

Ausmet Resources Limited  
to be renamed

# BOUNTY INDUSTRIES LIMITED

---

ACN 107 411 067

For the Issue of 30,000,000 Shares at an issue  
price of 20 cents each to raise a total of \$6,000,000.

The capital raising under this Prospectus is conditional upon the shareholders of Ausmet Resources Limited approving the proposed Merger with Bounty Industries Australia Pty Ltd and all relevant ASX and regulatory approvals being received.

PROSPECTUS

# CORPORATE DIRECTORY

## **Current Directors**

Mr Howard Dawson  
Mr Malcolm Smartt  
Mr Peter Strachan

## **Proposed Directors**

Mr Colin Knox  
Mr Mark Gray  
Mr Gary Williams  
Mr Howard Dawson  
Mr Malcolm Smartt

## **Current Company Secretary**

Mr Malcolm Smartt

## **Proposed Company Secretary**

Mr Mathew Whiting

## **Registered and Principal Office**

Level 1, 89 St George's Terrace  
PERTH WA 6000  
Telephone: (61 8) 9322 4855  
Facsimile: (61 8) 9481 2200

## **Corporate Solicitors**

Anthony W Kiernan  
Solicitor  
Level 4 Council House  
27-29 St Georges Tce  
PERTH WA 6000

## **Share Registry**

Computershare Investor Services Pty Limited  
Level 2, 45 St George's Terrace  
PERTH WA 6000  
Telephone: (61 8) 9323 2000  
Facsimile: (61 8) 9323 2096

## **Investigating Accountant**

Stanton Partners Corporate Pty Ltd  
Level 1, 1 Havelock Street  
WEST PERTH WA 6005

## **Auditor**

Stanton Partners  
Level 1, 1 Havelock Street  
WEST PERTH WA 6005

## **Stock Exchange Listing**

Australian Stock Exchange  
Home Branch – Perth  
Current ASX Codes:  
AME – Ordinary Shares  
AMEO – Options \$0.20  
expiring 31 December 2006  
New ASX Codes:  
BNT – Ordinary Shares  
BNT0 – Options \$0.20  
expiring 31 December 2006

## **IMPORTANT NOTICE**

This is an important document that should be read in its entirety.

If you do not understand it, you should consult your professional advisor without delay.  
The Shares offered by this Prospectus should be considered speculative. Refer to Section 7  
for details relating to investment risks.

The capital raising under this Prospectus is conditional upon the shareholders of Ausmet Resources Limited approving the proposed Merger with Bounty Industries Australia Pty Ltd and all relevant ASX and regulatory approvals being received.

The general meeting of Ausmet shareholders to approve the proposed Merger is to be held on Monday 7 March 2005.

It is proposed that this issue will close at 5.00pm (WST) on 15 March 2005. The Directors reserve the right to close the Offer earlier or extend this date without notice

## LETTER FROM THE CHAIRMAN

Dear Investor

I am pleased to present this opportunity to invest in Ausmet Resources Limited ("Ausmet or Company") which will be renamed Bounty Industries Limited upon completion of a proposed merger with Bounty Industries Australia Pty Limited ("Bounty"). This prospectus is seeking to raise \$6,000,000 in new shares to provide funds for the purchase of additional mining equipment, the retirement of \$750,000 in non current liabilities and working capital.

On 10 November 2004 the Directors of Ausmet announced that the Company had reached agreement to merge with Bounty, subject to the satisfactory completion of a 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 shares and options in Ausmet. Included in the merger consideration are 10,000,000 shares which will only be issued should the net profit after tax for the year ending 30 June 2006 exceed \$8 million.

The shareholders meeting to discuss the proposed merger and seek the necessary approvals, is scheduled to be held on Monday 7 March, 2005.

Bounty is an integrated coal equipment manufacturer, supplier and mining contractor with head office in Sydney and main workshop in Newcastle, New South Wales. The company already owns three underground mining units and plans to increase this fleet to allow both existing and potential new mining agreements and contracts to be worked with greater efficiency, and at expanded rates.

Bounty undertakes both conventional as well as low profile (thin seam) mining and recently completed a short term mining contract with an underground coal mine in Queensland. At the same time it is in preparation to commence contract mining with two underground coal mines in New South Wales.

The key strengths of Bounty are the existing contract mining relationships, the growth potential of specialised low profile mining in Australia, a highly qualified and experienced team, growing demand for contract underground coal mining in the current economic climate and the integrated nature of its business structure.

Before you make your investment decision please carefully read this Prospectus in its entirety and where necessary consult your financial advisor.

Bounty is in a strong position to grow in tandem with the contracting coal mining business and the provision of maintenance services to an already buoyant sector. On behalf of the Board of Ausmet I commend this offer to you and invite your participation in this integrated business and its future.

Yours sincerely

Howard Dawson  
Chairman

## IMPORTANT NOTES AND STATEMENTS

This prospectus has been issued by Ausmet Resources Limited ABN 19 107 411 067

This Prospectus is dated 23 February 2005 and was lodged with the ASIC on that date. Neither the ASIC nor ASX take responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

The expiry date of this Prospectus is 13 months after the date of issue ("Expiry Date"). No securities will be issued on the basis of this Prospectus after the Expiry Date. Shares allotted or issued pursuant to this prospectus will be allotted or issued on the terms and conditions set out herein.

Before deciding to invest in the Company potential investors should read the entire Prospectus, and in particular, in considering the prospects for the Company, investors should consider the risk factors that could affect the financial performance of the Company. The Company is in the early stages of its development and therefore there are risks. Potential investors should refer to section 7 of this Prospectus for a summary of information relating to risk factors.

**The shares offered by the Prospectus should be considered speculative; investors should carefully consider these factors in light of personal circumstances (including financial or taxation issues) and seek professional advice from an accountant, stockbroker, lawyer, or other professional adviser before deciding whether to invest.**

This Prospectus will be issued as an electronic Prospectus and a copy can be downloaded from the website of the Company at [www.ausmet.com.au](http://www.ausmet.com.au). Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia.

The Corporations Act prohibits any person passing on to another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. During the Offer period any person may obtain a hard copy of this Prospectus by contacting the Company at [www.ausmet.com.au](http://www.ausmet.com.au).

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Failure to comply with these restrictions may violate securities laws. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

In accordance with chapter 6D of the Corporations Act this prospectus is subject to an exposure period of 7 days from the date of lodgement with the ASIC ("Exposure Period"). This period may be extended by the ASIC for a further period of up to 7 days. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. Potential investors should be aware that this examination may result in the identification of deficiencies in the Prospectus and, in those circumstances, any Application that has been received may need to be dealt with in accordance with Section 724 of the Corporation Act.

Applications received prior to the expiration of the Exposure Period will not be proceeded with by the Company until after the expiration of the Exposure Period. No preference will be conferred on Applications received prior to the expiry of the Exposure Period.

This Prospectus is prepared on the basis that:

- (a) certain matters may be reasonably expected to be known to professional advisers of any kind with whom Applicants may reasonably be expected to consult; and
- (b) information is known to Applicants or their professional advisers by virtue of any acts or laws of Western Australia or the Commonwealth of Australia.

Please refer to the Glossary of Terms in Section 10 for terms and abbreviations used in parts of this Prospectus. Certain statements in this prospectus constitute forward looking statements. Investors should note that these statements are inherently subject to uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors which may cause actual outcomes to differ materially from those targeted or implied in the statements. These risks, variables and other factors include but are not limited to the matters described in Section 7. Ausmet gives no assurance that the outcomes targeted or implied in those forward looking statements will be achieved.

# SUMMARY

Ausmet Resources Limited ("Ausmet or Company") listed on ASX on 30 April 2004. Pursuant to this Prospectus, the Company is seeking to raise \$6 million through the issue of 30 million shares at \$0.20 per share.

The funds will be used to purchase mining equipment, retire and refinance some longer term debt and provide general working capital for the operation of Bounty Industries Australia Pty Limited ("Bounty") which Ausmet proposes to acquire through a merger.

The general meeting of Ausmet shareholders to approve the proposed merger is to be held on Monday 7 March 2005.

The capital raising under this Prospectus is conditional on the shareholders of Ausmet approving the merger and all relevant ASX and regulatory approvals being received.

## INVESTMENT HIGHLIGHTS

- Bounty is an integrated coal mining equipment manufacturer, supplier and contract miner based in New South Wales;
- Bounty has an existing workshop with potential to grow it's equipment handling business through equipment maintenance, refurbishment and mining unit construction;
- Bounty has an existing fleet of three underground mining units;
- Of the three mining units, one is specifically designed for the mining of low profile underground coal seams;
- Bounty has two contract mining assignments and is in advance negotiations for a third;
- Bounty has an experienced team of conventional and low profile miners;
- It is believed that Bounty is the only Australian based miner with an in code low profile mining unit;
- Underground contract coal mining is in strong demand and it has significant barriers to entry.
- Bounty has a diverse spread of clients.
- Post this capital raising, Bounty will have net assets of around 17 cents per share.

# CONTENTS

<b>Table of Contents</b>	<b>PAGE</b>
Bounty Operations	8
Board and Management	15
Purpose of the Issue and Details of the Offer	20
Capital and Corporate Structure	24
Investigating Accountants Report	28
Material Contracts	53
Risk Factors	59
Additional Information	63
Authorisation	72
Glossary of Terms	74
Application Forms	

## **Statement of Obligations**

Pursuant to Section 713 (3) of the Corporations Act

- Ausmet, as the disclosing entity, is subject to regular reporting and disclosure obligations; and
- Copies of documents lodged with ASIC in relation to Ausmet may be obtained from, or inspected at, an ASIC office.

## **Financial reports and disclosure notices**

Notwithstanding the information contained within this prospectus, under Section 713 (4) of the Corporations Act you have the right to obtain any of the following documents:

- The annual financial report most recently lodged with ASIC by Ausmet;
- The most recent half year financial report; and
- Any continuous disclosure notices given by Ausmet.

SECTION



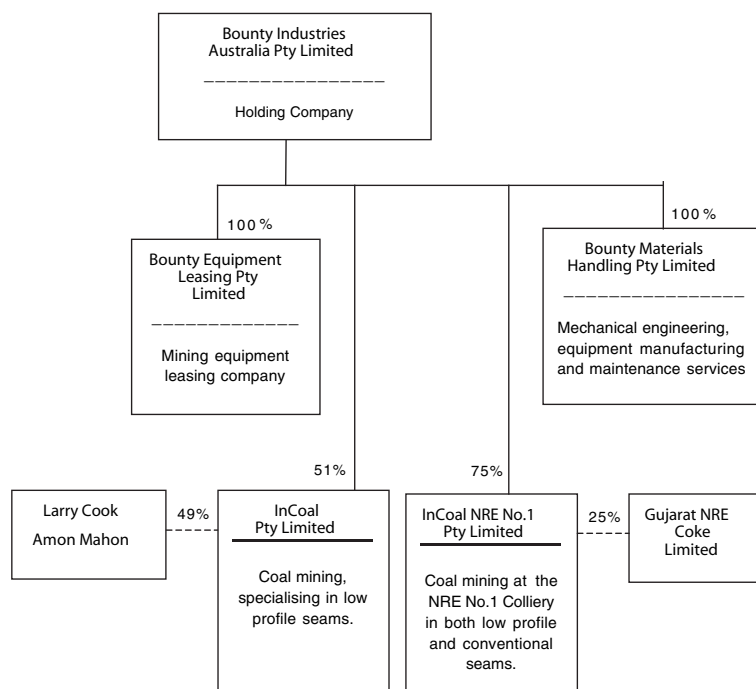
BOUNTY OPERATIONS

## 1. 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.

Bounty's principal trading entities and shareholding structure is detailed below:**1.1**



### Description of Business Divisions

Bounty generates revenue through the leasing of mining equipment by Bounty Equipment Leasing Pty Limited ("BEL") to InCoal NRE No.1 Pty Limited ("InCoal NRE") and InCoal Pty Limited ("InCoal"), the contract mining of coal by InCoal and InCoal NRE and the manufacture, refurbishment and maintenance of mining equipment owned by Bounty and mine owners, by Bounty Materials Handling Pty Limited ("BMH").

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

#### 1.1.1 Bounty Equipment Leasing Pty Limited (BEL)

BEL is a wholly owned subsidiary of Bounty and is the business responsible for the ownership of the underground coal mining equipment and its subsequent leasing to InCoal, InCoal NRE and other industry participants.

BEL has three production units at present. Including ancillary equipment such as roof bolters, feeder breakers, scoops and shuttle cars these units comprise a Joy 14 CFM 15 low profile miner, and a Joy 12CF11 and a Dash 3 conventional miner.

Deposits have been made to suppliers in the United States for additional production



units and equipment including a Stamler Continuous Haulage unit, the purchase of which will be completed following this capital raising.

### **1.1.2 Bounty Materials Handling Pty Limited (BMH)**

BMH is a mechanical engineering business specialising in materials handling machinery particularly in the coal mining industry. The company's workshop is located at Gateshead, Newcastle in New South Wales and the business commenced operations in June 2003.

A key part of the BMH business going forward is its ownership of the intellectual property relating to Fox Mining and Materials Handling.

Fox was first formed in 1941 and was purported to be the largest original equipment manufacturer (OEM) of mining plant in Australia by the 1980s. However, the companies business slumped during the 1990's as a result, it is believed, of a change in business strategy away from its OEM status.

BMH has taken Fox back to its original business strategy based around its OEM status, and is aiming to re-establish the Fox brand in the materials handling business throughout Australia. In addition, BMH is contracted by BEL to maintain and service its mining plant and equipment; as a consequence a significant proportion of the BMH revenue will be generated from related company agreements.

### **1.1.3 InCoal Pty Limited (InCoal)**

InCoal is 51% owned by Bounty with the balance owned by its management, Larry Cook and Amon Mahon, who are experienced underground miners, with a specialisation in low profile (thin seam) mining.

InCoal is largely used for mining assignments where the mining of low profile coal seams is a significant component of the contract or agreement. In addition it will be used for the introduction of continuous haulage to underground coal mining in Australia.

#### **What is Low profile or Thin Seam Mining?**

InCoal specialises in, but does not practice exclusively, low profile mining, or thin seam coal mining operations as they are known in the United States. This mining technique is new to Australian mines but relatively common in 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 width.

The room and pillar system is the older and traditional method of underground coal mining. Coal is removed from the working faces as the rooms are advanced. Cross-cuts connecting the rooms are also mined leaving pillars of coal for roof support. The rooms and cross-cuts are typically about 20 feet wide and of a height consistent with that of the seam.

Thin seam coal mining however uses low profile mining equipment that combine the process of fragmenting the coal from the face and loading it on to haulage equipment for movement to the main coal transportation system. The process uses a continuous

miner, a means of haulage and a roof bolter. The latter inserts steel, cable or fibre bolts into the roof, pinning together to immediate overlying strata to provide roof support.

The in-house expertise necessary to import this mining technique into Australia rests with the minority shareholders of InCoal, Mr Larry Cook and Mr Amon Mahon, both of whom are experienced thin seam coal miners from West Virginia and Kentucky respectively, and have a combined 45 years of operational experience.

This expertise is supported within Bounty by additional United States 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:

- easily accessible thick seams are now heavily exploited and are in decline; and
- the coal contained in thin seams often has stronger metallurgical properties which are 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.

#### 1.1.4 InCoal NRE No.1 Pty Limited (InCoal NRE)

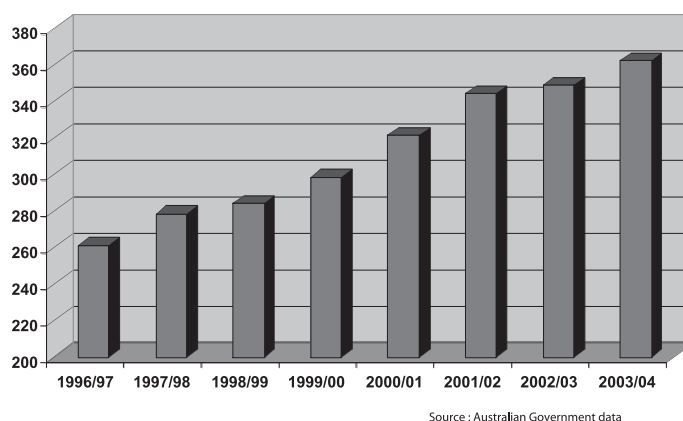
InCoal NRE is 75% owned by Bounty and was specifically incorporated to be the contract miner within the NRE No.1 underground colliery. The balance of the company is owned by Gujarat NRE Coke Limited, the majority owner of the NRE No.1 colliery.

Based on the existing agreement with Gujarat NRE Coke Limited, InCoal NRE will be a significant contributor to the growth of the Bounty business and its importance is expected to increase further over the next few years as the production rate from the NRE No.1 colliery expands, in line with current mine plans.

### 1.2 Contract Mining

Australia has significant resources of high quality coking and thermal coal. It currently accounts for around 7% of world black coal production with around 96% of this production sourced from mines in Queensland and New South Wales.

#### Australian Coal Production (million tonnes)

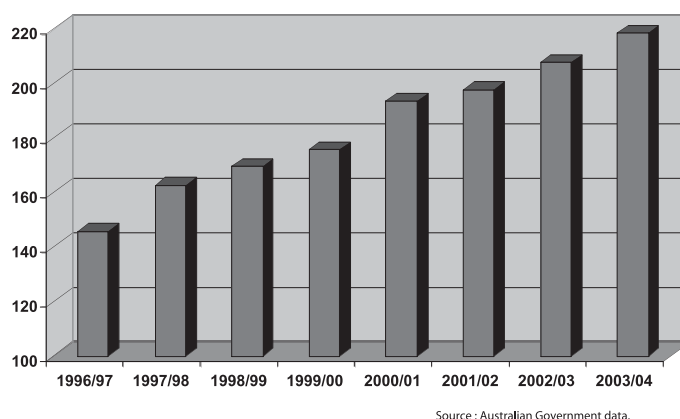


Approximately 25% of Australia's coal production is from underground mines.

Over the past 18 months, rising demand for both thermal and coking coal from traditional customers in Asia, but particular from China, has led to a significant increase in spot coal prices and a continued growth in Australian coal exports.

As the demand for coal has increased many of the underground mines are now seeking support from contract miners to allow their mine production to be expanded to take advantage of these higher prices and growing export demand.

### Australian Coal Exports (million tonnes)



In particular, a number of mine owners are now reviewing the feasibility of mining thin coal seams, which have previously been ignored because of the large volume of thick seam coal available within Australia.

In addition to conventional underground coal mining, Bounty has the particular expertise and equipment required to successfully mine these thin coal seams.

## 1.3 Mining Assignments

Bounty 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 respectively, to commence two coal mining assignments in New South Wales during the first half of calendar 2005.

The two assignments in New South Wales are summarised below.

### 1.3.1 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), a wholly owned subsidiary of Gujarat NRE Coke Limited, 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).

Under this agreement, InCoal NRE is the exclusive mine contractor at the NRE No.1 Colliery.

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

- Term: 5 years plus right of renewal for 5 years and a further right of renewal subject to economic conditions
- Start Date : March 2005 - June 2005 (subject to mine readiness) in the Bulli seam with commencement of mining in the Balgownie seam in 2007
- 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, and two low profile units will be required in 2007.

Under the agreement and current mine plan around 900,000 tonnes are required to be mined in the twelve months to June 2006, increasing to around 1,700,000 tonnes in the following year and building to in excess of 2,000,000 tonnes per annum thereafter.

Gujarat NRE Coke Limited ("Gujarat Coke") a publicly listed company in India with a market capitalisation of Rs 1.05 billion. Gujarat Coke is a coal processor and is the largest non-captive manufacturer of low-ash metallurgical coke ("LAMC") in India. In India LAMC, which is 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.

### **1.3.2 Underground Colliery, New South Wales**

InCoal has a contract to mine around 500,000 tonnes from an underground mine owned by Ivanhoe Coal Limited, a subsidiary of one of Australia's largest coal mine owners. This contract is expected to take a maximum of nine to twelve months to complete and is expected to commence during March 2005.

The main terms and conditions of this mining assignment are:

- Term : Twelve months
- Start Date : 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 could provide up to 4 years further mining for InCoal at this location.

### **1.3.3 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 and has just secured a two month assignment to undertake the mining of the three portals and development headings in preparation for full production mining.

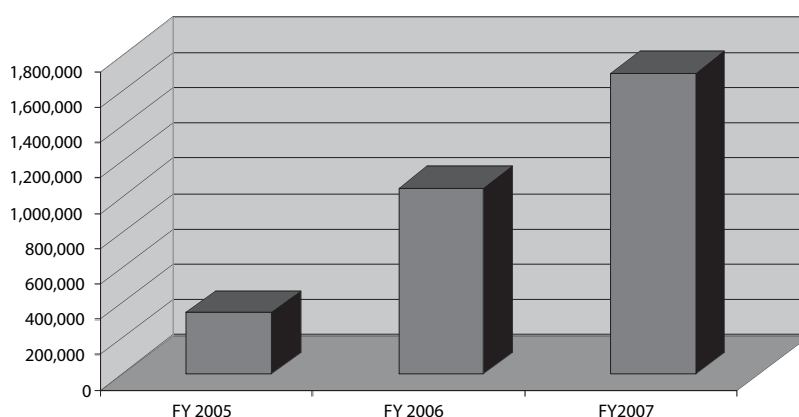
Subject to final contract negotiation, it is currently planned that InCoal will commence production mining in June 2005 in this seam.

### 1.3.4 Summary of contract coal to be mined

Based on the two existing mining assignments, Bounty has a contract and an agreement in place for the total coal mined by InCoal and InCoal NRE to be around 350,000 tonnes, 1,050,000 tonnes and 1,700,000 tonnes in the 2005, 2006 and 2007 years respectively.

The following chart summarises this production, which InCoal and InCoal NRE are obliged to deliver.

**Contract Coal to be Mined - Existing Assignments (tonnes)**



## 1.4 Financial Position

A pro-forma statement of financial position as at 31 December 2004, reflecting the post Merger position and Prospectus Capital Raising, is included in the Independent Accounts Report, which is included in this Prospectus.

On a consolidated basis, the net assets of Ausmet will be around \$13.7 million post the Merger and proposed Prospectus Capital Raising.

This net asset includes a non current liability of \$1,200,000 relating to the value placed on the incentive shares that will be issued to the Bounty shareholders should Bounty achieve a net profit after tax of \$8 million for the 12 months ending 30 June 2006. Investors should note that this is a non cash liability, and should Bounty not achieve the profit target for FY 2006 this obligation will expire.

Intending investors should also note that the mining equipment assets have been recorded in the unaudited Bounty Group balance sheet (as at 31 December 2004) at cost.

If the mining assets were valued in this balance sheet on a going concern basis, as provided in reports commissioned by Bounty from independent valuers in 2004, and after allowance for refurbishment costs, the non current fixed assets would increase in value by \$5,174,758.

In addition, intending investors should also note the working capital position of Bounty as at 31 December 2004 shows a deficiency of \$1,838,138. The current liabilities of Bounty include a loan of \$1,500,000 from Ausmet. This loan will be eliminated upon consolidation of the accounts post the merger.

Subsequent to the merger and capital raising, Ausmet's working capital position will be approximately \$5,400,000. If only the minimum amount is raised under this prospectus then working capital will be approximately \$2,500,000.

### 1.5 Funding the Growth

The existing equipment owned by Bounty is sufficient to commence operations under the NRE No. 1 colliery 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 currently available in the underground contract coal mining sector, including the potential increase in the mining rate at the NRE No.1 colliery as budgeted under the current mine plan, then additional mining equipment is required.

To ensure that full benefit can be taken of these opportunities Bounty has secured the following mining equipment through deposits and it is proposed that they will be purchased utilising the proceeds of the capital raising and debt where applicable.

<b>Equipment Type</b>	<b>Estimated cost to deployment</b>
Stamler Continuous Haulage	\$1,965,000
Joy 14 CM15-11CX Miner	\$1,750,000
RR11 Roof Bolter	\$513,00
DDO Bolter	\$557,000
DBT 488 Scoop	\$385,000
<b>TOTAL</b>	<b>\$5,170,000</b>

### 1.6 Bounty's Competitive Advantages

Bounty's key strengths lie in its professional management, experienced production team, 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 its six most senior persons having a combined industry experience of around 135 years.

A summary of the senior management of Bounty is provided in Section 2.3 of this Prospectus.

Specifically Bounty's competitive advantages are:

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

Within the Australian coal mining industry thick coal seams are depreciating materially with the best and most easily accessible 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 and high heat qualities ideal for coking which is ideal for direct sales or alternatively, blending with lower quality thick seam coals.

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

In addition, it is believed that Bounty is the only mining contractor in Australia with a complete, in code, low profile mining unit.

### **Mining technique**

As well as conventional underground mining techniques Bounty also uses the "cut and 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 where following the cut the miner is shut down while the roof bolter secures the cut.

"Cut and flick" mining ensures the 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.

## **1.7 Future opportunities**

Bounty has an integrated business model for the coal mining industry. It 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.

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

At the same time, BMH 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 as the securing of long term maintenance contracts.

SECTION

# 2

BOARD AND MANAGEMENT



## 2. Board and Management

### 2.1 Directors' and Proposed Directors Profiles

The names and details of the Directors in office at the date of this Prospectus and the Proposed Directors from the acquisition of Bounty are:

**(a) Colin Knox (Proposed non-executive Chairman)**

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.

**(b) Mark Gray (Proposed Chief Executive Officer)**

Mark Gray, as the current executive director of Bounty, is currently responsible for the overall control and management of Bounty. Mark is a corporate and banking lawyer and most recently 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.

**(c) Gary Williams (Executive Director)**

Gary Williams has more than 30 years experience in the underground coal mining industry both in Australia and internationally and holds a first class New South Wales mine managers certificate. Gary is the Chief Executive Officer of InCoal and his primary role within Bounty is business development and contract management.

**(d) Howard Dawson (Current Chairman – retiring as Chairman, remaining as Non Executive Director)**

Howard Dawson was formerly an exploration and resource development geologist with a number of major companies including BHP Minerals Limited. In 1987 he entered the securities industry as a Resource Analyst with a subsequent move into senior management and equity roles with firms including McIntosh Securities, Merrill Lynch Australia and ABN Amro Morgans Limited. In 2003 he established Ausmet Resources Limited and for the past year has been executive chairman.

**(e) Malcolm Smartt (Company Secretary and Current Director – remaining as Non Executive Director)**

Malcolm Smartt is an accountant and company secretary and after retiring from the RAAF in 1987 as a Squadron Leader he joined the resources sector. He has held a number of positions as a company secretary and or Finance Director in public and private companies including Chevron Exploration, Arboyne, Mt Edon, Menzies Gold, Coolgardie Gold and New World Alloys.

**(f) Peter Strachan (Current Director, retiring)**

Peter Strachan commenced his working life as a research metallurgist in Zambia and then gained significant practical experience with Bougainville Copper and CRA (now Rio Tinto). Since 1983 he has been involved in the Securities Industry in activities such as corporate research, institutional banking, business development and management. With effect from the acquisition of Bounty, Peter will resign as a Director and the Proposed Directors will become directors.

## 2.2 Company Secretary

Matt Whiting will be appointed as the Company Secretary for Bounty following the merger with Ausmet and completion of the capital raising.

Matt has a Bachelor of Commerce and a Bachelor of Law (pending) and is a specialised management consultant. During the past 10 years he has worked in a variety of roles including group accountant, strategic management and systems implementation for major corporations in New Zealand and the United Kingdom. Matt is also Corporate Services Manager for the Bounty group of companies.

## 2.3 Senior Management

Bounty has an experienced senior management team in place. These managers include:

- Larry Cook: General Manager - InCoal. Larry has 30 years experience in the coal mining industry in the United States, particularly in respect of thin coal seams, and holds a degree in engineering specialising in mining.
- Amon Mahon: General Manager - InCoal. Amon also comes from the United States and has 15 years experience in the coal mining industry and also holds a degree in Engineering.
- Greg Cox: Executive Officer - Bounty Equipment Leasing (BEL) and Bounty Materials Handling (BMH). Greg is an electrical engineer with 20 years experience in the coal mining industry.
- Lisa Hicks: Chief Financial Officer – Bounty. Lisa has a business degree and an MBA. She has over 15 years experience in accounting, managerial and business development roles with a range of corporations throughout the United States, Japan and Australia.
- Ian Steele: Chief Engineer - BMH. Ian has 20 years experience in mechanical engineering. Ian is responsible for running the BMH engineering workshop.
- Thomas Henshaw: Manager Equipment – BEL. Thomas joined Bounty from the United States. Thomas has extensive experience in thin seam coal mining and in particular in the care and maintenance of thin seam mining equipment.

## 2.4 Corporate Governance

The Directors are committed to the principles underpinning best practice in corporate governance. The current Board of Ausmet have established strong operational guidelines and these will form the basis of the governance role of the new board following the merger of Ausmet and Bounty.

### Board of Directors

The Board is responsible for the overall Corporate Governance of the Company including the strategic direction, establishing goals for management and monitoring the achievement of these goals. The Board have also established a framework for the management of the Company including setting levels of remuneration for Directors and senior personnel, an overall framework of internal control and the establishment of appropriate ethical standards.

The Board regularly reviews the Company's operational and financial performance and reviews and approves detailed budgets and investment opportunities.

In addition, the Board works closely with executive management to identify and manage operational, financial and legislative risks.

The Board holds scheduled meetings each year plus any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

To ensure that the Board is suitably equipped to discharge its responsibilities it has established guidelines for the nomination and selection of Directors and for the efficient operation and discharge of its duties.

The Directors of the company are under various statutory and common law duties and responsibilities associated with the running of a public company, including obligations to act in the best interests of the Company and to carry out their duties and responsibilities with due care and diligence. The Directors are also responsible for protecting the rights and interests of Shareholders.

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other Boards.

As the Board acts on behalf of and is accountable to the shareholders, the Board seeks to identify the expectations of shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the Company is delegated by the Board to the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the executive team.

The Board is responsible for ensuring that managements' objectives and activities are aligned with the expectations and risks identified by the Board.

### **Composition of the Board**

When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select a candidate or panel of candidates with the appropriate expertise and experience. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

The Company does not have a formal Nomination Committee as that role is fulfilled by the Board.

### **Monitoring of the Boards performance and communication to shareholders**

The Board aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors. Information is communicated to the shareholders through:

- the annual report which is distributed to all shareholders;
- the half-yearly report; and
- the annual general meeting and other meetings so called to obtain approval for board action as appropriate.

All documents that are released publicly are made available on the Company's website at [www.ausmet.com.au](http://www.ausmet.com.au)

**Independent Professional Advice**

Each Director has the right to seek independent professional advice at the Company's expense. However, prior approval of the Chairman is required, which should not be unreasonably withheld.

**Remuneration**

Remuneration levels are set by the Board in accordance with industry standards to attract suitably qualified and experienced Directors and senior executives.

**Ethical Standards**

All Directors and employees are expected to act with the utmost of integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

**Conflict of Interest**

In accordance with the Corporations Act 2001 and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. There are no director related entity transactions with the Company.

**Directors Dealings in Company Shares**

The Constitution of Ausmet permits Directors to acquire shares in the Company; however Company policy prohibits Directors from dealing in Company shares whilst in possession of price sensitive information. Directors must notify the Company Secretary once they have bought or sold shares in the Company or exercised options over ordinary shares. In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Stock Exchange, the Company on behalf of the Directors must advise the Australian Stock Exchange of any transactions conducted by them in shares and/or options in the Company.

# SECTION 3

PURPOSE OF THE ISSUE  
AND DETAILS OF THE OFFER

### 3. Purpose of the Issue and Details of the Offer

#### 3.1 Purpose of the Issue

The purpose of the Issue is to:

- complete the acquisition of Bounty and comply with the requirements of Chapters 1 and 2 of the ASX Listing Rules as required by ASX Listing Rule 11.1.3;
- provide working capital for the on going operation of Bounty;
- provide funds for equipment purchase; and
- repay some debt.

Pursuant to this Offer Ausmet will raise up to \$6 million with a minimum subscription of \$3 million. It is intended that over the following two years 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>

The Directors are of the opinion that upon completion of the Offer, the Company will have sufficient working capital to carry out its stated objectives.

#### 3.2 The Offer

The Company is offering for subscription 30,000,000 fully paid ordinary Shares each at \$0.20, payable in full on Application, to raise \$6,000,000. Details on the rights and liabilities attaching to the Shares are contained in Section 8.1. A summary of some of the risk factors of the investment pursuant to the Offer are contained in Section 7.

Completion of the Offer under this Prospectus is subject to:

- Shareholder approval at the General Meeting on 7 March 2005 of:
  - the issue of the New Shares; and
  - acquisition of Bounty and the issue of the Bounty Vendor Securities;
- Completion of the acquisition of Bounty by Ausmet; and
- ASX:
  - granting permission to the Quotation of the New Shares; and
  - being satisfied that the requirements of Chapters 1 and 2 of the ASX Listing Rules have been complied with as required by ASX Listing Rule 11.1.3.

If these conditions are not met the Application Monies will be returned to Applicants (excluding interest).

### 3.3 Priority Entitlement to Ausmet Shareholders

A priority entitlement of 5,000,000 Shares (\$1,000,000) has been reserved for shareholders of Ausmet who are registered as shareholders of Ausmet as at the books closing date which is 5 March 2005. Shareholders who wish to take up this offer must complete the specially marked Shareholder Application Form attached to this Prospectus and lodge their application no later than close of business on 9 March 2005.

### 3.4 Risk Factors of the Investment

A summary of the risk factors of the investment pursuant to the Offer are contained in section 7.

### 3.5 Minimum Subscription

The minimum subscription is \$3,000,000.

The Company will not issue the New Shares until the minimum subscription is satisfied. Should the minimum subscription not be reached within four months from the date of this Prospectus, the Company will either repay the Application Monies to Applicants or issue a supplementary prospectus or replacement prospectus and allow Applicants one month to withdraw their Applications and be repaid their Application Monies.

### 3.6 How to Apply

Please complete and return to the address specified in the Application Form instructions the Application Form together with the Application Monies in full prior to 5.00pm (WST) on the Closing Date of 15 March 2005.

Applications for shares under this Offer will only be accepted on the Application Form accompanying this Prospectus. Payment for Shares must be made in full at the issue price of 20 cents per share. Applications for Shares must be for a minimum of 10,000 Shares (\$2000) there after in multiples of 2000 shares (\$400).

Please refer to the instructions set out on the back of the Application Form when completing your Application.

This Offer may be closed at an earlier date and time at the discretion of the Directors, without prior notice. Applicants are therefore encouraged to submit their Application Form as early as possible. However, the Company reserves the right to extend the Offer or accept late Applications.

### 3.7 Stock Exchange Trading and Quotation

Application will be made by Ausmet for the New Shares to be granted Quotation within seven days following the issue of this Prospectus. If the New Shares are not granted Quotation within three months of the date of this Prospectus then the Application Monies will be returned to the Applicants (excluding interest).

Ausmet is admitted to the Official List. Ausmet will be suspended from trading on 7 March 2005, being the date of the general meeting, pending the acquisition of Bounty and compliance with ASX Listing Rule 11.1.3. Pursuant to Listing Rule 11.1.3 and due to the change in the Company's activities, if the acquisition of Bounty is successfully completed ASX will require the Company to demonstrate compliance with Chapters 1 and 2 of the Listing Rules before the suspension from official trading is removed.



### **3.8 Allotment and Dispatch**

Application Monies will be held in trust for Applicants until allotment of the New Shares. Any interest that accrues will be retained by the Company. No allotment of New Shares will occur until the conditions referred to in Section 3.2 are satisfied and the minimum subscription in Section 3.5 is also satisfied. Should either of these not be satisfied the Application Monies will be refunded in full (without interest).

The Company reserves the right to reject any Application or to issue a lesser number of New Shares than those applied for. Where the number of Shares issued is less than the number applied for, surplus Application Monies will be refunded (without interest) as soon as reasonably practicable after the Closing Date.

New Shares under the Offer are expected to be allotted, and shareholding statements dispatched, as soon as is reasonably practicable after the Closing Date.

### **3.9 Withdrawal**

The Directors may at any time decide to withdraw this Prospectus and the Offer in which case Ausmet will return all Application Monies without interest within 28 days of giving notice of their withdrawal.

### **3.10 CHESSE**

The Shares of Ausmet issued in relation to this Prospectus will be CHESSE approved from the date of Quotation on ASX in accordance with the ASX Listing Rules and ASTC Operating Rules. Ausmet operates an electronic issuer-sponsored sub-register and an electronic CHESSE sub-register. The two sub-registers together will make up the Company's register of shareholders.

Ausmet will not issue certificates to Shareholders. Instead, as soon as practicable after allotment, successful Applicants will receive a holding statement (similar to a bank account statement) which sets out the number of Shares allotted.

A holding statement will also provide details of a security holder's Holder Identification Number ("HIN") (in the case of a holding on the CHESSE sub-register) or Shareholder Reference Number ("SRN") (in the case of a holding on the issuer sponsored sub-register). Following distribution of these initial holding statements, an updated holding statement will only be provided at the end of any month during which changes occur to the number of Shares held. Shareholders may also request statements at any other time (although the Company may charge an administration fee).

### **3.11 Dividend Policy**

The extent, timing and payment of any dividends in the future will be determined by the Directors based on a number of factors, including future earnings and the financial performance of Ausmet.

### **3.12 Applicants Fee**

There are no fees payable by applicants under the Offer.

### **3.13 Placement Fee**

The Company reserves the right to pay the holder of an Australian Financial Services licence a fee of 5% of the amount subscribed (and accepted by the Company) with respect to any Application Forms bearing the licensees' stamp.

### **3.14 Underwriting**

This offer is not underwritten



SECTION

# 4

CAPITAL AND CORPORATE  
STRUCTURE

## 4. Capital and Corporate Structure

### 4.1 Capital Structure

The table below shows the capital structure of Ausmet assuming the issue of the New Shares under this Prospectus and the acquisition of Bounty are approved by Shareholders and are both completed.

	Number of Ordinary Shares	Listed Options Ex \$0.20 Expire 31 December 2006	Options Ex \$0.35 Expire 3 years after issue	Options Ex \$0.40 Expire 3 years after issue	Options Ex \$0.45 Expire 3 years after issue
Issued capital at date of this Prospectus	30,436,000	15,218,000 <sup>1</sup>			
Issued under this Prospectus	30,000,000				
Bounty Vendor Securities	15,000,000		8,333,334	8,333,333	8,333,333
Bounty Noteholder Securities <sup>2</sup>	5,000,000	2,500,000			
Consultant Options <sup>3</sup>		500,000			
Total	80,436,000	18,218,000	8,333,334	8,333,333	8,333,333

#### Notes:

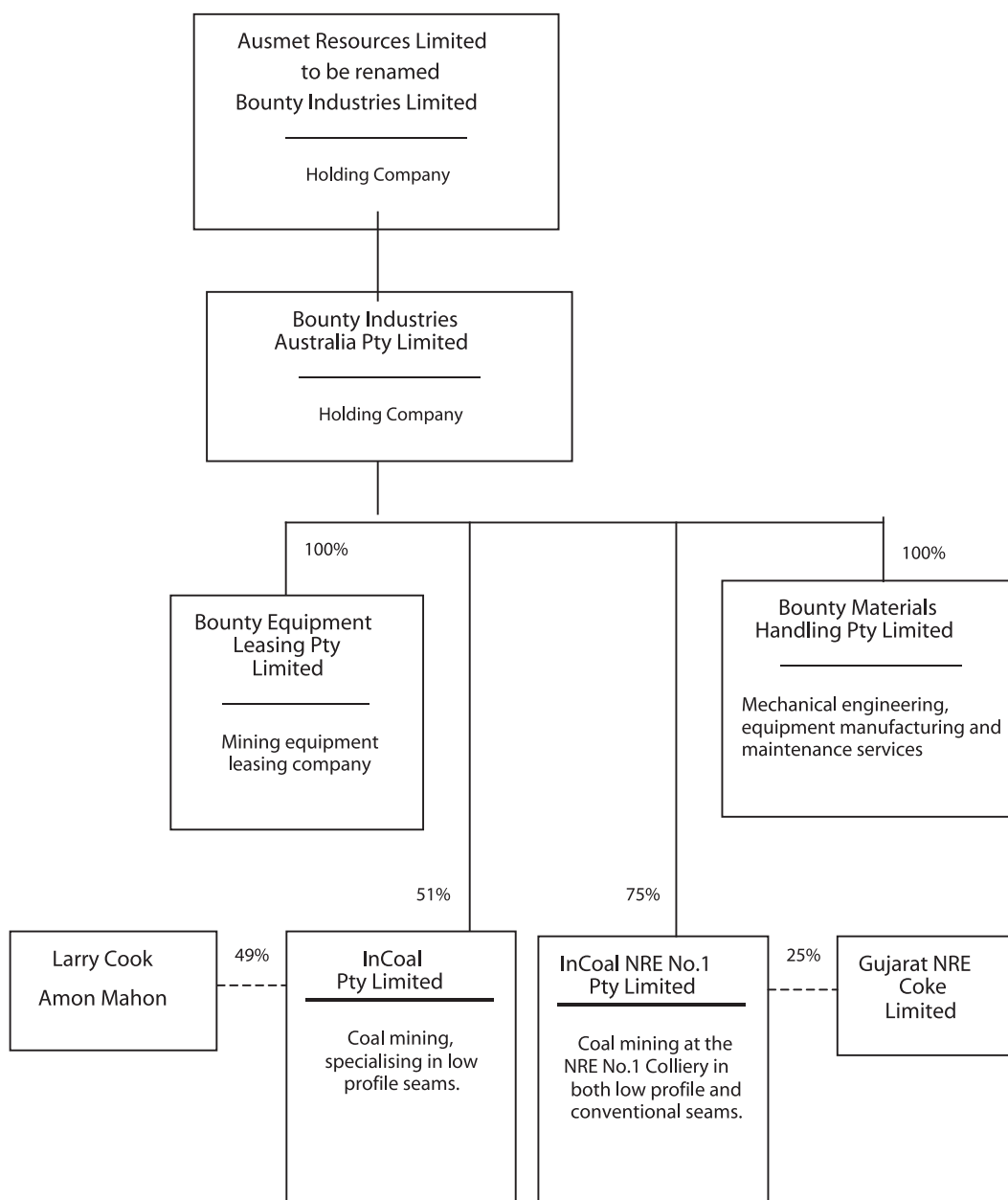
1. These are currently listed options.
2. Ausmet proposes to issue 5,000,000 shares and 2,500,000 listed options to specific Bounty Noteholders to extinguish \$1,000,000 in debt. These are on the same terms as the existing listed options.
3. Ausmet proposes to issue 500,000 listed options to a consultant of Ausmet and Bounty in consideration for past and future services. These are on the same terms as the existing listed options.

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.

Also, the Company is seeking approval from shareholders to issue up to 2,000,000 options to the Directors. The Director's options are proposed to be issued in 3 near equal tranches of up to 666,667 options exercisable at \$0.35, up to 666,667 options exercisable at \$0.40, and up to 666,666 options exercisable at \$0.45.

## 4.2 Corporate Structure

Ausmet is a company limited by shares that is incorporated and domiciled in Australia. Assuming the issue of the New Shares under this Prospectus are approved by Shareholders and are issued, the corporate structure of Ausmet and the companies it controls will be as follows:



### **4.3 Restricted Securities**

The holders of the Bounty Vendor Securities and Bounty Noteholders Securities may be required by ASX to enter into agreements that restrict dealings in their holdings of Securities in the Company for varying periods. The maximum period will be two years from the date of re-listing.

These provisions might apply to the existing Shareholders and other holders of Securities that are “related parties” or “promoters” of the Company for the purposes of the Listing Rules of ASX. ASX may review these requirements during consideration of the Company’s application to lift the suspension on trading on the Company’s quoted securities.

The shareholders of Bounty who will receive 15,000,000 shares in Ausmet on completion of the merger have agreed to a voluntary escrow period of 12 months from the date of issue of these securities.

SECTION

# 5

INVESTIGATING ACCOUNTANT'S  
REPORT



# STANTON PARTNERS CORPORATE PTY LTD

A.C.N 063 036 331

1 HAVELOCK STREET  
WEST PERTH 6005  
WESTERN AUSTRALIA

TELEPHONE: (08) 9481 3188  
FACSIMILE: (08) 9321 1204

e-mail: [jvdieren@stanton.com.au](mailto:jvdieren@stanton.com.au)

15 February 2005

The Directors  
Ausmet Resources Limited  
(To be renamed Bounty Industries Limited)  
Level 1  
89 St Georges Terrace  
PERTH WA 6000

Dear Sirs

## **RE: INVESTIGATING ACCOUNTANT'S REPORT**

### **1. Introduction**

This report has been prepared at the request of the Directors of Ausmet Resources Limited (to be renamed Bounty Industries Limited in March 2005) ("Ausmet" or "the Company") for inclusion in a Prospectus to be dated on or around 18 February 2005 ("the Prospectus") relating to the proposed issue by Ausmet of 30,000,000 ordinary shares to be issued at a price of 20 cents per share to raise a gross \$6,000,000. The minimum subscription has been set at \$3,000,000 (15,000,000 shares).

### **2. Basis of Preparation**

This report has been prepared to provide investors with information on historical results and the assets and liabilities of Ausmet and Bounty Industries Australia Limited ("Bounty") (consolidated). The historical financial information is presented in abbreviated form insofar as it does not include all disclosures required by Australian Accounting Standards applicable to financial reports in accordance with the Corporation Act 2001. This report does not address the rights attaching to the shares to be issued in accordance with this Prospectus, nor the risks associated with the investment. Stanton Partners Corporate Pty Ltd has not been requested to consider the prospects for the Company (and its proposed subsidiaries, Bounty Industries Australia Pty Ltd and its subsidiaries noted below), the shares on offer and related pricing issues, nor the merits and risks associated with becoming a shareholder and accordingly, has not done so, nor purports to do so. Stanton Partners Corporate Pty Ltd accordingly, takes no responsibility for those matters or for any matter or omission in the Prospectus, other than responsibility for this report. Risk factors are set out in section 7 of the Prospectus.

### 3. Background

Ausmet Resources Limited was incorporated on 16 December 2003 to become a mineral exploration company and after raising approximately \$3,500,000, obtained a listing on the Australian Stock Exchange (“ASX”) on 30 April 2004. As at 31 January 2005, the Company had on issue 30,436,000 ordinary shares (21,272,350 quoted) for a total paid up capital of \$3,902,537 and 15,218,000 share options outstanding (10,636,175 quoted), exercisable at 20 cents each, on or before 31 December 2006. To 31 December 2004 the mineral assets of Ausmet were as follows:

- A 100% interest in the Dingo Range Project originally acquired from Deep Yellow Limited (“Deep Yellow”) for \$100,000 plus 4,000,000 shares (issued at 10 cents each) and 2,000,000 options (that expire on 31 December 2006) to Deep Yellow.
- The right to earn up to a 60% interest in the Batchelor mineral tenements from New World Alloys Ltd by way of a \$20,000 payment for mining information and spending \$75,000 in the first 12 months (from February 2004). Ausmet may withdraw from the Joint venture or pay a further \$30,000 and then continue over a three year period to achieve a total \$600,000 expenditure to earn 60%.
- The Company has an interest in various tenement applications in the mineral tenement applications known as Throssell at an initial cost of \$28,112.

Furthermore as at 31 December 2004, Ausmet had other assets involved in the existing mineral exploration business totalling \$35,391, being sundry plant and furniture at a written down value of \$23,391 and a bond receivable of \$12,000. The above assets as at 31 December 2004 are known as the Mineral Assets and as at that date the written down value was \$35,391 (all acquisition and exploration costs had been written down to nil as costs are written off as incurred). The Mineral Asset are to be sold to Discovery Capital Limited (refer below) as part of the restructure of Ausmet.

On 10 November 2004, the Company announced a plan (via a Heads of Agreement) to acquire 100% of the issued capital of Bounty, a company involved (via subsidiaries) in the manufacture and maintenance of contract coal mining equipment and contract coal mining. The original terms of the Heads of Agreement were subsequently altered due to restructuring of the subsidiaries of Bounty and on 6 January 2005, following due diligence by Ausmet and restructuring of the Bounty Group, a variation to the Heads of Agreement was signed to acquire the Bounty Group as follows:

- An initial issue of 15,000,000 shares in Ausmet (on Completion as defined) at a deemed value of 20 cents each (\$3,000,000); and
- An initial issue of 25,000,000 share options in Ausmet (on completion as defined), exercisable in three near equal tranches at 35 cents, 40 cents and 45 cents with a 3 year share option life. The total value of the Option package has been valued by Ausmet using the Black Scholes option valuation methodology at \$1,575,255.

If the merged company (Ausmet and Bounty combined) achieves Net Profit after Tax (“NPAT”) in the financial year 2005/06 of at least \$8,000,000, then the current Bounty shareholders will receive a further 10,000,000 shares in Ausmet. The management of Ausmet have ascribed a value to the potential issue of performance shares of \$1,200,000 (12 cents per potential performance share). Thus, the total investment in Bounty has been disclosed in the

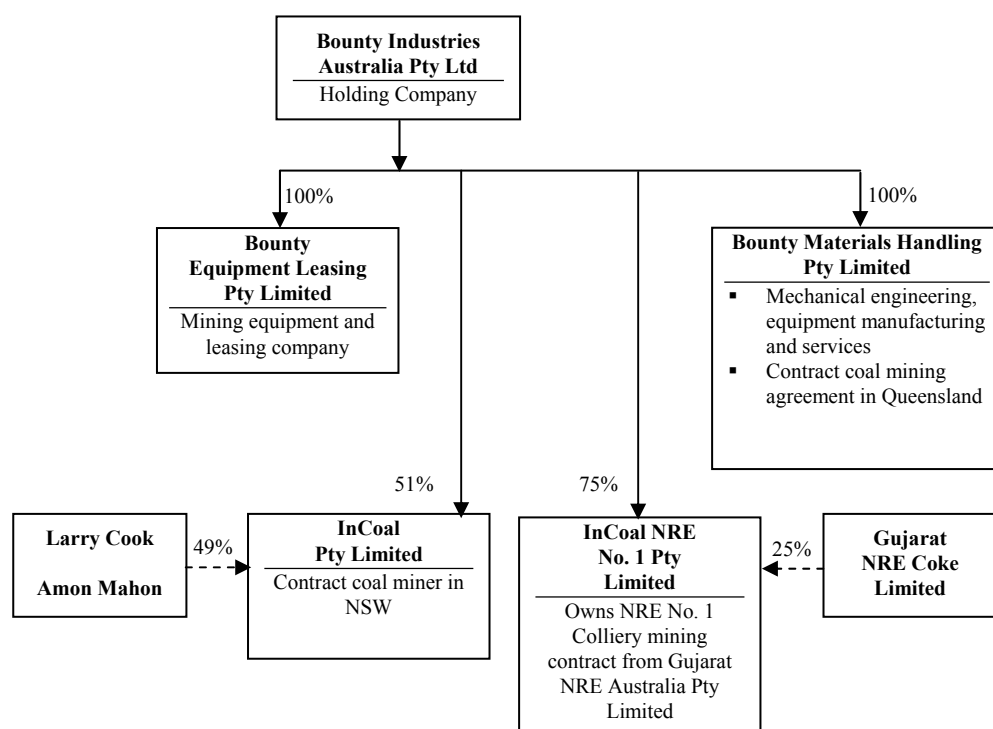
pro-forma statement of financial position at \$5,775,255 and a long term liability of \$1,200,000 (that will be extinguished if the 10,000,000 performance shares are issued). On consolidation, the \$1,200,000 liability will be reversed against the fair value of intangibles (refer section 5 below) and against the investment (parent entity) if the performance shares are not issued. The liability of \$1,200,000 is not a liability that requires a cash payment.

In addition, as part of the proposed merger operation, certain investors in Bounty will be issued shares with an attached one for two share option under a debt to equity conversion. Under the terms of the Heads of Agreement, 5,000,000 shares and 2,500,000 share options will be issued to convert \$1,000,000 in current Bounty Group debt. The shares are to be issued at 20 cents each (\$1,000,000) and the options using the Black Scholes methodology have been valued by Ausmet management at a total of \$201,693 for a total consideration to eliminate the \$1,000,000 debt of \$1,201,693. Thus, from an Ausmet/Bounty group point of view, the accumulated losses will increase by \$201,693, issued capital of Ausmet will rise by \$1,000,000 and an Option Reserve will also be created of \$201,693.

It is planned that the exiting Directors of Ausmet will resign on Completion except for Mr Howard Dawson and Mr Malcolm Smartt who are to remain as non-executive Directors for at least two years unless mutually agreed between all parties. Messrs Colin Knox (to be Chairperson), Mark Gray (to be the Executive Director and CEO) and Gary Williams (to be an executive Director) who represent Bounty shareholders and operating management will become Directors of Ausmet (then renamed Bounty Industries Limited).

The Bounty Group and its operations are more fully outlined elsewhere in the Prospectus. In summary, the Bounty Group is noted below. Bounty Industries Australia Pty Limited is in effect an investment holding company. Bounty Material Handling Pty Limited operates a mechanical engineering business specialising in materials handling machinery particularly in the coal mining industry. Bounty Equipment Leasing Pty Limited (formerly Thin Seam Mining Services Pty Limited) is a thin and thick coal mining equipment leasing company (mainly to InCoal Pty Limited and InCoal NRE No. 1 Pty Limited) and is 100% owned by Bounty. InCoal Pty Ltd (formerly TSM Corporation Pty Limited) is 51% owned by Bounty and specialises in thin and thick seam contract coal mining. Currently it has a contract to operate as a contract coal miner at an underground coal mine in NSW owned by a major Australian listed coal mining company. InCoal NRE No. 1 Pty Limited which is 75% owned by Bounty, is also a contract coal miner and currently has a coal mining contract with Gujarat NRE Australia Pty Ltd. Further details on the various coal mining contracts and agreements are outlined in the Material Contracts section 6 of the Prospectus. We do not warrant or guarantee that the coal mining contracts will be profitable or that Bounty or any of the subsidiaries of Bounty will be profitable in the future.





Ausmet has advanced Bounty a total of \$1,500,000 to 11 February 2005 and this sum is repayable at call. The ability of the Bounty Group to repay this debt and any other future advances from Ausmet (and repay existing and future liabilities) will be dependent upon the future profitability and cash flows of Bounty from commercial operations. We offer no comment as to whether the Bounty Group will be profitable and have positive cash flows from operations so that the Bounty Group can meet its existing and future debt obligations.

The acquisition of Bounty (and the Bounty Group) will take place after the shareholders approve the transaction and this approval is expected to take place on 7 March 2005 (after the issue of the Prospectus). A number of transactions are to take place in conjunction with the capital raising and Bounty acquisition. This includes the sale of the existing Mining Assets of Ausmet to Discovery Capital Limited ("Discovery"). Agreement has been reached whereby the existing Mining Assets of Ausmet are to be demerged and sold to Discovery which is currently a wholly owned subsidiary of Ausmet (incorporated on 13 January 2005) with an issued capital of 30,436,000 shares. The Mining Assets are to be sold to Discovery for \$500,000 with 3,381,805 shares issued to Ausmet to eliminate the \$500,000 debt. An in-specie distribution of the 30,436,000 shares owned by Ausmet in Discovery are to be distributed to the shareholders of Ausmet at a deemed value of approximately 1.643 cents each or a total of \$500,000. Under a Put Option Agreement with Discovery, Discovery has the right to Put \$1,000,000 worth of shares (6,763,616 shares in total) to Ausmet over a 18 month period of which \$500,000 will be invested in Discovery within six months. Thus, effectively, Ausmet over an 18 month period will have a net \$1,000,000 investment in Discovery. It is estimated by Ausmet that \$400,000 will be paid on demerger and a further \$100,000 within six months. Thus, initially Ausmet/Bounty group cash reduces by an initial \$400,000, current liabilities increase by \$100,000 and the Ausmet/Bounty Group will have a further commitment to invest \$500,000 into Discovery (to be disclosed as a non current liability in the pro-forma consolidated Statement of Financial Position noted in Appendix 2 to this report). Ausmet, if all Puts are exercised will end up with a 25% shareholding interest in Discovery.

A total of 500,000 share options are proposed to be issued to Malcolm Carson or nominee as consideration for past and future services provided to both Ausmet and Bounty. These options have been valued by Ausmet management using the Black Scholes option methodology at a total of \$40,339 and an Option Reserve will be created and an expense incurred of \$40,339.

The Company proposes to adopt an Employee Option Plan at the forthcoming meeting of shareholders and issue up to a total of 2,000,000 employee options to Messrs Knox, Gray and Williams. The employee options will be exercisable in three equal tranches at 35 cents, 40 cents and 45 cents each, on or before three years from date of issue. The employee options have been ascribed a fair value of \$126,667 (total) using the Black Scholes option valuation methodology.

The shareholders are to vote on the above transactions on 7 March 2005 and this report assumes that shareholders will approve the Bounty acquisition, the issue of Ausmet shares to extinguish \$1,000,000 of Bounty debt, issue 500,000 options to Malcolm Carson, approve the sale of the Mining Assets of Ausmet to Discovery (and in specie return of capital), the appointment of new Directors, the adoption of an Employee Option Plan, issue of employee options to proposed directors and approve a change of activities.

Full details on all material contacts including those relating to the transactions noted above are outlined in the Material Contracts section 6 of the Prospectus and elsewhere in the Prospectus.

#### **4. Scope of Examination**

You have requested Stanton Partners Corporate Pty Ltd to prepare an Investigating Accountant's Report on:

- (i) The results of the Company for the period from incorporation to 30 June 2004 and for the six months ended 31 December 2004;
- (ii) The results of the Bounty Group for the six months ended 31 December 2004;
- (iii) Statements of Financial Position of the Company and the Bounty Group (Bounty consolidated assuming the restructure of the Bounty Group took place as at 31 December 2004); and
- (iv) The pro-forma consolidated Statement of Financial Position of the Company as at 31 December 2004 adjusted to include funds to be raised by this Prospectus and the completion of transactions referred to in Note 2 of Appendix 3.

The directors of the Company are responsible for the preparation and presentation of the historical and pro-forma financial information, including the determination of the pro-forma transactions. All of the financial information referred to above has not been audited or subject to audit review except for the financial information on Ausmet for the period from incorporation to 30 June 2004. We have however examined the financial statements and other relevant information and made such enquiries, as we considered necessary for the purposes of this report. The scope of our examination of the Bounty Group's financial and other records was substantially less than an audit examination, conducted in accordance with Australian Auditing Standards and accordingly, we do not express such an opinion. Our examination included:

- (i) Discussions with Directors and other key management of the Company and the Bounty Group;
- (ii) Review of contractual arrangements;
- (iii) A review of publicly available information; and
- (iv) A review of work papers, accounting records and other documents.

We did not value the proposed investment of shares in Bounty and loan funds to Bounty. The value of the share investment and loans are dependant upon revenues generated from future trading of the Bounty Group. Furthermore, we have not valued the ultimate investment in Discovery. The ultimate value will depend upon the commercial success or otherwise of mineral exploration by Discovery.

## 5. Opinion

In our opinion, the consolidated pro-forma statement of assets and liabilities as set out in Appendix 2 presents fairly, the consolidated pro-forma statement of assets and liabilities of the Company as at 31 December 2004 in accordance with the accounting methodologies required by Australian Accounting Standards on the basis of assumptions and transactions set out in Appendix 3. No opinion is expressed on the Bounty Group historical results, as shown in Appendix 1, except to state that nothing has come to our attention which would require any further modification to the financial information in order for it to present fairly, the results of the periods identified. Unaudited management accounts of the Bounty Group disclose accumulated losses of approximately \$1.721 million as at 31 December 2004 and current assets are approximately \$1,838 million less than current liabilities at that date (including the amount owing to Ausmet that is at call of \$1,500,000). The Bounty Group as at 31 December 2004 disclosed in its unaudited management Statement of Financial Position a deficiency in shareholders funds of approximately \$1.266 million primarily as the plant and equipment of one of Bounty's subsidiaries has not been re-valued in the books of the subsidiary. The Directors of Bounty consider that the fair value of the plant and equipment on a going concern basis is in excess of the book value by around \$5 million. Refer note 20 on funding requirements of the Bounty Group. In January 2005, an Offer Letter has been signed with a financier for Bounty to borrow \$1,000,000 to finance new plant. As at 14 February 2005, the borrowing contract has not been signed and no monies borrowed by way of a draw down. It is also planned to request additional funds from the financier to repay existing debt.

The excess of the cost of acquisition over the net book assets of the Bounty Group will be approximately \$7.693 million (including the extent of forecasted losses incurred from 1 January 2005 to the date of acquisition that is assumed to be no later than 31 March 2005) and we make no judgement as to whether the price paid for Bounty is fair or reasonable. In the event that the assumed profits from the acquisition of Bounty do not eventuate, the value of the investment (shares in and loan funds to) in Bounty may need to be written down. The excess of the cost of acquisition over the net book value of the Bounty Group (as at 31 December 2004) is to be allocated by management as follows:

- |   |             |
|---|-------------|
| ▪ attributable to fair value of plant and equipment | \$5,174,758 |
| ▪ attributable to mining contracts (intangible)     | \$2,518,723 |

The amount attributed to the fair value of the Bounty Group plant and equipment will be amortised off over the estimated economical working life of the plant and equipment. The amount attributable to mining contracts will be written off over the life of the existing mining

contracts. Reference is made to note 20 under Appendix 3 to the forecasted working capital requirements of Bounty. Ausmet may need to raise further funds (via equity and/or loans) to finance the working capital and expansion plan requirements of the Bounty Group in excess of funds raised by the Prospectus, particularly in the event if profits are not generated by the Bounty Group from existing and future coal mining contracts that several of the subsidiaries of Bounty have or will have an interest in. The existing contracts and agreements with the Australian listed coal mining company (regarding a coal mine in NSW) and Gujarat and are expected to commence active contact coal mining in February 2005 and July 2005 respectively. There is also a short term contract with a multi national coal miner located in Queensland which has been completed but has been extended by agreement and this is expected to be extended from time to time for up to five years.

The Australian Accounting Standards Board is adopting the Standards of the International Accounting Standards (or Australian equivalents thereto) for application to reporting periods on or after 1 January 2005. AASB1047 "Disclosing the Impact of Adopting Australian Equivalents to International Financial Reporting Standards" requires financial reports to disclose information about the impact of any changes in accounting policies in the transition period leading up to the adoption date. A summary of the key differences in accounting policies that are expected to arise from adopting Australian equivalents of IFRS in relation to Ausmet/ Bounty are as follows:

- Income Tax – will adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than accounting for the effects of timing differences between taxable income and accounting profit. The Bounty Group has not re-valued its plant and equipment. If it did do so, a deferred tax liability would need to be raised.
- Impairment of Assets – currently assess whether assets are impaired by determining the recoverable amount of the assets on the higher of undiscounted future cash flows. IFRS will determine recoverable amount as the higher of fair value less costs to sell and value in use.
- Financial Instruments – Investments available for sale are to be measured at fair value with changes in fair value recognised in equity subject to impairment. Investments in marketable securities are to be measured at fair value with changes in fair value recognised in the statement of financial performance as an expense or income. Investments/financial assets or liabilities carried at fair value through the statement of financial performance.
- Business Combinations – No amortisation of goodwill but an annual impairment testing of goodwill will apply. The intangible asset, interest in mining contracts will be amortised off over the life of the contracts.
- Exploration and Evaluation – IFRS6 was recently introduced in December 2004, effective from 1 January 2006 in relation to the mining and exploration industries. The costs of exploration and evaluation may be carried forward as per current Australian standard and an impairment test on those assets is required when facts and circumstances indicate that the carrying value of those assets may exceed recoverable amounts. Ausmet currently expenses all exploration and evaluation expenditure. Ausmet proposes to sell its interest in its existing Mining Assets to Discovery.

To the best of our knowledge and belief, there have been no other material items, transactions or events subsequent to 31 December 2004, that have come to our attention during the course of our review which would cause the information included in this report to be misleading.

## **6. Other matters**

At the date of this report, Stanton Partners Corporate Pty Ltd or Stanton Partners do not have any material interest in the company, either directly or indirectly, or in the outcome of the Offer. Stanton Partners, a firm that is related to Stanton Partners Corporate Pty Ltd, were appointed as auditors of the Company in 2003. Our fee for the preparation of this report is estimated not to exceed \$30,000 (excluding GST). Stanton Partners Corporate Pty Ltd, Stanton Partners (and an affiliated accounting entity, Stanton International) were not involved in the preparation of any other part of the Prospectus, and accordingly, make no representations or warranties as to the completeness and accuracy of any information contained in any other part of the Prospectus. Stanton Partners Corporate Pty Ltd consents to the inclusion of this report (including Appendices 1 to 3) in the Prospectus in the form and content in which it is included. At the date of this report, this consent has not been withdrawn.

Yours faithfully

**STANTON PARTNERS CORPORATE PTY LTD**

A handwritten signature in black ink, appearing to read 'JP Van Dieren', with a long horizontal flourish extending to the right.

**J P Van Dieren FCA**  
**Director**

**INVESTIGATING ACCOUNTANT'S REPORT**  
**APPENDIX 1**  
**UNAUDITED CONDENSED STATEMENTS OF FINANCIAL PERFORMANCE**

**Ausmet**

	<b>Six months Ended 31 December 2004 (unaudited)</b>
	<b>\$</b>
Revenue from ordinary activities- interest income	83,018
Exploration costs expensed	(147,994)
Other costs	(187,415)
Operating (Loss)	(252,391)
Income tax expense attributable to operating loss	-
Operating (Loss) after income tax	(252,391)

**The Bounty Group (Consolidated)**

	<b>Six Months Ended 31 December 2004 (unaudited)</b>
	<b>\$</b>
Revenue from operations	1,378,387
Profit on sale of non current assets	225,249
(Loss) before interest, tax, depreciation and amortisation	(798,339)
Interest and borrowing costs	(346,722)
Depreciation	(165,790)
Operating (loss) before tax	(1,310,851)
Income tax expense (benefit)	-
Operating (loss) after income tax	(1,310,851)

The above operating loss includes an item of significance figure (abnormal item) of a profit on sale of part of a subsidiary of \$200,000.

**The unaudited statements of financial performance and statements of financial position are to be read in conjunction with Appendix 3.**

**INVESTIGATING ACCOUNTANT'S REPORT**  
**APPENDIX 2**  
**UNAUDITED STATEMENTS OF FINANCIAL POSITION**

	Note	Unaudited Ausmet 31 December 2004 (un-audited)	Unaudited The Bounty Group 31 December 2004 (un-audited)	Pro-forma Ausmet (to be Bounty Industries Limited) Consolidated 31 December 2004
		\$	\$	\$
<b>Current Assets</b>				
Cash assets	3	1,470,948	609,215	6,478,663
Receivables	4	25,035	471,306	496,341
Inventories	5	-	190,357	190,357
Other	6	10,016	-	10,016
Total Current Assets		<u>1,505,999</u>	<u>1,270,878</u>	<u>7,175,377</u>
<b>Non Current Assets</b>				
Receivables (including owing by Bounty)	4	1,512,000	-	-
Fixed Assets	7	23,391	4,576,303	9,587,061
Investments	8	-	-	1,000,000
Intangibles	9	-	-	2,518,723
Total Non Current Assets		<u>1,535,391</u>	<u>4,576,303</u>	<u>13,105,784</u>
Total Assets		<u>3,041,390</u>	<u>5,847,181</u>	<u>20,281,161</u>
<b>Current Liabilities</b>				
Payables	10	80,489	1,041,596	1,222,085
Interest Bearing Liabilities	11	-	547,420	547,420
Employee Entitlements	12	5,127	20,000	25,127
Loan –Owing to Ausmet	13	-	1,500,000	-
Total Current Liabilities		<u>85,616</u>	<u>3,109,016</u>	<u>1,794,632</u>
<b>Non Current Liabilities</b>				
Payables	10	-	222,593	222,593
Interest Bearing Liabilities	11	-	3,781,359	2,781,359
Owing to Discovery	14	-	-	500,000
Other Liabilities	15	-	-	1,200,000
Total Non Current Liabilities		<u>-</u>	<u>4,003,952</u>	<u>4,703,952</u>
Total Liabilities		<u>85,616</u>	<u>7,112,968</u>	<u>6,498,584</u>
<b>Net Assets/(Liabilities)</b>		<u>2,955,774</u>	<u>(1,265,787)</u>	<u>13,782,577</u>
<b>Represented by</b>				
Equity				
Contributed Equity	16	3,902,537	412,000	12,960,037
Option Reserve	16	-	-	1,943,954
Accumulated (Losses)	17	(946,763)	(1,720,226)	(1,163,853)
Equity attributable to the parent entity		<u>2,955,774</u>	<u>(1,308,226)</u>	<u>13,740,138</u>
Outside Equity Interests		<u>-</u>	<u>42,439</u>	<u>42,439</u>
<b>Total Equity (Deficiency)</b>		<u>2,955,774</u>	<u>(1,265,787)</u>	<u>13,782,577</u>

**INVESTIGATING ACCOUNTANT'S REPORT**  
**APPENDIX 3**  
**NOTES TO THE STATEMENTS OF FINANCIAL PERFORMANCE**  
**AND STATEMENTS OF FINANCIAL POSITION**

**1. Statement of Significant Accounting Policies**

**(a) Basis of Accounting**

The unaudited statements of financial performance and unaudited statements of financial position have been prepared in accordance with applicable accounting standards, Corporations Act 2001 and mandatory professional reporting requirements and we have made such disclosures as considered necessary. They have also been prepared on the basis of historical cost and do not take into account changing money values. The accounting policies have been consistently applied, unless otherwise stated.

**(b) Income Tax**

The companies adopt the liability method of tax effective accounting, whereby the income tax expense in the profit and loss statement is based on the operating profit before tax adjusted for permanent differences. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation, the anticipation that the companies will derive sufficient future assessable income to enable the benefit to be realised and that the companies will comply with the conditions of deductibility imposed by the law.

**(c) Principles of Consolidation**

The pro-forma consolidated accounts have been prepared by combining the financial statements all of the entities that will comprise the economic entity, being the Company and its proposed controlled entity, as defined in Accounting Standards AASB1024 "Consolidated Accounts". The controlled entity will be Bounty and all of its subsidiaries noted in the body of the Investigating Accountant's Report. Consistent accounting policies have been employed in the preparation and presentation of the consolidated pro-forma. The consolidated accounts include the information and results of each controlled entity from the date on which the Company obtains control, and until such time as the Company ceases to control such entity. In preparing the consolidated accounts, all inter-company balances and transactions, and unrealised profits arising within the economic entity are eliminated in full.

**(d) Fixed Assets**

Plant and equipment are carried at cost less accumulated depreciation. All assets are depreciated over their estimated useful lives on a reducing balance basis.



The expected useful lives are as follows:

Furniture and fittings	3.33 to 8.88 years
Computer equipment	2.66 years
Plant and equipment	5.5 to 10 years
Motor vehicles	5.33 years

(e) Leases

Where assets are acquired by means of finance leases, the present value of minimum lease payments is established as an asset at the beginning of the lease term, and amortised on a straight-line basis over the expected economic life. A corresponding liability is also established and each lease payment is allocated between such liability and interest expense. Payments made in respect of operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term.

(f) Receivables

Trade accounts receivable, amounts due from related parties and other receivables represent the principle amounts due at balance date plus accrued interest less, where applicable, any provisions for doubtful accounts.

(g) Inventories

Inventories are measured at the lower of cost and net realisable values. Costs are assigned on a first in first out basis, and include direct materials, direct labour, and an appropriate proportion of variable and fixed overhead expenses.

(h) Goodwill on Acquisition

Purchased goodwill has been calculated as the excess of cost of acquisition over the fair value of their identifiable net assets acquired. The excess of the cost of acquisition of Bounty over the 31 December 2004 unaudited carrying value of net assets acquired (including forecasted losses from 1 January 2005 to 31 March 2005) has been attributed to the fair value of the plant and equipment (based on advice from Bounty management) of \$5,174,758 and an intangible, interest in mining contracts of \$2,518,723. Thus, there is no value attributed to goodwill on consolidation. The additional amount attributed to the fair value of plant and equipment will be amortised off over the economic useful life of the plant assets. The additional amount attributed to interests in mining contracts will be amortised off over the life of the mining contracts and the maximum period will be five years.

(i) Accounts Payable

Accounts payable represent the principal amounts outstanding at balance date, plus, where applicable, any accrued interest.

(j) Borrowings

Bank and other loans are recognised in the financial statements on the basis of the nominal amounts outstanding at balance date plus accrued interest.

(k) Recoverable Amount of Non Current Assets

The carrying amounts of non-current assets are reviewed annually by directors to ensure they are not in excess of the recoverable amounts from those assets. The recoverable amount is assessed on the basis of the expected net cash flows, which will be received from the assets employed and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

(l) Operating Revenue

Sales revenue represents revenue earned from the sale of the economic entities' products and services. Revenue not yet earned is deferred to future period and disclosed as a current liability. Other revenue includes interest income, proceeds from disposal of non current assets and insurance recoveries.

(m) Employee Entitlements

Liabilities for annual leave are recognised, and are measured as the amount unpaid at the reporting date at expected future pay rates in respect of employees' services up to balance date. A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

(n) Exploration and evaluation expenditure

Exploration and evaluation expenditure is expensed as incurred.

(o) Contributed Equity

Issued capital is recognised at the fair value of the consideration received by the Company. Any transaction costs on the issue of shares are recognised directly in equity as a reduction of the share proceeds received.

**2. Actual and Proposed Transactions to Arrive at Consolidated Pro-forma Consolidated Statement of Finance Position**

Actual and proposed transactions adjusting the unaudited 31 December 2004 statements of financial position in the consolidated pro-forma statements of financial position are as follows:

- (a) The acquisition of all of the shares in Bounty for \$5,775,255 (refer section 3 of our Investigating Accountant's Report) by way of an issue of 15,000,000 ordinary shares at 20 cents (\$3,000,000) 25,000,000 share options (valued in total at \$1,575,255) and ascribing a value of \$1,200,000 to the potential to issue of 10,000,000 performance shares (and disclosing the \$1,200,000 potential obligation to issue performance shares as a non-current liability);

As a result of the acquisition of the Bounty Group, the excess of the cost of acquisition over the 31 December 2004 carrying value of the net assets of the Bounty Group (\$7,693,481) (increased by forecasted losses of \$610,000 between

1 January 2005 and date of acquisition that is assumed to be by the end of March 2005) has been attributed to the fair value of the Bounty group plant and equipment (\$5,174,758) and an intangible, interest in mining contracts (\$2,518,723);

- (b) The issue of 5,000,000 ordinary shares at 20 cents each and 2,500,000 share options to Bounty note holders (at a total cost of \$1,201,693) to eliminate a Bounty Group debt of \$1,000,000 and accounting for the additional cost (\$201,693) as an expense;
- (c) The issue of 500,000 share options to Malcolm Carson at a deemed cost of \$40,339;
- (d) The issue of 30,000,000 ordinary shares pursuant to the Prospectus at 20 cents each to raise a gross \$6,000,000;
- (e) The payment of expenses in relation to the Prospectus estimated at \$442,500 and expensed against equity;
- (f) The setup of Discovery and issuing 30,436,000 ordinary shares to Ausmet;
- (g) The sale of the Mining Assets of Ausmet to Discovery for \$500,000 and the debt settled by the issue of 3,381,805 shares in Discovery, resulting in a profit on sale (based on unaudited 31 December 2004 figures for the Mining Assets) of \$464,609;
- (h) Entering into the Put Option Agreement with Discovery and Ausmet advancing \$500,000 within 6 months of which \$400,000 is expected to be advanced within 7 days of demerger and \$100,000 by September 2004 and committing to subscribe for a further \$500,000 of capital in Discovery within 18 months.
- (i) The in specie distribution of 30,436,000 shares in Discovery to the Ausmet shareholders and the reduction in capital of \$500,000;
- (j) The payment of further Company operating costs since 31 December 2004 of say, \$100,000;
- (k) The incurring of further consolidated losses by the Bounty Group to 30 April 2005 estimated at \$823,000 of which approximately \$659,000 are cash costs and \$164,000 is depreciation (of which a total of \$610,000 has been treated as pre-acquisition losses – refer (a) above and \$213,000 treated as post acquisition losses; and
- (l) The issue of 2,000,000 employee options to the proposed directors at a deemed value of \$126,667.

	Note 2	Unaudited Ausmet 31 December 2004	Unaudited Bounty Consolidated 31 December 2004	Pro-forma Ausmet (to be Bounty Industries Limited) Consolidated 31 December 2004
		\$	\$	\$
<b>3. Cash assets</b>				
The movements in cash at bank and hands on are as follows:				
Balance – 31 December 2004		1,470,948	609,215	1,470,948
Issue of shares pursuant to the Prospectus	(d)	-	-	6,000,000
Prospectus issue costs	(e)	-	-	(442,500)
Further investment in Discovery	(h)			(400,000)
Cash funds acquired	(a)			609,215
Further operating costs and losses - Ausmet	(j)	-	-	(100,000)
Bounty losses	(k)	-	-	(659,000)
		<u>1,470,948</u>	<u>609,218</u>	<u>6,478,663</u>
<b>4. Receivables</b>				
<b>Current</b>				
Other receivables		25,035	81,981	107,016
Trade accounts receivable		-	339,325	339,325
Accrued income		-	50,000	50,000
		<u>25,035</u>	<u>471,306</u>	<u>496,341</u>
<b>Non Current</b>				
Owing by Bounty (eliminated on consolidation)		1,500,000	-	-
Bonds and deposits	(g)	12,000	-	-
Loan to Discovery	(g)	-	-	500,000
Less converted to equity in Discovery	(g)	-	-	(500,000)
		<u>1,512,000</u>	<u>-</u>	<u>-</u>

The Company, as a parent entity, as at 31 December 2004 has an amount owing by Bounty of \$1,500,000, at call. Further funds will be required to be advanced to Bounty to fund working capital and expansion plans (refer note 17). The loan bears interest at 10% and is secured by a second ranking charge over the assets of Bounty Equipment Leasing Pty Ltd, subject to an absolute priority over the first ranking charge and a second ranking fixed and floating charge over the assets of InCoal Pty Ltd, subject only to a priority of \$750,000 in favour of the first ranking chargee.

	Note 2	Unaudited Ausmet 31 December 2004	Unaudited Bounty Consolidated 31 December 2004	Pro-forma Ausmet (to be Bounty Industries Limited) Consolidated 31 December 2004
		\$	\$	\$
<b>5. Inventories</b>				
<b>Current</b>				
Stock, at the lower of cost and net realisable value		-	190,357	190,357
		-	190,357	190,357
<b>6. Other - Current assets</b>				
Prepayments		10,016	-	10,016
		10,016	-	10,016
<b>7. Fixed assets</b>				
Plant, vehicles and equipment, at cost	(g)	25,321	3,548,854	3,548,854
Attributable to fair values of plant on consolidation	(a)	-	-	5,174,758
Less accumulated depreciation	(k)	(1,930)	(287,628)	(451,628)
		23,391	3,261,226	8,271,984
Capital works in progress, at cost		-	825,861	825,861
Deposit on plant and equipment (refer note 18)		-	489,216	489,216
		23,391	4,576,303	9,587,061
<b>8. Investments</b>				
Shares in unlisted company – Discovery Capital Limited	(f to i)	-	-	1,000,000
		-	-	1,000,000
Shares in unlisted consolidated subsidiary, at cost (\$5,755,255 cost eliminated on consolidation)	(a)	-	-	-
		-	-	1,000,000

**Pro-forma  
Ausmet (to be  
Bounty  
Industries  
Limited)  
Consolidated  
31 December  
2004**

The potential movement in the Discovery investment is as follows:

	<b>Cost \$</b>
30,436,000 shares	-
Conversion of debt to equity (3,381,805 shares)	500,000
Put Option subscription of shares with six months (3,381,806 shares)	500,000
In specie return to Ausmet shareholders (30,436,000 shares)	(500,000)
	<u>500,000</u>
Put Option subscription of shares within 18 months (3,381,806 shares)	500,000
	<u>1,000,000</u>

Refer Note 14 for obligations under the Put Option Agreement. The \$1,000,000 cost represents the potential cost of the investment in Discovery Capital Limited under the agreement to sell the Mining Assets of Ausmet, the Put Option Agreement and the in-specie distribution of \$500,000 of shares to Ausmet shareholders. The recoverability of the investment in Discovery will be dependent upon the commercial success or otherwise of the Mineral Assets of Discovery and any new exploration assets acquired by Discovery. The carrying value of the investment will first be reviewed as at 30 June 2005. The Company on completion of the acquisition of 100% of Bounty (and Bounty's subsidiaries) will have a recorded cost of acquisition at \$5,775,255. Refer note 15. The recoverability of the investment is subject to the successful trading of the business of Bounty and its subsidiaries in future years. The Bounty Group is not expected to be profitable until May 2005 and is not expected to disclose a full year profit until 2005/06.

The cost of the investment in Bounty is made up of:

	<b>\$</b>
15,000,000 ordinary shares at 20 cents each	3,000,000
8,333,334 options	579,275
8,333,333 options	522,248
8,333,333 options	473,732
	<u>4,575,255</u>
10,000,000 potential performance shares - value ascribed by Ausmet management	1,200,000
Pro-forma cost of investment in Bounty	<u>5,775,255</u>

	Note 2	Unaudited Ausmet 31 December 2004	Unaudited Bounty Consolidated 31 December 2004	Pro-forma Ausmet (to be Bounty Industries Limited) Consolidated 31 December 2004
<b>9. Intangibles</b>				
Interest in mining controls	(a)	-	-	2,518,723

Refer note 1(h) to Appendix 3. The recoverability of the intangible interest in mining contracts is dependant upon the profitability of the existing mining contracts and agreements entered into by the Bounty Group. The intangible will be written off over the terms of the two existing mining contracts/agreements. The carrying value of the intangibles will be reviewed at the end of each respective period up to the date that the contracts cease. We do not guarantee or warrant that the contracts will be profitable to justify the carrying value of the intangibles. Management of Ausmet and Bounty have advised us that they expect both contracts to be profitable and cash flow positive. The intangible may increase by the extent of any losses incurred by the Bounty Group between 1 January 2005 and the date that Ausmet acquires Bounty (expected to be by 31 March 2005) over and above the forecasted losses of \$610,000 to 31 March 2005.

#### 10. Payables

##### Current

Creditors and accruals		80,489	1,041,596	1,122,085
Owing to Discovery (refer note 14)	(h)	-	-	100,000
		<u>80,489</u>	<u>1,041,596</u>	<u>1,222,085</u>

##### Non Current

Creditors and accruals		-	-	222,593
------------------------	--	---	---	---------

Agreement was reached with a number of creditors who are closely associated with Bounty to defer payment of their claims for over twelve months.

#### 11. Interest Bearing Liabilities

##### Secured

Hire purchase liabilities	17	-	18,245	18,245
Other Loans		-	529,175	529,175
		<u>-</u>	<u>547,420</u>	<u>547,420</u>

##### Non current

##### Secured

Hire purchase liabilities	17	-	60,840	60,840
Other Loans		-	3,720,519	3,720,519
		<u>-</u>	<u>3,781,359</u>	<u>3,781,359</u>

Less repayment of loans by  
issue of shares and options  
in Ausmet

	(b)	-	-	(1,000,000)
		<u>-</u>	<u>3,781,359</u>	<u>2,781,359</u>

### Details of Security

\$750,000 of the secured loans (\$150,000 current) is secured by a first charge over Bounty Equipment Leasing assets and undertakings and \$1,744,731 is secured by a third charge over the assets and undertakings of Bounty Equipment Leasing Pty Limited (Ausmet has a second ranking charge) and InCoal NRE No.1 Pty Limited. Interest on the above debts is 15% per annum. \$1,516,701 (\$379,175 current) is secured by a first charge over the InCoal NRE No. 1 Pty Limited Colliery Assets and a first charge over the assets and undertakings of InCoal NRE No 1 Pty Limited. Interest is accruing at 8.25% per annum.

	Note 2	Unaudited Ausmet 31 December 2004	Unaudited Bounty Consolidated 31 December 2004	Pro-forma Ausmet (to be Bounty Industries Limited) Consolidated 31 December 2004
<b>12. Employee Entitlements</b>				
<b>Current</b>				
Annual Leave		5,127	20,000	25,127
		<u>5,127</u>	<u>20,000</u>	<u>25,127</u>
The long service leave liability is not material as at 31 December 2004.				
<b>13. Loan - Owing by Bounty</b>				
Amount owing to Ausmet		-	1,500,000	1,500,000
Less eliminated on consolidation		-	-	(1,500,000)
		<u>-</u>	<u>1,500,000</u>	<u>-</u>
Also refer notes 20 and 4.				
<b>14. Owing to Discovery</b>				
Owing to Discovery under a Put Option Agreement				
Due within 12 months (i)	(h)	-	-	500,000
Expected to be paid on merger with Bounty	(h)	<u>-</u>	<u>-</u>	<u>(400,000)</u>
Owing and due within 6 months of merger (refer note 10)	(h)	<u>-</u>	<u>-</u>	<u>100,000</u>
Due within 13 months of anniversary date of merger (ii)	(h)	-	-	250,000
Due within 18 months of anniversary date (iii)	(h)	<u>-</u>	<u>-</u>	<u>250,000</u>
		<u>-</u>	<u>-</u>	<u>500,000</u>



- (i) A total of 3,382,603 shares in Discovery will be subscribed for
- (ii) A total of 1,690,903 shares in Discovery will be subscribed for
- (iii) A total of 1,690,603 shares in Discovery will be subscribed for

Ausmet will also have the right but not the obligation to underwrite up to \$1,000,000 in respect of an initial public offering (IPO) in Discovery such IPO to take place not earlier than 18 months after completion of the merger with Bounty.

## 15. Other Liabilities

	<b>Note 2</b>	<b>Unaudited Ausmet 31 December 2004</b>	<b>Unaudited Bounty Consolidated 31 December 2004</b>	<b>Pro-forma Ausmet (to be Bounty Industries Limited) Consolidated 31 December 2004</b>
Owing to Bounty Vendors		-	-	1,200,000

The amount noted above is the value that has been ascribed to the right to issue further shares as performance shares to the Bounty Vendors if the Ausmet Group (incorporating the Bounty Group) achieves Net Profits After Tax ("NPAT") of \$8,000,000 in the 2005/06 financial year. In the event that the performance target is met, 10,000,000 performance (ordinary) shares will be issued to the Bounty Vendors and the number of ordinary shares on issue would increase by 10,000,000. If not issued, the liability of \$1,200,000 will be reversed (not payable by issue of shares) and the credit liability will be netted off against the intangible, Interest in Mining Contracts and/or the fair value of Plant and Equipment on consolidation. From a parent entity point of view, any write back of the liability would be netted off against the Investment in Subsidiary (Bounty Investment).

	Note 2	Unaudited Ausmet 31 December 2004	Unaudited Bounty Consolidated 31 December 2004	Pro-forma Ausmet (to be Bounty Industries Limited) Consolidated 31 December 2004
		\$	\$	\$
<b>16. Contributed Equity</b>				
<b>(A) Issued Capital - Ordinary Shares</b>				
30,436,000 ordinary shares		3,902,537	-	3,902,537
15,000,000 ordinary shares issued at 20 cent each to acquire Bounty (a)				3,000,000
5,000,000 ordinary shares to extinguish Bounty debt (b)		-	-	1,000,000
Issue of 30,000,000 shares pursuant to the Prospectus (d)		-	-	6,000,000
Reduction in capital (i)		-	-	(500,000)
		<u>3,902,537</u>	<u>-</u>	<u>13,402,537</u>
80,436,000 ordinary fully paid shares in Ausmet – Pro-forma				
Less share issue costs (e)		-	-	(442,500)
		<u>3,902,537</u>	<u>-</u>	<u>12,960,037</u>
(i) If only the minimum subscription of \$3,000,000 was raised, the number of ordinary shares on issue would reduce to 65,436,000 and the contributed equity and cash funds would reduce by \$2,850,000 (after capital raising costs reducing by \$292,500). The Company would be required to curtail its expansion plans that would probably lead to a material reduction in potential profits.				
(ii) The Consolidated Pro-forma Statement of Financial Position as at 31 December 2004 does not include the potential issue of 10,000,000 performance (ordinary) shares that would be issued if the Ausmet/Bounty Group achieved a NPAT figure of at least \$8,000,000 for the 2005/06 financial year. We do not guarantee or warrant that the NPAT will be achieved. In the event that the performance target is met, then 10,000,000 shares will be issued to the Bounty vendors. Refer note 15.				
<b>(B) Issued Capital - Bounty</b>				
Ordinary shares		<u>-</u>	<u>412,000</u>	<u>-</u>

**(C) Option Reserve**

	Note 2	Unaudited Ausmet 31 December 2004	Unaudited Bounty Consolidated 31 December 2004	Pro-forma Ausmet (to be Bounty Industries Limited) Consolidated 31 December 2004
		\$	\$	\$
Issue of 25,000,000 share options to Bounty vendors made up of:				
8,333,334 exercisable at 35 cents each	(a)	-	-	579,275
8,333,333 exercisable at 40 cents each		-	-	522,248
8,333,333 exercisable at 45 cents each		-	-	473,732
2,500,000 share options to eliminate Bounty debt	(b)	-	-	201,693
500,000 share options to M Carson	(c)	-	-	40,339
2,000,000 employee options	(l)	-	-	126,667
		<u>-</u>	<u>-</u>	<u>1,943,954</u>

Currently there are 15,218,000 share options in Ausmet, exercisable at 20 cents each, on or before 31 December 2006. After the shareholders meeting planned to be held on February 2005, there will be a further 3,000,000 share options exercisable at 20 cents each before 31 December 2006. Furthermore, there will be 9,000,001 share options exercisable at 35 cents each, 9,000,000 share options exercisable at 40 cents each and 8,999,999 share options exercisable at 45 cents each all exercisable on or before three years from date of issue (expected to be issued in March 2005).

#### 17. Accumulated Losses

Opening Balance		946,763	1,720,226	2,666,989
Issue of shares and options to eliminate a Bounty debt	(b)	-	-	201,693
Issue of options to Malcolm Carson and proposed Directors	(c)(l)	-	-	167,006
Profit on sale of Mining Assets	(g)	-	-	(464,609)
Further losses	(j)(k)	-	-	313,000
Eliminated on consolidation		-	-	(1,720,226)
		<u>946,763</u>	<u>1,720,226</u>	<u>1,163,853</u>

#### 18. Commitments for Expenditure at 31 December 2004

Finance Hire Purchase and

	Note 2	Unaudited Ausmet 31 December 2004	Unaudited Bounty Consolidated 31 December 2004	Pro-forma Ausmet (to be Bounty Industries Limited) Consolidated 31 December 2004
		\$	\$	\$
Lease Commitments				
Not longer than one year		-	25,139	25,139
Longer than one year but not longer than 2 years		-	73,084	73,084
Longer than 2 years but not longer than 5 years		-	-	-
		-	98,223	98,223
Less future finance charges		-	(19,138)	(19,138)
		-	79,085	79,085
Current (note 11)		-	18,245	18,245
Non Current (note 11)		-	60,840	60,840
Operating Leases				
Expenditure not provided for in the accounts at 31 December 2004 (based on cash flow forecasts)				
Rent of premises Payable				
Not longer than one year		30,000	141,000	171,000
Longer than one year but not longer than 2 years		22,500	119,700	142,200
Longer than 2 years but not longer than 5 years		-	437,809	437,809
		52,500	696,509	751,009

The Bounty Group has paid a deposit of \$489,216 that relates to plant and equipment to be purchased in the event that the subscription monies are received pursuant to the Prospectus. The total funds required are \$5,170,000 less the deposits paid. This expenditure is not a commitment and the deposits may not be refundable in the event that insufficient funds are raised under the Prospectus or further borrowings are not obtained.

## 19. Contingent Liabilities

- a) In the event that the share options issued are not exercised by the expiry dates, the option premiums of \$1,943,954 may be considered to be capital gains for capital gains tax purposes. Capital gains tax (at 30%) may be payable in the event that there is insufficient tax losses to offset the capital gains.
- (b) As the Bounty Group is in contact coal mining, there may be potential claims by clients. To 11 February 2005, the directors of Bounty are not aware of any claims.

- (c) On 23 June 2004 Deep Yellow Limited and its subsidiaries went into voluntary administration. Under the Dingo Range agreement, all rehabilitation liabilities that may have existed over the Dingo Range area were to be assumed by Deep Yellow Limited. As a result of Deep Yellow Limited being placed in administration, any rehabilitation liabilities that may exist could pass to Ausmet Resources. The Directors are unable to quantify the extent of these liabilities as none have been raised at the date of this report. The Directors will explore all legal avenues to ensure Deep Yellow Limited honours its obligation under the Dingo Range agreement.

Other than for the above, to our knowledge the Company and its proposed subsidiaries have no material contingent liabilities.

## **20. Advances to the Bounty Group**

It is proposed that a substantial portion of the funds raised from the issue of shares pursuant to the Prospectus will be advanced to the Bounty Group on an unsecured basis and the funds will be used to pay out unsecured creditors and for further working capital (including expansion plans). The ability for the Bounty Group to repay the debts due to the Company (and for the Company to recover the investment in the proposed subsidiary), is and will be dependant upon the Bounty Group being commercially successful and generating sufficient profit and cash flows to repay the advances. We cannot guarantee or do not warrant that the Bounty Group will generate future profits and cash flows of an amount for the Company to recover all advances (present and future) to the Bounty Group and recover its investment in the proposed subsidiary.

The Directors of Bounty disclose in management generated cash flow forecasts that their expenditure budget between 1 January 2005 and 30 April 2005 is approximately \$6,500,000 which is required to be funded to satisfy outstanding payables and short term debt at 31 December 2004, fund losses to 30 April 2005 estimated to be incurred and meet expansion costs, including the discretionary acquisition of plant and equipment (refer note 18 above). The expanded Ausmet Group, incorporating Bounty may be required to obtain further equity or loan funds over and above the \$6,000,000 capital raising pursuant to the Prospectus if there is a material shortfall in preliminary profit forecasts. The Company may need to curtail capital expenditure in the event of a shortfall in the capital raising and/or a shortfall in profit forecasts. An Offer Letter has been signed with a financier in January 2005 to borrow \$1,000,000 at an interest rate of approximately 9.25%. No formal borrowing contract has been signed as at 11 February 2005 but it is expected to draw down the funds once a contract is signed. The funds will be used towards the acquisition of new plant to be used in contract coal mining. Further funds of \$1,500,000 may also be borrowed, some of which may be used to repay existing debt.

SECTION

# 6

MATERIAL CONTRACTS

## 6. Material Contracts

### 6.1 Bounty Merger Agreement

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 (together the "Merger Agreement"), 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. 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.

- (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 Howard Dawson and Mr Malcolm 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 Capital Limited ("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



- i) 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:
- (1) 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);
  - (2) 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);
  - (3) 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);
  - (4) 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);
  - (5) 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;
  - (6) 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;
  - (7) 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);

## 6.2 Agreement with Discovery Capital Limited

On 2 February 2005 the Company entered into agreement with its wholly owned subsidiary Discovery Capital Limited ("Discovery") whereby Ausmet would;

- (a) Sell all mining assets, mining information and non current assets to Discovery
- (b) Assign the Batchelor JV interests to Discovery
- (c) Accept as consideration for the sale and assignment \$500,000 ("Sale Price"),
- (d) Provide the Sale Price as a loan to Discovery until such time as the Merger with Bounty is approved, at which time the loan be converted into 3,381,805 shares in Discovery.
- (e) Agree to provide Discovery with a put option whereby Discovery can put up to 6,763,612 shares in Discovery to Ausmet in the period commencing 7 days after the merger settlement date and expiring at 5.00pm 18 months thereafter ("Put Option Period"), provided that Discovery does not exercise the put option in relation to more than 3,381,806 of the put option shares in the first 12 months of the Put Option Period,
- (f) Accept a call option from Discovery which grants Ausmet the right but not the obligation 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 the merger settlement date with Bounty.

### 6.3 Service Agreements

Currently neither Ausmet nor Bounty has entered into Service Agreements.

### 6.4 Operating Contracts and agreements

#### a. Ivanhoe Coal Limited Agreement

- i. By agreement dated 14 December 2004 between Ivanhoe Coal Limited ("Ivanhoe") and InCoal Pty Ltd ("InCoal") Ivanhoe agrees to pay InCoal for the delivery of 500,000 tonnes of coal from the mining of the underground Irondale Seam in the Ivanhoe No.2 mine located in New South Wales.
- ii. The date for practical completion is 12 months from commencement of mining. The targeted commencement date, subject to mine access is 1 February 2005.
- iii. The mining cost is at a fixed rate per tonne with standby rates based on a weekly rate per unit.
- iv. Ivanhoe is responsible for power, water and compressed air and InCoal is responsible for dewatering and ventilation.
- v. The performance of InCoal is guaranteed by Bounty Industries Australia Pty Ltd. Ivanhoe can suspend the whole or any part of the work for its convenience but this will entitle InCoal to an extension of the practical completion date as well as standby payments.
- vi. InCoal must utilise at least the following equipment to carry out the contract works – Continuous Miner 14CM15, Fletcher Bolter Low Profile, Joy Shuttle Cars (3), Battery Scoops (2), Stamler low vein three-way Feeder Breaker, Conveyors and electrical equipment.
- vii. The contract can be terminated by Ivanhoe if any approval required by Ivanhoe for the construction or operation of the mine lapses or is surrendered, cancelled, suspended or revoked; or in the event that InCoal does not comply with the agreed Key Performance Indicators and it is subject to dispute resolution; or by not less than 30 days written notice at Ivanhoe's absolute discretion and at Ivanhoe's convenience.

#### b. Venture Agreement – NRE No.1 Colliery

- i. By agreement dated 15 October 2004 between Gujarat NRE Coke Limited ("Gujarat") and InCoal NRE No.1 Pty Limited ("InCoal NRE"), Gujarat agreed to enter into a contract to appoint InCoal NRE as the mining contractor to carry out the mining operations at the Bellpac No.1 Colliery, Russell Vale, New South Wales. The contract is to be under normal commercial terms and an initial period of five years with five year extensions, subject to performance.
- ii. The performance criteria are to be based on tonnes of coal produced and the price per tonne produced is at a fixed rate. This fixed rate is subject to the appropriate rise or fall for the consumables portion of the contract and after 5 years CPI adjustments.
- iii. Gujarat as principal is responsible for all mine infrastructure costs including capital works, repairs and maintenance, the provision of electricity and water, rehabilitation and administration.
- iv. InCoal NRE will carry public liability insurance of at least \$20 million and otherwise maintain such policies in such amounts as would conform to normal, prudent industry practice.
- v. The targeted commencement date is between March and June 2005, subject

to mine access.

- vi. Under the current mine plan InCoal NRE is required to mine around 900,000 tonnes of coal in the 12 months ending June 2006 and around 1,700,000 tonnes in the 12 months to June 2007.

### **c. Mine Contracting Agreement – NRE No.1 Colliery**

- i. By agreement dated 2 December 2004 between Gujarat NRE Coke Limited (“Gujarat”) and InCoal NRE No.1 Pty Limited (“InCoal NRE”) it was agreed that InCoal NRE would operate the NRE No.1 Colliery (“Mine”) from 3 December 2004 to 30 June 2005;
- ii. Under this agreement InCoal NRE will undertake all operational activities as the mine operator in respect of the Mine on behalf of Gujarat;
- iii. InCoal NRE will pay all costs in respect of the operation of the mine in accordance with the budget from time to time as approved by the board of Gujarat;
- iv. Gujarat will pay InCoal NRE one month in advance the costs forecast for the relevant month, and where InCoal NRE incur costs in a month less than the budgeted costs the excess paid in the prior month will be deducted from the payment in the subsequent month;
- v. Gujarat will pay InCoal NRE a 10 percent margin based on the costs incurred in respect of any work where Gujarat would normally use a third party contractor and where InCoal undertake that work.

### **d. Joint Venture Terms Sheet – InCoal Pty Ltd**

- i. By agreement dated 4 January 2005 (“Commencement Date”) between Bounty Industries Australia Pty Ltd (“Bounty”) and Larry Cook and Amon Mahon (“Cook/Mahon”) the parties have come together in InCoal Pty Ltd (“InCoal”) to undertake the business of contract coal mining in Australia utilising specialised coal mining equipment and techniques from the United States.
- ii. Cook/Mahon shall have 49% of the shares in InCoal and Bounty shall have 51%.
- iii. Bounty agrees to provide \$2.5 million in working capital to InCoal from the date of lifting of suspension following the merger of Ausmet with Bounty, to be secured by a first charge over the assets of InCoal. Such working capital will be provided interest free, be applied in accordance with an agreed working budget, and be repayable 30 June 2010.
- iv. Cook/Mahon will be joint chief executive officers of InCoal and will run InCoal in accordance with an operating budget to be agreed by the Board of Directors annually.
- v. The parties agree that InCoal will have exclusive right to any contracts negotiated with a number of parties where relationships already exist.
- vi. From the Commencement Date the Board shall comprise Mark Gray, Gary Williams, Larry Cook and Amon Mahon and Cook/Mahon shall have the right to appoint the chairman, who shall have a casting vote. The chairman shall be independent.
- vii. Cook/Mahon will support InCoal and Bounty with their absolute commitment, skill, knowledge and experience for at least 5 years from the Commencement Date.
- viii. Bounty will provide Cook/Mahon with a put and call proposal for the equity held by Cook/Mahon by 31 March 2005. This put and call proposal will be developed by Bounty and the value will be at Bounty’s total discretion and will be based on an EBITDA valuation.

SECTION



RISK FACTORS

## 7. Risk Factors

The activities of the merged Ausmet are subject to a number of risks and other factors, which may impact its future performance. Some of these risks can be mitigated by the use of safeguards and appropriate controls; however, many are outside the control of Ausmet and cannot be mitigated. There are also general risks associated with any investment in shares.

Hence, investors should be aware that the performance of Ausmet may be affected and the value of its shares may rise or fall over any given period. Some of the factors which investors should consider before they make a decision whether or not to subscribe for shares under this prospectus issue include, but are not limited to, the following.

### 7.1 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.

Investors should also be aware that there are risks associated with any securities investment. The prices at which the Company's Shares may trade at may be above or below the Offer price and may be subject to varied and unpredictable influences on the market for equities in general.

### 7.2 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.

More specific influences that may affect the Company's activities include the level of competition in the sectors in which the business of Ausmet operates, the strength of coal prices, the level of demand for Australian based exports, and the effect of any industrial disruptions within the coal industry in Australia.

### 7.3 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.

### 7.4 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.

## 7.5 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.

## 7.6 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 Ausmet.

There can be no assurance that the Company's business will not be affected should its equipment be operating within, or a contract or agreement 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. The operations of the Company may be disrupted by a variety of risks and hazards which are beyond the control of the Company, including environmental hazards, industrial accidents, technical failures, labour disputes, unusual or unexpected rock formations, flooding and extended interruptions due to inclement or hazardous weather conditions, fire, explosions and other incidents beyond the control of the Company.

These risks and hazards could also result in damage to, or destruction of, production facilities, personal injury, environmental damage, business interruption, monetary losses and possible legal liability. While the Company currently intends to maintain insurance within ranges of coverage consistent with industry practice, no assurance can be given that the Company will be able to obtain such insurance coverage at reasonable rates (or at all), or that any coverage it obtains will be adequate and available to cover any such claims.

Any delays in the commencement of the mining contracts or agreements will have significant adverse impact on the timing of earnings.

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

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

Because of the specialised nature of Ausmet'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 and operating 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.

## **7.8 Future Capital Needs and Additional Funding**

The future capital requirements of the Company will depend on many factors including its business development activities.

The Company believes its available cash and the net proceeds of this Offer should be adequate to fund its business development activities, and other Company objectives, in the short term as stated in this Prospectus.

Should the Company require additional funding there can be no assurance that additional financing will be available on acceptable terms, or at all. Any inability to obtain additional finance, if required, would have a material adverse effect on the Company's business and its financial condition and performance.

## **7.9 Policies and Legislation**

Any material adverse changes in government policies or legislation of Australia, or any other country where the Company has economic interests, may affect the viability and profitability of the Company.

SECTION

# 8

ADDITIONAL INFORMATION



## 8. Additional Information

### 8.1 Rights attaching to Shares

A summary of the rights attaching to ordinary shares in Ausmet is set out below. This summary is qualified by the full terms of Ausmet's constitution (a full copy of the Company's constitution is available from Ausmet on request free of charge) and does not purport to be exhaustive or to constitute a definitive statement of the rights and liabilities of Shareholders. These rights and liabilities can involve complex questions of law arising from an interaction of Ausmet's constitution with statutory and common law requirements. For a Shareholder to obtain a definitive assessment of the rights and liabilities which attach to shares in any specific circumstances, the Shareholder should seek legal advice.

#### (a) Voting

At a general meeting, on a show of hands every ordinary shareholder present in person has one vote. At the taking of a poll, every ordinary shareholder present in person or by proxy and whose shares are fully paid has one vote for each of his or her shares. On a poll, the holder of a partly paid share has a fraction of a vote with respect to the share. The fraction is equivalent to the proportion which the amount paid (not credited) bears to the total amount paid and payable (excluding amounts credited).

#### (b) General Meetings

Each ordinary shareholder is entitled to receive notice of, attend and vote at general meetings of Ausmet and to receive all notices, financial statements and other documents required to be sent to ordinary shareholders under the constitution of Ausmet, the Corporations Act and the ASX Listing Rules.

#### (c) Dividends

The Directors may pay to ordinary shareholders any interim and final dividends as, in the Directors' judgement, the financial position of Ausmet justifies. The Directors may fix the amount, the record date for determining eligibility and the method of payment. All dividends must be paid to the ordinary shareholders in proportion to the number and the amount paid on the shares held.

#### (d) Transfer of Shares

Generally, all shares in Ausmet are freely transferable subject to the procedural requirements of the constitution and to the provisions of the Corporations Act, the ASX Listing Rules and the SCH Business Rules. The Directors may decline to register an instrument of transfer received where the transfer is not in registrable form or where refusal is permitted under the ASX Listing Rules or the SCH Business Rules. If the Directors decline to register a transfer the Company must give reasons for the refusal. The Directors must decline to register a transfer when required by the Corporations Act, the ASX Listing Rules or the SCH Business Rules.

#### (e) Variation of Rights

Ausmet may only modify or vary the rights attaching to any class of shares with the prior approval by a special resolution of the holders of shares in that class at a meeting of those holders, or with the written consent of the holders of at least three-fourths of the issued shares of that class.

**(f) Directors**

The minimum number of Directors is three and the maximum is twenty. Currently, there are three Directors. Directors must retire on a rotational basis so that one-third of Directors must retire at each annual general meeting. Any other Director who has been in office for three or more years must also retire. A retiring Director is eligible for re-election. The Directors may appoint a Director either in addition to existing Directors or to fill a casual vacancy, who then holds office until the next annual general meeting.

**(g) Decisions of Directors**

Questions arising at a meeting of Directors are decided by a majority of votes. The Chairman has a casting vote in the event there being an equality of votes.

**(h) Issue of Further Shares**

Subject to Ausmet's constitution, the Corporations Act 2001 and the ASX Listing Rules, the Directors may issue, or grant options in respect of, shares to such persons on such terms as they think fit. In particular, the Directors may issue preference shares, including redeemable preference shares, and may issue shares with preferred, deferred or special rights or restrictions in relation to dividends, voting, return of capital and participation in surplus on winding up.

**(i) Indemnification of Officers**

The Company has agreed to indemnify and keep indemnified the following officers, Mr H G Dawson, Mr M K Smartt and Mr P H Strachan against all liabilities incurred by the Directors as a director of the Company and all legal expenses incurred by the Directors as a director of the Company.

The indemnity only applies to the extent and in the amount that the Directors are not indemnified under any other indemnity, including an indemnity contained in any insurance policy taken out by the Company, under the general law or otherwise.

The indemnity does not extend to any liability:

- to the Company or a related body corporate of the Company; or
- arising out of conduct of the Directors involving a lack of good faith; or
- which was incurred prior to 16 December 2003 and which is in respect of any negligence, default, breach of duty or breach of trust of which the Directors may be guilty in relation to the Company or related body corporate.

**(j) Officers' Indemnities and Insurance**

The company has in place a policy for Directors and Officers' Insurance. The officers of the Company covered by the insurance policy include the Directors named in this report.

The Directors and Officers' Liability insurance provides cover against all costs and expenses that may be incurred in defending civil or criminal proceedings that fall within the scope of the indemnity and that may be brought against the officers in their capacity as officers of the Company. The insurance policy does not contain details of the premium paid in respect of individual officers of the company. Disclosure of the nature of the liability cover and the amount of the premium is the subject of a confidentiality clause under the insurance policy.

**(k) Alteration to the Constitution**

Ausmet's constitution can only be amended by a special resolution passed by at least 75% of ordinary shareholders present and voting at a general meeting. At least 28 days' notice of the intention to propose the special resolution must be given.

**8.2 Interests of Directors**

No Director or Proposed Director of Ausmet (or entity in which they are a partner or director) has, or has had in the two years before the date of this Prospectus, any interests in:

- the formation or promotion of the Company; or
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; or
- the Offer, and

no amounts have been paid or agreed to be paid and no value or other benefit has been given or agreed to be given to:

- any Director or Proposed Director to induce him or her to become, or to qualify as, a Director; or
- any Director or Proposed Director of Ausmet for services which he or she (or entity in which they are a partner or director) has provided in connection with the formation or promotion of the Company or the Offer,

except as disclosed in this Prospectus and as follows;

**(a) Director and Proposed Director Holdings**

The Directors and Proposed Directors and their related entities have the following interests in the securities of the Company as at the date of this Prospectus:

<b>Director</b>	<b>No. of Shares Held</b>	<b>No. of \$0.20 31 December 2006 Options</b>
Howard Dawson	3,230,000	1,575,000
Malcolm Smartt	1,060,000	525,000
Peter Strachan	0	0
Colin Knox	0	0
Mark Gray	0	0
Gary Williams	0	0

The interests of Messrs Knox, Gray and Williams will increase to the following maximum amounts following completion of the proposed merger with Bounty and if the Performance Milestone is met.

<b>Director</b>	<b>No. of Shares Held</b>	<b>No. of \$0.20 31 December 2006 Options</b>	<b>No. of \$0.35-\$0.45 31 March 2008 Options</b>
Colin Knox	8,304,560	1,123,602	6,057,361
Mark Gray	5,685,245	437,500	4,810,245
Gary Williams	6,297,345	408,298	5,480,751

### **(b) Remuneration of Directors and Proposed Directors**

The Constitution of the Company provides that the non-executive directors may collectively be paid as remuneration for their services a fixed sum not exceeding the aggregate maximum sum per annum from time to time determined by the Company in general meeting. The current aggregate remuneration payable to non-executive Directors is set at a maximum sum of \$120,000 per annum.

A Director may be paid fees or other amounts as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. A Director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

As at the date of this Prospectus, Mr Dawson receives on a per annum basis \$100,000 plus mandatory superannuation for his services as executive chairman. Mr Smartt receives on a per annum basis \$50,000 plus mandatory superannuation for his services as company secretary and non executive director. Mr Strachan receives on a per annum basis \$25,000 plus mandatory superannuation for his services as a non executive director.

No employment contracts are currently in place for either the existing Directors of Ausmet or the proposed Directors.

As chairman of the current Bounty Group Mr Knox receives \$72,000 per annum. In their executive roles with the current Bounty Group Mr Gray and Mr Williams receive \$240,000 and \$150,000 per annum respectively.

The remuneration of Executive Directors will be fixed by the Directors at the completion of the proposed merger and capital raising.

### **8.3 Interests of Promoters, Experts and Advisers**

No promoter or other person named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus (or entity in which they are a partner or director) hold, have, and have not had in the two years before the date of this Prospectus, any interest in:

- (a) the formation or promotion of the Company; or
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; or
- (c) the Offer, and no amounts have been paid or agreed to be paid and no value or other benefit has been given or agreed to be paid to a promoter or any person named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus (or entity in which they are a partner or director), provided in connection with the formation or promotion of the Company or the Offer, except as disclosed in this Prospectus and as follows:
- (d) Stanton Partners Corporate Pty Ltd has prepared the Investigating Accountant's Report included in Section 6 of this Prospectus. In respect of this work the Company will pay approximately \$30,000 to Stanton Partners Corporate Pty Ltd.
- (e) Anthony Kiernan has acted as a solicitor to the Company and in that capacity has been involved in providing legal advice to the Company in relation to the Merger and this Offer and will be paid approximately \$10,000 for these services.

The amounts disclosed above are exclusive of any amount of goods and services tax payable by the Company in respect of those amounts.

## 8.4 Expenses of Offer

The total expenses of the Offer payable by the Company will be approximately \$442,500. These expenses include accounting fees, legal fees, ASX and ASIC fees, the cost of advertising, printing and distributing this Prospectus and other miscellaneous expenses as set out below.

<b>Description</b>	<b>Approximate expense if only minimum subscription reached</b>	<b>Approximate expense on full subscription of \$6,000,000</b>
Brokerage	\$150,000	\$300,000
ASX & ASIC Fees	\$30,000	\$30,000
Investigating accountant	\$30,000	\$30,000
Printing & Advertising	\$25,000	\$25,000
Legal & compliance fees	\$35,000	\$35,000
Marketing & distribution	\$15,000	\$15,000
Miscellaneous	\$7,500	\$7,500
<b>Total</b>	<b>\$292,500</b>	<b>\$442,500</b>

## 8.5 Issue of other Securities

On 7 March 2005 the Shareholders will consider the approval of the grant, allotment and issue to the Bounty Shareholders, Bounty Note Holders and Bounty Consultant of:

- (a) 30,000,000 Shares at a deemed issue price of \$0.20 cents per share;
- (b) 3,000,000 options exercisable at \$0.20 on or before 31 December 2006; and
- (c) 25,000,000 options exercisable in three near equal tranches at \$0.35, \$0.40 and \$0.45 on or before 31 March 2008, as consideration for the acquisition of all of the securities in Bounty (see Section 6.1 for further information regarding the acquisition of Bounty), the conversion of \$1,000,000 in current note holder debt into equity in Ausmet and the provision of future consulting services to Bounty.

The rights attaching to the ordinary Shares to be issued to the Bounty Vendors are the same as those summarised in Section 8.1 above.

The rights attaching to the options are detailed in Sections 8.6 and 8.7.

## 8.6 Terms and Conditions of \$0.20 Options

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

- (a) The Options are exercisable wholly or in part at any time before 5:00 pm WST on 31 December 2006. Options not exercised by that date shall lapse.
- (b) Each Option shall entitle the Option holder to acquire one fully paid share upon payment of the sum of \$0.20 per Option to the Company.

- (c) Each Option may be exercised by notice in writing to the Company at any time before its date of expiry. Any notice of exercise of an Option received by the Company will be deemed to be a notice of the exercise of that Option as at the date of receipt.
- (d) Subject to escrow conditions imposed on the Options by the ASX, application will be made by the Company to ASX for Quotation of the Options. Application will be made for Quotation of the Shares issued upon exercise of Options.
- (e) There are no participating rights or entitlements inherent in the Options and Option holders will not be entitled to participate in new issues of securities offered to shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements as to any such issue, the record date will be at least 10 business days after the issue is announced so as to give Option holders the opportunity to exercise their Options before the date for determining entitlements to participate in any issue.
- (f) Shares allocated pursuant to the exercise of Options will be allotted following receipt of all the relevant documents and payments and will rank equally with all other Shares on issue.
- (g) In the event of a reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company, all rights of the Option holder shall be reconstructed in accordance with the ASX Listing Rules.
- (h) If, from time to time, before the expiry of the Options the Company makes a pro rata issue of Shares to shareholders for no consideration, the number of Shares over which an Option is exercisable will be increased by the number of Shares which the Option holder would have received if the Option had been exercised before the date for calculating entitlements to the pro rata issue.

### **8.7 Terms and Conditions of \$0.35, \$0.40 and \$0.45 Options**

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

- (a) The options are unlisted,
- (b) The options are exercisable at any time up to and including 31 March 2008 ("Expiry Date"),
- (c) The options are in 3 tranches of 8,333,334, 8,333,333 and 8,333,333,
- (d) The exercise price of the options in each respective tranche is \$0.35, \$0.40 and \$0.45 ("Exercise Price"), respectively,
- (e) Each option exercised will entitle the holder to one fully paid ordinary Share in the capital of the Company.
- (f) The options may be exercised at any time prior to the Expiry Date, in whole or in part, upon payment of the Exercise Price per option.
- (g) Exercise of the options is effected by completing the notice of exercise of options form and forwarding it to the Company, together with payment of the relevant Exercise Price.
- (h) All Shares issued upon exercise of the options will rank pari passu in all respects with the Company's then existing Shares.
- (i) There are no participating rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of securities offered to Shareholders of the Company during the currency of the options. An option holder is required to exercise the options in order to participate in any new issue of securities offered to Shareholders by the Company for subscription on a pro rata



basis.

- (j) If from time to time on or prior to the Expiry Date the Company makes a bonus issue of securities to the holders of Shares in the Company (a “bonus issue”), then upon exercise of his or her options an option holder will be entitled to have issued to him or her (in addition to the Shares which he or she is otherwise entitled to have issued to him or her upon such exercise) that number of securities which would have been issued to him or her under that bonus issue if the options had been exercised before the record date for the bonus issue.
- (k) In the event of any reconstruction of the issued capital of the Company, on or prior to the Expiry Date, the number of Shares to which the option holder is entitled and/or the exercise price must be reconstructed in a manner which will not result in any benefits being conferred on the option holder which are not conferred on Shareholders.

## 8.8 Company Tax Status and Financial Year

The Directors expect the Company will be taxed in Australia as a public company.

The financial year of the Company ends on 30 June annually.

Revenues and expenditures disclosed in this Prospectus are recognised exclusive of the amount of goods and services tax, unless otherwise disclosed.

## 8.9 Taxation Implications

The acquisition and disposal of Shares will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in Ausmet are urged to take independent financial advice about the taxation and any other consequences of acquiring and selling the above securities.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisers accept no liability or responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus.

## 8.10 Litigation

As at the date of this prospectus the Company is not aware of and is not involved in any material legal proceedings and the Directors are not aware of any material legal proceedings pending or threatened against the Company.

## 8.11 Privacy

The Company collects information about each Applicant provided on an Application Form for the purposes of processing the Application and, if the Application is successful, to administer the Applicant’s security holding in the Company.

By submitting an Application Form, each Applicant agrees that the Company may use the information provided by an Applicant on the Application Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the Share Registry, the Company’s related bodies corporate, agents, contractors and third party service providers, including mailing houses and professional advisers, and to ASX and regulatory authorities.

If an Applicant becomes a security holder, the Corporations Act requires the Company to include information about the security holder (including name, address and details of the securities held) in its public register. The information contained in the Company’s public register must remain there even if that person ceases to be a

security holder. Information contained in the Company's register is also used to facilitate distribution payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its securities holders) and compliance by the Company with legal and regulatory requirements.

If you do not provide the information required on the Application Form, the Company may not be able to accept or process your Application.

An Applicant has a right to gain access to the information that the Company holds about that person subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing to the Company's registered office.

## 8.12 Consents

Each of the parties referred to in this Section:

- (a) has given the following consents in accordance with the Corporations Act which have not been withdrawn as at the date of lodgement of this Prospectus with the ASIC; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this section.

Bounty has given its written consent to being named in this Prospectus and to the inclusion in this Prospectus of any statement which is attributed to Bounty.

Mr Tony Kiernan has given his written consent to being named in this Prospectus as a solicitor to Ausmet.

Stanton Partners Corporate Pty Ltd has given its written consent to being named in this Prospectus as Investigating Accountant of Ausmet and to the inclusion in this Prospectus of the Investigating Accountants' Report in the form and context in which it appears.

Stanton Partners has given its written consent to being named in this Prospectus as Auditor of Ausmet.

Computershare Investor Services Pty Limited has given its written consent to be named in this Prospectus as the Company's share registry.

## 8.13 Electronic Prospectus

Pursuant to Class Order 00/44 the ASIC has exempted compliance with certain provisions of the corporations Act to allow distribution of an electronic prospectus lodged with the ASIC and the issue of Shares in response to an electronic application form subject to compliance with certain provisions.

If you have received this prospectus as an electronic prospectus please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not please e-mail the Company at [www.ausmet.com.au](http://www.ausmet.com.au) and the Company will send to you free of charge either a hard copy or a further electronic copy of this prospectus, or both.

## 8.14 Documents available for inspection

Copies of the following documents are available for inspection during normal office hours, free of charge, at the Company's registered office, for a period of 12 months from the date of this prospectus:

- Constitution of the company;
- Certain material contracts,
- The consents referred to in this Prospectus



SECTION

9

AUTHORISATION

## 9. Authorisation

This Prospectus is issued by Ausmet Resources Limited and its issue has been authorised by a resolution of the Directors of Ausmet Limited.

In accordance with Section 720 of the Corporations Act, each Director has consented to the lodgement of this prospectus with the ASIC.

The Directors of Ausmet Resources Limited state that they have made all reasonable enquiries and on that basis have reasonable grounds to believe that any statements made by the Directors in this Prospectus are not misleading or deceptive and that in respect to any other statements made in the Prospectus by persons other than the Directors, the Directors have made reasonable enquires and on that basis have reasonable grounds to believe that the persons making the statements were competent to make such statements, those persons have given their consents to such statements being included in the Prospectus in the form and context in which they are included and have not withdrawn that consent before lodgement of this prospectus with the ASIC.

This Prospectus is signed for and on behalf of Ausmet by:

---

Howard Dawson  
Chairman

Dated: 23 February 2005

SECTION

# 10

GLOSSARY OF TERMS

# Glossary of Terms

Application Form or Form	The application form attached to this Prospectus.
Applicant	A person who submits an Application Form.
Application	A valid application for Shares made pursuant to an Application Form.
Application Monies	Application monies for Shares received and banked by the Company.
ASIC	Australian Securities and Investments Commission.
ASTC	ASX Settlement and Transfer Corporations Pty Ltd ACN 008 504 532.
ASTC Operating Rules	Operating rules of ASTC, except to the extent of any relief given by ASTC.
ASX	Australian Stock Exchange Limited ACN 008 624 691.
Board	Directors of the Company as at the date of this Prospectus.
Bounty	Bounty Industries Australia Pty Limited ACN 104 530 887
Bounty Consultant	Consultant engaged by Bounty
Bounty Noteholders	Those holders of interest bearing notes in Bounty who have agreed to convert their interest bearing debt to equity in Ausmet.
Bounty Noteholder Securities	The securities issued to specific Bounty Noteholders under the Merger.
Bounty Shareholders	The shareholders in Bounty at the time of the Merger holding 100% of the issued capital of Bounty.
Bounty Vendors	The Vendors of the shares under the Merger.
Bounty Vendor Securities	The securities issued to the Bounty Vendors under the Bounty Sale Agreement.
Business Day	A day on which ASX is open for trading.
CHESS	Clearing House Electronic Sub registry System.
Closing Date	15 March 2005 or such earlier or later date and or time as the Directors may determine.
Company or Ausmet	Ausmet Resources Limited (ABN 19 107 411 067) to be renamed Bounty Industries Limited subject to Shareholder approval.
Constitution	The constitution of Ausmet.
Corporations Act	Corporations Act 2001 (Cth).
Directors	The Directors of the Company as at the date of this Prospectus.
GST	Goods and Services Tax.

Heads of Agreement	The heads of agreement entered into 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.
Incentive Shares	The ordinary shares in Ausmet to be issued to Bounty Shareholders if the Performance Milestone is reached.
Issue	The offer or issue of any securities in the Company under this Prospectus.
Listing Rules	The official Listing Rules of ASX and any other rules of ASX which are applicable while any Shares are admitted to the Official List of ASX, each as amended or replaced from time to time, except to the extent of any express written waiver by ASX.
Merger	The acquisition by Ausmet of all the shares in Bounty in return for the issue of securities in the Company to the Bounty Shareholders.
New Shares	The ordinary Shares in Ausmet that may be issued under this Prospectus.
Net Profit from Ordinary Activities After Tax	The net profit 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.
Offer Period	Means the period from the Opening Date up to and including the Closing Date.
Official List	The official list of ASX.
Quotation	The quotation and ability to trade a security of the Company on the Official List.
Opening Date	21 February 2005.
Performance Milestone	Achievement of Net Profit After Tax for the 12 months ending 30 June 2006 in excess of \$8 million.
Prospectus	This prospectus dated 21 February 2005.
Proposed Directors	The proposed directors of the Company to be appointed at Transaction Completion.
Section	A section of this Prospectus.
Securities	A Share or option issued or granted (as the case may be) by the Company.
Share or Shares	Ordinary fully paid voting shares in the capital of the Company.
Share Registry	Computershare Investor Services Pty Ltd, ACN078279277.
Shareholder	Any person holding Shares.

This page has been left blank intentionally



Registry Use Only

--	--

Broker Code

--	--	--	--	--

Advisor Code

--	--	--	--	--	--

**A. I/We apply for:**

--	--	--	--	--	--	--	--	--

Number of Shares in Ausmet Resources Limited at \$0.20 per Share  
or such lesser number of Shares which may be allocated to me/us.

**B. I/We lodge full Application Money**

[illegible]

**C. Individual/ Joint applications** - refer to naming standards overleaf for correct forms of registrable title(s)

Title or Company Name      Given Name(s)

Surname

[illegible][illegible][illegible]

**D. Enter your Postal Address - include State and Postcode**

Unit	Street Number	Street Name or PO Box/ Other Information

[illegible]

### E. Enter your contact details

[illegible][illegible][illegible]

### G. Tax File Number, ABN or Exemption Applicant

Tax File Number, ABN or Exemption Applicant #2

[illegible]

<b>Tax File Number, ABN or Exemption Applicant #3</b>							

Drawer

Cheque Number

BSB Number

Account Number

Amount of Cheque

				A\$
--	--	--	--	-----

**A. SHARES APPLIED FOR:** Enter the number of Shares you wish to apply for. The application must be for a minimum of 10,000 Shares. Applications for greater than 10,000 Shares must be in multiples of 2,000 Shares.

**B. APPLICATION MONIES:** Enter the amount of Application Monies. To calculate the amount, multiply the number of Shares by the price per Share.

**C. APPLICANT NAME(S):** Enter the full name you wish to appear on the statement of share holding. This must be either your own name or the name of a company. Up to 3 joint Applicants may register. You should refer to the table below for the correct forms of registrable title. Applications using the wrong form of names may be rejected. Clearing House Electronic Subregister System (CHES) participants should complete their name identically to that presently registered in the CHES system.

**D. POSTAL ADDRESS:** Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.

**E. CONTACT DETAILS:** Enter your contact details. These are not compulsory but will assist us if we need to contact you.

**F. CHES:** Ausmet Resources Limited (the Company) participates in CHES, operated by ASX Settlement and Transfer Corporation Pty Ltd, a wholly owned subsidiary of Australian Stock Exchange Limited. In CHES, the company operates an electronic CHES Subregister of security holdings and an electronic Issuer Sponsored Subregister of security holdings. Together the two Subregisters will make up the Company's principal register of securities. The Company will not be issuing certificates to applicants in respect of Shares allotted. If you are a CHES participant (or are sponsored by a CHES participant) and you wish to hold Shares allotted to you under this Application on the CHES Subregister, enter your CHES HIN. Otherwise, leave this section blank and on allotment, you will be sponsored by the Company and allocated a Securityholder Reference Number (SRN).

**G. PAYMENT:** Make your cheque or bank draft payable to **Ausmet Resources Limited** in Australian currency and cross it Not Negotiable. Your cheque or bank draft must be drawn on an Australian Bank. Complete the cheque details in the boxes provided. The total amount must agree with the amount shown in box B.

**Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be re-presented and may result in your Application being rejected. Pin (do not staple) your cheque(s) to the Application Form where indicated. Cash will not be accepted. Receipt for payment will not be forwarded.**

Before completing the Application Form the applicants should read this Prospectus to which this application relates. By lodging the Application Form, the applicant agrees that this application for Shares in Ausmet Resources Limited is upon and subject to the terms of this Prospectus and the Constitution of Ausmet Resources Limited; agrees to take any number of Shares that may be allotted to the Applicant(s) pursuant to this Prospectus; and declares that all details and statements made are complete and accurate. It is not necessary to sign the Application Form.

**H. LODGEMENT OF SHAREHOLDER APPLICATION:** Shareholder Application Forms must be received at the Perth office of Computershare Investor Services Pty Limited by no later than 5pm WST 9 March, 2005. Return the Application Form with cheque(s) attached to:

**Ausmet Resources Limited**

c/- Computershare Investor Services Pty Limited

GPO Box D182

Perth WA 6840

**Ausmet Resources Limited**

c/- Computershare Investor Services Pty Limited

Level 2

45 St Georges Terrace

Perth WA 6000

**I. PRIVACY STATEMENT:** Personal information is collected on this form by Computershare Investor Services Pty Limited ("CIS"), as registrar for securities issuers ("the issuer"), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. Your personal information may be disclosed to our related bodies corporate, to external service companies such as print or mail service providers, or as otherwise required or permitted by law. If you would like details of your personal information held by CIS, or you would like to correct information that is inaccurate, incorrect or out of date, please contact CIS. In accordance with the Corporations Act 2001, you may be sent material (including marketing material) approved by the issuer in addition to general corporate communications. You may elect not to receive marketing material by contacting CIS. You can contact CIS using the details provided on the front of this form or E-mail [privacy@computershare.com.au](mailto:privacy@computershare.com.au)

If you have any enquiries concerning your application, please contact the Computershare Investor Services Pty Limited on 1300 557 010.

**J. CORRECT FORMS OF REGISTRABLE TITLE(S):** Note that ONLY legal entities are allowed to hold Shares. Applications must be made in the name(s) of natural persons, companies or other legal entities in accordance with the Corporations Act. At least one full given name and the surname is required for each natural person. The name of the beneficial owner or any other registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms of registrable title(s) below.

Type of Investor Title	Correct Form of Registrable Title	Incorrect Form of Registrable
Individual Use given names in full, not initials	Mr Kevin Phillip Trevor	K P Trevor
Company Use the company's full title, not abbreviations	ABC Pty Ltd	ABC P/L or ABC Co
Joint holdings Use full and complete names	Mr Kevin Phillip Trevor & Elizabeth Trixie Trevor	Kevin Phillip & Elizabeth T Trevor
Trusts Use trustee(s) personal name(s)	Mr Kevin Phillip Trevor <Kevin Trevor Family A/C>	Kevin Trevor Family Trust
Minor (a person under the age of 18) Use the name of a responsible adult with an appropriate designation	Mr Kevin Phillip Trevor <Peter Trevor A/C>	Master Peter Trevor
Partnerships Use the partners' names. Do not use the name of the partnership	Mr Kevin Phillip Trevor and Mr Michael John Trevor <Kevin Trevor and Son A/C>	Kevin Trevor & Son
Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s). Do not use the names of clubs etc.	Mr Kevin Phillip Trevor (ABC Tennis Association A/C>)	ABC Tennis Association
Superannuation Funds Use the name of trustee of the fund. Do not use the name of the fund	Kevin Trevor Pty Ltd (Super Fund A/C>)	Kevin Trevor Pty Ltd Superannuation Fund



				A\$
--	--	--	--	-----

**A. SHARES APPLIED FOR:** Enter the number of Shares you wish to apply for. The application must be for a minimum of 10,000 Shares. Applications for greater than 10,000 Shares must be in multiples of 2,000 Shares.

**B. APPLICATION MONIES:** Enter the amount of Application Monies. To calculate the amount, multiply the number of Shares by the price per Share.

**C. APPLICANT NAME(S):** Enter the full name you wish to appear on the statement of share holding. This must be either your own name or the name of a company. Up to 3 joint Applicants may register. You should refer to the table below for the correct forms of registrable title. Applications using the wrong form of names may be rejected. Clearing House Electronic Subregister System (CHES) participants should complete their name identically to that presently registered in the CHES system.

**D. POSTAL ADDRESS:** Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.

**E. CONTACT DETAILS:** Enter your contact details. These are not compulsory but will assist us if we need to contact you.

**F. CHES:** Ausmet Resources Limited (the Company) participates in CHES, operated by ASX Settlement and Transfer Corporation Pty Ltd, a wholly owned subsidiary of Australian Stock Exchange Limited. In CHES, the company operates an electronic CHES Subregister of security holdings and an electronic Issuer Sponsored Subregister of security holdings. Together the two Subregisters will make up the Company's principal register of securities. The Company will not be issuing certificates to applicants in respect of Shares allotted. If you are a CHES participant (or are sponsored by a CHES participant) and you wish to hold Shares allotted to you under this Application on the CHES Subregister, enter your CHES HIN. Otherwise, leave this section blank and on allotment, you will be sponsored by the Company and allocated a Securityholder Reference Number (SRN).

**G. PAYMENT:** Make your cheque or bank draft payable to Ausmet Resources Limited in Australian currency and cross it Not Negotiable. Your cheque or bank draft must be drawn on an Australian Bank. Complete the cheque details in the boxes provided. The total amount must agree with the amount shown in box B.

**Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be re-presented and may result in your Application being rejected. Pin (do not staple) your cheque(s) to the Application Form where indicated. Cash will not be accepted. Receipt for payment will not be forwarded.**

Before completing the Application Form the applicants should read this Prospectus to which this application relates. By lodging the Application Form, the applicant agrees that this application for Shares in Ausmet Resources Limited is upon and subject to the terms of this Prospectus and the Constitution of Ausmet Resources Limited; agrees to take any number of Shares that may be allotted to the Applicant(s) pursuant to this Prospectus; and declares that all details and statements made are complete and accurate. It is not necessary to sign the Application Form.

**H. LODGEMENT OF SHAREHOLDER APPLICATION:** Shareholder Application Forms must be received at the Perth office of Computershare Investor Services Pty Limited by no later than 5pm WST 9 March, 2005. Return the Application Form with cheque(s) attached to:

Ausmet Resources Limited	OR	Ausmet Resources Limited
c/- Computershare Investor Services Pty Limited		c/- Computershare Investor Services Pty Limited
GPO Box D182		Level 2
Perth WA 6840		45 St Georges Terrace
		Perth WA 6000

**I. PRIVACY STATEMENT:** Personal information is collected on this form by Computershare Investor Services Pty Limited ("CIS"), as registrar for securities issuers ("the issuer"), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. Your personal information may be disclosed to our related bodies corporate, to external service companies such as print or mail service providers, or as otherwise required or permitted by law. If you would like details of your personal information held by CIS, or you would like to correct information that is inaccurate, incorrect or out of date, please contact CIS. In accordance with the Corporations Act 2001, you may be sent material (including marketing material) approved by the issuer in addition to general corporate communications. You may elect not to receive marketing material by contacting CIS. You can contact CIS using the details provided on the front of this form or E-mail [privacy@computershare.com.au](mailto:privacy@computershare.com.au)

If you have any enquiries concerning your application, please contact the Computershare Investor Services Pty Limited on 1300 557 010.

**J. CORRECT FORMS OF REGISTRABLE TITLE(S):** Note that ONLY legal entities are allowed to hold Shares. Applications must be made in the name(s) of natural persons, companies or other legal entities in accordance with the Corporations Act. At least one full given name and the surname is required for each natural person. The name of the beneficial owner or any other registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms of registrable title(s) below.

Type of Investor Title	Correct Form of Registrable Title	Incorrect Form of Registrable
Individual Use given names in full, not initials	Mr Kevin Phillip Trevor	K P Trevor
Company Use the company's full title, not abbreviations	ABC Pty Ltd	ABC P/L or ABC Co
Joint holdings Use full and complete names	Mr Kevin Phillip Trevor & Elizabeth Trixie Trevor	Kevin Phillip & Elizabeth T Trevor
Trusts Use trustee(s) personal name(s)	Mr Kevin Phillip Trevor <Kevin Trevor Family A/C>	Kevin Trevor Family Trust
Minor (a person under the age of 18) Use the name of a responsible adult with an appropriate designation	Mr Kevin Phillip Trevor <Peter Trevor A/C>	Master Peter Trevor
Partnerships Use the partners' names. Do not use the name of the partnership	Mr Kevin Phillip Trevor and Mr Michael John Trevor <Kevin Trevor and Son A/C>	Kevin Trevor & Son
Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s). Do not use the names of clubs etc.	Mr Kevin Phillip Trevor (ABC Tennis Association A/C>)	ABC Tennis Association
Superannuation Funds Use the name of trustee of the fund. Do not use the name of the fund	Kevin Trevor Pty Ltd (Super Fund A/C>)	Kevin Trevor Pty Ltd Superannuation Fund