

## **Ausmet Resources Limited**

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Company Announcements Office  
Australian Stock Exchange Limited  
Level 4, 20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

### **PROPOSED ACQUISITION OF BOUNTY INDUSTRIES AUSTRALIA PTY LTD**

Ausmet Resources Ltd has signed a Heads of Agreement to acquire Bounty Industries Australia Pty Ltd, a privately owned NSW based contract coal mining equipment manufacturer, supplier and mining company.

The deal offers Ausmet shareholders exposure to a Company with a number of long term coal mining contracts and the upside potential to significantly expand its existing business activities through the introduction of thin seam coal mining technology into Australia.

On the basis of existing contracts, Bounty has forecast annual consolidated revenues to grow to in excess of \$70 million over the next 2½ years and is budgeting for a net profit after tax of in excess of \$6 million for the 2005/2006 financial year.

The mining of thin seams, which are typically high grade coking coal seams, is expected to assume increasing importance within the Australian coal industry as thicker coal seams deteriorate in quality. Thin seam mining currently accounts for around 120 million tonnes per annum of coal production within the United States.

Ausmet shareholders will benefit from the growing demand for coking coal without the direct risk or exposure to mine ownership or management.

The acquisition is subject to a number of conditions, including Ausmet shareholder approval. As part of this transaction, Ausmet will undertake a de-merger of its existing mining assets into a new unlisted company. Existing Ausmet shareholders will own 75% of this new company and the merged Ausmet/Bounty will own 25%.

## **Overview**

### **Proposed Acquisition**

Ausmet Resources Limited (Ausmet) has signed a Heads of Agreement with Bounty Industries Australia Pty Ltd (ACN 104 530 887) ("Bounty"). The Heads of Agreement provides for Ausmet to acquire all of the issued capital of Bounty, a privately held contract coal mining equipment manufacturer, supplier and mining company based in New South Wales.

The acquisition is subject to a number of conditions precedent including due diligence to the satisfaction of the Ausmet and Bounty Boards, the approval of Ausmet shareholders and all other necessary regulatory approvals, and the completion of certain related transactions.

### **Bounty**

Bounty commenced operations in mid 2003 and comprises three vertically integrated businesses –

- Bounty Materials Handling Pty Limited (100%) ("BMH"), a mechanical engineering business specialising in materials handling machinery particularly in the coal mining industry,
- Thin Seam Mining Services Pty Limited (100%) ("TSM Services"), a thin and thick seam coal mining equipment leasing company, and
- TSM Corporation Pty Limited (25% currently with the right to acquire up to 51% in 12 months time) (to be renamed In Coal Pty Limited "In Coal"), a specialised, thin and thick seam contract coal mining company.

Bounty, through In Coal, has recently entered into coal mining contracts with Centennial Coal at its Ivanhoe colliery near Lithgow, with Anglo Coal at its Capcoal owned German Creek colliery in the Bowen Basin, and with Gujarat NRE Australia Pty Limited, the recent purchaser of Bellpac No.1 Colliery, formerly known as the South Bulli colliery in North Wollongong.

The acquisition by Gujarat of Bellpac No.1 Colliery is due to settle on 4 December 2004, upon the consent to the transfer of the coal lease.

These contracts will underpin the Bounty's growth into 2006.

The revenue for Bounty's first full trading year was approximately \$2.1 million (with only BSM contributing for the full year and TSM Services contributing for the last quarter from 1 April 2004).

By reason of the expected contribution from In Coal's three coal mining contracts and the intended acquisition of a controlling interest in In Coal, Bounty has forecast annual consolidated revenues to grow to in excess of \$70 million over the next 2.5 years, as these contracts reach near full production.

On the basis of these expected levels of revenue the Company is budgeting for a net profit after tax of in excess of \$6 million for the 2006 financial year with management forecasts showing substantial profit growth over subsequent years.

In addition to the existing contracts, In Coal is in discussion with another major coal producer on an exclusive basis to contract mine at one of its New South Wales collieries.

Bounty has recently exchanged contracts on the acquisition of additional mining equipment, which will increase its net tangible assets to around \$15 million. The acquisition is due to complete on 4 December 2004.

In addition to the existing and future mining contracts, Bounty plans to manufacture and introduce an innovative system of continuous haulage for the underground coal mining industry, into the Australian market.

This system is already in wide use overseas and it is anticipated that its introduction will have a significant positive impact on the coal production rates of continuous mining in underground Australian coal mines. .

Critical to the growth of Bounty will be the implementation of thin seam coal mining practices into Australian underground coal mines. These practices will be applied to both thin and thick coal seams in Australian collieries with a view to increasing the production output of mines utilising less capital intensive operations, lower risk, and versatile mining equipment and techniques.

Thin seam mining currently accounts for around 120 million tonnes per annum of coal production within the United States.

The mining of thin seams, which are typically high grade coking coal seams, is expected to assume increasing importance within the Australian coal industry as thicker coal seams deteriorate in quality.

Many coal mine owners are now developing strategies to blend lower quality, thick seam coal with higher quality thin seam coal to maintain the high coking quality of their coals.

### **Purchase Price**

The parties have agreed that the purchase consideration for the acquisition of Bounty and its subsidiaries will be satisfied by the issue of such number of shares in Ausmet to Bounty shareholders so that Bounty shareholders receive the equivalent of 70% of the undiluted issued share capital in Ausmet on the completion date, together with half that number of options.

Subject to any variations arising from the due diligence program, this will result in the issue of approximately 70 million shares and 35 million options in Ausmet to Bounty shareholders. The conditions attaching to the 35 million options to be issued

include that all will be unlisted and will have strike prices in four equal tranches of \$0.35, \$0.40, \$0.45 and \$0.50, with a three year life.

### **Pro Forma Capital Structure**

The anticipated pro forma capital structure of the Company is summarised as follows.

<b>Shares</b>	<b>Number</b>	<b>%</b>
Shares currently on issue	30,436,000	30.00
Approximate shares to be issued to Bounty	71,030,000	70.00
<b>Total shares on issue</b>	<b>101,466,000</b>	<b>100.00</b>
<b>Options</b>	<b>Number</b>	<b>%</b>
Options currently on issue		
(\$0.20 exercise – 31 December 2006)	15,218,000	30.00
Approximate options to be issued to Bounty		
(\$0.35 exercise – 31 December 2007)	8,753,750	17.26
(\$0.40 exercise – 31 December 2007)	8,753,750	17.26
(\$0.45 exercise – 31 December 2007)	8,753,750	17.26
(\$0.50 exercise – 31 December 2007)	8,753,750	17.26
Other options to be issued		
(\$0.20 exercise – 31 December 2006)	500,000	0.99
<b>Total options on issue</b>	<b>50,733,000</b>	<b>100.00</b>

### **Loan Advance**

To assist Bounty in advancing its work commitments during the transaction period Ausmet has agreed to advance to Bounty, on a fully secured basis, and under normal commercial terms, \$1,500,000.

This loan is repayable at call should the transaction not proceed.

### **Post Completion and Recomposition of the Board**

Subject to receiving the relevant approvals of Ausmet shareholders at a general meeting expected to be held in early January 2005, Ausmet intends to change its name to Bounty Industries Limited and recompose the Board to include at least two members of Bounty's existing board.

Mr Colin Knox, who is currently chairman of Bounty, will assume the role of Non-Executive Chairman.

Mr Mark Gray, who is currently an executive director of Bounty, will assume the role of Chief Executive within the new Company.

Up to two non-executive appointments will also be made around the acquisition completion date.

Howard Dawson, currently Chairman of Ausmet will remain with the Company as a non executive director.

Colin Knox has degrees in science, economics and management including a Master of Public Policy from Harvard University. Colin is based in New Zealand and has held chief executive roles with a number of large New Zealand based organisations.

Mark Gray, as an executive director of Bounty, is currently responsible for the overall control and management of Bounty. Mark is a corporate and banking lawyer and is a partner with the national law firm of Home Wilkinson Lowry, based in Sydney.

Mark has been the driving force behind the establishment of the Bounty group of businesses.

### **De-Merger of Mining Assets**

Contemporaneous with, and interdependent on the acquisition of Bounty, Ausmet will, subject to shareholder approval, undertake a de-merger of its existing mining assets into a new unlisted company (NewCo).

At the same time, Ausmet will enter into a convertible loan arrangement with the NewCo to advance \$1 million over an 18 month period.

In addition, Ausmet will undertake to provide underwriting support to the value of \$2 million for a proposed initial public offering of NewCo after this 18 month period.

The shareholdings in NewCo will be held by the existing Ausmet shareholders (75%) and Ausmet (in the form of the new Bounty) (25%).

These shareholdings assume the distribution in specie of the NewCo shares to eligible Ausmet shareholders (immediately prior to the Bounty acquisition) and once Ausmet has converted all debt to equity under the convertible loan arrangement.

The existing directors of Ausmet will comprise the majority of the board of the NewCo and it will be their intention to continue to actively explore the existing Ausmet projects as well as seek new resource based opportunities.

The effect of this de-merger will be to provide existing Ausmet shareholders with a continuing, funded exposure to the current Ausmet projects as well as new opportunities that may be sourced.

The distribution in specie of shares in NewCo will be on a pro-rata basis to Ausmet shareholders with an entitlement date still to be determined, but expected to be around the time of the Ausmet shareholders meeting.

### **Pro Forma Financial Position**

Set out on the following page is a pro forma statement of the financial position of Ausmet following completion of the acquisition of Bounty and the de-merger of

NewCo. This statement of financial position is subject to completion of the due diligence and review by an independent accountant.

	<b>30 June 2004</b>	<b>Transaction Date</b>
	\$	\$
<b>CURRENT ASSETS</b>		
Cash Assets	3,145,469	2,624,208
Receivables	81,391	1,755,761
Stock on Hand		260,500
Accrued Income		489,614
Investments		4
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<b>TOTAL CURRENT ASSETS</b>	<b>3,226,860</b>	<b>5,651,512</b>
<b>NON CURRENT ASSETS</b>		
Property, Plant & Equipment	2,669	19,792,008
Motor Vehicles		111,033
Office Furniture & Equipment		50,080
Investments		1,002,742
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<b>TOTAL NON CURRENT ASSETS</b>	<b>2,669</b>	<b>19,953,120</b>
<b>TOTAL ASSETS</b>	<b>3,229,529</b>	<b>26,607,374</b>
<b>CURRENT LIABILITIES</b>		
Creditors	21,365	865,941
Provisions		270,000
Taxes Payable		(69,617)
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<b>TOTAL CURRENT LIABILITIES</b>	<b>21,365</b>	<b>1,066,323</b>
<b>NON CURRENT LIABILITIES</b>		
Hire Purchase		84,873
Newco Funding		500,000
Subordinated Notes		1,744,736
Borrowings		5,988,257
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<b>TOTAL NON CURRENT LIABILITIES</b>		<b>8,317,866</b>
<b>TOTAL LIABILITIES</b>	<b>21,365</b>	<b>9,384,189</b>
<b>NET ASSETS</b>	<b>3,208,164</b>	<b>17,223,185</b>
<b>EQUITY</b>		
Contributed Equity	3,902,537	5,231,915
Preference Shares		500,000
Capital Redemption Reserve		(2,313,912)
Asset Revaluation Reserve		15,553,908
Accumulated Losses	(694,373)	(1,748,726)
<b>TOTAL EQUITY</b>	<b>3,208,164</b>	<b>17,223,185</b>

## **Timetable**

It is anticipated that due diligence will be completed by early December and a notice of general meeting and information memorandum completed and distributed to shareholders soon after.

It is expected that the acquisition of Bounty and associated de-merger will be put to Ausmet shareholders for approval in early January 2005.

The following is an indicative timetable only.

Announce transaction to ASX	10 November 2004
Complete Due Diligence	6 December 2004
Despatch of Notice of Meeting and Information Memorandum	10 December 2004
Seek suspension of Ausmet shares	7 January 2005
Ausmet Shareholders Meeting	10 January 2005
Seek re-instatement to trading	18 January 2005

## **Summary**

On completion of the transaction Ausmet shareholders will hold a 30% equity in a coal mining equipment manufacturer, supplier and miner with high potential to grow revenues and profitability over the next few years.

The Bounty group has a highly experienced and motivated management team and employees and will provide to Ausmet shareholders a continuing exposure to the upside benefits available within the resource sector.

This transaction will also allow Ausmet shareholders to benefit from the demand for commodities such as coking coal without having the direct risk or exposure to mine ownership and management.

The potential for thin seam mining to become an important part of the Australian coal industry over the next few years provides significant added upside potential to Ausmet shareholders through this transaction.

At the same time, the transaction provides an innovative opportunity for Ausmet shareholders to retain exposure to mineral exploration and other opportunities in the resource sector, through the proposed de-merger of Ausmet's mining assets.

It is anticipated that full information in relation to the acquisition of Bounty and the de-merger of NewCo will be provided to shareholders in around four weeks.

