

**RELEASE TO THE AUSTRALIAN STOCK EXCHANGE**

**Ausmelt Full Year Result**

28<sup>th</sup> August 2006

Ausmelt Limited (AET) today announced a consolidated economic entity profit after tax for the financial year to June 30<sup>th</sup>, 2006 of \$2.84 million. This profit was earned entirely from operations and is the Company's highest-ever operating result after tax. It compares with a loss of \$3.67 million in the previous year as adjusted under the new Australian equivalents to International Reporting Standards (AIFRS).

Following improved financial performance, Directors have declared an unfranked final dividend of 2 cents a share for the 2005-06 financial year with a record date of 31<sup>st</sup> October 2006 and a payment date of 15<sup>th</sup> November 2006.

The pre-tax profit for the latest year was \$3.12 million compared with a loss of \$3.91 million in 2004-05. The Company was able to benefit from accumulated losses from prior years to reduce the amount of tax payable on the profit.

Revenues for the period increased to \$13.73 million (up 44.9%) from \$9.47 million in 2005 reflecting the higher level of project activity.

The much improved result is due to a very strong performance by the Company's core non-ferrous business which contributed a profit before tax and unallocated expenses of \$7.29 million compared with \$2.00 million in the previous year. The strong performance by the non-ferrous business was due partly to continuing revenues from projects won in previous periods and to early revenues from a number of the new projects won during the past financial year.

Ausmelt has won two more significant non-ferrous smelting contracts since balance date and the outlook for the Company's 2006-07 financial performance is promising.

**For further information please contact:**

**Mr Paul Abbott, Managing Director**  
Ausmelt Limited  
Telephone: 03 9794 6200  
Email: [paul.abbott@ausmelt.com.au](mailto:paul.abbott@ausmelt.com.au)

**Mr Jim Fogarty, Company Secretary**  
Ausmelt Limited  
Telephone: 03 9794 6200  
Email: [jim.fogarty@ausmelt.com.au](mailto:jim.fogarty@ausmelt.com.au)

## DIRECTORS' REPORT

---

Your Directors submit their report for Ausmelt Limited, (the Company), and its controlled entities for the financial year ended 30 June 2006.

### DIRECTORS

The names and details of the Directors of the Company in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period, unless otherwise stated.

#### Names, qualifications, experience and special responsibilities

##### **A C Larkin**, FCPA, FAICD (Non-Executive Chairman)

Mr Larkin joined the Board in June 2003. Mr Larkin was executive director finance of Orica Limited from 1998 to 2002 and prior to that had a successful career in finance management with BHP spanning 39 years which included senior roles in the minerals and steel industries. In 1993, he was seconded to the position of chief financial officer of Fosters Brewing group until 1997. Mr Larkin is former chairman of Incitec Limited and is currently a part-time Commissioner with the Essential Services Commission of Victoria. Mr Larkin also chairs the Company's Remuneration and Nomination Committees and serves on the Audit and Risk Management Committee. During the past three years Mr Larkin has served as a director of the following listed companies:

- Corporate Express Australia Limited \*
- Zinifex Limited \*
- Incitec Pivot Limited \*

\* denotes current directorship

##### **Dr J M Floyd**, AM, MSc, PhD, DIC, FTSE, FAusIMM(CP), CEng, MIMM, MCIM, MAIME, FAICD (Non-Executive Deputy Chairman)

Dr Floyd has over 40 years experience in pyrometallurgical process and equipment research, development and commercialisation. He was the inventor of the top submerged lance technology at CSIRO, which led to Ausmelt technology, which encompasses his subsequent inventions and developments with other staff. Dr Floyd founded Ausmelt in 1981 for the purpose of transferring top submerged lance technology into commercial operations. Dr Floyd is a Director of Ausmelt Equity Ventures Pty Ltd and also serves on the Company's Audit and Risk Management, Remuneration and Technical Committees.

##### **P V Abbott**, BB (Acc), ASCPA (Managing Director)

Mr Abbott joined the Company in early 1995 as Financial Controller. In late 1995, he was appointed to the position of Company Secretary. Mr Abbott was appointed as Managing Director in November 1999 having previously held the position of General Manager and Chief Executive Officer of Ausmelt since February 1999. Prior to joining, Mr Abbott held a number of senior finance positions in a large state government business enterprise. Mr Abbott is currently a Director of Ausmelt Equity Ventures Pty Ltd, Auslron Development Corporation Pty Ltd and Ausmelt Chemicals Pty Ltd.

##### **Dr C M Adam**, BEng (Met), PhD (Qld) (Non-Executive Director)

Dr Adam joined the Board in July 2005. Previously Dr Adam was Chief Executive of the Commonwealth Scientific and Industrial Research Organization (CSIRO) from 2000 to 2001 and prior to that was Deputy Chief Executive directly responsible for all CSIRO's commercial activity, and the Director of the Institute of Industrial Technologies. Dr. Adam's career has included technology management positions within the US aerospace industry and the CSIRO. Dr Adam chairs the Company's Audit and Risk Management and Technical Committees and also serves on the Remuneration and Nomination Committees. During the past three years Dr Adam has served as a director of the following listed companies:

- Tele-IP Limited \*
- Melbourne IT Limited
- Ceramic Fuel Cells Limited

\* denotes current directorship

##### **G F Lord**, B Economics (Hons), MBA (Dist) ASSA, ASIA (Non-Executive Director)

Mr Lord became a member of the Board in February 2001. He was formerly Managing Director and Deputy Chairman of Elders Resources Limited, Chairman of Sims Metal and a Director of North Broken Hill and Fosters Brewing Company. Mr Lord is currently a Director of Triako Resources Limited, Ausmelt's largest shareholder, and holds numerous other directorships including Chairman of Belgravia Group. During the past three years Mr Lord has served as a director of the following listed companies:

- UXC Limited \*
- Maxitans Industries Limited \*
- Triako Resources Limited \*
- Adelhill Limited\*
- KLM Limited\*
- Institute of Drug Technology Australia Limited \*
- Auto Group Limited

\* denotes current directorship

**Dr A R Collins**, BSc (Hons), PhD (Sydney), FAusIMM, MAIG (Alternate Director)

Dr Collins is an alternate Director for Mr G Lord. He has been Managing Director of Triako Resources Limited since August 2001 having joined Triako as General Manager Exploration in 1996. He was Group General Manager of Pancontinental Mining Limited until 1995. From 1971 to 1984 he worked for Union Minière of Belgium in Australia, the Middle East, the Americas and Belgium. During the past three years Dr Collins has served as a director of the following listed companies:

- Buka Minerals Limited
- Triako Resources Limited \*

\* denotes current directorship

**J O Reynolds OAM**, BSc, HonFAusIMM (Alternate Director)

Mr Reynolds is a technologist with over 55 years of experience in the Minerals, Metals and Mining Industry. Mr Reynolds was an alternate Director for Dr J Floyd until his retirement on 30 June 2006.

## COMPANY SECRETARY

**J G H Fogarty**, Dip Bus (Accounting), FCPA

Mr Fogarty is a CPA who has over 25 years experience in commercial management in the mining, engineering and metallurgical industries. He joined Ausmelt as its Business Development Manager in April 1997 and was appointed as Company Secretary & Commercial Manager in November 1999. Mr Fogarty was previously a senior finance executive with various BHP Group companies. Mr Fogarty was the CFO and Company Secretary for both BHP Engineering and Ok Tedi Mining Limited. He also serves as a Director of Ausmelt Chemicals Pty Ltd, Ausmelt Equity Ventures Pty Ltd and AusIron Development Corporation Pty Ltd.

## Interest in the shares and options of the Company

At the date of this report the interests of the Directors in the shares and options of the Company were:

	Ordinary shares	Options to acquire Ordinary Shares
A C Larkin	-	-
J M Floyd <sup>[1]</sup>	9,217,692	-
P V Abbott	265,875	100,000
C M Adam	-	-
G F Lord <sup>[2],[3]</sup>	72,000	300,000
A R Collins	-	-
1	8,917,692 shares are held through Caron Pty Ltd of which Dr Floyd is a Director	
2	At the date of this report Keygrowth Pty Ltd of, which Mr Lord is a Director and substantial shareholder, held 72,000 shares in Ausmelt Limited	
3	At the date of this report Triako Resources Limited, of which Mr Lord is a Director and substantial shareholder, held 9,932,456 shares in Ausmelt Limited	

## DIVIDENDS

Final dividend recommended:	<b>Cents</b>	<b>\$'000</b>
• on ordinary shares	2.0	793

No dividends were paid during the year

## EARNINGS PER SHARE

	<b>Cents</b>
Basic earnings per share	7.2 cents
Diluted earnings per share	7.2 cents

## PRINCIPAL ACTIVITIES

The principal activities of the Company consist of development, design engineering and supply of Ausmelt furnace systems for production of metals or processing of wastes. The Company has further expanded into the area of development and supply of chemical reagents for metallurgical extraction.

## EMPLOYEES

The Company employed 45 employees as at 30 June 2006 (2005: 40 employees).

## OPERATING AND FINANCIAL REVIEW

### Group Overview

Ausmelt Limited is a specialised technology company based in Dandenong, Victoria. The Company was formed in 1981 to commercialise the revolutionary Siros melt Top Submerged Lance (TSL) smelting method invented by Dr John Floyd while employed by the CSIRO.

The Company has continued to commercialise and develop the technology since formation and is now a supplier of:

- Proven pyrometallurgical technology for the global non-ferrous metals industry;
- Environmentally superior technology for the treatment of a wide range of metallurgical wastes; and
- A mineral flotation reagent for the recovery of copper, gold and other metals from oxidised ore sources.

Ausmelt Limited has also developed capabilities in other areas of the metals industry and constantly seeks to capitalise on its industry knowledge to pursue the enhancement of shareholder wealth.

### Performance Management

The Board monitors the Company's overall performance, from the implementation of the strategic plan through to the performance of the Company against operating plans and financial budgets.

The Board together with management has a set of regular performance reports that are used to monitor the Company's progress against plans and budgets. The Board receives the regular performance reports for review prior to each monthly Board meeting allowing all Directors to actively monitor the Company's performance. In addition the Board meets regularly with the senior executives from each business, sets and reviews key performance indicators for the Managing Director and the Company Secretary and participates in the budgeting and strategic planning activities of the Company.

### Operating Results for the Period

The consolidated economic entity profit after tax for the financial year to June 30, 2006 was \$2.84 million. This profit was earned entirely from operations and is the Company's highest-ever operating result after tax. It compares with a loss of \$3.67 million in the previous year as adjusted under the new Australian equivalents to International Reporting Standards (AIFRS).

The pre-tax profit for the latest year was \$3.12 million compared with a loss of \$3.91 million in 2004-05. The Company was able to benefit from accumulated losses from prior years to reduce the amount of tax payable on the profit.

The much improved result is due to a very strong performance by the Company's core non-ferrous business which contributed a profit before tax and unallocated expenses of \$7.29 million compared with \$2.00 million in the previous year. The strong performance by the non-ferrous business was due partly to continuing revenues from projects won in previous periods and to early revenues from a number of the new projects won during the past financial year.

Ausmelt has won two more significant non-ferrous smelting contracts since balance date and the outlook for the Company's 2006-07 financial performance is promising.

### Non-Ferrous Metals

The non-ferrous business signed five new contracts in the year June 30, 2006 with a combined value of more than \$30 million. The number of contracts and the total value are both a record for Ausmelt.

In July, 2005 the Company won a contract to provide its technology for a new nickel smelting and converting plant to be built by Jinchuan Group Ltd, China's largest nickel producer, in the Gansu province of China. The contract covers the provision of Ausmelt technology, engineering services and equipment supply and is important for several reasons. It is the largest value contract that Ausmelt had ever won in China and at more than 1 million tonnes a year it is the Company's largest scale plant. It is also the first time TSL technology has been used commercially to process nickel concentrates to low-grade matte. Detailed engineering design for the Jinchuan project has been completed and equipment supply is about to commence.

Ausmelt also signed a substantial contract with Dowa Mining Co. Ltd, Japan's leading non-ferrous metal producer. Dowa is constructing a new smelting furnace using Ausmelt's TSL technology to process a wide variety of scrap and waste materials into a total of 19 different metals. The furnace will be designed to smelt 150,000 tonnes a year of electronic scrap, metal residues and other waste materials which Dowa will collect from its 16 plants in Japan and from its supply chains in China, South East Asia and North America. Ausmelt and Dowa worked closely for several months in the development phase of this project which included extensive trials at Ausmelt's pilot plant at Dandenong, Victoria and metallurgical process definition for the commercial plant operation. The Ausmelt contract covers the provision of technology, engineering design services and site services.

In June 2006, the Company won an additional contract with Dowa to supply specialised equipment for the secondary metals project. This equipment includes Ausmelt lances, a process control system, instrumentation and Ausmelt's registered design copper cooling panels. Equipment supply has already started.

In March this year, Ausmelt consolidated the acceptance of its TSL technology in the nickel industry by winning a contract to provide technology for a new nickel smelting plant to be built by Jilin Nickel Group, China's second largest nickel producer. The smelter, being built in the Jilin province, will treat 220,000 tonnes of nickel-copper concentrates and 55,000 tonnes a year of nickel-copper oxide material. It will also recycle materials from the process. This contract covers the provision of nickel smelting technology, engineering and commissioning services and equipment supply. Process design has been completed and the Company expects to finish basic engineering in early September.

In April, Ausmelt won two new major contracts in the Chinese copper industry. The Company will provide technology for a new copper smelting plant to be built by Chifeng Jinjian Copper Group in Inner Mongolia in China. The smelter will treat 480,000 tonnes a year of copper concentrates to produce 120,000 tonnes of copper contained in matte and covers the provision of copper smelting technology, engineering and commissioning services and equipment supply. Process design for this smelter has now been completed and the Company expects to complete basic engineering by the end of September. Ausmelt is working closely with Jinjian and the Tongling Nonferrous Metals Corporation on this project. Tongling has been using Ausmelt technology successfully in its own copper operations for the past three years.

The Company will also provide technology for a new copper smelting plant to be built by Huludao Nonferrous Metals Group at Huludao, in China's Liaoning province. The new plant will replace two existing blast furnaces with expanded capacity. The contract is unique in that Huludao will use a carbon residue material from its existing zinc retort operation as fuel for the Ausmelt process. The retort residues are currently dumped and the combination of dramatic emission reductions from the blast furnace operation and the use of the retort residues make this a ground-breaking project from an environmental viewpoint. The smelter will treat 500,000 tonnes a year of copper concentrates to produce 100,000 tonnes of copper contained in matte and covers the provision of copper smelting technology, engineering and commissioning services and equipment supply. Process design has been completed and basic engineering design is expected to be finished by the end of September.

Ausmelt has completed all its engineering design and equipment supply for the modernisation of the copper smelter for the Karabash copper project in Russia. Plant commissioning is expected to start before the end of the year. The HZL lead smelter project in India was commissioned during the year and Ausmelt personnel are continuing to provide support to optimise plant performance.

In July this year, Ausmelt won its second project in Russia. The contract is for Ausmelt to provide basic engineering design and a technology licensing agreement to a major metallurgical company in the Commonwealth of Independent States. Ausmelt has already completed a detailed process design for the new smelter which will form part of the client's existing base metals smelting complex. Detailed design and equipment supply are expected to begin in the first half of calendar 2007.

The Company also recently announced that it had signed its first lead smelter contract in China. Ausmelt will supply a lead smelter with a capacity to produce 100,000 tonnes a year of lead to Yunnan Tin Company Ltd (YTCL) in China's Yunnan province. Under the contract, Ausmelt will provide lead smelting technology, design engineering services, commissioning services and equipment. This is the second smelting contract Ausmelt has signed with Yunnan. The first, in 1999, was for a tin smelter to process 50,000 tonnes of tin concentrate a year. This is the eighth TSL smelting project Ausmelt has won in China and is the fourth Chinese project the Company has won this calendar year.

### **Whyalla Zinc Project**

Ausmelt continued to pursue the establishment of the Whyalla plant in South Australia as a commercial operating facility processing a range of zinc bearing materials. The Company has identified a number of potential sources of zinc bearing feed materials for the plant and has completed pre-feasibility work on capital plant modifications and operating costs for the proposed operation. However, the commercial arrangements for the supply of feed materials and the sale of the zinc product are still being discussed with external parties.

### **Chemicals**

The chemical business, comprising commercialisation activities surrounding the Company's flotation reagent AM2<sup>®</sup>, lost \$0.533 million in the year to June 30. The loss was after accounting for revenue from some early sales of the chemical and a commercial ready grant from the Federal Government of \$0.648 million. The Company is now selling small quantities of AM2<sup>®</sup> on a regular basis to two customers, a platinum producer in South Africa and a copper project in Queensland.

Ausmelt is continuing to develop sales opportunities with a number of major mining projects in South America and Australia. The Company has manufacturing arrangements in place with an Australian based toll manufacturer and detailed confirmation testing of AM2<sup>®</sup> at Australian Universities to further support the sales effort, are being undertaken. Orica Limited continues to act as the Company's agent for AM2<sup>®</sup> in Chile and Peru.

### **Ferrous**

The Company continues to look for ways to apply its core TSL technology in pig iron production in Australasia. The Auslron<sup>®</sup> pig iron project, which was aimed at establishing the technology in commercial use with a host steelmaker in Australia, has not progressed as planned because the host steelmaker decided to focus its resources on the implementation of one of its own (unrelated) projects. China remains the most prospective market for the Company's patented Auslron<sup>®</sup> technology in the short term, and Ausmelt is seeking a suitable partnership in China that will help the Company break into this market. Ausmelt's increasing reputation and success with its non-ferrous technologies in China should help to progress this new business opportunity in ironmaking.

### **Waste**

In April, Ausmelt signed a contract with Korea Zinc Co Ltd for construction of two new Ausmelt technology furnaces at Korea Zinc's zinc production facilities at Onsan in Korea. Korea Zinc already operates eight Ausmelt technology furnaces at Onsan treating a range of zinc slags and residues as well as secondary lead and copper materials. Under a pre-existing agreement with Korea Zinc, Ausmelt will receive only a technology licensing fee under the new contract. The two new furnaces will recover lead and zinc from up to 120,000 tonnes a year of zinc leach residues.

### **Acquisitions**

The Company evaluated a number of acquisition prospects during the year. Negotiations reached an advanced stage with two of these but acceptable terms could not be negotiated. The Company continues to pursue acquisition opportunities where Ausmelt might leverage its mining and metals knowledge into a more stable earnings and cash flow stream.

### **RISK MANAGEMENT**

The Company takes a proactive approach to risk management. The Board requires that management has a structured process in place to identify adverse risks, and to exploit opportunities, and that management has processes and systems in place to manage and mitigate the potential effects of risk on the Company.

The Board has delegated day-to-day responsibility for risk management to the Managing Director and the senior management team.

The Company's process of risk management and internal compliance and control includes:

- continuously identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives and monitoring the environment for emerging factors and trends that affect these risks;
- formulating risk management strategies to manage identified risks and designing and implementing appropriate risk management policies and internal controls;
- regular review of risk management activities and systems by the Audit and Risk Management Committee;

- review of technical risks that could impact or threaten the Company's business by the Technical Committee;
- internal authorisation levels and procedures for commercial transactions;;
- annual internal due diligence process by senior management reported to the Audit and Risk Management Committee;
- the Company's financial reports are subject to independent audit verification.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company holds licences issued by the relevant state environmental protection authorities of Australia. These licences specify limits and regulate the management of discharges to the air and storm water run-off associated with the operation of the Company's pilot plant facilities as well as the storage of hazardous materials in both the laboratory and operations departments.

During the period under review the EPA licence to allow operation of the AusIron<sup>®</sup> Demonstration Plant at Whyalla was renewed.

There have been no known breaches of the Company's licence conditions.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the affairs of the Company during the twelve months ended 30<sup>th</sup> June 2006.

## SIGNIFICANT EVENTS AFTER BALANCE DATE

With the exception of the dividend declared by the Board and the signing of two major new contracts, as noted above, there have been no other matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Comments on likely developments impacting the Company's operations are referred to throughout this Director's Report and included in the Chairman's Statement in the 2006 Annual Report. Developments as they arise are released to the ASX and are available on the Company's internet site. Announcements of developments by the Company ensure compliance with ASX Listing Rules and promote timely and balanced disclosure of all material matters concerning the Company.

## SHARE OPTIONS

### *Unissued shares*

As at the date of this report the Company has a total of 1,153,000 options (15,000 unvested) outstanding to subscribe for ordinary shares in the capital of the Company, (1,168,000 at balance date), comprising unquoted options issued under an Employee Share Option Plan. Each option entitles the holder to subscribe for one ordinary share in the Company. The Employee Share Option Plan is currently inactive.

The unquoted issued options are comprised of the number of F Class options as specified in the accompanying table and are held by Directors and staff under the terms of the Company's Employee Share Option Plan. Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

### Details of Unquoted Issued Options Outstanding at 25<sup>th</sup> August 2006

Class of Option	Number of Options	Exercise Price	Exercise Period
F	300,000	\$0.803	To 29 November 2006
F	678,000	\$1.23	To 25 April 2007
F	75,000	\$0.986	To 8 September 2007
F	100,000	\$1.23	To 2 December 2007

### *Shares issued as a result of the exercise of options*

During the financial year there were no shares issued as a result of the exercise of options.

There have been no shares issued as a result of the exercise of options since the financial year-end.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the Company has paid insurance premiums in respect of a contract insuring all the Directors and Officers of Ausmelt Limited against legal costs incurred in defending proceedings for conduct involving:

- a wilful breach of duty; or
- a contravention of Sections 182 or 183 of the Corporations Act 2001, as permitted by Section 199B of the Corporations Act 2001.

The total amount of insurance contract premiums paid was \$49,490.

## REMUNERATION REPORT

This report outlines the remuneration arrangements in place for Directors and executives of Ausmelt Limited (the Company) and is prepared in accordance with AASB 124 "Related Party Disclosures".

### Details of Directors and Named Executives

#### Directors

A C Larkin	Chairman (Non-Executive)
J M Floyd	Deputy Chairman (Non-Executive)
P V Abbott	Managing Director
C M Adam	Director (Non-Executive) - appointed 1 July 2005
G F Lord	Director (Non-Executive)
A R Collins	Alternate Director (Non-Executive)
J O Reynolds	Alternate Director (Non-Executive) - retired 30 June 2006

#### Named Executives

B R Baldock	Process Technology Manager
B I Brander	Engineering Manager - appointed 10 April 2006
G R Davies	Projects Manager - appointed 1 March 2006
F G H Fogarty	Company Secretary, Commercial Manager
G A Johnson	Engineering Manager - resigned 31 January 2006
R W Matuszewicz	Technical Development Manager
J R McLean	General Manager, Chemicals
W K Pennell	Finance & Administration Manager
D M Sherrington	Auslron Manager
J Sofra	Business Development Manager - resigned 19 May 2006

### Compensation of Prescribed Persons

#### *Remuneration Philosophy*

The performance of the Company depends upon the quality of its Directors and executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- shareholders' interests and employee interests are in alignment;
- the Company is able to attract, develop and retain talented employees; and
- the integrity of the Company's reward program is maintained.

#### *Remuneration Committee*

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors, the Managing Director and the senior management team.

The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such Directors and senior managers on a periodic basis by reference to performance levels and relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

#### *Remuneration Structure*

In accordance with best practice corporate governance, the structure of Non-Executive Director and senior manager remuneration is separate and distinct.

#### *Non-Executive Director remuneration*

##### *Objective*

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of high calibre, whilst incurring a cost which is acceptable to stakeholders.

##### *Structure*

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 30 November 2000 when shareholders approved an aggregate remuneration of \$250,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. As and when appropriate, the Board considers advice from external consultants as well as the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

Each Director receives a fee for being a Director of the Company. An additional fee is also paid to the Chairman of the Audit and Risk Management Committee, which recognises the additional time commitment required.

Non-Executive Directors are encouraged by the Board to hold shares in the Company (purchased by the director on market). Non-Executive Directors shall not be eligible for inclusion in any short or long term incentive plans and shall not be eligible for inclusion in any Company Share schemes other than a Non-Executive Director fee sacrifice plan. The Company does not currently have an active Non-Executive Director fee sacrifice plan.

The remuneration of Non-Executive Directors for the period ended 30 June 2006 is detailed in Table 1 of this report.

## **Executive remuneration**

### **Objective**

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company in order to:

- reward executives for Company, business segment and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

### **Structure**

In determining the level and composition of executive remuneration, the Remuneration Committee considers market levels of remuneration for comparable executive roles.

It is the Remuneration Committee's policy that only standard employment agreements are entered into with the Managing Director, Company Secretary and senior managers. Current agreements have termination notice periods of between one and four months.

Remuneration consists of the following key elements:

- Fixed Remuneration
- Variable Remuneration
  - Short Term Incentive ('STI'); and
  - Long Term Incentive and Employee Equity Participation Plans ('LTI').

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each senior manager by the Remuneration Committee. Table 1 of this report includes details of Executive Director remuneration for the period ended 30 June 2006. Table 2 of this report details the remuneration components of the Company Secretary and named executives.

## **Fixed Remuneration**

### **Objective**

The level of fixed remuneration is set so as to provide a base level of remuneration which is appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration Committee and the process consists of review companywide, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices. The Committee has access to external advice independent of management.

### **Structure**

Senior managers are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and additional employer superannuation contributions. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

The remuneration components for the named executives are detailed in Table 2 of this report.

## **Variable Remuneration - Short Term Incentive (STI)**

### **Objective**

The objective of the Short Term Incentive Plan is to provide an incentive for all staff to work together towards achievement of the Company's strategic objectives. The total potential STI available is set at a level so as to provide sufficient incentive to the senior managers to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

### **Structure**

Actual STI payments granted to each senior manager are based on the achievement of personal performance measures and targets and conditional upon an agreed level of after-tax profit being achieved by the Company.

On an annual basis the Remuneration Committee will carry out an assessment, based on the pre-requisite that the Company's after-tax profit for the performance year must equal or exceed a specific target preset by the Board based on the budget and a review of expected performance for the Company. If the target is obtained a bonus pool will be established from which performance bonuses may be paid. The individual performance of each executive will be assessed against their personal performance plan to determine the level of entitlement to a performance bonus.

Payments are payable as 50% cash and 50% Ausmelt shares.

The performance target for 2006 was not met and as such no STI payments will be made for the 2006 financial year.



**Variable Remuneration - Long Term Incentive and Employee Equity Participation Plans (LTI)**  
**Objective**

The objective of the LTI plan is to reward senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth.

**Structure**

The Company has an Employee Share Option plan approved by shareholders at the Annual General Meeting on 30 November 2000. Options are issued under the plan for nil consideration. Options issued to Directors under the Plan, require prior shareholder approval. The options are generally issued for a term of 5 years and with vesting of 20% of options per annum becoming available to exercise from date of issue, or anniversary of appointment as Director or employee. The options cannot be transferred and will not be quoted on the ASX. No options have been granted under the Employee Share Option plan during the year ended 30 June 2006.

**Group performance**

During the period the Company's share price moved from a closing price of 28 cents on 30 June 2005 to a closing price of 62 cents on 30 June 2006.

The table below shows the performance of the Consolidated Entity for a five year period (including the current period).

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Profit/Loss after tax \$ million	1.438	-0.162	1.470	-3.668	2.843
Earnings per share (basic) cents	8	-0.4	3.7	-9.3	7.2

**Table 1: Remuneration of Directors for the year ended 30 June 2006**

		Short Term		Non Monetary Benefits	Post Employment		Share Based Payment	Other	% Performance Related	Total
		Salary & Fees	Cash STI		Superannuation	Retirement	Options	Bonuses		
		\$	\$		\$	\$	\$	\$	%	\$
A C Larkin	2006	100,000	-	-	9,000	-	-	-	-	109,000
	2005	75,000	-	-	6,750	-	-	-	-	81,750
J M Floyd	2006	26,250	-	-	2,363	-	-	-	-	28,613
	2005	26,250	-	-	2,363	-	-	-	-	28,613
P V Abbott	2006	173,382	-	31,462	12,139	-	-	-	-	216,983
	2005	175,016	-	25,436	11,585	-	-	-	-	212,037
C M Adam*	2006	40,000	-	-	3,600	-	-	-	-	43,600
	2005	-	-	-	-	-	-	-	-	-
G F Lord	2006	35,000	-	-	-	-	-	-	-	35,000
	2005	35,000	-	-	-	-	-	-	-	35,000
J O Reynolds**	2006	8,750	-	-	-	-	-	-	-	8,750
	2005	13,748	-	-	-	-	-	-	-	13,748
A R Collins	2006	-	-	-	-	-	-	-	-	-
	2005	-	-	-	-	-	-	-	-	-
<b>Total Remuneration: Directors</b>										
	2006	383,382	-	31,462	27,102	-	-	-	-	441,946
	2005	325,014	-	25,436	20,698	-	-	-	-	371,148

\* Appointed 1 July 2005

\*\* Retired 30 June 2006

**Table 2: Remuneration of Named Executives for the year ended 30 June 2006**

		Short Term		Non Monetary Benefits	Post Employment		Share Based Payment	Other	% Performance Related	Total
		Salary & Fees	Cash STI		Superannuation	Retirement	Options	Bonuses		
		\$	\$		\$	\$	\$	\$	%	\$
B R Baldock	2006	153,577	-	-	29,306	-	-	-	-	182,883
	2005	144,699	-	-	24,585	-	-	-	-	169,284
B I Brander (appointed)	2006	30,700	-	-	2,885	-	-	-	-	33,585
	2005	-	-	-	-	-	-	-	-	-
G R Davies (appointed)	2006	90,513	-	6,089	16,903	-	-	-	-	113,505
	2005	90,934	-	-	15,680	-	-	-	-	106,614
J G H Fogarty (Comp Secretary)	2006	165,284	-	11,200	12,139	-	-	-	-	188,623
	2005	155,562	-	11,200	11,585	-	-	-	-	178,347
G A Johnson (resigned)	2006	160,617	-	8,749	8,551	-	-	-	-	177,917
	2005	134,244	-	10,436	11,585	-	-	-	-	156,265
R W Matusiewicz	2006	142,347	-	10,524	11,806	-	-	-	-	164,677
	2005	98,172	-	10,524	11,159	-	-	-	-	119,855
J R McLean	2006	161,361	-	-	14,959	-	-	-	-	176,320
	2005	152,090	-	-	14,405	-	-	-	-	166,495
W K Pennell	2006	133,969	-	9,778	12,139	-	-	-	-	155,886
	2005	118,130	-	9,597	11,585	-	-	-	-	139,312
D M Sherrington	2006	162,616	-	1,099	12,139	-	-	-	-	175,854
	2005	159,564	-	-	11,585	-	-	-	-	171,149
J Sofra (resigned)	2006	186,037	-	-	40,139	-	-	-	-	226,176
	2005	153,956	-	1,102	11,585	-	-	-	-	166,643
<b>Total Remuneration: Named Executives</b>										
	2006	1,387,021	-	47,439	160,966	-	-	-	-	1,595,426
	2005*	1,207,351	-	42,859	123,754	-	-	-	-	1,373,964

\* Group totals for 2005 are not the same as disclosed in the 2005 report, as different individuals were specified in the 2005 financial year.

**Table 3: Compensation by Category: Prescribed Persons**

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	\$	\$	\$	\$
Short-Term	1,849,304	1,600,660	1,849,304	1,600,660
Post Employment	188,068	144,452	188,068	144,452
Termination Benefits	-	-	-	-
Share-based Payment	-	-	-	-
Other Long-Term	-	-	-	-
	<u>2,037,372</u>	<u>1,745,112</u>	<u>2,037,372</u>	<u>1,745,112</u>

**Remuneration Options: Granted and vested during the year**

During the year no options were granted as equity compensation benefits to any Directors or named executives. No options were exercised by Directors or named executives, nor did any options with a value, lapse during the year.

Details of options granted in previous years which vested during the period are as follows:

	Vested Number 2006	Vested Number 2005
<b>Directors</b>		
P V Abbott	20,000	20,000
G F Lord	-	60,000
J O Reynolds (retired)	3,000	3,000
<b>Named Executives</b>		
B R Baldock	10,800	10,800
G R Davies	5,800	5,800
J G H Fogarty (Company Secretary)	9,600	9,600
G A Johnson (resigned)	6,400	6,400
R Matusiewicz	8,400	8,400
J R McLean	15,000	15,000
D M Sherrington	19,600	34,600
J Sofra (resigned)	7,200	7,200
<b>Total</b>	<u>105,800</u>	<u>180,800</u>

*Fair value of options:*

- \* The Company has adopted the fair value measurement provisions of AASB2 "Share-based Payment" and AAS119 "Employee Benefits" for all options granted to Directors and relevant executives. No expense was recognised in the income statement for June 2006 as no options were granted during the period and as per the transitional rules all outstanding options were issued prior to 7 November 2002 apart from one issue of options on 2 December 2002.

From 1 July 2002, options granted as part of Director and executive emoluments have been valued using the Black-Scholes/Merton Options Valuation Model, which takes account of factors including the option exercise price, the level of volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, market price of the underlying share and the expected life of the options.

Options issued to the Managing Director, Mr Paul Abbott, following approval by shareholders at the Annual General Meeting of the Company on 28 November 2002 were originally valued using the Binomial Model. These options have been revalued as at issue date using the Black-Scholes/Merton Options Valuation Model for the purpose of consistency of reporting.

**Shares issued on exercise of Remuneration Options**

No Remuneration options were exercised during the financial period ended 30 June 2006.

30 June 2005	Shares Issued Number	Paid \$ per share	Unpaid \$ per share
<b>Directors</b>			
J M Floyd	120,000	0.1033	-
<b>Named Executives</b>			
None exercised	-		
<b>Total</b>	<u>120,000</u>		

**Option holdings of Directors and Named Executives**

	Balance at beginning of period 1 July 2005	Granted as remuneration	Options Exercised	Net Change Other #	Balance at end of period 30 June 2006	Vested at 30 June 2006		
30 June 2006						Total	Not Exercisable	Exercisable
<b>Directors</b>								
A C Larkin	-	-	-	-	-	-	-	-
J M Floyd	-	-	-	-	-	-	-	-
P V Abbott	100,000	-	-	-	100,000	100,000	-	100,000
C M Adam	-	-	-	-	-	-	-	-
G F Lord	300,000	-	-	-	300,000	300,000	-	300,000
J O Reynolds (retired)	15,000	-	-	-	15,000	15,000	-	15,000
A R Collins	-	-	-	-	-	-	-	-
<b>Named Executives</b>								
B R Baldock	54,000	-	-	-	54,000	54,000	-	54,000
B I Brander (appointed)	-	-	-	-	-	-	-	-
G R Davies (appointed)	29,000	-	-	-	29,000	29,000	-	29,000
J G H Fogarty (Company Secretary)	48,000	-	-	-	48,000	48,000	-	48,000
G A Johnson (resigned)	32,000	-	-	(32,000)	-	-	-	-
R W Matusiewicz	42,000	-	-	-	42,000	42,000	-	42,000
J R McLean	75,000	-	-	-	75,000	60,000	-	60,000
W K Pennell	-	-	-	-	-	-	-	-
D M Sherrington	173,000	-	-	(75,000)	98,000	98,000	-	98,000
J Sofra (resigned)	36,000	-	-	-	36,000	36,000	-	36,000
<b>Total</b>	904,000	-	-	(107,000)	797,000	782,000	-	782,000

# includes forfeitures

	Balance at beginning of period 1 July 2004	Granted as remuneration	Options Exercised	Net Change Other #	Balance at end of period 30 June 2005	Vested at 30 June 2005		
30 June 2005						Total	Not Exercisable	Exercisable
<b>Directors</b>								
A C Larkin	-	-	-	-	-	-	-	-
J M Floyd	120,000	-	(120,000)	-	-	-	-	-
P V Abbott	100,000	-	-	-	100,000	80,000	-	80,000
G F Lord	300,000	-	-	-	300,000	300,000	-	300,000
J O Reynolds	15,000	-	-	-	15,000	12,000	-	12,000
A R Collins	-	-	-	-	-	-	-	-
<b>Named Executives</b>								
B R Baldock	54,000	-	-	-	54,000	43,200	-	43,200
G R Davies	29,000	-	-	-	29,000	23,200	-	23,200
J G H Fogarty (Company Secretary)	48,000	-	-	-	48,000	38,400	-	38,400
G A Johnson	32,000	-	-	-	32,000	25,600	-	25,600
R W Matusiewicz	42,000	-	-	-	42,000	33,600	-	33,600
J R McLean	75,000	-	-	-	75,000	45,000	-	45,000
W K Pennell	-	-	-	-	-	-	-	-
D M Sherrington	173,000	-	-	-	173,000	153,400	-	153,400
J Sofra	36,000	-	-	-	36,000	28,800	-	28,800
<b>Total</b>	1,024,000	-	(120,000)	-	904,000	783,200	-	783,200

# includes forfeitures

# Share holdings of Directors and Named Executives

	Balance at beginning of period	Granted as remuneration	On Exercise of Options	Net Change Other	Balance at end of period
30 June 2006	1 July 2005				30 June 2006
<b>Directors</b>					
A C Larkin	-	-	-	-	-
J M Floyd <sup>[1]</sup>	300,000	-	-	-	300,000
P V Abbott	265,875	-	-	-	265,875
C M Adam	-	-	-	-	-
G F Lord <sup>[2]</sup>	-	-	-	-	-
J O Reynolds (retired)	-	-	-	10,000	10,000
A R Collins	-	-	-	-	-
<b>Named Executives</b>					
B R Baldock	203,424	-	-	-	203,424
B I Brander (appointed)	-	-	-	12,000	12,000
G R Davies (appointed)	-	-	-	-	-
J G H Fogarty (Company Secretary)	154,800	-	-	-	154,800
G A Johnson (resigned)	25,000	-	-	(25,000)	-
R W Matusiewicz	34,500	-	-	-	34,500
J R McLean	-	-	-	-	-
W K Pennell	-	-	-	-	-
D M Sherrington	-	-	-	-	-
J Sofra (resigned)	22,800	-	-	-	22,800
<b>Total</b>	<b>1,006,399</b>	<b>-</b>	<b>-</b>	<b>(3,000)</b>	<b>1,003,399</b>

1 At 30 June 2006, Caron Pty Ltd, of which Dr Floyd is a Director and substantial shareholder, held 8,917,692 shares in Ausmelt Limited.

2 At 30 June 2006, Triako Resources Limited, of which Mr Lord is a Director and substantial shareholder, held 9,932,456 shares in Ausmelt Limited and Keygrowth Pty Ltd, of which Mr Lord is a Director and substantial shareholder, held 72,000 shares in Ausmelt Limited.

	Balance at beginning of period	Granted as remuneration	On Exercise of Options	Net Change Other	Balance at end of period
30 June 2005	1 July 2004				30 June 2005
<b>Directors</b>					
A C Larkin	-	-	-	-	-
J M Floyd <sup>[1]</sup>	180,000	-	120,000	-	300,000
P V Abbott	265,875	-	-	-	265,875
G F Lord <sup>[2]</sup>	-	-	-	-	-
J O Reynolds	-	-	-	-	-
A R Collins	-	-	-	-	-
<b>Named Executives</b>					
B R Baldock	203,424	-	-	-	203,424
G R Davies	-	-	-	-	-
J G H Fogarty (Company Secretary)	154,800	-	-	-	154,800
G A Johnson	25,000	-	-	-	25,000
R W Matusiewicz	34,500	-	-	-	34,500
J R McLean	-	-	-	-	-
W K Pennell	-	-	-	-	-
D M Sherrington	-	-	-	-	-
J Sofra	22,800	-	-	-	22,800
<b>Total</b>	<b>886,399</b>	<b>-</b>	<b>120,000</b>	<b>-</b>	<b>1,006,399</b>

1 At 30 June 2005, Caron Pty Ltd, of which Dr Floyd is a Director and substantial shareholder, held 8,917,692 shares in Ausmelt Limited.

2 At 30 June 2005, Triako Resources Limited, of which Mr Lord is a Director and substantial shareholder, held 9,932,456 shares in Ausmelt Limited.

All equity transactions with Directors and named executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

## Loans to Prescribed Persons

No loans were provided to Directors or named executives for either the 2005 or 2006 financial years.

## Other transactions and balances with Prescribed Persons

There were no other transactions with Prescribed Persons or their related parties for either the 2005 or 2006 financial years.

## MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors (including meetings of Committees of Directors) held during the financial period ended 30 June 2006 and the number of meetings attended by each Director.

	Directors' Meetings Attended by Directors	Directors' Meetings Held whilst A Director	Audit & Risk Management	Meetings of Committees		
				Remuneration	Nominations	Technical
<b>Number of meetings held</b>	9	-	5	2	2	5
Number of meetings attended:						
A C Larkin	9	9	5	2	1	5
J M Floyd <sup>[1]</sup>	9	9	-	-	-	-
P V Abbott	9	9	5	2	2	5
C M Adam	9	9	-	2	2	-
G F Lord	-	-	-	-	-	-
A R Collins <sup>[2]</sup>	8	-	-	-	-	4
J O Reynolds <sup>[3][4]</sup>						

Note: [1] J M Floyd attended 1 Nominations Committee Meeting as an observer

[2] Meetings attended by A R Collins as alternate Director for G F Lord

[3] Meetings attended by J O Reynolds as alternate Director for J M Floyd

[4] J O Reynolds attended 8 Board meetings as an observer.

## Committee Membership

As at the date of this report, the Company had an Audit and Risk Management Committee, Remuneration Committee, Nominations Committee and a Technical Committee of the Board of Directors.

Members acting on the Committees of the Board at the date of this report or during the year are:

Audit and Risk Management	Remuneration	Nominations	Technical
C M Adam (c)	A C Larkin (c)	A C Larkin (c)	C M Adam (c)
J M Floyd	J M Floyd	C M Adam	J M Floyd
A C Larkin	C M Adam	G F Lord	J O Reynolds (ret)
J O Reynolds (alt) (ret)	G F Lord		
	J O Reynolds (alt) (ret)		

## Notes

- (c) Designates the Chairman of the Committee
- (ret) Retired from the Committee
- (alt) Acting as an alternate member on the Committee

## CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Ausmelt Limited support and adhere to the principles of corporate governance. The Company's corporate governance statements are detailed in the annual report.

## AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received the following declaration from the auditor of Ausmelt Limited.



■ Ernst & Young Building  
8 Exhibition Street  
Melbourne VIC 3000  
Australia

GPO Box 67  
Melbourne VIC 3001

■ Tel 61 3 9288 8000  
Fax 61 3 8650 7777

## Auditor's Independence Declaration to the Directors of Ausmelt Limited

In relation to our audit of the financial report of Ausmelt Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

R C Piltz  
Partner  
Melbourne  
25 August 2006

## NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

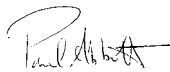
Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance services	\$32,680
-------------------------	----------

Signed in accordance with a resolution of the Directors.



A C Larkin  
Chairman  
Melbourne, 25<sup>th</sup> August 2006



P V Abbott  
Managing Director



**AUSMELT LIMITED**

**A.B.N. 72 005 884 355**

**ANNUAL REPORT**

**FOR THE YEAR ENDING 30 JUNE 2006**

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Income Statement**

For The Year Ended 30 June 2006

	<u>Notes</u>	<u>Consolidated</u>	<u>Ausmelt Limited</u>
		2006	2005
		\$	\$
Rendering of external engineering services and equipment		10,079,137	6,416,307
Rendering of internal engineering services		-	-
Technology licence fee revenue		3,046,925	1,664,791
Testwork and study revenue		273,271	1,236,996
Sale of goods		152,198	48,275
Finance revenue	4(a)	176,244	106,322
<b>Revenue</b>		<b>13,727,775</b>	<b>9,472,691</b>
Cost of sales		(3,453,284)	(3,959,508)
<b>Gross profit</b>		<b>10,274,491</b>	<b>5,513,183</b>
Other income	4(b)	647,942	59,510
Operational expenses		(3,859,471)	(5,787,643)
Marketing expenses		(1,349,056)	(936,497)
Corporate expenses		(2,519,756)	(2,744,128)
Other expenses	4(h)	-	-
Finance costs	4(c)	(78,705)	(17,744)
<b>Profit / (loss) before income tax</b>		<b>3,115,445</b>	<b>(3,913,319)</b>
Income tax (expense) / benefit	5	(272,612)	245,659
<b>Net profit / (loss) attributable to members of Ausmelt Limited</b>		<b>2,842,833</b>	<b>(3,667,660)</b>
Earnings per share (cents per share)			
- basic for profit/(loss) for the year	6	7.2	(9.3)
- diluted for profit/(loss) for the year	6	7.2	(9.2)
- dividends paid per share		-	-

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Balance Sheet**

As At 30 June 2006

	<u>Notes</u>	<u>Consolidated</u>		<u>Ausmelt Limited</u>	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	8	4,793,755	1,129,111	4,793,749	1,129,107
Trade and other receivables	9	3,566,275	1,199,445	3,566,275	1,199,445
Inventories	10	2,410,128	3,337,953	2,410,128	3,337,953
Prepayments		438,765	364,555	438,765	364,555
Unrealised foreign exchange contract receivable	9	473,580	674,237	473,580	674,237
Accrued licence fee income		964,073	704,465	964,073	704,465
<b>Total Current Assets</b>		<b>12,646,576</b>	<b>7,409,766</b>	<b>12,646,570</b>	<b>7,409,762</b>
<b>Non-Current Assets</b>					
Unrealised foreign exchange contract receivable	9	61,812	138,963	61,812	138,963
Investments	11	147,761	147,761	147,767	147,767
Property, plant & equipment	12	944,943	966,727	299,489	277,306
Intangible assets - patents	13	829,320	701,625	829,320	701,625
Net deferred tax assets	5	367,198	213,335	367,198	213,335
Intercompany	9	-	-	645,456	689,420
<b>Total Non-Current Assets</b>		<b>2,351,034</b>	<b>2,168,411</b>	<b>2,351,042</b>	<b>2,168,416</b>
<b>TOTAL ASSETS</b>		<b>14,997,610</b>	<b>9,578,177</b>	<b>14,997,612</b>	<b>9,578,178</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade and other payables	14	905,561	1,201,380	905,561	1,201,380
Unrealised foreign exchange contract gain	9	-	674,237	-	674,237
Contract revenue received in advance		3,271,595	-	3,271,595	-
Provisions	15	438,759	474,226	438,759	474,226
<b>Total Current Liabilities</b>		<b>4,615,915</b>	<b>2,349,843</b>	<b>4,615,915</b>	<b>2,349,843</b>
<b>Non-Current Liabilities</b>					
Unrealised foreign exchange contract gain	9	-	138,963	-	138,963
Provisions	15	424,881	350,163	424,881	350,163
<b>Total Non-Current Liabilities</b>		<b>424,881</b>	<b>489,126</b>	<b>424,881</b>	<b>489,126</b>
<b>TOTAL LIABILITIES</b>		<b>5,040,796</b>	<b>2,838,969</b>	<b>5,040,796</b>	<b>2,838,969</b>
<b>NET ASSETS</b>		<b>9,956,814</b>	<b>6,739,208</b>	<b>9,956,816</b>	<b>6,739,209</b>
<b>EQUITY</b>					
Issued capital	17	10,454,529	10,454,529	10,454,529	10,454,529
Reserves	17	374,774	-	374,774	-
Retained earnings	17	(872,489)	(3,715,321)	(872,487)	(3,715,320)
<b>TOTAL EQUITY</b>		<b>9,956,814</b>	<b>6,739,208</b>	<b>9,956,816</b>	<b>6,739,209</b>

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Cash Flow Statement**

For The Year Ended 30 June 2006

	<u>Notes</u>	<u>Consolidated</u>		<u>Ausmelt Limited</u>	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Receipts from customers		14,775,388	8,452,603	15,718,727	9,727,174
Payments to suppliers and employees		(11,294,280)	(10,954,680)	(11,294,280)	(10,950,331)
Interest received		176,244	106,322	176,244	106,322
Income tax refund / (paid)		(83,043)	69,251	(83,043)	69,251
Receipt of government grants		647,942	59,510	647,942	59,510
Interest and other costs of finance paid		(78,705)	(17,744)	(78,705)	(17,744)
<b>Net cash flows from operating activities</b>	8	<b>4,143,546</b>	<b>(2,284,738)</b>	<b>5,086,885</b>	<b>(1,005,818)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(184,707)	(183,782)	(140,190)	(183,782)
Payments for patents		(294,195)	(204,207)	(294,195)	(204,207)
Advances to associated entities		-	-	(987,858)	(1,278,545)
<b>Net cash flows from investing activities</b>		<b>(478,902)</b>	<b>(387,989)</b>	<b>(1,422,243)</b>	<b>(1,666,534)</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares		-	12,400	-	12,400
Payment of dividends		-	(790,736)	-	(790,736)
<b>Net cash flows from/(used in) financing activities</b>		<b>-</b>	<b>(778,336)</b>	<b>-</b>	<b>(778,336)</b>
Net increase/(decrease) in cash and cash equivalents		3,664,644	(3,451,063)	3,664,642	(3,450,688)
Cash and cash equivalents at beginning of period		1,129,111	4,580,174	1,129,107	4,579,795
<b>Cash and cash equivalents at end of period</b>	8	<b>4,793,755</b>	<b>1,129,111</b>	<b>4,793,749</b>	<b>1,129,107</b>

**Ausmelt Limited - End Of Financial Year Report**  
**A.B.N. 72 005 884 355**

**Statement of Changes in Equity**  
**FOR THE YEAR ENDED 30 JUNE 2006**

	<i>Notes</i>	Attributable to equity holders of the parent			Total Equity
		Issued capital \$	Retained earnings \$	Other reserves \$	
<b>At 1 July 2004</b>	<b>17</b>	10,442,129	743,075	-	11,185,204
Net movement on cash flow hedges (Net of Tax)		-	-	-	-
Total income and expense for the period recognised directly in equity		-	-	-	-
Profit/(Loss) for the period		-	(3,667,660)	-	(3,667,660)
Total income and expense for the period		-	(3,667,660)	-	(3,667,660)
Exercise of options		12,400	-	-	12,400
Payment of dividend		-	(790,736)	-	(790,736)
<b>At 30 June 2005</b>	<b>17</b>	<b>10,454,529</b>	<b>(3,715,321)</b>	<b>-</b>	<b>6,739,208</b>
<b>At 1 July 2005</b>	<b>17</b>	10,454,529	(3,715,321)	569,241	7,308,449
Net movement on cash flow hedges (Net of Tax)		-	-	(194,467)	(194,467)
Total income and expense for the period recognised directly in equity		-	-	(194,467)	(194,467)
Profit/(Loss) for the period		-	2,842,833	-	2,842,833
Total income and expense for the period		-	2,842,833	(194,467)	2,648,366
Exercise of options		-	-	-	-
Payment of dividend		-	-	-	-
Rounding		-	(1)	-	(1)
<b>At 30 June 2006</b>	<b>17</b>	<b>10,454,529</b>	<b>(872,489)</b>	<b>374,774</b>	<b>9,956,814</b>

**Notes to the Financial Statements**  
For The Year Ended 30 June 2006

---

**1 CORPORATE INFORMATION**

The financial report of Ausmelt Limited (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the Directors on 25 August 2006.

Ausmelt Limited is a company, limited by shares, incorporated in Australia, whose shares are publicly traded on the Australian stock exchange.

The nature of the operations and principal activities of the Group are described in note 3.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Preparation**

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis except for derivatives measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

Where required by Accounting Standards comparative figures have been adjusted to conform to changes in presentation for the current year.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

**(b) Statement of compliance**

The financial report, which includes the financial statements and notes thereto, complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS).

This is the first annual financial report prepared based on AIFRS, and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. The Company has adopted the exemption under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report, under AGAAP and at transition to AIFRS are detailed in note 25.

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Statement of compliance (continued)**

Except for the revised AASB 119 Employee Benefits (issued December 2004), Australian Accounting Standards that have recently been issued or amended, but are not yet effective, have not been adopted for the annual reporting period ending 30 June 2006. Those with potential relevance to the Group are listed in the table below:

<b>AASB Amendment</b>	<b>Affected Standard (s)</b>	<b>Nature of change to accounting policy</b>	<b>Application date of standard</b>
2005-1	AASB 139 Financial Instruments Recognition and Measurement	No change to financial report required. Therefore no impact.	On or after 1 January 2006
2005-4	AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Disclosure and Presentation, AASB1 First-time adoption of AIFRS, AASB 1023 General insurance Contracts and AASB 1038 Life Insurance Contracts	No change to financial report required. Therefore no impact.	On or after 1 January 2006
2005-5	AASB 1 First-time adoption of AIFRS and AASB 139 Financial Instruments: Recognition and Measurement	No change to financial report required. Therefore no impact.	On or after 1 January 2006
2005-6	AASB 3 Business Combinations	No change to financial report required. Therefore no impact.	On or after 1 January 2006
2005-10	AASB 132 Financial Instruments: Disclosure and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time adoption of AIFRS, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts	No change to financial report required. Therefore no impact.	On or after 1 January 2007
2005-9	AASB 139 Financial Instruments: Recognition and Measurement	Impact not determined.	On or after 1 January 2006

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

---

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Statement of compliance (continued)**

<b>AASB Amendment</b>	<b>Affected Standard (s)</b>	<b>Nature of change to accounting policy</b>	<b>Application date of standard</b>
	AASB 7 Financial Instruments: Disclosures	Will result in changes to disclosures, not yet assessed.	On or after 1 January 2007
	UIG 4 Determining whether an Arrangement contains a Lease	Impact as yet not determined.	On or after 1 January 2006

**(c) Basis of consolidation**

The consolidated financial statements comprise the financial statements of Ausmelt Limited and its subsidiaries as at 30 June each year (the Group).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profits and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

**(d) Significant accounting estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

**Non recognition of tax losses**

The Group's criteria for the recognition of future income tax benefits is to firstly recognise tax losses, at least to the extent, of recognised deferred tax liabilities and secondly, recognise tax losses based on probable forecast profits. This requires an estimation of the probable forecast profit before tax. The probable forecast includes contract earnings, supported by signed contracts or contracts that are probable of being signed.

**(e) Foreign currency translation**

Both the functional and presentation currency of Ausmelt Limited and its Australian subsidiaries is Australian dollars (A\$).

The functional currency of the overseas subsidiary (Ausmelt Technology Corporation Inc.) is Australian dollars (A\$). Ausmelt Technology Corporation, which was registered in the United States of America, was dissolved on 26 April 2005.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.



**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

---

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Property, plant and equipment**

**Cost and Valuation**

Property, plant and equipment are brought to account at cost, less, where applicable, any accumulated depreciation or amortisation.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

The depreciable amount of all fixed assets are depreciated over their useful lives commencing from the time the asset is held ready for use.

**Depreciation**

Depreciation is provided on a straight-line basis.

Major depreciation periods are:

- Lease improvements over the lease period
- Ausiron demonstration plant 10 years
- Other plant and equipment 3 to 5 years
- Office equipment 3 to 5 years
- Laboratory equipment 3 to 5 years

**Impairment**

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

**(g) Borrowing costs**

Borrowing costs are recognised as an expense when incurred. Interest expense includes discounts for any sales of letters of credit sold to financial institutions.

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(h) Intangible assets**

**Acquired separately**

Intangible assets relate solely to patents, acquired separately and these are capitalised at cost.

The useful lives of these intangible assets are assessed to be finite and amortisation is charged over a period not exceeding eight years. This expense is taken to the income statement through the 'Operational expenses' line item.

Intangible assets are tested for impairment where an indicator of impairment exists. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

**Research and development costs**

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure from a project so capitalised, is amortised over the period of expected benefits, not exceeding four years.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not available for use, or more frequently when an indication of impairment arises during the reporting period.

A summary of the policies applied to the Group's intangible assets is as follows:

	<b>Patents</b>	<b>Development Costs</b>
<b>Useful lives</b>	<b>Finite</b>	<b>Finite</b>
Method used	8 years - Straight line	Over period of expected benefits not exceeding four years - Straight line
Internally generated / Acquired	Acquired separately	Internally generated
Impairment test / Recoverable amount testing	Annually and where an indicator of impairment exists	Amortisation method reviewed at each financial year-end; Reviewed annually for indicator of impairment

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised. No intangible assets with a carrying value have been derecognised during the year ended 30 June 2006.

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

---

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(i) Recoverable amount of assets**

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

**(j) Investments and other financial assets**

Investments are initially recognised at cost, being the fair value of the consideration given, less any impairment noted through an annual test.

Investments in controlled entities are initially recognised at cost and subsequently recognised at cost less impairment in the Parent's separate financial statements.

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for investments and other financial assets applicable for the years ended 30 June 2006 and 3 June 2005.

Accounting policies applicable for the year ended 30 June 2006

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace

**(i) Financial assets at fair value through profit or loss**

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

**(ii) Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

---

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(j) Investments and other financial assets (continued)**

**(iii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

**(iv) Available-for-sale investments**

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition the available for sale investments in unquoted equity securities whose fair value cannot be reliably determined are measured at cost less impairment.

**Investments in controlled entities**

The Group's investments in controlled entities are initially recognised at cost and subsequently measured at cost, less any impairment noted through an annual test, in the chief entity's separate financial statements.

**Accounting policies applicable for the year ended 30 June 2005**

Listed shares held for trading were carried at net market value. Changes in net market value were recognised as a revenue or expense in determining the net profit for the period.

All other non-current investments were carried at the lower of cost and recoverable amount.

**Recoverable amount**

Non-current financial assets measured using the cost basis were not carried at an amount above their recoverable amount, and when a carrying value exceeded this recoverable amount, the financial asset was written down to its recoverable amount. In determining recoverable amount, the expected net cash flows were discounted to their present value using a market determined risk adjusted discount rate.

**(k) Inventories**

**Project work in progress**

The unbilled portion of project contract revenue (work in progress) is brought to account as inventory. Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present status are accounted for as the cost of direct materials and labour and a proportion of overheads based on normal operating activity.

Net realisable value for work in progress is the estimated selling price in the ordinary course of business less estimated costs of completion.

**Chemical raw materials and finished goods**

Raw material and finished goods inventory is valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on an average cost basis;

Finished goods – cost of direct materials, labour and transport costs on an average cost basis.

Net realisable value for finished goods is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale

**(l) Trade and other receivables**

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

**(m) Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of not greater than three months.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

---

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(n) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**(o) Employee benefits**

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Contributions are made by the consolidated entity to employee superannuation funds and are charged as expenses when incurred.

**(p) Leases**

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

**(q) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. Invoices are raised for payment based on the achievement of contracted milestones.

The following specific recognition criteria must be met before revenue is recognised:

**Rendering of services**

Revenue for services is recognised where the contract outcome can be reliably measured, control of a right to be compensated for the services has been attained and a stage of completion can be reliably measured. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract. Revenue for the supply of goods is recognised when control of goods has passed to the buyer.

**Licence fees**

Revenue for technology licence fees is recognised when the right to use the technology has passed to the buyer.

**Interest**

Interest revenue is recognised when control of the right to receive the interest payment has passed to the consolidated entity.

**(r) Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Grants relate to expense items and are recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

---

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(s) Income tax**

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

**(t) Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

---

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(u) Derivative financial instruments and hedging**

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Below are the relevant policies for the years ended 30 June 2005 and 30 June 2006.

Accounting policy applicable for the year ended 30 June 2005

The Group enters into forward exchange contracts where it agrees to sell or buy specified amounts of foreign currencies in the future at predetermined exchange rate. The objective is to match the contracts with the anticipated future cash flows from sales and purchases in foreign currencies, to protect the consolidated entity against the possible adverse risk of future exchange rate fluctuations.

Forward exchange contracts are recognised at the date the contract is entered into. Exchange gains or losses on forward exchange contracts are charged to the statement of financial performance except those relating to specific commitments that are deferred and included in the measurement of the sale or purchase.

Accounting policy applicable for the year ended 30 June 2006

The Group uses foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purposes of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction. The Group has not entered into any fair value hedges to date.

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

For all cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

**(v) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

---

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(w) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares on issue, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares on issue and dilutive potential ordinary shares, adjusted for any bonus element.

**3 SEGMENT INFORMATION**

The Group's primary segment reporting format is business segments, as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary segment information is reported geographically.

The Group's operating businesses are organised and managed centrally and are divided into segments, which offer different products and services and serve different markets.

The non-ferrous segment provides design and engineering services to a number of Australian and international companies in the mining and metallurgy industries. It also earns revenues from granting licences to construct smelters using the Company's patented technology.

The ferrous segment carries out activities in relation to the development of iron smelting technology.

The chemicals segment, is currently involved in the development and marketing of flotation reagents to the mining industry for application in the processing of ores containing oxidised minerals.

Geographically the major operating activities take place in Australia and the Group's assets are located in Australia. Officers of the Company regularly travel to many parts of the globe to conduct marketing and engineering activities. The head office and investment activities take place exclusively in Australia. The Group's geographical segments are determined based on the location of the Group's assets and are therefore all located in Australia.

Segment accounting policies are the same as the Group's policies described in Note 2. During the financial year, there were no change in segment reporting policies that had a material effect on the segment information.

Transfer prices between business segments are set at an arms length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

**Business segments**

The following table presents revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2006 and 30 June 2005.



**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

**3 SEGMENT INFORMATION**

	<b>Non-Ferrous</b>		<b>Ferrous</b>		<b>Waste</b>		<b>Chemicals</b>		<b>Corporate</b>		<b>Consolidated</b>	
	<b>2006</b>	2005	<b>2006</b>	2005	<b>2006</b>	2005	<b>2006</b>	2005	<b>2005</b>	2004	<b>2006</b>	2005
	<b>(\$000)</b>	(\$000)	<b>(\$000)</b>	(\$000)	<b>(\$000)</b>	(\$000)	<b>(\$000)</b>	(\$000)	<b>(\$000)</b>	(\$000)	<b>(\$000)</b>	(\$000)
<b>Revenue</b>												
Sales to external customers	<b>13,400</b>	9,318	-	-	-	-	<b>152</b>	49		-	<b>13,552</b>	9,367
Other revenues from external customers	-	-	-	-	-	-	-	-	-	-	-	-
Inter-segment sales	<b>943</b>	1,275									<b>943</b>	1,275
Total segment revenue	<b>14,343</b>	10,593	-	-	-	-	<b>152</b>	49	-	-	<b>14,495</b>	10,642
Non-segment revenues											-	-
Interest revenue											<b>176</b>	106
Inter-segment elimination											<b>(943)</b>	(1,275)
Total consolidated revenue											<b>13,728</b>	9,473
<b>Results</b>												
Segment result	<b>7,290</b>	2,000	<b>(892)</b>	(886)	-	-	<b>(533)</b>	(2,441)	-	-	<b>5,865</b>	(1,327)
Unallocated expenses											<b>(2,671)</b>	(2,569)
Profit / (loss) before tax and finance costs											<b>3,194</b>	(3,896)
Finance costs											<b>(79)</b>	(18)
Profit / (loss) before income tax											<b>3,115</b>	(3,914)
Income tax (expense) / benefit											<b>(273)</b>	246
Net profit for the year											<b>2,842</b>	(3,668)
<b>Assets</b>												
Segment assets	<b>2,102</b>	3,185	<b>645</b>	836	-	-	-	-	-	-	<b>2,747</b>	4,021
Unallocated assets											<b>12,251</b>	5,557
Total assets											<b>14,998</b>	9,578
<b>Liabilities</b>												
Segment liabilities	<b>3,272</b>	-	<b>645</b>	836	-	-	-	-	-	-	<b>3,917</b>	836
Unallocated liabilities											<b>1,124</b>	2,003
Total liabilities											<b>5,041</b>	2,839

The working capital of the consolidated entity is not allocated to the business segments.

The Group's geographical segments are determined based on the location of the Group's assets. All assets are all located in Australia.

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

	<u>Consolidated</u>		<u>Ausmelt Limited</u>	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>4 REVENUES AND EXPENSES</b>				
<b>(a) Revenue</b>				
<i>Breakdown of finance revenue:</i>				
Bank interest received	176,244	106,322	176,244	106,322
<b>(b) Other income</b>				
Government Grant Revenue	647,942	59,510	647,942	59,510
<b>(c) Finance costs</b>				
Discount on sale of letter of credit	(65,761)	(15,155)	(65,761)	(15,155)
Finance charge payable on insurance contract	(12,944)	(2,589)	(12,944)	(2,589)
Total finance costs	<u>(78,705)</u>	<u>(17,744)</u>	<u>(78,705)</u>	<u>(17,744)</u>
<b>(d) Depreciation and amortisation included in the income statement</b>				
Included in operational expenses:				
Depreciation	112,050	108,661	23,570	20,180
Amortisation of patents	<u>166,500</u>	<u>150,335</u>	<u>166,500</u>	<u>150,335</u>
Cost of development recognised as an expense [includes write-down of development expenditure to net realisable value (note 13)]	<u>-</u>	<u>1,664,888</u>	<u>-</u>	<u>1,664,888</u>
Included in corporate expenses:				
Depreciation	94,440	73,952	94,440	73,952
Net foreign exchange differences	1,021	4,381	1,021	4,381
<b>(e) Lease payments and other expenses included in the income statement</b>				
Included in operational expenses:				
Minimum lease payments - operating lease	33,106	-	33,106	-
<b>(f) Employee benefits expense</b>				
Wages and salaries	3,743,909	3,236,778	3,743,909	3,236,778
<b>(g) Research and development costs</b>				
Research and development costs charged direct to operational costs	1,202,500	61,600	1,202,500	61,600
<b>(h) Other expenses</b>				
Net loss / (gain) on subsidiary receivable	-	-	1,031,820	1,363,049
Net loss / (gain) on subsidiary disposal	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,431</u>
	<u>-</u>	<u>-</u>	<u>1,031,820</u>	<u>1,364,480</u>

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

	<u>Consolidated</u>		<u>Ausmelt Limited</u>	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>5 INCOME TAX</b>				
The major components of income tax expense are:				
<b>Income Statement</b>				
<i>Current income tax</i>				
Current income tax charge	587,093	209,236	587,093	209,236
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	(314,481)	(454,895)	(314,481)	(454,895)
Income tax expense / (benefit) reported in income statement	<u>272,612</u>	<u>(245,659)</u>	<u>272,612</u>	<u>(245,659)</u>
<b>Statement of equity</b>				
<i>Deferred income tax related to items charged directly to equity</i>				
Net gain on cash flow hedges	160,618	-	160,618	-
Income tax expense reported in equity	<u>160,618</u>	<u>-</u>	<u>160,618</u>	<u>-</u>
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting profit before income tax	<u>3,115,445</u>	<u>(3,913,319)</u>	<u>3,115,445</u>	<u>(3,914,749)</u>
At the Group's statutory income tax rate of 30% (2005: 30%)	934,634	(1,173,996)	934,634	(1,174,425)
Adjustments in respect of current income tax of previous years	(167,691)	(28,166)	(167,691)	(28,166)
Unrecognised / (recognised) tax losses	(446,295)	955,965	(446,295)	955,965
Expenditure not allowable for income tax purposes	(2,694)	7,132	(2,694)	7,561
Research and development concession	(45,342)	(6,594)	(45,342)	(6,594)
Income tax expense reported in the income statement	<u>272,612</u>	<u>(245,659)</u>	<u>272,612</u>	<u>(245,659)</u>

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

	Balance sheet		Income statement	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>5 INCOME TAX (continued)</b>				
<b>Deferred income tax</b>				
Deferred income tax at 30 June relates to the following:				
<i>CONSOLIDATED</i>				
<i>Deferred tax liabilities</i>				
Deferred gains and losses on foreign exchange contracts	(160,618)	-	-	-
License fee receivable	(289,221)	(211,340)	77,881	37,224
Deferred development	-	-	-	(499,466)
Patents	(248,796)	(210,487)	38,309	16,162
	(698,635)	(421,827)		
<i>Deferred tax assets</i>				
Licence fees received in advance	289,646	-	(289,646)	-
Employee entitlements	259,092	247,316	(11,776)	(23,021)
Losses available for offset against future taxable income	508,657	385,520	(123,137)	16,264
Other	8,438	2,326	(6,113)	(2,058)
	1,065,833	635,162		
Net deferred tax assets / (liabilities)	367,198	213,335		
Deferred tax expense / (benefit)			(314,481)	(454,895)

There are no material differences to the consolidated deferred tax balances and those of the parent.

	Consolidated		Ausmelt Limited	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Income tax losses</b>				
Future income tax benefit arising from consolidated tax losses not recognised at reporting date as realisation of the benefit is not regarded as probable.	437,494	942,173	437,494	942,173

Deferred tax assets include future income tax benefit related to current tax losses of \$15,887 (2005: \$323,882) and foreign source withholding tax credits of \$492,770 (2005: \$61,638).

Foreign source withholding tax credits can be realised in future periods if Ausmelt Limited:

- (a) generates sufficient foreign source profits in the future to offset these withholding tax credits, and
- (b) generates sufficient Australian taxable income to offset these withholding tax credits, over the five year period in which these tax credits must be utilised.

These future income tax benefits will only be obtained if:

- (a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised; and
- (b) the conditions for deductibility imposed by tax legislation continue to be complied with, and
- (c) no changes in tax legislation adversely affect the consolidated entity in realising the benefits.

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

	<u>Consolidated</u>		<u>Ausmelt Limited</u>	
	2006	2005	2006	2005
	\$	\$	\$	\$

**5 INCOME TAX (continued)**

**Tax consolidation**

Effective 1 July 2002, for the purposes of income taxation, Ausmelt Ltd and its 100% owned subsidiaries formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement. The arrangement specifies the allocation of income tax expense to the wholly-owned subsidiaries. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Ausmelt Limited.

**Tax effect accounting by members of the tax consolidated group**

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group in accordance with UIG 1052 Tax Consolidation Accounting, while deferred taxes are allocated in accordance with the principles of AASB 112 Income Taxes.

The group has applied the "stand alone taxpayer" approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group. The allocation of taxes under the tax funding agreement is recognised as an increase / decrease in the subsidiaries' intercompany accounts with the tax consolidated group head company, Ausmelt Limited.

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

**6 EARNINGS PER SHARE**

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>
	<u>\$</u>	<u>\$</u>
Net profit / (loss) attributable to ordinary equity holders of the parent from continuing operations	2,842,833	(3,667,660)
Adjustments	-	-
Net profit / (loss) attributable to ordinary equity holders of Ausmelt Limited	<u>2,842,833</u>	<u>(3,667,660)</u>
	<u>2006</u>	<u>2005</u>
	<u>No of shares</u>	<u>No of shares</u>
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	39,656,824	39,609,153
Effect of dilution:		
Share options	-	67,890
Adjusted weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	<u>39,656,824</u>	<u>39,677,043</u>

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

<u>Consolidated</u>		<u>Ausmelt Limited</u>	
<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

**7 DIVIDENDS PAID AND PROPOSED**

*Declared and paid during the year:*

Dividends on ordinary shares:

Final unfranked dividend for 2004: 2.00 cents	-	790,736	-	790,736
---	---	---------	---	---------

*Approved at the 25 August 2006 Board meeting  
(not recognised as a liability as at 30 June):*

Dividends on ordinary shares:

Final unfranked dividend for 2006: 2.00 cents (2005: Nil)	793,136	-	793,136	-
--	---------	---	---------	---

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

	<u>Consolidated</u>		<u>Ausmelt Limited</u>	
	2006	2005	2006	2005
	\$	\$	\$	\$

**7 DIVIDENDS PAID AND PROPOSED (continued)**

**Franking credit balance**

The amount of franking credits available for the subsequent financial year are:

- franking account balance as at the end of the financial year at 30% (2005:30%)	-	(83,043)
- franking credits that will arise from the payment of franking deficit tax as at the end of the financial year	-	83,043
- franking debits that will arise from the payment of dividends as at the end of the financial year	-	-
- franking credits that will arise from the payment of income tax payable as at the end of the financial year	-	-
	-	-

The amount of franking credits available for future reporting periods:

- impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	-	-
	-	-

The tax rate at which paid dividends have been franked is Nil (2005: Nil).

Dividends proposed will be unfranked at the rate of 100% (2005: 100%).

**8 CASH AND CASH EQUIVALENTS**

**Reconciliation of cash**

Cash at bank	4,643,755	979,111	4,643,749	979,107
Short term deposits	150,000	150,000	150,000	150,000
	<b>4,793,755</b>	<b>1,129,111</b>	<b>4,793,749</b>	<b>1,129,107</b>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one month and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

At 30 June 2006, the Group had available \$250,000 (2005: \$250,000) of undrawn overdraft facilities in respect of which all conditions precedent had been met.

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

	<u>Notes</u>	<u>Consolidated</u>		<u>Ausmelt Limited</u>	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>8 CASH AND CASH EQUIVALENTS (continued)</b>					
<b>Reconciliation of operating profit / (loss) after income tax to net cash flows from operations</b>					
Net profit / (loss) after tax		2,842,833	(3,667,660)	2,842,833	(3,669,090)
<i>Adjustments for:</i>					
Amortisation					
- Intangibles		166,500	1,815,225	166,500	1,815,225
Depreciation		206,490	182,613	118,010	94,132
Provision for impairment of related party receivable		-	-	1,031,821	1,074,130
(Gain) / loss on foreign exchange translation		-	-	-	293,269
<i>Changes in assets and liabilities</i>					
Decrease (Increase) in inventories		927,825	(815,990)	927,825	(815,990)
Decrease (Increase) in trade debtors		(2,345,478)	(969,299)	(2,345,478)	(969,299)
Decrease (Increase) in other debtors		(21,353)	(24,752)	(21,353)	(24,752)
Decrease (Increase) in prepayments		(74,210)	94,406	(74,210)	95,839
Decrease (Increase) in future income tax benefit		(123,137)	16,264	(123,137)	16,264
Decrease (Increase) in accrued income		(259,608)	877,915	(259,608)	877,915
Increase (Decrease) in revenue received in advance		3,271,595	-	3,271,595	-
Increase (Decrease) in provisions		39,252	63,251	39,252	63,251
Increase (Decrease) in tax provisions		(191,341)	(223,319)	(191,341)	(223,319)
Increase (Decrease) in trade creditors and accruals		(166,316)	(74,682)	(166,316)	(74,682)
Increase (Decrease) in sundry creditors and accruals		(156,840)	475,962	(156,840)	475,962
Increase (Decrease) in other current liabilities		27,334	(34,672)	27,332	(34,673)
Net cash from operating activities		<b>4,143,546</b>	<b>(2,284,738)</b>	<b>5,086,885</b>	<b>(1,005,818)</b>
<b>Disclosure of financing facilities</b>					
Refer to note 19.					
<b>9 TRADE AND OTHER RECEIVABLES</b>					
<i>Current</i>					
Trade receivables (i)		3,517,083	1,171,605	3,517,083	1,171,605
Sundry receivables		49,192	27,840	49,192	27,840
		<b>3,566,275</b>	<b>1,199,445</b>	<b>3,566,275</b>	<b>1,199,445</b>
(i) Trade receivables are non-interest bearing and are generally on 30 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired.					
<i>Non Current</i>					
Related party receivables (ii)					
Controlled entities		-	-	5,627,447	4,444,204
Allowance for doubtful debts		-	-	(4,981,991)	(3,754,784)
		-	-	<b>645,456</b>	<b>689,420</b>
(ii) For terms and conditions relating to related party receivables refer to note 21. The related party trade receivable is not included in the trade receivable balance above. It is disclosed as a intercompany amount on the balance sheet.					
Hedging foreign currency receivable (iii)					
Current	18,19	473,580	674,237	473,580	674,237
Non current	18,19	61,812	138,963	61,812	138,963

(iii) Hedging foreign currency receivable represents the fair value of the derivative from foreign exchange forward contracts. Under the contracts, the Company has agreed to sell US\$ 7,342,330 over the next 35 months at an average rate of US\$ 0.7018 (2005: US\$ 3,337,410 at US\$ 0.6435).



**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

	<u>Consolidated</u>		<u>Ausmelt Limited</u>	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>10 INVENTORIES</b>				
Work-in-progress (at net realisable value)	2,101,852	3,184,601	2,101,852	3,184,601
Raw materials (at cost)	74,216	90,417	74,216	90,417
Finished goods (at cost)	234,060	62,935	234,060	62,935
	<b>2,410,128</b>	<b>3,337,953</b>	<b>2,410,128</b>	<b>3,337,953</b>

**11 INVESTMENTS**

*Shares in controlled entities at cost - Unlisted (i)*

- Ausmelt Chemicals Pty Ltd	-	-	2	2
- Ausiron Development Corporation Pty Ltd	-	-	2	2
- Ausmelt Equity Ventures Pty Ltd	-	-	2	2
	-	-	<b>6</b>	<b>6</b>

*Available for sale investments*

- SASE Pty Ltd	147,761	147,761	147,761	147,761
	<b>147,761</b>	<b>147,761</b>	<b>147,767</b>	<b>147,767</b>

(i) Controlled entities

**Ausmelt Equity Ventures Pty Ltd**

Principal Activity: Investing in production opportunities using Ausmelt technology  
Country of Incorporation: Australia

100% 100%

**Ausmelt Chemicals Pty Ltd**

Principal Activity: Supplier of hydroxamates and derivatives to the flotation industry.  
Country of Incorporation: Australia

100% 100%

**Ausiron Development Corporation Pty Ltd**

Principal Activity: Commercialisation of Ausiron technology  
Country of Incorporation: Australia

100% 100%

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

	<b>Consolidated</b>		<b>Ausmelt Limited</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>12 PROPERTY, PLANT AND EQUIPMENT</b>				
Plant & equipment - at cost	2,085,642	2,349,215	1,156,322	1,464,409
Less accumulated depreciation	1,370,262	1,597,056	1,086,396	1,401,671
	<b>715,380</b>	<b>752,159</b>	<b>69,926</b>	<b>62,738</b>
Office equipment - at cost	771,276	687,302	771,276	687,302
Less accumulated depreciation	568,161	485,715	568,161	485,715
	<b>203,115</b>	<b>201,587</b>	<b>203,115</b>	<b>201,587</b>
Laboratory equipment - at cost	75,488	74,078	75,488	74,078
Less accumulated depreciation	73,740	70,495	73,740	70,495
	<b>1,748</b>	<b>3,583</b>	<b>1,748</b>	<b>3,583</b>
Leasehold improvements - at cost	43,642	18,290	43,642	18,290
Less accumulated depreciation	18,942	8,892	18,942	8,892
	<b>24,700</b>	<b>9,398</b>	<b>24,700</b>	<b>9,398</b>
Total property, plant and equipment - at cost	2,976,048	3,128,885	2,046,728	2,244,079
Total accumulated depreciation	2,031,105	2,162,158	1,747,239	1,966,773
Total written down amount	<b>944,943</b>	<b>966,727</b>	<b>299,489</b>	<b>277,306</b>
<b>Reconciliations of carrying amounts</b>				
<b>Plant and equipment</b>				
Carrying amount at beginning	752,159	831,650	62,738	53,750
Additions	72,026	25,245	27,513	25,244
Retirement of equipment	(335,601)	(76,291)	(335,601)	(76,291)
Depreciation added back for retirements	335,601	76,291	335,601	76,291
Depreciation expense	(108,805)	(104,736)	(20,325)	(16,256)
Balance at end of year	<b>715,380</b>	<b>752,159</b>	<b>69,926</b>	<b>62,738</b>
<b>Office equipment</b>				
Carrying amount at beginning	201,587	110,604	201,587	110,604
Additions	85,918	157,132	85,918	157,132
Retirement of equipment	(1,944)	(123,092)	(1,944)	(123,092)
Depreciation added back for retirements	1,944	123,092	1,944	123,092
Depreciation expense	(84,390)	(66,149)	(84,390)	(66,149)
Balance at end of year	<b>203,115</b>	<b>201,587</b>	<b>203,115</b>	<b>201,587</b>
<b>Laboratory equipment</b>				
Carrying amount at beginning	3,583	7,253	3,583	7,253
Additions	1,410	-	1,410	-
Retirement of equipment	-	(13,792)	-	(13,792)
Depreciation added back for retirements	-	13,792	-	13,792
Depreciation expense	(3,245)	(3,670)	(3,245)	(3,670)
Balance at end of year	<b>1,748</b>	<b>3,583</b>	<b>1,748</b>	<b>3,583</b>
<b>Leasehold Improvements</b>				
Carrying amount at beginning	9,398	12,551	9,398	12,551
Additions	25,352	4,904	25,352	4,904
Disposals	-	-	-	-
Recoverable amount write down	-	-	-	-
Depreciation expense	(10,050)	(8,057)	(10,050)	(8,057)
Balance at end of year	<b>24,700</b>	<b>9,398</b>	<b>24,700</b>	<b>9,398</b>

*Impairment of property, plant and equipment*

No impairment exists on property, plant or equipment. All equipment retired during the period had a written down value of \$Nil.

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

	<b>Consolidated</b>		<b>Ausmelt Limited</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>13 INTANGIBLES</b>				
<b>Patents</b>				
Patents at Cost	1,401,561	1,196,273	1,401,561	1,196,273
Less Accumulated Amortisation	572,241	494,648	572,241	494,648
	<b>829,320</b>	<b>701,625</b>	<b>829,320</b>	<b>701,625</b>
<b>Reconciliations of carrying amounts</b>				
<b>Patents at cost</b>				
Carrying amount at beginning	701,625	647,753	701,625	647,753
Additions	294,195	204,207	294,195	204,207
Retirement of patents	(88,907)	(327,478)	(88,907)	(327,478)
Amortisation added back for retirements	88,907	327,478	88,907	327,478
Amortisation expense	(166,500)	(150,335)	(166,500)	(150,335)
Balance at end of year	<b>829,320</b>	<b>701,625</b>	<b>829,320</b>	<b>701,625</b>
<b>Development expenditure</b>				
Project development costs at cost	-	1,664,888	-	1,664,888
Less Accumulated Amortisation	-	(1,664,888)	-	(1,664,888)
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Reconciliations of carrying amounts</b>				
<b>Development expenditure at cost</b>				
Carrying amount at beginning	-	1,664,888	-	1,664,888
Additions	-	-	-	-
Amortisation expense	-	(324,771)	-	(324,771)
Write down to net realisable value	-	(1,340,117)	-	(1,340,117)
Balance at end of year	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

All patents retired during the period had a written down value of \$Nil.

**14 TRADE AND OTHER PAYABLES (CURRENT)**

Trade payables (i)	183,120	349,432	183,120	349,432
Sundry payables (ii)	643,627	800,467	643,627	800,467
Other payables	78,814	51,481	78,814	51,481
	<b>905,561</b>	<b>1,201,380</b>	<b>905,561</b>	<b>1,201,380</b>

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms.

(ii) Sundry and other payables are non-interest bearing and have an average term of less than 12 months.

**15 PROVISIONS (CURRENT AND NON-CURRENT)**

Employee benefits - current	438,759	474,226	438,759	474,226
Employee benefits - non-current	424,881	350,163	424,881	350,163

**16 SHARE BASED PAYMENT PLANS****Employee Share Option Plan**

An employee share option plan has been established where Ausmelt Limited may, at the discretion of Directors, grant options over the ordinary shares of Ausmelt Limited to executives and certain members of staff of the consolidated entity. The options, issued for nil consideration, are granted in accordance with the Company's Employee Share Option Plan approved by shareholders. Options issued to Directors under the Plan, require prior shareholder approval. The options are generally issued for a term of 5 years and with vesting of 20% of options per annum becoming available to exercise from date of issue, or anniversary of appointment as Director or employee. The options cannot be transferred and will not be quoted on the ASX. There are currently five Directors, one alternate Director, eight executives, thirty-three staff and two consultants eligible for this plan. No options have been granted under the Employee Share Option Plan during the year ended 30 June 2006.

Information with respect to the number of options granted under the employee share option plan is as follows:

		<b>2006</b>		<b>2005</b>	
		<b>Number of options</b>	<b>Weighted average exercise price \$</b>	<b>Number of options</b>	<b>Weighted average exercise price \$</b>
Balance at beginning of year	16(a)	<b>1,412,000</b>	<b>1.10</b>	1,646,000	1.02
- granted	16(b)	-	-	-	-
- bonus issue		-	-	-	-
- forfeited		<b>(244,000)</b>	<b>1.07</b>	(114,000)	0.98
- exercised	16(c)	-	-	(120,000)	0.10
Balance at end of year	16(d)	<b>1,168,000</b>	<b>1.11</b>	1,412,000	1.10
Exercisable at end of year		<b>1,153,000</b>	<b>1.11</b>	1,189,600	1.08

**(a) Options held at the beginning of the reporting period:**

The following table summarises information about options held by employees and Directors as at 1 July 2005:

<b>Number of options</b>	<b>Grant date</b>	<b>Vesting period/date*</b>	<b>Expiry date</b>	<b>Weighted average exercise price \$</b>
75,000	31 December 2000	31 December 2000 – 15 November 2004	30 December 2005	0.70
300,000	30 November 2001	30 November 2001 – 19 February 2005	29 November 2006	0.80
862,000	26 April 2002	26 April 2002 – 26 April 2006	25 April 2007	1.23
75,000	9 September 2002	9 September 2002 – 9 September 2006	8 September 2007	0.99
100,000	2 December 2002	2 December 2002 – 23 April 2006	1 December 2007	1.23

**\*Note –** Employee options are generally issued with vesting of 20% of options per annum becoming available from date of issue, or anniversary of appointment as Director or employee.

## 16 SHARE BASED PAYMENT PLANS (continued)

### (b) Options granted

(i) There were no options granted by Ausmelt Limited to employees or Directors during the year ended 30 June 2006.

(ii) There were no options granted by Ausmelt Limited to employees or Directors during the year ended 30 June 2005.

### (c) Options exercised

(i) There were no options exercised by employees and Directors during the year ended 30 June 2006:

(ii) The following table summarises information about options exercised by employees and Directors during the year ended 30 June 2005:

Number of options	Grant date	Exercise date	Expiry date	Weighted average exercise price \$	Proceeds from shares issued \$	Number of shares issued	Issue date	Fair value of shares issued \$
120,000	3 December 1999	23 November 2004	23 November 2004	0.10	12,400	120,000	26 November 2004	0.44

Fair value of shares issued during the reporting period is estimated to be the market price of shares of Ausmelt Limited on the ASX as at close of trading on their respective issue dates.

### (d) Options held as at the end of the reporting period:

The following table summarises information about options held by the employees and Directors as at 30 June 2006:

Number of Options	Grant date	Vesting period/date	Expiry date	Weighted average exercise price \$
300,000	30 November 2001	30 November 2001 – 19 February 2005	29 November 2006	0.80
693,000	26 April 2002	26 April 2002 – 26 April 2006	25 April 2007	1.23
75,000	9 September 2002	9 September 2002 – 9 September 2006	8 September 2007	0.99
100,000	2 December 2002	2 December 2002 – 23 April 2006	1 December 2007	1.23

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

	<b>Consolidated</b>		<b>Ausmelt Limited</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**17 CONTRIBUTED EQUITY AND RESERVES**

**Issued and paid up capital**

Ordinary shares fully paid	10,454,529	10,454,529	10,454,529	10,454,529
----------------------------	------------	------------	------------	------------

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	<b>Consolidated and Chief Entity</b>			
	<b>2006</b>		<b>2005</b>	
<b>Movements in shares on issue</b>	<b>No. of Shares</b>	<b>(\$)</b>	<b>No. of Shares</b>	<b>(\$)</b>
Issued and paid-up capital at beginning	39,656,824	10,454,529	39,536,824	10,442,129
Issued during year				
- Employee share option plan (i)	-	-	120,000	12,400
Issued and paid-up capital at end of financial year	<b>39,656,824</b>	<b>10,454,529</b>	<b>39,656,824</b>	<b>10,454,529</b>

(i) During the 2005 financial year 120,000 ordinary shares were issued following the exercising of options under the Employee Share Option Plan. These options were exercised at a price of 10.33 cents each. The increase in paid up capital arising from the exercise of these options was \$12,400.

**Share options**

Options over ordinary shares:

*Employee share option plan*

At the end of the financial year there were 1,168,000 outstanding share options (2005: 1,412,000 ).

**Terms and conditions of contributed equity**

*Ordinary shares*

Ordinary shareholders have the right to receive dividends as declared and in the event of the winding up the Company, to participate in the proceeds from the sale of all remaining assets after liabilities have been satisfied, in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote per share, either in person or by proxy, at a meeting of the Company.

	<b>Consolidated</b>		<b>Ausmelt Limited</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Retained earnings</b>				
Retained profits at beginning	(3,715,321)	743,075	(3,715,320)	744,506
Net profit / (loss) attributable to members of Ausmelt Limited	2,842,833	(3,667,660)	2,842,833	(3,669,090)
<b>Total available for appropriation</b>	<b>(872,488)</b>	<b>(2,924,585)</b>	<b>(872,487)</b>	<b>(2,924,584)</b>
Dividends provided for or paid	-	(790,736)	-	(790,736)
Rounding adjustment	(1)			
<b>Balance at end of year</b>	<b>(872,489)</b>	<b>(3,715,321)</b>	<b>(872,487)</b>	<b>(3,715,320)</b>

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

	<u>Consolidated</u>		<u>Ausmelt Limited</u>	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>17 CONTRIBUTED EQUITY AND RESERVES (continued)</b>				
<b>Reserves</b>				
Reserves at beginning	-	-	-	-
Application of AASB 132 and AASB 139 at 1 July 2005	569,240	-	569,240	-
Net loss on cash flow hedges during the period	(277,809)	-	(277,809)	-
Tax effect of net loss on cash flow hedges	83,343	-	83,343	-
	<b>374,774</b>	<b>-</b>	<b>374,774</b>	<b>-</b>

**18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments, other than derivatives, comprise a bank overdraft, cash and short-term deposits.

The main purpose of these financial instruments is to ensure adequate funding for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group also enters into derivative transactions relating to forward currency contracts. The purpose of these derivative transactions is to manage the currency risks arising from the Group's operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risk arising from the Group's financial instruments is foreign currency risk. The Board reviews and agrees policies for managing this risk and this is summarised below. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

**Foreign currency risk**

As a result of the Group's cash flows being mainly derived from foreign sources, from time to time contracted payments are denominated in foreign currency. In order to manage the Group's currency exposure the Group will endeavour to only enter contracts in Australian Dollars, US Dollars, Euros or Pounds Sterling.

The Group's foreign exchange risk management policy aims to protect the Australian dollar cash receipts or payments negotiated and specified in the Company's contracts, thereby stabilising the Company's cash flows. This ensures cash flows are positive throughout the life of a contract and contract margins are maintained. Where the foreign exchange exposure does not relate to a specific contract, the Company will protect the single payment or receipt so the exchange rate exposure is negated.

It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

It is the Group's policy that where a contract specifies receipt of funds in a foreign currency, hedge contracts to sell that foreign currency for Australian dollars, must be entered into to protect the contract margins. Forward contracts should endeavour to cover 100% of foreign exchange exposure with at least 95% covered at any point in time. At 30 June 2006, the Group had hedged 100% of its foreign currency sales for which firm commitments existed at the balance sheet date, extending to May 2009.

**19 FINANCIAL INSTRUMENTS**

**Hedging activities**

*Cash flow hedges*

At 30 June 2006, the Group held twenty four forward exchange contracts related to three customer contracts. These three customer contracts are denominated in United States Dollars and are with clients in Russia and China. The foreign currency contracts are being used to hedge the foreign currency risk of contracted future sales receipts.

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

**19 FINANCIAL INSTRUMENTS (continued)**

*Cash flow hedges (continued)*

These cash flow hedges are assessed to be highly effective. Unrealised gains and related deferred tax charges shown in equity are reflected in the table below:

Value Date	USD Sold	Forward Rate	AUD Purchased	Unrealised Gain	Deferred Tax	Total After Tax
30-Jun-06	160,000	0.6319	253,205	36,901	11,070	25,830
31-Aug-06	158,700	0.6269	253,150	38,604	11,581	27,023
29-Sep-06	100,000	0.6247	160,077	24,887	7,466	17,421
29-Sep-06	225,000	0.6257	359,597	55,420	16,626	38,794
30-Nov-06	790,000	0.6285	1,256,961	188,960	56,688	132,272
30-Nov-06	293,000	0.6277	466,783	70,677	21,203	49,474
31-Jul-06	515,220	0.7125	723,116	26,590	7,977	18,613
31-Oct-06	644,025	0.7119	904,657	34,000	10,200	23,800
28-Feb-07	644,025	0.7110	905,802	35,145	10,543	24,601
31-May-07	115,800	0.7065	163,907	7,357	2,207	5,150
28-Sep-07	73,900	0.7102	104,055	4,150	1,245	2,905
30-Apr-08	517,300	0.7090	729,619	30,282	9,084	21,197
30-May-08	38,600	0.7062	54,659	2,475	743	1,733
30-Jun-08	154,400	0.7058	218,759	10,026	3,008	7,018
29-Aug-08	110,850	0.7050	157,234	7,376	2,213	5,163
24-Mar-09	333,160	0.7023	474,384	23,985	7,196	16,790
20-Jul-06	331,650	0.7577	437,706	(10,651)	(3,195)	(7,456)
20-Oct-06	552,750	0.7569	730,281	(16,981)	(5,094)	(11,887)
15-Feb-07	552,750	0.7556	731,538	(15,725)	(4,717)	(11,007)
28-Mar-07	58,900	0.7549	78,024	(1,603)	(481)	(1,122)
15-Aug-07	441,750	0.7532	586,498	(10,704)	(3,211)	(7,493)
15-May-08	221,100	0.7483	295,470	(3,435)	(1,031)	(2,405)
20-Jun-08	58,900	0.7480	78,743	(884)	(265)	(618)
20-May-09	250,550	0.7429	337,259	(1,459)	(438)	(1,021)
<b>Total</b>				535,392	160,618	374,774



**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

**19 FINANCIAL INSTRUMENTS (continued)**

**Interest rate risk**

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk. All financial instruments are held by Ausmelt Limited.

Year ended 30 June 2006	<1 year \$	>1-<2 years \$	>2-<3 years \$	>3-<4 years \$	>4-<5 years \$	>5 years \$	Total \$	Weighted average effective interest rate %
<b>AUSMELT LIMITED</b>								
FINANCIAL ASSETS								
<i>Floating Rate</i>								
Cash assets	4,643,755						4,643,755	4.5%
Short term deposit	150,000						150,000	4.5%
<i>Weighted average effective interest rate</i>	4.5%							

Year ended 30 June 2005	<1 year \$	>1-<2 years \$	>2-<3 years \$	>3-<4 years \$	>4-<5 years \$	>5 years \$	Total \$	Weighted average effective interest rate %
<b>AUSMELT LIMITED</b>								
FINANCIAL ASSETS								
<i>Floating Rate</i>								
Cash assets	979,111						979,111	3.4%
Short term deposit	150,000						150,000	5.3%
<i>Weighted average effective interest rate</i>	3.7%							

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

	<b>Consolidated</b>		<b>Ausmelt Limited</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**20 COMMITMENTS AND CONTINGENCIES**

**Operating lease commitments**

The Group has a commercial lease on laboratory equipment and premises at 12 Kitchen Road, Dandenong. These leases have an average life of 2 to 10 years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

Within one year	231,792	300,000	231,792	300,000
After one year but no more than five years	903,091	-	903,091	-
More than five years	11,480	-	11,480	-
	<b>1,146,363</b>	<b>300,000</b>	<b>1,146,363</b>	<b>300,000</b>

**Finance lease commitments**

The Group has not entered into any finance lease arrangements during the year and there were no finance lease commitments outstanding at balance date.

**Capital commitments**

There are no capital expenditure commitments at balance date.

**Legal claim**

PT Krakatau Steel (PTKS) of Indonesia has commenced legal proceedings against Felix Resources, SASE Pty Ltd and Ausmelt Limited in respect of the asserted entitlement for PTKS to take iron ore or coal from SASE tenements as recompense for its US\$2.5 million investment in SASE Pty Ltd. On a broad assessment, Ausmelt has minimal exposure to any potential liability, and the matter is being co-ordinated by Felix Resources, the 90% shareholder and manager of SASE Pty Ltd. It is not practical to estimate the potential effect of this claim but legal advice at the date of this report indicates that even if a liability may arise in the unlikely event that the claim is successful, it will not be material.

**Tax show cause notice**

On 30 June 2006, Ausmelt received two "Show Cause Notices" from the High Commission of India. The two separate claims relate to Ausmelt's contracts with Birla Copper and Hindustan Zinc Limited. The claims are for payment of unpaid "service tax" that is levied at a rate of 5% in early 2003, increasing to 8% later in 2003 and 10% in 2004.

The documentation provided in the "Show Cause Notices" indicates that service tax is payable in the case of provision of "any service provided to a client, by a consulting engineer in relation to advice, consultancy or technical assistance in any manner in one or more disciplines of engineering".

Ausmelt has obtained preliminary advice that indicates that the services provided by Ausmelt under these contracts could be deemed to be services rendered from outside of India and therefore not be subject to Service Tax. Also, both contracts referred to in the "Show Cause Notices" with Hindustan Zinc Limited and Indo Gulf Corporation Limited (Birla Copper) contractually require the Indian client companies to take full and total responsibility for the payment of all taxes, charges, duties or levies of any kind whatsoever which are payable within India and accordingly no provision for any liability has been recognised in these financial statements.

**Contractual liabilities**

Each of the major technology contracts executed by the Company contains a set of plant performance criteria designed to ensure that the plant, to be constructed by the client using the Company's technology, will meet agreed technical and production targets. All of the major contracts contain penalty clauses that would give rise to financial obligations or a reduction in contract revenue for the Company in the event that the contract plant was not to comply with these plant performance criteria, due to fault in Ausmelt technology or design. The Company recognises these potential liabilities in its accounts when it becomes probable that a liability will be realised.

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to and forming part of the Financial Statements**  
For The Year Ended 30 June 2006

---

**21 RELATED PARTY TRANSACTIONS**

The consolidated financial statements include the financial statements of Ausmelt Limited and the subsidiaries listed in the following table.

Name	Country of incorporation	% Equity interest		Investment (\$)	
		2006	2005	2006	2005
Ausmelt Chemicals Pty Ltd	Australia	100	100	2	2
Ausiron Development Corporation Pty Ltd	Australia	100	100	2	2
Ausmelt Equity Ventures Pty Ltd	Australia	100	100	2	2
				<u>6</u>	<u>6</u>

Ausmelt Limited is the ultimate parent entity of this group.

During the period Ausmelt Limited provided services to Ausiron Development Corporation Pty. Ltd. amounting to \$943,341 (2005:1,274,569).

Ausmelt Limited advances funds to wholly owned controlled entities. There is no interest charged on these advances and repayment is not required. The balances outstanding at the year ended 30 June 2006 are Ausiron Development Corporation Pty. Ltd. \$645,456 (2005:\$ 689,420) and Ausmelt Equity Ventures Pty. Ltd. \$1,296,314 (2005: \$1,296,314). For information regarding outstanding balances at year end, refer to note 9.

**Remuneration disclosures**

The Company has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their annual financial reports by Accounting Standard AASB 124 Related Party Disclosures. These remuneration disclosures are provided in the 'Remuneration Report' section of the Directors' Report designated as audited.

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

	<u>Consolidated</u>		<u>Ausmelt Limited</u>	
	2006	2005	2006	2005
	\$	\$	\$	\$

**22 EVENTS AFTER THE BALANCE SHEET DATE**

On the 24 July 2006, Ausmelt Limited signed a basic design services contract and a technology licence agreement with a Russian client. On the 9 August 2006, Ausmelt Limited signed a design and supply contract and a technology licencing agreement with Yunnan Tin Corporation Limited for a 100,000 tonne per annum lead smelting project.

On the 25th August 2006, the Board of Director's of Ausmelt Limited declared a final unfranked dividend of 2 cents per share.

**23 AUDITORS REMUNERATION**

Amounts received or due and receivable by chief  
entity auditors for:

- an audit or review of the financial report of the entity and any other entity within the consolidated entity	70,000	52,000	70,000	52,000
- other services in relation to the entity and any other entity in the consolidated group				
- tax compliance	32,680	41,800	32,680	41,800
	<u>102,680</u>	<u>93,800</u>	<u>102,680</u>	<u>93,800</u>

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

**24 DIRECTOR AND EXECUTIVE DISCLOSURES**

**Details of Directors and Named Executives**

**Directors**

A C Larkin Chairman (Non-Executive)  
J M Floyd Deputy Chairman (Non-Executive)  
P V Abbott Managing Director  
C M Adam Director (Non-Executive) - appointed 1 July 2005  
G F Lord Director (Non-Executive)  
A R Collins Alternate Director (Non-Executive)  
J O Reynolds Alternate Director (Non-Executive) - retired 30 June 2006

**Named Executives**

B R Baldock Process Technology Manager  
B I Brander Engineering Manager - appointed 10 April 2006  
G R Davies Projects Manager - appointed 1 March 2006  
F G H Fogarty Company Secretary, Commercial Manager  
G A Johnson Engineering Manager - resigned 31 January 2006  
R W Matuszewicz Technical Development Manager  
J R McLean General Manager, Chemicals  
W K Pennell Finance & Administration Manager  
D M Sherrington Auslron Manager  
J Sofra Business Development Manager - resigned 19 May 2006

**Compensation by Category: Prescribed Persons**

	<u>Consolidated</u>		<u>Ausmelt Limited</u>	
	2006	2005	2006	2005
	\$	\$	\$	\$
Short-term	1,849,304	1,600,660	1,849,304	1,600,660
Post Employment	188,068	144,452	188,068	144,452
Termination Benefits	-	-	-	-
Share-based Payment	-	-	-	-
Other Long-Term	-	-	-	-
	<u>2,037,372</u>	<u>1,745,112</u>	<u>2,037,372</u>	<u>1,745,112</u>

**Loans to Prescribed Persons**

No loans were provided to Directors or named executives for either the 2005 or 2006 financial years.

**Other transactions and balances with Prescribed Persons**

There were no other transactions with Prescribed Persons or their related parties for either the 2005 or 2006 financial years.

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to the Financial Statements (continued)**

For The Year Ended 30 June 2006

---

**25 TRANSITION TO AIFRS**

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first set of annual financial statements the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 *First-time adoption of AIFRS*.

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

*Exemptions applied*

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Group has taken the following exemptions:

- Comparative information for financial instruments is prepared in accordance with AGAAP and the Company and Group have adopted AASB 132: Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005.
- AASB 3 Business Combinations has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before 1 July 2004.
- Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 July 2004.
- AASB 2 Share-based Payment has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005.

*Explanation of material adjustments to the cash flow statement*

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to and forming part of the Financial Statements**

For The Year Ended 30 June 2006

**25 TRANSITION TO AIFRS (continued)**

**Reconciliation of total equity as presented under AGAAP to that under AIFRS  
as at 1 July 2004 and 30 June 2005**

	<u>Consolidated</u> <u>1 July 2004</u>	<u>Ausmelt Limited</u> <u>1 July 2004</u>	<u>Consolidated</u> <u>30 June 2005</u>	<u>Ausmelt Limited</u> <u>30 June 2005</u>
	\$	\$	\$	\$
Total equity under AGAAP	11,918,949	11,920,382	6,881,591	6,881,592
<i>Adjustments to equity:</i>				
Derecognition of deferred research costs (A)	(933,280)	(933,280)	-	-
Recognition of depreciation on plant under care and maintenance (B)	(106,905)	-	(195,385)	(195,385)
Tax effect of above adjustment (A)	279,982	279,982	-	-
Tax effect of above adjustment (B)	26,458	-	53,002	53,002
Total equity under AIFRS	11,185,204	11,267,084	6,739,208	6,739,209

(A) Under AASB 138 Intangible Assets, costs incurred in the research phase of the development of an internally generated intangible asset would be expensed. Under AGAAP the Company's accounting policy allowed for the capitalisation of such costs where future benefits are expected beyond reasonable doubt.

(B) Under AASB 116 Property, Plant and Equipment the Company would be required to depreciate plant under care and maintenance. Under AGAAP such depreciation is not required.

(C) The tax effect of the adjustments above (note (A) and (B)) led to a decrease in deferred tax liability. The total change in deferred tax liability is as follows:

	<u>Consolidated</u> <u>1 July 2004</u>	<u>Ausmelt Limited</u> <u>1 July 2004</u>	<u>Consolidated</u> <u>30 June 2005</u>	<u>Ausmelt Limited</u> <u>30 June 2005</u>
	\$	\$	\$	\$
Tax effect of the above adjustments - note (A)	279,982	279,982	-	-
Tax effect of the above adjustments - note (B)	26,458	-	53,002	53,002
Decrease in deferred tax liability	306,440	279,982	53,002	53,002

**Reconciliation of profit after tax under AGAAP to that under AIFRS  
For the year ended 30 June 2005**

	<u>Consolidated</u> <u>30 June 2005</u>	<u>Ausmelt Limited</u> <u>30 June 2005</u>
	\$	\$
Profit after tax as previously reported under AGAAP	(4,259,019)	(4,260,449)
Write-back of deferred research costs derecognised at transition date for AIFRS purposes (A)	933,280	933,280
Recognition of depreciation on plant under care and maintenance (B)	(88,481)	(88,481)
Tax effect of (A) and (B)	(253,440)	(253,440)
Profit after tax under AIFRS	(3,667,660)	(3,669,090)

(A) Under AASB 138 Intangible Assets costs incurred in the research phase of the development of an internally generated intangible asset would be expensed. At transition date under AIFRS \$933,280 of research costs were expensed, as disclosed above. Under AGAAP for the year ended 30 June 2005 all of the deferred development costs, including the \$933,280 of research costs have been written off, therefore a write back is required to reflect AIFRS net profit.

(B) Under AASB 116 Property, Plant and Equipment the Company would be required to depreciate plant under care and maintenance that under existing Australian Accounting Standards does not require depreciation.

**Ausmelt Limited**  
**A.B.N. 72 005 884 355**

**Notes to and forming part of the Financial Statements**

For The Year Ended 30 June 2006

**25 TRANSITION TO AIFRS (continued)**

Impact on restated balances on adoption of AASB 132 and AASB 139 as at 1 July 2005

	Consolidated and Ausmelt Limited 30 June 2005 \$	Adjustment \$	Consolidated and Ausmelt Limited 1 July 2005 \$
<i>Impacted items - Cash flow hedges</i>			
<b>Non-current Assets</b>			
Net deferred tax assets	-	(243,960)	(243,960)
<b>Current Liabilities</b>			
Foreign exchange contract gain	674,238	(674,238)	-
<b>Non-current Liabilities</b>			
Foreign exchange contract gain	138,963	(138,963)	-
<b>EQUITY</b>			
Reserves	-	569,241	569,241
		-	



## **DIRECTORS DECLARATION**

**Ausmelt Limited A.B.N. 72 005 884 355**  
**And Controlled Entities**

---

In accordance with a resolution of the Directors of Ausmelt Limited, I state that:

- (1) In the opinion of the Directors:
- (a) the financial report and the additional disclosures included in the director's report designated as audited, of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
    - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.

On behalf of the Board



A C Larkin  
Chairman  
Melbourne, 25 August 2006

## Independent audit report to members of Ausmelt Limited

### Scope

#### *The financial report, remuneration disclosures and directors' responsibility*

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Ausmelt Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 6 to 13 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

#### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the remuneration disclosures; and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

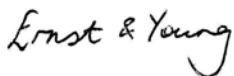
### Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### Audit opinion

In our opinion:

1. the financial report of Ausmelt Limited is in accordance with:
  - (a) the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the financial position of Ausmelt Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
    - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
  - (b) other mandatory financial reporting requirements in Australia.
2. the remuneration disclosures that are contained on pages 6 to 13 of the Directors' Report comply with Accounting Standard AASB 124 *Related Party Disclosures*.



Ernst & Young



R C Piltz  
Partner  
Melbourne  
25 August 2006

# **Appendix 4E**

## **Preliminary Final Report**

**Ausmelt Limited – ABN 72 005 884 355**

**For the Financial Year Ended 30 June 2006**

### **Results for announcement to the market**

Ausmelt today announced a consolidated economic entity profit after tax for the financial year to June 30, 2006 of \$2,842,833. This profit was earned entirely from operations and is the Company's highest-ever operating result after tax. It compares to a loss of \$3,667,660 (up 177.5%) in the previous year as adjusted under the new Australian equivalents to International Reporting Standard (AIFRS).

The pre-tax profit for the latest year was \$3.12 million (up 179.6%) compared with a loss of \$3.91 million in 2004-05. The Company was able to benefit from accumulated losses from prior years to reduce the amount of tax payable on the profit.

Revenues for the period increased to \$13.73 million (up 44.9%) from \$9.47 million in 2005.

The much improved result is due to a very strong performance by the Company's core non-ferrous business which contributed a profit before tax and unallocated expenses of \$7.29 million compared with \$2.00 million in the previous year. The strong performance by the nonferrous business was due partly to continuing revenues from projects won in previous periods and to early revenues from a number of the new projects won during the past financial year.

Ausmelt has won two more significant non-ferrous smelting contracts since balance date and the outlook for the Company's 2006-2007 financial performance is promising.

The Directors have declared an unfranked final dividend of 2 cents a share for the 2005-2006 financial year with a record date of 31 October 2006 and a payment date of 15 November 2006. No dividends were paid during the year.

### **Statement of financial performance**

Refer Financial Statements

### **Statement of financial position**

Refer Financial Statements

### **Statement of cash flows**

Refer Financial Statements

## **Details of individual and total dividends or distributions and dividend or distribution payments**

Refer Financial Statements

## **A statement of retained earnings showing movements**

Refer Financial Statements

## **Net tangible assets per security with the comparative figure for the previous corresponding period.**

The net tangible asset backing per ordinary security as at 30<sup>th</sup> June 2006 was 23.02 cents, compared with 15.22 cents for the previous corresponding period.

## **Details of entities over which control has been gained or lost during the period.**

Not applicable.

## **Details of associates and joint venture entities.**

Not applicable.

## **Any other significant information needed by an investor to make an informed assessment of the entity's performance and financial position.**

Refer Directors Report.

## **For foreign entities, which set of accounting standards is used in compiling the report.**

Not applicable.

## **A commentary on the results for the period**

### **1. The earnings per security and the nature of any dilution aspects.**

The basic earning per share and the equivalent diluted earning per share for the year under review were 7.2 cents. This is in comparison to a basic earning per share for 2004-2005 of a loss of 9.26 cents and a diluted earning per share of a loss of 9.24 cents. The weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS was 39,656,824 with no dilutive effect. This compares to the previous year of 39,609,153 shares used in the calculation of basic EPS with a dilutive effect of an additional 67,890 shares.

### **2. Returns to shareholders including distributions and buy backs.**

The Directors have declared an unfranked final dividend of 2 cents a share for the 2005-2006 financial year with a record date of 31 October 2006 and a payment date of 15 November 2006. No dividends were paid during the year.

### **3. Significant features of operating performance**

Refer Directors Report

**4. The results of segments that are significant to an understanding of the business as a whole**

Refer Financial Statements

**5. Discussion of trends in performance**

Refer Directors Report

**6. Any other factors which have affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified.**

Refer Directors Report

**A statement as to whether the report is based on accounts which have been audited or subject to review, are in the process of being audited or review, or have not yet been audited or reviewed.**

The accounts provided above have been audited. The audit declaration is attached.