

**AUSMET RESOURCES LIMITED**  
**ABN 19 107 411 067**

**INFORMATION MEMORANDUM –  
NOTICE OF GENERAL MEETING,  
EXPLANATORY STATEMENT AND  
PROXY FORM**

*This information memorandum is an important document and requires your immediate attention. Please read it carefully. If you are in doubt as to what you should do, please consult your investment or other professional adviser.*

**For a General Meeting to be held on  
Monday, 7 March 2005 at 10am (Perth Time) at  
Level 1, 89 St George's Terrace, Perth, Western Australia**

## INFORMATION MEMORANDUM CONTENTS PAGE

	<b>PAGE</b>
Letter to Shareholders	4
Indicative Timetable	10
Notice of General Meeting (setting out the proposed resolutions)	12
Explanatory Statement (explaining the proposed resolutions)	20
Glossary	52
Schedule 1: Bounty Shareholders	54
Schedule 2: Bounty Noteholders	55
Schedule 3: Voting Power of Bounty Shareholders	56
Schedule 4: Pro-forma Statement of Financial Position	57
Schedule 5: Pro-forma Capital Statement	59
Schedule 6: Terms and Conditions of Employee Option Scheme	60
Schedule 7: Independent Experts Report	68
Proxy Form	Rear of Report

## **IMPORTANT INFORMATION**

### **Role of ASX**

A copy of this Memorandum has been lodged with ASX. ASX nor any of its officers take any responsibility for the contents of the Memorandum.

### **Future Statements**

Certain statements in this Memorandum relate to the future. Those statements involve known and unknown risks, uncertainties, assumptions and other important factors, both specific to the Company and Bounty Industries Australia Pty Ltd and relating to the general business environment. Actual performance, results or events may be materially different to those expressed or implied in those statements. Such risks, uncertainties, assumptions and other important factors include, among other things, general economic conditions, investor sentiment towards the coal mining sector, competitive pressures and changes in those factors. Please see section 1.8 in the Explanatory Statement for a summary of some of the risk factors.

Statements in the Memorandum are made as at 20 January 2005.

### **Defined terms**

Certain capitalised terms used in the Memorandum are defined in the Glossary at the end of the Memorandum.

### **Enquiries**

Shareholders are invited to contact the Chairman of Ausmet Resources Limited, Howard Dawson on (08) 9322 4855 if they have any queries in respect of the matters set out in this Memorandum.

## LETTER TO SHAREHOLDERS

Dear Shareholder

On 10 November 2004 the Directors of Ausmet Resources Limited (Ausmet or Company) announced that the Company had reached agreement to merge with Bounty Industries Australia Pty Ltd (Bounty), subject to the satisfactory completion of due diligence and all relevant ASX, regulatory and Shareholder approvals being received.

The proposed Merger will result in Ausmet acquiring all of the shares in Bounty in return for issuing the shareholders of Bounty with Ausmet shares and options (**Merger**).

Enclosed you will find a Notice of Meeting and Proxy Form, together with an Explanatory Statement, dealing with all the resolutions that the Directors are asking you to consider ahead of the General Meeting of Shareholders at which those resolutions will be put to you.

This meeting is scheduled to be held on Monday, 7 March 2005.

The purpose of the General Meeting is to obtain all Shareholder approvals necessary to implement the Merger as well as to seek approval to raise funds to advance the Company's new business.

Ausmet listed on the Official List of Australian Stock Exchange Limited on 30 April 2004 with its principal business the exploration of mining properties located within Western Australia and the Northern Territory. Within the prospectus lodged with ASIC and ASX pursuant to this listing, your Directors indicated that the Company would also actively seek new resource projects and generally seek to create shareholder wealth.

In the period since your Company listed on ASX, Ausmet has actively explored its two most advanced projects, Dingo Range and Batchelor, as well as carrying out reviews of many other exploration and advanced mining opportunities.

In October 2004 your Company was introduced to the principals of Bounty as a result of Ausmet reviewing the possible purchase of a coal mine in New South Wales. Your Company was ultimately unsuccessful in the bidding process for this asset, but maintained contact with Bounty, and learnt more about that company's business model.

Bounty is an integrated coal equipment manufacturer, supplier and mining contractor with head office in Sydney and main workshop at Gateshead in Newcastle, New South Wales.

The company already owns a number of underground mining units and ancillary equipment and plans to increase this fleet to a size which will allow both existing and potential new mining agreements and contracts to be worked with greater efficiency, and at expanded rates.

Negotiations regarding the Merger opportunity commenced in early November 2004 and, following a due diligence process, your Board resolved on 23 December 2004 to proceed with the Merger, subject to obtaining all necessary ASX, regulatory and Shareholder approvals.

Should the Merger be approved, the development of Bounty's business activities will become the main focus of Ausmet. As this will involve a significant change in the nature and scale of your Company's activities, Ausmet will need to comply with the ASX requirements for re-admission to its Official List. As part of this process the Company will also seek to raise up to \$6

million under a prospectus issue in order to fund the proposed expanded business activities of the Company, following the Merger.

The re-admission process will result in the Company's securities being suspended from official quotation for a short period during early March 2005.

It is the intention of the Directors of Ausmet to reserve a priority entitlement for Ausmet shareholders to participate in the proposed \$6 million Prospectus Capital Raising. This priority entitlement is for \$1,000,000 and is available to all shareholders who complete and lodge an application form by no later than three days following the General Meeting. This application form will be specially marked and contained within the prospectus pursuant to this proposed share issue.

It is expected that the prospectus pursuant to this proposed issue will be available by the middle of February 2005.

The Directors will reserve the right to adjust the amount allocated to a shareholders' application in the event that applications exceed the priority entitlement.

Pursuant to this proposed offer Ausmet will raise up to \$6 million with a minimum subscription of \$3 million. It is intended that over the following two years that the funds raised will be expended as follows:

Description	Expenditure if only minimum subscription reached	Expenditure on full subscription of \$6,000,000
Purchase of mining equipment	\$1,900,000	\$4,750,000
Repayment of borrowings	\$750,000	\$750,000
Fees payable to stockbrokers	\$150,000	\$300,000
Other issue costs	\$142,500	\$142,500
Working Capital	\$57,500	\$57,500
<b>Total</b>	<b>\$3,000,000</b>	<b>\$6,000,000</b>

### Meeting Summary

The attached Notice of General Meeting seeks to obtain the approval of Ausmet shareholders to:

1. approve the change of activities of the Company to that of a coal mining equipment manufacturer, supplier and mining contactor;
2. reduce the share capital of Ausmet by an amount of \$500,000 by returning to each shareholder on record at books close the existing exploration properties and fixed assets via a free pro-rata entitlement of shares in an unlisted company, Discovery Capital Limited ("Discovery");

3. approve the issue to Bounty shareholders of up to 25,000,000 shares and 25,000,000 options in Ausmet as the Merger consideration;
4. approve the issue of 5,000,000 shares and 2,500,000 options to certain Bounty Noteholders in Bounty as consideration for their conversion of \$1,000,000 of current debt in Bounty into equity in Ausmet;
5. approve the appointment to the Ausmet Board of three additional Directors, Mr Colin Knox, Mr Mark Gray and Mr Gary Williams, all of whom are associated with Bounty;
6. approve the change in name of your Company to Bounty Industries Limited;
7. approve the issue of up to 30,000,000 new shares at a price of \$0.20 each under the proposed Prospectus Capital Raising;
8. approve the proposed participation by existing Ausmet Directors in the proposed Prospectus Capital Raising;
9. approve an employee option scheme for the new management of the Company, following the Merger;
10. approve the issue of 500,000 options to Malcolm Carson, a consultant to the Bounty and Ausmet Group.

### **Background to Bounty**

Bounty is an integrated coal mining equipment manufacturer, supplier and mining contractor. The Company has an existing workshop at Gateshead at Newcastle and mining contracts and agreements with a number of underground coal mines in New South Wales and Queensland.

The Company undertakes both conventional as well as low profile (thin seam) mining.

As disclosed in an Ausmet release to ASX dated 10 November 2004, Bounty is targeting consolidated revenues to grow to in excess of \$70 million over the next 2.5 years and net earnings to be in excess of \$6 million for the financial year ending 30 June 2006. Based on the undiluted share capital post the proposed Merger and proposed Prospectus Capital Raising, these targeted earnings are equivalent to around \$0.08 per share.

These targeted earnings assume that the proposed Prospectus Capital Raising is successfully completed.

The earnings potential of Bounty is a major factor behind the proposal to merge Ausmet with Bounty. At the same time, the commitment demonstrated by the Bounty management to their company and the business model, the growth potential of low profile mining in Australia, and the highly qualified and experienced team of people that Bounty has assembled, are also factors of significance.

To understand more about the Bounty business I urge you to read the Summary of Bounty's Business which is included as Section 1.2 in this Information memorandum. In this regard I also urge you to read sections 1.6-1.8 which summarise the advantages and disadvantages of the proposed Merger, as well the Risk Factors.

## **Consideration for the Merger**

The Bounty shareholders believe in their business and its growth potential, and as a consequence value their business highly. At the same time however, your Directors recognise the value of Ausmet as a listed Company and the need to manage as best as possible the risk and associated reward of all activities that are undertaken on your behalf.

As a consequence, the negotiations relating to the Merger consideration focused on the recognition of the value of the existing assets of both companies, the retention of a meaningful equity in the new business for existing Ausmet shareholders, and the determination of an appropriate level of reward for Bounty shareholders should the projected business and earnings growth be achieved.

The following significant Merger considerations and condition reflects we believe a fair outcome for both parties.

- The issue to Bounty shareholders of 15,000,000 shares in Ausmet at a deemed issue price of \$0.20 each.
- The issue to Bounty shareholders of 25,000,000 million free 3 year options in Ausmet exercisable in three near equal tranches at \$0.35, \$0.40 and \$0.45 per option respectively.
- The issue to Bounty shareholders of an additional 10,000,000 shares in Ausmet should the Net Profit from Ordinary Activities after Tax exceed \$8 million for the year ended 30 June 2006. Should this earnings target not be achieved then these shares will not be issued.
- The conversion by certain Bounty Noteholders of \$1,000,000 in interest bearing securities to 5,000,000 shares and 2,500,000 options in Ausmet.

Should all the shares (including the incentive shares) be issued and the proposed Prospectus Capital Raising successfully completed, then Bounty Shareholders will hold around 43% of the diluted issued capital of the merged companies (which assumes that the Bounty Shareholders do not participate in the Prospectus Capital Raising).

## **Independent Report on Merger Consideration**

Ausmet Directors commissioned an Independent Expert, Mr Guy Le Page of RM Capital Pty Ltd to prepare a report on the proposed Merger for inclusion in this Information memorandum.

Mr Le Page has reviewed the proposed consideration and has concluded that the proposed Merger is both fair and reasonable for the Ausmet Shareholders. The report prepared by Mr Le Page is included as Schedule 7 of this Memorandum.

## **Capital Return**

Under the Merger proposal we seek shareholders approval to undertake a capital return of Ausmet's beneficial interest in its existing exploration projects as well as fixed assets which include items such as office furniture. For the purpose of the proposal, your Directors consider these assets to have a fair market valuation of around \$500,000.

This valuation is based on the value the sharemarket was placing on the non cash assets of Ausmet in the period prior to the announcement of the proposed Merger with Bounty. Such value was determined by calculating the market capitalisation (share price times the issued capital) less the existing cash reserves.

Prior to the proposed Merger Ausmet will transfer these assets into a wholly owned subsidiary, Discovery. Each shareholder in Ausmet as at the books closing date which is expected to be around Monday 28 February will then receive their pro-rata entitlement to 30,436,000 shares held in Discovery by Ausmet, as consideration for this capital return.

Your Directors propose to undertake this capital return as the exploration of mining properties will not be a core business of Ausmet, should the proposed Merger be approved.

Post the proposed Merger, Discovery will be an unlisted public company with the Ausmet shareholders on record as at the books closing date, holding around 90% of the issued capital. The balance will be held by Ausmet who will ultimately move to 25% of the issued capital through proposed share issues over an 18 month period.

The initial 10% of Discovery to be held by Ausmet will be in satisfaction of the transference of the assets into Discovery.

Under these proposed share issues, Ausmet will contribute \$1,000,000 in working capital to Discovery.

The current Directors of Ausmet comprise the Board of Discovery and will seek to acquire projects suitable for a public listing. The assets sought will be from both the mining and industrial sectors.

It is the intention of Discovery to actively pursue the exploration or sale of the existing mining projects in Ausmet, which are to be transferred to it.

### **Directors Benefits**

Under the Merger proposal, the Directors of Ausmet will receive no special considerations or benefits.

Mr Peter Strachan, a Director of Ausmet since 7 July 2004 will step down as a Director of Ausmet should the Merger proposal be approved.

Mr Howard Dawson and Mr Malcolm Smartt will remain Directors of the Company should the Merger proposal be approved.

Messer's Dawson, Smartt and Strachan are currently Directors of Discovery and will remain so should the Merger proposal be approved.

Under resolution 11, your Directors seek your approval, as required under the ASX Listing Rules, to participate in the proposed Prospectus Capital Raising. For clarification, under this resolution your Directors seek the approval of shareholders to purchase shares under the same price, terms and conditions as other Ausmet shareholders and new shareholders in the proposed Prospectus Capital Raising.



## **Malcolm Carson**

Under resolution 14 your Directors seek your approval to issue to Malcolm Carson 500,000 options for nil consideration and with the same terms and conditions as the options in Ausmet currently on issue.

Malcolm Carson is a mining consultant who has provided services to both Bounty and Ausmet over the past year. Mr Carson has invaluable contacts within the coal mining industry, and in recognition of future services that he could provide to the merged company, your Directors seek your support to issue him with these options.

## **Summary**

Your Directors have considered the proposed Merger very carefully. We are impressed with the Bounty business model and consider that, whilst it is not without risks as any growth business is, the upside potential more than balances the downside risks.

As a consequence we look forward to the potential benefits that the proposed Merger could provide to Ausmet shareholders.

We strongly recommend you read carefully the Explanatory Statement in relation to the proposed transactions involved in implementing the Merger and the Shareholder resolutions. In particular please take the time to review the financial reports as well as the risk factors. Should you have any questions or concerns that the proposed new business may not fit your risk profile, please do not hesitate to seek financial advice.

The Board of Ausmet unanimously recommends that Shareholders vote in favour of all the resolutions set out in this Notice.

Yours sincerely

**Howard Dawson**  
**Chairman**

## INDICATIVE TIMETABLE

Set out below is an indicative timetable relating to the Merger. All times are times in Perth, Western Australia (WST).

<b>Event</b>	<b>Date</b>
Announcement of Proposed Merger	10 November 2004
Dispatch Notice of General Meeting seeking approval for Proposed Merger	31 January 2005
Lodgement of Prospectus with the ASIC	11 February 2005
Cut off for lodging proxy form for General Meeting	10.00am 5 March 2005
Books closing date for eligibility to vote at the General Meeting	10.00am 5 March 2005
Suspension of Ausmet's securities from trading on ASX at the opening of trading	7 March 2005
Books closing date for entitlement to in specie distribution	10.00am 7 March 2005
General Meeting to approve Proposed Merger	10.00am 7 March 2005
Closing Date of Offer under the Prospectus	9 March 2005
Anticipated date the suspension of trading is lifted and the merged entity is re-listed on ASX	14 March 2005

These dates are indicative only and are subject to change.

## TIME AND PLACE OF MEETING AND HOW TO VOTE

### Venue

A general meeting of the shareholders of Ausmet Resources Limited will be held at:

**Level 1, 89 St George's Terrace  
Perth, Western Australia**

**Commencing  
10am (Perth Time)  
on Monday, 7 March 2005**

### How to Vote

The business of the meeting affects your shareholding and your vote is important. Please take action by voting in person (or authorised representative) or by proxy.

### Voting in Person

To vote in person, attend the meeting on the date and at the place set out above. The meeting will commence at 10am.

### Voting by Proxy

To vote by proxy, please complete and sign the proxy form enclosed with this Memorandum as soon as possible and either:

- send the proxy form by facsimile to the Company on facsimile number (08) 9481 2200 (International: + 61 8 9481 2200); or
- deliver the proxy form to the Company's registered office at Level 1, 89 St. George's Terrace, Perth, Western Australia, 6005

so that it is received not later than 10.00am (WST) on 5 March 2005. Proxy forms received later than this time will be invalid.

**Your proxy form is enclosed at the end of this Memorandum.**

**AUSMET RESOURCES LIMITED**  
**ABN 19 107 411 067**

**NOTICE OF GENERAL MEETING**

Notice is given that the General Meeting of shareholders of Ausmet Resources Limited (**Ausmet** or **Company**) will be held at Level 1, 89 St George's Terrace, and Perth, Western Australia at 10am (Perth Time) on Monday, 7 March 2005.

**AGENDA**

**BUSINESS**

The Explanatory Statement which accompanies and forms part of this Notice describes the matters to be considered as special business and terms used in this Notice have the meaning given to them in the Explanatory Statement.

**SPECIAL BUSINESS**

**Resolution 1 - Change of activities**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, subject to the passing of Resolutions 2, 3, and Resolutions 5 to 14 (inclusive), for the purposes of Listing Rule 11.1 of the Listing Rules of Australian Stock Exchange Limited and for all other purposes, approval is given for the Company to make a significant change in the nature of its activities to a coal mining equipment manufacturer, supplier and contractor and a significant change in the scale of those activities as described in the Explanatory Statement accompanying this Notice."*

**Short Explanation:** The Listing Rules require the Company to seek shareholder approval where it proposes to make a significant change to the nature or scale of its activities. Please refer to the Explanatory Statement for details.

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by a person who might obtain a benefit, except a benefit solely in the capacity of a security holder if the resolution is passed, or any associate of those persons.

## ORDINARY BUSINESS

### Resolution 2 – In specie Distribution of Discovery shares to Ausmet shareholders

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, subject to the passing of Resolutions 1, 3, and Resolutions 5 to 14 (inclusive), for the purposes of Section 256B of the Corporations Act and for all other purposes, approval is given for the Company to conduct a pro rata in specie distribution of 30,436,000 Discovery shares to Ausmet shareholders as described in the Explanatory Statement accompanying this Notice.”*

**Short Explanation:** Section 256B of the Corporations Act requires the Company to seek shareholder approval where it proposes to make a capital return to shareholders. Please refer to the Explanatory Statement for details.

### Resolution 3 – Issue of securities for the acquisition of Bounty Industries Australia Pty Ltd

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, subject to the passing of Resolutions 1, 2 and Resolutions 5 to 14 (inclusive), for the purposes of Item 7 of Section 611 of the Corporations Act, Listing Rule 7.1 of the Listing Rules of Australian Stock Exchange Limited and for all other purposes, approval is given for the Company to allot and issue the following securities:*

- (a) 15,000,000 fully paid shares in the capital of the Company to be issued on Completion of the Merger Agreement; and*
- (b) 25,000,000 options to acquire fully paid shares in the capital of the Company,*

*to the shareholders of Bounty Industries Australia Pty Ltd (or their nominees), as part consideration for the acquisition of all of the issued shares in Bounty Industries Australia Pty Ltd and otherwise on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

**Short Explanation:** As part of the acquisition of Bounty Industries Australia Pty Ltd, securities will be issued by the Company to the shareholders in Bounty Industries Australia Pty Ltd. Accordingly, shareholder approval is being sought for the purposes of ASX Listing Rule 7.1 to allow those parties to be issued securities in the Company. Under the Listing Rule 7.1, the Company may issue up to 15% of its ordinary share capital in any 12 month rolling period without shareholder approval. By obtaining the prior approval of shareholders for the issue of securities proposed under this Resolution, the Company retains the flexibility to make future issues of securities up to that threshold. In addition, the shareholders in Bounty Industries Australia Pty Ltd will together acquire a relevant interest in 40% of the voting shares in the Company post completion of the acquisition and potentially 56% should the additional shares be issued as a result of profit performance. These shareholdings exclude the proposed Prospectus Capital Raising. Accordingly, shareholder approval is being sought in accordance with Item 7 of Section 611 of the Corporations Act.

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by a party to the transaction or a person who may participate in the proposed issue and a person who may obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed and any associates of those persons.

**Expert's Report:** Shareholders should carefully consider the independent expert's report prepared by Mr Le Page of RM Capital in accordance with Item 7 of Section 611 of the Corporations Act which comments on the fairness and reasonableness of the transaction to the non-associated shareholders in the Company.

#### **Resolution 4 – Issue of Incentive Shares for the acquisition of Bounty Industries Australia Pty Ltd**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, subject to the passing of Resolutions 1, 2, 3, and Resolutions 5 to 14 (inclusive), for the purposes of Item 7 of Section 611 of the Corporations Act, Listing Rule 7.1 of the Listing Rules of Australian Stock Exchange Limited and for all other purposes, approval is given for the Company to allot and issue 10,000,000 fully paid shares in the capital of the Company to be issued if the Company's Net Profit from Ordinary Activities after Tax exceeds \$8,000,000 in the 2006 financial year, to the shareholders of Bounty Industries Australia Pty Ltd (or their nominees), as part consideration for the acquisition of all of the issued shares in Bounty Industries Australia Pty Ltd and otherwise on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

**Short Explanation:** As part of the acquisition of Bounty Industries Australia Pty Ltd, securities will be issued by the Company to the shareholders in Bounty Industries Australia Pty Ltd. Accordingly, shareholder approval is being sought for the purposes of ASX Listing Rule 7.1 to allow those parties to be issued securities in the Company. Under the Listing Rule 7.1, the Company may issue up to 15% of its ordinary share capital in any 12 month rolling period without shareholder approval. By obtaining the prior approval of shareholders for the issue of securities proposed under this Resolution, the Company retains the flexibility to make future issues of securities up to that threshold. The Company has applied for a waiver of Listing Rule 7.3.2 from the ASX to allow these securities to be issued on Monday 30 October 2006, which is outside the required 3 month requirement. If the ASX waiver is not obtained prior to the general meeting then shareholder approval to issue the Incentive Shares will have to be gained at a later time as required by ASX Listing Rule 7.1.5(a).

In addition, the shareholders in Bounty Industries Australia Pty Ltd will together acquire a relevant interest in 40% of the voting shares in the Company post completion of the acquisition and potentially 56% should the additional shares be issued as a result of profit performance. These shareholdings exclude the proposed Prospectus Capital Raising. Accordingly, shareholder approval is being sought in accordance with Item 7 of Section 611 of the Corporations Act.

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by a party to the transaction or a person who may participate in the proposed issue and a person who may obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed and any associates of those persons.

**Expert's Report:** Shareholders should carefully consider the independent expert's report prepared by Mr Le Page of RM Capital in accordance with Item 7 of Section 611 of the Corporations Act which comments on the fairness and reasonableness of the transaction to the non-associated shareholders in the Company.

## **Resolution 5 – Issue of securities to Bounty Noteholders**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, subject to the passing of Resolutions 1, 2, 3, and Resolutions 6 to 14 (inclusive), for the purposes of Listing Rule 7.1 of the Listing Rules of Australian Stock Exchange Limited and for all other purposes, approval is given for the Company to allot and issue the following securities:*

(a) 5,000,000 fully paid shares in the capital of the Company; and

(b) 2,500,000 options to acquire fully paid shares in the capital of the Company,

*to certain Bounty Noteholders as consideration for extinguishment of Notes owed by Bounty Industries Australia Pty Ltd and otherwise on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

**Short Explanation:** As part of the acquisition of Bounty Industries Australia Pty Ltd, securities will be issued by the Company to Bounty Noteholders. Accordingly, shareholder approval is being sought for the purposes of ASX Listing Rule 7.1 to allow those parties to be issued securities in the Company. Under the Listing Rule 7.1, the Company may issue up to 15% of its ordinary share capital in any 12 month rolling period without shareholder approval. By obtaining the prior approval of shareholders for the issue of securities proposed under this Resolution, the Company retains the flexibility to make future issues of securities up to that threshold.

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by a party to the transaction or a person who may participate in the proposed issue and a person who may obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed and any associates of those persons.

## **Resolution 6 – Election of Mr Colin Knox**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, subject to the passing of Resolutions 1, 2, 3, 5 and Resolutions 7 to 14 (inclusive), Mr Colin Knox, being eligible and having consented to act, is elected as a director of the Company on and from the date of settlement of the Bounty Transaction.”*

**Short Explanation:** As part of the acquisition of Bounty Industries Australia Pty Ltd, new appointments to the Company’s Board will be made. Please refer to the Explanatory Statement for details.

## **Resolution 7 – Election of Mr Mark Gray**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, subject to the passing of Resolutions 1, 2, 3, 5, 6 and Resolutions 8 to 14 (inclusive), Mr Mark Gray, being eligible and having consented to act, is elected as a director of the Company on and from the date of settlement of the Bounty Transaction.”*

**Short Explanation:** As part of the acquisition of Bounty Industries Australia Pty Ltd, new appointments to the Company’s Board will be made. Please refer to the Explanatory Statement for details.

## **Resolution 8 – Election of Mr Gary Williams**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, subject to the passing of Resolutions 1, 2, 3, 5, 6, 7, 9, 10, 11, 12, 13 and 14, Mr Gary Williams, being eligible and having consented to act, is elected as a director of the Company on and from the date of settlement of the Bounty Transaction.”*

**Short Explanation:** As part of the acquisition of Bounty Industries Australia Pty Ltd, new appointments to the Company’s Board will be made. Please refer to the Explanatory Statement for details.

## **Resolution 9 – Change of name**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

*“That, subject to the passing of Resolutions 1, 2, 3, 5, 6, 7, 8, 10, 11, 12, 13 and 14, for the purposes of Section 157(1) of the Corporations Act and for all other purposes, the name of the Company be changed to “Bounty Industries Australia Limited and the Company's constitution be amended consequentially so as to delete all references to "Ausmet Resources Limited" and to replace all such references with "Bounty Industries Australia Limited".”*

**Short Explanation:** The Company proposes to change its name to more accurately reflect the proposed future activities of the Company.

## **Resolution 10 – Allotment and issue of shares**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, subject to the passing of Resolutions 1, 2, 3, 5, 6, 7, 8, 9, 11, 12, 13 and 14, for the purposes of Listing Rule 7.1 of the Listing Rules of Australian Stock Exchange Limited and for all other purposes, approval is given for the Company to allot and issue, up to 30,000,000 fully paid ordinary shares in the capital of the Company at an*



*issue price of not less than \$0.20 per share and otherwise on the terms set out in the Explanatory Statement accompanying this Notice."*

**Short Explanation:** Under Listing Rule 7.1, the Company may issue up to 15% of its ordinary share capital in any 12 month rolling period without shareholder approval. By obtaining the prior approval of shareholders for the issue of securities proposed under this Resolution, the Company retains the flexibility to make future issues of securities up to that threshold. Please refer to the Explanatory Statement for details.

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by a person who may participate in the proposed issue and any person who might obtain a benefit, except a benefit solely in the capacity of a security holder if the resolution is passed, and any associates of those persons.

### **Resolution 11 - Participation in Prospectus Capital Raising by Directors**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, subject to the passing of Resolutions 1 , 2, 3, 5, 6, 7, 8, 9, 10, 12, 13 and 14, for the purposes of Listing Rule 10.11 of the Listing Rules of the Australian Stock Exchange Limited and for all other purposes, approval is given for the current Directors of Ausmet to subscribe for and the Company to allot and issue up to:*

- (a) 125,000 fully paid ordinary shares to Howard Dawson (or his nominee);
- (b) 125,000 fully paid ordinary shares to Malcolm Smartt (or his nominee); and
- (c) 125,000 fully paid ordinary shares to Peter Strachan (or his nominee),

*of the fully paid ordinary shares to be approved for allotment and issued under Resolution 10 at an issue price of \$0.20 each on the terms and conditions set out in the Explanatory Statement accompanying this Notice."*

**Short Explanation:** Under the ASX Listing Rules and the Corporations Act, an issue of securities to a director requires prior shareholder approval. Howard Dawson, Malcolm Smartt and Peter Strachan are directors of the Company and wish to participate in the Prospectus Capital Raising referred to in Resolution 10 by purchasing shares under the prospectus potentially up to the level for which approval is sought. For the purposes of ASX Listing Rule 10.11, shareholder approval is being sought to allow these directors to be issued securities in the Company. Should this resolution be approved and Mr Dawson, Smartt and Mr Strachan apply for shares they will pay the same price as all other participants, that is \$0.20 per share.

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by Howard Dawson, Malcolm Smartt and Peter Strachan and any of their associates.

## **Resolution 12 – Approval of Employee Option Scheme**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, subject to the passing of Resolutions 1, 2, 3, 5, 6, 7, 8, 9, 10, 11, 13 and 14, for the purposes of Listing Rule 7.2 (Exemption 9) and for all other purposes, the Company adopt the “Bounty Employee Option Plan”, on the terms and conditions set out in the Explanatory Statement accompanying this Notice.” The “Bounty Employee Option Plan” is to take effect from the date of the merged entity re-listing on the ASX.*

**Short Explanation:** Under Listing Rule 7.1, the Company may issue up to 15% of its ordinary share capital in any 12 month rolling period without shareholder approval. By the shareholders approving the “Bounty Employee Option Plan”, the Company retains the flexibility, under Listing Rule 7.2 (Exemption 9), to make future issues of options to employees up to the 5% threshold. Please refer to the Explanatory Statement for details.

## **Resolution 13 – Approval of Directors to Participate in Employee Option Plan**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, subject to the passing of Resolutions 1, 2, 3, 5, 6, 7, 8, 9, 10, 11, 12 and 14, for the purposes of Listing Rule 10.14 of the Listing Rules of the Australian Stock Exchange Limited and for all other purposes, approval is given for the Company to allot and issue up to 2,000,000 options under the proposed Employee Option Plan to:*

- (a) Colin Knox (or his nominee);*
- (b) Mark Gray (or his nominee); and*
- (c) Gary Williams (or his nominee),*

*on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

**Short Explanation:** Under the ASX Listing Rules, an issue of securities to a director under an employee incentive scheme requires prior shareholder approval. It is proposed Colin Knox, Mark Gray and Gary Williams will be directors of the Company and should be eligible to participate in the Employee Option Plan. For the purposes of ASX Listing Rule 10.14, shareholder approval is being sought to allow these directors to be issued options in the Company under the Employee Option Plan.

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by Colin Knox, Mark Gray and Gary Williams and any of their associates.

## **Resolution 14 – Issue of Listed Options to Malcolm Carson**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, subject to the passing of Resolution 1, 2, 3, 5, 6, 7, 8, 9, 10, 11, 12 and 13, for the purposes of Listing Rule 7.1 of the Listing Rules of Australian Stock Exchange Limited and for all other purposes, approval is given for the Company to allot and issue 500,000 Listed Options to acquire fully paid shares in the capital of the Company, to Malcolm Carson (or his nominee). The Listed Options are to be granted in consideration for past and future services provided to both Ausmet Resources Limited and Bounty Industries Australia Pty Ltd on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

**Short Explanation:** As part of the acquisition of Bounty Industries Australia Pty Ltd, securities will be issued by the Company to Malcolm Carson. Accordingly, shareholder approval is being sought for the purposes of ASX Listing Rule 7.1 to allow those parties to be issued securities in the Company. Under the Listing Rule 7.1, the Company may issue up to 15% of its ordinary share capital in any 12 month rolling period without shareholder approval. By obtaining the prior approval of shareholders for the issue of securities proposed under this Resolution, the Company retains the flexibility to make future issues of securities up to that threshold.

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by Malcolm Carson and any of his associates.

**DATED THIS 20<sup>th</sup> DAY OF JANUARY 2005  
BY ORDER OF THE BOARD**

**HOWARD DAWSON  
CHAIRMAN**

### **NOTES:**

1. A shareholder of the Company entitled to attend and vote is entitled to appoint not more than two proxies. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the shareholder’s voting rights. If the shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half of the votes. A proxy need not be a shareholder of the Company.
2. Where a voting exclusion applies, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.
3. For the purposes of the Corporations Act, the Directors have set a books close date to determine the identity of those entitled to attend and vote at the Meeting. The books close date is 10.00am (Perth Time) on 5 March 2005.

## EXPLANATORY STATEMENT

This Explanatory Statement and all attachments are important documents. They should be read carefully.

If you have any questions regarding the matters set out in this Explanatory Statement or the preceding Notice, please contact the Company, your stockbroker or other professional adviser.

### **1. GENERAL INFORMATION**

This Explanatory Statement has been prepared for Shareholders in connection with the General Meeting of the Company to be held on 7 March 2005.

#### **1.1 Overview**

Since the listing of Ausmet on ASX the Directors have assessed a number of opportunities to generate wealth for shareholders.

On 10 November 2004, the Company announced that it had entered into an agreement with Bounty, under which the two companies would merge by the Company agreeing to acquire all of the issued shares and options in Bounty in return for the issue of securities in the Company to the Bounty Shareholders.

Having reviewed numerous investment proposals and conducted a substantial amount of research into numerous opportunities and proposals, the Directors are of the opinion that the proposed Merger meets the Board's criteria and represents a significant opportunity for Shareholders.

In the event all of the Resolutions are not approved by Shareholders, the Company's securities will commence trading again on ASX on the basis of its current operations. In these circumstances, Shareholders should be aware that in order for the Company to make any future major acquisitions it may be required to re-comply with the provisions of Chapter 1 and 2 of the ASX Listing Rules in much the same way as for the Merger.

#### **1.2 The Bounty Operations**

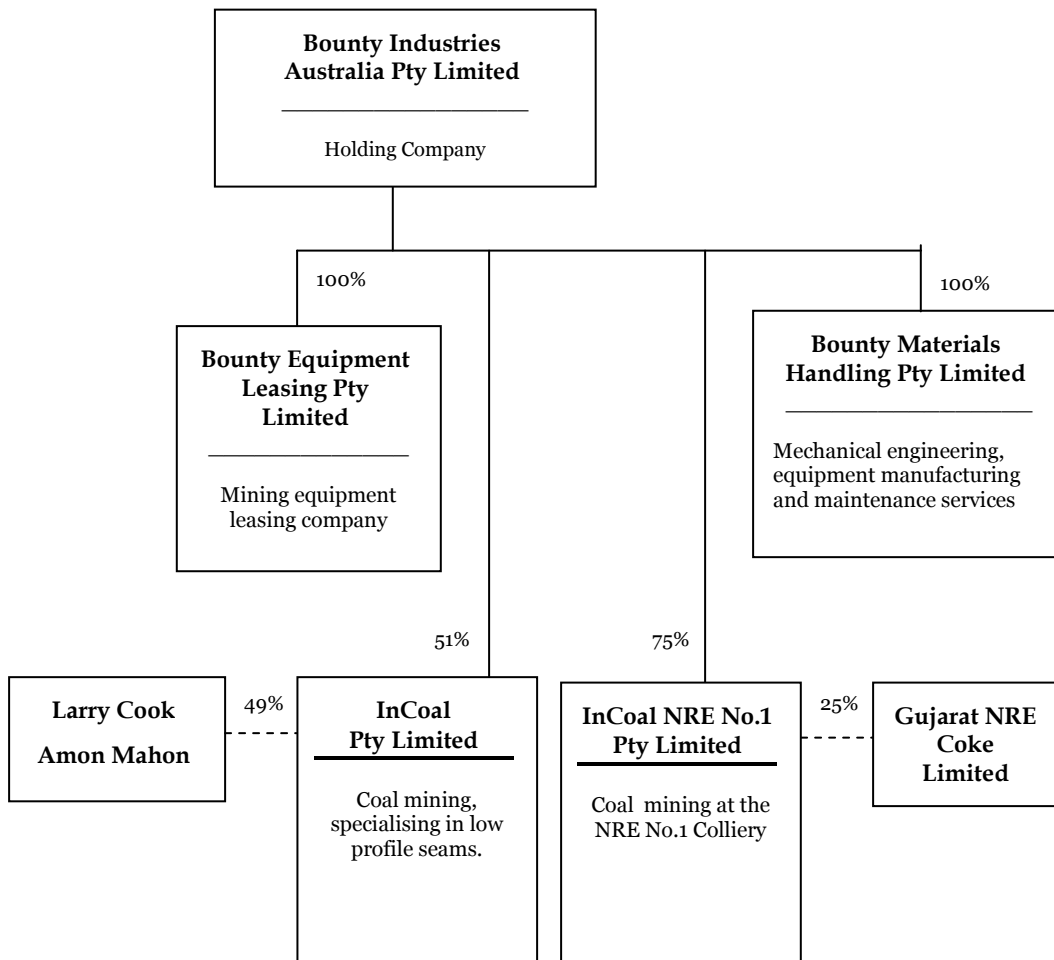
The Bounty group of companies commenced business in May 2003 and is a vertically integrated coal mining operator comprising:

- Contract coal mining;
- Equipment supply; and
- Equipment maintenance and manufacture.

In January 2004, Bounty acquired specialised low profile coal mining equipment valued as a going concern at around \$5 million and contracted to exclusively lease the equipment to specialist low profile coal mining contractors InCoal NRE and InCoal.

InCoal NRE and InCoal are both subsidiaries of the Company, owned 75% and 51% respectively.

Bounty's principal trading entities and shareholding structure is detailed below:



In December 2004, Bounty concluded the purchase of mobile plant and equipment valued as a going concern at around \$3.2 million from Bellpac which formerly ran the Bellpac No.1 Colliery at Wollongong. This mine was purchased by Gujarat NRE Australia Limited in December 2004 and has been renamed NRE No.1 Colliery under its new owners.

### 1.2.1 Operations Summary

Rising demand for both thermal and coking coal from traditional customers in Asia has led to a significant increase in spot coal prices over the past 18 months. Many underground miners are now seeking support from contract miners to expand their

production and mine previously unmined, thin coal seams using mining procedures perfected by Bounty Industries. The Directors of Ausmet have been impressed by the quality of mining contracts and agreements held by Bounty and the number of enquiries for additional mining contract work for which the Bounty management has been making preparatory bids.

The Bounty Group has recently completed a mining assignment in Central Queensland, and has been retained to undertake further contract mining work within the same mine. In addition the Company has a contract and an agreement to commence two coal mining assignments in New South Wales during the first half of calendar 2005.

Bounty sources revenue from coal mining contracting, the leasing of coal mining equipment, and the manufacture and maintenance of coal mining equipment.

It is expected that as the Bounty business develops, equipment leasing and direct contract coal mining will contribute over 90% of the company's earnings, in roughly equal proportions.

### **1.2.2 Low profile or Thin Seam Mining**

InCoal specialises but does not practice exclusively, low profile or thin seam coal mining operations as they are known in the United States. This mining technique is new to Australian mines having been "imported" from the United States which has been exploiting thin coal seams for 50 years and now produces in excess of 100 million tonnes per annum from seams less than 1.5 metres in height.

The in-house expertise necessary to import this mining technique into Australia rests with the minority shareholders of InCoal, both of whom are experienced thin seam coal miners from West Virginia and Kentucky respectively with over 45 years combined experience. This expertise is supported by additional US thin seam coal miners, principally from West Virginia.

Low profile coal mining is regarded by many coal mining specialists as an inevitable development in Australia for two fundamental reasons:

- thick seams are now heavily exploited and are in decline; and
- the coal contained in thin seams often has stronger metallurgical properties which is in high demand in the steel industry. This allows for blending with lower quality coal (thick residual seams) which then can often obtain a pricing premium.

### **1.2.3 Mining Assignments**

A mining unit, operating in good mining conditions could be expected to mine a base case of 500,000 tonnes of coal per annum utilising low profile or conventional underground mining equipment.

Bounty currently has a contract and agreement respectively for two mining assignments and is in advanced negotiations for a third.

### **Gujarat NRE Australia Pty Limited at NRE No.1 Colliery, Wollongong**

InCoal NRE was established to retain a long term mining assignment with Gujarat NRE Australia Pty Limited (Gujarat NRE) in respect of the NRE No.1 Colliery, located in north Wollongong. Current resources indicate that mining could extend beyond 15 years and will include mining within the Bulli (2 metre seam) and the Balgownie (1.6 metre seam), as well as the right to mine the Wongawilli seam (10 metres).

This assignment is expected to commence between March and June 2005 and is currently under final negotiation with Gujarat NRE, with the main terms and conditions already agreed.

The terms and conditions of this mining assignment are subject to commercial confidentiality. The material terms relating to the agreement which can be made public are

- Term: 5 years plus right of renewal for 5 years and a further right of renewal subject to economic conditions
- Start Date : March 2005 (subject to mine readiness)
- Payment Terms: Monthly in arrears
- Equipment: InCoal NRE has leased two production units from Bounty Equipment Leasing at commercial rates. An additional unit will be required to commence approximately 4-6 months into the assignment.

It is expected that nearly 1 million tonnes of coal will be mined in the twelve months to June 2006, increasing to around 1.7 million tonnes in the following year.

Gujarat NRE is a subsidiary of Gujarat NRE Coke Limited (Gujarat Coke) a publicly listed company in India with a market capitalisation of Rs 1.05 billion. Gujarat Coke is in the business of coal processing and is the largest non-captive manufacturer of low-ash metallurgical coke (LAMC). In India LAMC, mainly used in soda-ash plants, cast iron and brass foundries and the blast furnaces of steel plants, is largely imported.

In this regard, Gujarat Coke imports significant levels of coking coal from Australia and New Zealand because of the excellent quality of the coking coal, which has the twin advantage of very low ash content and very high hot strength.

### **Underground Colliery, NSW**

InCoal has a contract to mine around 500,000 tonnes from an underground mine owned by one of Australia's largest coal mine owners. This contract is expected to take a

maximum of nine months to complete and is expected to commence during February-March 2005.

The terms and conditions of this mining assignment are subject to commercial confidentiality. The material terms relating to the agreement which can be made public are

- Term : 500,000 tonnes, expected to take 8-9 months
- Start Date : February-March 2005
- Payment Terms : Fortnightly in arrears
- Equipment: InCoal has leased one production unit from Bounty Equipment Leasing at commercial rates.

The mine owner has indicated that there is a strong possibility that the contract will be extended to the mining of an additional 3 million tonnes of thermal coal in the same mine, which will provide up to 4 years further mining for InCoal at this operation.

### **Underground Colliery, Central Queensland**

This mine is owned by a major multi national mining group and Bounty is in advanced negotiations for a contract to mine up to 2 million tonnes per annum of coking coal for five years plus five years.

As part of these negotiations Bounty has recently completed a 150 metre Exploration Heading cut into a thin seam (1.5 metres) off a high wall pit to confirm geo-technical information as supplied by bore hole testing

The terms and conditions of this mining assignment are subject to commercial confidentiality. The material terms relating to the contract which has already been completed, and can be made public, were

- Term : 4 weeks (completed)
- Start Date : 29 November 2004
- Payment Terms : Monthly in arrears

### **1.2.4 Targeted Earnings**

Bounty generates revenue through the leasing of mining equipment by Bounty Equipment Leasing (BEL) to InCoal NRE and InCoal, the contract mining of coal by InCoal and InCoal NRE and the manufacture, refurbishment and maintenance of the mining equipment by Bounty Materials Handling (BMH).



BEL, InCoal NRE and InCoal are the major contributors to the group revenue.

On the basis of the two existing mining assignments and the strong possibility of securing a third during the next few months, Bounty is targeting revenues of around \$70 million and a net profit after tax for the twelve months ended 30 June 2006 of in excess of \$6 million.

With the addition of new mining equipment which will allow the Gujarat contract to be expanded to nearly 2 million tonnes per annum, the targeted earnings in 2007 are budgeted to grow by in excess of 25%.

These earnings targets assume that the proposed Prospectus Capital Raising of \$6 million is successfully completed.

The majority of the assumptions that form the basis for these earnings targets are subject to commercial confidentiality as they relate to individual mining contracts and agreements.

As a general guidance the targeted earnings before interest tax and depreciation ("EBITDA") on each mining contract, is between 15-25% of revenue with the range dependant on the mining rate and mining conditions expected.

Under the equipment leasing contracts the revenue per mining unit is targeted to range between \$25,000 and \$50,000 per week, depending on the type of unit leased, the mining conditions, and the expected rate of production.

The targeted revenue of \$70 million for the June 2006 financial year is based upon INCoal NRE and InCoal cutting around 1,700,000 tonnes of coal. The targeted earnings growth of in excess of 25% in 2007 is based on In Coal NRE and In Coal cutting around 2,100,000 tonnes of coal.

It should be noted that the earnings guidance in this section (and any forward looking statements in this Memorandum) are:

- (a) predictive in nature;
- (b) may be effected by inaccurate assumptions or by known or unknown risks and uncertainties; and
- (c) may differ from results ultimately achieved.

### **1.2.5 Financial Position**

On a consolidated basis, the net assets of Ausmet will be around \$15.2 million post the Merger and proposed Prospectus Capital Raising.

A pro-forma statement of financial position as at 31 December 2004, reflecting the post Merger position and Prospectus Capital Raising, is included in Schedule 4 in this report.

### **1.2.6 Funding the Growth**

The existing equipment owned by Bounty can commence operations under the NRE No. 1 agreement and other New South Wales contract, as well as the initial stages of the Queensland assignment, if secured.

However to take full advantage of the opportunities presented, in particular the upgrade in the mining rate at NRE No.1 then additional mining equipment needs to be purchased.

In this regard it is proposed to undertake a \$6 million Prospectus Capital Raising immediately post the completion of the proposed Merger. Should this raising be successful these funds will be earmarked largely towards the purchase of this additional mining equipment.

### **1.2.7 Bounty's Competitive Advantages**

Bounty's key strengths lie in its professional management, a skilled and stable workforce and the ownership of well-maintained equipment that is matched to the mining conditions

Within its management and workforce it has above average industry knowledge with the six most senior persons having a combined industry experience of around 135 years.

Specifically Bounty's competitive advantages are:

#### ***Low Profile (thin seam) mining expertise***

The generally held opinion in the Australian coal mining industry is that thick coal seams are depreciating materially with the best and most easily accessible thick seam coal largely already mined using traditional methods.

The residual thick seam coal is increasingly in more difficult areas and is often of lower quality than what has been mined in the past.

Typically thin seam coal has low ash high heat qualities ideal for coking which is ideal for direct sales or alternating blending with lower quality thick seam coals.

The Bounty Group, through InCoal has proven expertise in low profile mining and believes, because of this expertise and existing low profile mining equipment, that it has a clear window of opportunity to dominate low profile mining in Australia.

In addition, Bounty is the only mining contractor in Australia with complete, in code, low profile mining equipment.

### *Mining technique*

As well as conventional underground mining techniques Bounty also uses the “cut of flick” mining technique which comprises cutting a room and pillar, and then shifting or “flicking” to the next room while the roof bolter secures the now vacant cut.

This compares with typical Australian mining when following the cut the miner is shut down while the roof bolter secures the cut.

“Cut and flick” mining ensures coal is cut at a faster rate and therefore at a lower variable cost which provides a significant competitive advantage.

### *Continuous haulage*

Bounty has placed a deposit on a Stamler Haulage Conveyor which will replace the use of shuttle car haulage with a continuous conveyor haulage system.

Continuous haulage is used extensively in the United States and can double mining production. This potential doubling of the mining rate can materially lower the per tonne variable cost, thereby significantly improving margins.

## **1.2.8 Future opportunities**

The Bounty Group has an integrated business model for the coal mining industry. The Company has experienced management and is ideally placed to benefit from the expected strong growth in demand for low profile as well as contractor mining over the next few years, driven primarily by growing demand for low ash high/heat coking coal.

The Company has identified a number of potential new mining contracts and the securing of these will add to the potential growth profile over the coming years.

At the same time the Bounty Materials Handling business has the potential to grow as a profit contributor in its own right through the manufacture of new mining equipment such as continuous haulage units as well securing long term maintenance contracts.

## **1.3 Summary of Terms of the Merger**

Pursuant to the terms of the Share Sale Agreement dated 11 January 2005, Heads of Agreement dated 10 November 2004 and Deed of Variation of Heads of Agreement dated 6 January 2005, entered into between the Company and Bounty, the Company has agreed subject to Shareholder approval to acquire all of the issued capital of Bounty. The material terms of the Merger Agreement are set out below:

- (a) Ausmet has agreed to acquire 100% of the fully paid ordinary shares in the capital of Bounty (free from encumbrances) in consideration for allotting and issuing of the following securities to the Bounty Shareholders:
- (i) 15,000,000 Ausmet Shares upon completion of the Proposed Merger (Consideration Shares); and
  - (ii) subject to the Net Profit from Ordinary Activities after Tax for Ausmet exceeding \$8,000,000 for the financial year ended 30 June 2006, 10,000,000 Ausmet Shares (Incentive Shares).
  - (iii) 25,000,000 Ausmet Options upon completion of the Proposed Merger (Consideration Options) as follows:
    - (A) 8,333,334 Ausmet Options exercisable at \$0.35 per option; and
    - (B) 8,333,333 Ausmet Options exercisable at \$0.40 per option; and
    - (C) 8,333,333 Ausmet Options exercisable at \$0.45 per option.

The Consideration Shares and the Consideration Options will be issued to the Bounty Shareholders at completion of the Proposed Merger in the proportions specified in Schedule 1. The Incentive Shares will only be issued if the condition to issue is satisfied and, if so, will be issued, within 7 days of Ausmet being satisfied that the condition has been met, to the Bounty Shareholders in the proportions specified in Schedule 1.

- (b) The Consideration Shares and the Incentive Shares will be issued by Ausmet at an allotment price of \$0.20 per share;
- (c) Upon completion of the Proposed Merger:
- (i) Ausmet will change its name to Bounty Industries Limited; and
  - (ii) Mr Peter Strachan will resign from the board of Ausmet and the Bounty Directors will be appointed. Mr Dawson and Mr Smartt have agreed to remain on the board of Ausmet for at least 2 years after completion of the Proposed Merger, unless mutually agreed by the parties;
- (d) Ausmet will incorporate a public company as a wholly owned subsidiary of Ausmet (Discovery) with an issued capital of 30,436,000 fully paid ordinary shares and transfer to Discovery all of Ausmet's mining tenements and fixed and depreciable

assets as at the date of the Heads of Agreement or such of those tenements and assets as the parties may subsequently agree in writing for \$500,000 which acquisition sum will be loaned by Ausmet to Discovery (and Discovery will agree to assume any liabilities as at the date of the Heads of Agreement associated with such mining tenements and the fixed and depreciable assets) (Transfer of Assets);

- (e) Immediately following receipt of all approvals for the Proposed Merger, but prior to completion of the Proposed Merger, effect a capital return through a pro rata in specie distribution of all of the shares in Discovery held by Ausmet to Ausmet shareholders on the register as at the books closing date (Return of Capital);
- (f) Prior to completion of the Proposed Merger, Ausmet will procure that Discovery satisfies the \$500,000 debt owing to Ausmet through the issue of 3,381,805 ordinary shares in Discovery to Ausmet at an issue price of \$0.14785 per share;
- (g) Ausmet and Discovery enter into a put option agreement with Discovery on the following terms:
  - (i) Discovery may put to Ausmet 6,763,612 new ordinary shares in Discovery at an issue price of \$0.14785 to raise \$1,000,000 as follows:
    - (A) Up to 2,705,444 shares immediately upon the shareholders of Ausmet approving the Proposed Merger, to be issued no later than within 7 days of such approval, provided that the subscription monies payable by Ausmet for the new shares would not cause the net assets in Ausmet, immediately prior to completion of the Proposed Merger, to be less than \$2,500,000;
    - (B) That no more than 3,381,806 shares raising \$500,000 be issued earlier than the 6 month anniversary of completion of the Proposed Merger, under this put option agreement;
    - (C) That no more than 5,072,709 shares raising \$750,000 be issued earlier than the 13 month anniversary of completion of the Proposed Merger, under this put option agreement; and
    - (D) That no more than 6,763,612 shares raising \$1,000,000 be issued earlier than the 18 month anniversary of completion of the Proposed Merger, under this put option agreement.
  - (ii) such other terms and conditions as are customary for a put option agreement of this type;
- (h) Discovery provides Ausmet with a call option whereby Ausmet and/or its shareholders may elect to underwrite up to \$1,000,000 in respect of an initial public offering of Discovery shares, such public offering to take place no earlier than 18 months after completion of the Proposed Merger (or such other time agreed by Discovery and Ausmet), with all other terms of the call option agreement to be determined by the parties after further consultation and negotiation;

- (i) The parties agree to issue 5,000,000 Shares at an issue price of \$0.20 and 2,500,000 Ausmet Options (on the same terms and conditions as the Ausmet Listed Options on issue as at the date of this Memorandum) to the Bounty Noteholders provided that the Bounty Noteholders, prior to the implementation of the Proposed Merger, release Bounty from \$1,000,000 of interest bearing debt currently owing by Bounty to the Bounty Noteholders (and Ausmet obtains all necessary approvals to issue such shares) (Bounty Noteholder Conversion).
- (j) Ausmet seeks approval to implement a share option scheme to cater for the executive management team and employees of Ausmet on such terms to be determined by the parties after further consultation provided that subject to the ASX Listing Rules, such terms must set a maximum of 5% of the total number of Ausmet Shares on issue at the time of any offer under the share option scheme as the maximum allocation to the eligible participants under the share option scheme and must provide that the allocation, and the exercise price, of any share options issued under the share option plan will be set at the discretion of the board of Ausmet;
- (k) Ausmet to seek approval to issue to Mr Malcolm Carson, for no consideration, 500,000 options to acquire Ausmet Shares at an exercise price of 20 cents per Ausmet Share and otherwise on the same terms and conditions as the options on issue as at the date of this Agreement; and
- (l) Completion of the Proposed Merger will be subject to a number of conditions precedent. An indicative (but not definitive) list of the conditions precedent to the Proposed Merger being completed are as follows:

- (i) if required by either ASX or ASIC, completion of a prospectus for the Proposed Merger and Associated Transactions and lodgement of the prospectus with ASIC by no later than 7 days prior to the meeting of Ausmet shareholders referred to in clause 3(l) (or such later date as agreed by the parties);
- (ii) the passing of such resolutions as may be necessary to give effect to the Proposed Merger and Associated Transactions at a meeting of Ausmet's shareholders convened in accordance with the Corporations Act and Listing Rules by 7 March 2005 (or such later date as agreed by the parties);
- (iii) receipt of all necessary ASIC, ASX and other regulatory approvals in respect of the Proposed Merger and Associated Transactions (including conditional confirmation from ASX for re-instatement on ASX upon completion of the Proposed Merger and Associated Transactions) by 28 February 2005 (or such later date as agreed by the parties);
- (iv) completion of the Bounty Noteholder Conversion, Transfer of Assets and Return of Capital by 28 February 2005 (or such later date as agreed by the parties);
- (v) there being no material adverse change in the financial position or condition of Ausmet or the Bounty Group other than any such change as contemplated under this Agreement prior to completion of the Proposed Merger;
- (vi) all of Bounty Shareholders or their Attorneys formally agreeing to sell their Bounty Shares and acquire the Ausmet Shares and Options under the terms of the Merger;
- (vii) Ausmet meeting the requirements of Chapters 1 and 2 of the ASX Listing Rules, including issuing a prospectus, as if Ausmet were applying for admission to the Official List of ASX (as required by ASX Listing Rule 11.1.3);

Should any Ausmet shareholder require additional information or clarification of any terms please do not hesitate to contact the Company on 08 9322 4855.

#### **1.4 Merger Details**

Subject to the satisfaction of the conditions referred to above, the Merger will be completed as follows:

- (a) the Company will issue 15,000,000 Shares and 25,000,000 Options to the Bounty Shareholders in consideration for the acquisition of all of the issued shares in Bounty;

- (b) the Company will issue a further 10,000,000 Shares to the Bounty Shareholders in consideration for the acquisition of all of the issued shares in Bounty if the Company's Net Profit after Tax from Ordinary Activities after Tax exceeds \$8,000,000 in the 2006 financial year;
- (c) the Company will issue 5,000,000 Shares and 2,500,000 Options to the Bounty Noteholders in consideration for the conversion of \$1,000,000 in current debt;
- (d) the Company will issue 500,000 Options to Malcolm Carson;
- (e) the Company will change its name to "Bounty Industries Limited"; and
- (f) Mr Colin Knox, Mr Mark Gray, and Mr Gary Williams will be appointed to the board of directors of the Company and Mr Peter Strachan will resign.

### **1.5 Pro-forma statement of financial position**

Set out in Schedule 4 is an unaudited statement of financial position of Ausmet as at 31 December 2004, together with the pro-forma statement of financial position following completion of the Merger.

### **1.6 Advantages of the Merger**

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on the proposed Merger:

- (a) Shareholders will gain access to:
  - (i) a vertically integrated coal mining operator comprising:
    - Contract coal mining;
    - Equipment supply; and
    - Equipment maintenance and manufacture;
  - (ii) a strong management team;
  - (iii) low profile mining equipment and expertise; and
  - (iv) existing mining agreements and contracts.
- (b) post completion of the Prospectus Capital Raising, the Company should have sufficient cash reserves to significantly expand the existing mining fleet
- (c) The Bounty business, whilst not without risk, provides shareholders with the opportunity to participate in a sector with significant growth potential.

### **1.7 Disadvantages of the Merger**

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on the proposed Merger:



- (a) the Merger will result in the issue of securities to the Bounty Shareholders which will have a dilutionary effect on the current holdings of Shareholders;
- (b) the Company will be changing the nature of its activities to a coal mining equipment manufacturer, supplier and mining contractor which may be inconsistent with the investment objectives of all Shareholders.

There are many risk factors associated with Bounty's business and operations. Some of these are set out in Section 1.8 below.

## **1.8 Risks**

Shareholders should be aware that if the proposed Merger is approved, the Company will be subject to various risk factors. Based on the information available, the non-exhaustive risk factors are as follows:

### **Share Market Risk**

The trading price of the Company's Shares could possibly be subject to wide fluctuations in response to a number of factors including actual or anticipated variations in operating results, announcements by the Company or its competitors of significant actions, partnerships, joint ventures or alliances and additions or departures of key personnel. Many of these factors are beyond the immediate control of the Company and neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

### **Economic Risks**

General economic conditions including movements in interest, inflation, and currency exchange rates may have an adverse effect on the Company's activities, as well as on its ability to fund those activities.

### **Research and Development**

Within the Group the Company undertakes continuous improvement but can make no representations that any of its research and development will be successful.

### **Regulatory Issues & Government Regulation**

The Company's operations are also subject to laws, regulatory restrictions and certain government directives, recommendations and guidelines relating to, amongst other things, occupational safety and environmental protection. There can be no assurance that future legislation will not impose further government regulation, which may adversely affect the business or financial condition of the Company.

### **Intellectual Property Rights**

The Company maintains a number of intellectual property rights within the group. There can be no assurance that these intellectual rights will not be superseded by new developments within the coal industry.,

## **Mining Risk**

The business of the Company is dependent on the successful operation of its mining fleet.

Underground coal mines can be subject to a number of operational risks, all of which could impact on the business of Bounty.

There can be no assurance that the Company's business will not be affected should its equipment be operating within, or a contract held to operate within a mine that is affected by operational risks.

Such operational risks include those that can be associated with mining operations such as pit collapses, general access restrictions and difficult mining conditions.

They may also include industrial unrest against the mine owner.

## **Reliance on Key Personnel and Need to Attract Qualified Staff**

Bounty is dependent on its management team, the loss of whose services could materially and adversely affect the Company and impede the achievements of its objectives.

Because of the specialised nature of Bounty's business, in particular the operation of the mining fleet by InCoal and InCoal NRE its ability to attract and retain a suitably qualified management team is critical to its business growth.

There can be no assurance that the Company will be able to attract or retain sufficiently qualified personnel on a timely basis, or retain its key management personnel.

### **1.9 Plans for the Company if the Merger is not approved**

If the Merger is not approved, the Company intends to continue to explore its existing exploration projects as well as seeking new opportunities within the resource sector.

### **1.10 Role of the Independent Expert**

The Independent Expert's Report assesses whether the Merger is fair and reasonable to the non-associated Shareholders. This assessment is designed to assist all Shareholders in reaching their voting decision. Mr Le Page of RM Capital has provided an opinion that the Merger is *fair and reasonable to non-associated Shareholders*. It is recommended that all Shareholders read the Independent Expert's Report, which is included with this notice, in full.

### **1.11 Directors' Recommendation**

The Directors do not have any material personal interest in the outcome of the Resolutions, save for their interest solely in their capacity as shareholders of the Company. The Current Director's Share and Option holdings are set out in the following table:

<b>Director</b>	<b>Shares</b>	<b>Options</b>
Mr Howard Dawson	3,280,000	1,575,000
Mr Malcolm Smartt	1,060,000	525,000
Mr Peter Strachan	Nil	Nil

Each of the Directors intends to vote their Shares in favour of all of the Resolutions, subject to any voting exclusions for particular Resolutions.

Based on the information available, including that contained in this Memorandum, including the risks outlined in section 1.8, all of the Directors consider that the proposed transaction is in the best interests of the Company and recommend that shareholders vote in favour of the Resolutions. The Directors have approved the proposal to put the Resolutions to Shareholders and separately approved the information contained in this Memorandum.

The Directors recommend the resolutions set out in the Notice as this will enable the Company to change its activities to an integrated coal equipment manufacturer, supplier and mining contractor company which the Directors believe is in the best interests of the Company and its shareholders.

The Directors believe that all of the proposed Resolutions should be supported by Shareholders and in making this recommendation they have focused on their responsibility to Shareholders and rely on the opinion of the Independent Expert, noting that it has reached the view that the Merger is fair and reasonable to non-associated Shareholders.

## **2. BUSINESS OF THE MEETING**

### **2.1 Resolution 1 - Change of activities**

During 2004 your Board reviewed many project opportunities for Ausmet. The proposed Bounty Merger, in the opinion of your Directors, represents a sound opportunity for Shareholders.

As set out in this Explanatory Statement, in particular section 1.2, the Merger will result in a change in the nature and scale of the Company's activities to a coal mining equipment manufacturer, supplier and mining contractor.

For this reason, the Company is seeking Shareholder approval for the Merger under ASX Listing Rule 11.1.

If Shareholders approve the proposed change of activities under Resolution 1, the Company will be required to re-comply with the admission requirements of ASX set out in Chapters 1 and 2 of the ASX Listing Rules. Those requirements will include the Company issuing the Prospectus and successfully completing the Prospectus Capital Raising.

The Directors believe that all of the proposed Resolutions should be supported by Shareholders and in making this recommendation they have focused on their responsibility to Shareholders and rely on the opinion of the Independent Expert, noting that it has reached the view that the Merger is fair and reasonable to non-associated Shareholders.

## **2.2 Resolution 2 – In specie distribution of Discovery shares to Ausmet shareholders**

### **2.2.1 Background**

Under the Merger proposal we seek shareholders approval to undertake a capital return of Ausmet's beneficial interest in its existing exploration projects as well as fixed assets which include items such as office furniture. For the purpose of the proposal your Directors consider these assets to have a fair market valuation of around \$500,000. Prior to the proposed Merger Ausmet will transfer these assets into a wholly owned subsidiary, Discovery. Each shareholder in Ausmet as at the books closing date which is expected to be 7 March 2005 will then receive a pro-rata entitlement of 30,436,000 shares in Discovery, as consideration for this capital return.

Your Directors propose to undertake this capital return as the exploration of mining properties will not be a core business of Ausmet should the Merger be approved.

Post the proposed Merger, Discovery will be an unlisted public company with the Ausmet shareholders on record as at the books closing date, holding around 90% of the issued capital. The balance will be held by Ausmet who will ultimately move to 25% of the issued capital through proposed share issues over an 18 month period.

Under these proposed share issues, Ausmet will contribute a total of \$1,000,000 in working capital to Discovery.

The current Directors of Ausmet comprise the Board of Discovery and will seek to acquire projects suitable for a public listing. The assets sought will be from both the mining and industrial sectors.

It is the intention of Discovery to actively pursue the exploration or sale of the existing mining projects in Ausmet, which are to be transferred to it.

The proposed capital return will be equivalent to 1.648 cents per Ausmet share. Under normal circumstances no capital gains tax will be payable on this capital return, however the holding cost of each Ausmet share will be reduced by that amount. Shareholders are urged to seek independent tax advice should they require further information or believe that their personal circumstances may differ.

### **2.2.2 Section 256B of the Corporations Act**

Section 256B of the Corporations Act requires the Company to seek shareholder approval where it proposes to make a capital return to shareholders.

A company may reduce its share capital in a way that is not otherwise authorised by law if the reduction:

- a. is fair and reasonable to the company's shareholders as a whole; and
- b. does not materially prejudice the company's ability to pay its creditors ; and
- c. is approved by shareholders under section 256C.

The Director's believe the value place on the assets being returned to shareholders is fair and reasonable. The value of the shares in Discovery represent the value of the exploration tenements and plant and equipment owned by Discovery at the time of the in specie distribution. The Director's have a placed a value of the exploration tenements based upon discussions with third parties regarding the sale of these areas. The majority of the plant and equipment has been recently purchased and the Director's believe the current book value equates to its fair value. In summary, the Director's are of the opinion the total consideration of \$500,000 for the Discovery shares being returned is a fair and reasonable

Based upon the proforma balance sheet set out in Schedule 4, the Director's are also of the opinion that Ausmet's creditors will not be prejudiced by this transaction.

The Director's recommend shareholders approve Resolution 2 to maximise the value of the assets to Ausmet shareholders.

## **2.3 Resolution 3 and 4 – Issue of securities for the acquisition of Bounty**

### **2.3.1 Background**

On 10 November 2004, the Directors advised ASX that the Company had entered into the Heads of Agreement. The consideration for the acquisition of Bounty under the Merger at that stage was to be the allotment and issue of 71,030,000 Shares, and 35,436,000 Options to the Bounty Shareholders.

During the due diligence process the Directors renegotiated the consideration for the acquisition of Bounty under the Merger to the allotment and issue of 15,000,000 Shares and 25,000,000 Options to the Bounty Shareholders.

A further 10,000,000 Incentive Shares will be issued to Bounty Shareholders under Resolution 4, subject to the Company's Net Profit from Ordinary Activities after Tax exceeding \$8,000,000 for the financial year ended 30 June 2006.

Shareholders should note that whilst Shareholder approval is not being sought for the issue of the Incentive Shares for the purposes of ASX Listing Rule 7.1, approval is being sought for the issue of these Incentive Shares for all other purposes and Shareholders should take account of this additional prospective share issue at the time of voting.

Further details in respect of Bounty are set out throughout this Memorandum, in particular Section 1.2 and including the Independent Expert's Report. The Directors recommend you read this Memorandum in full.

The Corporations Act and the ASX Listing Rules set out a number of regulatory requirements which must be satisfied in relation to the issue of securities under the Merger. These are summarised below.

### **2.3.2 ASX Listing Rule 7.1**

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities, or other securities with rights of conversion to equity (such as an option), if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

One circumstance where an issue is not taken into account in the calculation of this 15% threshold is where the issue has the prior approval of shareholders in general meeting.

The Merger will result in Shares and Options being issued to the Bounty Shareholders. Accordingly, Shareholder approval is being sought in accordance with ASX Listing Rule 7.1 in order to issue Shares and Options to them.

ASX Listing Rule 7.3 requires that the following information be provided to Shareholders for the purposes of obtaining Shareholder approval pursuant to ASX Listing Rule 7.1:

- (a) the maximum number of securities to be issued by the Company is 15,000,000 Shares and 25,000,000 Options in the amounts set out in Schedule 1;
- (b) the allottees of the Shares and Options will be the Bounty Shareholders (or their nominees), as set out in Schedule 1;
- (c) the Shares and Options will be issued no later than 3 months after the date of this General Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated that allotment will occur on one date;
- (d) the Shares will be issued for a deemed consideration of \$0.20 each;
- (e) the Options will be issued on the terms and conditions set out in Section 2.3.3;
- (f) the Shares issued will rank equally with the existing Shares on issue; and
- (g) the Company will not be raising any funds from the issue of the Shares and Options as they are being issued in consideration for the acquisition of all of the issued shares in Bounty.

The Company has applied to the ASX for a waiver from ASX Listing Rule 7.3.2 in regards to Resolution 4. 10,000,000 Incentive Shares may be issued to Bounty Shareholders under Resolution 4, subject to the Company's Net Profit from Ordinary Activities after Tax exceeding \$8,000,000 for the financial year ended 30 June 2006. This performance milestone will not be determined until the Company has audited financial statements for the financial year ended 30 June 2006. As such the Company proposes to issue these on 30 October 2006. As the Company is trying to gain approval for the issue of shares more than 3 months after the date of the meeting, the Company has applied to the ASX for a waiver from the requirements of ASX Listing Rule 7.3.2. If the ASX waiver is not obtained prior to the general meeting Resolution 4 will be not form part of the business of the general meeting and shareholder approval for the issue of the Incentive Shares will have to be obtained at a later time as required by ASX Listing Rule 7.1.5(a).

### 2.3.3 Terms and conditions of Options

The terms and conditions of the Options are as follows:

- (a) the Options will be issued for no consideration;
- (b) each Option entitles the holder, when exercised, to one (1) Share;
- (c) the Options are exercisable at any time within 3 years of issue (**Expiry Date**).
- (d) the Option exercise prices are as follows:
  - 8,333,334 at thirty five (35) cents;
  - 8,333,333 at forty (40) cents;
  - 8,333,333 at forty five (45) cents; andthe Options are transferable, however, they may be subject to escrow restrictions imposed by ASX;
- (e) all Shares issued upon exercise of the Options will rank equally in all respects with the Company's issued Shares. The Company will apply for Official Quotation by ASX of all Shares issued upon exercise of the Options;
- (f) there are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the term of the Options. However, the Company will ensure that, for the purposes of determining entitlements to any issue, Option holders will be notified of the proposed issue at least seven (7) business days before the books closing date. This will give Option holders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue; and
- (g) in the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company prior to the Expiry

Date, the number of Options or the exercise price of the Options or both shall be re-constructed in accordance with ASX Listing Rules.

#### **2.3.4 Item 7 of Section 611 of the Corporations Act**

Pursuant to Section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point above 20% and below 90%.

The voting power of a person in a body corporate is determined in accordance with Section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

The "associate" reference includes a reference to a person:

- (a) who has the capacity to control a company;
- (b) a person who has the ability to control or influence the composition of a company's board or the conduct of a company's affairs; and
- (c) who is acting in concert in relation to a company's affairs.

A person has a relevant interest in securities if they:

- (a) are the holder of the securities;
- (b) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (c) have power to dispose of, or control the exercise of a power to dispose of, the securities.

If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

There are 19 Bounty Shareholders who will have different shareholdings in Ausmet upon completion of the Merger. The varying shareholdings are set out in Schedule 3 to this information memorandum.

The Directors of Ausmet have satisfied themselves through discussions with the major shareholders of Bounty and through written confirmation from the Chairman of Bounty, that the Bounty Shareholders are not "associates" of each other under the meaning of Section 610 of the Corporations Act. The Directors are comfortable that,



based on these investigations the Bounty Shareholders have no agreement, arrangement or understanding to exercise their individual shareholdings in Ausmet as an aggregated voting block and therefore based on the individual anticipated holdings of each of the Bounty Shareholders (see Schedule 3), neither they or any associates will control greater than 19.9% of the issued shares of Ausmet post the completion of the proposed merger.

Notwithstanding the above, it should be noted that the voting power of all the bounty Shareholders in Ausmet would, if aggregated together, exceed 20% on completion of the Merger.

Therefore, it is possible to be contended that the Bounty Shareholders are “associates” for the purposes of Section 610 of the Corporations Act due to the fact that they are all acting together for the single purpose of the transaction. Further, 3 of the proposed new Ausmet directors, post the Merger, are also currently beneficial holders of Bounty Shares. For the avoidance of doubt, the Board of Ausmet believes that it is appropriate to seek Ausmet Shareholder approval under Item 7 of Section 611 of the Corporations Act.

To enable shareholders to make an informed decision in that regard, information is required to be provided to Shareholders under ASIC Policy Statement 74 and the Corporations Act. That information is provided in this Explanatory Statement and in the Independent Expert’s Report prepared by Mr Le Page of RM Capital which forms part of this Explanatory Statement .

For the purposes of the Corporations Act, the following information is disclosed:

***Identity of persons who will hold a relevant interest in the Shares on completion of the Merger pursuant to the Merger Agreement***

The identity of each person that will hold a relevant interest in the Shares on completion of the acquisition pursuant to the Merger is set out in Schedule 3.

As at the date of this Memorandum, the Bounty Shareholders do not have any relevant interest in, and have no entitlement (other than under the terms of the Merger) to any Shares in the Company.

The maximum number of Shares held by the Bounty Shareholders on completion of the Merger and assuming conversion of all Options is 57,500,000.

Set out below are additional matters required to be disclosed in accordance with Item 7 of Section 611 of the Corporations Act being:

- (a) the maximum extent of the increase in voting power of the Bounty Shareholders (and their respective associates), in aggregate, is 56% and

the maximum voting power that the Bounty Shareholders and each of their associates would have as a result of the acquisition is, in aggregate, 56%.

Further details of the individual voting power of the Bounty Shareholders are set out in Schedule 3 and in the Independent Expert’s Report.

### *Premium for Control.*

The current Directors of Ausmet have addressed the question as to whether, in their opinion, the Bounty Shareholders (when considered as a whole) will in effect be deemed to be paying a premium for being deemed to control Ausmet as a result of the Merger. Whilst the Directors do not consider this control will arise as a matter of fact, the ASIC policy statement requires this to be considered. This deemed control would only be applicable if the Bounty Shareholders were considered as a whole and in a position in which they would or could vote Shares in Ausmet as a block. Notwithstanding the assurance the Directors of Ausmet have received in the relation to the individual position taken by the Bounty Shareholders the Directors have considered this matter of premium for control.

The concept of premium for control recognises that the value of a majority or controlling interest will be higher than the pro rata value of the interest. In the opinion of the Directors the Bounty Shareholders are paying a substantial premium for control as the value of the assets being acquired by Ausmet, from the company in which the Bounty Shareholders have their holding, is in excess of the value of the Ausmet Shares being provided as consideration for the acquisition of those assets.

### **Other Required Information**

The following further information is disclosed:

- (a) other than as disclosed elsewhere in this Explanatory Statement, the Bounty Shareholders do not propose to change the business or the current employment arrangements of the Company or redeploy any fixed assets of the Company;
- (b) the Company's head office may be relocated to Sydney;
- (c) there are no current proposals whereby any property of the Company will be transferred between the Company and the allottees, or any person associated with any of them;
- (d) the Bounty Shareholders do not have any present intention to inject further capital into the Company including no present intention to participate in the Prospectus Capital Raising (other than potentially through the exercise of the Options issued to them); and
- (e) the Bounty Shareholders have no current intention to change the Company's existing policies in relation to financial matters or dividends.

The Independent Export's Report prepared by Mr Le Page of RM Capital sets out a detailed examination of the proposed Merger to enable Shareholders to assess the merits and decide whether to approve the Resolutions necessary to implement the Merger.

To the extent that it is appropriate, the Independent Expert's Report sets out further information with respect to the proposed Merger and concludes that the Merger is fair and reasonable to the non associated Shareholders (being all of the current Ausmet

Shareholders given that the Bounty Shareholders have no current interest in Ausmet Shares).

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

### **2.3.5 Restricted Securities**

ASX has advised the Company that it is likely that some or all of the Shares and Options to be issued to the Bounty Shareholders in accordance with Resolution 3 will be restricted from trading for a period of between 12 and 24 months from the date the Company's securities are issued or readmitted respectively to trading on ASX following approval of the Merger at the General Meeting.

## **2.4 Resolution 5 - Issue of securities to Bounty Noteholders**

### **2.4.1 ASX Listing Rule 7.1**

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities, or other securities with rights of conversion to equity (such as an option), if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

One circumstance where an issue is not taken into account in the calculation of this 15% threshold is where the issue has the prior approval of shareholders in general meeting.

The Merger will result in Shares and Listed Options being issued to the Bounty Noteholders. Accordingly, Shareholder approval is being sought in accordance with ASX Listing Rule 7.1 in order to issue Shares and Listed Options to them.

ASX Listing Rule 7.3 requires that the following information be provided to Shareholders for the purposes of obtaining Shareholder approval pursuant to ASX Listing Rule 7.1:

- (h) the maximum number of securities to be issued by the Company is 5,000,000 Shares and 2,500,000 Listed Options in the amounts set out in Schedule 2;
- (i) the allottees of the Shares and Listed Options will be the Bounty Noteholders (or their nominees), as set out in Schedule 2;
- (j) the Shares and Listed Options will be issued no later than 3 months after the date of this General Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated that allotment will occur on one date;
- (k) the Shares will be issued for a deemed consideration of \$0.20 each;

- (l) the Listed Options will be issued on the terms and conditions set out in Section 2.4.2;
- (m) the Shares issued will rank equally with the existing Shares on issue; and
- (n) the Company will not be raising any funds from the issue of the Shares and Options as they are being issued in consideration for the extinguishment of Notes in Bounty.

#### **2.4.2 Terms and conditions of Listed Options**

The terms and conditions of the Listed Options are as follows:

- (h) the Listed Options will be issued for no consideration;
- (i) each Listed Option entitles the holder, when exercised, to one (1) Share;
- (j) the Listed Options are exercisable at any time prior to 31 December 2006;
- (k) the Listed Option exercise price is 20 cents;
- (l) the Listed Options are transferable, however, they may be subject to escrow restrictions imposed by ASX;
- (m) all Shares issued upon exercise of the Listed Options will rank equally in all respects with the Company's issued Shares. The Company will apply for Official Quotation by ASX of all Shares issued upon exercise of the Listed Options;
- (n) there are no participating rights or entitlements inherent in the Listed Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the term of the Options. However, the Company will ensure that, for the purposes of determining entitlements to any issue, Option holders will be notified of the proposed issue at least seven (7) business days before the books closing date. This will give Option holders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue; and
- (o) in the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company prior to the Expiry Date, the number of Options or the exercise price of the Options or both shall be re-constructed in accordance with ASX Listing Rules.

#### **2.4.3 Identity of persons who will hold a relevant interest in the Share and Listed Options on completion of the issue to Bounty Noteholders**

The identity of the persons that will hold a relevant interest in the Shares and Listed Options on completion of the issue to Bounty Noteholders are set out in Schedule 2.

#### **2.4.4 Restricted Securities**

The ASX may require of the Company that some or all of the Shares and Listed Options to be issued to the Bounty Noteholders in accordance with Resolution 5 will be restricted from trading for a period of between 12 and 24 months from the date the Company's securities are readmitted to trading on ASX following approval of the Merger at the General Meeting.

#### **2.5 Resolutions 6, 7 and 8 - Election of Directors**

The Proposed Merger provides that following completion of the Merger, the Board will be comprised of Mr Colin Knox (Bounty nominee), Mr Mark Gray (Bounty nominee), Mr Gary Williams (Ausmet and Bounty nominee), Mr Howard Dawson (Ausmet nominee) and Mr Malcolm Smartt (Ausmet nominee).

In accordance with the Constitution and the Corporations Act, the appointment of Directors must be made by resolution passed in a general meeting. Resolutions 6, 7 and 8 seek the election of Mr Colin Knox, Mr Mark Gray and Mr Gary Williams.

Set out below is a summary of the backgrounds of each the persons that will be appointed to the Board following completion of the Merger.

Mr Colin Knox has a number of degrees in science, economics and management including a Master of Public Policy from Harvard University. Colin has held chief executive roles with a number of large New Zealand based organisations including the Auckland Regional City Council. Colin lectures in Management at a senior Tertiary level in New Zealand and is currently writing his PhD.

Mr Mark Gray, as 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 law firm of Home Wilkinson Lowry, based in Sydney. Mark has extensive experience in company reconstructions, start-ups, capital raisings, both debt and equity, and was largely responsible for putting the Bounty Group of companies together.

Mr Gary Williams has more than 30 years experience in the underground coal mining industry both in Australia and internationally. He holds a first class NSW mine managers certificate. Gary is the Chief Executive Officer of the contract mining business of InCoal. Gary's primary role is business development and contract management.

#### **2.6 Resolution 9 - Change of name**

The new name proposed to be adopted under Resolution 9 is "Bounty Industries Limited". The Directors believe that this new name more accurately reflects the proposed future operations of the Company.

## 2.7 Resolution 10 – Allotment and Issue of Shares under Prospectus Capital Raising

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities or other securities with rights of conversion to equity (such as an option) if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

One circumstance where an issue is not taken into account in the calculation of this 15% threshold is where the issue has the prior approval of shareholders in a general meeting.

The Company is seeking Shareholder approval under this Listing Rule for the proposed issue of up to 30,000,000 Shares under the proposed Prospectus Capital Raising in order to preclude this number of securities from the calculation under ASX Listing Rule 7.1. This will enable the Company to have the flexibility to issue equity securities in the future up to the 15% threshold without the requirement to obtain Shareholder approval.

ASX Listing Rule 7.3 requires that the following information be provided to Shareholders when seeking an approval for the purposes of ASX Listing Rule 7.1:

- (a) the maximum number of securities to be issued under this prospectus issue is 30,000,000 Shares;
- (b) the Shares will be issued at a price of \$0.20 per Share ;
- (c) the Shares will be issued no later than three (3) months after the date of the General Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules);
- (d) the Shares issued will rank equally with the Company's current issued Shares;
- (e) it is intended that allotment of the Shares will occur on one date;
- (f) the Shares will be issued pursuant to the Prospectus; and
- (g) the Company intends to use the funds raised from the prospectus issue of the Shares for the following purposes:
  - (i) to fund the acquisition of plant and equipment to further expand Bounty's operations; and
  - (ii) to fund working capital requirements.

Further details on the use of funds will be set out in the Prospectus that will be issued in respect of the Prospectus Capital Raising.

## **2.8 Resolution 11 – Participation in Prospectus Capital Raising**

Certain Directors wish to participate in the Prospectus Capital Raising contemplated by Resolution 11. ASX Listing Rule 10.11 requires a listed company to obtain shareholder approval by ordinary resolution prior to the prospectus issue of securities (including an option) to a related party of the Company (which includes a director).

If Resolution 11 is passed, Mr Howard Dawson, Mr Malcolm Smartt and Mr Peter Strachan may apply to be issued Shares under the Prospectus Capital Raising. Accordingly, approval for the prospectus issue of securities to Mr Howard Dawson, Mr Malcolm Smartt and Mr Peter Strachan is required pursuant to ASX Listing Rule 10.11.

Separate approval pursuant to ASX Listing Rule 7.1 is not required in order to issue Shares to Mr Howard Dawson, Mr Malcolm Smartt and Mr Peter Strachan as approval is being obtained under ASX Listing Rule 10.11. Shareholders should note that the issue of securities to Mr Howard Dawson, Mr Malcolm Smartt and Mr Peter Strachan will not be included in the 15% calculation for the purposes of ASX Listing Rule 7.1.

ASX Listing Rule 10.13 sets out a number of matters which must be included in a notice of meeting proposing an approval under ASX Listing Rule 10.11. For the purposes of ASX Listing Rule 10.13, the following information is provided in relation to Resolution 11:

- (a) the maximum number of Shares to be issued by the Company is 125,000 to Mr Howard Dawson (or his nominee), 125,000 to Mr Malcolm Smartt (or his nominee) and 125,000 to Mr Peter Strachan (or his nominee);
- (b) the Shares will be issued at a price of \$0.20 each;
- (c) the Shares will be issued not later than one month after the date of this Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated that allotment will occur on one date; and
- (d) the Shares issued will rank equally with the Company's current issued Shares.

## **2.9 Resolution 12 – Approval of the Employee Option Plan**

This motion is put to shareholders, for the purposes of Listing Rule 7.2 (Exemption 9) and for all other purposes, to adopt the "Bounty Employee Option Plan".

The Directors consider it desirable to establish an option plan to be known as the Bounty Employee Option Plan (Option Plan) under which selected employees, directors and contractors may be offered the opportunity to subscribe for options in the Company in order to increase the range of potential incentives and strengthen the links between the Company, its directors, employees and contractors.

The Option Plan is enclosed at Schedule 6.

## 2.10 Resolution 13 – Approval of the Directors to Participate in Employee Option Plan

ASX Listing Rule 10.14 requires a listed company to obtain shareholder approval by ordinary resolution for the proposed Directors to participate in the Employee Option Plan (enclosed at Schedule 6). ASX Listing Rule 10.14 also requires the notice of meeting to make the necessary disclosures outlined in either Listing Rule 10.15 or 10.15A.

ASX Listing Rule 10.15A sets out a number of matters which must be included in a notice of meeting proposing an approval under ASX Listing Rule 10.14. For the purposes of ASX Listing Rule 10.15A, the following information is provided in relation to Resolution 13:

- (a) the maximum number of Options to be issued by the Company to the directors (or their nominees) is 2,000,000. The Directors have the authority under the Employee Option Plan to issue 5% of the total number of issued Shares as at the date the Options are to be issued. The accumulative number of options issued over a 5 year period can not exceed 5% of the total number of issued Shares. The total number of Options that could be issued to employees immediately after the general meeting assuming all resolutions are past is calculated as follows:

	<u>Shares</u>
Current issued Shares	30,436,000
Shares issued on acquisition of Bounty	15,000,000
Shares issued to extinguish of Bounty Notes	5,000,000
Total Shares	50,436,000

	<u>Options</u>
Maximum Employee Option Plan Pool (5%)	2,521,800
Maximum Director Option Pool	2,000,000

- (b) the Options will be issued for free and have exercise prices of \$0.35, \$0.40 and \$0.45. Each director issued Options under the Employee Option Plan will receive a third of their Options at the respective exercise prices of \$0.35, \$0.40 and \$0.45.
- (c) the expiry date of the Options is 3 years from date of issue.
- (d) as the approval of the Employee Option Plan is proposed under Resolution 12 no options have been issued under the plan as yet.
- (e) the directors to be approved to participate in the Employee Option Plan are Colin Knox, Mark Gray and Gary Williams.
- (f) the Options issued on the same under terms and conditions as the Employee Option Plan.



- (g) Voting Exclusion: The Company will disregard any votes cast on this resolution by Colin Knox, Mark Gray and Gary Williams and any of their associates.
- (h) details of any Options issued to Directors under the Employee Option Plan will be published in each annual report of the entity relating to the period in which Options have been issued, and that approval for the issue of the Options was obtained under listing rule 10.14.
- (i) any additional Directors who become entitled to participate in the Employee Option Plan after Resolution 13 is approved and who are not named in the notice of meeting will not participate until approval is obtained under Listing Rule 10.14.
- (j) the Shares will be issued not later than one year after the date of this Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated that allotment will occur on one date.
- (k) the maximum number of options that can be issued to Directors under the Employee Option Plan is 2,000,000. This number was chosen to provide the Directors with a reasonable level of incentive relative to the number of options to be issued in the total pool. Shareholders should note that the proposed 2,000,000 options is a maximum number and that the new Board of Ausmet, when deciding the respective allocations, could elect to reduce this number and instead provide increased options to non Directors instead.
- (l) there are no existing employment contracts in place with Mr Knox, Gray and Williams. Assuming the proposed merger is approved the new Board will meet to decide an appropriate remuneration policy. Messer's Knox, Gray and Williams are currently retained by the Company on a monthly basis for invoiced work at maximum rates of \$6,000, \$20,000, and \$12,500 per month respectively.
- (m) Ausmet listed on ASX on 30 April 2004. Since that date and the date of this Memorandum (20 January 2005) the share price has traded in the range of \$0.11 and \$0.22. As at the date of this Memorandum the share price is \$0.19.
- (n) on the basis that the 2,000,000 options is issued to the Directors, and is issued in 3 near equal tranches of 666,667 options exercisable at \$0.35, 666,667 options exercisable at \$0.40, and 666,666 options exercisable at \$0.45, a Black & Scholes determination of the unrealised benefit to the directors is \$126,667.
- (o) The Options have been valued by the directors using the Black & Scholes pricing model. The assumptions used to value the Options are as follows:
  - i. the last expiry date of the Options is 3 years from the date of issue;

- ii. these Options are exercisable in 3 near equal tranches of 666,667 options exercisable at \$0.35, 666,667 options exercisable at \$0.40, and 666,666 options exercisable at \$0.45,
- iii. the market price of the Shares is 20 cents (this being the Prospectus Capital Raising issue price);
- iv. a common volatility factor of 70% has been used. This is based on the history of share trading in the Shares since the announcement of the Bounty proposal in November 2004;
- v. an interest rate of 5.25% is being used;
- vi. the valuations ascribed to the Options may not necessarily represent the market price of the Options at the date of the valuation; and
- vii. the valuation date for the Options is 20 January 2005.

Based on the above, the Directors valued the Options as follows:

Options exercisable at 35 cents	0.070 cents
Options exercisable at 40 cents	0.063 cents
Options exercisable at 45 cents	0.057 cents

- (p) neither Messer's Knox, Gray nor Williams hold existing shares or options in Ausmet. However, they will receive share and options in Ausmet should shareholders approve the proposed merger. The respective shareholdings of Messer's Knox, Gray and Williams (Korihi Trust, Toucan Rock Ltd and Billiva Pty Limited - 1, respectively) are detailed in schedules 1 & 2 attached to this Memorandum.
- (q) the Directors of Ausmet recommend that shareholders approve this Employee Option Plan.

## **2.11 Resolution 14 - Issue of Listed Options to Malcolm Carson**

### **2.11.1 ASX Listing Rule 7.1**

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities, or other securities with rights of conversion to equity (such as an option), if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

One circumstance where an issue is not taken into account in the calculation of this 15% threshold is where the issue has the prior approval of shareholders in general meeting.

The Merger will result in Shares and Listed Options being issued to the Malcolm Carson in consideration for his past and future consulting services. Accordingly, Shareholder approval is being sought in accordance with ASX Listing Rule 7.1 in order to issue then Listed Options to Mr Carson.

ASX Listing Rule 7.3 requires that the following information be provided to Shareholders for the purposes of obtaining Shareholder approval pursuant to ASX Listing Rule 7.1:

- (o) the maximum number of securities to be issued by the Company to Malcolm Carson (or his nominee) is 500,000 Listed Options;
- (p) the allottees of the Listed Options will be Malcolm Carson (or his nominee);
- (q) the Listed Options will be issued no later than 3 months after the date of this General Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated that allotment will occur on one date;
- (r) the Listed Options will be issued on the terms and conditions set out in Section 2.4.2;
- (s) the Company will not be raising any funds from the issue of the Listed Options as they are being issued in consideration for consulting services.

## GLOSSARY

**2004 Prospectus** means the prospectus issued by the Company in January 2004.

**ASIC** means Australian Securities and Investments Commission.

**ASX** means Australian Stock Exchange Limited.

**ASX Listing Rules** or **Listing Rules** means the Listing Rules of ASX.

**Bounty** means Bounty Industries Australia Pty Ltd (ACN 104 530 887).

**Bounty Shareholders** means the shareholders in Bounty set out in Schedule 1. These noteholders have agreed to convert \$1,000,000 in current notes into shares and options in Ausmet.

**Bounty Noteholders** means the noteholders in Bounty set out in Schedule 2.

**Bounty Noteholder Conversion** means the conversion by certain Bounty Noteholders of \$1,000,000 in current interest bearing securities in Bounty to 5,000,000 Shares and 2,500,000 Options in Ausmet.

**Board** means the board of directors of the Company.

**Prospectus Capital Raising** means the proposed raising of up to \$6 million under the Prospectus.

**Company** and **Ausmet** means Ausmet Resources Limited (ABN 19 107 411 067).

**Constitution** means the Company's constitution.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Directors** means the current directors of the Company.

**Existing Option** means an option to acquire a Share that is issued at the date of the Memorandum.

**Explanatory Statement** means the explanatory statement to the Memorandum.

**General Meeting** means the meeting convened by the Notice.

**Heads of Agreement** means the heads of agreement executed by Ausmet and Bounty on 10 November 2004, and the deed of variation of heads of agreement executed by Ausmet and Bounty on 6 January 2005.

**Independent Expert's Report** means the independent expert's report prepared by Mr Guy Le Page of RM Capital which forms part of this Memorandum.

**Incentive Shares** means the ordinary shares to be issued under Resolution 4.

**Listed Option** means Options as defined at Section 2.4.2.

**Memorandum** means this information memorandum.

**Merger** means the acquisition by the Company of all of the shares in Bounty in return for the issue of securities in the Company to the Bounty Shareholders in accordance with the details set out in Section 1 of the Explanatory Statement.

**Merger Agreement** means the agreement between the Company and Bounty to implement the Merger.

**Net Profit from Ordinary Activities after Tax** means in accordance with applicable Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. Net Profit from Ordinary Activities after Tax will also exclude any profit of sale of non current assets.

**Notice** means the notice of meeting which forms part of this Memorandum.

**Official List** means the ASX official list.

**Option** means an option to acquire a Share under the Merger on the terms set out in Section 2.3.3 of the Explanatory Statement.

**Performance Milestone** is met if the Company's Net Profit from Ordinary Activities after Tax exceeds \$8,000,000 for the financial year ended 30 June 2006.

**Prospectus** means the prospectus to be issued by the Company for the purposes of the Prospectus Capital Raising and implementing the Merger.

**Resolutions** means the resolutions set out in the Notice, or any one of them, as the context requires.

**Return of Capital** means the pro rata distribution of 30,436,000 shares in Discovery to those Shareholders in Ausmet on record as at the books closing date.

**Settlement** means settlement of the Merger on the terms of the Merger Agreement.

**Share** means a fully paid ordinary share in the capital of the Company.

**Share Purchase Agreement** means the binding agreement between Ausmet and the Bounty Shareholders for the sale of their shares in Bounty to Ausmet.

**Transfer of Assets** means the transfer of exploration and fixed assets in Ausmet to Discovery.

## SCHEDULE 1

### BOUNTY SHAREHOLDERS

Vendors	No. of Shares to be issued under Resolution 3 on Completion of the Merger Agreement	No. of Shares to be issued under Resolution 4 on the Performance Milestone being met	No. of Options to be issued under Resolution 3
Korihi Family Trust	3,634,411	2,422,944	6,057,361
Toucan Rock Ltd	2,886,147	1,924,098	4,810,245
Billiva Pty Limited	3,288,450	2,192,300	5,480,751
Billiva Pty Limited	371,597	247,731	619,329
Billiva Pty Limited	371,597	247,731	619,329
Toucan Enterprises Ltd	1,214,410	809,607	2,024,016
Toucan Enterprises Ltd	276,322	184,214	460,536
Toucan Enterprises Ltd	138,030	92,020	230,049
Toucan Tango Ltd	1,214,410	809,607	2,024,016
Bounty Industries New Zealand Ltd	183,784	122,522	306,306
Bounty Industries New Zealand Ltd	183,784	122,522	306,306
Bounty Industries New Zealand Ltd	91,235	60,823	152,058
Malcolm Anthony Carson	115,143	76,762	191,904
Gregory James Cox	334,589	223,059	557,649
Ian Steele	52,338	34,892	87,228
John Armstrong	52,338	34,892	87,228
Martin Regan	277,389	184,926	462,315
Matthew Roger Alan Whiting	157,013	104,675	261,687
Lisa Alene Hicks	157,013	104,675	261,687
<b>TOTAL</b>	<b>15,000,000</b>	<b>10,000,000</b>	<b>25,000,000</b>

## SCHEDULE 2

### BOUNTY NOTEHOLDERS

<b>Vendors</b>	<b>No. of Shares to be issued under Resolution 5</b>	<b>No. of Options to be issued under Resolution 5</b>
Korihi Family Trust	2,247,205	1,123,602
Jam Family Trust	875,000	437,500
Robert Moffat	530,600	265,300
Robert Davidson	530,600	265,300
Billiva Pty Ltd	816,595	408,298
<b>TOTAL</b>	<b>5,000,000</b>	<b>2,500,000</b>

### SCHEDULE 3

#### VOTING POWER OF BOUNTY SHAREHOLDERS

Vendors	Voting Power after issue of Consideration Shares under Resolution 3 & 4	Voting Power if all Options convert to Shares	Voting Power if all Incentive Shares under are issued
Korihi Family Trust	11.7%	14.0%	15.0%
Toucan Rock Ltd	7.5%	9.7%	10.6%
Billiva Pty Limited	8.1%	10.7%	11.8%
Billiva Pty Limited	0.7%	1.1%	1.2%
Billiva Pty Limited	0.7%	1.1%	1.2%
Toucan Enterprises Ltd	3.5%	4.3%	4.7%
Toucan Enterprises Ltd	0.5%	0.8%	0.9%
Toucan Enterprises Ltd	0.3%	0.4%	0.4%
Toucan Tango Ltd	3.5%	4.3%	4.7%
Bounty Industries New Zealand Ltd	0.4%	0.5%	0.6%
Bounty Industries New Zealand Ltd	0.4%	0.5%	0.6%
Bounty Industries New Zealand Ltd	0.2%	0.3%	0.3%
Malcolm Anthony Carson	0.2%	0.3%	0.4%
Gregory James Cox	0.7%	1.0%	1.1%
Ian Steele	0.1%	0.1%	0.2%
John Armstrong	0.1%	0.1%	0.2%
Martin Regan	0.5%	0.8%	0.9%
Matthew Roger Alan Whiting	0.3%	0.4%	0.5%
Lisa Alene Hicks	0.3%	0.4%	0.5%
<b>TOTAL</b>	<b>39.7%</b>	<b>51.0%</b>	<b>55.7%</b>

\* The table set out above is based on the capital structure set out Schedule 5 of the Explanatory Statement and the assumption that no Existing Options are exercised.



## SCHEDULE 4

### PRO-FORMA STATEMENT OF FINANCIAL POSITION

	Unaudited 31 December 2004 \$	Unaudited Pro-forma 31 December 2004 \$
<b>CURRENT ASSETS</b>		
Cash assets	1,470,949	7,193,967
Receivables	25,636	1,046,928
Loan to Bounty	1,500,000	-
Inventories	-	520,284
Other	10,016	499,232
<b>TOTAL CURRENT ASSETS</b>	<b>1,506,601</b>	<b>9,260,411</b>
<b>NON-CURRENT ASSETS</b>		
Receivables	1,512,000	-
Investments	-	1,000,000
Plant and equipment	23,391	10,223,337
Intangibles	-	59,759
<b>TOTAL NON-CURRENT ASSETS</b>	<b>1,535,391</b>	<b>11,283,096</b>
<b>TOTAL ASSETS</b>	<b>3,041,992</b>	<b>20,543,507</b>
<b>CURRENT LIABILITIES</b>		
Payables	79,123	1,404,806
Borrowings	-	1,385,677
Provisions	5,127	25,127
<b>TOTAL CURRENT LIABILITIES</b>	<b>84,250</b>	<b>2,815,610</b>
<b>NON CURRENT LIABILITIES</b>		
Borrowings	-	2,443,102
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>-</b>	<b>2,443,102</b>
<b>TOTAL LIABILITIES</b>	<b>84,250</b>	<b>5,258,712</b>
<b>NET ASSETS</b>	<b>2,957,742</b>	<b>15,284,795</b>
<b>EQUITY</b>		
Contributed equity	3,208,165	13,465,665
Option reserve	-	1,817,286
Accumulated losses	(250,423)	(27,845)
Outside equity interest	-	29,689
<b>TOTAL EQUITY</b>	<b>2,957,742</b>	<b>15,284,795</b>

The Pro-Forma Statement of Financial Position of the Company as at 31 December 2004 has been prepared on the assumption that the following transactions had taken place at that date:

- (a) The acquisition of Bounty via the issue of 15,000,000 fully paid ordinary shares on completion of the Proposed Merger, 10,000,000 fully paid ordinary shares on satisfying the Performance Milestone and 25,000,000 Options. The value assigned to the acquisition of Bounty is based on the table below:

	No. Issued	Value per security \$	Total value \$
Shares on completion of merger agreement	10,000,000	0.20	2,000,000
Shares on satisfying the Performance Milestone	15,000,000	0.12	1,200,000
Options exercisable at 35 cents	8,333,334	0.070	579,275
Options exercisable at 40 cents	8,333,333	0.063	522,248
Options exercisable at 45 cents	8,333,333	0.057	473,732
<b>Total</b>	<b>50,000,000</b>		<b>5,775,255</b>

- (b) The issue of 5,000,000 shares of \$0.20 each and 2,500,000 Listed Options in consideration for the extinguishment of \$1,000,000 worth of certain Notes owed by Bounty Industries Australia Pty Ltd;
- (c) The issue of 500,000 Listed Options to Malcolm Carson in consideration for past and future services provided to both Ausmet and Bounty;
- (d) The issue of 30,000,000 shares of \$0.20 each to raise \$6,000,000 pursuant to a Prospectus. The Company will not issue the New Shares until the minimum subscription of \$3,000,000 is satisfied. If only the minimum subscription is raised then cash and contributed equity in the proforma balance sheet will be reduced by \$3,000,000;
- (e) The settlement of costs incurred by the Company of \$442,500 in relation to the Prospectus. These costs are recognised directly in equity as a reduction of the share proceeds received in accordance with UIG 23 "Transaction costs arising on the issue of equity instruments";
- (f) The demerger of Ausmet's existing exploration projects and plant and equipment into Discovery for \$500,000. Consideration being settled by the issue of 3,381,805 ordinary shares in Discovery.
- (g) Discovery's right to put \$1,000,000 shares to Ausmet over 18 months.

## SCHEDULE 5

### PRO-FORMA CAPITAL STATEMENT

The effect the Merger and the Resolutions contained within the Notice will have on the capital structure of the Company is as follows:

<b>Shares</b>	<b>Number</b>
Current	30,436,000
Acquisition of Bounty under the Merger	15,000,000
Extinguishment of Bounty Notes	5,000,000
Public Offer	30,000,000
TOTAL	<u>80,436,000</u>
<b>Existing Options</b>	
Current	15,218,000
Acquisition of Bounty under the Merger	25,000,000
Extinguishment of Bounty Notes	2,500,000
Malcolm Carson	500,000
TOTAL	<u>43,218,000</u>

In addition to the above, a total of 10,000,000 Shares will be allotted and issued to the Bounty Shareholders subject to the Net Profit from Ordinary Activities after Tax for Ausmet exceeding \$8,000,000 for the financial year ended 30 June 2006.

**SCHEDULE 6**

**TERMS AND CONDITIONS OF EMPLOYEE OPTION PLAN**

**Ausmet Resources Limited**

to be renamed

**Bounty Industries Australia Limited**

ABN 19 107 411 067

**EMPLOYEE OPTION PLAN**

---

## TABLE OF CONTENTS

<b>1.</b>	<b>Definitions and Interpretation</b>	<b>1</b>
1.1	Definitions	1
1.2	Interpretation	1
<b>2.</b>	<b>Invitations and Eligibility</b>	<b>1</b>
<b>3.</b>	<b>Applications</b>	<b>1</b>
<b>4.</b>	<b>Terms of Options</b>	<b>1</b>
<b>5.</b>	<b>Acceptance and Issue</b>	<b>1</b>
<b>6.</b>	<b>Limitations</b>	<b>1</b>
<b>7.</b>	<b>Powers of Directors</b>	<b>1</b>
<b>8.</b>	<b>Rights of Participants</b>	<b>1</b>
<b>9.</b>	<b>Termination</b>	<b>1</b>
<b>10.</b>	<b>Governing Law</b>	<b>1</b>
	<b>Schedule</b>	<b>1</b>

---

## 1. DEFINITIONS AND INTERPRETATION

### 1.1 Definitions

In this Plan, unless the context otherwise requires:

**Associate** means a body corporate that is an associate of the Company by virtue of Division 2 of Part 1.2 of the Corporations Act.

**ASX** means Australian Stock Exchange Limited (ABN 98 008 624 691).

**Board** means the board of Directors as constituted from time to time.

**Business Day** has the meaning given by Chapter 19 of the Listing Rules.

**Company** means Ausmet Resources Limited (ABN 19 107 411 067).

**Contractor** means a contractor who:

- (a) has been engaged by the Company or an Associate for more than one year; and
- (b) has received 80% or more of his, her or its income (as the case may be) in the preceding year from the Company or the Associate (as the case may be).

**Corporations Act** means the *Corporations Act 2001*.

**Directors** means the directors of the Company or an Associate from time to time and **Director** means any one of them.

**Employee** means a person who is an employee of the Company or an Associate on a full-time or part-time basis.

**Holder** means the registered holder of an Option issued pursuant to this Plan.

**Invitation** means an invitation to apply for the issue of Options pursuant to this Plan.

**Listing Rules** means the listing rules of ASX and any other rules of ASX which are applicable while the Company is admitted to the Official List, each as amended or replaced from time to time, except to the extent of any express written waiver by ASX.

**Official List** means the official list of entities that ASX has admitted and not removed.

**Option** means an option to subscribe for a Share.

**Participant** means an Employee, a Contractor or a Director.

**Schedule** means the schedule to this Plan.

**Share** means an ordinary share in the capital of the Company.

### 1.2 Interpretation

In this Plan:

- 
- (a) headings are for convenience only and do not affect interpretation;

and unless the context indicates a contrary intention:

- (b) a reference to this Plan or to any other agreement, deed or document, includes respectively, this Plan or that other agreement, deed or document as amended, novated, supplemented, varied or replaced from time to time;
- (c) words importing the singular include the plural (and vice versa), words denoting a given sex include the other sex, and words denoting individuals include corporations (and vice versa);
- (d) references to currency are references to the legal currency of Australia;
- (e) references to any legislation, or to any section or provision of any legislation, includes any statutory modification or re-enactment or any statutory provision substituted for it, and any ordinances, by-laws, regulations and other statutory instruments issued under such legislation;
- (f) references to parties, rules or schedules are references to parties, rules or schedules to, or of, this Plan and a reference to this Plan includes any schedule;
- (g) a reference in a schedule to a paragraph is a reference to a paragraph of that schedule;
- (h) if any day appointed or specified by this Plan for the payment of any money or doing of any thing falls on a day which is not a Business Day, the day so appointed or specified shall be deemed to be the next Business Day;
- (i) references to payments to any party shall be construed to include payments to another person upon the direction of such party; and
- (j) all payments to be made under this Plan must be made by unendorsed bank cheque or other immediately available funds and in Australian currency.

## **2. INVITATIONS AND ELIGIBILITY**

Subject to the Corporations Act and the Listing Rules, the Directors may, in their absolute discretion at any time, issue an Invitation (in such form as the Directors may determine from time to time) to a Participant upon and subject to the terms and conditions of this Plan.

## **3. APPLICATIONS**

- (a) Upon receipt of an Invitation, a Participant may apply for the issue of Options (up to the number specified in the Invitation) by completing the application form accompanying the Invitation (in such form as the Directors may determine from time to time) (**Application**) and sending it to the address or facsimile number specified in the Invitation.
- (b) The Application must be received by the Company within the acceptance period specified in the Invitation (**Acceptance Period**).

---

#### **4. TERMS OF OPTIONS**

- (a) Subject to the Corporations Act and the Listing Rules, the Directors may, in their absolute discretion, determine the terms of Options issued pursuant to this Plan.
- (b) In the event the Directors elect not to exercise their discretion pursuant to Rule 4(a) or otherwise fail to do so, then subject to the Corporations Act and the Listing Rules, the terms specified in the Schedule shall apply in respect of each Option issued pursuant to this Plan PROVIDED THAT the Directors must specify the exercise price and the expiry date in respect of each Option prior to the date of issue.

#### **5. ACCEPTANCE AND ISSUE**

- (a) The Directors may, in their absolute discretion, reject any Application.
- (b) Upon acceptance of an Application, the Company shall issue the relevant number of Options to the Participant within 10 Business Days of the expiration of the relevant Acceptance Period.

#### **6. LIMITATIONS**

The Directors must not issue an Invitation if the aggregate of the Shares that:

- (a) would be issued pursuant to the exercise of all Options the subject of the proposed Invitation; and
- (b) have been issued pursuant to all employee share schemes established by the Company during the previous 5 years,

exceeds 5% of the total number of issued Shares as at the date the proposed Invitation is considered.

#### **7. POWERS OF DIRECTORS**

Subject to the Corporations Act, the Listing Rules and this Plan, the Directors shall have the power to:

- (a) determine appropriate procedures for administration of this Plan from time to time;
- (b) resolve conclusively all questions of fact or interpretation arising in relation to, or in connection with, this Plan;
- (c) amend or modify this Plan from time to time; and
- (d) delegate to any one or more persons for such period and on such conditions as they may determine from time to time, the exercise of any of the Directors' powers or discretions arising under this Plan.



---

**8. RIGHTS OF PARTICIPANTS**

Unless otherwise expressly included in a contract of employment, this Plan shall not form part of any contract of employment between the Company (or any Associate) and any Participant and shall not confer, either directly or indirectly on any Participant, any legal or equitable right whatsoever against the Company (or any Associate).

**9. TERMINATION**

- (a) Subject to Rule 9(b), this Plan may be terminated by the Directors at any time.
- (b) The termination of this Plan pursuant to Rule 9(a) shall not affect the rights of Holders in respect of Options issued prior to the date of termination.

**10. GOVERNING LAW**

This Plan is governed by, and shall be construed in accordance with, the laws of the State of Western Australia.

---

## SCHEDULE

### Standard Option Terms

Subject to the Directors specifying the exercise price and the expiry date in respect of each Option prior to the date of issue, the following terms shall apply in respect of each Option issued pursuant to Rule 4(b).

1. Each Option carries the right to subscribe for one Share.
2. During the 2 year period commencing from the date of issue of Options issued pursuant to an Application (**Qualifying Period**), a Holder may only exercise the percentage of Options issued (**Exercisable Interest**) as set out below:

<b>Period of continuous employment or directorship since date of issue of Options</b>	<b>Exercisable Interest (%)</b>
Less than 6 months	0
From 6 months to 1 year	25
From 1 year to 18 months	50
From 18 months to 2 years	75
More than 2 years	100

If a Holder is the nominee of a Participant, the Exercisable Interest shall be determined by reference to the period of continuous employment or directorship of the Participant during the Qualifying Period.

3. If a Holder ceases to be a Participant during the Qualifying Period for any reason (other than death or disability), the Holder must exercise the Exercisable Interest within 3 months from the date the Holder ceases to be a Participant otherwise the Options will expire and cease to carry any rights or benefits. If a Holder is the nominee of a Participant, the Holder may only exercise the Exercisable Interest within 3 months from the date the Participant ceases to be a Participant.
4. Options may be exercised by a Holder delivering to the Company's registered office a notice (in a form prescribed by the Company from time to time) stating the number of Options to be exercised (**Notice**) together with the relevant Option certificate(s) and a cheque made payable to the Company for an amount equal to the exercise price for each Option being exercised.
5. Within 5 Business Days of receipt of a properly executed Notice and all application monies in respect of the Options being exercised, the Company shall issue the relevant Shares and deliver notification of shareholdings to the relevant Holder.
6. The Company shall, within 7 days of the date of issue, make application to ASX for quotation of Shares issued pursuant to an exercise of Options.
7. Shares issued pursuant to an exercise of Options shall, from the date of issue, rank pari passu with all other Shares on issue.

- 
8. Options shall not be transferred or assigned by a Holder except with the prior written consent of the Directors.
  9. Options shall not be quoted on ASX.
  10. Subject to any right a Holder may have as a holder of Shares, Holders may only participate in new issues of securities to holders of Shares if Options have been exercised and the relevant Shares issued prior to the record date for determining entitlements to the issue. The Company shall give notice to Holders (as required under the Listing Rules) of any new issues of securities prior to the record date for determining entitlements to the issue.
  11. If there is a bonus issue to holders of Shares (**Bonus Issue**), the number of Shares over which an Option is exercisable shall be increased by the number of Shares which a Holder would have received if the Option had been exercised prior to the record date for determining entitlements to the Bonus Issue (**Bonus Shares**). The Bonus Shares shall be paid up out of the profits or reserves of the Company in the same manner as is applied in the Bonus Issue and shall, from the date of issue, rank pari passu with all other Shares on issue.
  12. If there is a pro rata issue (other than a Bonus Issue) to holders of Shares during the currency of, and prior to the exercise of, any Options, the exercise price of the Options shall be adjusted in the manner provided by the Listing Rules.
  13. If, prior to the expiration of any Options, there is a reorganisation of the issued capital of the Company (including, but not limited to, a consolidation, subdivision, cancellation, reduction or return of capital), the rights of Holders shall be changed to the extent necessary to comply with the Listing Rules.

January 18<sup>th</sup>, 2005

The Directors

Ausmet Resources Limited

Level 1, 89 St Georges Terrace

PERTH WA 6000



**RM Capital**

Australian Financial Services Licensee (221938)

RM Capital Pty Ltd  
ABN 074 065 412 820

PO Box Z 5278  
St Georges Tce  
Perth WA 6831

Ph: 61 8 9321 3277

Fx: 61 8 9321 8399

Dear Sirs,

## Independent Experts Report

### 1.0 BACKGROUND

The directors of Ausmet Resources Limited ("Ausmet" or "the Company") have engaged Mr Guy Le Page of RM Capital Pty Ltd ("RM Capital") to prepare an Independent Experts Report ("the Report") as to whether the proposed merger and acquisition of 100% of the issued capital of Bounty Industries Australia Pty Ltd (ACN 104 530 887) ("Bounty" or "the Vendors") and the de-merger of Ausmet's mineral exploration assets into a new unlisted public company, Discovery Capital Limited, ("Discovery") is fair and reasonable to the Ausmet shareholders ("Shareholders"). The acquisition of Bounty and the de-merger of Ausmet's mining assets are together referred to as "the Transaction" throughout this Report.

Ausmet are proposing to issue a total of 15,000,000 fully paid ordinary shares ("Shares") at a deemed price of 20 cents per Share to Bounty shareholders, 25,000,000 unlisted options in three tranches of 8,333,334, 8,333,333, and 8,333,333 to acquire Shares at various strike prices between 35 to 45 cents each on or before three years following the completion of the Transaction and a further 10,000,000 Shares on the condition that the full year 30<sup>th</sup> June 2006 Net Operating Profit after Tax is greater than \$8 million. As a condition of the proposed merger a number of existing Bounty note holders will convert \$1,000,000 in current debt to 5,000,000 Shares and 2,500,000 options (exercisable at 20 cents each on or before 31<sup>st</sup> December 2006) in Ausmet.

Ausmet intend to incorporate Discovery as a wholly owned subsidiary of Ausmet with issued capital of 30,436,000 fully paid ordinary shares and transfer to Discovery all of Ausmet's mining tenements and fixed and depreciable assets for \$500,000 which will be loaned by Ausmet to Discovery. This loan will be converted into 3,381,805 Shares prior to the completion of the Transaction. Subject to *inter alia*, Shareholder approval, it is proposed to distribute 30,436,000 shares *in specie* to the Shareholders who are on record on the books close which will be prior to completion of the Transaction. Discovery will also hold an option to put 6,763,612 new ordinary shares in Discovery to Ausmet to raise \$1,000,000. Discovery are also proposing to provide Ausmet with a call option whereby Ausmet and/or its shareholders may elect to underwrite up to \$1,000,000 in respect of an initial public offering of Discovery, which will take place no earlier than 18 months after completion of the Transaction. Full details on this Transaction are set out in Section 5.0 of this Report and in a Notice of Meeting and Explanatory Memorandum for the Company to be held on or around 25<sup>th</sup> February 2005 ("Notice of Meeting and Explanatory Memorandum").

## 2.0 CONTENTS

<b>1.0</b>	<b>BACKGROUND</b>	<b>1</b>
<b>2.0</b>	<b>CONTENTS</b>	<b>2</b>
<b>3.0</b>	<b>PURPOSE OF THE REPORT</b>	<b>3</b>
<b>4.0</b>	<b>SUMMARY AND OPINION</b>	<b>3</b>
4.1	FAIRNESS	3
4.2	REASONABLENESS	4
<b>5.0</b>	<b>OUTLINE OF THE TRANSACTION</b>	<b>4</b>
5.1	SUMMARY	4
5.2	BOUNTY INDUSTRIES AUSTRALIA PTY LTD	5
5.2.1	Background and Corporate Structure	5
5.2.2	Bounty Group-Operations Overview	6
5.2.3	Low profile Mining	6
5.2.4	Mining Contracts	6
5.2.5	Business Plan	7
5.3	CONSIDERATION – ACQUISITION OF BOUNTY & DE-MERGER OF MINERAL ASSETS	8
5.4	PRO FORMA CAPITAL STRUCTURE	10
5.5	PROPOSED BOARD APPOINTMENTS	10
5.6	DE-MERGER OF MINING ASSETS	11
<b>6.0</b>	<b>BASIS OF EVALUATION</b>	<b>11</b>
<b>7.0</b>	<b>BACKGROUND OF AUSMET</b>	<b>12</b>
<b>8.0</b>	<b>VALUATION OF AUSMET</b>	<b>13</b>
8.1	VALUATION METHODOLOGIES	14
8.2	VALUATION METHODOLOGIES SELECTED	14
<b>9.0</b>	<b>VALUATION OF AUSMET PRE-TRANSACTION</b>	<b>14</b>
9.1	ASSET BASED VALUATION OF AUSMET PRE-TRANSACTION	15
9.2	QUOTED MARKET PRICE VALUATION OF AUSMET	16
9.2.1	Share Price History	16
9.2.2	Weighted Average Market Price	16
9.2.3	Valuation Based on Market Price	17
9.2.4	Summary of Valuations pre-Transaction	17
<b>10.0</b>	<b>VALUATION OF AUSMET POST-TRANSACTION</b>	<b>17</b>
10.1	POST TRANSACTION STATEMENTS OF FINANCIAL POSITION	17
10.1.1	Asset based Valuation	17
10.1.2	DCF Valuation	20
10.2	QUOTED MARKET PRICE VALUATION OF AUSMET	24
10.2.1	Weighted Average Market Price	24
10.2.2	Summary of Valuations post Transaction	24
<b>11.0</b>	<b>IS THE TRANSACTION FAIR?</b>	<b>24</b>
<b>12.0</b>	<b>IS THE TRANSACTION REASONABLE?</b>	<b>24</b>
12.1	ADVANTAGES OF ACCEPTING THE TRANSACTION	25
12.1.1	Exposure to mining contracts	25
12.1.2	Increase in Valuation of Ausmet	25
12.1.3	Potential to expand business operations	25
12.1.4	Exposure to Low Profile Mining Expertise	25
12.1.5	Potential decrease in risk to Ausmet operations	26
12.1.6	Decrease in reliance on financial markets	26
12.2	DISADVANTAGES OF ACCEPTING THE TRANSACTION	26
12.2.1	Operating Risk of Low Profile Mining	26
12.2.2	Volatility of Resource Sector	26
12.2.3	Dilution of Ausmet's interest in exploration projects	26
<b>13.0</b>	<b>INDEPENDENCE AND DISCLOSURE OF INTERESTS</b>	<b>27</b>
<b>14.0</b>	<b>QUALIFICATIONS</b>	<b>27</b>
<b>15.0</b>	<b>DISCLAIMERS AND CONSENTS</b>	<b>27</b>
	<b>SOURCES OF INFORMATION</b>	<b>29</b>

### 3.0 PURPOSE OF THE REPORT

Listing Rule 7.1 of the Australian Stock Exchange Ltd (“ASX”) requires that a listed company obtain shareholders approval prior to the issue of shares representing more than 15% of that company in any 12 month period. The proposed issue of securities (see Section 5.0) to the Vendors will contravene the provisions of ASX Listing Rule 7.1 unless the prior approval of shareholders in a General Meeting is obtained.

Under section 611 (item 7) of the Corporations Act, section 606 does not apply in relation to any acquisition of shares in a company approved by resolution passed at a general meeting at which no votes were cast in favour of the resolution by the acquirer or the disposer or their respective associates. This Report is required to resolve as to whether the Transaction is fair and reasonable pursuant to section 611 (item 7) of the meeting.

Furthermore Listing Rule 11.1 of ASX *inter alia* requires that a listed company obtain shareholder approval prior to a significant change in the nature or scale of its activities. The proposed Transaction will result in a change of activities for Ausmet from mineral exploration to coal mine equipment manufacture, leasing and contracting. In addition ASX require that Ausmet comply with Chapter 1 and 2 of ASX Listing Rules.

To assist Shareholders in making a decision on the Transaction, the directors have requested that RM Capital prepare a Report that must state whether, in the opinion of the independent expert, the Transaction is fair and reasonable to the Shareholders.

### 4.0 SUMMARY AND OPINION

In the opinion of RM Capital, the Transaction is **fair and reasonable** to the Shareholders.

#### 4.1 Fairness

As set out in section 11.0 RM Capital determined that the value of Ausmet Shares prior to and post the Transaction is as follows:

Table 1: Ausmet valuation summary	Pre-Transaction Section 9.0		Post-Transaction Section 10.0	
	Low	High	Low	High
Ausmet valuation per share	12.1	14.1	20.0	54.9

RM Capital has formed the opinion that the Transaction is fair as the value of Ausmet post the Transaction is greater than the value of Ausmet prior to the Transaction.

## 4.2 Reasonableness

ASIC Policy Statement 75 states that an offer is reasonable if it is fair. Notwithstanding this, RM Capital has also had regard to other relevant considerations in assessing the reasonableness of the Transaction. Further details are set out in Section 12 and summarized in Table 2.

**Table 2: Advantages and Disadvantages of accepting the Transaction**

Section	Advantages	Section	Disadvantages
12.1.1	Exposure to mining contracts	12.2.1	Operating Risk of Low Profile Mining
12.1.2	Increase in Valuation of Ausmet	12.2.2	Volatility of Resource Sector
12.1.3	Potential to expand business operations	12.2.3	Dilution of Ausmet's interest in exploration projects
12.1.4	Exposure to Low Profile Mining Expertise		
12.1.5	Potential decrease in risk to Ausmet operations		
12.1.6	Decrease in reliance on financial markets		

## 5.0 OUTLINE OF THE TRANSACTION

### 5.1 Summary

Ausmet announced to ASX on 10<sup>th</sup> November 2004 that it had signed a Heads of Agreement to merge with Bounty, a privately owned New South Wales based contract coal mining equipment manufacturer, supplier and mining contracting company. This merger is subject, *inter alia*, to Shareholder approval, due diligence to the satisfaction of the Ausmet and Bounty directors and compliance with all ASX, Australian Securities and Investments Commission ("ASIC") and other statutory regulations. Following this merger, Ausmet intends to change its name to Bounty Industries Limited and recompose the Board to include three members of Bounty's existing board of directors. Ausmet also propose to de-merge its existing mining assets into a new unlisted company. It is proposed that existing Shareholders will own 75% of this new company and the merged Ausmet/Bounty will own 25% (Section 5.0), post the Transaction.

The merger will expose Ausmet to a company with a number of long term conventional and low profile coal mining contracts and agreements in Australia. Low profile coal mining is a well established mining technique and accounts for over 100 million tonnes per annum of coal production in the United States of America. The geology and configuration of many coal deposits in Australia is suitable for the application of such low profile mining techniques. Low profile mining activity (mostly high grade coking coal) is expected to increase as thicker coal seams deteriorate in quality or become mined out.

Based on existing contracts, agreements and projected contracting work, Ausmet has provided accounts to RM Capital that forecast annual consolidated revenues to grow to in excess of \$70 million over the next 2½ years and the Company is budgeting for a net operating profit after tax in excess of \$4.5 million for the year ending 30<sup>th</sup> June 2006. For the purposes of this Report, RM Capital has accepted that additional contracts, currently the subject of advanced negotiations, are likely to materialize. Based on this scenario, the cash flow projections of Bounty indicate a net operating profit after tax for the year ending 30<sup>th</sup> June 2006 will exceed \$6.0 million. For the purposes of the low valuation however, RM Capital has relied only on existing mining contracts and agreements.

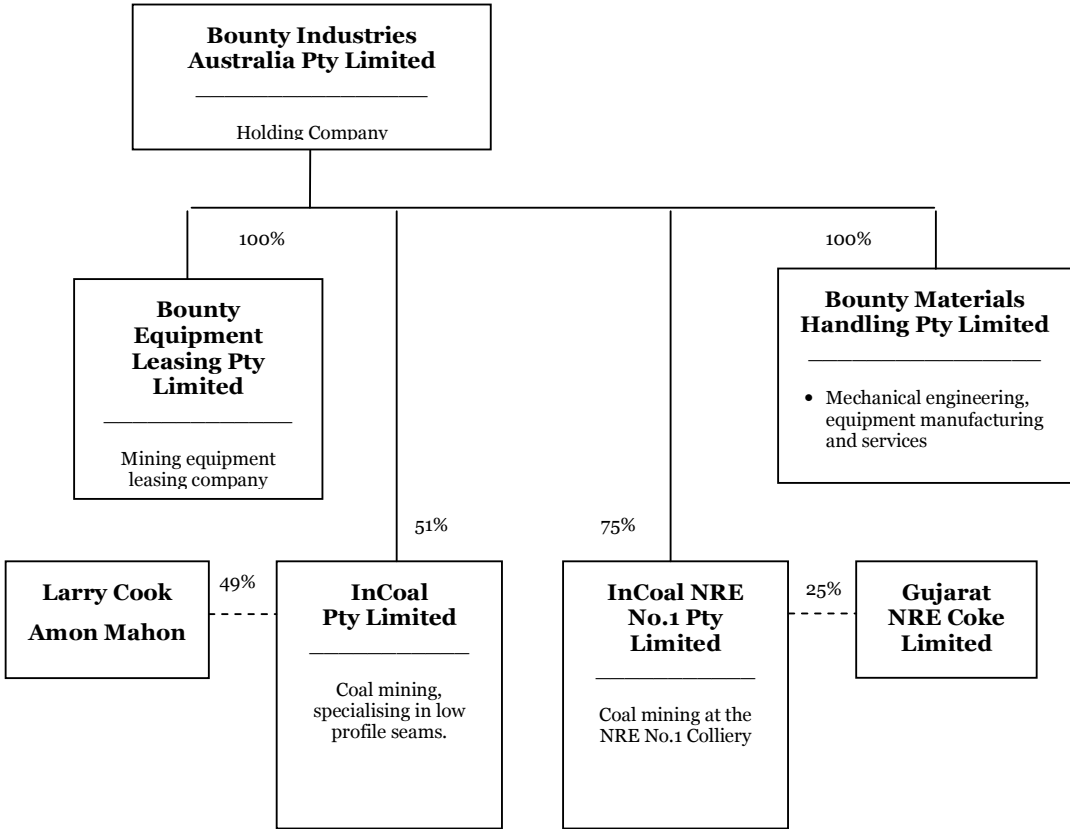
**5.2 Bounty Industries Australia Pty Ltd**

**5.2.1 Background and Corporate Structure**

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

- i. Bounty Materials Handling Pty Limited (Bounty: 100%) ("BMH"), a mechanical engineering business specialising in materials handling machinery particularly in the coal mining industry;
- ii. Bounty Equipment Leasing Pty Limited (Bounty: 100%) ("Bounty Equipment Leasing"), a thin and thick seam coal mining equipment leasing company, and
- iii. In Coal Pty Limited (Bounty: 51%) a low profile mining company, and In Coal NRE No 1 Pty Ltd, a company that owns the colliery mining contract from Gujarat NRE Australia Pty Limited ("Gujarat NRE").

The corporate structure is represented as follows:





### **5.2.2 Bounty Group-Operations Overview**

The Bounty Group recently completed a mining contract in Queensland and has contracted to commence two coal mining assignments in New South Wales in the first half of 2005.

Revenue is derived from coal mining contracting, the leasing of coal mining equipment and the manufacture and maintenance of coal mining equipment.

### **5.2.3 Low profile Mining**

InCoal specialises, but does not practise exclusively, low profile or thin seam coal mining operations. This mining technique is relatively new to Australian mines, however this mining methodology has been implemented successfully in the United States ("US") for over 50 years. Thin coal seams (<1.50m in width) in the US currently produce in excess of 100 million tonnes per annum.

The minority principals of InCoal have over 45 years combined experience in low profile mining. This expertise is supported by additional US thin seam coal miners principally from West Virginia.

The mining of thin coal seams is likely to play an increasingly important role in Australia for the following reasons:

- i. Thick seams are now heavily exploited and are in decline; and
- ii. Thin seams often have superior metallurgical properties that are in high demand in the steel industry. This allows for blending with lower quality coal that is likely to obtain a pricing premium.

### **5.2.4 Mining Contracts**

Bounty currently has one venture agreement (anticipated by Ausmet to be superseded by a mining contract), one mining contract, and is in advanced negotiations for a third mining contract.

#### **Gujarat NRE Australia Pty Limited at NRE No.1 Colliery, Wollongong**

InCoal NRE was formed to retain a long term mining assignment with Gujarat NRE in respect to the NRE No.1 Colliery in Wollongong. Mining may extend beyond 15 years based on the current resource estimates and will include the exploitation of a number of thin seams including the Bulli (2 metre wide seam) and the Balgownie seams (1.6 metre wide seam), as well as the right to mine the Wongawilli seam (10 metres).

Mining is expected to commence between April and June 2005 and is currently under final negotiation with Gujarat NRE, with the main terms and conditions already agreed (Venture agreement). Nearly one million tonnes of coal is anticipated to be mined in the twelve months to June 2006. This is expected to increase to around 1.7 million tonnes in the following year.

Gujarat NRE is a subsidiary of Gujarat NRE Coke Limited ("Gujarat Coke"), a publicly listed company in India with a market capitalisation of approximately Rs 1.0 billion. Gujarat Coke is a coal processor and the largest non-captive manufacturer of low-ash metallurgical coke. Gujarat Coke imports large quantities of high quality coking coal from Australia and New Zealand, which has the advantage of very low ash content and very high hot strength.

#### **Underground Colliery, NSW**

InCoal has a contract to mine around 500,000 tonnes from an underground mine owned by one of Australia's largest coal miners. This contract is expected to take up to nine months to complete and is expected to commence in February 2005. This contract may be extended to the mining of an additional three million tonnes of thermal coal providing up to four years further mining for InCoal.

#### **Underground Colliery, Central Queensland**

Bounty is currently in negotiations for a third mining contract at an underground coal mine situated in Central Queensland owned by a major multi national mining group. Bounty is currently negotiating a 2 million tonnes per annum contract to mine coking coal in a thin seam (1.5 metre seam height) for five years with the possibility of extension for a further five years.

### **5.2.5 Business Plan**

In addition to mining contracting, Bounty plans to manufacture and introduce an innovative system of continuous haulage for the underground coal mining into the Australian market. This system is already in use overseas and has the potential to improve coal production rates of continuous mining in underground Australian coal mines.

Critical to the growth of Bounty will be the implementation of low profile coal mining practices into Australian underground coal mines. It is proposed that 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.

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.

### 5.3 Consideration – Acquisition of Bounty & De-merger of Mineral Assets

Subject to, *inter alia*, shareholder approval, Ausmet proposes to issue the following consideration to Bounty:

- i. 15,000,000 Shares to Bounty shareholders at a deemed price of 20 cents per share, and
- ii. 8,333,334 unlisted options to acquire Shares at 35 cents each on or before 31<sup>st</sup> January 2008, and
- iii. 8,333,333 unlisted options to acquire Shares at 40 cents each on or before 31<sup>st</sup> January 2008
- iv. and 8,333,333 unlisted options to acquire Shares at 45 cents each on or before 31<sup>st</sup> January 2008, and
- v. A number of existing Bounty note holders will convert \$1,000,000 in current debt to 5,000,000 Shares and 2,500,000 options (options to acquire Shares at 20 cents each on or before 31<sup>st</sup> December 2006) in Ausmet, and
- vi. 10,000,000 Shares issued on the condition that the full year 30<sup>th</sup> June 2006 Net Operating Profit after Tax (excluding extraordinary items) is greater than \$8 million.

Other conditions of the Transaction, *inter alia*, are:

- i. That Mr Malcolm Carson is issued with a total of 500,000 options in Ausmet (options to acquire Shares at 20 cents each on or before 31<sup>st</sup> December 2006).
- ii. That Ausmet establish and implement an Employee Option Scheme.

In addition it is proposed to de-merge the mineral exploration assets of Ausmet by incorporating a public company as a wholly owned subsidiary of Ausmet (Discovery) with issued capital of 30,436,000 fully paid ordinary shares and to transfer to Discovery all of Ausmet's mining tenements and fixed and depreciable assets for \$500,000 which amount will be loaned by Ausmet to Discovery. This loan will be converted into 3,381,805 ordinary fully paid shares at \$0.14785 per share prior to the completion of the Transaction.

Prior to the completion of the merger, Ausmet are proposing to effect a capital return through a pro rata *in speciem* distribution of 30,436,000 shares in Discovery held by Ausmet to Ausmet shareholders on the register on a date to be specified prior to the implementation of the Transaction. Discovery will also hold an option to put a total of 6,763,612 new ordinary shares in Discovery at an issue price of \$0.14785 to raise \$1,000,000 to Ausmet on the following terms and conditions:

- i. Up to 2,705,444 shares immediately upon completion of the Transaction, to be issued no later than within 7 days of such completion, provided that the subscription monies payable by Ausmet for the new shares would not cause the net assets in Ausmet, immediately prior to completion of the Transaction, to be less than \$2,500,000;

- ii. 1,690,903 shares on the 13 month anniversary of completion of the Transaction to raise \$250,000; and
- iii. 1,690,903 shares no later than the 18 month anniversary of completion of the Transaction to raise \$250,000.

Discovery are also proposing to provide Ausmet with a call option whereby Ausmet and/or its Shareholders may elect to underwrite up to \$1,000,000 in respect of an initial public offering of Discovery shares.

## 5.4 Pro Forma Capital Structure

The pro-forma capital structure of the Company, assuming full subscription to the \$6,000,000 capital raising at 20 cents per share (Notice of Meeting and Explanatory Memorandum), is summarised as follows:

<b>TABLE 3: Ausmet capital structure</b>	<b>Current</b>	<b>Consid- eration</b>	<b>Malcolm Carson</b>	<b>**Debt Conversion</b>	<b>Equity Raising</b>	<b>Total Equity</b>
Ausmet Shares	30,436,000	15,000,000		5,000,000	30,000,000	80,436,000
* Ausmet Shares		10,000,000				10,000,000
Listed options - 20c - 31/12/2006	15,218,000		500,000	2,500,000		18,218,000
Unlisted options – ex 35c - 31/1/2008		8,333,334				8,333,334
Unlisted options – ex 40c - 31/1/2008		8,333,333				8,333,333
Unlisted options – ex 45c - 31/1/2008		8,333,333				8,333,333
<b>TOTALS</b>	<b>45,654,000</b>	<b>50,500,000</b>	<b>500,000</b>	<b>7,500,000</b>	<b>30,000,000</b>	<b>133,654,000</b>

\*10,000,000 Shares issued on the condition that the full year 30<sup>th</sup> June 2006 Net Profit after Tax (excluding extraordinary items) is greater than \$8 million.

\*\*Current Note Holders in Bounty are required to convert \$1,000,000 of debt into 5,000,000 Shares in Ausmet and 2,500,000 options to acquire Shares at 20 cents each on or before 31<sup>st</sup> December 2006 subject to, *inter alia*, Shareholder approval at the General Meeting of Ausmet to be held on or around 18<sup>th</sup> February 2005.

## 5.5 Proposed Board Appointments

The following board structure is proposed in the Notice of Meeting and Explanatory Memorandum:

- i. **Mr Colin Knox**, currently the chairman of Bounty, will assume the role of Non-Executive Chairman of Ausmet. 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.
- ii. **Mr Mark Gray**, who is currently an executive director of Bounty, will assume the role of Chief Executive. Mark is a corporate and banking lawyer and is a partner with the law firm of Home Wilkinson Lowry, based in Sydney.
- iii. **Mr Gary Williamson** has more than 30 years experience in the underground coal mining industry both in Australia and internationally. He holds a first class NSW mine managers certificate. Gary is the Chief Executive Officer of the contract mining business of InCoal. Gary's primary role is business development and contract management.
- iv. **Mr Malcom Smartt**, currently a non-executive director of Ausmet, will remain with the Company as a non-executive director.
- v. **Mr Howard Dawson**, currently Chairman of Ausmet, will remain with the Company as a non executive director.

## 5.6 De-Merger of Mining Assets

Ausmet are also seeking Shareholder approval to undertake a de-merger of its existing mining assets into Discovery. Immediately post completion of the proposed Merger Discovery will be 90% owned by existing Ausmet Shareholders and 10% by Ausmet. Over the course of 18 months this will change to 75% and 25% respectively as Discovery exercises a put option with Ausmet to raise capital.

These shareholdings assume the distribution in specie of the Discovery shares to eligible Ausmet shareholders (immediately prior to the Transaction) and once Ausmet has converted all debt to equity under the convertible loan arrangement (as set out in the Notice of Meeting and Explanatory Memorandum to be held on or around 18th February 2005).

It is proposed that the directors of Discovery will comprise existing Ausmet directors Howard Dawson, Peter Strachan and Malcom Smartt.

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

It is proposed that the distribution in specie of shares in Discovery will be on a pro-rata basis to Shareholders with an entitlement date still to be determined, but expected to be prior to the Ausmet General Meeting to be held on or around 18<sup>th</sup> February 2005.

## 6.0 BASIS OF EVALUATION

In preparing this report, RM Capital has considered the relevant ASIC practice notes and policy statements, in particular ASIC Policy Statement 75, which, *inter alia*, states:

- i. An offer is considered “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.
- ii. An offer is considered “reasonable” if it is fair or, if the offer is “not fair” it may still be reasonable after considering other significant factors which justify the acceptance of the offer in the absence of a higher bid.

Hence the Transaction would be considered fair to Shareholders if the value of the assets being acquired is greater than the consideration being offered.

ASIC Policy Statement 75 also provides examples of factors that are relevant in an assessment of reasonableness.

An assessment of the fairness and reasonableness of the Transaction is set out in sections 11 and 12 of this Report.

## 7.0 BACKGROUND OF AUSMET

Ausmet is a mineral exploration company that listed on ASX on 30<sup>th</sup> April 2004 raising a total of \$3,432,000 (before expenses of the Offer) via the issue of 17,160,000 Shares together with 8,580,000 options to acquire Shares at 20 cents each on or before 31<sup>st</sup> December 2006.

The capital structure of Ausmet as at 31<sup>st</sup> December 2004 is summarized as follows:

<b>TABLE 4: Ausmet Capital Structure</b>	<b>Current</b>
Shares	30,436,000
Listed options – exercisable at 20c on or before 31/12/2006	15,218,000
Approximate cash position	\$1,500,000
Share Price	\$0.18
Market Capitalisation-undiluted	\$5,478,480
Market Capitalisation-diluted	\$8,217,720

The top 10 Shareholders as at 31<sup>st</sup> December 2004 is set out in table 5.

<b>TABLE 5: Top 10 Ausmet shareholders as @ 31<sup>st</sup> December 2004</b>			
	<b>Name</b>	<b>Number</b>	<b>%</b>
1	Deep Yellow Limited	4,000,000	13.14%
2	Mr Howard Graham Dawson & Mrs Leith Valerie Dawson <Family A/C>	3,150,000	10.35%
3	Mr Malcom Keith Smartt	750,000	2.46%
4	Mr Ian Murray Charles Palmer	500,000	1.64%
5	Lgd Investments (WA) Pty Ltd <Detata Family A/C>	450,000	1.48%
6	Gold Services Industries Pty Ltd <Bambino Family Account>	439,100	1.44%
7	Reads IT Pty Ltd	407,000	1.34%
8	Rojex Mining Services Pty Ltd <Superannuation Fund A/C>	300,000	0.99%
9	Mr Malcom Keith Smartt & Mrs Janice Leonie Smartt	300,000	0.99%
10	Mr Matthew James Maxwell Telling <Maxwell Telling Family A/C>	300,000	0.99%
		10,596,100	34.82%

The top 10 option holders of Ausmet as at 31<sup>st</sup> December 2004 is set out in table 6.

<b>TABLE 6: Top 10 Ausmet optionholders as @ 31<sup>st</sup> December 2004</b>			
	<b>Name</b>	<b>Number</b>	<b>%</b>
1	Deep Yellow Limited	2,000,000	13.14%
2	Mr Howard Graham Dawson & Mrs Leighth Dawson <Family A/C>	1,575,000	10.35%
3	Mr Malcom Keith Smartt & Mrs Janice Leonie Smartt	375,000	2.46%
4	Lgd Investments (WA) Pty Ltd <Detata Family A/C>	356,990	2.35%
5	Gold Services Industries Pty Ltd <Bambino Family Account>	500,000	3.29%
6	Mr Edwin Greble	250,000	1.64%
7	Mr Ian Murray Charles Palmer	250,000	1.64%
8	Idameneo (No 79) Nominees Pty Limited	240,000	1.58%
9	Gold Services Industries Pty Ltd <Bambino Family A/C>	219,550	1.44%
10	Mr Brent Lyons <The Lyons Family A/C>	208,450	1.37%
		5,974,990	39.26%

The spread of Ausmet share and options holders as at 31<sup>st</sup> December 2004 is set out in table 7:

	<b>Range</b>	<b>Total Holders</b>	<b>Units</b>	<b>% Issued Capital</b>
1	1,000	1	1,000	0.00%
1,001	5,000	3	12,000	0.04%
5,001	10,000	54	532,550	1.75%
10,001	100,000	301	13,460,279	44.22%
100,001	5,000,000	44	16,430,171	53.98%
Total		403	30,436,000	100.00%

The Company has a suite of gold exploration projects located in Western Australia and the Northern Territory (table 8):

<b>Project</b>	<b>Tenement</b>	<b>Status</b>	<b>Interest</b>	
Dingo Range	E37/769	Granted	100%	
	E37/794	Application	100%	
	M37/108	Granted	100%	
	M37/519	Granted	100%	AN –Authority – North
	M37/1167	Application	100%	EL- Exploration License
Batchelor	EL 9253	Granted	Earning 60%	ERL-Exploration retention lease
	EL 9501	Granted	Earning 60%	
	ERL 134	Granted	Earning 60%	MLN-Mineral Lease - North
	MLN 512-515	Granted	Earning 60%	
	MLN 542-543	Granted	Earning 60%	
	MLN 1984	Application	Earning 60%	
	AN 495	Application	Earning 60%	
	AN 515	Application	Earning 60%	
Throssell	E38/1648-1651	Application	100%	

Ausmet's lead exploration project is Dingo Range, with a measured, indicated and inferred gold resource of 306,000 ounces of gold. Higher-grade gold mineralisation potential is interpreted by the Company to exist at depth. Within the greater Dingo Range Project area a number of structural and geochemical anomalies have been identified.

The Batchelor Project also has a number of advanced gold targets ready for drill testing. Within the Batchelor Project there are approximately 8 kilometres of lightly explored contact zone, which is the preferred host for mineralisation in the area.

## **8.0 VALUATION OF AUSMET**

Determinations of valuation seek to determine what a willing but not anxious buyer, acting at arms length, with adequate information, would be prepared to pay and a willing, but not anxious seller would be prepared to accept in an open market.



## 8.1 Valuation Methodologies

The methodologies considered in the valuation of Ausmet prior to the Transaction are as follows:

- i. **Capitalisation of Future Maintainable Earnings (“FME”)**: This method places a value on the asset or business by estimating the likely future maintainable earnings to shareholders, capitalised at an appropriate rate, which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.
- ii. **Discounted future cash flows (“DCF”)**: The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on the future net cash flows discounted to their present value at an appropriate discount rate. This discount rate reflects an opportunity cost of capital reflecting the expected rate of return, which investors can obtain from investments having equivalent risks.
- iii. **Net asset value on a going concern basis (“NTA”)**: NTA is usually appropriate where the majority of assets consist of cash or passive investments. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity’s valuation. Generally the FME and DCF methodologies are used in valuing assets forming part of the overall NTA valuation.
- iv. **Quoted market price basis**: Where there is a ready market for securities such as ASX through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon stock exchanges. The use of stock exchange pricing is more relevant where a security displays regular high volume trading, demonstrating a ‘deep’ market in that security.

## 8.2 Valuation Methodologies Selected

Three valuation methods have been employed in the valuation of Ausmet both pre and post Transaction. An NTA valuation has been selected as the primary methodology in valuing Ausmet pre-Transaction as Ausmet does not have any operating assets, therefore cash flow or earnings methods of valuation could not be employed. As a supporting valuation for the NTA valuation of Ausmet pre Transaction, RM Capital has also had regard to the quoted price of Ausmet shares on ASX.

Post Transaction RM Capital has applied NTA, market price and DCF methods of valuation. The DCF methodology is applicable as Bounty currently has mining contracts that are expected to generate a cash flow.

## 9.0 VALUATION OF AUSMET PRE-TRANSACTION

The value of Ausmet before the Transaction has been determined after considering the NTA and quoted market price methodology in the following sections.

## 9.1 Asset based valuation of Ausmet pre-Transaction

The Balance Sheet of Ausmet as at 30<sup>th</sup> November 2004 is as follows. No adjustments have been made to the Balance Sheet by RM Capital and the value of the exploration assets of Ausmet have been written off.

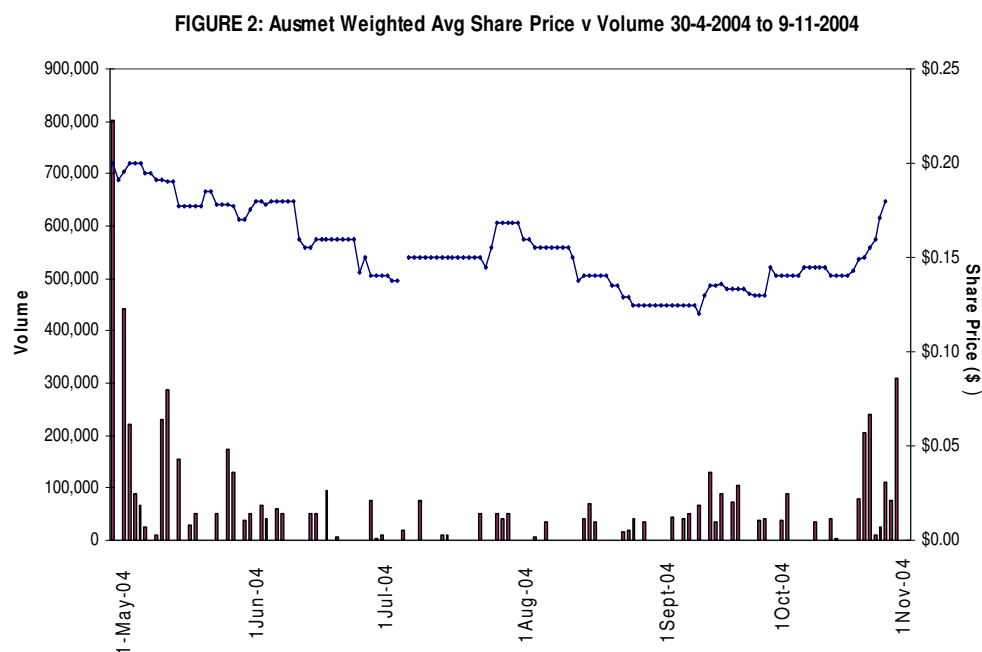
<b>Table 9: Ausmet Pre transaction balance sheet</b>	<b>Unaudited Ausmet Balance Sheet 30 Nov 2004</b>
<b>Current Assets</b>	
Cash Assets	\$1,470,949
Inventory	\$0
Receivables	\$25,636
Loan to Bounty	\$1,500,000
Other	\$10,016
<b>Total Current Assets</b>	<b>\$3,006,601</b>
<b>Non Current Assets</b>	
Receivables	\$12,000
Investment in Bounty	\$0
Investment in Discovery	
Plant & Equipment	\$23,391
Intangibles	
<b>Total Non Current Assets</b>	<b>\$35,391</b>
<b>Total Assets</b>	<b>\$3,041,992</b>
<b>Current Liabilities</b>	
Payables	\$79,123
HP Liability	
Provisions	\$5,127
Loans	
<b>Total Current Liabilities</b>	<b>\$84,250</b>
<b>Non Current Liabilities</b>	
Loans	
HP Liability	
Preference shares	
<b>Total Non Current Liabilities</b>	<b>\$0</b>
<b>Total Liabilities</b>	<b>\$84,250</b>
<b>Net Assets</b>	<b>\$2,957,742</b>
<b>Net Assets per Share</b>	<b>9.7 cents</b>

## 9.2 Quoted Market Price Valuation of Ausmet

RM Capital has assessed ASX market price for Ausmet securities to determine the value of Ausmet before the Transaction.

### 9.2.1 Share Price History

The following chart provides a summary of the daily weighted average share prices and volumes of Ausmet Shares from the 30<sup>th</sup> April 2004 (listing date on ASX) to the day prior to the announcement of the Transaction (9<sup>th</sup> November 2004).



#### Notes:

- 1 Volume is daily volume traded on market.
- 2 Share price is weighted average on market price for the same period.
- 3 On 10<sup>th</sup> November 2004 Ausmet announced the Transaction.

The daily price of Ausmet Shares from 30<sup>th</sup> April 2004 to 9<sup>th</sup> November 2004 has varied from a high of 22 cents on 30<sup>th</sup> April 2004 to a low of 12.5 cents on 22<sup>nd</sup> September 2004.

### 9.2.2 Weighted Average Market Price

RM Capital has also considered the weighted average market price for 10, 30 and 60 day periods from 30<sup>th</sup> April 2004.

<b>Table 10: Ausmet Shares</b>	<b>9-Nov-04</b>	<b>10 days</b>	<b>30 days</b>	<b>60 days</b>
Closing Price (cents per share)	18.5			
Weighted Average Price (cents per share)		15.9	15.4	14.5

Analysis of the Ausmet share price history indicates that there was an increase in the Company's share price leading up to 9<sup>th</sup> November 2004. This increase could have been a combination of the increased strength in the mining sector and anticipation of results from a number of drilling programmes the company had announced.

### 9.2.3 Valuation Based on Market Price

Based on the weighted average market prices in section 9.2.2 RM Capital's assessment is that a range of values for Ausmet securities based on market prices is as follows:

<b>Table 11: Ausmet Valuation per Share</b>	<b>Low</b>	<b>High</b>
ASX Market Price (cents per share)	14.5	18.5

### 9.2.4 Summary of Valuations pre-Transaction

The results of the pre Transaction valuations are summarized in table 12:

<b>Table 12: Ausmet Pre-Transaction valuation</b>	<b>Section</b>	<b>Low</b>	<b>High</b>
NTA Valuation (cents per share)	9.1	9.7	9.7
ASX Valuation (cents per share)	9.2.3	14.5	18.5
<b>RM Capital Valuation</b> (cents per share)		<b>12.1</b>	<b>14.1</b>

In assessing the above valuation, RM Capital has considered the following:

- i. The NTA valuation is based on the balance sheet as at 30<sup>th</sup> November 2004 and no potential upside is incorporated in the net asset value, and
- ii. Ausmet securities are thinly traded and the market price data outlined in section 9.0 of this Report may not reflect the true value of Ausmet.

## 10.0 Valuation of Ausmet post-Transaction

A summary of the transaction is set out in section 10.1 of this Report.

### 10.1 Post Transaction statements of financial position

#### 10.1.1 Asset based Valuation

RM Capital has prepared a post Transaction pro forma statement of financial position on the pro forma accounts of Ausmet as at 30<sup>th</sup> November 2005, showing the position after material movements post this date have been included. Table 13 illustrates an increase in NTA per share at fair value following material movements, if the Shareholders approve the Transaction. The pre Transaction adjustments are detailed in Section 10.1. Accounting consolidation requirements, apply because Bounty is a 100% owned subsidiary of Ausmet.

**TABLE 13:** Ausmet Pre & Post-  
Transaction Asset based valuation

	<b>Unaudited Ausmet 30-Nov 2004</b>	<b>Unaudited Proforma Consolidated</b>
<b>Current Assets</b>		
-Cash Assets	\$1,470,949	\$7,193,967
-Inventory	\$0	\$520,284
-Receivables	\$25,636	\$1,046,928
-Loan to Bounty	\$1,500,000	-
-Other	\$10,016	\$499,232
<b>Total Current Assets</b>	<b>\$3,006,601</b>	<b>\$9,260,411</b>
<b>Non Current Assets</b>		
-Receivables	\$12,000	\$0
-Investment in Discovery Capital		\$1,000,000
-Plant & Equipment	\$23,391	\$8,617,565
-Intangibles		\$1,665,531
<b>Total Non Current Assets</b>	<b>\$35,391</b>	<b>\$11,283,096</b>
<b>Total Assets</b>	<b>\$3,041,992</b>	<b>\$20,543,507</b>
<b>Current Liabilities</b>		
-Payables	\$79,123	\$1,404,806
-HP Liability		\$18,245
-Provisions	\$5,127	\$25,127
-Loans		\$1,367,432
<b>Total Current Liabilities</b>	<b>\$84,250</b>	<b>\$2,815,610</b>
<b>Non Current Liabilities</b>		
-Loans		\$2,382,262
-HP Liability		\$60,840
-Preference shares		\$0
<b>Total Non Current Liabilities</b>	<b>\$0</b>	<b>\$2,443,102</b>
<b>Total Liabilities</b>	<b>\$84,250</b>	<b>\$5,258,712</b>
<b>Net Assets</b>	<b>\$2,957,742</b>	<b>\$15,284,795</b>
Net Assets per Share	9.7	19.0
Net Tangible Assets per Share	9.7	16.9

Notes to the accounts presented in Table 13:

- i. As the Transaction involves the issue of vendor securities (securities that may be escrowed for up to two years), a discount for lack of marketability should be applied to the value of the securities being received under normal valuation procedures. However, ASIC Policy Statement 75 requires the fair and reasonable basis to be assessed on a 100% ownership test and as such, no adjustment has been made to the valuation;
- ii. The concept of premium for control recognises that the value of a majority or controlling interest will be higher than the pro-rata value of the interest. It could be argued that the Vendors are paying a premium for control as the value of Ausmet shares will increase if the Transaction takes place. However, although the Vendors will in aggregate have the ability to control Ausmet, it cannot be said with certainty that all the Vendors will act in concert in the future;
- iii. The Pro-Forma statement of financial position has not accounted for the dilutionary effect that will occur in the event that any options are exercised;
- iv. The NTA per share has not assumed the issue of 10,000,000 shares to Bounty on the condition that the full year 30<sup>th</sup> June 2006 Net Profit after Tax (excluding extraordinary items) is greater than \$8 million (Section 5.3);
- v. Existing Bounty note holders will convert \$1,000,000 in current debt to 5,000,000 Shares and 2,500,000 options (same as existing options) in Ausmet (Section 5.3).
- vi. The Net Assets and Net Tangible Assets per share have assumed the issue of a total of 30,000,000 Shares to raise a total of \$6,000,000 (less expenses of the issue) pursuant to the Notice of Meeting and Explanatory Memorandum (Section 5.4);
- vii. It has been assumed that Ausmet will loan Discovery a total of \$500,000 that will be later converted into 3,381,805 shares at \$0.14785 per share prior to the completion of the Transaction.
- viii. The pro forma statement of financial position assumes the exercise of the Put Option to Ausmet by Discovery to put a total of 6,763,612 new ordinary shares in Discovery at an issue price of \$0.14785 to raise \$1,000,000. The terms and conditions are set out in Section 5.3, and
- ix. Shareholder approval is granted for the Transaction pursuant to the Notice of Meeting and Explanatory Memorandum.

### 10.1.2 DCF Valuation

As outlined in Section 8.1, the DCF valuation method requires the determination of future cash flows and then discounting those cash flows to present values using a discount rate. For the purposes of RM Capital's valuation, the cash flow forecasts prepared by Bounty, and reviewed and amended by Ausmet as part of their due diligence process, have been utilized.

Ausmet have supplied a DCF valuation based on existing contracts and agreements with two large coal mining companies including Gujarat NRE Australia Pty Ltd. Under this financial projection, Bounty has forecast annual consolidated revenues to grow to around \$42 million over the next 2 years, as these contracts and agreements mature. Bounty is budgeting for a net profit after tax of in excess of \$4.5 million for the year ending 30<sup>th</sup> June 2006. As outlined in Section 5.1, RM Capital has accepted that additional contracts, currently the subject of advanced negotiations, are likely to materialize. Based on this scenario, the cash flow projections of Bounty indicate that the revenue could grow to in excess of \$70 million and net operating profit after tax for the year ending 30<sup>th</sup> June 2006 may exceed \$6.0 million.

RM Capital has reviewed these forecasts and checked the arithmetical accuracy of this financial model.

On the basis of RM Capital's review of the forecasts, it can be concluded that:

- i. Nothing has come to the attention of RM Capital that causes us to believe that Bounty's estimates do not provide a reasonable basis for the preparation of the forecasts; and
- ii. The forecasts have been properly prepared on the basis of the best estimates.

Actual results are likely to differ from the forecasts used in this valuation, as anticipated events frequently do not occur as expected and the variation may be material, in particular with the forecast of results from evolving businesses.

The DCF approach requires the determination of an appropriate discount rate. This is usually calculated as the weighted average cost of capital ("WACC") that reflects the company's cost of debt and equity weighted by the company's debt and equity structure. RM Capital have adopted an estimate of WACC through an intuitive process, on the basis that in the context of Ausmet, the adoption of the formal capital asset pricing model to derive an estimate of WACC would have been difficult to apply.

RM Capital has considered the inherent risks and circumstances surrounding the Bounty business, specific market risks and degree of uncertainty inherently included in the directors forecasts and have determined a discount rate in the range of 10 to 20% in discounting the forecasts.

RM Capital's DCF valuation is summarised as follows:

<b>Table 14: Bounty Attributable DCF Valuation-Post Transaction</b>	<b>Discount Rate</b>	<b>NPV</b>
Optimistic case scenario	10%	\$85.9m
Base case scenario	20%	\$52.4m
Base case scenario (Gujarat NRE agreement discounted to 5 years)	10%	\$19.9m

RM Capital's valuation of Ausmet both pre and post-Transaction is set out in table 15. The Gujarat contract was modelled on five years (the minimum life of the current agreement and expected contract) and has been discounted by a further 50% due to the following factors:

- i. **Technical Risks** associated with the coal mining operations such as the risk of cave-ins, gas explosions and geo-technical problems;
- ii. **Technology Risks**-The employment of specialised coal mining equipment which has had limited exposure to coal mines in Australia may present additional and unforeseen risks;
- iii. **Commodity Price Fluctuations**-Adverse movements in the price of coal may affect the commercial viability of coal mining and hence the longevity of mining contracts;
- iv. **Exchange Rate Risk**-Adverse movements in the A\$:US\$ may have a negative impact on the cost of some of the capital equipment employed in low profile mining;
- v. **Limited Operating History**-Bounty has a limited operating history in Australia and there are risks associated with operating and managing mining contracting companies;
- vi. **Labour Disputes**-Potential labour disputes may affect the ongoing operations of the mining contract and/or mining operations.

**Based on these risks, RM Capital has further discounted the DCF of the Gujarat NRE agreement/contract by 50%. The low DCF valuation is therefore \$9.95m.**



**TABLE 15:** Ausmet Pre & Post-Transaction DCF based valuation

	Unaudited Ausmet 30-Nov 2004	Unaudited Proforma Consolidated (Low)	Unaudited Proforma Consolidated (High)
<b>Current Assets</b>			
Cash Assets	\$1,470,949	\$7,193,967	\$7,193,967
Inventory	\$0	\$520,284	\$520,284
Receivables	\$25,636	\$1,046,928	\$1,046,928
Loan to Bounty	\$1,500,000	-	-
Other	\$10,016	\$499,232	\$499,232
<b>Total Current Assets</b>	<b>\$3,006,601</b>	<b>\$9,260,411</b>	<b>\$9,260,411</b>
<b>Non Current Assets</b>			
Loan to Bounty	\$1,500,000	\$0	\$0
Receivables	\$12,000	\$0	\$0
Investment in Bounty	\$0	\$0	\$0
Investment in Discovery		\$1,000,000	\$1,000,000
Plant & Equipment	\$23,391	\$8,617,565	\$8,617,565
Intangibles		\$1,665,531	\$1,665,531
Bounty DCF		\$9,950,000	\$85,900,000
<b>Total Non Current Assets</b>	<b>\$1,535,391</b>	<b>\$21,233,096</b>	<b>\$97,183,096</b>
<b>Total Assets</b>	<b>\$3,041,992</b>	<b>\$30,493,507</b>	<b>\$106,443,500</b>
<b>Current Liabilities</b>			
Payables	\$79,123	\$1,404,806	\$1,404,806
HP Liability		\$18,245	\$18,245
Provisions	\$5,127	\$25,127	\$25,127
Loans		\$1,367,432	\$1,367,432
<b>Total Current Liabilities</b>	<b>\$84,250</b>	<b>\$2,815,610</b>	<b>\$2,815,610</b>
<b>Non Current Liabilities</b>			
Loans		\$2,382,262	\$2,382,262
HP Liability		\$60,840	\$60,840
Preference shares		\$0	\$0
<b>Total Non Current Liabilities</b>	<b>\$0</b>	<b>\$2,443,102</b>	<b>\$2,443,102</b>
<b>Total Liabilities</b>	<b>\$84,250</b>	<b>\$5,258,712</b>	<b>\$5,258,712</b>
<b>Net Assets</b>	<b>\$2,957,742</b>	<b>\$25,234,795</b>	<b>\$101,184,790</b>
<b>Net Asset Backing per share</b>	<b>9.7</b>	<b>31.4</b>	<b>125.9</b>

Notes to the accounts presented in Table 15:

- i. A low value of \$9,950,000 has been placed on the assets of Bounty using DCF valuation methodologies using a 50% discount on the Net Present Value of the existing mining agreement with Gujarat;
- ii. A high value of \$85,900,000 has been placed on the assets of Bounty using DCF valuation methodologies assuming the completion of three mining contracts and agreements, of which one contract and one agreement have so far been executed;
- iii. As the transaction involves the issue of vendor securities (securities that are likely to be escrowed for a period of up to two years), a discount for lack of marketability should be applied to the value of the securities being received under normal valuation procedures. However, ASIC Policy Statement 75 requires the fair and reasonable basis to be assessed on a 100% ownership test and as such, no adjustment has been made to the valuation;
- iv. The concept of premium for control recognises that the value of a majority or controlling interest will be higher than the pro-rata value of the interest. It could be argued that the Vendors are paying a premium for control as the value of Ausmet shares will increase if the Transaction takes place. However, although the Vendors will in aggregate have the ability to control Ausmet, it cannot be said with certainty that all the Vendors will act in concert in the future;
- v. The Pro-Forma statement of financial position has not accounted for the dilutionary effect that will occur in the event that any options are exercised;
- vi. The valuation has not assumed the issue of 10,000,000 shares to Bounty on the condition that the full year 30<sup>th</sup> June 2006 Net Profit after Tax (excluding extraordinary items) is greater than \$8 million (Section 5.3);
- vii. Existing Bounty note holders will convert \$1,000,000 in current debt to 5,000,000 Shares and 2,500,000 options (same as existing options) in Ausmet (Section 5.3).
- viii. This valuation has assumed the issue of a total of 30,000,000 Shares to raise a total of \$6,000,000 (less expenses of the issue) pursuant to the Notice of Meeting and Explanatory Memorandum (Section 5.4);
- ix. It has been assumed that Ausmet will loan Discovery a total of \$500,000 that will be later converted into 3,381,805 shares at \$0.14785 per share prior to the completion of the Transaction.
- x. The pro forma statement of financial position assumes the exercise of the Put Option to Ausmet by Discovery to put a total of 6,763,612 new ordinary shares in Discovery at an issue price of \$0.14785 to raise \$1,000,000. The terms and conditions are set out in Section 5.3, and
- xi. Shareholder approval is granted for the Transaction pursuant to the Notice of Meeting and Explanatory Memorandum.

## 10.2 Quoted market Price Valuation of Ausmet

RM Capital has assessed ASX market price for the Ausmet securities to determine the value of Ausmet post Transaction announcement.

### 10.2.1 Weighted Average Market Price

RM Capital has considered the weighted average market price (table 16) for 10 and 30 day periods from 10<sup>th</sup> November 2004.

<b>Table 16: Ausmet Shares</b>	<b>10-Nov-04</b>	<b>10 days</b>	<b>30 days</b>
Closing Price (cents per share)	No Trades		
Weighted Average Price (cents per share)		18.9	18.5

### 10.2.2 Summary of Valuations post Transaction

The results of the post Transaction valuation are summarized in the table 17:

<b>Table 17: Ausmet valuation summary</b>	<b>Section</b>	<b>Low</b>	<b>High</b>
ASX Valuation	10.2.2	18.5	18.9
NTA Valuation	9.1	9.7	16.9
DCF Valuation	10.1.2	31.4	125.9
<b>RM Capital Valuation</b>		<b>20.0</b>	<b>54.9</b>

## 11.0 Is the Transaction Fair?

Table 19 summarises RM Capital's valuation of Ausmet per share pre and post the Transaction.

<b>Table 19: Ausmet valuation summary</b>	<b>Pre-Transaction Section 9.1</b>		<b>Post-Transaction Section 10.0</b>	
	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>
Ausmet valuation per share	12.1	14.1	20.0	54.9

The above pricing indicates that the Transaction is fair for Shareholders as the value of Ausmet per Share post Transaction is more than the value of Ausmet per Share pre Transaction.

## 12.0 Is the Transaction Reasonable?

RM Capital has assessed the position of Shareholders if the Transaction is accepted taking into account the following advantages and disadvantages in this assessment.

## **12.1 Advantages of accepting the Transaction**

### **12.1.1 Exposure to mining contracts**

The exposure to potentially profitable mining contracts has the potential to deliver significant value to the Shareholders.

Bounty may have up to three coal mining assignments:

- i. A contract with a large coal mining company in NSW;
- ii. Gujarat NRE Australia Pty Limited at NRE No.1 Colliery, Wollongong (currently a venture agreement proposed to be superseded by a contract) ; and
- iii. A possible contract with a large coal mining company in Central Queensland.

The Company has projected revenue of in excess of \$70 million and profits of in excess of \$6 million for the year ending 30<sup>th</sup> June 2006. Should these forecasts prove correct there could be a significant re-rating of Ausmet Shares.

### **12.1.2 Increase in Valuation of Ausmet**

Section 10.2.2 demonstrates that the value of Ausmet following the Transaction would deliver a significant benefit to Shareholders by increasing the valuation of Ausmet from 12.1 cents per share (low valuation pre-Transaction) to 20.0 cents per share (low value post-Transaction) and possibly up to 54.6 cents (high value post-Transaction)

### **12.1.3 Potential to expand business operations**

There is significant potential to expand the Company's low profile mine contracting business in Australia should the Transaction proceed. The considerable experience of Bounty executives and management, successful implementation in the United States of America together with the suitability of Australian coal deposits may present significant opportunities for the Company in Australia.

### **12.1.4 Exposure to Low Profile Mining Expertise**

Executives and management of Bounty have considerable experience (section 5.5) in a broad range of commercial and mining activities. In particular, Gary Williamson has 30 years experience in the underground coal mining industry both in Australia and overseas. Furthermore Larry Cook and Amon Mahon (49% shareholders in InCoal) are thin seam coal miners from West Virginia and Kentucky respectively and together have over 45 years experience in the industry.

### **12.1.5 Potential decrease in risk to Ausmet operations**

Ausmet's operations are currently 100% exposed to mineral exploration which RM Capital considers to be a risky, capital intensive, volatile and uncertain business that relies on future equity raisings to fulfill its business objectives. The potential to acquire a business with existing mining agreements and contracts and significant profit potential, while exposing the Company to other risks, should lessen the risk of Ausmet's business operations.

### **12.1.6 Decrease in reliance on financial markets**

Should the earnings forecasts (Section 10.0) prove correct and Ausmet is successful in raising capital pursuant to the Notice of Meeting and Explanatory Memorandum sufficient to fund the Company's operations, Ausmet should have a decreased reliance on continually raising capital from the financial markets to fund its exploration programmes.

## **12.2 Disadvantages of accepting the Transaction**

### **12.2.1 Operating Risk of Low Profile Mining**

Both conventional coal mining and low profile mining have significant operating risks. There exists the potential for explosions and cave-ins together with the risk that some of the mining equipment such as the Joy Ripper Miner, Shuttle Car and Roof Bolter do not perform to expectations.

### **12.2.2 Volatility of Resource Sector**

Ausmet has a portfolio of exploration projects that are prospective for gold. As a mineral exploration company, Ausmet is able to explore and develop a wide range of minerals, precious and base metals. Should the Transaction proceed, Ausmet will have a significant exposure to the coal industry. As a contract miner and supplier of equipment, Ausmet will be exposed to movements in coal prices, and other business and commercial risks associated with the coal industry. For example, the increased reliance on gas or new technologies (such as fuel cells, hydrogen and other alternative energies) may adversely affect coal prices and therefore the viability of coal mines.

### **12.2.3 Dilution of Ausmet's interest in exploration projects**

Should the Transaction proceed, Ausmet's interest in its exploration portfolio (section 7.0) will be diluted from 100% to eventually 75%. Further dilution is likely to occur should additional capital need to be raised. Should these exploration projects have significant commercial value ie contain resources and/or reserves, then Ausmet's interest in these assets will be of a reduced beneficial interest.

### **13.0 INDEPENDENCE AND DISCLOSURE OF INTERESTS**

Prior to accepting this engagement RM Capital considered its independence with regard to ASIC Practice Note 42 Independence of Expert's reports. RM Capital determined that it is independent of Ausmet.

RM Capital is entitled to receive a fee of approximately \$17,000 (plus GST) for the preparation of this Report, based on time costs and disbursements. The fee is payable to RM Capital regardless of the outcome of the Transaction. Except for this fee, RM Capital has not received and will not receive any pecuniary or other benefit, whether direct or indirect in connection with the preparation of this Report.

Neither the signatory to this Report nor RM Capital holds shares or options in Ausmet. No such shares or options have been held at any time over the last two years. Neither the signatory to this Report nor RM Capital has had within the past two years any business relationship material to an assessment of RM Capital's impartiality with Ausmet, or their associates.

A draft of this Report was provided to Ausmet and its advisors for their confirmation of the factual accuracy of its contents. No changes were made to the methodologies or conclusions reached in this Report as a result of this review.

Ausmet has indemnified RM Capital in respect of any claim arising or in connection with RM Capital's reliance on information provided by Ausmet.

### **14.0 QUALIFICATIONS**

RM Capital is an Australian Financial Services Licensee (number 221938) engaged in corporate finance, research, share trading, portfolio management and investment banking. Principals associated with RM Capital have been engaged in mining, exploration, valuations, experts' reports and research for approximately 16 years. The person responsible for preparing and reviewing this report is Guy Touzeau Le Page who holds a Bachelor of Arts, Bachelor of Science and Master of Business Administration (University of Adelaide), a Bachelor of Applied Science (Hons) (Curtin University of Technology) and a Graduate Diploma in Applied Finance and Investment (Securities Institute of Australia). Mr Le Page is also a Member of the Australian Institute of Mining and Metallurgy and an Associate of the Securities Institute of Australia.

### **15.0 DISCLAIMERS AND CONSENTS**

This Report has been prepared at the request of Ausmet for inclusion in the Explanatory Memorandum, which will be enclosed with the Notice of Meeting. Ausmet has engaged RM Capital to prepare this Report to consider the Transaction on behalf of Ausmet Shareholders.

RM Capital hereby consents to this Report being included in the above Explanatory Memorandum or being made available to Ausmet Shareholders at their request. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement or letter without the prior written consent of RM Capital.

RM Capital takes no responsibility for the contents of the Explanatory Memorandum other than this Report.

RM Capital has not independently verified the information and explanations supplied to us, nor has it conducted anything in the nature of an audit of Ausmet. RM Capital does not warrant that our enquiries have revealed all of the matters which an audit or extensive examination might disclose. However, RM Capital has no reason to believe that any of the information or explanations so supplied is false or that material information has been withheld.

The projections provided to RM Capital by Ausmet are based upon assumptions about events and circumstances that have not yet occurred. Accordingly, RM Capital cannot provide any assurance that the projections will be representative of results that will actually be achieved. RM Capital disclaims any possible liability in respect of these projections.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that RM Capital has no obligation to update this Report for events occurring subsequent to the date of this Report.

Yours sincerely

A handwritten signature in black ink that reads "Guy T. Le Page". The signature is written in a cursive, flowing style.

**Guy T. Le Page**

DIRECTOR

RM CAPITAL PTY LTD

## SOURCES OF INFORMATION

In making our assessment as to whether the Transaction is fair and reasonable to Shareholders, RM Capital has reviewed relevant published and unpublished information on Ausmet and Bounty and the relevant associated entities. In addition RM Capital has held discussions with the directors and management of Ausmet and Bounty. Information received and reviewed by RM Capital includes, but is not limited to the following:

1. All States Auctions & Appraisals Pty Ltd (December 2004) Valuation, Bellambi West Colliery, Going Concern, Fair Market & Realisable.
2. Ausmet Resources Limited ASX Announcement (10<sup>th</sup> November 2004) Proposed Transaction of Bounty Industries Australia Pty Ltd.
3. Ausmet Resources Limited and Bounty Industries Australasia Pty Ltd Heads of Agreement 10<sup>th</sup> November 2004.
4. Ausmet Resources Limited and Bounty Industries Australasia Pty Ltd Deed of Charge (2<sup>nd</sup> November 2004).
5. Ausmet Resources Limited, Bounty Industries Australia Pty Limited and Thin Seam Mining Services Pty Limited (3 November 2004) Deed of Loan and Guarantee.
6. Bounty Industries Australasia Pty Ltd and Ausmet Resources Limited Registration copy of Deed of Charge (2<sup>nd</sup> November 2004).
7. Bounty Industries Australia Pty Ltd (September 2004) Information Memorandum.
8. Bounty Industries Australia Pty Ltd (2<sup>nd</sup> December 2004) Folio A-Bounty Industries Australia Pty Ltd.
9. Jam 2002 Pty Ltd, Ausmet Resources Limited and Bounty Industries Australasia Pty Ltd Priority Deed (2<sup>nd</sup> November 2004).
10. Seedsman Geotechnics Pty Ltd, Letter re: Revision to P Mains Transaction (19<sup>th</sup> November 2004).
11. Stanton Partners Corporate Pty Ltd (23<sup>rd</sup> November 2004), e-mail re: Taxation consequences of proposed restructure of Ausmet Resources Limited.
12. Thin Seam Mining Services Pty Ltd and Ausmet Resources Limited Deed of Charge (2<sup>nd</sup> November 2004).
13. Thin Seam Mining Services Pty Ltd and Ausmet Resources Limited Deed of Charge (2<sup>nd</sup> November 2004).
14. Thin Seam Mining Services Pty Ltd and Ausmet Resources Limited Registration copy of Deed of Charge (2<sup>nd</sup> November 2004).





# RM Capital Pty Ltd

Australian Financial Services Licensee (221938)

ABN 065 412 820  
Suite 52-45 Ventnor Avenue  
WEST PERTH WA 6005  
AUSTRALIA

**Telephone:** +61-8-9321-3277  
**Facsimile:** +61-8-9321-8399

---

## FINANCIAL SERVICES GUIDE

---

Before seeking our advice, you probably have a number of questions you would like to ask about RM Capital Pty Ltd. You have the right to ask us about our charges, the type of advice we will give you and what you can do if you have a complaint about our services. Key information is set out in answer to the questions below. If you need more information or clarification, please ask us. This Financial Services Guide is issued with the authority of RM Capital Pty Ltd.

You should also be aware that you are entitled to receive a Statement of Advice whenever we provide you with any advice which takes into account your objectives, financial situation and needs. The Statement of Advice will contain the advice, the basis on which it is given and information about fees, commissions and associations which may have influenced the provision of the advice.

In the event we make a recommendation to acquire a particular financial product (other than securities) or offer to issue or arrange the issue of a financial product, we must also provide you with a Product Disclosure Statement containing information about the particular product which will enable you to make an informed decision in relation to the acquisition of that product.

## **BEFORE YOU GET OUR ADVICE**

---

### **Who is my adviser?**

Your adviser will be **Guy T. Le Page**.

Mr Le Page is currently a Corporate Adviser at RM Capital Pty Ltd (“RM Capital”) specialising in resources. He is actively involved in a range of corporate initiatives from mergers and acquisitions, initial public offerings to valuations, consulting and corporate advisory roles.

Mr Le Page was Head of Research at Morgan Stockbroking Limited (Perth) prior to joining Tolhurst Noall as a Corporate Advisor in July of 1998. As Head of Research, Mr Le Page was responsible for the supervision of all Industrial and Resources Research. As a Resources Analyst, Mr Le Page published detailed research on various mineral exploration and mining companies listed on the Australian Stock Exchange. The majority of this research involved valuations of both exploration and production assets.

Prior to entering the stockbroking industry, he spent 10 years as an exploration and mining geologist in Australia, Canada and the United States. His experience spans gold and base metal exploration and mining geology, and he has acted as a consultant to private and public companies. This professional experience included the production of both technical and valuation reports for resource companies.

Mr Le Page holds a Bachelor of Arts, a Bachelor of Science and a Masters Degree in Business Administration from the University of Adelaide, a Bachelor of Applied Science (Hons) from the Curtin University of Technology and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia.

### **Your Advisers Responsibility**

Guy T. Le Page is an authorised representative no. 223170 of RM Capital. RM Capital holds an Australian Financial Services Licence No. 221938 and is responsible for the advice provided by its representatives. RM Capital is a Principal Member of the Financial Planning Association of Australia (FPA) and must comply with the FPA's Code of Ethics and Rules of Professional Conduct.

### **What advisory services are available to me?**

- Corporate Finance and Investment Banking;
- Company Research;
- Share Trading;
- Retirement Planning & strategies;
- Superannuation and Rollover advice and strategies;
- Self-managed Superannuation Advice;
- Share Market investment advice;

- Managed Funds;
- Life, trauma and income protection insurance;
- Gearing Strategies;
- Estate Planning advice.

In addition, the adviser is able to offer you on-going monitoring and review service for your investment portfolio or life insurance program.

We provide financial product advice for the following financial products:

- Deposit and payment products including basic deposit products, deposit products other than basic deposit products and non-cash payment products;
- Debentures, stocks or bonds issued or proposed to be issued by a government;
- Life products including investment life insurance products and life risk insurance products;
- Interests in managed investment schemes;
- Retirement savings accounts products (within the meaning of the Retirement Savings Account Act 1997);
- Securities; and
- Superannuation.

We will only recommend an investment to you after considering its suitability for your individual investment needs, objectives and financial circumstances.

The products we recommend are all selected from an approved list of products carefully researched by independent research experts.

#### **How will I pay for the service?**

RM Capital offers a range of payment options including fees and commissions on funds placed, or a combination of both methods. Your adviser will explain these options to you.

#### **How are fees and commissions calculated and deducted?**

RM Capitals' calculation of fees and commissions is dependent on the level of service appropriate to the needs of the client. It has many levels of service each providing benefits befitting the clients it is designed to service. Upfront fees are calculated as a percentage of funds invested with a minimum invoice amount dependent on the level of service chosen. Ongoing fees are calculated as a percentage of funds under management, this percentage variable dependent on the level of service chosen. All levels of service, their associated calculations for fees and charges and the ongoing services provided are discussed in the first meeting and subsequently disclosed, prior to implementation of any recommendations, in the Statement of Advice.

## **WHEN YOU GET OUR ADVICE**

---

### **Do I get detailed information about actual commissions and other benefits my adviser gets from making the recommendations?**

Yes. You have the right to know about details of commissions and other benefits your adviser receives for recommending investments. We will provide this information to you when we make specific recommendations.

### **Will you give me advice that is suitable to my investment needs and financial circumstances?**

Yes. However, to do so we need to find out your individual investment objectives, financial situation and needs before we recommend any investment to you. You have the right not to divulge this information to us, if you do not wish to do so. In that case, we are required to warn you about the possible consequences of us not having your full personal information. You should read the warnings carefully.

### **What should I know about any risks of the investments or investment strategies recommended to me?**

We will explain to you any significant risks of investments and strategies that we recommend to you. If we do not do so, you should ask us for further clarification.

### **What information do you maintain in my file and can I examine my file?**

We maintain a record of your personal profile that includes details of your investment objectives, financial situation and needs. We also maintain records of any recommendations made to you. If you wish to examine your file, you should ask us and we will make arrangements for you to do so.

We are committed to implementing and promoting a privacy policy that will ensure the privacy and security of your personal information. A copy of our privacy policy is enclosed for your information.

### **Can I tell you how I wish to instruct you to buy or sell my investment?**

Yes. You may specify how you would like to give us instructions. For example, by telephone, fax or other means. But in all cases we must receive a written confirmation of these instructions.

---

---

## IF YOU HAVE ANY COMPLAINTS

---

Who can I speak to if I have a complaint about the advisory service?

We are committed to providing quality advice to our clients. This commitment extends to providing accessible complaint resolution mechanisms for our clients. If you have any complaint about the service provided to you, you should take the following steps:

1. Contact your adviser and tell your adviser about your complaint.
  2. If your complaint is not satisfactorily resolved within 7 days please contact RM Capital on +61-8-9321-3277 or put your complaint in writing and send it to us at, RM Capital PO Box Z 5278 St Georges Terrace Perth WA 6851. We will try and resolve your complaint quickly and fairly.
  3. If we cannot reach a satisfactory resolution, you can raise your concerns with the Financial Industry Complaints Service on 1800 335 405. RM Capital is a member of this complaints resolution service. The Australian Securities & Investments Commission (ASIC) also has a freecall Infoline on 1300 300 630 which you may use to make a complaint or obtain information about your rights.
  4. If your concerns involve unethical conduct, you may wish to consider raising these concerns with the Financial Planning Association of Australia (FPA). They can be contacted at PO Box 109 Collins Street West, MELBOURNE VIC 8007.
-

# PROXY FORM

**APPOINTMENT OF PROXY**  
**AUSMET RESOURCES LIMITED**  
**ABN 19 107 411 067**

## GENERAL MEETING

I/We

being a Member of Ausmet Resources Limited entitled to attend and vote at the Meeting, hereby

Appoint

Name of proxy

or failing the person so named or, if no person is named, the Chairman of the Meeting or the Chairman's nominee, to vote in accordance with the following directions or, if no directions have been given, as the proxy sees fit at the General Meeting to be held at Level 1, 89 St. George's Terrace, Perth, Western Australia, on Monday, 7 March 2005 at 10am (WST) and at any adjournment thereof. If no directions are given, the Chairman will vote in favour of all of the resolutions.

---

### Voting on Business of the Extraordinary General Meeting

		FOR	AGAINST	ABSTAIN
Resolution 1	Change of Activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	In specie distribution of Discovery shares to Ausmet shareholders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Acquisition of Bounty Industries Australia Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Issue of Incentive Shares for Acquisition of Bounty	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Issue of securities to Bounty Noteholders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Election of Mr Colin Knox	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Election of Mr Mark Gray	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Election of Gary Williams	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9	Change of name	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 10	Allotment and issue of shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 11	Participation in Prospectus Capital Raising by Directors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 12	Approval of Employee Option Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 13	Approval of Directors to Participate in Employee Option Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 14	Issue of Listed Options to Malcolm Carson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If you do **not** wish to direct your proxy how to vote, please place a mark in this box

By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be



**AUSMET RESOURCES LIMITED**  
**ABN 19 107 411 067**

**Instructions for Completing 'Appointment of Proxy' Form**

1. A member entitled to attend and vote at a Meeting is entitled to appoint not more than two proxies to attend and vote on their behalf. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If the shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes.
2. A duly appointed proxy need not be a member of the Company. In the case of joint holders, all must sign.
3. Corporate shareholders should comply with the execution requirements set out on the Proxy Form or otherwise with the provisions of Section 127 of the Corporations Act. Section 127 of the Corporations Act provides that a company may execute a document without using its common seal if the document is signed by:
  - 2 directors of the company;
  - a director and a company secretary of the company; or
  - for a proprietary company that has a sole director who is also the sole company secretary – that director.

For the Company to rely on the assumptions set out in Section 129(5) and (6) of the Corporations Act, a document must appear to have been executed in accordance with Section 127(1) or (2). This effectively means that the status of the persons signing the document or witnessing the affixing of the seal must be set out and conform to the requirements of Section 127(1) or (2) as applicable. In particular, a person who witnesses the affixing of a common seal and who is the sole director and sole company secretary of the company must state that next to his or her signature.

4. Completion of a Proxy Form will not prevent individual shareholders from attending the meeting in person if they wish. Where a shareholder completes and lodges a valid proxy form and attends the meeting in person, then the proxy's authority to speak and vote for that shareholder is suspended while the shareholder is present at the meeting.
5. Where a Proxy Form or form of appointment of corporate representative is lodged and is executed under power of attorney, the power of attorney must be lodged in like manner as this proxy.