

Chairman's Address

Ausmet Annual General Meeting 11 November 2004

Thankyou for your attendance this morning – your Board of Directors appreciates your support and interest in the progress of your Company.

This is an unusual situation I find myself in because, as well as this being my inaugural Chairman's address for the Annual General Meeting, if our proposed acquisition of Bounty is approved by shareholders at the general meeting in early January, it will also be my last.

So this is likely my last opportunity to put a few words into posterity, so I can hardly pass up that chance!

Ausmet was listed in late April and the subsequent 6 months of public life have been a busy one for your Company.

In our prospectus we made it clear that we were going to actively explore both our existing projects but also seek new opportunities within the resource sector. I think it is fair to say that all your Directors took the view that you only create wealth through activity and you need to take some calculated risks on the way.

Since listing we therefore got stuck into our existing projects completing major technical reviews over both Dingo Range and Batchelor, conducting two drill campaigns at Dingo Range, completed a significant sampling programme at Batchelor with follow up drilling to commence shortly – it has unfortunately been delayed over the past few weeks by the drillers other commitments, and carried out a large number of project reviews, both inside the office as well as in the field.

At the same time we have actively reviewed a number of near term mining opportunities and indeed made a number of bids for projects which we thought had the potential to turn Ausmet into a significant miner.

Unfortunately, prices are pretty high at the moment in the resources sector and our bids, which we considered very commercial, were nevertheless not successful.

A few months ago we got to know the Bounty people as a result of their involvement with a coal mine we were bidding on in NSW. Although we finished second to the successful bidder we chose to keep in contact with Bounty to learn more about their business.

As a result of this we gained an appreciation of their business model which effectively is an integrated mining services, equipment supplier and

contractor. Importantly they have a strong exposure to the coal mining sector and the upside that higher prices can bring through increasing coal demand but without the exposure to the risk that operating a colliery, can bring.

Looking at the outlook for coking coal made us think that it was a good business to be in.

Now, some shareholders taking an initial look at the proposed transaction may say that we have negotiated to give away 70% and control of our Company for a business which has only been going 18 months and is still to develop a track record of big earnings

So has Bounty benefited from an exceedingly generous Ausmet Board?

Well, the simple answer is no. Any analysis will show unequivocally that the transaction is a very good one for Ausmet shareholders, and those shareholders and investors alike who take the time to analyse it, could do very well over the medium and longer term.

The key to Bounty is the integrated business model and the value adding that they can provide to their future earnings through the new equipment and mining techniques they plan to introduce.

Bounty's plan to introduce thin seam mining into Australia for example, has enormous potential benefits.

As you may be aware, Australia is blessed with plentiful high grade coking coal but these resources are being rapidly depleted. Historically anything under about 1.5 metres in seam thickness has been assigned to the non economic category because we do not have the equipment or expertise to mine it in Australia. And you can understand why not we when we had plenty of the other thicker seam product.

But mining companies want to extract the maximum value from their operations and with reserves depleting, demand high, and with the thinner seams often having a higher coking coal quality, it makes sense for mine owners to extract these seams whilst all the infrastructure is in place.

This is where the Thin Seam Mining technology comes in. Bounty have an experienced US team of miners who have been in Australia a number of years now building up their knowledge of Australian mining conditions and the mines where they could add value. And I want to emphasise that this is not new technology – for example over 120 million tonnes of thin seam coal are mined in the United States on an annual basis.

Coupled with this upside opportunity as well as the upside leverage available through conventional mining contracts to Bounty, their business plan in our opinion looks to have very strong credentials.

Although Ausmet will only own 25% of the actual contracting mining division we have negotiated a call option to move to 51% within 12 months and potentially full ownership within 2 years. This deal gave us a cheaper initial entry into the group as well reducing the operational risk to a certain degree in the early stages.

Bounty already has 2 mining contracts in place with another to be ratified on 4 December. At the same time they are in negotiation with another large group on an exclusive basis which could see additional contracts signed in the new year.

Bounty is confident that the existing contracts alone will deliver strong earnings growth with around \$6 million on after tax profitability budgeted for the next financial year.

By having the workshop, equipment manufacturing capability, equipment ownership and an exclusive arrangement with the 25% owned In Coal Bounty has the ability to become a significant player in the contract coal mining sector within Australia.

So as you can see the transaction delivers to Ausmet shareholders an exposure to a group which could have very significant earnings growth over the next few years.

But at the same time we have bought into hard assets and experience.

The pro-forma balance sheet for example shows a net asset backing of around \$17 million for the merged group, and that is an asset position backed by hard assets such as mining equipment. That \$17 million works out as an NTA per Ausmet share of some \$0.17, compared to our current NTA of around \$0.10.

I should also mention the experience.

If we just consider the 6 most senior people within the Bounty group as an example their experience in engineering and mining totals 135 years, which, in putting a measure of reliability on people, is a pretty impressive number.

At the same time the owners of Bounty are very much backing their business in this transaction. As you may have observed, the options which they are receiving as part of the consideration have exercise prices starting well above current market, with the first tranche exercisable at \$0.35 and the last at \$0.50. So I think that identifies a real confidence within their group that the business will work well.

And going forward let's not forget that Ausmet shareholders keep an exposure to their existing projects through the de-merger, contemplated as part of the transaction. This means that all shareholders at or around the transaction date will have a pro-rata entitlement to ongoing exploration within the resource sector and potentially a new IPO in the next few years.

In summary, the Ausmet Board felt that this transaction fitted all our corporate aspirations.

We believe it provides Ausmet shareholders with a continuing exposure to the resources sector, gives them the benefits of a much larger balance sheet backed by hard assets, provides significant upside to the share valuation should the business perform as budgeted, and gives leverage to a new mining technique within the Australian coal mining scene.

In closing, thank you for your continued support of Ausmet Resources. I would also like to acknowledge the efforts of my fellow Board members, Mal Smartt and Peter Strachan. Since listing, they have embraced the ideals of what Ausmet wanted to achieve and their contribution has been to the benefit of all shareholders.

I look forward to an exciting twelve months!

Thank you.