



Managed by Rio Tinto Coal Australia

ASX RELEASE

5 March 2010

As outlined in the announcement of 1 March 2010, full details of the proposal to cancel all of the 1,857,180 non-participating preference shares issued in the capital of Coal & Allied for a cash payment of \$1.50 for each cancelled preference share, will be outlined in the Notices of Meeting which will be issued to the preference shareholders and ordinary shareholders later this month.

The Board of Coal & Allied Industries Limited ('Coal & Allied') has obtained an independent expert's report from Deloitte Corporate Finance Pty Limited ('Deloitte') in relation to this proposal. In its report, Deloitte has concluded that this proposal is fair and reasonable to Coal & Allied's preference shareholders, fair and reasonable to Coal & Allied's ordinary shareholders and fair and reasonable to Coal & Allied's shareholders as a whole.

The independent expert's report will accompany the Notices of Meeting, however, in the interim, a copy of the report is attached to this release.

Media Enquiries:

Alison Smith

07 3361 4223 / 0438 787 038

Investor Enquiries:

Simon Ellinor

07 3361 4365 / 0439 102 811

www.coalandallied.com.au



Coal & Allied Industries Limited
Independent expert's report and Financial Services
Guide
3 March 2010



Financial Services Guide

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The Directors
Coal & Allied Industries Limited
Level 3
410 Ann Street
Brisbane QLD 4000

3 March 2010

Dear Directors

Independent expert's report

Introduction

On 1 March 2010, Coal & Allied Industries Limited (Coal & Allied) announced its intention, subject to the approval of Coal & Allied shareholders (Shareholders), to cancel all of its preference shares on issue (the Preference Shares). The cancellation of the Preference Shares will be undertaken via a proposed selective capital reduction (the Proposed Capital Reduction). We understand the Preference Shares may be cancelled in accordance with the procedure for the selective reduction of capital outlined under Part 2J.1 of the Corporations Act 2001 (Cth) (Corporations Act).

The full details of the Proposed Capital Reduction are included in the Explanatory Notes which accompanies the Notice of Annual General Meeting and the Notice of Meeting – Holders of Preference Shares (the Notices of Meeting). An overview of the Proposed Capital Reduction is provided in Section 1 of our report.

Purpose of the report

Whilst an independent expert's report is not required to meet any statutory obligations, the directors of Coal & Allied (the Directors) have requested that Deloitte Corporate Finance Pty Limited (Deloitte) prepare an independent expert's report expressing our opinion as to whether the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole. This report has been prepared in order to assist Shareholders with the decision to vote in favour or against the Proposed Capital Reduction at either the Annual General Meeting (for holders of ordinary shares (Ordinary Shareholders) who are not also a holder of Preference Shares (Preference Shareholders)) or at the General Meeting of Preference Shareholders, which will be held immediately following the conclusion of the Annual General Meeting.

This report is to be included in the Explanatory Notes which will accompany the Notices of Meeting to be issued to Shareholders.

We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

Basis of evaluation

In preparing this report we have had regard to the Australian Securities and Investments Commission (ASIC) Regulatory Guide 111 in relation to the content of expert's reports and Regulatory Guide 112 in respect of the independence of experts.

We have also had regard to Part 2J.1 (Section 256B) of the Corporations Act which permits a reduction in share capital not otherwise authorised by law, if the reduction:

- is fair and reasonable to the company's shareholders as a whole
- does not materially prejudice the company's ability to pay its creditors; and
- is approved by shareholders under Section 256C of the Corporations Act.

We have also had regard to common market practice in relation to independent expert's reports prepared in the context of selective capital reductions.

There is no statutory definition of the expression "fair and reasonable", and the expression has different meaning for different regulatory purposes.

Notwithstanding that ASIC Regulatory Guide 111 recommends that an independent expert's report should usually accompany the explanatory memorandum to satisfy the information requirements under Section 256C(4) of the Corporations Act, it does not provide specific guidance on how to form an opinion, or the factors to consider in forming such an opinion, in relation to a selective capital reduction which is not also a control transaction.

In the absence of specific guidance within ASIC Regulatory Guide 111, we have considered the guidance provided in relation to a sale of securities approved by securityholders under Section 611 of the Corporations Act, in which independent expert's reports may be provided to discharge the requirement to disclose all material information on how to vote on a particular resolution.

Having regard to the above, we consider it appropriate to assess whether the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole having regard to both the advantages and disadvantages of the Proposed Capital Reduction to Preference Shareholders and the advantages and disadvantages of the Proposed Capital Reduction to Ordinary Shareholders. In arriving at our opinion, we have considered whether the Proposed Capital Reduction is fair and reasonable to Preference Shareholders and fair and reasonable to Ordinary Shareholders. In considering the advantages and disadvantages of the Proposed Capital Reduction to Preference Shareholders, we have, amongst other things, compared the consideration being paid for the Preference Shares with our estimate of the fair market value of the Preference Shares.

Summary and conclusion

On balance, in our opinion, the advantages of the Proposed Capital Reduction outweigh the disadvantages for Preference Shareholders and the advantages of the Proposed Capital Reduction outweigh the disadvantages for Ordinary Shareholders.

In arriving at our opinion, we have had regard to the following factors:

Advantages and disadvantages of the Proposed Capital Reduction for Preference Shareholders

The Proposed Capital Reduction is fair to Preference Shareholders

ASIC Regulatory Guide 111 defines an offer as being fair if the value of the offer price is equal to or greater than the value of the securities being the subject of the offer. Set out in the table below is a comparison of our assessment of the fair market value of a Preference Share with the consideration offered by Coal & Allied in respect of the Proposed Capital Reduction.

Table 1: Evaluation of fairness

	Low value \$ per share	High value \$ per share
Estimated fair market value of a Preference Share	0.54	0.58
Estimated fair market value of consideration offered by Coal & Allied	1.50	1.50

Source: Deloitte analysis

The consideration offered by Coal & Allied is above the range of our estimate of the fair market value of a Preference Share. Accordingly it is our opinion that the Proposed Capital Reduction is fair to Preference Shareholders.

The consideration offered to the Preference Shareholders in respect of the Proposed Capital Reduction implies a premium of 159% to 178% above our estimated fair market value of a Preference Share.

Further to this, the consideration offered to the Preference Shareholders in respect of the Proposed Capital Reduction implies a yield of 2.3%. This yield is significantly below the effective yields of the comparable listed preference shares noted in Table 4.

The Proposed Capital Reduction is being undertaken at a significant premium

The Proposed Capital Reduction is being undertaken at a significant premium to both our estimated fair market value and the last Australian Securities Exchange (ASX) security trading price of \$1.04 per Preference Share prior to the date of our report. The opportunity to realise a significant premium or realise immediate value for the Preference Shares may not otherwise exist through trading the Preference Shares on the ASX, given the Preference Shares have historically traded infrequently and in low volumes.

Given the capital structure of Coal & Allied, with Rio Tinto Limited (Rio Tinto) holding 75.2% of the voting interests, we consider Preference Shareholders are unlikely to receive an alternative offer for the Preference Shares. In addition, in the event an alternative offer is made (for example a takeover offer) it may not be made on more favourable terms than the Proposed Capital Reduction, as the consideration offered to the Preference Shareholders in respect of the Proposed Capital Reduction implies a significant premium of 159% to 178% above our estimated fair market value of the Preference Shares and a 44% premium above the last ASX security trading price of the Preference Shares prior to the date of our report. In comparison, Australian studies indicate the premiums required to obtain control of companies and therefore its securities range between 20% and 40% of the portfolio holding values.

Further to this, the Proposed Capital Reduction allows Preference Shareholders to exit from their investment with no transaction costs.

Advantages and disadvantages of the Proposed Capital Reduction for Ordinary Shareholders

The Proposed Capital Reduction will have a minimal financial impact

Despite the fact that the consideration offered by Coal & Allied to Preference Shareholders is above the range of our estimate of the fair market value of a Preference Share, payment of the consideration will have a very limited impact on the financial position of Ordinary Shareholders as the consideration is immaterial to Coal & Allied. The total cash consideration required to fund the Proposed Capital Reduction is approximately \$2.8 million, which is 0.8% of the company's total cash reserves as at 31 December 2009.

In addition, the consideration being offered to Preference Shareholders is partially offset by the reduction of Coal & Allied's administrative and financial reporting obligations of maintaining the Preference Share register and distributing semi-annual dividends.

Simplified capital structure of Coal & Allied

The Proposed Capital Reduction will remove redundant funding mechanisms and simplify the capital structure of Coal & Allied. If the Proposed Capital Reduction is approved, ordinary shares will be the only issued securities of Coal & Allied.

In the event Coal & Allied receives a takeover offer for 100% of the company, removal of the Preference Shares will make the company more attractive as a potential purchaser will only need to acquire 100% of the ordinary shares (as opposed to 100% of both the ordinary shares and preference shares) in order to benefit from the tax consolidation regime. We note, however, that Coal & Allied has not been the subject of any recent takeover speculation.

Increased voting rights of Ordinary Shareholders

Preference Shareholders have the same voting rights as Ordinary Shareholders. If the Proposed Capital Reduction is approved, the proportional voting rights of the Ordinary Shareholders will increase, albeit only marginally. An overview of the proportional increase in the voting rights of Ordinary Shareholders is set out in section 8 of the Explanatory Notes.

Other matters

No opportunity for Preference Shareholders to participate in the future growth of Coal & Allied

As the Preference Shareholders have no right to participate in additional dividends, or surplus assets of the company upon winding up, they do not participate in the future growth of Coal & Allied. Therefore, there is no potential future financial benefit to Preference Shareholders, with the exception of the fixed coupon payments, of remaining as an investor in Coal & Allied.

Taxation implications

The Proposed Capital Reduction may crystallise taxation liabilities for individual Preference Shareholders in respect of their investment in the Preference Shares. Refer to section 11 of the Explanatory Notes for an overview of the taxation impacts of the Proposed Capital Reduction on Preference Shareholders. The tax consequences of the Proposed Capital Reduction may vary depending on the particular circumstances of an individual Preference Shareholder. Accordingly, Preference Shareholders should consult their tax advisers in relation to their personal circumstances.

Opinion

Based on the foregoing, in our opinion, the Proposed Capital Reduction is fair and reasonable to Preference Shareholders and fair and reasonable to Ordinary Shareholders. Therefore, we are of the opinion that the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole. An individual Shareholder's decision in relation to the Proposed Capital Reduction may be influenced by his or her particular circumstances. If in doubt the Shareholder should consult an independent adviser.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

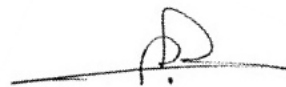
Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED



Andrew Nehill

Director



Robin Polson

Director

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1 Terms of the Proposed Capital Reduction

1.1 Summary

On 1 March 2010, Coal & Allied announced an intention to cancel the Preference Shares on issue. The cancellation of the Preference Shares will be undertaken by way of the Proposed Capital Reduction. We understand the Preference Shares may be cancelled in accordance with the procedure for the selective reduction of capital outlined under Part 2J.1 of the Corporations Act.

The Proposed Capital Reduction requires Shareholder approval which will be sought from the Ordinary Shareholders who are not also Preference Shareholders at the Annual General Meeting and from the Preference Shareholders at the General Meeting of Preference Shareholders, which will be held immediately following the conclusion of the Annual General Meeting.

We understand Coal & Allied is proposing to pay \$1.50 cash for each Preference Share to Preference Shareholders. This payment will represent an unpaid dividend entitlement on the Preference Shares for the period 1 January 2010 to the date of the cancellation of the Preference Shares (approximately \$0.01 if the Preference Shares are cancelled on 3 May 2010) with the balance representing the consideration for the cancellation of the Preference Shares. A detailed overview of the Proposed Capital Reduction is provided in section 3 of the Explanatory Notes.

1.2 Coal & Allied's intentions

Coal & Allied is undertaking the Proposed Capital Reduction in order to simplify the capital structure of Coal & Allied and remove redundant funding mechanisms. The Preference Shares represent less than 2.1% of the voting interests issued by Coal & Allied.

The Proposed Capital Reduction is expected to be funded from Coal & Allied's cash reserves. The total cash consideration required to fund the Proposed Capital Reduction is approximately \$2.8 million, which is 0.8% of the company's total cash reserves as at 31 December 2009.

The Proposed Capital Reduction will reduce the administrative and financial responsibility associated with maintaining a separate share register for the Preference Shareholders, including the half yearly distributions of dividend payments and financial reporting and compliance issues.

In addition, as the market for trading in the Preference Shares has been illiquid for several years (as set out in Section 3.2), Coal & Allied management expect the Proposed Capital Reduction will provide Preference Shareholders with the opportunity to realise immediate value for the Preference Shares, without incurring brokerage costs.

1.3 Key conditions

The Proposed Capital Reduction is subject to the passing of a special resolution at a general meeting of the company, with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction (including Ordinary Shareholders who are also Preference Shareholders), or by their associates, and the passing of a special resolution by the Preference Shareholders, as set out in section 10 of the Explanatory Notes.

2 Scope of the report

2.1 Purpose of the report

Whilst an independent expert's report is not required to meet any statutory obligations, the Directors have requested that Deloitte prepare an independent expert's report expressing our opinion as to whether the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole. In arriving at our opinion, we have considered whether the Proposed Capital Reduction is fair and reasonable to Preference Shareholders and fair and reasonable to Ordinary Shareholders. This report has been prepared in order to assist Shareholders with the decision to vote in favour of or against the Proposed Capital Reduction at either the Annual General Meeting or General Meeting of Preference Shareholders, which will be held immediately following the conclusion of the Annual General Meeting.

2.2 Basis of evaluation

2.2.1 Guidance

In preparing this report we have had regard to ASIC Regulatory Guide 111 in relation to the content of expert's reports and Regulatory Guide 112 in respect of the independence of experts.

We have also had regard to Part 2J.1 (Section 256B) of the Corporations Act which permits a reduction in share capital not otherwise authorised by law, if the reduction:

- is fair and reasonable to the company's shareholders as a whole
- does not materially prejudice the company's ability to pay its creditors; and
- is approved by shareholders under Section 256C of the Corporations Act.

There is no statutory definition of the expression "fair and reasonable", and the expression has different meaning for different regulatory purposes.

ASIC Regulatory Guide 111 provides specific guidance on how to form an opinion as to whether an offer is fair and reasonable in respect of a control transaction, being the acquisition (or increase) of a controlling stake in a company. As the Preference Shares relate to less than 2.1% of the total voting interest issued in Coal & Allied and no party will acquire or materially increase a controlling stake in the company as a result of the Proposed Capital Reduction, we consider that the Proposed Capital Reduction does not represent a control transaction.

Notwithstanding that ASIC Regulatory Guide 111 recommends that an independent expert's report should usually accompany the explanatory memorandum to satisfy the information requirements under Section 256C(4) of the Corporations Act, it does not provide specific guidance on how to form an opinion, or the factors to consider in forming such an opinion, in relation to a selective capital reduction which is not also a control transaction.

In the absence of specific guidance within ASIC Regulatory Guide 111, in considering the approach to adopt with respect to the evaluation of the Proposed Capital Reduction, we have considered the guidance provided in relation to a sale of securities approved by securityholders under Section 611 of the Corporations Act, in which independent expert's reports may be provided to discharge the requirement to disclose all material information on how to vote on a particular resolution.

Although since withdrawn by ASIC, we also consider that ASIC Practice Note 29 in relation to selective capital reductions remains a relevant point of reference for assessing whether the Proposed Capital Reduction is fair and reasonable as it specifically considered selective capital reductions that effect the elimination of minority shareholders. In this case, ASIC Practice Note 29 noted that the independent expert's report should state whether the proposal is fair and reasonable to the expropriated shareholders and to the continuing shareholders, in that it strikes a fair balance between the interests of the persons whose shares are to be cancelled and those who will remain in the company. It further noted that the independent expert's report should be prepared as if it were a report for shareholders voting on a resolution under Section 623 of the Corporations Law (now Section 611 of the Corporations Act).

Having regard to the above, we consider it appropriate to assess whether the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole having regard to both the advantages and disadvantages of the Proposed Capital Reduction to Preference Shareholders and the advantages and disadvantages of the Proposed Capital Reduction to Ordinary Shareholders. In arriving at our opinion, we have considered whether the Proposed Capital Reduction is fair and reasonable to Preference Shareholders and fair and reasonable to Ordinary Shareholders. In considering the advantages and disadvantages of the Proposed Capital Reduction to Preference Shareholders, we have, amongst other things, compared the consideration being paid for the Preference Shares with our estimate of the fair market value of the Preference Shares.

ASIC Regulatory Guide 111 further recommends that an expert should bear in mind that the main purpose of the independent expert's report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the proposed transaction. To this end, we recognise that Preference Shareholders may be concerned that the Proposed Capital Reduction will remove the potential that their Preference Shares may attract an offer that incorporates a significant premium in the event of a takeover offer for Coal & Allied at some point in the future. Although we are not aware of any such offer, we consider that the potential for a future takeover offer should nevertheless be considered in our assessment of the advantages and disadvantages of the Proposed Capital Reduction to Preference Shareholders.

2.2.2 Individual circumstances

We have evaluated the Proposed Capital Reduction for Shareholders as a whole and have not considered the effect of the Proposed Capital Reduction on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Capital Reduction from that adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Capital Reduction is fair and reasonable. If in doubt investors should consult an independent adviser.

2.3 Limitations and reliance on information

The opinion of Deloitte is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in Appendix 3.

We would specifically draw to the attention of Shareholders that recent volatility in capital markets and the current economic outlook has created significant uncertainty with respect to the valuation of assets. Recognising these factors, we consider that our opinions may be more susceptible to change than would normally be the case.

This report has been prepared at the request of the Directors and is to be included in the Explanatory Notes which accompanies the Notices of Meeting to be provided to Shareholders. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the Notices of Meeting and should not be used for any other purpose. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited (APESB).

Our procedures and enquiries do not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board.

3 Overview of the Preference Shares

3.1 Introduction

Coal & Allied is an Australian coal mining company which was established in 1960 and listed on the ASX in 1962. Rio Tinto is a major shareholder in Coal & Allied, through its wholly owned subsidiary, Australian Coal Holdings Pty Limited which holds 75.7% of the ordinary shares and 50.0% of the Preference Shares. As a result, Rio Tinto holds 75.2% of the voting interests in Coal & Allied.

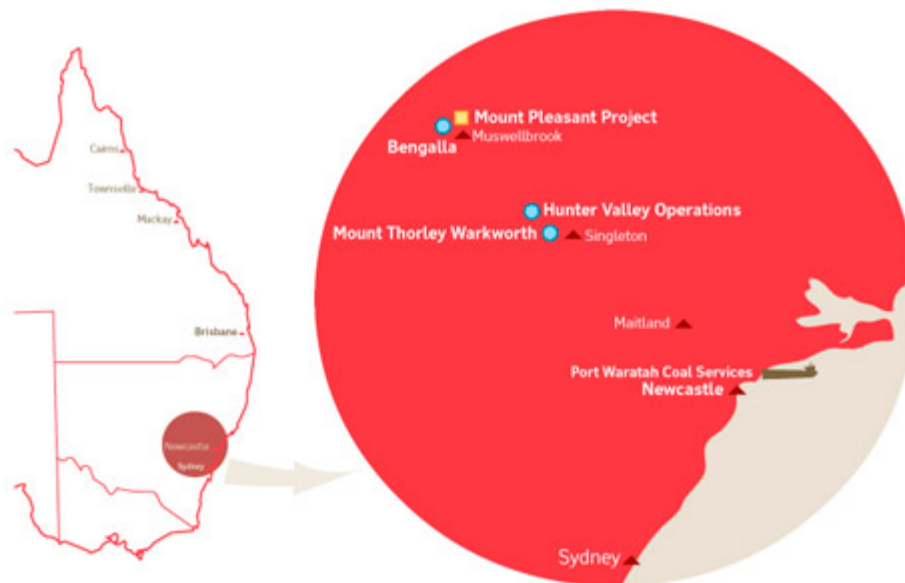
Coal & Allied owns interests in the following coal mines and projects:

- Bengalla (operating)
- Mount Thorley Warkworth (operating)
- Hunter Valley Operations (operating)
- Mount Pleasant (development).

These mines predominantly produce export thermal coal and semi soft coking coal. Coal destined for export markets is railed to the Port Waratah Coal Services Limited coal loading terminal at the Port of Newcastle. Export coal sales are primarily to customers in Japan, Korea and other parts of Asia. Coal is also exported to Europe and the Indian subcontinent.

Figure 1 illustrates the location of the operations and projects of Coal & Allied in the Hunter Valley region in New South Wales.

Figure 1: Coal & Allied operations and projects



Source: Coal & Allied website

3.2 Capital structure

At the time of listing on the ASX in 1962, Coal & Allied had issued capital of 10 million pounds. In 1966, the British system of 12 pence to a shilling and 20 shillings to a pound was replaced by the decimal currency in Australia, converting the issued share capital of Coal & Allied from 10 million pounds to \$20 million.

The original capital of Coal & Allied comprised:

- two million Preference Shares (at 5 shillings each or \$0.50 each)
- 38 million ordinary shares (at 5 shillings each or \$0.50 each).

As at the date of this report, Coal & Allied had a market capitalisation of \$6.9 billion, comprised of:

- 1,857,180 Preference Shares (ASX ticker: CNAPA) at a current price of \$1.04 per Preference Share
- 86,584,735 fully paid ordinary shares (ASX ticker: CNA) at a current price of \$79.90 per ordinary share.

The following table shows the top ten Preference Shareholders in Coal & Allied as at the date of our report.

Table 2: Top ten holders of Preference Shares

Holder name	Volume held	% of total shares outstanding
Australian Coal Holding Pty Limited	928,590	50.0%
J P Morgan Nominees Australia Limited	769,448	41.4%
Winpar Holdings Limited	46,569	2.5%
Mrs Mary Elizabeth Riordan	18,600	1.0%
Equity Trustees Limited (for Cameron superannuation fund)	15,480	0.8%
Mr Ian Edward Morton & Mrs Deborah Lee Morton (for Debian superannuation fund account)	10,260	0.6%
Estate of late James M McIlroy	10,200	0.5%
Patmic Pty Limited	6,000	0.3%
Miss Mary Graham Neild	4,100	0.2%
Batoka Pty Limited	3,800	0.2%
Other	44,133	2.5%
Total	1,857,180	100.0%

Source: Coal & Allied and Computershare

We note the following in regards to the Preference Shares:

- the largest holder of Preference Shares is Rio Tinto (through its wholly owned subsidiary, Australian Coal Holdings Pty Limited)
- approximately 8.6% of the Preference Shares are owned by individual retail shareholders, superannuation funds and trusts
- given the significant shareholdings held by Rio Tinto and JP Morgan Nominees Australia Limited, there is a very small ‘free float’ of the Preference Shares. This is reflected in the low volume and infrequent trading of the Preference Shares on the ASX, as set out below.

Table 3: Historical trading

Year ending	High (\$)	Low (\$)	Number of trades per year	Volumes of shares traded
31 December 2000	1.07	1.02	5	3,361
31 December 2001	1.07	1.07	4	2,408
31 December 2002 ¹	1.10	1.05	4	669,548
31 December 2003	1.04	1.02	5	12,512
31 December 2004	1.04	1.00	7	10,820
31 December 2005	1.00	1.00	5	3,235
31 December 2006	1.00	1.00	2	2,380
31 December 2007	1.02	0.89	5	793
31 December 2008	0.93	0.86	2	42
31 December 2009	1.04	0.93	3	2,292

Source: Bloomberg

Note:

1. The large volume of shares traded in 2002 related to the movement of 663,948 Preference Shares between JP Morgan Nominees Australia Limited and NRMA Nominees Pty Limited, a former Preference Shareholder.

3.3 Terms of the Preference Share

According to the Constitution of Coal & Allied, Preference Shareholders have:

- the right to a fixed cumulative preferential dividend of 7% per annum on the amount of paid up capital. The dividend right equates to \$0.035 per annum for each Preference Share
- no conversion rights into ordinary shares of Coal & Allied
- no redemption rights
- no right to participate in any other distributions of Coal & Allied
- the same voting rights as ordinary shares, namely one vote per share
- on winding up, the right to be paid all arrears of preferential dividends and repaid the amount of capital paid up, or credited as paid up, in priority to any payment in respect of ordinary shares.

3.4 Current status

The Preference Shares are classified by Coal & Allied as debt for accounting purposes, and dividends are recorded to the financial statements as finance charges. At 31 December 2009, the Preference Shares were recorded in the balance sheet of Coal & Allied as non-current borrowings of \$0.9 million.

The Directors declared a final dividend for 2009 of \$0.0175 per Preference Share, fully franked at the current corporate tax rate of 30%, which will be paid on 19 March 2010 to Preference Shareholders who are on the share register at the close of business on 4 March 2010. The ex-dividend date for Preference Shareholders is 26 February 2010.

Apart from this final declared dividend for 2009 and the dividend entitlement accruing since 1 January 2010, there are no arrears of dividends payable by Coal & Allied on the Preference Shares.

4 Valuation methodology

4.1 Valuation methodologies

To estimate the fair market value of the Preference Shares we have considered common market practice and the valuation methodologies recommended by ASIC Regulatory Guide 111, which deals with the content of independent expert's reports. Whilst these methods are commonly applied to value companies or assets, they can also be applied to securities such as the Preference Shares.

These are discussed below.

4.1.1 Market based methods

Market based methods estimate a company or security's fair market value by considering the market price of transactions in its securities or the market value of comparable companies or securities. Market based methods include:

- capitalisation of maintainable earnings
- analysis of recent security trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. For securities such as the Preference Shares with limited rights beyond a fixed dividend stream, the capitalisation of maintainable earnings method can be applied based on the security's future maintainable dividends and an appropriate dividend yield. An appropriate dividend yield is derived from market transactions involving comparable securities. The capitalisation of maintainable earnings method is appropriate where the company or security's earnings are relatively stable.

The most recent security trading history provides evidence of the fair market value of the securities where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company or a security than other valuation methods because they may not account for company specific factors.

4.1.2 Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting an asset's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

4.1.3 Asset based methods

Asset based methods estimate the market value of a company based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to securityholders based on the rights of the security, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies.

4.2 Selection of valuation methodologies

In determining the fair market value of the Preference Shares, we have used the capitalisation of future maintainable dividends method due to the following factors:

- the future maintainable dividends of the Preference Shares are able to be estimated with a high degree of confidence given that the Preference Shares have the right to a fixed dividend of 7% per annum on the amount of paid up capital and no other rights to participate in any other distributions of Coal & Allied
- Coal & Allied has a long established track record of paying dividends on Preference Shares semi-annually as they fall due and it is reasonable to expect this would continue in the future
- there is an adequate number of companies with publicly listed preference shares similar to those of Coal & Allied to provide meaningful analysis
- the Preference Shares do not have a finite lifespan nor are they able to be converted into ordinary shares of Coal & Allied.

In addition, as the Preference Shares are listed on the ASX, we have also considered security market trading activity of the Preference Shares in our determination of the fair market value of the Preference Shares.

5 Valuation of the Preference Shares

5.1 Introduction

Deloitte has estimated the fair market value of a Preference Share to be in the range from \$0.54 to \$0.58.

For the purpose of our opinion fair market value is defined as the amount at which the securities would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. We have not considered special value in this assessment.

In determining this amount, we have estimated the fair market value of a Preference Share using the capitalisation of future maintainable dividends method and an analysis of security trading activity of the Preference Shares.

Both of these valuation methods are discussed in the following sections.

5.2 Capitalisation of future maintainable dividends

The capitalisation of future maintainable dividends method estimates the fair market value of a security by capitalising future dividends using an appropriate yield. To value the Preference Shares using the capitalisation of future maintainable dividends requires the determination of the following:

- an estimate of future maintainable dividends
- an appropriate dividend yield.

Our considerations on each of these are discussed separately below.

5.2.1 Future maintainable dividends

Future maintainable dividends represent the level of maintainable dividends that the Preference Shares could reasonably be expected to generate. In this instance, the Preference Shareholders have:

- the right to a fixed cumulative preferential dividend of 7% per annum on the amount of paid up capital, being \$0.035 per annum
- no right to participate in any other distributions of Coal & Allied
- no right to convert to ordinary shares in order to share in the profits or assets of Coal & Allied.

Accordingly, we consider the future maintainable dividends of the Preference Shares to be \$0.035 per annum.

5.2.2 Dividend yield

We have determined a yield in the range from 6.0% to 6.5% is appropriate to apply to the future maintainable dividends.

In selecting this yield we have considered:

- effective yields derived from market prices of publicly listed preference shares with comparable terms to the Preference Shares
- yields achieved in transactions involving preference shares with comparable terms to the Preference Shares
- yields of corporate bonds with similar risk profiles to the Preference Shares.

These are discussed separately below.

Market derived yields

The security market valuation of listed preference shares provides evidence of an appropriate dividend yield to apply to the Preference Shares.

We have compiled effective dividend yields from market prices of ASX listed preference shares with comparable terms to the Preference Shares. These effective yields are summarised in the following table.

Table 4: Effective market trading yields

Issuing company	Industry	Issue price (\$ per share)	Coupon rate (%)	Current price ¹ (\$ per share)	Effective yield ² (%)
Coal & Allied	Coal mining and production	0.50	7.0%	1.04	3.4%
Carlton Investments Limited (Carlton)	Holding company	2.00	7.0%	2.11	6.6%
Ludowici Limited – A (Ludowici A)	Mineral processing industry supplier	1.00	5.0%	0.90	5.6%
Ludowici Limited – B (Ludowici B)	Mineral processing industry supplier	1.00	6.0%	0.92	6.5%
Webster Limited (Webster)	Intensive agribusiness and aquaculture	1.00	9.0%	1.29	7.0%
Whitefield Limited (Whitefield)	Investment company	1.00	8.0%	1.35	5.9%
<i>Average</i> ³					6.3%
<i>Median</i> ³					6.5%

Source: Bloomberg and Deloitte analysis

Notes:

1. Based on the last traded price prior to the date of our report
2. The effective yield has been calculated by dividing the dividend (being the coupon rate multiplied by the issue price) by the current preference share price
3. The calculation of the average and median excludes Coal & Allied

A summary of the terms of the comparable preference shares compared to the Preference Shares is presented in the following table.

Table 5: Terms of the comparable preference shares

Issuing company	Number of preference shares on issue	Fixed coupon rate	Cumulative dividends	Non-redeemable/convertible	Non-participating ¹	Same voting rights as ordinary shareholders
Coal & Allied	1,857,180	7.0%	✓	✓	✓	✓
Carlton	82,978	7.0%	✓	✓	✓	×
Ludowici A	50,000	5.0%	✓	✓	✓	×
Ludowici B	50,000	6.0%	✓	✓	✓	×
Webster	394,000	9.0%	✓	✓	✓	×
Whitefield	23,790	8.0%	✓	✓	✓	✓

Source: Bloomberg and Deloitte analysis

Note:

1. Non-participating rights have been defined as no rights to additional dividends or surplus assets of the company upon winding up.

The above preference shares, by issuing company, are the only listed preference shares traded on the ASX with terms comparable to the Preference Shares, including:

- a fixed coupon rate based on the amount of paid up capital
- dividends which are cumulative in nature
- non redeemable and not convertible into ordinary shares
- no rights to additional dividends, or surplus assets upon winding up of the company.

General comments regarding the comparable preference shares are set out below:

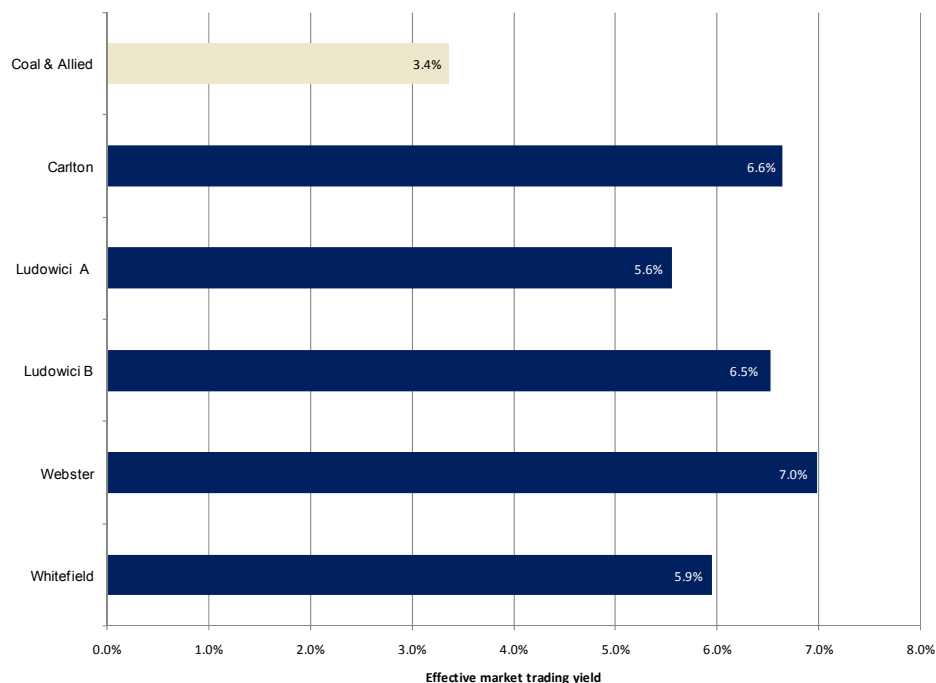
- the fixed coupon rates payable on the above preference shares range from 5.0% to 9.0% per annum based on the amount of paid up capital. The Preference Shares have a fixed 7.0% per annum coupon rate on paid up capital of \$0.50 per Preference Share, consistent with the mid-point of the range of coupon rates of the comparable preference shares
- consistent with the Preference Shares, all of the dividends of the comparable preference shares are cumulative in nature, although the comparable preference shares and the Preference Shares have historically received annual dividend payments
- Coal & Allied has historically paid fully franked dividends to the Preference Shareholders. Carlton, Ludowici A, Ludowici B and Whitefield have historically paid fully franked dividends to preference shareholders. Webster has traditionally paid fully franked dividends to preference shareholders, with the exception of one interim dividend in the financial year ending 30 June 2008 which was not franked
- consistent with the Preference Shares, none of the comparable preference shares are redeemable or convertible into ordinary shares
- comparable to the terms of the Preference Shares, none of the comparable preference shares are entitled to additional dividends or surplus assets of the company upon winding up

- Preference Shareholders are entitled to the same voting rights as Ordinary Shareholders, which results in the Preference Shareholders having one vote per Preference Share. In contrast, Ludowici A and Ludowici B preference shares are entitled to one vote on a poll¹ and four votes per preference share held. This right provides holders of these preference shares more voting power relative to ordinary shareholders in the relevant companies. Holders of Carlton preference shares may attend and speak at general meetings but do not have a right to vote except on matters which affect the rights of the preference shareholders. The voting rights of the Webster preference shares are limited to matters affecting the rights of the preference shareholders. The only listed preference shares with voting rights comparable to the Preference Shares are the Whitefield preference shares, as they are the same as ordinary shareholders. The effective yield of the Whitefield preference shares is 5.9%
- as set out in Section 3.2, the Preference Shares are traded infrequently and in low volumes. Our analysis indicates all of the comparable preference shares have traded in smaller volumes than Coal & Allied, which is also likely due to the smaller number of preference shares on issue compared with Coal & Allied. Whitefield and Carlton preference shares have not traded since 2007. Ludowici A and Ludowici B preference shares have traded during 2009, however, this was the first trading activity which occurred since 2006. Webster has traded more often than Coal & Allied (by number of trades), however has only traded 313,301 preference shares (or 0.22% of issued equity) since 1 January 2000 (whereby Coal & Allied has traded 707,391 Preference Shares (or 2.47% of issued equity) during this period). Neither the Preference Shares or the comparable preference shares have traded during 2010
- notwithstanding this illiquidity, the effective yields of the comparable preference shares have remained relatively stable since 1 January 2000. The effective yield of the Preference Shares over this period remained below that of the comparable preference shares in the range from 3.2% to 4.1%.

¹ a poll is a counting of votes (including proxies) at a shareholder's meeting

The following figure summarises the effective yield for the above comparable preference shares as at the date of this report.

Figure 2: Summary – effective market trading yields



Source: Bloomberg and Deloitte analysis

Implied transaction yields

The yield implied by transactions involving preference shares with comparable terms to the Preference Shares provides evidence of an appropriate yield to apply to the Preference Shares.

However, we have been unable to identify any recent transactions involving preference shares with comparable terms to the Preference Shares. Although there have been numerous transactions involving preference shares, all of the relevant securities paid discretionary dividends and are, therefore, not comparable to the Preference Shares.

Corporate bond yields

In considering an appropriate yield to apply to the future maintainable dividends of the Preference Shares, we have also considered corporate bond yields with a credit rating similar to the Preference Shares. Whilst we consider that the terms of corporate bonds are not directly comparable to the Preference Shares as they are redeemable, corporate bonds do have similar characteristics to preference shares such as fixed coupon payments and limited other rights.

As Coal & Allied has continually paid dividends to the Preference Shareholders, we consider the credit risk of the Preference Shares to be low, and would result in a relatively high credit rating. Therefore we have considered the effective yields of A-rated corporate bonds. As at the date of our report, the effective yields of A rated corporate bonds were in the range from 5.7% to 8.7%, with an average of 6.6%.

Selected yield

In selecting an appropriate yield to apply to the future maintainable dividends of the Preference Shares we have considered the following:

- the fixed coupon rates payable on the comparable listed preference shares range from 5.0% to 9.0% per annum based on the amount of paid up capital. The Preference Shares have a fixed 7.0% per annum coupon rate on paid up capital of \$0.50 per Preference Share, consistent with the mid-point of the range of coupon rates of the comparable preference shares
- the average effective yields implied from the current market prices of ASX listed preference shares with comparable terms to the Preference Shares is 6.3%
- similar to the Preference Shares, none of the comparable preference shares are redeemable or convertible into ordinary shares, nor are they entitled to additional dividends or surplus assets of the company upon winding up
- the Preference Shareholders are entitled to the same voting rights as Ordinary Shareholders which is different to the majority of the comparable preference shares, with the exception of Whitefield. We would expect additional voting rights to be more attractive to investors and therefore we would expect the associated securities may trade at a premium relative to securities with relatively fewer voting rights
- the effective yield of the Preference Shares for the last ten years (since 1 January 2000) remained below that of the comparable listed preference shares in the range from 3.2% to 4.1%
- there are no recent transactions involving preference shares with comparable terms to the Preference Shares
- the average yield of A rated corporate bonds, traded on the ASX, is 6.6%. We consider these bonds provide evidence of current market yields of securities which have relatively similar rights and risk profiles to the Preference Shares.

As a result of these factors, we have selected a dividend yield of 6.0% to 6.5%.

As the majority of the listed comparable preference shares received fully franked dividends, we do not consider it necessary to make a separate adjustment for the value of imputation credits in selecting an appropriate yield to apply to the future maintainable dividends of the Preference Shares.

5.2.3 Valuation: capitalisation of future maintainable dividends

The value of the Preference Shares derived from the capitalisation of future maintainable dividends method is summarised below.

Table 6: Summary – capitalisation of future maintainable dividends method

	Units	Low value	High value
Future maintainable dividends	(\$ per share)	0.035	0.035
Selected dividend yield	%	6.5	6.0
Value of the Preference Shares	(\$ per share)	0.54	0.58

Source: Deloitte analysis

5.3 Analysis of recent security trading

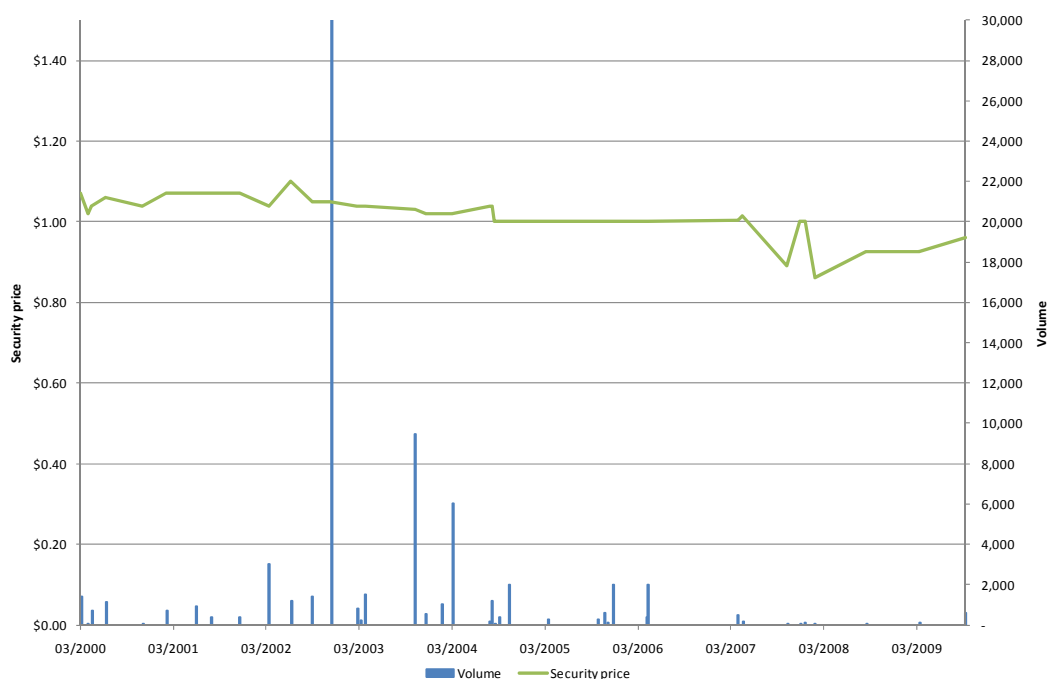
The market can be expected to provide an objective assessment of the fair market value of a security, where the market is well informed and liquid. Market prices incorporate the influence of all publicly known information relevant to the value of an entity's securities.

Due to the terms of the Preference Shares (i.e. fixed coupon payments) we expect that the financial performance and outlook for Coal & Allied will have a limited impact on the security trading price of the Preference Shares. To the extent, however, that the underlying performance of Coal & Allied impacts the fair market value of the Preference Shares, we consider that the market is sufficiently well informed to assume that the security price represents an objective assessment of the value of the Preference Shares for the following reasons:

- the Managing Director of Coal & Allied presented the full year financial results of the company to the financial community via teleconference on 28 January 2010
- Coal & Allied's preliminary financial report for the year ended 31 December 2009 was released to the market on 27 January 2010, providing a recent update regarding the financial performance of the company
- the production report for the quarter ended 31 December 2009 was released to the market on 14 January 2010, providing a recent update regarding the production activity of the company
- Coal & Allied is followed by a number of equities analysts including UBS Securities, Macquarie Research and RBC Capital Markets.

As shown in the figure below, the security trading price of the Preference Shares ranged from \$0.86 to \$1.10 for the period from 1 January 2000 to the date of our report, although there has been very little trading in the Preference Shares across this period.

Figure 3: Summary: security trading activity



Source: Bloomberg and Deloitte analysis

During 2008 and the first quarter of 2009, the Preference Shares experienced low levels of trading activity, with only 134 Preference Shares traded across three transactions in this period.

We consider the value of the Preference Shares derived from an analysis of the security trading in the Preference Shares provides very weak evidence of the fair market value of the Preference Shares given the securities very limited liquidity in recent years.

5.4 Conclusions

The valuation of the Preference Shares derived from the capitalisation of future maintainable dividends and analysis of recent security trading methods is summarised in the following table.

Table 7: Valuation of the Preference Shares

	Section	Low value (\$ per share)	High value (\$ per share)
Capitalisation of future maintainable dividends	5.2	0.54	0.58
Analysis of recent security trading	5.3	Insufficient liquidity	
Deloitte assessed fair market value		0.54	0.58

Source: Deloitte analysis

Due to the illiquidity of the Preference Shares, we have relied on the capitalisation of future maintainable dividends method in our determination of the fair market value of the Preference Shares.

On this basis, we have assessed a fair market value range of \$0.54 to \$0.58 for the Preference Shares.

6 Evaluation and conclusion

6.1 Summary and conclusion

In our opinion, the Proposed Capital Reduction is fair and reasonable to Preference Shareholders and fair and reasonable to Ordinary Shareholders. Therefore, we are of the opinion that the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole.

In forming this view, we have concluded that the advantages of the Proposed Capital Reduction outweigh the disadvantages for Preference Shareholders and the advantages of the Proposed Capital Reduction outweigh the disadvantages for Ordinary Shareholders.

The key considerations are set out below.

Advantages and disadvantages of the Proposed Capital Reduction for Preference Shareholders

The Proposed Capital Reduction is fair to Preference Shareholders

ASIC Regulatory Guide 111 defines an offer as being fair if the value of the offer price is equal to or greater than the value of the securities being the subject of the offer. Set out in the table below is a comparison of our assessment of the fair market value of a Preference Share with the consideration offered by Coal & Allied in respect of the Proposed Capital Reduction.

Table 8: Evaluation of fairness

	Low value \$ per share	High value \$ per share
Estimated fair market value of a Preference Share	0.54	0.58
Estimated fair market value of consideration offered by Coal & Allied	1.50	1.50

Source: Deloitte analysis

The consideration offered by Coal & Allied is above the range of our estimate of the fair market value of a Preference Share. Accordingly it is our opinion that the Proposed Capital Reduction is fair to Preference Shareholders.

The consideration offered to the Preference Shareholders in respect of the Proposed Capital Reduction implies a premium of 159% to 178% above our estimated fair market value of a Preference Share.

Further to this, the consideration offered to the Preference Shareholders in respect of the Proposed Capital Reduction implies a yield of 2.3%. This yield is significantly below the effective yields of the comparable listed preference shares noted in Table 4.

The Proposed Capital Reduction is being undertaken at a significant premium

The Proposed Capital Reduction is being undertaken at a significant premium to both our estimated fair market value and the last ASX security trading price of \$1.04 per Preference Share prior to the date of our report. The opportunity to realise a significant premium or realise immediate value for the Preference Shares may not otherwise exist through trading the Preference Shares on the ASX, given the Preference Shares have historically traded infrequently and in low volumes.

Given the capital structure of Coal & Allied, with Rio Tinto holding 75.2% of the voting interests, we consider Preference Shareholders are unlikely to receive an alternative offer for the Preference Shares. In addition, in the event an alternative offer is made (for example a takeover offer) it may not be made on more favourable terms than the Proposed Capital Reduction, as the consideration offered to the Preference Shareholders in respect of the Proposed Capital Reduction implies a significant premium of 159% to 178% above our estimated fair market value of the Preference Shares and a 44% premium above the last ASX security trading price of the Preference Shares prior to the date of our report. In comparison, Australian studies indicate the premiums required to obtain control of companies and therefore its securities range between 20% and 40% of the portfolio holding values.

Further to this, the Proposed Capital Reduction allows Preference Shareholders to exit from their investment with no transaction costs.

Advantages and disadvantages of the Proposed Capital Reduction for Ordinary Shareholders

The Proposed Capital Reduction will have a minimal financial impact

Despite the fact that the consideration offered by Coal & Allied to Preference Shareholders is above the range of our estimate of the fair market value of a Preference Share, payment of the consideration will have a very limited impact on the financial position of Ordinary Shareholders as the consideration is immaterial to Coal & Allied. The total cash consideration required to fund the Proposed Capital Reduction is approximately \$2.8 million, which is 0.8% of the company's total cash reserves as at 31 December 2009.

In addition, the consideration being offered to Preference Shareholders is partially offset by the reduction of Coal & Allied's administrative and financial reporting obligations of maintaining the Preference Share register and distributing semi-annual dividends.

Simplified capital structure of Coal & Allied

The Proposed Capital Reduction will remove redundant funding mechanisms and simplify the capital structure of Coal & Allied. If the Proposed Capital Reduction is approved, ordinary shares will be the only issued securities of Coal & Allied.

In the event Coal & Allied receives a takeover offer for 100% of the company, removal of the Preference Shares will make the company more attractive as a potential purchaser will only need to acquire 100% of the ordinary shares (as opposed to 100% of both the ordinary shares and preference shares) in order to benefit from the tax consolidation regime. We note, however, that Coal & Allied has not been the subject of any recent takeover speculation.

Increased voting rights of Ordinary Shareholders

Preference Shareholders have the same voting rights as Ordinary Shareholders. If the Proposed Capital Reduction is approved, the proportional voting rights of the Ordinary Shareholders will increase, albeit only marginally. An overview of the proportional increase in the voting rights of Ordinary Shareholders is set out in section 8 of the Explanatory Notes.

Other matters

No opportunity for Preference Shareholders to participate in the future growth of Coal & Allied

As the Preference Shareholders have no right to participate in additional dividends, or surplus assets of the company upon winding up, they do not participate in the future growth of Coal & Allied. Therefore, there is no potential future financial benefit to Preference Shareholders, with the exception of the fixed coupon payments, of remaining as an investor in Coal & Allied.

Taxation implications

The Proposed Capital Reduction may crystallise taxation liabilities for individual Preference Shareholders in respect of their investment in the Preference Shares. Refer to section 11 of the Explanatory Notes for an overview of the taxation impacts of the Proposed Capital Reduction on Preference Shareholders. The tax consequences of the Proposed Capital Reduction may vary depending on the particular circumstances of an individual Preference Shareholder. Accordingly, Preference Shareholders should consult their tax advisers in relation to their personal circumstances.

6.2 Conclusion

On balance, in our opinion, the advantages of the Proposed Capital Reduction outweigh the disadvantages for Preference Shareholders and the advantages of the Proposed Capital Reduction outweigh the disadvantages for Ordinary Shareholders.

Based on the foregoing, in our opinion, the Proposed Capital Reduction is fair and reasonable to Preference Shareholders and fair and reasonable to Ordinary Shareholders. Therefore, we are of the opinion that the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole.

Appendix 1: Glossary

Reference	Definition
\$	All amounts stated in this report are in Australian dollars unless otherwise noted and may be subject to rounding
AFSL	Australian Financial Services Licence
APESB	Accounting Professional and Ethical Standards Board Limited
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Carlton	Carlton Investments Limited
Coal & Allied	Coal & Allied Industries Limited
Corporations Act	Corporations Act 2001 (Cth)
Deloitte	Deloitte Corporate Finance Pty Limited
Deloitte Australia	Deloitte member firm in Australia
Directors	The directors of Coal & Allied
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
Ludowici A	Ludowici Limited - A
Ludowici B	Ludowici Limited - B
Notices of Meeting	The Notice of Annual General Meeting and the Notice of Meeting – Holders of Preference Shares
Ordinary Shareholders	holders of ordinary shares
Preference Shares	Coal & Allied preference shares on issue
Preference Shareholders	holders of the Preference Shares
Proposed Capital Reduction	Cancellation of the Preference Shares via a proposed selective capital reduction
Rio Tinto	Rio Tinto Limited
Shareholders	Existing shareholders of Coal & Allied
Webster	Webster Limited
Whitefield	Whitefield Limited

Appendix 2: Sources of information

In preparing this report we have had access to the following principal sources of information:

- drafts of the Notices of Meeting and Explanatory Notes
- Coal & Allied's application for a class ruling - letter to the Deputy Commissioner of Taxation, dated 14 December 2009
- memorandum and articles of association for Coal & Allied, 1954
- Constitution of Coal & Allied, as adopted by special resolution on 30 April 2001 and amended by special resolution on 17 April 2009
- financial reports for Coal & Allied for the year ended 31 December 2009, 31 December 2008, 31 December 2007, 31 December 2006 and 31 December 2005
- company websites for Coal & Allied and the issuing companies of the comparable preference shares
- publicly available information on the comparable listed preference shares, corporate bonds and transactions involving preference shares published by ASIC, ASX, Bloomberg Financial markets, Connect4, Capital IQ, SDC Platinum and Mergermarket
- other publicly available information on Coal & Allied and the comparable preference shares.

In addition, we have had discussions and correspondence with certain directors and executives, including Matthew Halliday, Chief Financial Officer and Robert O'Toole, Corporate Counsel – Legal, Rio Tinto Coal Australia; in relation to the above information and the Proposed Capital Reduction.

Appendix 3: Qualifications, declarations and consents

The report has been prepared at the request of the Directors of Coal & Allied and is to be included in the Explanatory Notes which accompanies the Notices of Meeting to be issued to Shareholders. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the Notices of Meeting in their assessment of the Proposed Capital Reduction outlined in the report and should not be used for any other purpose. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposed Capital Reduction. This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the APESB.

The report represents solely the expression by Deloitte of its opinion as to whether the Proposed Capital Reduction is fair and reasonable to Shareholders as a whole. Deloitte consents to this report accompanying the Notices of Meeting.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte has relied upon the completeness of the information provided by Coal & Allied and its officers, employees, agents or advisors which Deloitte believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to Coal & Allied management for confirmation of factual accuracy.

In recognition that Deloitte may rely on information provided by Coal & Allied and its officers, employees, agents or advisors, Coal & Allied has agreed that it will not make any claim against Deloitte to recover any loss or damage which Coal & Allied may suffer as a result of that reliance and that it will indemnify Deloitte against any liability that arises out of either Deloitte's reliance on the information provided by Coal & Allied and its officers, employees, agents or advisors or the failure by Coal & Allied and its officers, employees, agents or advisors to provide Deloitte with any material information relating to the Proposed Capital Reduction.

Deloitte holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte principally involved in the preparation of this report were Andrew Nehill, B.Comm, FCA, Grad.Dip.App.Fin, Robin Polson, B.Comm, Grad.Dip.App.Fin and Renee Daus, B.Comm, CA, M. App Fin. Andrew and Robin are Directors and Renee is an Associate Director of Deloitte. Each have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Neither Deloitte, Deloitte Touche Tohmatsu, nor any partner or executive or employee thereof has any financial interest in the outcome of the proposed transaction which could be considered to affect our ability to render an unbiased opinion in this report. Deloitte will receive a fee of \$60,000 exclusive of GST in relation to the preparation of this report. This fee is based upon time spent at our normal hourly rates and is not contingent upon the success or otherwise of the Proposed Capital Reduction.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 123 Eagle Street, Brisbane QLD 4000 acknowledges that:

- Coal & Allied proposes to issue a disclosure document in respect of the Proposed Capital Reduction (the Notices of Meeting including Explanatory Notes)

- the Notices of Meeting will be issued in hard copy and be available in electronic format
- it has previously received copies of the Notices of Meeting for review
- it is named in the Notices of Meeting as the 'independent expert' and its independent expert's report accompanies the Notices of Meeting.

On the basis that the Notices of Meeting are consistent in all material respects with the draft Notices of Meeting received, Deloitte Corporate Finance Pty Limited consents to it being named in the Notices of Meeting in the form and context in which it is so named, for the independent expert's report to accompany the Notices of Meeting and to all references to its independent expert's report in the form and context in which they are included, whether the Notices of Meeting are issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Notices of Meeting and takes no responsibility for any part of the Notices of Meeting, other than any references to its name and the independent expert's report.

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