



## **Electrometals Technologies Limited**

**ABN 25 000 751 093**

### **Prospectus**

#### **Underwritten Shareholder Offer**

A fully underwritten non-renounceable pro rata entitlement offer to Eligible Shareholders of one New Share for every one Share held at the Record Date, at an Offer Price of 1.8 cents per New Share

#### **Underwritten Optionholder Offer**

A fully underwritten non-renounceable pro rata entitlement offer to Eligible Optionholders of one New Share for every one Participating Option held at the Record Date, at an Offer Price of 1.8 cents per New Share

**If you are an Eligible Shareholder or Eligible Optionholder, this is an important document that requires your immediate attention. It should be read in its entirety. If, after reading this Prospectus, you have any questions about the securities being offered under this Prospectus, you should contact your stockbroker, accountant or other professional adviser.**

**An investment in New Shares offered under this Prospectus should be considered as speculative.**

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### Key Offer Details

Offer Price	1.8 cents per New Share payable in full on acceptance
Number of New Shares to be issued under the Offers	237,613,156
Eligible Shareholders' entitlement	One New Share for each Share held on the Record Date
Eligible Optionholders' entitlement	One New Share for each Participating Option held on the Record Date
Amount to be raised under the Offers (before costs)	\$4,277,037
Discount of the Offer Price to the closing offer price on ASX on 25 February 2011 of 3.0 cents	40%
Discount of the Offer Price to the closing bid price on ASX on 25 February 2011 of 2.0 cents	10%
Discount to the volume weighted average price of all trades on ASX from 1 November 2010 to 25 February 2011 of 2.82 cents	36%

### Important Dates

Lodgement of Prospectus with ASIC and announcement of Offers	28 February 2011
Record Date	7.00pm (Sydney time) 9 March 2011
Opening Date	16 March 2011
Closing Date – last date for acceptance and payment in full	5.00pm (Sydney time) 1 April 2011
Allotment and issue of New Shares	7 April 2011
Despatch date of holding statements	8 April 2011
Normal trading of New Shares	11 April 2011

*The dates above and other dates referred to in this Prospectus (except the date of this Prospectus) are indicative only. Subject to the Listing Rules and the Corporations Act, the Company, with the consent of the Underwriter, reserves the right to change any date (including to extend the Closing Date of the Offers or to close the Offers early) without prior notice.*

### Important Notice

This Prospectus is dated 28 February 2011 and was lodged with ASIC on that date. Neither ASIC nor ASX takes any responsibility for the content of this Prospectus or the merits of the investment to which it relates. The Offers are made only to Eligible Shareholders and Eligible Optionholders with registered addresses in Australia, New Zealand and Italy on the Record Date, and only those Eligible Shareholders and Eligible Optionholders will be offered an Entitlement.

This Prospectus does not constitute an offer in any place in which or to persons to whom it would not be lawful to make such an offer. In particular, this Prospectus does not constitute an offer to Non-Participating Foreign Holders. No New Shares will be issued on the basis of this Prospectus after the expiry date, which is 13 months after the date of this Prospectus.

This is a Prospectus for an offer of continuously quoted securities (as defined in the Corporations Act) of the Company and has been prepared in accordance with section 713 of the Corporations Act. Accordingly, this Prospectus does not contain the same level of disclosure as an initial public offer prospectus.

No person is authorised to give any information or make any representation in connection with the Offers which is not contained in this Prospectus. Any information or representation not contained in this Prospectus may not be relied on as having been authorised by the Company, the Directors or the Underwriter.

You should read this Prospectus in its entirety before deciding to complete and lodge an Entitlement and Acceptance Form and, in particular, in considering the prospects of the Company, you should consider the risk factors that could affect the Company's financial performance. You should consider these factors in the light of your personal circumstances (including financial and taxation issues). The key risk factors that should be considered by potential investors are outlined in section 3 of this Prospectus. If you have any questions, you should seek professional advice from your stockbroker, accountant or other professional adviser before deciding to invest in New Shares.

## Offers at a glance

- **Underwritten Shareholder Offer**

A fully underwritten non-renounceable pro rata entitlement offer to Eligible Shareholders of one New Share for every one Share held at the Record Date, at an offer price of 1.8 cents per New Share.

Under the Shareholder Offer, 204,357,579 New Shares will be offered and it is expected that approximately \$3.7 million will be raised (before costs).

- **Underwritten Optionholder Offer**

A fully underwritten non-renounceable pro rata entitlement offer to Eligible Optionholders of one New Share for every one Participating Option held at the Record Date, at an offer price of 1.8 cents per New Share.

Under the Optionholder Offer, 33,255,577 New Shares will be offered and it is expected that approximately \$0.6 million will be raised (before costs).

- **Underwriter**

The Optionholder Offer and the Shareholder Offer (together called the **Offers**) are fully underwritten by the Company's largest shareholder, Waverton Holdings Limited (**Waverton** or the **Underwriter**).

- **Use of funds**

Net funds from the Offers, after expenses, are expected to be approximately \$4million. The Company's current plan is to use approximately \$1 million for working capital for its equipment sales business and approximately \$3 million to developing its DBOO (develop, build, own, operate) business.

- **Closing Date**

The Offers close at 5.00pm Sydney time on Friday 1 April 2011.

## Investment highlights

- Opportunity to participate in the Company's maturing endeavours to build a new business segment to Develop, Build, Own and Operate (DBOO) metal production projects using the EMEW® technology, based upon recent technical and financial studies.
- Opportunity to participate in the Company's plans to continue the EMEW® equipment sales business.

## Offer Price at discount to market

- The Offer Price of 1.8 cents represents:
  - A **40% discount** to the closing offer price on ASX on 25 February 2011 of 3 cents.
  - A **10% discount** to the closing bid price on ASX on 25 February 2011 of 2 cents.
  - A **36% discount** to the volume weighted average price of all trades on ASX from 1 November 2010 up to and including 25 February 2011 of 2.82 cents.

## **Risks**

- Risk factors that should be considered by Shareholders are outlined in section 3 of this Prospectus. These include minority shareholder risk, commercialisation risk, overseas customer risk, risk that the Company's new focus on develop, build, own and operate projects will not be successful, manufacturing risks, competition risk, expansion risk, funding risk, intellectual property risk, key personnel risk, product liability risk and Preference Share risk.
- You should consider these factors in the light of your personal circumstances (including financial and taxation issues). If you have any questions, you should seek professional advice from your stockbroker, accountant or other professional adviser before deciding to invest.

## Letter from Chairman and CEO

Dear Eligible Shareholders and Eligible Optionholders

On behalf of the Board of Electrometals Technologies Limited, I have pleasure in inviting you to participate in a capital raising through Offers to Eligible Shareholders and Eligible Optionholders. The Directors place great importance in Shareholders and Optionholders having the opportunity to participate in this capital raising.

The Company is seeking to raise \$4.3 million by making the Offers, which have both been fully underwritten by the Company's largest shareholder, Waverton Holdings Limited.

Since our last capital raising, 4 years ago in March 2007, Electrometals grew our business for just one year, 2007. That was our second year of profit after our maiden profit in 2006.

Unhappily, in 2008 we returned to making loses, after our sales suffered a downturn, coinciding with an increased expenditure related to our endeavours to grow our business internationally by:

- Expanding our international distribution capabilities
- Prospecting for investment opportunities to develop, build, own & operate our own EMEW® plants
- Improving our intellectual property and know-how, particularly for the expansion of EMEW® applications and the integration of companion technology to assist this process
- Making a strategic investment (51%) in Kurion Technologies Limited (**Kurion**) in the UK.

While progress was made in each of these objectives, the severe fall in metal prices, firstly nickel commencing in the second quarter, 2007 and then copper in the third quarter 2008, was co-incident with a decline in interest in EMEW® from some of our customers and potential customers.

To compensate, our management sought to reposition our equipment sales business by seeking out new customers, some in new geographic regions, as well as perfecting new applications for EMEW®. This led to some success, particularly:

- **(India sale)** The engineering, sale and manufacturing of a silver-copper leach and EMEW® plant in India to recover high grade silver and copper from impure silver rich ingots, a product of recycled jewellery.
- **(Technology improvement in copper recovery)** The development of process skills to recover copper metal from a complex recycled waste product in Mexico, where an EMEW® plant is now recovering copper metal, with plans for our customer to now recover cadmium and cobalt metal as additional metal products from this feed material. Substantial laboratory and pilot scale advances have been made to enable the recovery of the cadmium and cobalt but commercial production remains to be demonstrated.
- **(Technology improvement in tin recovery)** The process development, engineering and sale of an EMEW® plant to recover tin metal from spent industrial

solutions for a customer in the USA, the first EMEW® tin plant. This plant is to be commissioned in March-April, 2011.

- **(Chile sale)** The sale of an EMEW® plant to a customer in Chile, to recover high-grade copper metal cathode by treating the EW bleed stream from an SX-EW, heap leach copper operation, the first such application of an EMEW® plant.
- **(Pilot plant scale production)** The demonstration of laboratory and pilot plant scale production of copper and nickel metal from recycled industrial waste in the USA, the technical foundation for our future plans to establish DBOO (Develop, Build, Own, Operate) operations in the USA, presently under detailed feasibility study.

Despite these positive developments, any financial benefit from these fell short of our expectations, because of the shortfall in revenue related to a less than expected sales outcome, even though in the 4 years 2007-2010 inclusive, total revenue was just over \$30.5 million, primarily from equipment sales. This can be compared with total revenue for the preceding 4 years, 2003 to 2006 inclusive, of \$14.2 million. Included in the total revenue for the 2007-2010 period, is \$9.5 million from Kurion, which we since sold during 2010, after concluding that there was a divergence in the future aspirations of the remaining 49% shareholder of Kurion and Electrometals, about the future directions for the Kurion business.

Despite the lack of financial success during the last 4 years, Electrometals has made other progress which your directors believe is reason to recapitalise the Company again through this share issue with a plan to take advantage of the progress to improve the financial future of your Company.

The progress upon which we plan to grow the Company is:

- **(International focus)** A greater international technical process and sales capability, even though our first expansion was reversed, we now have modestly expanded the number of technical process and sales staff in North America and India. We plan to further expand this capability.
- **(Improved knowhow)** Improved know-how for our EMEW® applications particularly for extracting high quality EMEW® metal cathode from recyclable industrial waste, spent solutions, and recycled silver-rich materials, including the application of companion technology to pre-treat solutions to produce electrolytes, to be supplied to the EMEW® plants
- **(Experience)** A substantial database together with laboratory and pilot plant scale test “proof of concept” results, for the extraction of metals from metalliferous industrial waste generated by a wide variety of industries mainly in the USA. We have worked with a number of waste generating and waste collection/recycling companies and are now in a position to advance our DBOO opportunities, using the data and relationships which we have established.

It is our plan to establish a separate DBOO business group, located in the USA, which will have clear objectives, management and budgets with the aim to capitalise on the knowledge and expertise which has been developed during the last 4 years. Already, one senior engineer is employed full time on this project with two others engaged about half their time on DBOO work, while working the remainder of their time on equipment sales.

While I particularly feel responsible for the poor financial performance, I believe that we now have an opportunity to benefit financially from the perhaps not obvious progress which we have made, particularly now that the prices for copper, nickel and silver are all relatively high; three metals for which EMEW® is well suited.

I should point out also that a dispute with Molybdenum which ran from August 2007 consumed costs amounting to \$478,000 while responding to a claim for damages, lodged in the Queensland Supreme Court. Apart from this direct expenditure, there was substantial actual cost as a consequence of the executive time spent responding to this action as well as the cost of consequential lost opportunities. I am pleased to confirm that it was agreed in late 2010 that the legal actions were to be discontinued. The magnitude of the claim compared with the liquid assets of Electrometals made it imperative that the matter be resolved before a clear direction could be again mapped out for our Company.

Waverton Holdings Limited, the Company's largest shareholder, has agreed to underwrite the Offers. Waverton holds its relevant interest both in its own name and in the name of Equitas Nominees Pty Ltd. Further details are provided in section 1.3.

The details of the Offers and their effect on the Company are set out in this prospectus.

THE PARTICIPATING OPTIONS DO NOT NEED TO BE EXERCISED BEFORE ELIGIBLE OPTIONHOLDERS ARE ENTITLED TO EXERCISE THEIR ENTITLEMENTS UNDER THE OPTIONHOLDER OFFER.

The Offers are non-renounceable, which means that Entitlements may not be sold on ASX. Entitlements not taken up with respect to the Offers will lapse on the Closing Date and will form part of the shortfall and will be dealt with in accordance with the Underwriting Agreement.

On behalf of the Board, I look forward to your continuing support.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'R. E. Keever' with a horizontal line under the name.

**R. E. KEEVERS**  
**Chairman & CEO**  
**Electrometals Technologies Limited**

# 1 Details of the Offers

## 1.1 The Offers

Electrometals is making two separate fully underwritten offers of Shares:

- **Underwritten Shareholder Offer**

A fully underwritten non-renounceable pro rata entitlement offer to Eligible Shareholders of one New Share for every one Share held at the Record Date, at an offer price of 1.8 cents per New Share.

Under the Shareholder Offer, 204,357,579 New Shares will be offered and it is expected that approximately \$3.7m will be raised (before costs).

- **Underwritten Optionholder Offer**

A fully underwritten non-renounceable pro rata entitlement offer to Eligible Optionholders of one New Share for every one Participating Option held at the Record Date, at an offer price of 1.8 cents per New Share.

Under the Optionholder Offer, 33,255,577 New Shares will be offered and it is expected that approximately \$0.6 million will be raised (before costs).

The Shareholder Offer and the Optionholder Offer are together called the **Offers**. The Offers are fully underwritten by the Company's largest shareholder, Waverton Holdings Limited.

An Eligible Shareholder is person who, at the Record Date, is recorded on the Register as holding Shares, and who has a registered address in Australia, New Zealand or Italy.

An Eligible Optionholder is person who, at the Record Date, is recorded on the Register as holding Participating Options, and who has a registered address in Australia, New Zealand or Italy. Participating Options are options to subscribe for unissued Shares with an exercise price of \$0.14 and an expiry date of 18 April 2011 and which trade under the ASX code EMMO. The Optionholder Offer is being made pursuant to the terms and conditions of grant of the Participating Options.

Approximately \$4.3 million will be raised under the Offers, before costs. Fractional Entitlements to New Shares will be rounded down to the nearest whole number.

The Entitlement of each Eligible Shareholder and Eligible Optionholder under the Offers is shown on the personalised Entitlement and Acceptance Form accompanying this Prospectus. If you are an Eligible Shareholder or Eligible Optionholder and did not receive your personalised Entitlement and Acceptance Form, please call the Registry on 1300 552 270 or your stockbroker or professional adviser.

## 1.2 Offers are non-renounceable

The Offers are non-renounceable, which means that your Entitlement cannot be sold.

## 1.3 Offers are underwritten

Both the Shareholder Offer and the Optionholder Offer are fully underwritten by the Company's largest shareholder, Waverton Holdings Limited. Waverton holds its relevant interest both in its own name and in the name of Equitas Nominees Pty Ltd.

Waverton was one of the entities introduced by Mr Greg Melgaard, a non-executive Director and Deputy Chairman, which made a strategically important investment in the Company in early 2005 and was also the underwriter for a rights issue to all shareholders in early 2007.

An ongoing condition of that investment in 2005 was that Mr Melgaard, or entities introduced by him, have the opportunity to underwrite any future fundraising, on arm's length terms. Waverton is owned and controlled by an independent trustee for various beneficiaries, including members of Mr Melgaard's family.

Any portion of the Shareholder Offer or Optionholder Offer that is not accepted will lapse and (subject to the Underwriting Agreement) the Underwriter will subscribe for the New Shares not accepted.

The terms and conditions of the underwriting, including termination rights, the potential effect on the control of the Company and the intentions of the Underwriter, if it acquired control, are summarised in section 5.3 of this Prospectus.

#### **1.4 How to accept the Offers**

If you are an Eligible Shareholder or Eligible Optionholder, an Entitlement and Acceptance Form accompanies this Prospectus.

Acceptance of your Entitlement may be for any number of New Shares, but must not exceed your Entitlement as shown on the Entitlement and Acceptance Form. If it does, your acceptance is deemed to be for your full Entitlement.

##### **To accept your Entitlement in full:**

- complete the Entitlement and Acceptance Form, filling in the details in the spaces provided;
- attach your cheque for the total amount indicated on the Entitlement and Acceptance Form; and
- use the addressed envelope enclosed with this Prospectus to post the relevant Entitlement and Acceptance Form with full payment to the Registry so it is received by the Closing Date, **5.00pm Sydney time Friday 1 April 2011.**

##### **To accept your Entitlement in part:**

- fill in the number of New Shares you wish to accept in the space provided on the Entitlement and Acceptance Form;
- attach your cheque for the total Subscription Monies (at 1.8 cents per New Share); and
- use the addressed envelope enclosed with this Prospectus to post the relevant Entitlement and Acceptance Form with full payment to the Registry so it is received by the Closing Date, **5.00pm Sydney time Friday 1 April 2011.**

Acceptances received after the Closing Date may not be accepted.

If you **do not wish to accept** all or part of your Entitlement, you do not have to do anything in respect of the Entitlement you are not accepting, and any Entitlement not taken up will automatically lapse. You will receive no payment for your lapsed Entitlement. You cannot sell or transfer your Entitlement to another person.

The Underwriter and the Company reserve the right to reject any Entitlement and Acceptance Form that is not correctly completed or that is received after the Closing Date.

### **1.5 Payment**

Use the enclosed envelope to post your completed Entitlement and Acceptance Form, accompanied by full payment in Australian currency by a cheque drawn on an Australian bank or bank draft, in each case payable to '**Electrometals Technologies Limited – Share Issue Account**' and crossed '**Not Negotiable**' to the following address:

Computershare Investor Services Pty Ltd  
17 Victoria Street  
WEST END QLD 4101

GPO Box 523  
BRISBANE QLD 4001

### **1.6 Subscription Monies**

The Company is entitled to retain any interest paid on Subscription Monies, whether or not allotment and issue of the New Shares takes place. If quotation of the New Shares is not granted by ASX within the time required by law, no New Shares will be allotted and Subscription Monies will be refunded to Eligible Shareholders or Eligible Optionholders without interest within the time prescribed under the Corporations Act.

### **1.7 Closing Date**

Your completed Entitlement and Acceptance Form and payment must reach the Registry no later than **5.00pm Sydney time Friday 1 April 2011**.

The Company reserves the right, subject to the Corporations Act, the Listing Rules and any requirements of ASX, and with consent of the Underwriter, to accept late Acceptances or to extend the Closing Date without prior notice. If the Closing Date is varied, subsequent dates may also be varied accordingly. Unless the Company decides to accept late Acceptances or extend the Closing Date, Acceptances received after 5.00pm Sydney time Friday 1 April 2011 may be rejected and Subscription Monies refunded without interest.

### **1.8 Brokerage, commission and stamp duty**

No brokerage, commission or stamp duty is payable by Eligible Shareholders or Eligible Optionholders under the Offers.

### **1.9 ASX quotation**

The Company will apply for the quotation of all New Shares on ASX within seven business days after the date of this Prospectus. If official quotation of the New Shares is not granted by ASX within three months after the date of this Prospectus (or any longer period permitted by law), the Offers will be cancelled and Subscription Monies will be returned (without interest) to Eligible Shareholders and Eligible Optionholders as soon as practicable.

### **1.10 Allotment of New Shares**

Allotment and issue of New Shares will only be made once the Subscription Monies (including any due from the Underwriter on a shortfall) have been received and ASX has granted permission for quotation of the New Shares.

If permission is granted, it is expected the New Shares will be allotted on Wednesday 6 April 2011 and holding statements for the New Shares will be despatched on that day. All New Shares will rank equally with the Shares already on issue.

It is the responsibility of Eligible Shareholders or Eligible Optionholders to determine their allocation prior to trading in the New Shares. Eligible Shareholders or Eligible Optionholders who sell New Shares before they receive their holding statement do so at their own risk.

### **1.11 Purpose of the Offers**

The purpose of the Offers is to raise funds to provide working capital for the Company both for the continuation of its EMEW® equipment sales business, and particularly for the development of its DBOO (Develop, Build, Own, Operate) business.

### **1.12 Use of funds**

Net funds from the Offers, after expenses of approximately \$365,000, are expected to be approximately \$4 million, of which the Company plans to allocate \$1 million to working capital for the equipment sales business and \$3 million to its DBOO business.

#### **Equipment sales business**

The equipment sales business is primarily the engineering, manufacture and sale of EMEW® electrowinning equipment. These functions are supported by process development, including laboratory scale and pilot plant scale test and demonstration work, usually for specific customers. In addition, there is an active program of engineering improvements. This business is managed from the Gold Coast, Queensland and Vancouver, Canada, with one representative based in Mumbai, India.

#### **DBOO business**

Electrometals has dedicated significant resources to the investigation of opportunities to develop its own metal production business, by using EMEW® technology, likely to be in conjunction with other companion technologies integrated into a metal production plant. These investigations have included technical and financial studies, as well as determining the business licence requirements to receive and treat the relevant waste materials. A prioritised list of target opportunities was drawn up from a publicly available environmental management data base, from which waste generators were contacted and relationships established, as the basis of securing feed stock for the proposed operation.

A location has been selected. The metals to be concentrated on will be copper, nickel, tin and silver.

The work completed to date indicates opportunities to treat various liquid and solid industrial waste, initially in North America, particularly the USA. Our engineers have advanced this work to the stage where successful test work has been completed at laboratory and pilot plant scale. Based upon this work, a scoping study has been completed for a project to be established in St Louis, Missouri, USA.

It is proposed that \$3 million be set aside to advance this DBOO business.

The scoping study indicated that the project has technical and financial merit, such that a feasibility study commenced in February 2011. Subject to the completion of this feasibility study, the Company's current intention is to finance the initial capital expenditure for the project from the \$3 million to be used for the DBOO business.

### 1.13 Effect of the Offers on the capital structure

#### Fully diluted share capital

The following table sets out the Company's current capital structure and its fully diluted capital structure immediately following the successful completion of the Offers, assuming that no options other than Participating Options are exercised or Preference Shares converted prior to the Record Date.

<b>Share capital</b>	<b>Shares</b>
Ordinary shares on issue at the date of this Prospectus	204,357,579
Preference Shares on issue at the date of this Prospectus	666,667
New Shares offered under the Shareholder Offer	204,357,579
New Shares offered under the Optionholder Offer	33,255,577
<b>Non-diluted share capital on completion of Offers</b>	<b>442,637,402</b>
Participating Options on issue at the date of this Prospectus	33,255,577
Unlisted options - see details below	3,270,000
<b>Fully diluted share capital on completion of Offers</b>	<b>479,162,979</b>

Electrometals' actual position on completion of the Offers may differ from the position illustrated in the pro-forma capital structure table above as there may be an occurrence of any event that enables the termination of the Underwriting Agreement. Those termination events are detailed in section 5.3 of this Prospectus.

#### Details of unlisted options

The Company has granted the following unlisted options. Options which have vested may be exercised before the Record Date:

<b>Code (total)</b>	<b>Exercise price (cents)</b>	<b>Number</b>	<b>Vesting date</b>	<b>Expiry date</b>
EMMAZ (1,000,000)	5	500,000	15.9.2007	30.5.2011
	5	500,000	15.9.2008	30.5.2011
EMMAW (600,000)	5	300,000	15.9.2007	15.9.2011
	5	300,000	15.9.2008	15.9.2012
EMMAI (1,670,000)	12	417,500	30.6.2008	31.8.2012
	12	417,500	30.6.2009	31.8.2012
	12	417,500	30.6.2010	31.8.2012
	12	417,500	30.6.2011	31.8.2012
		3,270,000		

### 1.14 Optionholders

Optionholders other than Eligible Optionholders will not be entitled to participate in the Offers unless they are entitled to exercise their existing options under the terms and conditions of grant and they do so prior to the Record Date and thereby participate in the Offers as a result of being a holder of Shares registered on the Register before the Record Date.

If all optionholders other than Eligible Optionholders whose options have vested (as noted in the table in paragraph 1.13) elect to exercise their options prior to the Record Date and participate in the Shareholder Offer, a further 2,852,500 New Shares may be issued under this Prospectus.

### 1.15 Preference Shareholders

Preference Shareholders will not be entitled to participate in the Offers unless they convert their Preference Shares prior to the Record Date and thereby participate in the Offers as a

result of being a holder of Shares registered on the Register before 7.00pm Sydney time on the Record Date.

If all Preference Shareholders convert all their Preference Shares prior to the Record Date and participate in the Offers, a further 666,667 New Shares may be issued under this Prospectus.

#### **1.16 Overseas Shareholders**

The Offers are made only to those Shareholders and holders of Participating Options with registered addresses in Australia, New Zealand and Italy at the Record Date, and only those Eligible Shareholders and Eligible Optionholders will be offered an Entitlement.

All Shareholders who are not Eligible Shareholders and all Eligible Optionholders who are not recorded on the Register at the Record Date with an address in Australia, New Zealand or Italy are Non-Participating Foreign Holders. Electrometals has decided that it is unreasonable to make offers under this Prospectus to Non-Participating Foreign Holders, having regard to the number of Non-Participating Foreign Holders, the number and value of the New Shares they would be offered and the cost of complying with the legal and regulatory requirements in the places where they are resident.

Accordingly, the Offers are not being extended to, and no New Shares will be issued to, Non-Participating Foreign Holders. This Prospectus is sent to those Shareholders and optionholders for information purposes only.

The distribution of this Prospectus in jurisdictions outside Australia, New Zealand or Italy may be restricted by law. Persons who come into possession of this Prospectus in those jurisdictions should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities law.

#### **1.17 Market Price of Shares**

The highest and lowest market sale price of the Company's Shares on ASX during the three calendar months immediately preceding the date of issue of this Prospectus, the monthly volume weighted average price (**VWAP**) and the last market price on the last day of trading before lodgement is set out below:

<b>3 month high</b>	<b>3 month low</b>	<b>Last market sale share price on 25 February 2011</b>
3.4 cents	1.5 cents	3.0 cents

<b>Month</b>	<b>November 2010</b>	<b>December 2010</b>	<b>January 2011</b>
<b>VWAP</b>	1.77 cents	3.2 cents	3.06 cents

### **1.18 Risks**

Investors should carefully read the section on risk factors in section 3 of the Prospectus. An investment in New Shares involves various risks, a number of which are specific to the Company and the industry in which it operates. These include:

- minority shareholder risk
- commercialisation risk
- overseas customer risk
- risk that the Company's new focus on develop, build, own and operate projects will not be successful
- manufacturing risk
- competition risk
- expansion risk
- funding risk
- intellectual property risk
- key personnel risk
- product liability risk
- Preference Share risk.

An investment in New Shares should therefore be regarded as speculative.

### **1.19 Taxation**

It is the responsibility of all Eligible Shareholders or Eligible Optionholders to satisfy themselves of the particular tax consequences that apply to them, by consulting their own professional tax advisers. Neither the Company nor any of its officers, employees or agents, nor its taxation or other advisers accepts any liability or responsibility in respect of taxation consequences connected with the Offers.

### **1.20 Enquiries**

If you are uncertain about any aspect of this Prospectus, including whether the Offers are a suitable investment for you, you should seek professional advice from your stockbroker, lawyer, accountant or other professional adviser.

## 2 Overview of the Company and its operations

The principal activities of Electrometals are:

- **(Equipment sales segment)** The engineering, manufacture and sale of electrowinning equipment under the trade mark, EMEW®.
- **(DBOO projects segment)** The planned development of DBOO (Develop, Build, Own, Operate) projects where Electrometals will either outright or in partnership with others, own plants which will produce metal for sale. These plants will have EMEW® as an integral part of the process, but are likely to have companion technology integrated into the process.
- **(Process development)** Process development activities using laboratory and pilot plant equipment to establish “proof of concept” flow sheets for customers as well as to determine vital engineering and operating parameters prior to the manufacture and installation of EMEW® plants. This work may include the testing of other companion technologies to be part of the process solution for the customer.
- **(Engineering improvements)** The design and testing of engineering improvements for the EMEW® plants.

### 2.1 EMEW® electrowinning technology

Electrometals owns several international patents (either granted or pending) for the EMEW® electrowinning equipment, which it developed and now engineers and manufactures in its factory in the Gold Coast, Queensland, Australia. EMEW® electrowinning equipment can recover solid metal cathode, or loose metal powder, from a variety of electrolyte solutions, in which the recoverable metal is dissolved.

#### Applications

The EMEW® electrowinning system is capable of recovering high-grade metal from a number of different solution (electrolyte) types, including:

- Copper from sulphuric and nitric acid solutions.
- Nickel from sulphuric acid, electroless nickel and nitric acid solutions.
- Silver from nitric acid and also alkaline solutions where the solvent is potassium cyanide.
- Gold from alkaline cyanide solution.
- Tin from alkaline potassium hydroxide solution.
- Tin from phenol sulphonic acid solution.
- Cadmium and cobalt from sulphuric acid solutions.
- Tellurium from several different solution chemistries.

All of these applications have been demonstrated at either commercial scale in full-sized plants, or in pilot plants, or in some cases, laboratory scale test.

Where EMEW® technology has been installed, it has been to allow the customer to extract metal while taking advantage of some particular EMEW® benefits, such as:

- Efficient recovery of high-grade metal plate or powder in the presence of other metal contaminants often when the target metal is in dilute concentration.
- The control of toxic gas and mist emissions which are contained within closed EMEW® tubular electrolytic cells, and pumped to electrolyte management tanks for centralised collection and scrubbing of the toxic gas and mist during normal operations.
- While the electrolyte is being pumped through the EMEW® system, it is possible to have external control of electrolyte conditions such as temperature and pH, allowing more efficient electrowinning of some metals.

A disadvantage of the EMEW® system is that the capital cost per unit of metal produced is often higher than for large conventional electrowinning or metal refinery tank houses. However, there are numerous cases where by taking advantage of the benefits outlined above, by using EMEW® as either the primary means of metal recovery or at other times, as an add-on to treat bleed streams where metal can otherwise be lost, then a significant financial benefit can accrue to the customer. It is in these particular applications where Electrometals has concentrated and will continue to concentrate our marketing and application development efforts.

### **Commercialisation**

The Company has commercialised the EMEW® process in two product lines; the 150mm diameter, tubular plating cell and the 200mm diameter, tubular powder cell.

More than 90% of the sales of EMEW® plants to-date have been overseas, where the EMEW® system has been sold to produce copper, silver, nickel and tin at a variety of sites including:

- Copper from a bleed stream at an SX-EW copper heap leach operation in Chile.
- Copper from the spent pickling solution at two separate copper rod mills in the USA.
- Copper from industrial waste in Mexico.
- Copper from the bleed stream at a copper refinery in the USA (This plant is presently not operating because of the recent closure of the refinery).
- Copper from a waste stream from a molybdenum refinery in Chile.
- Silver powder from industrial waste in India.
- Silver powder and copper plate from recycled silver ingots produced from the process of recycling jewellery.
- Nickel plate from industrial waste at two sites in the UK.
- Silver powder at a mine site in Mexico.
- Tin from a spent industrial solution in the USA (this plant will be commissioned in March, 2011).

Other EMEW® plants have also been sold but these include some small pilot plants for test and demonstration work and plants which have since been closed or where we have lost contact with the customers.

## Equipment sales

The Company's equipment sales in recent years peaked in the 2006 and 2007 years (prior to the consolidation of the 51% owned Kurion Technologies, now sold). For these two years, the Company achieved profits of \$0.8 million in 2006 and \$0.6 million in 2007 from total revenue of \$6.6 million in 2006 and \$9.9 million in 2007. Since that time, Electrometals has suffered a decline in sales revenue and combined with increased expenditure on other activities, has made significant losses as shown in the table below:

Year	Consolidated Revenue \$	Result \$
Financial year ending 31 December 2006	6,649,344	812,430
Financial year ending 31 December 2007	9,874,038	633,850
Financial year ending 31 December 2008	*6,721,817	*(2,296,452)
Financial year ending 31 December 2009	*8,115,146	*(1,582,993)
Financial year ending 31 December 2010 (unaudited)	3,947,935	*(2,441,524)

\* Includes Kurion revenue and results

At present, the Company's order book is very small as it relates primarily to some minor amounts related to one plant in progress and some spare part orders. However, there is an encouraging list of sales prospects in the "sales pipeline". The progress of these prospects to sales depends upon our demonstration of a variety of technical and financial benefits of EMEW® to our customers, to be followed by a purchase commitment from these customers. This process often takes several months. As any of these sales prospects are converted into contracted sales, then the Company will announce the relevant details to ASX.

One of the plants manufactured and delivered in 2010 was delivered in two parts, both of which are now installed in the USA, ready to recover tin metal from a spent industrial solution. This plant will not commence to be process commissioned until the second half of March 2011, and until that time, the sale of the plant is subject to performance conditions whereby Electrometals must guarantee satisfactory performance. The process has been extensively tested at the customer's site, at both laboratory and pilot plant scale, such that the process risk of not satisfactorily commissioning the commercial plant is regarded as small. However, until the plant is commissioned, there remains some uncertainty.

Any return to growth and profitability in our Equipment Sales segment will be influenced by the success of the Company's international marketing and sales strategy. Investment has been made in the area, which has added to operating costs. Part of the funds to be raised by the Offer will be used to provide working capital for the Equipment Sales segment of Electrometals' business.

## 2.2 DBOO projects

During recent years, Electrometals technical staff have assessed a number of DBOO opportunities with the objective of investing in the development of metal production from waste materials, either industrial waste or mine waste, where there are opportunities to create significant economic and environmental value. The economic value may be a combination of the value of waste disposal fees paid by the waste generators, together with the sale value of the metal. The environmental value may include the benefit of recycling metal, some of which at present is made into a stable form and placed in land fill sites; some is recycled to

secondary smelters as low-grade metal-rich solids. Some waste generators may prefer to participate in a metal recycling process rather than a metal disposal process.

To date, our assessment of DBOO opportunities has concluded that initially, the most attractive source of material for such a business is metal-rich liquid and solid industrial waste in North America, particularly the USA and Canada. As part of this assessment, we have compiled a data base of material available from publicly available waste management records in the USA, from which we have prioritised a number of most attractive opportunities. These are mostly where we may recover copper, nickel and tin.

Since establishing this list of prospects, contact has been made with approximately 25 waste generators, both directly and through waste collection and disposal companies, which has led to successful laboratory and pilot plant test work, both in the USA and in our laboratory in Australia.

This test work has included innovative preconditioning and purification processes to prepare metal-rich solutions (electrolytes) for recovery of the metal using the EMEW® process. Such companion technologies, including the ion exchange (IX) process, are expected to be an integral part of our planned DBOO projects. IX has been tested at pilot plant scale, integrated with an EMEW® pilot plant, to recovery nickel and copper metal from a variety of industrial waste, at a site in Ohio, USA.

At present, the Company has established a laboratory in Sauget, Illinois, where “proof of concept” test work is continuing, including in recent times, the recovery of nickel, copper and tin from new feed sources. The IX – EMEW® pilot plant has been moved to this site and available for continuing pilot plant scale demonstration work.

Enough work has been completed to allow a scoping study, based upon which the Company has approved the go-ahead for a feasibility study. Critical elements of the feasibility study include:

- Securing suitable leased premises.
- Securing the appropriate business licence.
- Securing commercial supply agreements for feed stock for the plant.

These and other matters are now under detailed consideration for a project to be established in St Louis, Missouri, USA, subject to the final feasibility study and finance for the project.

As this feasibility study is advanced further, details of progress will be announced to the ASX, when any significant milestones are reached.

### **2.3 Process development**

The sale of EMEW® technology is dependent on establishing technical and financial benefits for installations for new customers. Since such benefits are based upon proprietary Electrometals’ information and know-how, there is nearly always a need for laboratory and pilot plant scale test work to demonstrate these benefits, before a sale is completed.

In addition, the Company has seen the need to develop new EMEW® applications in order to extend the technical and commercial opportunities for business development. Recent examples of this work are:

- The testing at laboratory scale and then demonstration at pilot plant scale of the effectiveness of EMEW® for the recovery of tin from a spent alkaline industrial

solution for a customer in the USA. This led to the sale of the first commercial EMEW® tin plant.

- The recovery of copper at laboratory scale from complex copper-cadmium-cobalt-zinc bearing industrial waste for a customer in Mexico, which led to the sale of a copper EMEW® plant. Subsequently, we have worked with this customer to confirm process options to recover cadmium and cobalt metal from this material.  
The customer is now considering the future extension of the EMEW® plant to recover these metals also, and so extract considerable more value from the feed stock.
- Successful testing of some enhancement of the EMEW® process to recover the precious metals gold and silver from cyanide solutions which are contaminated with base metals, particularly copper, lead and zinc.
- The recovery of tin metal cathode at laboratory scale from tin dissolved in phenol sulphonic acid for another customer in the USA.

Electrometals will continue with this process development work as part of our business development.

#### **2.4 Engineering improvements**

The Company has an active programme of engineering improvements both for the manufacture of the basic EMEW® cells and anodes and also, in partnership with our DSA anode manufacturer, for greater durability of the active catalytic coating on the anodes.

During 2010, this work was accelerated, particularly with the endeavour to substantially improve parts of the cells to simplify the manufacturing process and to reduce the cost.

This work has produced considerable operating and manufacturing cost benefits now being incorporated into the manufacturing process and will be a continuing part of our future business.

## **3 Risk factors**

### **3.1 Overview**

There are a number of factors, both specific to the Company and of a general nature, which may affect the future operating and financial performance of the Company, the industry in which it operates and the outcome of an investment in the Company. There can be no guarantee that the Company will achieve its stated objectives or that forward-looking statements will be realised. This section describes certain (but not all) risks associated with an investment in the Company. Each of the risks set out below could, if it eventuates, have a material adverse impact on the Company's operating performance, profits and the value of its Shares.

Before deciding to invest in the Company, potential investors should read the entire Prospectus and the risk factors that could affect the financial performance of the Company. Potential investors should specifically consider the factors contained within this section, in order to appreciate fully the risks associated with an investment in the Company. You should carefully consider these factors in light of your personal circumstances and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest.

### **3.2 Specific risk factors**

In addition to the general risks set out in section 3.3, the Directors believe there are a number of specific factors that should be taken into account before investors decide whether or not to apply for New Shares.

#### **Change of control, influence of major shareholder and minority shareholder risk**

It is likely that existing shareholders will become minority shareholders after completion of the Offers. The voting power of Waverton, the Underwriter, could potentially increase from 28.66% to up to 66.96% - see section 4.3 for further details.

This has a number of possible risks, including:

- Waverton will be able to control the composition of the Board and the Company and pass ordinary resolutions (but not special resolutions) at general meetings of the Company.
- Waverton will be entitled to exercise its voting power as shareholder in its own interests, which may not necessarily be aligned with the interests of minority shareholders.
- The liquidity of Shares may be lower than at present.
- The market price for Shares may fall immediately following the completion of the Offers and, subsequently, the price of Shares might not contain any takeover premium.

#### **Commercialisation risk**

The Company continues to develop and expand the uses for its proprietary EMEW® electrowinning technology. There can be no guarantees that the Company's attempts to commercialise its technology into new applications will be successful.

### **Overseas customers**

The Company derives a substantial portion of its sales revenue from overseas customers. There are certain risks inherent in doing business overseas and having overseas customers, including unexpected changes in regulatory requirements, tariffs, customs, duties and other trade barriers, problems with collecting accounts receivable, political instability and war. There may also be fluctuations in exchange rates or foreign exchange controls which restrict or prohibit the transfer of funds. Any of these factors in relation to one or more customers could have a materially adverse effect on the financial performance of the Company.

### **Building, owning and operating metal recovery plants**

The Company's recent focus has been on the assembly and sale of metal recovery plants, using its proprietary EMEW® technology, as well as the technical and financial assessment of DBOO opportunities to establish its own metal production facilities, using the EMEW® technology. These investigations have reached a stage where a scoping study has been completed for a proposed project in St Louis, Missouri, USA. The Company is now in the process of conducting a feasibility study for this project, with a view of establishing a wholly owned metal production facility.

There is no guarantee that the Company's new strategy will be successful and there are inherent risks in this new strategy. These include risks in site selection, rates of return on capital expenditure, adopting an appropriate revenue and earnings model, financial risk (especially if the plants are debt funded), partnering with suppliers of feed solution, the security of the feedstock and general operational risks (such as plant and equipment failure, suboptimal operating performance or recovery rates and costs, accidents, or increases in the cost of spare parts, repair and maintenance and consumables).

The feasibility of DBOO opportunities is also heavily dependent on prevailing commodity prices. If metals prices fall, there may be a materially adverse impact on sales of the Company's plant's revenue earnings generally, and the feasibility of developing, building, owning and operating its own plants. See the commodity prices risk factor for further details.

The Company has a limited history in developing, building, owning and operating its own metal recovery plants using its technology. While the Company employs experienced staff, there is a risk that the Company does not have the experience to properly address issues which may arise from time to time in such operations.

### **Manufacturing risks**

The Company currently manufactures its own products from leased premises. There are risks which are inherent in manufacturing operations including factory breakdowns and damage, below standard workmanship or materials, employee issues and workplace health and safety. Any adverse impact on production could have a materially adverse impact on the Company's ability to meet customer needs, achieve its expansion plans or its financial performance.

Some specific risks include:

- **(Factory operation or damage)** There is a risk that production may be impacted by damage to or destruction of the factory, or by other circumstances whether within or outside the control of the Company including breakdown of equipment, failure of or inadequate supply of plant and machinery components or consumables, or accidents. There is also a risk that damage or destruction of or to the factory will not be covered by insurance or that insurers will not respond to claims by the Company.

- **(Manufacturing costs)** An important financial strategy is the reduction of unit costs through economies of scale. There is a risk that unit costs may not be able to be reduced either at all or as quickly as desirable or required. Inability to reduce manufacturing costs may have a materially adverse impact on the financial performance of the Company.
- **(Warranty risk and product liability)** There is an inherent risk of defective workmanship or materials in the manufacture of the Company's products and for exposure to product liability for damages suffered by third parties attributable to the use of the product. Defective products may have a materially adverse impact on the Company's reputation, its ability to achieve sales and commercialise its products and on its financial performance due to warranty obligations.

### **Competition**

The Company operates in a competitive market. The Company's financial performance or operating margins could be adversely affected if the actions of competitors or potential competitors become more effective, or if new competitors, technology or products enter the market and the Company is unable to counter these actions.

### **Expansion risk**

As the Company and its operations expand, it will be required to continue to improve, and where appropriate, upscale its operational and financial systems, procedures and controls and expand, retain, manage and train its employees. If it is not able to manage its expansion and growth efficiently and effectively, there could be a materially adverse impact on the Company's ability to meet customer demands, to expand its business either at all or in a timely manner, its financial performance and its ability to maintain its position in the market.

### **Use of funds**

The Company's management will have broad discretion in applying the net proceeds of the Offer and the Company cannot assure investors that such expenditure will ultimately lead to profitability.

### **Additional funding requirements**

If the Company requires access to further funding at any stage in the future, the Company may be adversely affected in a material way if, for any reason, access to capital or debt is not available at all or on commercially acceptable terms. There can be no assurance that additional funds will be available.

If additional funds should be raised by issuing equity, this might result in dilution to the existing Shareholders at that time. The pricing of future share issues will also depend upon the results of the Company's activities, market factors, investor demand for shares and the need for capital by either debt or equity capital raisings. There may be a material adverse impact on the Company and its expansion plans or financial performance if, for any reason, access to required capital is not available.

### **Intellectual property**

There is a risk of the Company's products being reverse engineered or copied. The ability of the Company to obtain and sustain patents, maintain trade secrets protection and operate without infringing the proprietary rights of third parties is an integral part of the Company's business.

Competition in obtaining and sustaining protection of intellectual property, together with the complex nature of intellectual property, can lead to disputes.

In addition, the granting of protection, such as a registered patent, does not guarantee that the rights of others are not infringed or that competitors will not develop technology to avoid the patent. There can be no assurance that any patents which the Company may own or control will afford the Company significant protection of its technology or that its product will have commercial application.

The Company licenses some of its intellectual property. There can be no assurances that any third party will abide by or perform their respective obligations under such agreements. There is also a risk that the licences may be terminated in the event of breach.

The Company has a portfolio of granted patents and pending patent applications in major jurisdictions. These patents may be challenged in the jurisdictions in which they are granted and they will lapse over time. No guarantee can be given that the patents will be granted nor does the grant of a patent guarantee that the patent concerned is valid or that the technology (patented or otherwise) does not infringe the rights of others.

### **Reliance on key personnel**

The Company is committed to providing an attractive employment environment, conditions and prospects to assist in retaining its key senior management personnel. However, there can be no assurance the Company will be able to retain these key personnel. The loss of key personnel or the inability to recruit and retain high-calibre staff could have a material adverse effect on the Company. The addition of new employees and the departure of existing employees, particularly in key positions, can be disruptive and could have a material adverse effect on the Company.

### **Dependence on third parties**

The Company relies on numerous key suppliers, distributors, manufacturers and commercial parties in Australia and overseas for the manufacture and supply of components and the marketing and distribution of its products. Any loss of or change in the Company's relationship with these key parties, or failure by those parties to perform, may have an adverse effect on the Company's operations, research and development and commercialisation program, sales or terms of trade. If that occurred, there is no assurance that they could be replaced either at all or on commercial terms acceptable to the Company.

### **Exchange rates**

The Company is exposed to movements in exchange rates. The Company's financial statements are expressed and maintained in Australian dollars. However, a portion of the Company's income and expenses is denominated in overseas currencies such as US dollars and euros. Exchange rate movements affecting these currencies may impact the profit and loss account or assets and liabilities of the Company, to the extent the foreign exchange rate risk is not hedged or not appropriately hedged.

### **Commodity prices**

Under the Company's proposed new strategy to develop, build, own and operate its own plants using its EMEW® technology, metals prices may have a material impact on the initial feasibility and subsequent ongoing financial performance of plants that the Company may build (or wish to build). Metals prices react to demand and supply, market forces, the general economic climate and other factors outside the control of the Company.

The feasibility of DBOO opportunities is also heavily dependent on prevailing commodity prices. If metals prices fall, there may be a materially adverse impact on sales of the Company's plants, revenue and earnings generally and the feasibility of developing, building, owning and operating its own plants.

### **Litigation risk**

Litigation risks to the Company include, but are not limited to, product liability, customer claims, personal injury claims and employee claims. If any claim were to be pursued and be successful, it may adversely impact the sales, profits or financial position of the Company.

### **Product liability**

The Company's business activities could result in claims against the Company, including product liability claims arising from research and development, manufacturing, marketing and use of the Company's products. The Company seeks to maintain adequate product liability insurance and other legal risk measures. However, adequate insurance coverage may not be available, adequate or available at an acceptable cost or in sufficient amounts. Any product liability claim could be substantial. In the event of a product liability claim, insufficient insurance coverage could have a material adverse effect on the Company's results, operations, financial condition and value. There is also a risk of damage to the Company's reputation and image.

### **Preference Shares**

The Company has 666,667 convertible cumulative redeemable preference shares on issue, which confer on the holder a right to receive a cumulative fixed preferential dividend at the rate of 8% per annum on their \$0.40 issue price.

There is no guarantee or assurance that the Company will consistently achieve a level of earnings to pay the entitlements of Preference Shareholders and to provide a return to ordinary Shareholders. The lack of regular dividends to ordinary Shareholders may have a materially adverse effect on the Company's share price.

Please see section 4.4 of this Prospectus for a further explanation concerning Preference Shares and their potential impact on other Shareholders.

## **3.3 General risk factors**

### **Share market**

On completion of the Offers, the New Shares may trade on ASX at higher or lower prices than the Offers Price. Investors who decide to sell their New Shares after quotation on ASX may not receive the amount of their original investment. There can be no guarantee that the price of the New Shares will increase after quotation. The price at which the New Shares trade on ASX may be affected by the financial and product performance of the Company and by external factors over which the Directors and the Company have no control. These factors include movements on international share and commodity markets, local interest rates and exchange rates, domestic and international economic conditions, government taxation, market supply and demand and other legal, regulatory or policy changes.

**Liquidity and realisation risk**

There can be no guarantee that an active market in the Shares on ASX will exist at all times. There may be relatively few or many potential buyers or sellers of the Shares on ASX at any given time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less or more than the Offers Price.

**Dependence on general economic conditions**

The operating and financial performance of the Company is influenced by a variety of general economic and business conditions, including levels of consumer spending, inflation, interest rates and exchange rates, access to debt and capital markets, government fiscal, monetary and regulatory policies. A prolonged deterioration in general economic conditions, including an increase in interest rates or a decrease in consumer and business demand, could be expected to have a material adverse impact on the Company's business and financial condition. Changes to laws and regulations or accounting standards which apply to the Company from time to time could adversely impact on the Company's earnings and financial performance.

**Tax risk**

Although the Company does not currently pay any income tax, due to the existence of accumulated income tax losses, any change to the rate of company income tax in jurisdictions in which the Company operates may impact on future Shareholder returns, as will any change to the rates of income tax applying to individuals or trusts. Any change to the tax arrangements between Australia and other jurisdictions could have an adverse impact on future earnings and the level of dividend franking.

**Legislative and regulatory changes**

Legislative or regulatory changes, including intellectual property or environmental regulations or regulatory changes in relation to product sold by the Company, could have an adverse impact on the Company.

**Profitability and commercialisation**

No representations or assurances as to future profitability or dividends can be given by the Company, since these elements are dependent on the future success of the development programs currently being undertaken.

**Forward-looking statements**

This Prospectus includes certain 'forward-looking' statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance and achievements to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. Factors that could cause these differences include the risk factors set out in this Section.

## 4 Financial effect of the Offers on the Company

### 4.1 General

The Offers will have an effect on the capital structure, control and the financial position of the Company.

### 4.2 Effect on capital structure

The potential effect on the capital structure of the Company is set out in section 1.13.

### 4.3 Effect on control of the Company

#### Increase in the Underwriter's voting power in the Company

The Underwriter currently has voting power in the Company of 28.66%.

The Directors cannot speculate as to the extent that Entitlements will be accepted by Eligible Shareholders or the level of voting power the Underwriter will have after completion of the Offers.

However, the Underwriter's maximum voting power could increase to up to 66.96% after completion of the Offers, if:

- no other Eligible Shareholder accepts its Entitlement under the Shareholder Offer or the Optionholder Offer; and
- the Underwriter subscribed for the entire shortfall under both the Shareholder Offer and the Optionholder Offer.

The table below illustrates the maximum potential increase in the Underwriter's voting power.

Current holding	New Shares	Total	Voting power
58,750,874 <sup>1</sup>	237,613,156	296,364,030	66.96%

**Note 1:** These Shares include the 46,620,174 Shares held by Equitas Nominees Pty Ltd as nominee for the Underwriter

If, however, all other Eligible Shareholders and Eligible Optionholders accept their Entitlements in full, the Underwriter's voting power will not materially change.

#### Intentions of the Underwriter

The Underwriter has advised the Company that if the Underwriter obtained control of the Company:

- the Underwriter's present intention is to exercise its voting power to cause the Company to continue its current business in the ordinary course and to pursue the strategies outlined in this Prospectus; and
- the Underwriter has no present intention to change the direction or business of the Company (other than as contemplated in this Prospectus), to enter into any related party transactions with the Company, to materially restructure the employment arrangements of the Company, or to redeploy any of its fixed assets.

#### **4.4 Preference Shares**

The Company has 666,667 Preference Shares on issue, which are convertible and redeemable shares with a preferential right to receive a cumulative fixed dividend at the rate of 8% per annum of their \$0.40 issue price.

The Preference Shares have been redeemable by the Company since 22 June 2008. While the Company may redeem the Preference Shares at any time, it has no obligation to do so and those shares can remain on issue indefinitely. As any such redemption would trigger a dividend payment of approximately \$270,000 (as at the date of this Prospectus) and a capital repayment of \$267,000, the Directors have no current intention to redeem the Preference Shares.

While Preference Shareholders may convert their Preference Shares to Shares at any time by giving written notice to the Company, at the Company's current Share price any such conversion would crystallise a capital loss and waive all rights to receive preferential dividends.

There is no guarantee or assurance that the Company will consistently achieve a level of earnings to pay the entitlements of Preference Shareholders and to provide a return to ordinary Shareholders. The lack of regular dividends to ordinary Shareholders may have a materially adverse effect on the Company's share price.

A full explanation of the rights attaching to the Preference Shares is contained in the Company's constitution lodged with ASX on 31 May 2005 and in the details contained in the notice of meeting of members held on 21 May 1998 as lodged with ASX on 24 April 1998.

#### **4.5 Effect on financial position – pro-forma balance sheet**

The effect on the Company's financial position will be to increase Shareholders' funds and net assets by approximately \$4.3 million before payment of the expenses of the Offers.

##### **Basis of preparation**

To illustrate the effect of the Offers on the Company, the following pro-forma consolidated balance sheet of Electrometals has been prepared based on the unaudited management accounts as at 31 December 2010.

The accounting policies adopted in the preparation of the pro-forma consolidated balance sheet are consistent with the accounting policies adopted and described in the Company's Annual Report for the financial year ended 31 December 2009 and should be read in conjunction with that report.

The financial information has been prepared in accordance with the requirements of the Corporations Act, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board

##### **Assumptions and qualifications**

The pro-forma column 2 is the unaudited balance sheet as at 31 December 2010 adjusted to reflect the following pro-forma transactions:

- The position as if the Offers were fully taken up and effected on 31 December 2010 and no Shares were issued pursuant to the exercise of existing options or conversion of Preference Shares on or before the Record Date.
- Receipt of approximately \$4.3 million under the Offers from the issue of approximately 237 million New Shares.

- Payment of approximately \$365,000, representing the expenses of the Offers.

The funds raised by the Offers (after payment of Offer expenses) will initially be placed on interest-bearing deposit.

Electrometals' actual financial position on completion of the Offers may differ from the position illustrated in the pro-forma capital structure and pro-forma balance sheet due to movements in profit / (loss) and in the asset and liability levels during the period between 31 December 2010 and the date when the Offers are completed.

#### Pro Forma Consolidated Balance Sheet

	As at 30 December 2010 (unaudited management accounts)	As at 30 December 2010 (unaudited pro-forma)
	\$	\$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	890,511	4,801,830
Trade and other receivables	725,010	725,010
Inventories	482,708	482,708
Prepayments	125,137	125,137
<b>TOTAL CURRENT ASSETS</b>	<b>2,223,366</b>	<b>6,134,685</b>
<b>NON-CURRENT ASSETS</b>		
Receivables	114,200	114,200
Investments	-	-
Plant & equipment	912,436	912,436
Goodwill and other intangible assets	20,456	20,456
<b>TOTAL NON-CURRENT ASSETS</b>	<b>1,047,092</b>	<b>1,047,092</b>
<b>TOTAL ASSETS</b>	<b>3,270,458</b>	<b>7,181,777</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables	548,822	548,822
Interest-bearing liabilities	-	-
Deferred income	57,945	57,945
Provisions	168,057	168,057
<b>TOTAL CURRENT LIABILITIES</b>	<b>774,824</b>	<b>774,824</b>
<b>NON-CURRENT LIABILITIES</b>		
Accrual for future buy-out of non-controlling interest	-	-
Provisions	48,422	48,422
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>48,422</b>	<b>48,422</b>
<b>TOTAL LIABILITIES</b>	<b>823,246</b>	<b>823,246</b>
<b>NET ASSETS</b>	<b>2,447,212</b>	<b>6,358,531</b>
<b>EQUITY</b>		
Issued capital	33,320,788	37,232,107
Reserves	58,363	58,363
Accumulated losses	(30,931,939)	(30,931,939)
<b>PARENT INTERESTS</b>	<b>2,447,212</b>	<b>6,358,531</b>

## **5 Additional information**

### **5.1 Continuous disclosure and inspection of documents**

The Company is a disclosing entity for the purpose of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations.

The Company believes that it has complied with the general and specific disclosure requirements of the Corporations Act and Listing Rules, which require the Company to notify ASX of information about specific events or matters as they arise, for the purpose of ASX making that information available to the market conducted by ASX.

This Prospectus is issued under section 713 of the Corporations Act. This section enables disclosing entities to issue a prospectus in relation to securities in a class which has been continuously quoted by ASX at all times during the 12 months before the date of the Prospectus. Apart from prescribed matters, this Prospectus need only contain information relating to the terms and conditions of the Offers, the effect of the Offers on the Company and the rights and liabilities attaching to the New Shares. Accordingly, this Prospectus does not contain the same level of disclosure as an initial public offer prospectus.

Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an office of ASIC.

The Company will make available a copy of each of the following documents, free of charge, to any person who asks for it during the Offers period:

- The annual financial report for the year ended 31 December 2009 (being the annual financial report most recently lodged with ASIC in relation to the Company before the issue of this Prospectus).
- The report for the half-year ended 30 June 2010 lodged with ASX on 31 August 2010.
- Any continuous disclosure notices given by the Company after the lodgement with ASIC of the annual financial report referred to above and before the lodgement with ASIC of a copy of this Prospectus.

This Prospectus contains details specific to the Offers. If Shareholders require any further information in relation to the Company, the Directors recommend that those Shareholders take advantage of the ability to inspect or obtain copies of the documents referred to above.

### **5.2 Rights attaching to New Shares**

#### **General**

The rights and liabilities attaching to Shares (including those that will attach to the New Shares) are set out in the Company's constitution and are regulated by the Corporations Act, the Listing Rules, the rules of ASTC and the general law. Set out below is a summary of the principal rights and liabilities attaching to Shares. This summary is not exhaustive and is not a definitive statement of the rights and liabilities of Shareholders.

#### **Voting rights**

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, at a general meeting, every Shareholder present in person or by proxy, representative or attorney has one vote on a show of hands and, on a poll, one vote for each

fully paid Share. If a Share is a partly paid Share, the holder has a vote in respect of each share on a poll that has the same proportionate value as the proportion that the amount paid (excluding any amount paid or credited as paid in advance of a call) on the share bears to the total issue price of the share.

A Shareholder is not entitled to vote at a general meeting unless all calls and other sums presently payable by the member in respect of a share have been paid. Where a Share or partly paid share is jointly held, only one of the joint holders may vote.

### **General Meeting and Notices**

Each Shareholder is entitled to receive notice of, and to attend and vote at, the Company's general meetings and to receive all notices, accounts and other documents required to be sent to Shareholders under the constitution, the Corporations Act or the Listing Rules.

### **Dividends**

Subject to the Corporations Act and the rights of holders of Preference Shares, which have preferential rights to dividends, the Company's profits which the Directors determine to distribute by way of dividends are divisible amongst the holders of Shares in proportion to the amounts paid (excluding any amount paid or credited as paid in advance of a call) on the Shares.

The Company has 666,667 Preference Shares on issue, which are convertible and redeemable shares with a preferential right to receive a cumulative fixed dividend at the rate of 8% per annum of their \$0.40 issue price, but have no further right to participate in the profits or assets of the Company, whether surplus or otherwise. Refer to section 4.4 of this Prospectus for more information concerning the Preference Shares.

### **Variation of Class Rights**

At present, the Company only has ordinary Shares and Preference Shares on issue and has no current plans to create further classes of Shares. The rights and restrictions attaching to a class of the Company's Shares can only be altered with the consent of a special resolution passed at a separate meeting of the holders of that class of share by 75% of those holders, who, being entitled to do so, vote at that meeting or with the written consent of members with at least 75% of votes in the class.

### **Further Issues of Shares and Options**

The Directors may, subject to the Corporations Act, the Listing Rules or any special rights conferred on the holders of any Share or class of Share, issue or dispose of Shares or grant options over Shares to any person at any time and on any terms and conditions as they think fit. The Company may create further Preference Shares which will rank equally with the existing Preference Shares.

### **Pre-Emptive Rights**

Holders of Shares do not have any pre-emptive rights under the constitution. Under the Listing Rules, certain restrictions apply to a listed company offering its Shares otherwise than pro-rata among shareholders.

### **Winding Up**

Subject to the rights of holders of Shares issued on special terms and conditions, on a winding up of the Company, the liquidator may, with the sanction of a special resolution of the Company, divide among the Shareholders in kind the whole or any part of the Company's property. The liquidator may set such value as it deems fair on any property to be so divided

and may determine how the division is to be carried out as between Shareholders or different classes of holders.

On a winding up of the Company the Preference Shares rank in priority to all other shares issued by the Company to the amount of the \$0.40 issue price, but have no further right to participate in the profits or assets of the Company, whether surplus or otherwise.

### **Small Holdings**

Subject to the Listing Rules and ASTC Settlement Rules, the Company may sell the shares of a Shareholder who holds less than a marketable parcel of shares.

### **Buy Backs**

Subject to applicable laws, in particular the Corporations Act and the Listing Rules, the Company may buy back shares on such terms and conditions as the Board may determine from time to time.

### **Transfer of Shares**

Subject to the Listing Rules and the constitution, the shares are transferable in accordance with CHESS (for CHESS Approved Securities), by instrument in writing in any usual or common form or in any other form that the Directors approve. The Directors may, subject to the requirements of the Listing Rules, request ASTC to apply a holding lock to prevent a transfer of shares in the Company.

### **Directors**

The minimum number of Directors is three and the maximum seven. The Board may appoint additional Directors to fill a casual vacancy subject to the number of Directors not being more than the permitted maximum of seven. The Directors may not reduce the minimum number of Directors below the number in office at the time of the reduction. At each of the Company's annual general meetings, one-third of the Directors (or, if the number of Directors is not a multiple of three, then the number nearest one-third) and any other Director who has held office for three years or more must retire from office. The Managing Director is exempted from retirement by rotation. A retiring Director is eligible for re-election.

### **Indemnities and Insurance**

The Company must to the extent permitted by law and subject to the Corporations Act, indemnify current and past Directors, secretaries and executive officers of the Company and of any subsidiary of the Company against a liability incurred by the person acting in that capacity and against all legal costs incurred in connection with proceedings in which the person becomes involved because of that capacity. The Company may pay the premium on a policy of insurance in respect of a person who is or has been an officer of the Company to the full extent permitted by the Corporations Act.

### **Proportional Takeover Provisions**

The Company is prohibited from registering a transfer giving effect to a contract resulting from the acceptance of an offer made under a proportional takeover bid (being an off-market bid for a specific proportion of a class of shares) unless and until an ordinary resolution approving the proportional takeover bid is passed by the holders of the bid class shares. In accordance with the Corporations Act, the proportional takeover provisions will automatically cease to have effect on the third anniversary of the date of the adoption of the constitution or as of the most recent renewal term, but can be renewed by the Company in general meeting.

## **Amendment of the Constitution**

The Corporations Act provides that the constitution of a company may be modified or repealed by a special resolution passed by the members of the Company. The Company's constitution does not impose any further requirements to be complied with to effect a modification of the constitution, or to repeal it.

## **5.3 Underwriting Agreement**

### **General**

Electrometals has entered into an Underwriting Agreement with Waverton Holdings Limited dated 25 February 2011. Refer to the Chairman's letter and section 1.3 of this Prospectus for background information concerning the Board's decision to appoint Waverton as Underwriter.

Under the Underwriting Agreement, Waverton Holdings Limited agrees to underwrite both the Shareholder Offer of 204,357,579 New Shares to be offered at 1.8 cents per New Share and the Optionholder Offer of 33,255,577 New Shares to be offered at 1.8 cents per New Share under the Prospectus by subscribing or procuring the subscription to any shortfall. The amount underwritten is approximately \$4.3 million (**Underwritten Amount**).

### **Underwriting fee**

Waverton will receive an underwriting fee of \$278,007, which is equal in value to 6.5% of the Underwritten Amount. The Company has also agreed to reimburse the Underwriter for all reasonable costs, professional fees and expenses of and incidental to the Offers incurred by Waverton in connection with the underwriting.

### **Indemnities**

The Company has agreed to indemnify the Underwriter and its related corporations, officers, employees, agents and servants (**Indemnified Parties**) against any claim, action, damage, loss, liability, cost, expense or payment which the Indemnified Party pays, suffers, incurs or is liable for (and including, but not limited to, any reasonable legal costs and expenses and any reasonable professional consultant's fees on a full indemnity basis) in respect of:

- the Offers;
- this Prospectus;
- the Underwriting Agreement;
- reliance by an Indemnified Party on any representation or warranty made or given or deemed to have been made or given under Underwriting Agreement, information supplied by the Company or an advertisement, release, announcement, statement or publication made or distributed by or on behalf of the Company in relation to the Offers; or
- any investigation, enquiry or hearing by the ASIC or ASX.

The indemnity does not extend to and is not an indemnity against:

- any penalty or fine which the Indemnified Party is required to pay for any contravention of the Corporations Act which was directly caused by the Underwriter;
- any other amount in respect of which the indemnity would be illegal, void or unenforceable;
- any advertisement, release, announcement, statement or publication made or distributed by the Indemnified Party without the approval of the Company in relation to the Offers or the Prospectus;

- any obligation of the Underwriter to subscribe for the shortfall under the Underwriting Agreement; or
- any actions, demands, claims, suits or proceedings arising out of fraud, bad faith, negligence or wilful misconduct or default on the part of the Indemnified Party.

#### **Termination events**

The Underwriting Agreement contains a number of termination events. The Underwriter may terminate the Underwriting Agreement prior to the allotment of New Shares if any of the following occurs:

- **(no certificate)** the Company does not provide a certificate, as required in the Underwriting Agreement;
- **(change in laws)** any of the following occurs which does or is likely to prohibit, restrict or regulate the Offers or reduce the likely level of valid Acceptances or materially affects the financial position of the Company:
  - the introduction of legislation into the Parliament of the Commonwealth of Australia or of any State or Territory of Australia; or
  - the public announcement of prospective legislation or policy by the Federal Government or the Government of any State or Territory; or
  - the adoption by ASX or ASIC or their respective delegates of any regulations or policy;
- **(failure to comply)** the Company or any related Corporation of the Company fails to comply with any of the following:
  - a provision of its Constitution;
  - any statute;
  - the Listing Rules;
  - a requirement, order or request made by or on behalf of the ASIC, ASX or any governmental agency; or
  - any agreement entered into by it;
- **(material contracts)** any material contract to which the Company is a party is terminated or amended without the prior written consent of the Underwriter and which consent shall not be unreasonably withheld;
- **(constitution)** the constitution of the Company or a related corporation of the Company is amended without the prior written consent of the Underwriter and which consent shall not be unreasonably withheld;
- **(capital structure)** the Company or any related corporation of the Company takes any steps to alter its capital structure without the prior written consent of the Underwriter and which consent shall not be unreasonably withheld;
- **(judgment)** a judgment in an amount exceeding \$100,000 is obtained against the Company or a related corporation of the Company and is not set aside or satisfied within 7 days;
- **(process)** any distress, attachment, execution or other process of a Governmental Agency in an amount exceeding \$100,000 is issued against, levied or enforced upon any of the assets of the Company or a related corporation of the Company and is not set aside or satisfied within 7 days;

- **(receiver etc)** a receiver, receiver and manager, trustee, administrator or similar official is appointed, or steps are taken for such appointment, over any of the assets or undertaking of the Company or a related corporation of the Company;
- **(release of uncalled capital)** the Company or a related corporation passes or takes any steps to pass a resolution under either section 254N of the Corporations Act, without the prior written consent of the Underwriter;
- **(financial assistance)** the Company or a related corporation passes or takes any steps to pass a resolution under section 260B of the Corporations Act, without the prior written consent of the Underwriter;
- **(suspends payment)** the Company or a related corporation of the Company suspends payment of its debts generally;
- **(insolvency)** the Company or a related corporation of the Company is or becomes unable to pay its debts when they are due or is or becomes unable to pay its debts within the meaning of the Corporations Act or is presumed to be insolvent under the Corporations Act;
- **(arrangements)** the Company or a related corporation of the Company enters into or resolves to enter into any arrangement, composition or compromise with, or assignment for the benefit of, its creditors or any class of them;
- **(ceasing business)** the Company or a related corporation of the Company ceases or threatens to cease to carry on business;
- **(investigation)** a person is appointed under any legislation in respect of companies to investigate the affairs of the Company or a related corporation of the Company;
- **(administration)** steps are taken by anyone entitled to do so, to appoint an administrator to the Company or a related corporation of the Company;
- **(winding up)** an application or order is made for the winding up or dissolution of the Company or a related corporation of the Company or a resolution is passed or any steps are taken to pass a resolution for the winding up or dissolution of the Company or a related corporation of the Company and the winding up is not set aside within 7 days otherwise than for the purpose of an amalgamation or reconstruction which has the prior written consent of the Underwriter;
- **(hostilities)** there is an outbreak of hostilities (whether or not war has been declared) not presently existing, or a major escalation in existing hostilities occurs, involving any of the following:
  - the Commonwealth of Australia;
  - Japan;
  - the United Kingdom;
  - the United States of America;
  - the People's Republic of China; or
  - the Philippines;
- **(default)** the Company is in default of any of the terms and conditions of the Underwriting Agreement or breaches any warranty or covenant given or made by it under Underwriting Agreement;
- **(shares)** any shares that have been issued by the Company which at the date of this agreement are officially quoted on ASX:

- are suspended from quotation whether temporarily or otherwise; or
- the subject of an ASX statement to the effect that the shares will be suspended or cease to be quoted;
- **(indices movement)** any of the following:
  - **(ASX300)** the ASX 300 Index is, at any time for 2 consecutive Business Days, 10% or more below its opening level as published in the Australian Financial Review on the last Business Day immediately before the date of this agreement;
  - **(Dow Jones Index)** the Dow Jones Industrial Average is, at any time for 2 consecutive Business Days, 10% or more below its opening level as published in the Australian Financial Review on the last Business Day immediately before the date of this Agreement;
  - **(Resources Index)** the Resources Index of ASX is, at any time for 2 consecutive Business Days 10% or more below its opening level as published in the Australian Financial Review on the last Business Day immediately before the date of this Agreement;
- **(misrepresentation)** any warranty, representation or material statement by the Company is or becomes false, misleading or incorrect when made or regarded as made;
- **(listing)** quotation of the Underwritten Shares is not unconditionally approved by ASX (except for the certain customary matters) by 5pm on the Closing Date or is withdrawn on or before 12 noon on the shortfall allotment date;
- **(statement of ASX)** ASX makes a statement to any person that official quotation of the underwritten shares will not be granted;
- **(adverse change)** any change occurs in the financial position of the Company or a related corporation of the Company which, in the opinion of the Underwriter, may have a material adverse effect;
- **(Prospectus)**
  - there is a material omission from the Prospectus;
  - there is a material statement in the Prospectus that is or becomes false or misleading;
  - the issue of the Prospectus constitutes conduct that is misleading or deceptive or likely to mislead or deceive;
  - the Prospectus does not comply with sections 710 and 713 of the Corporations Act;
  - a Court or the ASIC concludes that the Prospectus does not contain all such information as investors and their professional advisers would reasonably require and reasonably expect to find in the Prospectus for the purpose of making an informed assessment of:
    - the effect of the Offers on the Company; and
    - the rights attaching to the New Shares including the underwritten shares,
 or concludes that the Prospectus otherwise fails to comply with the Corporations Act or any other material applicable law;

- the ASIC applies for an order under section 739 of the Corporations Act in relation to the Prospectus and the application is not dismissed or withdrawn before the Closing Date;
- in the Underwriter's reasonable opinion:
  - there has been a significant change affecting any matter included in the Prospectus; or
  - a significant new matter has arisen for inclusion in the prospectus of information about which would have been required to be in the Prospectus if the matter had arisen when the Prospectus was prepared;
- the Company informs the Underwriter of any change, information or deficiency under clause 8.4, or lodges a supplementary or replacement Prospectus;
- any person gives a notice under section 730 of the Corporations Act in relation to the Prospectus;
- the ASIC gives notice of intention to hold a hearing in relation to the Prospectus under section 739(3) of the Corporations Act or makes an interim order under section 1033(4) of the Corporations Act; or
- any person (other than the Underwriter) who consented to being named in the Prospectus withdraws that consent;
- **(prescribed occurrence)** except for the allotment and issue of the underwritten shares any of the matters set forth in section 652C of the Corporations Act occurs in respect of the Company or any related corporation of the Company;
- **(information supplied)** any information supplied by the Company or on its behalf to the Underwriter in respect of the Offer is or becomes false or misleading;
- **(due diligence)** there is a material omission from the due diligence results or the verification material or the due diligence results or the verification material are false or misleading;
- **(indictable offence)** a director of the Company or any related corporation of the Company is charged with an indictable offence relating to a financial or corporate matter; or
- **(Takeovers Panel)** the Takeovers Panel declares circumstances in relation to the conduct of the Offers by the Company to be unacceptable circumstances under section 657A of the Corporations Act.

If the Underwriter terminates the Underwriting Agreement in any of the above circumstances, the Company's obligation to pay the underwriting fee and the Underwriter's costs and expenses remain unaffected.

Waverton may nominate and determine other persons who may act as sub-underwriters and receive any shortfall under the Offers.

#### **5.4 Interests of Directors**

Except as disclosed in this Prospectus, no Director:

- holds or has held in the last two years before the lodgement of this Prospectus with ASIC any interest in:
  - the formation or promotion of the Company; or

- any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offers under this Prospectus; or
- the Offers under this Prospectus, or
- has been paid or has agreed to be paid or has received or has agreed to receive any benefits:
  - to induce them to become or to qualify as a Director; or
  - for services rendered by them in connection with the formation or promotion of the Company or the Offers under this Prospectus.

### Remuneration

Directors' remuneration for the last two years was as follows:

Director	Salary and fees (\$)		Other (\$)		Total (\$)	
	2010	2009	2010	2009	2010	2009
R.E. Keevers	204,679	134,128	50,792	78,381	255,471	212,509
R.G. Melgaard	81,750	65,331	0	0	81,750	65,331
R.J.H. Mills	32,992	35,969	0	0	32,992	14,017
M.R. Nugent <sup>+</sup>	0	0	0	0	0	0
B.L. Kelly <sup>#</sup>	0	0	15,000	26,160	15,000	26,160
J-P Bastoni <sup>*</sup>	0	14,000	0	1,260	0	15,260

<sup>+</sup> Appointed 26 November 2010.

<sup>#</sup> Resigned 29 June 2010.

<sup>\*</sup> Resigned 6 August 2009.

The constitution of the Company provides that non-executive Directors are entitled to receive remuneration for their services as determined by the Company in general meeting. At the annual general meeting on 30 May 2006, Shareholders resolved that the maximum aggregate amount of Directors' fees (which does not include the remuneration of executive Directors and other non-director services provided by Directors) is \$120,000 per annum, inclusive of superannuation entitlements. The Directors may divide that remuneration among the non-executive Directors as they decide.

Directors are entitled to be reimbursed for their reasonable expenses incurred in connection with the affairs of the Company. A Director may also be remunerated as determined by the Directors if that Director performs additional or special duties for the Company. A former director may also receive a retirement benefit of an amount determined by the Directors in recognition of past services, subject to the Listing Rules and the Corporations Act.

### Shareholdings and option holdings of Directors

The Directors are not required under the constitution to hold any Shares in the Company. The following table sets out the relevant interests in Shares and options held by each Director as at the date of this Prospectus:

Director	Shares held directly	Shares held indirectly	Unlisted Options held	Listed Options held
R.E. Keevers	2,294,097	487,500	1,400,000	463,600
R.G. Melgaard	38,286,819	0	0	3,321,005
R.J.H. Mills	2,485,428	0	0	0
M.R. Nugent	0	0	0	0

**Note:** This table does not take into account any New Shares the Directors may acquire under the Offers. Some or all of the Directors may participate to the extent of their Entitlement under the Offers.

## 5.5 Disclosure of interests of advisers

Except as set out in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus:

- has any interest, or has had any interest during the last two years, in the formation or promotion of the Company, or in property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or the offers of the New Shares; or
- has been paid, or has agreed to be paid, any amount and has received or has agreed to receive any benefit that has been given, or agreed to be given, in connection with the services provided by the person in connection with the formation or promotion of the Company, or the offers of the New Shares.

DLA Philips Fox have acted as legal adviser to the Offers and have generally advised in relation to due diligence enquiries and are entitled to receive \$35,000 plus outlays and GST in respect of these services. Further amounts may be paid to DLA Philips Fox in accordance with their usual time-based charge-out rates.

Waverton Holdings Limited, has acted as Underwriter, for which it is entitled to receive an underwriting fee of 6.5% of the underwritten amount, totalling \$278,007 and to be reimbursed all reasonable costs, professional fees and expenses of and incidental to the Offers.

## 5.6 Consents and disclaimers

None of the persons named below has authorised or caused the issue of this Prospectus or made any statement that is included in this Prospectus, or any statement on which a statement made in this Prospectus is based, except as stated below. Each of the persons named below expressly disclaims and takes no responsibility for any statements or omissions from this Prospectus. This applies to the maximum extent permitted by law and does not apply to any matter to the extent to which consent is given below.

### Consents to be named

The following persons have given and have not, prior to the lodgement of this Prospectus with ASIC, withdrawn their written consent to be named in this Prospectus in the form and context in which they are named.

DLA Phillips Fox has consented in writing to be named in this Prospectus as solicitors for the Company and has not withdrawn that consent prior to this Prospectus being lodged with ASIC.

Waverton Holdings Limited has consented in writing to be named in this Prospectus as the Underwriter and has not withdrawn that consent prior to this Prospectus being lodged with ASIC.

Computershare Investor Services Pty Ltd has consented in writing to be named in this Prospectus as the share registry for the Company and has not withdrawn that consent prior to this Prospectus being lodged with ASIC.

Ernst & Young has consented in writing to be named in this Prospectus as the auditor for the Company and has not withdrawn that consent prior to this Prospectus being lodged with ASIC.

#### **5.7 Expense of the Offers**

The estimated costs of the Offers, including advisory, underwriting, legal, listing and administrative fees, as well as printing, advertising and other expenses are currently estimated to be approximately \$365,718.

#### **5.8 Governing law**

This Prospectus and the contracts that arise from Acceptances are governed by the laws of Queensland and each Eligible Shareholder or Eligible Optionholder submits to the exclusive jurisdiction of the courts of Queensland.

#### **5.9 Expiry date**

No Shares will be offered on the basis of this Prospectus later than 13 months after the date of this Prospectus.

#### **5.10 Consent to lodgement**

This Prospectus is issued by the Company. Each Director has consented to the lodgement of this Prospectus with ASIC as required by section 720 of the Corporations Act.

## 6 Glossary of terms

**A-IFRS** means the Australian Equivalents of the International Financial Reporting Standards.

**Acceptance** means a valid Shareholder Entitlement and Acceptance Form or Optionholder Entitlement and Acceptance Form to subscribe for New Shares under the Offers.

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

**ASTC** means ASX Settlement and Transfer Corporation Pty Limited ABN 49 008 504 532.

**ASX** means ASX Limited ABN 98 008 624 691.

**Board, Board of Directors** means the Directors of Electrometals acting as a board.

**Closing Date** means the date on which each Offer closes, being 5.00pm Sydney time on Friday 1 April 2011 or such other date as Directors determine in accordance with this Prospectus, with the Underwriter's consent.

**Company** means Electrometals Technologies Limited ABN 25 000 751 093.

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

**DBOO** means the Company's proposed design, build, own and operate business segment dedicated to developing a metal production business using EMEW® technology.

**Director** means each director of the Company at the date of this Prospectus.

**Dollars (\$)** means Australian dollars unless otherwise indicated.

**Electrometals** means Electrometals Technologies Limited ABN 25 000 751 093.

**electrowinning** means the process of recovering metal from solution (electrolyte) by electrolysis.

**Eligible Optionholder** means an Optionholder recorded on the Register at the Record Date with an address in Australia, New Zealand or Italy.

**Eligible Shareholder** means a Shareholder recorded on the Register at the Record Date with an address in Australia, New Zealand or Italy.

**EMEW®** means the Company's registered trade mark for its patented electrowinning process.

**Entitlement and Acceptance Form** means the personalised entitlement and acceptance form to be used by Eligible Shareholders and Eligible Optionholders in connection with the Offers, attached to or accompanying this Prospectus.

**Entitlement** means:

- each Eligible Shareholder's right to subscribe for one New Share at the Offers Price for every Share recorded in their name on the Register on the Record Date; and
- each Eligible Optionholder's right to subscribe for one New Share at the Offers Price for every Participating Option recorded in their name on the Register on the Record Date.

**EW** means electrowinning.

**Listing Rules** means the listing rules of ASX as in force from time to time.

**New Shares** means the Shares offered under the Offers.

**Non-Participating Foreign Holder** means any Shareholder who is not an Eligible Shareholder and any Eligible Optionholder who is not recorded on the Register at the Record Date with an address in Australia, New Zealand or Italy.

**Offers** means the non-renounceable offer to Eligible Shareholders and the non-renounceable offer to Eligible Optionholders under this Prospectus to take up their Entitlement.

**Offer Price** means 1.8 cents per New Share.

**Optionholder** means a holder of a Participating Option.

**Optionholder Entitlement and Acceptance Form** means the personalised entitlement and acceptance form to be used by Eligible Optionholders in connection with the Optionholder Offer, attached to or accompanying this Prospectus.

**Optionholder Offer** means the non-underwritten non-renounceable pro rata entitlement offer to Eligible Optionholders of one New Share for every one Participating Option held at the Record Date, at an Offer Price of 1.8 cents per New Share, made under this Prospectus.

**Participating Option** means the options over unissued Shares granted by the Company with an exercise price of \$0.14 and an expiry date of 18 April 2011 and which has been granted quotation on ASX under code EMMO.

**precious metals** means high-value metals including gold, silver and platinum group metals.

**Preference Shares** means convertible cumulative redeemable preference shares, which confer a right to receive a cumulative fixed preferential dividend at the rate of 8% per annum of the issue price of the share.

**Preference Shareholder** means the registered holder of a Preference Share.

**Prospectus** means this document (including any electronic form of this Prospectus), and any supplementary or replacement prospectus in relation to this document.

**Record Date** means 7.00pm (Sydney time) on Wednesday 9 March 2011.

**Registry** means Computershare Investor Services Pty Ltd ACN 078 279 277.

**Register** means the Company's register of members or optionholders, as the context requires.

**securities** has the meaning given by section 9 of the Corporations Act.

**Shares** means fully paid ordinary shares in the capital of the Company.

**Shareholder** means a holder of Shares.

**Shareholder Entitlement and Acceptance Form** means the personalised entitlement and acceptance form to be used by Eligible Shareholders in connection with the Shareholder Offer, attached to or accompanying this Prospectus.

**Shareholder Offer** means the fully underwritten non-renounceable pro rata entitlement offer to Eligible Shareholders of one New Share for every one Share held at the Record Date, at an Offer Price of 1.8 cents per New Share, made under this Prospectus.

**Subscription Monies** means monies received from Eligible Shareholders or Eligible Optionholders in respect of their Acceptances.

**SX-EW means** solvent extraction electrowinning.

**Underwriter or Waverton** means Waverton Holdings Limited, a company incorporated in British Virgin Islands.

**Underwritten Amount** is \$4,277,037.

References to time are references to Sydney time.

## CORPORATE DIRECTORY

### Directors

Richard Edward Keevers, Chairman and CEO  
Ronald Gregory Melgaard, Deputy Chairman  
Robert John Henry Mills, non-executive director  
Michael Richard Nugent, non-executive director

### Company Secretary

Colin Charles Barker

### Registered office

28 Commercial Drive  
ASHMORE QLD 4214  
Telephone: 07 5526 4663

### Postal address

28 Commercial Drive  
ASHMORE QLD 4214

**ASX code:** EMM

### Auditors

Ernst & Young  
Level 5, Waterfront Place  
1 Eagle Street  
BRISBANE QLD 4000  
Telephone: 07 3011 3333

### Registry

Computershare Investor Services Pty Limited  
117 Victoria Street  
WEST END QLD 4101  
(Mailing: GPO Box 523, Brisbane Qld 4001)  
Telephone: 07 3237 2100

### Solicitors

DLA Phillips Fox  
Level 28, Waterfront Place  
1 Eagle Street  
BRISBANE QLD 4000  
Telephone: 07 3246 4000

### Underwriter

Waverton Holdings Limited  
3rd Floor NatWest House  
Le Truchot, St Peter Port  
Guernsey GY11WD  
CHANNEL ISLANDS  
UNITED KINGDOM



# How to complete the Entitlement and Acceptance Form

Note that photocopies will not be accepted. These instructions are cross-referenced to each section of the Entitlement and Acceptance Form.

<b>A</b>	Details of your Entitlement based on your Eligible Shareholding and Eligible Optionholding at 7pm Sydney time on 9 March 2011 are shown in box A on the front of this Entitlement Form.	<b>D</b>	<b>Payment Details</b> You can apply for New Shares utilising the payment options detailed below. <b>Please note that funds are unable to be directly debited from your bank account.</b>  By making your payment using either electronic means or by cheque, bank draft or money order, you confirm that you: <ul style="list-style-type: none"><li>agree to all of the terms and conditions as detailed in the Prospectus dated 28 February 2011</li></ul> Your cheque, money order or bank draft must be made in Australian currency and drawn on an Australian branch of a financial institution. Such payment must be made payable to Electrometals Technologies Limited - Share Issue A/c and crossed "Not Negotiable". Payments not properly drawn may be rejected.  Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be re-presented and may result in your Acceptance form being rejected. Paperclip (do not staple) your cheque(s) to the form where indicated. Cash will not be accepted. Receipt of payment will not be forwarded.
<b>B</b>	<b>New Shares Accepted</b> You can apply to accept either all or part of your Entitlement. Enter in box B the number of New Shares you wish to accept from your Entitlement. <b>Please ensure you complete Section B on the bottom of the form.</b>	<b>E</b>	<b>Contact Details</b> Enter the name of a contact person and telephone number. These details will only be used in the event that the registry has a query regarding the slip below.
<b>C</b>	<b>Subscription Monies</b> Enter the amount of Subscription Monies. To calculate the amount payable, multiply the number of New Shares applied for by 1.8 cents. <b>Please ensure you complete Section C on the bottom of the form.</b>		

The directors reserve the right to make amendments to this form where appropriate.

## Lodgement of Acceptance

If you are applying for shares and your payment is being made by BPAY®, you do not need to return the slip below. Your payment must be received by no later than 5pm Sydney time on 1 April 2011. Applicants should be aware that their own financial institution may implement earlier cut off times with regards to electronic payment, and should therefore take this into consideration when making payment. Ensure you have read and accurately followed your banking institution's BPAY FAQ or other instructions prior to making multiple payments for multiple holdings under this offer. Neither CIS nor Electrometals Technologies Limited accepts any responsibility for loss incurred through incorrectly completed BPAY payments. It is the responsibility of the applicant to ensure that funds submitted through BPAY are received by this time.

If you are paying by cheque, bank draft or money order the slip below must be received by Computershare Investor Services Pty Limited (CIS) Brisbane by no later than 5pm Sydney time on 1 April 2011. You should allow sufficient time for this to occur. A reply paid envelope is enclosed for security holders in Australia. New Zealand and Italian holders will need to affix the appropriate postage. Return the slip below with cheque attached.

**Neither CIS nor the Company accepts any responsibility if you lodge the slip below at any other address or by any other means.**

## Privacy Statement

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

**If you have any enquiries concerning this form or your entitlement, please contact CIS on 1300 552 270.**

This form may not be used to notify your change of address. For information please contact CIS on 1300 552 270 or visit the share registry at [www.computershare.com](http://www.computershare.com) (Certificated/Issuer Sponsored Holders only).

**CHESS holders must contact their Controlling Participant to notify a change of address.**

© Registered to BPAY Pty Ltd ABN 69 079 137 518

## Payment Options:



**Bill Code: 160499**

**Ref No: 1234 5678 9012 3456 78**

Telephone & Internet Banking – BPAY

Call your bank, credit union or building society to make this payment from your cheque or savings account. More info: [www.bpay.com.au](http://www.bpay.com.au)



**Electrometals Technologies Limited  
Computershare Investor  
Services Pty Limited  
PO Box 5240  
Brisbane, Queensland 4001  
AUSTRALIA**



Entitlement Number: <xxxxxxxxxx>

**SAMPLE CUSTOMER  
SAMPLE STREET  
SAMPLE STREET  
SAMPLE STREET  
SAMPLE STREET  
SAMPLETOWN TAS 7000**

