



22 October 2014

Company Announcements Platform
Australian Securities Exchange
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PERTH WA 6000

TAKEOVER OFFER

CI Resources Limited (ASX: CIL) (**Company**) refers to its ASX announcement dated 21 October 2014 attaching the Target's Statement of Phosphate Resources Limited (**Phosphate**) in connection with the Company's proposed takeover of Phosphate.

The Company's previous announcement did not enclose the Independent Expert's Report referred to in the Target's Statement.

A complete copy of the Target's Statement, including the Independent Expert's Report, is attached to this announcement.

CONTACTS

For further information on CI please visit its website, www.ciresources.com.au, or please contact:

Elizabeth Lee
Company Secretary
CI Resources Limited
Telephone: +61 8 9489 4444

Target's statement

21 October 2014

Dear Shareholder

On 9 October 2014, CI Resources Ltd (**CII**) announced an intention to make an off-market takeover offer (**Takeover Offer** or **Offer**) to acquire all of the issued shares in Phosphate Resources Ltd (**PRL**) by offering 40.3 CII shares in exchange for each PRL share it does not hold.

The Offer is formally made under a bidder's statement dated 20 October 2014 (**Bidder's Statement**).

As you would be aware, CII have a controlling interest holding 63.05% of the issued shares in PRL but has no other material assets or liabilities. As a result, the effect of the Offer is for minority PRL shareholders to replace their direct interest in PRL with the same indirect (through CII) interest. For example, if you hold 1% of PRL, then upon accepting the Offer, you will hold 1% of CII which will hold 100% of PRL.

CII is listed on Australian Securities Exchange (**ASX**), and further information on CII (including its annual report for the year ending 30 June 2014) can be obtained from www.asx.com.au.

As CII currently holds in excess of 30% of PRL and 3 directors of CII are also directors of PRL, *Corporations Act 2001* (Cth) requires an independent expert's report opining on whether the Offer is fair and reasonable and giving its reasons. Accordingly, the independent directors of PRL, namely Messrs Lai, Chan and myself (**Independent Directors**) appointed RSM Bird Cameron Corporate Pty Ltd to prepare an independent expert's report which is attached. RSM Bird Cameron Corporate Pty Ltd opines that the Offer is fair and reasonable for PRL shareholders.

The Independent Directors unanimously recommend that shareholders should accept the Offer as it is both fair and reasonable, and additionally provides the significant advantage of conferring liquidity on your interests, and in the best interests of PRL. The liquidity means that you or your heirs will be able to dispose of your shares for cash at any time by accepting the prevailing price for the shares trading on the ASX.

PERTH

6 Thorogood St, Burswood
PO Box 401, Victoria Park
Western Australia 6979
P +61 8 6250 4900
F +61 8 6250 4901

CHRISTMAS ISLAND

PO Box 104
Christmas Island
Indian Ocean 6798
P +61 8 9164 8400
F +61 8 9164 8404

SINGAPORE

8 Liang Seah Street
#02-06 Liang Seah Court
Singapore 189029
P +65 6332 0961
F +65 6332 0962

MALAYSIA

209 Block A, Kelana Business Centre
97 Jalan SS7/2, Kelana Jaya, 47301
Petaling Jaya, Selangor, Malaysia
P +60 3 7880 4911
F +65 3 7880 5877

www.cirp.com

Phosphate Resources Limited ABN 77 009 396 543
trading as Christmas Island Phosphates



In our view there is no realistic likelihood of any superior proposal or offer emerging for your PRL shares, and there will be less of a market for PRL shares following the Offer. Non-accepting shareholders should also be aware of the risks as a minority PRL shareholder if CII does not acquire 100% of PRL. These risks may be increased following the Offer.

The Offer is scheduled to close on 27 November 2014. To accept you need to return the form attached to the Bidder's Statement which for your convenience we have also included with this target's statement. You may hand these in or mail together with your share certificate to our offices in Perth, Christmas Island, Kuala Lumpur or Singapore

We have attached a formal target's statement on the proposal together with the report from RSM Bird Cameron Corporate Pty Ltd and a detailed overview of the taxation issues prepared by RSM Bird Cameron.

You should consult any independent financial adviser you may have and your taxation accountant on this matter to check the impact of acceptance on your individual situation.

If you have any concerns or if you require further information please do not hesitate to contact me on +61 427 240 005 or Kevin Edwards, the Company Secretary, on +61 421 916 229.

Clive Brown
Chairman



TARGET'S STATEMENT

This document

This document is a target's statement (**Target's Statement**) issued by Phosphate Resources Ltd ACN 009 396 543 (**PRL**) under Part 6.5 Division 3 of the *Corporations Act 2001* (Cth) (**Corporations Act**) in response to a bidder's statement lodged by CI Resources Limited (**CII**) and dated 20 October 2014 (**Bidder's Statement**) and the offer made in the Bidder's Statement to acquire all of the fully paid ordinary shares in PRL that CII does not hold.

This Target's Statement is accompanied by an independent expert's report prepared by RSM Bird Cameron Corporate Pty Ltd for the purposes of section 640 of the Corporations Act. A copy of this Target Statement and the Independent Experts Report was lodged with ASIC on 21 October 2014. Neither ASIC nor its officers take any responsibility for the content of this Target Statement or the Independent Experts Report.

No account of personal circumstances

This Target's Statement does not take into account your individual objectives, financial situation or particular needs. It does not contain personal advice.

For Australian resident shareholders, you should note that scrip-for-scrip capital gains tax rollover relief may be available if you accept the Offer and CII acquires more than 80% of PRL. That is, if you elect when you complete your tax return then no capital gains event will arise for you on receipt of the CII shares. You will only have a capital gain event when you eventually sell your CII shares. However, depending on your circumstances, you may be liable for capital gains tax on any gain from accepting the Offer if CII acquires less than 80% of PRL.

A detailed outline of the taxation issues prepared by RSM Bird Cameron is attached. The tax consequences will depend upon your individual circumstances. You should seek your own independent financial and taxation advice, which takes into account your personal circumstances, before making a decision as to whether or not to accept the Offer. Shareholders outside Australia are encouraged to seek their own advice in relation to any financial or taxation consequences in their home country that may arise as a consequence of accepting the Offer.

Neither PRL nor any of its officers or advisers accepts any liability or responsibility in respect of any statement concerning taxation consequences, or in respect to the taxation consequences themselves.



Foreign Jurisdictions

The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside Australia.

Reasons You Should Accept the Offer

As required by the Corporations Act, Messrs Clive Brown, Lai Ah Hong, Chan Khye Meng (together the **Independent Directors**) each recommend that PRL shareholders accept the Offer for all of their PRL Shares, for the reasons set out below.

Messrs Tee Lip Sin, Dato' Kamaruddin bin Mohammed and Tee Lip Jen are each directors of CII, and Phua Siak Yeong is associated with a major shareholder of CII and for that reason decline to make a recommendation.

1. An equivalent exchange

The proposed conversion of your PRL shares to CII shares at a ratio of 1: 40.3 is a fully equivalent exchange.

CI Resources has 72,874,102 issued shares and holds 1,808,580 PRL shares and disregarding the current nominal cash asset, this is the sole and entire asset of CI Resources.

By division each PRL share is therefore the equivalent of 40.2935 CII shares. For ease of calculation this has been rounded up to 40.3 CII shares.

There are another 1,059,727 PRL shares which at 40.3 CII shares is the equivalent of a further 42,706,999 shares. Hence on a fully merged basis CI Resources would have 115,581,101 shares on issue.

If you hold 5,000 PRL shares you have 0.174% of the total issued shares in PRL being 2,868,307. On acceptance of the Offer you will hold 201,500 CII shares which is again 0.174% of the total issued shares in CII being 115,581,100. In effect your economic interest in PRL's assets will not change as a result of accepting the Offer and CII acquiring all of PRL's issued shares.



The Independent Expert has arrived at a similar comparison by a valuation of shares on a net tangible asset basis as disclosed in the audited accounts of the two companies. The holding of a PRL share is valued at \$44.14 and the post-merger exchange value for 40.3 CII shares becomes \$44.29 (the slight increase arises from your share of the cash already in CII).

2. CII shares can be readily sold through stock market

Your CII shares can continue to be sold privately like PRL shares but they are also tradeable on the Australian Securities Exchange (**ASX**) whenever you wish to sell all or part of your new shareholding.

All of the major Australian banks operate broking services for ASX transactions and if you are a customer will provide these services to you.

If you reside on Christmas Island and do not have an account with a stockbroker in Perth, the local manager of the Westpac bank can assist you if you wish to sell all or part of your new CII shares through the ASX.

The increase in the liquidity of your interest will be a major benefit to shareholders and give them and their families' greater flexibility to realize the benefit of their shareholding when they want to convert it to cash.

3. No changes to current operations.

The merged board will essentially be the same with the Independent Directors all joining the merged board and no changes in the management and operations is proposed.

There is no change proposed to the current managers, employees and employment arrangements in the Christmas Island mining operations.

However, by merging the companies into one listed on ASX the way is open for your Board and Management to expand into other mining and plantation operations. It will enable the merged company to more readily raise capital to undertake expansions to allow us to diversify our income base and create ongoing employment opportunities and value for shareholders well into the future.

4. Independent expert opines that the Offer is fair and reasonable

RSM Bird Cameron Corporate Pty Ltd have opined that the Offer is fair and reasonable to PRL shareholders. Their report sets out reasons for their opinion, and PRL's Independent Directors recommend that all shareholders read this report in full.



Bidder's Statement

Further information on CII (including rights under the CII shares) and the Offer are contained in the Bidder's Statement, a copy of which accompanies this Target's Statement. PRL's Independent Directors recommend that all shareholders read the Bidder's Statement in full.

Directors Disclosure

The current directors of PRL have the direct and indirect interests in the shareholdings of PRL and CII as set out hereunder.

Name	Date of last transaction	PRL (Direct)	PRL (Indirect)	CI Resources Direct	CI Resources Indirect
Clive Brown		0	0	0	0
Lai Ah Hong	17-Jun-14	35,161	15,300	1,702,988	0
Dato' Kamaruddin bin Mohammed		0	0	0	0
Chan Khye Meng	29-Oct-08	1	13,000	31,181	0
Tee Lip Sin	25-Jan-13	18,600	195,500	0	14,566,876
Tee Lip Jen	26-Oct-12	30,500	164,600	0	
Phua Siak Yeong	16-Aug-10	11,000	0	0	0

The independent Directors who have shares in PRL (Messrs Lai and Chan) each intend to accept the Offer for all of the shares they hold.

Consents

PRL's directors have each given, and has not withdrawn before the lodgement of this Target's Statement with ASIC, their written consent to statements attributable to them in this Target's Statement in the form and context in which the statements appear.

RSM Bird Cameron Corporate Pty Ltd has given, and has not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as independent expert and for its report to accompany this Target's Statement.



No other material information

This Target's Statement is required to include all the information that PRL shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- (a) only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Target's Statement; and
- (b) only if the information is known to any director of PRL.

The Independent Directors are of the opinion that the information that PRL Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- (a) the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- (b) the information contained in the documents lodged by PRL with ASIC before the date of this Target's Statement; and
- (c) the information contained in this Target's Statement.

The Independent Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the PRL directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

In deciding what information should be included in this Target's Statement, the Independent PRL Directors have had regard to:

- (a) the nature of the PRL shares;
- (b) the matters that PRL Shareholders may reasonably be expected to know;
- (c) the fact that certain matters may reasonably be expected to be known to PRL Shareholders' professional advisers; and
- (d) the time available to PRL to prepare this Target's Statement.



RSM Bird Cameron Corporate Pty Ltd

Phosphate Resources Limited

**Financial Services Guide and
Independent Expert's Report**

21 October 2014

Financial Services Guide

RSM Bird Cameron Corporate Pty Ltd ABN 82 050 508 024 ("RSM Bird Cameron Corporate Pty Ltd" or "we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

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

This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our Australian Financial Services Licence, Licence No 255847;
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence, which authorises us to provide financial product advice in relation to:

- deposit and payment products limited to:
 - (a) basic deposit products;
 - (b) deposit products other than basic deposit products.
- interests in managed investments schemes (excluding investor directed portfolio services); and
- securities (such as shares and debentures).

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

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

Remuneration or other benefits received by our employees

All our employees receive a salary.

Referrals

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

Associations and relationships

RSM Bird Cameron Corporate Pty Ltd is beneficially owned by the partners of RSM Bird Cameron, a large national firm of chartered accountants and business advisers. Our directors are partners of RSM Bird Cameron Partners.

From time to time, RSM Bird Cameron Corporate Pty Ltd, RSM Bird Cameron Partners, RSM Bird Cameron and / or RSM Bird Cameron related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints Resolution*Internal complaints resolution process*

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, RSM Bird Cameron Corporate Pty Ltd, P O Box R1253, Perth, WA, 6844.

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

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ("FOS"). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

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

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

Contact Details

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

Independent Expert's Report

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21 October 2014

The Independent Directors
Phosphate Resources Limited
6 Thorogood Street
BURSWOOD WA 6100

Dear Independent Directors

Independent Expert's Report

1. Introduction

- 1.1. On 20 October 2014 CI Resources Limited ("CII") issued a bidder's statement ("Bidder's Statement") to Phosphate Resources Limited ("PRL" or the "Company") under Part 6.5 of the Corporations Act. The Bidder's Statement sets out, inter-alia, the following:
- CII is offering to acquire the balance of the issued share capital of PRL it currently does not hold (1,059,727 PRL issued shares, 36.95% of the issued capital) by way of the issue of 40.3 CII shares for each PRL share ("the Offer");
 - CII intends to seek compulsory acquisition of any remaining PRL shares if CII reaches a 90% shareholding in PRL under the Offer;
 - The current PRL directors who are not already CII directors will upon successful completion of the Offer join the CII Board of Directors;
 - CII is a Western Australian based public company listed on the Australian Securities Exchange ("ASX"). CII have a controlling interest holding 63.05% of the issued shares in PRL and holds a nominal amount of cash. CII has no other assets or liabilities; and
 - PRL is an Australian unlisted public company with phosphate mining and accommodation management, maintenance, fuel and marine services on Christmas Island and palm oil plantation estate, mill and processing mill in Penang in peninsular Malaysia.
- 1.2. A more detailed discussion of the Offer is set out in Section 3 of this report.
- 1.3. Under Section 640 of the Corporations Act 2001 (Cth) ("Act"), an Independent Expert's report ("IER") is required to accompany the Target Statement ("Target Statement") in the following circumstances:
- (a) The bidder's voting power in the target is 30% or more; or
 - (b) For a bidder who is, or includes a body corporate – a director of the bidder is a director of the target.
- 1.4. The IER must state whether, in the expert's opinion the takeover offer is fair and reasonable and give the reasons for forming that opinion.

- 1.5. Accordingly, an IER is required to be included in the target statement issued by PRL on the basis that:
- CII have a voting power in 1,808,580 PRL shares representing 63.05% of PRL's issued capital; and
 - Mr Tee Lip Sin, Mr Tee Lip Jen and Dato Kamaruddinbin Mohammed are directors of both CII and PRL.
- 1.6. RSM Bird Cameron Corporate Pty Ltd ("RSM") has been engaged by the Independent Directors of PRL to prepare an IER to the shareholders of PRL ("the Shareholders" or "PRL Shareholders") in relation to the Offer, stating whether, in RSM's opinion, the Offer is fair and reasonable.
- 1.7. This Report has been prepared solely for use by the Shareholders to provide them with information relating to the Offer and cannot be used by any other persons or for any other purpose. If in doubt about the Offer, or matters dealt with in this Report, Shareholders should seek independent professional advice.

2. Summary and Conclusion

- 2.1. In our opinion, and for reasons set out in the summary below and in detail in Sections 7 and 8 of this Report, the Offer is **Fair and Reasonable** for the PRL Shareholders. PRL shareholders should consider this report in its entirety and, in particular, consider Sections 7 and 8 in detail.

Fairness

- 2.2. In assessing whether the Offer is Fair for PRL shareholders we have considered the Fair Value of a PRL Share compared to the Fair Value of the consideration, being 40.3 CII shares.
- 2.3. Having regard for the substance of the Offer rather than the Legal Form, we have assessed whether the Offer is fair to PRL Shareholders by considering whether there is any change in value accruing to PRL Shareholders as a result of an exchange of 40.3 CII shares for a PRL share.
- 2.4. CII is seeking to obtain 100% control of PRL through the Offer. If all PRL shareholders accept the Offer or are compulsorily acquired, PRL's shareholders will slightly increase their proportional economic interest in PRL and the PRL operations through a different corporate entity (CII).
- 2.5. In accepting the Offer, PRL Shareholders, excluding CII are replacing a 36.95% direct interest in PRL for a 36.95% indirect interest, through CII.
- 2.6. In assessing relative values prior to and post the Offer we have adopted the equivalent approach to value the securities and compared the net asset backing of a PRL share prior to the Offer with the net asset backing of 40.3 CII shares after the Offer. This provides an equivalent basis of a net asset backing of \$44.14 prior to the Offer compared with \$44.29 post the Offer.
- 2.7. On the basis of the proportionate economic interest in PRL and on the equivalent approach of net asset backing per share we consider the Fair Value of 40.3 CII shares immediately after the Offer proceeding is greater than the Fair Value of a PRL share immediately before the Offer proceeding. Accordingly in our opinion the Offer is Fair to PRL shareholders.

Reasonableness

- 2.8. In accordance with the guidance provided in Australian Securities and Investment Commission Regulatory Guide 111 – content of Expert Reports (“ASIC RG 111”) as the Offer is fair, it is reasonable. Notwithstanding this, we have also considered the following factors in relation to the reasonableness aspects of the Offer:
- The future prospects of the Company if the Offer is not accepted by Shareholders; and
 - Any other commercial advantages and disadvantages to the Shareholders as a consequence of the Offer being accepted.
- 2.9. The key advantages of the Offer are:
- The Offer is fair;
 - There should be increased liquidity in the shares and greater shareholder depth;

- By merging PRL and CII into one listed on the ASX the Board and management have a greater opportunity to expand into other mining and plantation activities. It will enable the merged entity to more readily raise capital to undertake expansion; and
- By simplifying the corporate structure and merging into one entity CII would become a more attractive takeover target. This would be seen as both an advantage – any takeover offer would likely be at a premium to the current trading price of the shares on the ASX – or a disadvantage – as existing shareholders of CII could lose control.

2.10. In our opinion, the position of PRL shareholders is more advantageous if the Offer is accepted than if it is not. Therefore in the absence of any other relevant information and/or a superior offer, we consider the Offer is reasonable.

3. Summary of Proposed Transaction

- 3.1. On 20 October 2014, CII issued the Bidder's Statement to PRL under Part 6.5 of the Act in accordance with which CII is offering to acquire the balance of the issued share capital of PRL it currently does not hold by way of the issue of 40.3 CII shares for each PRL share.
- 3.2. CII intends to seek compulsory acquisition of any remaining PRL shares if CII reaches a 90% shareholding in PRL under the Offer.
- 3.3. The independent PRL directors will, upon successful completion of the Offer, join the CII Board of Directors. Accordingly, Mr Clive Brown, Mr Lai Ah Hong and Mr Chan Khye Meng will become directors of CII.
- 3.4. In the Bidder's Statement CII makes a number of statements in relation to its future plans for PRL based on CII's knowledge of PRL and the circumstances affecting the business of PRL:
- the business of PRL will otherwise be continued in substantially the same manner as it is currently being conducted;
 - no other major changes will be made to the business of PRL;
 - there will not be any redeployment of the fixed assets of PRL; and
 - the present employees of PRL will otherwise continue to be employed by PRL.

Effect of Offer on Shareholdings

- 3.5. In accepting the Offer PRL Shareholders, excluding CII, are replacing a 36.95% direct interest in PRL for a 36.95% indirect interest in PRL through CII as shown in the tables below.

PRL	Pre-Offer		Post Offer	
	Shareholding	%	Shareholding	%
CII	1,808,580	63.05	2,868,307	100
Other PRL shareholders	1,059,727	36.95	-	-
Total	2,868,307	100	2,868,307	100

Table 1: Shareholdings in PRL pre and post the Offer (source: RSM analysis)

CII	Pre-Offer		Post Offer	
	Shareholding	%	Shareholding	%
Existing CII shareholders	72,874,102	100	72,874,102	63.05
Other PRL shareholders	-	-	42,706,998	36.95
Total	72,874,102	100	115,581,100	100

Table 2: Shareholdings in CII pre and post the Offer (source: RSM analysis)

Rationale for the Offer

- 3.6. By merging PRL with CII into one listed entity on the ASX there is opportunity for the Board and Management to expand into other mining and plantation operations. It will enable the merged company to more readily raise capital to undertake expansions and diversify the income base.
- 3.7. The merged entities will benefit from a simplified ownership and management structure with a strengthened board and management team.
- 3.8. In addition as CII is listed on the ASX shares in CII can readily be traded.

4. Purpose of this Report

- 4.1. Our report has been prepared under Section 640 of the Corporations Act ("the Act") to accompany the Target Statement. Accordingly, in preparing our report we have given due consideration to the Regulatory Guides issued by the ASIC, particularly RG 111.

Basis of Evaluation

- 4.2. RG 111 issued by ASIC advises the commissioning of an IER under Section 640 and provides guidance on the content of an IER under these circumstances.
- 4.3. RG 111 deals with takeover bids where a change of control is effected by the completion of the transaction. In this context RG 111 distinguishes "fair" from "reasonable" and considers:
- An offer to be "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. This comparison should be made:
 - Assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length; and
 - Assuming 100% ownership of the target and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the bidder or its associates in the target when making this comparison. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or portfolio parcel of shares.
 - An offer to be "reasonable" if it is fair. An offer may also be "reasonable" if, despite not being "fair", the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.
- 4.4. RG 111.5 states that, *"in deciding on the appropriate form of analysis for a report, an expert should bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the proposed transaction. An expert should focus on the purpose and outcome of the transaction, that is the substance of the transaction, rather than the legal mechanism used to effect the transaction"*.
- 4.5. The Corporations Act requires the expert to express an opinion as to whether a takeover bid is fair and reasonable under Section 640. However, RG 111.7 states that *"Nevertheless, the form of analysis an expert uses to evaluate a transaction should address the issues faced by security holders"*.
- 4.6. The legal form of the Offer is a takeover bid. However, in the event that the Offer proceeds, it will not result in a material change in the underlying ownership structure of the PRL operations and, consequently the substance of the transaction is not a control transaction. Having regard for the substance of the Offer rather than its legal form, we do not consider it appropriate to assess the Offer as a control transaction.
- 4.7. RG 111.31 states that, *"...the expert may need to assess whether a scrip takeover is in effect a merger of entities of equivalent value when control of the merged entity will be shared equally between the "bidder" and the "target". In this case the expert may be justified in using an equivalent approach to valuing the securities of the "bidder" and the "target"."*

- 4.8. Accordingly, we have assessed the fairness of the Offer on the basis of the equivalent value of a share in PRL compared to the equivalent value of the consideration being the value of 40.3 shares in CII.
- 4.9. We have assessed whether the Offer is reasonable by having regard to a review of other significant factors which the Shareholders might consider prior to accepting the Offer.
- 4.10. Our assessment of the Offer is based on economic, market and other conditions prevailing at the date of this Report.

5. Profile of PRL

Overview

- 5.1. PRL was incorporated on 12 June 1989.
- 5.2. PRL has mined and exported phosphate from Christmas Island since 1991 and is a leading producer of phosphate rock in the South East Asia region. It supplies Malaysia, Indonesia, Australia, New Zealand and Thailand with between 550,000 and 750,000 tonnes per year.
- 5.3. PRL produces and markets its phosphate under the brand name Christmas Island Rock Phosphate ("CIRP") both in the form of bulk and bagged dust. The phosphate is primarily sold as raw materials for fertiliser production.
- 5.4. Phosphate mining commenced on Christmas Island over 100 years ago; PRL was founded by the workforce of the previous Commonwealth Government owned mining company and commenced operations in 1991 after re-opening the mine.
- 5.5. Current resources accessible by PRL on Christmas Island indicate approximately 7 years of mine production can be maintained.
- 5.6. In 2013 the Government approved an extension of the mining lease to 2034, however uncertainty still surrounds obtaining clearing permits to clear land on the mining leases. In 2014 the Australian Department of the Environment issues a Draft Christmas Island Biodiversity Conservation Plan. The Plan, if implemented completely changes the environmental processes on Christmas Island and could threaten the phosphate mining operations.
- 5.7. In 2011, PRL diversified its operations through its acquisition of Cheekah-Kemayan Plantations Sdn Bhd ("CKP") for a total consideration of approximately \$48.3 million.
- 5.8. The main assets of CKP are a producing palm oil plantation estate of approximately 4,000 acres in Pehang in peninsular Malaysia ("the Plantation") and a mill and processing facility servicing the Plantation and surrounding estates ("the Mill") collectively ("Malaysian Plantation and Mill Operations").
- 5.9. In addition to the phosphate mining and the Malaysian Plantation and Mill Operations PRL has wholly owned subsidiaries involved in fuel and marine services operations on Christmas Island and the provision of accommodation management and maintenance services to the Commonwealth Department of Immigration and Citizenship on Christmas Island. In 2013 PRL was successful in winning a tender for the provision of these services for a further three years.

Financial Performance

- 5.10. The table below sets out a summary of the financial performance of PRL for the years ended 30 June 2012 ("FY12") and 30 June 2013 ("FY13") and 30 June 2014 ("FY14") sourced from the Company's audited annual financial statements.

Phosphate Resources Limited Financial performance	Ref.	Audited Year ended 30-Jun-14 \$000's	Audited Year ended 30-Jun-13 \$000's	Audited Year ended 30-Jun-12 \$000's
Revenue	5.12	151,585	154,586	137,169
Cost of sales		(108,789)	(102,822)	(87,272)
Gross profit		42,796	51,764	49,897
Other income	5.15	328	801	1,115
Finance costs	5.16	(975)	(1,048)	(1,511)
Other expenses	5.17	(15,545)	(17,009)	(14,999)
Profit before income tax		26,604	34,508	34,502
Income tax expense		(7,753)	(10,322)	(11,168)
Net profit for the period	5.18	18,851	24,186	23,334
Foreign currency translation	5.19	(1,774)	5,037	(324)
Total comprehensive income for the period		17,077	29,223	23,010

Table 3: PRL Financial Performance (Source: PRL financial statements)

- 5.11. The profitability of PRL is predominantly affected by the prevailing price and demand for phosphate rock and the US dollar, Australian dollar exchange rate. In recent times there has been increased competition from Middle Eastern, North African and South American producers resulting in pressure on PRL's market share in Malaysia and Indonesia.
- 5.12. The revenue from each of the three principal areas of activity are as follows:

	30-June-14 \$000's	30-Jun-13 \$000's	30-Jun-12 \$000's
Phosphate Mining	92,037	102,180	93,283
Malaysian Plantation and Mill Operations	47,115	42,775	33,497
Other Activities	12,433	9,631	10,389
	151,585	154,586	137,169

Table 4: PRL segmented revenue (Source: PRL financial statements)

- 5.13. The revenue from the phosphate mining operations was impacted in FY14 by a general weakening in demand in the first half of the financial year, and a five week shutdown in the second half of the financial year. The total tonnage shipped in FY14 was approximately 575,000 tonnes, reduced from 672,000 tonnes in FY13.

- 5.14. The increase in revenue from the Malaysian plantation and mill operations has arisen from increased production as there has been a marked reduction in prices for crude palm oil. This is reflected in the segmented profit results set out in paragraph 5.18.
- 5.15. Other income relates primarily to foreign exchange gains made in each year PRL makes its phosphate sales in US dollars ("USD") and incurs certain costs, such as shipping in USD and therefore holds large amounts of cash in USD.
- 5.16. Finance costs relate to interest expense on borrowings as well as the finance charges incurred for increases in the rehabilitation provision for the closure of the phosphate mine on Christmas Island.
- 5.17. Other expenses capture the remaining expenses of the Company. This mostly consists of administration and office costs not directly attributable to the operations of PRL. In FY13 a bad debt of \$1.739 million was recognised relating to the remaining consideration outstanding on the sale of the Company's interest in Phosphate Resources (Hau Li) Ltd.
- 5.18. The profit after tax from each of the three principal areas of activity are as follows:

	30-June-14 \$000's	30-Jun-13 \$000's	30-Jun-12 \$000's
Phosphate Mining	16,177	20,884	21,076
Malaysian Plantation and Mill Operations	2,010	2,078	3,370
Other Activities	664	1,224	(1,112)
	<u>18,851</u>	<u>24,186</u>	<u>23,334</u>

Table 5: PRL segmented results (Source: PRL financial statements)

- 5.19. Foreign currency translation relates to exchange differences in the carrying values of foreign subsidiaries.
- 5.20. PRL has historically paid out annual dividends. We set out in the table below the dividends for each of the past three financial years.

	30-June-14	30-June-13	30-Jun-12
Dividends paid (\$000's)	1,434	2,054	2,739
Dividend per share	\$0.50	\$0.60	\$0.80

Table 6: PRL annual dividends (Source: PRL financial statements)

Financial Position

5.21. The table below sets out a summary of the financial position of PRL as at 30 June 2014, 30 June 2013 and 30 June 2012, as sourced from the Company's annual financial statements.

PRL Financial position	Ref.	30-Jun-14 Audited \$000's	30-Jun-13 Audited \$000's	30-Jun-12 Audited \$000's
ASSETS				
Current assets				
Cash and cash equivalents	5.23	52,722	39,606	34,232
Trade and other receivables		18,249	22,994	28,524
Inventories		14,492	9,918	12,106
Income tax receivable		1,209	-	121
Other receivables		2,035	2,786	1,211
Total current assets		88,707	75,286	76,194
Non-current assets				
Term deposits	5.23	9,173	14,855	13,015
Property, plant and equipment	5.24	57,578	51,526	45,003
Goodwill	5.25	7,158	11,231	7,158
Biological assets	5.26	10,581	11,231	11,135
Deferred tax assets	5.27	7,184	7,831	6,549
Total non-current assets		91,674	92,601	82,860
Total assets		180,381	167,887	159,054
LIABILITIES				
Current liabilities				
Trade and other payables		12,712	10,397	9,989
Income tax payable	5.29	-	428	6,307
Provisions		5,728	6,636	5,814
Interest-bearing loans and borrowings	5.32	5,779	5,904	5,599
Total current liabilities		24,219	23,365	27,709
Non-current liabilities				
Interest-bearing loans and borrowings	5.32	36	5,446	9,863
Deferred tax liabilities	5.28	10,530	10,337	10,424
Provisions	5.29	18,992	17,778	16,162
Total non-current liabilities		29,558	33,561	36,449
Total liabilities		53,777	56,926	64,158
NET ASSETS		126,604	110,961	94,896
EQUITY				
Contributed equity		3,782	3,782	4,509
Retained earnings		119,858	102,421	90,666
Reserves		2,984	4,758	(279)
Total Equity		126,604	110,981	94,896

Table 7: Financial Position of PRL (Source: PRL financial statements)

5.22. As at 30 June 2014 PRL disclosed net assets of approximately \$126.6 million, net tangible assets (net assets – intangible assets) of approximately \$119.4 million and net current assets of approximately \$64.5 million.

- 5.23. PRL has maintained a strong cash position over the past few years and at 30 June 2014 held approximately \$52.7 million as a current asset and had longer term cash investments of approximately \$9.2 million providing a total cash asset of approximately \$61.9 million. Included in this cash asset are demolition and restoration bonds of approximately \$2.4 million relating to the mine.
- 5.24. Property plant and equipment includes all of the property and fixed assets of both the Christmas Island Operations and CKP. Most of the balance relates to the carrying value of the land held in CKP representing the plantation.
- 5.25. Goodwill relates to the goodwill arising from the acquisition of CKP in FY11.
- 5.26. Biological assets of approximately \$10.6 million as at 30 June 2014 represent the mature oil palm trees of CKP in Malaysia. These assets are fair valued by Jones Lang Wootton, an independent professional valuer at 30 June of each year.
- 5.27. The deferred tax asset of approximately \$7.2 million has arisen due to the timing difference in the accounting and taxation treatment, of provisions recognised in relation to employment expenses and mine closure costs.
- 5.28. The deferred tax liability of approximately \$10.5 million arose from the acquisition of CKP and the related uplift in the value of the assets acquired in excess of their carrying values at the time of acquisition.
- 5.29. Provisions relate to employee provisions and also the mine closure provisions (redundancy and restoration). A breakdown of the provisions balance of PRL as at 30 June 2014 is set out in the table below.

Provisions	30-June-14 \$000's
Current	
Christmas Island Operations	
Employee provisions	5,728
Total current	5,728
Non-current	
Christmas Island Operations	
Employee provisions	1,535
Redundancy	8,153
Recommissioning and restoration	9,304
Total non-current	18,992

Table 8: PRL provisions summary as at 30 June 2014 (Source: PRL financial statements)

- 5.30. Based on the Mining Lease Agreement between the Commonwealth Government and PRL a provision for decommissioning and restoration has been recognised for costs associated with the demolition of all improvements specified for the removal of all debris resulting from demolition, the removal of plant and equipment and, leaving the leased land in a safe, clean and tidy condition at the expiry of the lease.
- 5.31. Estimates of the decommissioning and restoration obligations are based on anticipated technology and legal requirements and future costs, which have been discounted to their present value. In determining the decommissioning and restoration provision, PRL has assumed no significant changes will occur in the relevant Federal and State legislation in relation to demolition or restoration of such mines in the future.

- 5.32. As at 30 June 2014 the Company has approximately \$5.8 million in interest bearing liabilities which comprised the remaining amount due on a loan liability which the Company used to part fund the purchase of CKP in FY11.

Franking Credits

- 5.33. As at 30 June 2014 PRL had a franking account balance at 30% of approximately \$71.8 million.

Capital Structure

- 5.34. The capital structure of PRL consists of 2,868,307 fully paid ordinary shares at the date of this Report. There are no other classes of shares or options on issue.
- 5.35. On 17 April 2013 the Company invited eligible shareholders to participate in an equal access share buy-back, offering to buy-back a maximum aggregate number of 684,702 shares (20% of the issued capital) at \$20 per share. On 12 June 2013 the Company received offers to buy-back 555,200 shares from eligible shareholders resulting in a payment of \$11,104,000 million. The buy-back price of \$20 comprised a capital return of \$1.31 (amounting to \$727,312) and the balance of the purchase of \$18.69 (amounting to \$10,376,688) issued for tax purposes on a fully franked basis.
- 5.36. As a result of the share buy back the Company's number of issued shares reduced to 2,868,307 from 3,423,507.
- 5.37. The top 10 Shareholders of PRL as at 17 September 2014 is summarised in the table below.

Shareholder	Number	%
CI Resources Limited	1,808,580	63.05
Tee, Kim Tee	78,500	2.74
Masli, Hafiz	50,000	1.74
Tee, Lip Hian	35,000	1.22
Lee, Hendry	33,500	1.17
Lim, Chee Eng	31,000	1.08
Tan, Yam Pey	31,000	1.08
Tee, Lip Jan	30,500	1.06
Krishnan, Ramanathan	28,000	0.97
Thebban, Ramannthan	26,800	0.93
Total Top 10	2,152,880	75.04
Other shareholders	715,427	24.9
Total ordinary shares on issue	2,868,307	100%

Table 9: Top 10 Shareholders as at 17 September 2014 (Source: PRL share register 17 September 2014)

- 5.38. PRL's largest shareholder is Australian Securities Exchange ("ASX") listed company CI Resources. CI Resources holds a 63.05% interest in PRL. The next 9 largest Shareholders collectively own an 11.99% interest in the Company.
- 5.39. At the date of this Report there are 123 shareholders on the PRL share register.

Share Trading

- 5.40. In the period 29 August 2013 to 27 August 2014 84,980 shares have transferred at prices between \$3.00 and \$20.00. This represents approximately 3% of the issued share capital of PRL.

6. Profile of CII

- 6.1. CII is a Western Australian based public company listed on the Australian Stock Exchange (ASX code CII). CII was admitted to the official list on 24 July 1987.
- 6.2. CII's principal asset is its investment in PRL in which it has a controlling interest of 63.05%. As of 30 June 2014 the only other assets and liabilities of CII comprised cash and sundry creditors. Details of PRL have been provided in Section 5 of this Report.

Financial Performance

- 6.3. The Table below summarises the financial performance of CII for the FY12, FY13 and FY14 sourced from CII's and PRL's audited annual financial statements.

	Ref .	Audited Year ended 30-Jun-14 \$000's	Audited Year ended 30-Jun-13 \$000's	Audited Year ended 30-Jun-12 \$000's
Profit before income tax – PRL	5.10	26,604	34,508	34,502
Net profit/(losses) of CII parent entity	6.4	(586)	176	(462)
Profit before income tax – CII Group		<u>26,018</u>	<u>34,684</u>	<u>34,040</u>

Table 10: CII Financial Performance (Source CII financial statements, PRL financial statements)

- 6.4. With the exception of the investment in PRL the only other asset of CII was cash. Profits are generated by interest income and positive foreign exchange movements on the consolidation of CII and PRL. Losses are generated from the administration costs of operating a listed public company, management of CII's investment in PRL and adverse foreign exchange movements on consolidation of CII and PRL.

Financial Position

- 6.5. The table below summarises the financial position of CII as at 30 June 2013 and 2014 as sourced from the audited annual financial statements of PRL and CII.

	Ref .	As at 30-Jun-14 \$000's	As at 30-Jun-13 \$000's
Net Assets of PRL	5.21	126,602	110,981
Net Assets of CII (parent co)	6.6	430	820
Net Assets of CII Group		<u>127,032</u>	<u>111,801</u>

Table 11: CII Financial Position (source CII financial statements, PRL financial statements)

- 6.6. Net assets of CII (parent co.) comprises primarily of cash (\$482,000 as at 30 June 2014).

Capital Structure

- 6.7. The capital structure of CII consists of 72,874,102 fully paid ordinary shares at the date of this Report. There are no other classes of shares or options on issue.
- 6.8. The top 10 shareholders as at 20 August 2014 held 90.8% of CII and are summarised in the table below.

Shareholder	Number	%
Citicorp Nominees Pty Ltd	34,308,867	47.08
Keen Strategy Sdn Bhd	12,600,000	17.29
Prospect Trading Sdn Bhd	11,616,000	15.94
See Khiang Teo, Willy	2,866,476	3.92
Khuang Pty Ltd	1,280,988	1.76
HSBC Custody Nominees (Australia) Limited	847,678	1.16
Yeun Yong, Mee	835,572	1.15
Rivertree Pty Ltd	711,293	0.98
Tuck Sang Woo, Philip	605,715	0.83
Phoo Tan, Hang	500,000	0.69
Total Top 10	66,172,589	90.80
Other Shareholders	6,701,513	9.20
Total Ordinary Shares on Issue	72,874,102	100.00

Table 12: Top 10 Shareholders as at 20 August 2014 (source: CII Audited Financial Statements)

- 6.9. There are 332 shareholders in total in CII at the date of this Report.

Share Price and Performance

- 6.10. The chart below depicts CII's daily closing share price between 15 October 2013 and 15 October 2014 and the volumes of shares traded.

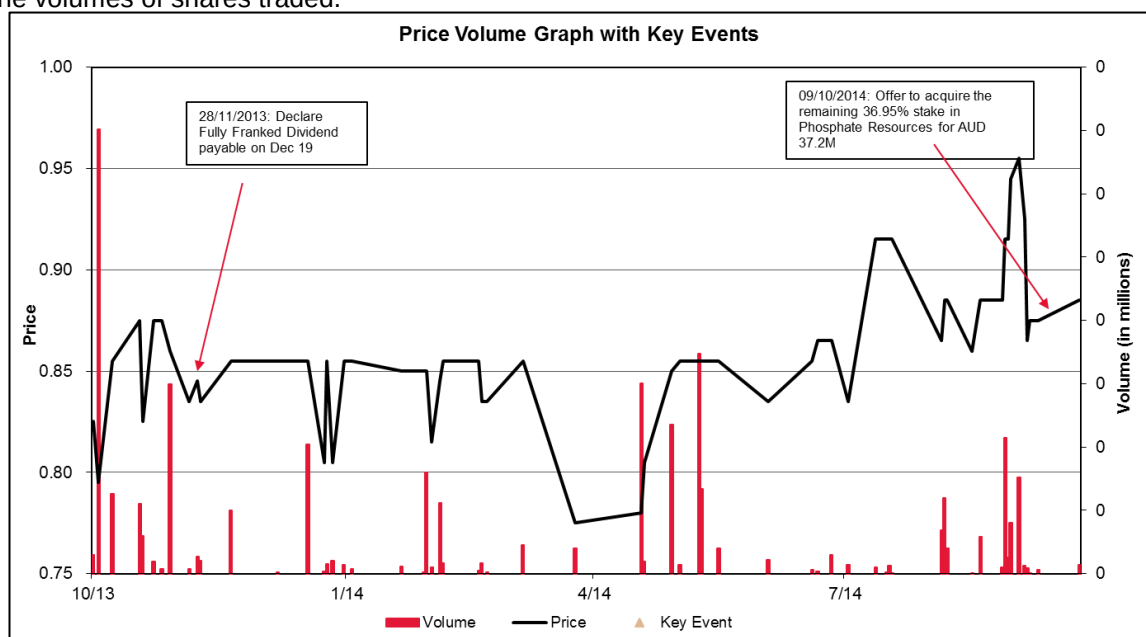


Figure 1: Price Volume Graph with Key Events (source: Capital IQ)

- 6.11. We have analysed the market price of a CII share by considering the Volume Weighted Average market price ("VWAP") for 1 week, 1 month and 3 month periods to 15 October 2014.

	15 Oct 14	1 week	1 month	3 months
Closing Price (\$)	0.88			
VWAP (\$)	0.88	0.88	0.92	0.90

Table 13: Analysis of CII VWAP to 15 October 2014 (source S & P Capital IQ)

- 6.12. An analysis of the volume of trading in CII's shares for the year to 15 October 2014 is set out in the table below.

Period	Share Price Low	Share Price High	Cumulative Volume Traded	As a % of issued share capital
1 Trading Day	0.88	0.88	7	N/A
10 Trading Days	0.88	0.88	9.8	N/A
30 Trading Days	0.86	0.95	290.9	0.4%
60 Trading Days	0.85	0.95	406.4	0.6%
90 Trading Days	0.83	0.95	440.4	0.6%
180 Trading Days	0.77	0.95	1,020.1	1.4%
1 Year	0.75	0.95	2,102.6	2.9%

Table 14: CII Share Volumes (source: S & P Capital IQ)

- 6.13. The table shows that 2.9% of CII's shares have been traded in the year ended 15 October 2014 and 0.6% in the 90 days ended 15 October 2014. This reflects the shareholding structure with the top 10 shareholders holding 90.8% of the CII shares on issue and the resulting lack of liquidity in the shares.

7. Is the Offer Fair?

- 7.1. In assessing whether the Offer is Fair for PRL Shareholders we have considered the Fair Value of a PRL Share compared to the Fair Value of the consideration being 40.3 CII shares.
- 7.2. Having regard for the substance of the Offer rather than the legal form we have assessed whether the Offer is fair to PRL Shareholders by considering whether there is any change in value accruing to PRL Shareholders as a result of an exchange of 40.3 CII shares for a PRL share.
- 7.3. CII is seeking to obtain 100% control of PRL through the Offer. If all PRL shareholders accept the Offer or are compulsorily acquired, PRL's shareholders will slightly increase their proportionate economic interest in PRL and the PRL operations through a different corporate entity (CII).
- 7.4. In accepting the Offer PRL Shareholders, excluding CII are replacing a 36.95% direct interest in PRL for a 36.95% indirect interest, through CII, (refer paragraph 3.4).
- 7.5. In accordance with RG111.31 we have considered the value of a PRL share prior to the Offer with the value of 40.3 CII shares post the Offer using an equivalent approach to value the securities. The equivalent approach we have adopted to value the securities is net asset backing per share.

Net Asset Backing of a PRL share prior to the Offer

- 7.6. The net asset backing of a PRL share prior to the Offer was \$44.14 as shown in the Table below:

	Ref.	
Net Assets of PRL as at 30 June 2014	5.22	\$126,604,000
Shares on Issue	5.35	2,868,307
Net Asset Backing per PRL share		\$44.14

Table 15: Net Asset Backing of a PRL share prior to the Offer (source: RSM analysis)

Net Asset Backing of 40.3 CII shares post the Offer

- 7.7. The net asset backing of 40.3 CII shares post the Offer was \$44.29 as shown in the Table below.

	Ref.	
Net Assets of CII as at 30 June 2014	6.5	\$127,032,000
Shares on Issue prior to Offer	6.7	72,874,102
Shares Issued in accordance with Offer	3.4	42,706,998
Shares on Issue after the Offer		115,581,100
Net Asset Banking per CII share	3.4	\$1.099
Net Asset Banking per 40.3 CII shares		\$44.29

Table 16: Net Asset Backing of 40.3 CII shares post the Offer (source: RSM analysis)

- 7.8. Based on the equivalent approach adopted above of net asset backing per share, the value of 40.3 CII shares post the Offer have a net asset backing of \$44.29 compared to the net asset backing of a PRL share prior to the Offer of \$44.14. The \$0.15 difference is a result of the greater net asset position of CII at 30 June 2014, as follows:

	Ref.	
Net Assets of CII as at 30 June 2014	6.5	\$127,032,000
Net assets of PRL as at 30 June 2014	5.22	\$126,604,000
Additional CII net assets	A	\$428,000
Shares on issue after the Offer	B	115,581,100
Difference per 40.3 shares	A / B x 40.3	\$0.15

Table 17: Reconciliation of net asset backing per share (source: RSM analysis)

- 7.9. On the basis of the proportionate economic interest in PRL and on the equivalent approach to value the securities of net asset backing per share, we consider the fair value of 40.3 CII shares immediately after the Offer proceeding to be greater than the Fair Value of a PRL share immediately before the Offer proceeding. Accordingly, in our opinion, the Offer is Fair to PRL shareholders.

8. Is the Offer Reasonable?

8.1. RG111 establishes that an offer is reasonable if it is fair. Given that we have concluded that the Offer is Fair the Offer is reasonable. Notwithstanding our conclusion of the fairness of the Offer we have given consideration to:

- The future prospects of PRL if the Offer is not accepted; and
- Other commercial advantages and disadvantages to Shareholders as a consequence of the Offer proceeding.

Stated intentions of CII in relation to the Offer

8.2. CII has informed PRL that on the facts and circumstances presently known it is supportive of the company's current direction. The Board of CII will be expanded to include all current directors of PRL and no major changes in the management and operations is proposed.

Future Prospects of PRL if the Offer is not accepted by Shareholders

8.3. If the Offer is not accepted by sufficient PRL Shareholders for PRL to become a wholly owned subsidiary of CII, CII intends to the extent possible to implement the objectives and goals as if CII had full control of PRL. It is possible that CII may not be able to implement some of its intentions where minority shareholder approval is required.

Advantages and Disadvantages

8.4. In assessing whether the Shareholders are likely to be better off if the Offer is accepted than if it is not we have also considered the various advantages and disadvantages that are likely to accrue to PRL shareholders.

Advantages

Advantage 1 – Offer is Fair

8.5. RG 111 states that a transaction is reasonable if it is fair.

Advantage 2 – Increased Liquidity

8.6. As an unlisted public company the trading of PRL shares is restricted. CII is listed on the ASX and consequently CII shares are easily and readily tradeable and the price is set by the stock market. In the period 29 August 2013 to 27 August 2014 PRL shares transferred at prices between \$3.00 and \$20.00. In the same period CII shares traded in the range of \$0.75 to \$0.95. On the basis of 40.3 CII shares to 1 PRL share this effectively meant that PRL shares traded in the range of \$30.23 to \$38.29 on the ASX in this period.

Advantage 3 – Greater shareholder depth

- 8.7. On completion of the Offer, the number of CII shareholders will increase from 332 to 455 providing greater depth and potentially greater liquidity. The top 10 shareholders' shareholding in CII will decrease from 90.8% to 63.3% based on shareholders relative shareholdings in both CII and PRL at the date of this Report.

Advantage 4 – Simplified Corporate Structures

- 8.8. By merging PRL and CII into one Listed on the ASX the Board and management have a greater opportunity to expand into other mining and plantation activities. It will enable the merged entity to more readily raise capital to undertake expansion.

Advantage 5 – Increased Appeal as a Takeover Target

- 8.9. By simplifying the corporate structure and merging into one entity CII would become a more attractive takeover target. Any takeover offer would likely be at a premium to the current trading price of the shares on the ASX.

Disadvantages*Disadvantage 1 – Increased Appeal as a Takeover Target*

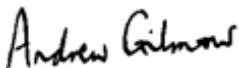
- 8.10. By simplifying the corporate structure and merging into one entity CII would become a more attractive takeover target. Should a takeover be successful the existing shareholders in CII would lose control and their interests would be diluted.

Conclusion on Reasonableness

- 8.11. In our opinion, the position of PRL shareholders is more advantageous if the Offer is accepted than if it is not. Therefore in the absence of any other relevant information and/or a superior offer, we consider the Offer is Reasonable.
- 8.12. An individual shareholders decision in relation to the Offer may be influenced by his or her individual circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt Shareholders would consult an independent advisor.

Yours faithfully

RSM BIRD CAMERON CORPORATE PTY LTD



A GILMOUR
Director



G YATES
Director

APPENDIX 1

Declarations and Disclosures

RSM Bird Cameron Corporate Pty Ltd holds Australian Financial Services Licence 255847 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

Qualifications

Our report has been prepared in accordance with professional standard APES 225 “Valuation Services” issued by the Accounting Professional & Ethical Standards Board.

RSM Bird Cameron Corporate Pty Ltd is beneficially owned by the partners of RSM Bird Cameron (RSMBC) a large national firm of chartered accountants and business advisors.

Mr Andrew Gilmour and Mr Glyn Yates are directors of RSM Bird Cameron Corporate Pty Ltd. Both Mr Gilmour and Mr Yates are Chartered Accountants with extensive experience in the field of corporate valuations and the provision of independent expert’s reports for transactions involving publicly listed and unlisted companies in Australia.

Reliance on this Report

This report has been prepared solely for the purpose of assisting the Shareholders of PRL in considering the Offer. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose.

Reliance on Information

Statements and opinions contained in this report are given in good faith. In the preparation of this report, we have relied upon information provided by the Directors and management of PRL and we have no reason to believe that this information was inaccurate, misleading or incomplete. However, we have not endeavoured to seek any independent confirmation in relation to its accuracy, reliability or completeness. RSM Bird Cameron Corporate Pty Ltd 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.

The opinion of RSM Bird Cameron Corporate Pty Ltd 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.

In addition, we have considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

We assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information supplied to us.

Disclosure of Interest

At the date of this report, none of RSM Bird Cameron Corporate Pty Ltd, RSMBC, Andrew Gilmour, Glyn Yates, nor any other member, director, partner or employee of RSM Bird Cameron Corporate Pty Ltd and RSMBC has any interest in the outcome of the Proposed Buy-back, except that RSM Bird Cameron Corporate Pty Ltd are expected to receive a fee of \$30,000 based on time occupied at normal professional rates for the preparation of this report. The fees are payable regardless of whether PRL receives Shareholder approval for the Proposed Buy-back, or otherwise.

Consents

RSM Bird Cameron Corporate Pty Ltd consents to the inclusion of this report in the form and context in which it is included with the Explanatory Memorandum to be issued to Shareholders. Other than this report, none of RSM Bird Cameron Corporate Pty Ltd, RSM Bird Cameron Partners or RSMBC has been involved in the preparation of the Notice of General Meeting and Explanatory Statement. Accordingly, we take no responsibility for the content of the Notice of General Meeting and Explanatory Statement as a whole.

APPENDIX 2

Sources of Information

In preparing this Report we have relied upon the following principal sources of information:

- Drafts and final copies of the Target Statement;
- The Bidder's Statement;
- PRL Audited Financial Statements for the years ended 30 June 2012, 30 June 2013 and 30 June 2014;
- CII Audited Financial Statements for the years ended 30 June 2012, 30 June 2013 and 30 June 2014;
- ASX announcements of CII;
- Economics and Industry Development Division – Malaysian Palm Oil Board;
- World Bank;
- IBIS World database;
- S&P Capital IQ database; and
- Discussions with Directors of PRL.

APPENDIX 3

Glossary of Terms

Term or Abbreviation	Definition
\$ or AUD	Australian Dollar
Act	Corporations Act, 2001
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Bidder's Statement	The booklet prepared by CII dated 10 October 2014
CII	CI Resources Limited
Company	PRL
CIRP	Christmas Island Rock Phosphate
CKP	Cheekah-Kemayan Plantations Sdn Bhd, subsidiary of PRL which owns the Plantation
Fair Value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction
FY12, FY13 and FY14	Financial years ended 30 June 2012, 2013 and 2014
IER	Independent Expert Report
IBIS	IBIS World, producer of industry reports
JLW	Jones Lang Wootten
JLW Report	Specialist valuation report prepared by JLW valuing the Plantation
The Mill	Mill and processing facility servicing the Plantation and surrounding estates
Malaysian Plantation and Mill Operations	The Plantation and the Mill
MYR	Malaysian Ringgit

Term or Abbreviation	Definition
Offer	The Offer by the Bidder to acquire the balance of the issued share capital of PRL it currently does not hold (1,059,727 PRL issued shares, 36.95% of the issued capital) by way of the issue of 40.3 CII shares for each PRL share on the terms and conditions set out in the Bidders Statement.
The Plantation	PRL's palm oil plantation, consisting of approximately 4,000 acres in Pehang peninsular, Malaysia
PRL	Phosphate Resources Limited
Report	This Independent Experts Report prepared by RSMBCC dated 28 March 2013
RG 111	ASIC Regulatory Guide 111 Contents of expert's reports
RSM	RSM Bird Cameron Corporate Pty Ltd
S&P Capital IQ	Standard and Poor's Capital IQ database
Target Statement	The Target Statement prepared by CII.
USD	United States Dollars
VWAP	Volume weighted average share price

APPENDIX 4

Industry Profile

PRL's main operating activities include phosphate rock mining and manufacture and sale of palm oil. We provide an overview of the global phosphate and palm oil industries below.

Phosphate Industry

Phosphate rock is a source of phosphorus, an essential nutrient for plants and, therefore, one of the key ingredients in the production of agricultural fertilisers. Approximately 90% of the phosphate rock mined around the world is processed into fertilisers.

Phosphate rock is a non-renewable resource produced in over forty countries, with China, the United States and Morocco being the largest producing nations.

According to producers of industry reports IBIS World ("IBIS"), Australia's production of phosphate rock is estimated to total 3.1 million tonnes in 2013-14 and expects this to continue over the next 5 years.

The Australian industry performance is impacted by the volume of product sales, US dollar price movements, shifts in the value of the Australian dollar and demand from agriculture. Indications are that industry revenue will increase over the next 5 year period to 2019, as IBIS expects phosphate mining and output to increase, and prices to firm in response to stronger demand on the back of rising agricultural output worldwide and increased demand for fertilisers.

There is relatively low competition in Australia for phosphate production, with the Queensland mine owned by Incitec Pivot accounting for a significant proportion of production; barriers to entry are high due to vertical integration.

The quality of marketable phosphate has historically been based on the content of tricalcium phosphate ($\text{Ca}(\text{PO}_4)_2$) commonly known as Bone Phosphate of Lime or BPL. The concentration in igneous phosphate deposits is more generally referred to by reference to its percentage phosphorus pentoxide (P_2O_5) content, which is equal to its BPL content multiplied by 0.4567.

Phosphate prices are published on a monthly basis by the World Bank and are quoted in prices paid per metric tonne for free alongside ship (exclusive of shipping costs) for Moroccan phosphate rock, which has a minimum 70% BPL content (32% P_2O_5). The figure below sets out the monthly Moroccan phosphate rock price for the 10 years to August 2014.

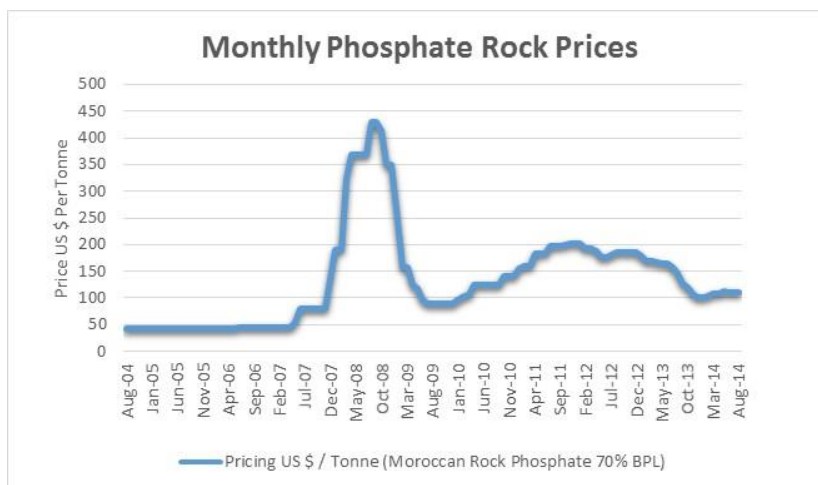


Figure 1: Monthly phosphate rock prices 2004 – 2014 (Source: World Bank)

In the period 2004 through to early 2007 the price of Moroccan phosphate rock was very consistent and averaged around USD50 per tonne. Following this very long period of low price volatility phosphate rock prices increased rapidly throughout the latter part of 2007 and 2008 peaking at approximately \$430 per tonne in September 2008, before crashing in late 2008 and throughout 2009 following the onset of the global financial crisis. The 2007-2008 price spike was caused primarily by the following 2 economic factors:

- Increased real demand for fertiliser, driven by increased demand for food in the developing world particularly in Asia and also demand from the emerging bio fuel industry; and
- Speculation about this increased demand from the bio fuel industry and its implications for food security which created a commodity price bubble.

By 2011 prices of Moroccan phosphate rock had recovered from the lows of USD90 per tonne that occurred in 2009 and steadily climbed from USD155 in January to just over USD200 by December 2011. Prices dipped in early 2012 but recovered to around USD185 by December 2012. In the early part of 2013 prices have fallen to around USD170 and prices continued to fall throughout 2013 to reach a minimum of USD101 in December 2013. Throughout early 2014, prices recovered slightly to around USD108 in March 2014, prices appear to have stabilised for the remainder of 2014 in the region of USD108 to USD112.

Whilst Moroccan phosphate rock is the world pricing benchmark for phosphate rock due to its high BPL and P_2O_5 content, the actual price phosphate miners receive varies considerably globally, and is dependent on the location of the mine to its main market, the quality and BPL content of the phosphate rock and whether or not the miner freights the phosphate rock to its customers. In this regard, we note that the phosphate rock mined by PRL on Christmas Island is of a lower quality than Moroccan phosphate rock with a P_2O_5 content of approximately 30%. Consequently, PRL's selling prices are lower than the published benchmark and PRL's current average selling price is approximately \$160 per metric tonne, inclusive of shipping costs to Asia.

Palm Oil Industry

Palm oil is a major component of the global oil and fats trade for food production; it is currently consumed by over 3 billion people in 150 countries. China is the largest consumer. This is followed by the EU, India, and the United States.

The oil palm tree originates from West Africa where it grows in the wild and was later developed into an agricultural crop. Each tree bears 8 to 12 fruit bunches annually, each weighing 15kg to 25kg and containing 1000 to 3000

fruits. The trees may grow up to 30 feet in height and will start bearing fruit 3 years after planting; they will continue to be productive for 20 to 30 years.

Palm oil and palm kernel oil are edible plant oils derived from the fruits of oil palm trees; they are classed as highly saturated vegetable fats. Palm oil is extracted from the pulp of the fruit of the oil palm, and palm kernel oil is derived from the kernel (seed) of the oil palm.

Unrefined palm oil is dark red in colour due to a high level of carotenes; the refining process removes smells and coloration to leave a bleached version.

Palm oil is a common cooking oil in southeast Asia and the tropical belt of Africa. The low cost and high oxidative stability of the refined product has increased its use in the commercial food industry of other parts of the world; many processed foods now contain palm oil as an ingredient. About 80% of palm oil produced globally is used in food with the remainder in oleo chemicals manufacture and as biodiesel.

Malaysian palm oil industry

The oil palm tree was first introduced to Malaysia in the early 1870's with the first commercial plantation developed in 1917. In the 1960's Malaysia's Department of Agriculture established an exchange program with West African economies to commence research and development into oil palm breeding, as part of a drive to reduce the country's economic reliance on rubber and tin.

The Malaysian Palm Oil Board was subsequently founded by the government and is now the top research entity in oil palm tree breeding, palm oil nutrition and potential uses.

As at December 2013, there were approximately 5.2 million hectares of land in Malaysia under oil palm cultivation, an increase of 3.0% as against 5.08 million hectares recorded in the previous year.

Exports of oil palm products, consisting of palm oil, palm kernel oil, palm kernel cake, oleochemicals, biodiesel and finished products increased by 4.5% to 25.70 million tonnes in 2013 from 24.59 million tonnes exported in 2012. However, total export revenue declined by 14.1% to RM61.36 billion compared to the RM71.45 billion achieved in 2012 due to lower export prices of all palm products.

Exports of palm oil increased by 3.3% to 18.15 million tonnes from 2012 to 2013. This increase was mainly due to the CPO export duty structure, which was implemented in January 2013 which saw an increase in exports of processed palm oil by 9.5% from 12.93 million tonnes in 2012 to 14.16 million tonnes in 2013. There was also higher demand for palm oil from China, Bangladesh, the EU, Iran and Pakistan.

Total exports (in tonnage) of palm oil decreased by 7% for the period Jan-Aug 2014 compared to the similar period in 2013. In the period Jan-Aug 2014, around 53% of palm oil exports from Malaysia were shipped to China, the European Union, Pakistan and India. They are mostly made into cooking oil, margarine, specialty fats and oleo chemicals

RSM Bird Cameron
8 St Georges Terrace Perth WA 6000
GPO Box R1253 Perth WA 6844
T +61 8 9261 9100 F +61 8 9261 9111
www.rsmi.com.au

Contact: Rami Brass
Direct Phone: (08) 9261 9460
Direct E-mail: rami.brass@rsmi.com.au
Direct Fax: (08) 9261 9103

13 October 2014

The Directors
Phosphate Resources Limited
6 Thorogood Street
BURSWOOD WA 6100

Dear Directors

Off-market Takeover of Phosphate Resources Ltd By CI Resources Ltd

We are pleased to provide you with our comments in respect of the taxation consequences for shareholders in Phosphate Resources Ltd ("PRL") that accept CI Resources Ltd's ("CI") off-market takeover offer ("the Offer"). We have relied upon the terms and conditions summarised in the Independent Expert's Report and understand that this letter will be included in the Target's Statement.

Disclaimer

The information contained in this letter is general in nature and is not intended to be an authoritative or complete statement of the taxation laws applicable to the particular circumstances of every shareholder in PRL. This letter does not constitute taxation advice and should not be relied upon by PRL shareholders as such. We recommend PRL shareholders seek their own professional advice in respect of the disposal of their PRL shares under the Offer.

This letter does not consider the Australian income tax consequences for PRL shareholders who:

- hold their PRL shares as trading stock or as revenue assets; or
- hold their PRL shares as part of a profit making undertaking or plan.

This advice reflects the taxation laws in effect in Australia as at the date of this letter. It does not take into account any changes in taxation law, pending or anticipated, nor does it consider the taxation laws in any other country except Australia.

This letter is confined to income tax issues which are only one of the many matters that investors need to consider when making a decision about their investments. PRL shareholders should consider obtaining advice from an Australian Financial Services Licence ("AFSL") advisor before making a decision about their investments.

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Income Tax Considerations – Australian Resident Taxpayers

Acceptance of the Offer will result in the disposal by PRL shareholders of their PRL shares to CII. This disposal will give rise to an Australian Capital Gains Tax ("CGT") event for PRL shareholders that are Australian residents for income tax purposes. The CGT event will generally occur at the time PRL shareholders accept the Offer to transfer their PRL shares to CII.

Australian PRL shareholders will make a capital gain if the capital proceeds received are greater than the cost base or indexed cost base of their PRL shares. A capital loss will be made if the reduced cost base of the PRL shares exceeds the capital proceeds received.

The capital proceeds received by each PRL shareholder on the disposal of their PRL shares will be the value of CII shares issued to the PRL shareholder as at the date the Offer is accepted.

The cost base of the PRL shares in the hands of each PRL shareholder will generally be the original amount paid to acquire those PRL shares, plus any incidental costs incurred in respect of acquiring or disposing of the shares.

The reduced cost base of the PRL shares is the cost base exclusive of any indexation and exclusive of any non-deductible costs relating to ownership of the asset.

Cost base indexation is discussed in more detail below.

Indexation Method

PRL shareholders who acquired (or are deemed to have acquired) their PRL shares on or after 20 September 1985 and before 21 September 1999, can index the cost base of their PRL shares based on the CPI movement from the date of acquisition to 30 September 1999. The capital gain is then calculated as the difference between the capital proceeds received and the indexed cost base of the PRL shares.

Where PRL shareholders acquired (or are deemed to have acquired) their PRL shares on or after 21 September 1999, they are unable to apply indexation to the cost base of their PRL shares. Furthermore, PRL shareholders who elect to use the General CGT Discount method to calculate their capital gain are not able to also apply indexation to the cost base of their shares.

Shareholders are generally required to have held their shares for 12 months or more in order to be eligible to utilise the indexation method to determine their capital gain or loss.

General CGT Discount Method

The General CGT Discount will be available to PRL shareholders who are individuals, trusts or complying superannuation funds, and have held their PRL shares for more than 12 months prior to accepting the Offer.

Eligible individuals and trusts are able to reduce their capital gain (after application of any current year or prior year capital losses) by 50%. Complying superannuation funds are able to reduce their capital gain (after application of any current year or prior year capital losses) by 33 and 1/3rd%.

PRL shareholders that are companies are not entitled to access the General CGT discount.

Capital Losses

Should the reduced cost base of a PRL shareholder's PRL shares exceed the capital proceeds received as a result of accepting the Offer, they will make a capital loss. The capital loss can only be used by the PRL shareholder against current year or future year capital gains.

Specific loss recoupment rules apply to trusts and companies and PRL shareholders that are trusts or companies that realise a capital loss on sale of their PRL shares should seek specific taxation advice when they seek to recoup the loss.

Scrip-for-Scrip Rollover

If the Offer is accepted, PRL shareholders will be receiving CII shares in exchange for their PRL shares, and deferral of an otherwise taxable capital gain may be available under the scrip-for-scrip rollover provisions in Subdivision 124-M of the *Income Tax Assessment Act 1997*.

The basic requirements for rollover relief to be available for PRL shareholders are as follows:

- PRL shareholders exchange their PRL shares for CII shares under a single arrangement (being the off-market takeover by CII);
- The PRL shareholder would realise a capital gain if they do not elect for rollover relief to apply;
- The PRL shareholder elects to apply rollover relief to the capital gain;
- CII ultimately acquires at least 80% of the issued capital of PRL.

CII's existing shareholding in PRL will be taken into account in determining whether the 80% condition is satisfied. If CII does not ultimately acquire 80% of PRL, rollover relief will not be available for PRL shareholders who do accept the Offer.

Subject to satisfying the requirements of Subdivision 124-M, Australian resident PRL shareholders that make a capital gain on accepting the offer may elect for the gain to be rolled over. Election to use rollover relief can be made by the PRL shareholder at the time they lodge their return. A written election is not required, the election to use rollover relief will be evidenced by the way in which the PRL shareholder completes their income tax return.

Where rollover relief is chosen by a PRL shareholder, their cost base for the CII shares received under the Offer will be the same as the cost base of the PRL shares they have disposed of under the Offer.

As PRL shareholders will be receiving 40.3 CII shares for each PRL share under the Offer, PRL shareholders that elect for rollover relief to apply will have to apportion the cost base of each PRL share across the greater number of CII shares received.

If a PRL shareholder makes a capital gain on sale of their PRL shares, and they do not elect for rollover relief to apply to the gain, they will be required to calculate their capital gain in the manner outlined above, and will need to include the net capital gain in their assessable income for the year.

Income Tax Consequences – Non-resident PRL Shareholders

Any capital gain or loss made as a result of accepting the Offer by PRL shareholders who are not Australian residents for income tax purposes and hold less than a 10% interest in PRL will be disregarded for Australian income tax purposes.

Should any single PRL shareholder that is not an Australian resident hold more than 10% of the issued capital of PRL, we recommend that they obtain specialist taxation advice in respect of the Australian tax consequences of accepting the Offer.

Transfer Duty and Landholder Duty

No transfer duty or landholder duty should be payable by PRL shareholders on the disposal of their PRL shares or acquisition of CII shares pursuant to the Offer.

Goods & Services Tax ("GST")

PRL shareholders that are not registered, and are not required to be registered for GST will not have to pay GST on the disposal of their shares pursuant to the Offer.

PRL shareholders that are registered for GST are also not required to pay GST on the disposal of their shares pursuant to the Offer on the basis that shares are an input taxed financial supply for GST purposes.

PRL shareholders may be required to pay GST in respect of costs that relate to their participation in the Offer, including but not limited to advisor fees and legal fees. Generally GST input tax credits cannot be claimed on acquisitions relating to the making of financial supplies, however some GST registered PRL shareholders may still be entitled to claim a full or partial input tax credit on these costs depending on the PRL shareholders individual circumstances.

We recommend affected PRL shareholders seek independent GST advice in this regard.

Please do not hesitate to contact me if you have any queries in respect of the above.

Yours sincerely



RAMI BRASS
Director