

Related Party	Shares	Options
Mr Burston	1,750,000	6,600,000 <sup>1</sup>
Mr Sage	20,604,250	Nil
Mr Turner	457,858	700,000 <sup>3</sup>
Mr Landau	Nil	Nil
Mr Maher	738,000	Nil

<sup>1</sup> 3,300,000 Options exercisable at \$0.90 each on or before 30 June 2008 and 3,300,000 Options exercisable at \$1.40 each on or before 30 June 2009.

<sup>2</sup> 700,000 Options exercisable at \$0.277 each on or before 31 October 2008.

- (h) the remuneration from the Company to the Related Parties for both the current financial year and previous financial year are set out below:

Related Party	Current Financial Year	Previous Financial Year
Mr Burston	\$151,200	\$214,408
Mr Sage	\$262,500	\$350,000
Mr Turner	\$36,000	\$24,000
Mr Landau	\$36,000	\$4,000
Mr Maher	\$24,600	\$31,800

- (i) if the Director Options granted to the Related Parties are exercised, a total of 11,000,000 Shares would be allotted and issued. This will increase the number of Shares on issue from 320,512,270 to 331,512,270 (assuming that no other Options are exercised and no other Shares issued) with the

effect that the shareholding of existing Shareholders would be diluted as follows:

Related Party	Issued Shares as at the date of this Notice of Meeting	Director Options to be issued	Issued Shares upon exercise of all Director Options	Dilutionary effect upon exercise of Director Options
Mr Burston		3,000,000	323,512,270	0.93%
Mr Sage		3,000,000	323,512,270	0.93%
Mr Turner		2,000,000	322,512,270	0.62%
Mr Landau		2,000,000	322,512,270	0.62%
Mr Maher		1,000,000	332,512,270	0.31%
<b>TOTAL</b>	<b>320,512,270</b>	<b>11,000,000</b>	<b>331,512,270</b>	<b>3.32%</b>

The market price for Shares during the term of the Director Options would normally determine whether or not the Director Options are exercised. If, at any time any of the Director Options are exercised and the Shares are trading on ASX at a price that is higher than the exercise price of the Director Options, there may be a perceived cost to the Company.

As at the date of this Notice of General Meeting the Share price is trading on ASX above the exercise price of the Director Options. The Board resolved to issue the Director Options, subject to Shareholder approval, on the terms and conditions set out in this Notice of General Meeting at the time of announcement of the memorandum of understanding with MCC (26 February 2008), when the Share price was trading on ASX below the exercise price of the Director Options (being \$0.50), but Shareholder approval has not been able to be obtained until this General Meeting.

- (j) the trading history of the Shares on ASX in the 12 months before the date of this Notice of General Meeting is set out below:

	Price	Date
Highest	\$0.80	25 June 2007
Lowest	\$0.25	22 January 2008
Last	\$0.75	19 June 2008

- (k) the primary purpose of the grant of Director Options to the Related Parties is in recognition of their involvement in identifying, securing and negotiating the terms of the Transaction and to provide cost effective consideration to the Related Parties for their ongoing commitment and contribution to the Company in their respective roles as Directors. The Board does not consider that there are any significant opportunity costs to the Company or benefits foregone by the Company in issuing the Director Options upon the terms proposed;

- (l) the Board acknowledges the grant of Director Options to Messrs Turner, Landau and Maher is contrary to Recommendation 8.2 of the ASX Corporate Governance Principles and Recommendations. However, the Board considers the grant of Director Options to those parties is reasonable in the circumstances, given the necessity to attract the highest calibre of professionals to the Company, whilst maintaining the Company's cash reserves;
- (m) Mr Ian Burston declines to make a recommendation to Shareholders in relation to Resolution 4 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 4, recommend that Shareholders vote in favour of Resolution 4. The Board (other than Mr Ian Burston) is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution;
- (n) Mr Tony Sage declines to make a recommendation to Shareholders in relation to Resolution 5 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 5, recommend that Shareholders vote in favour of Resolution 5. The Board (other than Mr Tony Sage) is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution;
- (o) Mr Tim Turner declines to make a recommendation to Shareholders in relation to Resolution 6 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 6, recommend that Shareholders vote in favour of Resolution 6. The Board (other than Mr Tim Turner) is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution;
- (p) Mr Peter Landau declines to make a recommendation to Shareholders in relation to Resolution 7 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 7, recommend that Shareholders vote in favour of Resolution 7. The Board (other than Mr Peter Landau) is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution; and
- (q) Mr Brian Maher declines to make a recommendation to Shareholders in relation to Resolution 8 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 8, recommend that Shareholders vote in favour of Resolution 8. The Board (other than Mr Brian Maher) is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Director Options to the Related Parties as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of Director Options to the Related



Parties will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

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## GLOSSARY

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**AIM** means AIM, a market operated by the London Stock Exchange plc

**ASX** means ASX Limited.

**ASX Listing Rules** or **Listing Rules** means the Listing Rules of ASX.

**Board** means the Board of Directors.

**Company** means Cape Lambert Iron Ore Limited (ABN 71 095 047 920).

**Director** means a director of the Company.

**Director Option** means an Option to be granted to a Director pursuant to Resolutions 4 to 8 (inclusive) and on the terms set out in Schedule 2.

**Employee Option** means an Option to be granted to employees and consultants pursuant to Resolution 3 and on the terms set out in section 4.3.

**Explanatory Statement** means the explanatory statement accompanying this Notice.

**JORC Code** means the Australian Code for Reporting of Exploration Resources, Mineral Resources and Ore Resources (2004 Edition).

**MCC** means MCC Mining (Western Australia) Pty Ltd (ACN 123 854 740).

**Meeting** or **General Meeting** means the meeting convened by the Notice.

**Notice** means the notice of meeting accompanying this Explanatory Statement.

**Option** means an option to acquire a Share.

**Project** means the Cape Lambert Iron Ore Project located in the Pilbara region of Western Australia comprising Exploration Licence E47/1462.

**Record Date** means that date which is 6 business days after the later of payment of the Second Tranche Payment pursuant to the Sale Agreement and receipt of the audited 30 June 2008 accounts.

**Resolution** means a resolution set out in the Notice of Meeting.

**Sale Agreement** means the agreement between the Company and MCC in respect of the Transaction, as summarised in section 1 of the Explanatory Statement.

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means a shareholder of the Company.

**Transaction** means the transaction contemplated by the Sale Agreement.

**WST** means Western Standard Time.

**\$** means Australian dollars.

## SCHEDULE 1 – PRO-FORMA BALANCE SHEET OF CAPE LAMBERT

<i>Notes</i>		<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	
Cape Lambert Iron Ore Limited	Actual 31-Mar-2008	Disposal of Assets	Recognition of Deferred Receivable	Transaction Costs	Return of Capital	Issue of Directors options	Issue of Employee Options	Income Tax Liability	Pro-forma 31-Mar-2008
<b>Current Assets</b>									
Cash & Cash Equivalents	8,756,578	320,000,000		(38,500,000)	(37,700,000)				252,556,578
Trade & Other Receivables	1,052,362		60,491,493						61,543,855
<b>Total Current Assets</b>	<b>9,808,940</b>								<b>314,100,433</b>
<b>Non-Current Assets</b>									
Trade & Other Receivables	19,980								19,980
Held for Trading Financial Assets	3,678,336								3,678,336
Other Non-current Assets	140,104								140,104
Plant & Equipment	212,155								212,155
Exploration, Evaluation & Development expenditure	56,260,265	(52,271,746)							3,988,519
<b>Total Non-current Assets</b>	<b>60,310,840</b>								<b>8,039,094</b>
<b>Total Assets</b>	<b>70,119,780</b>								<b>322,139,527</b>
<b>Current Liabilities</b>									
Trade & Other Payables	1,537,108								1,537,108
<b>Total Current Liabilities</b>	<b>1,537,108</b>								<b>1,537,108</b>
<b>Non-current Liabilities</b>									
Tax Liability	-							87,000,000	87,000,000
<b>Total Non-current Liabilities</b>	<b>-</b>								<b>87,000,000</b>
<b>Total Liabilities</b>	<b>1,537,108</b>								<b>88,537,108</b>
<b>Net Assets</b>	<b>68,582,672</b>								<b>233,602,419</b>
<b>Equity</b>									
Contributed Equity	69,219,155				(37,700,000)				31,519,155
Reserves	18,855,280					2,911,700	2,439,870		24,206,850
Retained Earnings / Losses	(19,491,763)	267,728,254	60,491,493	(38,500,000)		(2,911,700)	(2,439,870)	(87,000,000)	177,876,414
<b>Total Equity</b>	<b>68,582,672</b>								<b>233,602,419</b>

## Notes to Pro-forma Balance Sheet

1. Pursuant to shareholder approval, Cape Lambert will sell the Tenements for an initial cash consideration of \$320 million, receivable in three tranches. The book value of capitalised exploration expenditure as at 31 March 2008 for the Tenements being sold has been eliminated.
2. The deferred consideration is based on \$80 million payable within 2 years, on the condition that a mining lease is granted in respect of the Tenements. According to the Company, it is likely that the mining lease will be received 2 years from the sale, therefore, the deferred consideration has been discounted at 15% per annum for 2 years. The 15% discount rate is considered to be a reasonable proxy for the interest that MCC may be required to pay for an equivalent loan of this amount and with similar risk characteristics;
3. Transaction costs relate to a \$38 million commission payable by the Company to a third party plus \$500,000 of miscellaneous costs such as legal and accounting fees.
4. The Company has elected to distribute up to \$37.7 million to shareholders by way of a capital reduction. As described in Section 1.5 of the Notice of Meeting, the Company proposes to pay a dividend of up to \$62.3 million to Shareholders. The effect of the proposed dividend has not been accounted for in the Pro Forma Balance Sheet because it is not subject to a Resolution in the Notice of Meeting, however, the effect of the dividend would be to reduce cash and retained earnings by up to \$62.3 million.
5. Pursuant to Shareholder approval the Company will issue to various Directors 11 million options on the terms detailed in Schedule 2 of the NOM. PKFCA valued these options on 30 May 2008 at \$0.2647 per option. The options have been immediately recognised in full given they do not contain vesting conditions.
6. Pursuant to Shareholder approval the Company will issue to various employees and contractors 8.35 million Employee Options on the terms detailed in section 4 of the Notice of Meeting. PKFCA valued these Employee Options on 20 June 2008 at \$0.2922 per Employee Option. The Employee Options have been immediately recognised in full given they do not contain vesting conditions.
7. Relates to the estimate of the income tax payable as a result of the sale of the Tenements.

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## SCHEDULE 2 – DIRECTOR OPTIONS

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The Director Options entitle the holder to subscribe for Shares on the following terms and conditions:

- (a) Each Director Option gives the Optionholder the right to subscribe for one Share. To obtain the right given by each Director Option, the Optionholder must exercise the Director Options in accordance with the terms and conditions of the Director Options.
- (b) The Director Options will expire at 5:00 pm (WST) on 30 June 2010 (**Expiry Date**). Any Director Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (c) The amount payable upon exercise of each Director Option will be \$0.52 (**Exercise Price**).
- (d) The Director Options held by each Optionholder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.
- (e) An Optionholder may exercise their Director Options by lodging with the Company, before the Expiry Date:
  - (i) a written notice of exercise of Director Options specifying the number of Director Options being exercised; and
  - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Director Options being exercised,**(Exercise Notice)**.
- (f) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
- (g) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Director Options specified in the Exercise Notice.
- (h) The Director Options are not transferable.
- (i) All Shares allotted upon the exercise of Director Options will upon allotment rank pari passu in all respects with other Shares.
- (j) The Company will not apply for quotation of the Director Options on ASX. However, The Company will apply for quotation of all Shares allotted pursuant to the exercise of Director Options on ASX, and for these Shares to be admitted to trading on AIM, within 10 Business Days after the date of allotment of those Shares.
- (k) If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (l) There are no participating rights or entitlements inherent in the Director Options and Optionholders will not be entitled to participate in new issues of capital

offered to Shareholders during the currency of the Director Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 Business Days after the issue is announced. This will give Optionholders the opportunity to exercise their Director Options prior to the date for determining entitlements to participate in any such issue.

- (m) A Director Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Director Option can be exercised.

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## **SCHEDULE 3 – VALUATION OF DIRECTOR OPTIONS AND EMPLOYEE OPTIONS**

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The Company engaged the services of PKF Corporate Advisory to carrying out the valuation of Director Options and Employee Options.

This schedule includes extracts from their Valuation Reports dated 30 May 2008 and 20 June 2008.

### **Option Valuation**

#### *Methodology*

The Black-Scholes, Binomial and Trinomial approaches were considered to value the Options.

The Black-Scholes approach is commonly used to value European options, that is, options which can only be exercised at the expiry date, while the Binomial approach, on the other hand, assumes that options can be exercised at any point during the option life, assuming all vesting conditions have been met, known as American options.

The enhanced Trinomial approach ("Enhanced Trinomial Approach" or "the Model"), on the other hand, considers the possibility of early exercise by incorporating into the option pricing model, two additional parameters which are not present in the Black-Scholes and Binomial approaches. These are the "early exercise multiple" and "employee exit rate", and are discussed in more detail below. As the Options are employee options, the Enhanced Trinomial Approach was adopted to value the Options.

### **Expected Early Exercise**

AASB 2 requires consideration of the possibility of early exercise of options granted when determining the fair value. The impact of early exercise should be taken into account by using an estimate of the options' expected life rather than their contract life.

The Model explicitly considers expected early exercise by incorporating into the model the following two additional parameters:

- (a) Employee exit rate: Considers the possibility of the employee leaving the company after the vesting period and thus exercising any vested options, given that employee options cannot generally be transferred; and
- (b) Early exercise multiple: Assumes early exercise occurs when the share price is a certain multiple of the exercise price.

These parameters allow the Model to analytically assess the expected option term in the calculation of the option value.

### **Consideration of Market Vesting Conditions**

AASB 2 requires market vesting conditions, such as a target share price or out-performance of an index, upon which vesting is conditioned, to be taken into account when estimating the fair value of the options at grant date.

Based on Schedule 2 and section 4 of the Notice, it is noted that the Options do not contain any market vesting conditions which required consideration in the valuation.

## Valuation Inputs

The following table details the valuation inputs used to arrive at a valuation conclusion on the Options.

	Valuation Date	Expiry Date	Spot Price	Exercise Price	Risk-free Rate	Volatility	Dividend yield	Exit Rate	Early Exercise Multiple	Dilution Factor
Director Options	29 May 2008	30 June 2010	\$0.63	\$0.52	6.88%	70%	Nil	15%	2.8x	0.97
Employee Options	20 June 2008	30 June 2010	\$0.73	\$0.52	6.96%	70%	Nil	20%	1.9	0.97

The following is a brief description of each input:

- (a) **Valuation date:** Given the Options have not yet been granted under AASB 2, a valuation date of 29 May 2008 (Directors) and 20 June 2008 (Employees) was assumed in order to provide an indicative value for inclusion in the Company's Notice.
- (b) **Expiry date:** Relates to the last day on which the option may be exercised, which has been obtained from the Notice.
- (c) **Spot price:** AASB 2 requires the current share price as at the grant date to be used as the underlying asset price in the option pricing model. We have used the closing price on 29 May 2008 for the Director Options and the closing price on 20 June 2008 for the Employee Options.
- (d) **Exercise price:** Relates to the price that shares in the Company may be purchased once the options are exercised, which is based on the Notice.
- (e) **Risk-free rate:** Based on the 2-year Treasury Bond Yield, as at the valuation date. The 2-year bond yield was selected as it is the closest to the Options term. (Source: Reserve Bank of Australia)
- (f) **Volatility:** Based on the historical standard deviation of the Company's shares for the 44-month period prior to December 2007, as provided by the Australian Graduate School of Management.
- (g) **Dividend yield:** Based on discussions with the Company, a dividend yield has not been included in the valuation.
- (h) **Exit rate:** Based on a study by Booz Allen Hamilton in 2007, a turnover rate for Directors of 15% has been applied. In respect of the Employee Options a turnover rate of 20% was applied for employees.
- (i) **Early exercise multiple:** An early exercise multiple of 2.8 times was applied for Director Options and 1.9 times for Employees, based on an empirical study performed by Carpenter (1998).
- (j) **Dilution factor:** Based on total shares on issue as at the valuation date of 313,793,270 for Director Options and 321,303,035 for Employee Options as per the Company's



Appendix 3B dated 15 May 2008 and 20 June 2008 respectively, and the number of options to be issued respectively.

### **Valuation Conclusion**

Based on the Enhanced Trinomial Approach and valuation inputs discussed above, the Director Options have been valued at \$0.2647 per Option and Employee Options at \$0.2922 per option, for inclusion in the Notice.