

11 June 2010

Dear Shareholder

Queensland Government's Wenlock River Basin Wild Rivers Declaration

On Friday 4 June, the Hon Stephen Robertson MP, Queensland's Minister for Natural Resources, Mines and Energy and Minister for Trade, declared the Wenlock River Basin a wild river area under the State's Wild Rivers legislation. This decision has had a serious impact on the mineral resources available to Cape Alumina's Pisolite Hills bauxite deposit and has rendered uneconomic the Company's proposed 7 million tonne per year bauxite mine and port project. In response, Cape Alumina released a statement to the Australian Securities Exchange (ASX). This is enclosed for your information.

Cape Alumina is now reviewing the future direction of the business including the grounds for a legal challenge to the Government's decision, a case for compensation for the value that has been destroyed by the Government's actions and options for resurrecting the project as originally planned. Shareholders will be advised as the review progresses.

The Queensland Government's decision has been made despite the scientific evidence that the Pisolite Hills bauxite mine and port project should proceed and that the environmental values of the Wenlock River Basin would be preserved.

The most damaging aspect of the Queensland Government's decision is the establishment of an arbitrary 500 metre wide buffer zone (known as a High Preservation Area) around minor tributaries and small springs in the vicinity of Pisolite Hills. Mining and many other activities are prohibited within this buffer zone. A 500 metre wide buffer zone substantially reduces the resources available to the project and is likely to prevent the development of a mine of sufficient scale and life to be economic.

The decision to establish a 500 metre wide buffer zone was taken in spite of the Minister's repeated public statements that the decision would be made on the basis of sound scientific advice. The Minister's decision ignores both scientific evidence and accepted scientific guidelines which demonstrate that 200 metre wide buffer zones would allow the Pisolite Hills project to proceed and would ensure protection of the environmental values of the Wenlock River Basin - including the minor tributaries and springs. The decision is contrary to the advice from the Minister's own Department that 300 metre wide buffer zones would provide the necessary environmental protection.

The Minister's decision was also contrary to the advice from the independent expert engaged by the Minister's own Department to advise on the proposed buffer zones. The Queensland Government's independent expert stated that "*the data to hand ... is largely supportive of the hydro-geological scheme proposed by [Cape Alumina].*" He stated that it "*appears on the basis of the data to hand that bauxite mining as proposed [by Cape Alumina] will have relatively little impact on the groundwater hydrology of the springs. There appears to be no clear justification of the magnitude of the HPA setbacks.*" The Government's independent expert also stated that the springs near our Pisolite Hills project are "*not unique*" – there are literally hundreds of them on the western Cape. That is not to say, however, that they would not have been protected under our environmental and operational plans – we would have protected these springs.

Furthermore, it is worth remembering that Cape Alumina had no plans to mine any wetlands, rivers, springs or areas of high conservation value and the Wenlock River would be fully protected under our operational and environmental management plans. In fact, our operations would have been between 2.8km and 15km away from the Wenlock River and well away from any major tributaries, and the elevated, dry Stringybark country earmarked for shallow mining would have been fully rehabilitated progressively throughout the life of the operation.

It is clear, therefore, that the decision to establish an arbitrary 500 metre wide buffer zone appears to have been taken with the complete disregard to the development of the Pisolite Hills project. Put another way, the decision has been taken on purely political grounds and with no consideration for the future economic wealth of Queensland, the welfare of the Aboriginal people of Mapoon and Traditional Land Owners, or the implications for sovereign risk.


The impacts of preventing development of the Pisolite Hills bauxite project include:

- a project that would contribute approximately \$1.2 billion to GDP will not proceed;
- the investment of approximately \$400 million in far North Queensland project development will not proceed;
- a project that would create hundreds of direct jobs, including many for indigenous members of local western Cape York communities, and a total employment impetus of 1,700 people will not proceed;
- a project that provided members of one of the most disadvantaged indigenous communities in Queensland with opportunities for employment, training, development of sustainable businesses and hope for the future will not proceed; and
- a project that is estimated, over the life of mine, to contribute hundreds of millions of dollars to the people of Queensland by way of, wages, services, supplies and mineral royalties, including royalties to the Aboriginal Traditional Owners, will not proceed.

Cape Alumina has invested approximately \$22 million to date in preparing the Pisolite Hills project for development. This amount includes carrying out the most comprehensive environmental studies ever conducted in this area of western Cape York. The project was the basis for the Company's listing on the ASX in January 2009 and the raising of \$15 million from shareholders at that time. The Company currently has approximately \$4.5 million in cash resources.

We deeply regret the actions of the Queensland Government that have rendered the Pisolite Hills project as it presently stands uneconomic and, in turn, removed any future economic benefit that shareholders would have derived from this project. The Cape Alumina Board is of the view that it has done more than what would reasonably be expected of it in making submissions, responding to the concerns of the Government and generally in the Wild Rivers consultation process and feels justified in exploring any avenues available to it to have this decision reviewed and, if possible, over turned. We will continue to use our best efforts to restore value for shareholders.

Yours sincerely

A handwritten signature in black ink, appearing to read "George Lloyd".

George Lloyd
Chairman
On behalf of the Board of Directors
Cape Alumina Limited

Friday, 4 June 2010

Queensland Government decision jeopardizes development of the Pisolite Hills bauxite project

- **The Queensland Government's declaration of the Wenlock River Basin as a wild river area fails to recognize the body of science demonstrating that responsible resource development on western Cape York can proceed and environmental values can be preserved**
- **The Pisolite Hills bauxite mine and port project's economic viability will now be carefully reviewed and avenues for administrative appeal and compensation explored**
- **The forecast \$1.2 billion boost to GDP and the creation of 1,700 jobs are now at significant risk**
- **Work on the Environmental Impact Statement (EIS), Bankable Feasibility Study (BFS) and Indigenous Land Use Agreement (ILUA) with the Traditional Owners of the project area have all been put on hold pending completion of the review**
- **The declaration jeopardises a project designed to deliver significant regional, social and economic benefits while ensuring environmental protection of the Wenlock River**

Cape Alumina Limited (ASX Code: CBX) has today placed its Pisolite Hills bauxite mine and port project in western Cape York under review as a result of the Queensland Government's declaration of the Wenlock River Basin as a wild river area under the state's Wild Rivers legislation.

Managing Director Dr Paul Messenger said the economic viability of the project had been materially impacted by the declaration, specifically by the size of the High Preservation Area (HPA) surrounding the so-called Coolibah Springs Complex.

"Our Pisolite Hills mine and port project, as it presently stands, is no longer viable – the Queensland Government's declaration of the Wenlock River Basin as a wild river area may have rendered this project uneconomic," Dr Messenger said.

"The Company is now reviewing all of its operations in western Cape York and will explore all avenues for appeal and appropriate compensation as a result of this decision.

"Our environmental studies show that a 200 metre buffer around the Coolibah Springs Complex would protect the natural environmental values of the springs.

"However, the Queensland Government's declaration flies in the face of scientific evidence by setting the buffer zone at an arbitrary 500 metres and sterilizing almost 30 per cent of the bauxite reserves in the area.

"We now need to review the project based on the reduced available resource and, therefore, the shortened life of the mine before we can proceed any further.

“We believe that the Queensland Government has ignored science and as a result they have failed to adequately balance the protection of the environment with the need for economic development of the Far North Queensland region just to satisfy a vocal minority,” he said.

Cape Alumina recently released the findings of an Economic Impact Assessment that showed the Pisolite Hills would boost economic activity by \$1.2 billion, in Net Present Value (NPV) terms, and create or sustain more than 1,700 jobs over the mine’s 15-year life.

The boost to the Far North Queensland economy alone included more than \$600 million in NPV terms and 1,300 jobs.

Dr Messenger said the Company would be seeking further meetings with the Queensland Government for an explanation of the decision and would also be exploring avenues for appeal and appropriate compensation.

“In the meantime we will stop all work on the project’s EIS pending the outcome of the review,” he said.

The Queensland Government’s proposal to declare the Wenlock River and its tributaries as a wild river area under the state’s Wild Rivers legislation and its potential to materially impact the Pisolite Hills project was an investment risk addressed in the Company’s supplementary prospectus dated 19 December 2008.

The Company has subsequently consulted with the Queensland Government at length on its proposal to declare the Wenlock River a wild river area and the potential impact that any declaration would have on the Company’s Pisolite Hills project.

Cape Alumina had planned to complete the EIS by the middle of this year and to be in a position to commence construction in 2012, subject to the outcome of the BFS and receipt of all regulatory approvals.

In addition to undertaking a review of the viability of the Pisolite Hills project, Cape Alumina will now bring forward assessment of a number of additional exploration targets that fit within the 2,100 km² of exploration permits held by the Company.

About Cape Alumina and its Pisolite Hills project

Cape Alumina is a Brisbane-based, Cape York-focused emerging bauxite company. Cape Alumina has international support from Chinese alumina majors including Xinha, one of China’s largest aluminium and alumina producers.

The Pisolite Hills bauxite project is centred on an elevated open, dry bauxite plateau approximately 50km northeast of Weipa in Cape York, Queensland. The Pisolite Hills resource base is approximately 132* million tonnes (Mt) of in situ bauxite. Continuing exploration of the company’s surrounding tenements is expected to increase resources.

Competent Person Statement

The information in this report related to Exploration Results is based upon data compiled and supplied by Mr John Cameron from Cape Alumina Ltd. The information in this report related to Mineral Resources was compiled by Snowden Mining Industry Consultants Pty Ltd (Snowden), and is based upon and accurately reflects data compiled by Mr Cameron. The reported Mineral Resource has been reviewed by Mr Justin Watson whom at the time of reviewing was employed fulltime by Snowden. Messer's Cameron and Watson are Members of the Australasian Institute of Mining and Metallurgy and have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they have undertaken to qualify as a Competent Persons as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Messer's Cameron and Watson consent in writing to the inclusion in the matters based on the information and context in which it appears.

*132.4 Mt in-situ to yield 87.3 Mt (20.1 Mt Measured + 37.9 Mt Indicated + 29.3 Mt Inferred) at an average grade of 53.1% Al₂O₃ (41.5% Trihydrate Available Alumina + 7.5% reactive SiO₂), at a minimum mining thickness of 0.5 m.

For further information please contact:

Shareholders

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Media

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