



19 December, 2008

Dear Investor

I am pleased to report that, despite difficult market conditions, Cape Alumina Limited's Initial Public offering (IPO) has been extremely well supported and has at this point achieved the minimum subscription of \$15 million. At this time the IPO has also attracted over 400 investors which satisfies the condition regarding the minimum number of shareholders required to list a company on the Australian Securities Exchange.

However, before closing the IPO we wish to disclose recent information which may be material to your investment decision.

A Supplementary Prospectus which was lodged with ASIC on 19 December, 2008 accompanies this letter. You should carefully consider the information and options available to you regarding your investment in Cape Alumina that are detailed in the Supplementary Prospectus.

On 10 December, 2008 the Queensland Department of Natural Resources and Water (QNRW) announced a proposal to declare the Wenlock Basin a Wild River Area for protection under the Queensland Wild Rivers Act (the Proposal). QNRW also published information on the Proposal for the purposes of community consultation.

The likely nomination of the Wenlock River area as a Wild River Area and the possibility that this may have an impact on the Pisolite Hills bauxite project were addressed in the recently issued prospectus for Cape Alumina's IPO.

The proposed Wenlock Basin Wild River Area encompasses the Wenlock River, which flows through the Weipa Bauxite Plateau on Western Cape York to the Gulf of Carpentaria, 13 major tributaries and other features of environmental significance.

While the Wenlock River lies outside Cape Alumina's exploration tenements, several of its tributaries and other features of potential environmental significance lie within or close to certain of the Company's tenements. However, these tributaries and other features are still some distance from the areas proposed for mining by the Company for its Pisolite Hills bauxite project.

In nominating the Wenlock Basin for declaration as a Wild River Area, the QNRW delineated, for the purpose of community consultation, a high preservation area which surrounds the Wenlock River, its 13 major tributaries and other features of potential environmental significance, and overlaps a portion of the Company's tenements. A high preservation area serves as a buffer zone within which certain activities, including mining, may not be carried out.

The Proposal process provides for consultation with interested parties, including Cape Alumina, prior to the determination of whether or not to declare the affected area a Wild River Area. A number of factors affecting the proposed Wild River Area,

including its boundaries and the extent of high preservation areas, will be determined as an outcome of the consultation process.

Accordingly, if the Wenlock Basin is declared a Wild River Area and it contains high preservation areas overlapping a material portion of the Company's known resource, the declaration may have a material impact on the viability of the Pisolite Hills bauxite project.

For this reason, the Directors of Cape Alumina Limited believe it prudent to provide subscribers to the Cape Alumina IPO with an opportunity to review the additional information provided by the Company in the Supplementary Prospectus and to withdraw their subscription prior to closure of the Offer if they so decide.

In considering whether or not to withdraw their subscription, the Company believes investors should be mindful of the following information.

- 1. The minimum subscription amount of \$15 million under Cape Alumina's IPO has been reached. The major investors in the IPO (Metallica, Xinfra, Resource Capital Funds and Run Bo) have reaffirmed their commitment to subscribe for Shares under the IPO and/or are legally required to subscribe to the IPO.**
- 2. With over 400 investors committed at this point, the IPO has satisfied the condition regarding the minimum number of shareholders required to list a company on the Australian Securities Exchange.**
- 3. The determination of the extent of the high preservation area will be made by the Minister for Natural Resources and Water after a period of community consultation which ends on 29 May, 2009. Cape Alumina will be involved in the consultation process.**
- 4. Cape Alumina's submissions to the consultation process will be based on the most detailed scientific information available, and are expected to support the delineation of a high preservation area which will protect environmentally sensitive areas and not have a material adverse impact on the viability of the Company's proposed mining activities.**
- 5. The Cape York Land Council has signalled that it will oppose the declaration by the Queensland State Government of the Wenlock Basin under the Wild Rivers legislation on the grounds that the rights of Indigenous people were being undermined by too much land being "locked up" and restricting future economic growth.**

The closing date of the IPO has been extended to 5pm (Brisbane time) on 19 January, 2009 so that any investor wishing to withdraw their subscription may do so in the manner set forth in the Supplementary Prospectus.

New investors wishing to subscribe for shares under the IPO may do so provided they use the Supplementary Application Form which accompanies the Supplementary Prospectus.

Cape Alumina has always recognised its environmental obligations and is progressing its environmental impact study of the Pisolite Hills bauxite project area, including the nearby parts of the Wenlock river system. The environmental studies, which will be the most comprehensive evaluation ever undertaken of the Pisolite Hills project area, are scheduled for completion in the second half of 2009 at a cost of approximately \$3 million.

In addition to its environmental studies, the Company is presently progressing the negotiation of an Indigenous Land Use Agreement with the Traditional Land Owners in the project area and intends to commence a bankable feasibility study for the project in early 2009.

Cape Alumina expects production of bauxite for export from the Pisolite Hills project to commence in 2012/13, subject to completion of a positive bankable feasibility study, including an Environmental Impact Statement which supports development, and construction commencing in 2010.

If developed, Cape Alumina's Pisolite Hills project will be a significant contributor to Australia's export income. The project will provide up to 350 jobs, many of them to the Traditional Land Owners, in an area that is severely disadvantaged by lack of employment and skills development opportunities. It will also contribute hundreds of millions of dollars by way of royalties and taxes to the Queensland and Federal governments as well as to Traditional Land Owners.

Should you wish to discuss this letter, or have any query in relation to Cape Alumina generally, please contact Paul Messenger, the Chief Executive Officer on (07) 3229 3644 or 0400 065 547, or John Haley, the Chief Financial Officer and Company Secretary of Cape Alumina Limited on (07) 3229 3644 or 0414 018 831. If you are unable to contact Paul or John, please contact me on (07) 3891 9611.

Thank you in anticipation of your continuing support,



George Lloyd
Chairman- Elect
Cape Alumina Limited