

GYMPIE GOLD LIMITED
ACN 000 759 535

PROSPECTUS

For the issue of
Convertible Unsecured Subordinated Notes
to raise up to A\$40 million

This document is important and requires your immediate attention. It should be read in its entirety. If you are in doubt as to the course you should follow, you should consult your stockbroker or other professional adviser.

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IMPORTANT NOTICE

This Prospectus is dated 17 May 2002.

A copy of this Prospectus was lodged with the Australian Securities and Investments Commission (ASIC) on 17 May 2002. ASIC and the ASX take no responsibility for the contents of this Prospectus.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. In the United Kingdom, the Company is relying on exemptions contained in United Kingdom legislation in order to make the Offer to sophisticated investors in the United Kingdom. The exemptions relied on are Regulation 7 of the Public Offer of Securities Regulations 1995 (SI 1995/1537) and the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001. No applications for the Convertible Notes will be accepted from any person in the United Kingdom that do not fall within these exemptions.

Subject to the requirements of the *Corporations Act 2001* and the ASX Listing Rules, the Company reserves the right at any time to change the timetable as set out in this Prospectus.

No Convertible Notes will be allotted or issued on the basis of this Prospectus later than 13 months after the date of this Prospectus. Application will be made within 7 days from the date of this Prospectus for quotation of the Convertible Notes on ASX and AIM.

Applications for Convertible Notes under this Prospectus will not be processed until expiry of the Exposure Period for this Prospectus under the Corporations Act. The Exposure Period is generally seven days from the date that a prospectus is lodged with ASIC but may be extended by ASIC for up to a further seven days. If the Exposure Period is extended by ASIC, Applications will not be processed until after the expiry of the extended Exposure Period.

This Prospectus, without the Application Form, will be made generally available by being posted on the company's internet site, <http://www.gympiegold.com.au>.

Certain terms and abbreviations used in this Prospectus have defined meanings, as set out in the Glossary. All references to \$ are to Australian dollars.

The Trustee has had no involvement in the preparation of any part of this Prospectus (other than particular references to the Trustee and the Trust Deed). The Trustee expressly disclaims and takes no responsibility for any other part of this Prospectus. It makes no statement in this Prospectus and has not authorised or caused the issue of it. The Trustee does not guarantee the success of the Convertible Notes nor any conversion or repayment of the Convertible Notes or payment of any interest or other return on them.

1. CHAIRMAN'S LETTER

Dear Investor

Gympie Gold Limited is today strongly positioned at the early stages of a firming commodity cycle and is seeking financial support that will put the Company in a financial position to take advantage of this.

Specifically, we seek to issue up to 40 million 5 year Convertible Notes to professional investors in the UK, Europe and Australia at \$A1.00 each with a coupon rate of 8.5% to raise up to \$A 40 million. Each Convertible Note will upon conversion entitle the holder to 0.7407 of a share in the Company. This is equivalent to A\$1.35 per Ordinary Share.

Over the last six years, while we have been concentrating on developing our coal and gold assets, the capital markets have been largely uninterested in the resources sector. Capital, when it was available, was prohibitively expensive. As a result, the directors have taken the decision to constrain expenditure and, where appropriate, use various forms of short term finance.

Our projects have been funded in such a way that we still own 100% of Gympie Eldorado Gold Mines and 90% of Southland Coal while early shareholders have seen only a minimal dilution of their holdings. The positive results of this approach have been the continued development of two potentially large projects at a time in the commodity cycle when many similar enterprises were put on hold or shareholdings were diluted.

However, this strategy has come at a cost. The businesses have been developed slowly and opportunities to grow them further have been deferred. As well, the alliances we have with contractors have meant a reliance on short-term capital.

Despite improved product markets these constraints are still largely with us today. As world growth strengthens, we should be in a positive cycle for commodities.

As a Company, we want to take maximum advantage of this cycle. We already have the advantage of being well placed to increase output from our two businesses right at the beginning of the cycle. Those companies which must now raise capital to undertake the development of deferred projects are probably some years behind us.

We now wish to introduce longer term funding to facilitate continued growth of our businesses and the exploitation of new opportunities.

The financial plan involves putting in place the new capital from the Convertible Notes and supplementing this with expanded banking facilities.

The coal is a more established and predictable business today, but Gympie Eldorado Gold has the potential for greater upside tomorrow. We see this combination as very attractive and an excellent platform on which to build growth. If the winds of the cycle are blowing with us, and sometimes commodity cycles can blow pretty hard, we see no reason why the next few years should not be enormously rewarding for Gympie Gold.

It is for these reasons we are seeking your investment in the Convertible Notes. I hope you will agree with the strategy and urge you to support it.

Yours sincerely



Michael Darling
Chairman
Gympie Gold Limited

2. DETAILS OF THE OFFER

2.1 General information

This Prospectus is prepared in accordance with Section 713 of the *Corporations Act 2001* as Gympie Gold is a listed disclosing entity.

The Prospectus describes:

- (a) the terms and conditions of the Offer;
- (b) the effect of the issue of Convertible Notes on Gympie Gold; and
- (c) the rights and liabilities attaching to the Convertible Notes and the underlying securities, the Shares.

2.2 Offer Details

Gympie Gold is offering for subscription under this Prospectus Convertible Notes at an issue price of A\$1.00 to raise a minimum of A\$20 million and a maximum of A\$40 million. Each Convertible Note will upon conversion entitle the holder to 0.7407 of a share in the Company. The key terms of the Convertible Notes are set out in Section 3.

The Offer is being made predominantly to professional investors in the United Kingdom and Australia who are clients of stockbrokers W.H. Ireland Limited (in the United Kingdom) and Southern Cross Equities Limited (in Australia). Retail investors in Australia may apply for the Offer in accordance with the instructions in this Prospectus.

On this basis, the Company is relying on exemptions in United Kingdom legislation in order to make the Offer to sophisticated investors in the United Kingdom. The exemptions relied on are Regulation 7 of the Public Offer of Securities Regulations 1995 (SI 1995/1537) and the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001. No applications for the Convertible Notes will be accepted from any person in the United Kingdom that do not fall within these exemptions.

2.3 Purpose of Issue

Over the last six years, while the Company has been concentrating on developing its coal and gold assets, the capital markets have been largely uninterested in the resources sector. Capital, when it was available, was prohibitively expensive and so Gympie Gold has needed to be tight about expenditure and creative about funding expansion.

The gold and coal businesses have historically been funded in such a way that Gympie Gold Limited retains a high level of ownership (100% of Gympie Eldorado Gold Pty Limited and 90% of Southland Coal Pty Limited) while there has been a minimal issue of equity capital.

In order to do this, the businesses have been developed slowly and opportunities to grow have been deferred. As well as this, the alliances with contractors have resulted in a reliance on short term debt.

The proceeds of the capital raising will be used by Gympie Gold to:

- Repay short term debt
- Establish expanded banking facilities
- Increase the Company's working capital and cash reserves

This will reduce the Company's capital constraints and short term debt and foster continued growth of the businesses, which will include identification and evaluation of new opportunities and the generation of surplus cashflows.

To illustrate the effect of the issue on Gympie Gold a pro forma consolidated statement of financial position has been prepared based on the 31 December 2001 consolidated statement of financial position (refer to section 4.2 of this Prospectus).

The accounting policies adopted in preparation of the pro forma consolidated statement of financial position are consistent with the policies adopted and as described in Gympie Gold's Annual Report for the year ended 30 June 2001.

The consolidated statement of financial position as provided shows the effect of the Offer as if the Offer under this Prospectus had been made on 31 December 2001.

2.4 Important dates for Investors*

Offer Opens	17 May 2002 at 5.00pm AEST
Closing Date of Offer	By 14 June 2002 at 5.00pm AEST
Shareholder Meeting to approve issue of Convertible Notes	17 June 2002 at 10.30am AEST
Allotment of Convertible Notes	17 June 2002 at 5.00pm AEST
Expected date of dispatch of Convertible Note holding statements	18 June 2002 at 5.00pm AEST
Expected date for commencement of quotation of Convertible Notes on ASX (and AIM)	24 June 2002 at 5.00pm AEST

* These dates are subject to change and are indicative only. The Company, in consultation with the ASX, reserves the right to alter this timetable at any time.

2.5 Application and Payment

Applications for Convertible Notes can only be made by completing the Application Form in full, in accordance with the instructions on it, and forwarding it to the Note Registry by 14 June 2002, together with a cheque or bank draft drawn on a bank or financial institution in Australia in Australian dollars for the total amount of the Application Monies. Cheques should be made payable to 'Gympie Gold Convertible Note Offer' and crossed 'Not Negotiable'. Alternative arrangements have been made for investors from the United Kingdom and Europe to pay the Application Monies in pounds sterling or Euro at an equivalent fixed issue price (refer section 3).

Applications must be for a minimum of 1,000 Convertible Notes and thereafter in multiples of 1,000.

The Board has the discretion to accept or reject any application including to ensure compliance with the United Kingdom legislation as set out at section 2.2 above.

2.6 Minimum Subscription

The minimum subscription amount for the Offer is A\$20 million. In the event that the Company does not receive applications for over A\$20 million, the Company will not proceed with the Offer and all Application Monies will be returned to applicants. The Offer is not underwritten.

2.7 Allotment of Convertible Notes and Listing

Application will be made within seven days from the date of this Prospectus for quotation of the Convertible Notes on the ASX and AIM.

It is expected that the issue of the Convertible Notes will take place no later than 17 June 2002. However, the issue of the Convertible Notes will not take place until after the shareholders' meeting to be held on 14 June 2002 or any adjournment thereof.

If the approval of ASX to the official quotation of the Convertible Notes is not obtained within three months after the date of this Prospectus, all Application Monies will be repaid, without interest, in accordance with the *Corporations Act 2001*.

Application Monies will be held by the Company on trust for applicants in a trust account until the Convertible Notes are allotted. No interest will be paid on Application Monies.

The Company will apply for Shares issued on conversion of the Convertible Notes to be quoted on ASX and AIM in accordance with the Listing Rules and the AIM Rules.

2.8 CHESS

The Company will apply to have the Convertible Notes issued under this Prospectus admitted to participate in CHESS in accordance with the Listing Rules and the SCH Business Rules. The Company will operate an electronic Issuer Sponsored sub-register and an electronic CHESS sub-register. The two sub-registers together will make up the principal register of Convertible Notes.

Certificates for the Convertible Notes will not be issued. Convertible Noteholders who elect to hold Convertible Notes in the issuer sponsored sub-registered will be provided with a holding statement which will set out the number of Convertible Notes allotted to each Convertible Noteholder under this Prospectus. In the case of Convertible Noteholders who elect to hold their Convertible Notes on the CHESS sub-register, the Company will, on the allotment of Convertible Notes under this Prospectus, issue advice to such Convertible Noteholders which sets out the number of Convertible Notes allotted to the Convertible Noteholder under this Prospectus, and at the end of the month in which the allotment occurs, SCH, on behalf of the Company, will provide the Convertible Noteholder with a CHESS holding statement confirming the number of Convertible Notes allotted.

A holding statement (whether issued by SCH or the Company) will also provide details of the Convertible Noteholder's holder identification number (in the case of holdings on the CHESS sub-register) and the securityholder reference number (in the case of holdings on the issuer sponsored sub-register).

Following distribution of the initial holding statements to all Convertible Noteholders, a holding statement will only be provided to the Convertible Noteholder at the end of any subsequent month during which the balance of their Convertible Notes has changed.

2.9 Trustee and Trust Deed

Guardian Trust Australia Limited has agreed to act as the trustee for the Convertible Noteholders. The Convertible Notes are issued subject to the terms and conditions contained in the Trust Deed. A summary of the Trust Deed is set out in Section 7.

3. KEY TERMS OF THE CONVERTIBLE NOTES

The Conditions of Issue are reproduced in Section 9. This is a summary only of the material terms of the Convertible Notes. For further detail and defined terms, refer to Section 9.

Issue Price	<p>The Convertible Notes will be issued at par in minimum amounts of A\$1,000 for 1000 Convertible Notes. Thereafter, applications must be in multiples of 1,000 Convertible Notes.</p> <p>The Company will accept payment in foreign currency at an equivalent fixed issue price of A\$1.00 equals 37.3 pence.</p>
Conversion Price	<p>At conversion, holders may convert each \$A1.35 of Convertible Note, subject to the Conditions of Issue, into one Ordinary Share. Accordingly, for each A\$1,000 of Convertible Notes, on conversion the Noteholder will receive 740 Ordinary Shares.</p>
Expected Allotment Date	17 June 2002
Expected quotation date on ASX and AIM	24 June 2002
Maturity Date	<p>The Convertible Notes will be redeemed at their Issue Price on 30 September 2007, unless previously converted into Shares, redeemed at their full issue price or bought back in accordance with the Conditions of Issue of the Convertible Notes.</p>
Interest Rate	<p>Until the Convertible Notes are converted into Shares, redeemed or bought back by the Company, the Convertible Notes will pay a fixed rate of interest of 8.5% per annum (in \$A by reference to the \$A Issue price).</p> <p>Interest is payable in arrears on 31 January, 31 March, 30 June and 30 September of each calendar year until and including the Maturity Date. The first interest payment date is 30 September 2002 with the first payment being accrued interest to that date. Accrued interest will be paid in the event of early conversion or redemption.</p>
Conversion rights	<p>Convertible Notes may be converted by holders into Shares at the Conversion Price on the last day of each month (excluding the last day of the month in which the Issue Date falls).</p> <p>Convertible Notes must be converted in multiples of 1,000.</p>
Ranking on Conversion	<p>Each Share issued on conversion will rank equally with all existing ordinary Shares then in issue, except that they will not be entitled to any dividend that has been declared or determined but not paid as at the conversion date.</p>

Early Redemption Rights	<p>The Company may redeem the Convertible Notes prior to the Maturity Date if, at any time after 30 September 2003, less than 1 million Convertible Notes remain in issue.</p> <p>The Company may also redeem the Convertible Notes prior to the Maturity Date in the event of a Takeover Event or Tax Event as described in the Conditions of Issue.</p> <p>Prior to any redemption, Convertible Notes may be converted by holders into Shares.</p>
Participation rights	<p>Prior to conversion, Convertible Noteholders are not entitled to participate in rights issues, any return of capital, bonus issue or capital reconstruction. However, the conversion ratio will be adjusted in the case of a rights issue, return of excess capital or a bonus issue. In the case of capital reconstruction, the Convertible Notes will be reconstructed in accordance with the Listing Rules.</p>
Voting rights	<p>Convertible Noteholders are not entitled to vote at general meetings, unless provided for by the Listing Rules or the <i>Corporations Act 2001</i>.</p>
Buy-Back Option	<p>The Company has the right to buy back Convertible Notes in certain circumstances, including:</p> <ul style="list-style-type: none"> (a) at maturity; (b) in circumstances where the Company has an Early Redemption Right. <p>The amount received on the buy-back will equal the higher of 101% of a Share's VWAP over the 10 Business Days prior to the date of the buy-back and the Issue Price, plus any accrued interest on the Convertible Notes.</p> <p><i>VWAP is the arithmetic average of the daily volume weighted average sale price of the Company's Ordinary Shares sold on ASX during the relevant period but does not include:</i></p> <ul style="list-style-type: none"> (a) <i>special crossings;</i> (b) <i>crossings prior to the commencement of normal trading,</i> (c) <i>crossings during the after hours adjust phase; or</i> (d) <i>the exercise of options over Ordinary Shares,</i> <p><i>as described in the ASX Business Rules.</i></p>
Security and subordination	<p>The Convertible Notes are unsecured and rank ahead of all shares in the Company, but behind secured creditors, the Group's banks and financial institutions, and any other further financial accommodation notified by the Company in writing to the Trustee to enable the Group to meet its ongoing funding requirements in connection with the conduct of the Group's business. The Convertible Notes rank equally with all other unsecured creditors, excluding those preferred by law.</p>
Listing	<p>The Company will, within seven days of the date of this Prospectus, apply for the Convertible Notes to be quoted on ASX and AIM.</p>

4. CAPITAL STRUCTURE AND EFFECT OF THE OFFER

4.1 Financial Information

The Directors of Gympie Gold believe that the Annual Report of the Company for the year ended 30 June 2001, the Chairman's address to shareholders at the Annual General Meeting of the Company on 7 November 2001 and the contents of the half year results to 31 December 2001 (which were released to the ASX and ASIC on 11 March 2002), contain all financial information about Gympie Gold that Shareholders and their advisers will reasonably require to make an informed assessment of the Offer, when taken in conjunction with the other information regarding the Company contained in this Prospectus.

The Company will provide, free of charge, a copy of these documents to a person who asks for it prior to the Closing Date.

4.2 Pro forma Consolidated Statement of Financial Position

To illustrate the effect of the issue on Gympie Gold the pro forma consolidated statement of financial position has been prepared based on the 31 December 2001 consolidated statement of financial position. The consolidated statement of financial position as provided shows the effect of the Offer as if the Offer under this Prospectus had been made on 31 December 2001 and gives two alternatives depending on whether the maximum of A\$40 million is raised under the Offer or the minimum subscription of A\$20 million is raised under the Offer.

The accounting policies adopted in preparation of the pro forma consolidated statement of financial position are consistent with the policies adopted and as described in Gympie Gold's Annual Report for the year ended 30 June 2001.

(a) Assuming maximum subscription for A\$40 million

GYMPIE GOLD LIMITED			
PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
AS AT 31 DECEMBER 2001			
Assuming \$40 million of Convertible Notes Issued			
	Actual to Dec-01 \$'000	Convertible Notes Issue \$'000	Proforma Adjustments Dec-01 \$'000
CURRENT ASSETS			
Cash	13,215	37,700	50,915
Security Deposit	680		680
Receivables	6,747		6,747
Development	10,369		10,369
Inventories	8,694		8,694
Other	1,080		1,080
Total Current Assets	40,785	37,700	78,485
NON-CURRENT ASSETS			
Receivables			
Investments	67		67
Property, plant & equipment	115,861		115,861
Other	282	2,300	2,582
Total Non-Current Assets	116,210	2,300	118,510
TOTAL ASSETS	156,995	40,000	196,995
CURRENT LIABILITIES			
Payables	9,140		9,140
Interest bearing liabilities	20,944		20,944
Provisions	2,143		2,143
Other	257		257
Total Current Liabilities	32,484		32,484
NON-CURRENT LIABILITIES			
Interest bearing liabilities	15,434	40,000	55,434
Deferred tax liabilities	3,033		3,033
Provisions	3,191		3,191
Total Non-Current Liabilities	21,658	40,000	61,658
TOTAL LIABILITIES	54,142	40,000	94,142
NET ASSETS	102,853		102,853
SHAREHOLDERS' EQUITY			
Contributed equity	94,739		94,739
Retained earnings	8,114		8,114
TOTAL SHAREHOLDERS' EQUITY	102,853		102,853

(b) Assuming minimum subscription of A\$20 million

GYMPIE GOLD LIMITED			
PROFORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
AS AT 31 DECEMBER 2001			
Assuming \$20 million of Convertible Notes Issued			
	Actual to Dec-01 \$'000	Convertible Notes Issue \$'000	Proforma Adjustments Dec-01 \$'000
CURRENT ASSETS			
Cash	13,215	18,800	32,015
Security Deposit	680		680
Receivables	6,747		6,747
Development	10,369		10,369
Inventories	8,694		8,694
Other	1,080		1,080
Total Current Assets	40,785	18,800	59,585
NON-CURRENT ASSETS			
Receivables			
Investments	67		67
Property, plant & equipment	115,861		115,861
Other	282	1,200	1,482
Total Non-Current Assets	116,210	1,200	117,410
TOTAL ASSETS	156,995	20,000	176,995
CURRENT LIABILITIES			
Payables	9,140		9,140
Interest bearing liabilities	20,944		20,944
Provisions	2,143		2,143
Other	257		257
Total Current Liabilities	32,484		32,484
NON-CURRENT LIABILITIES			
Interest bearing liabilities	15,434	20,000	35,434
Deferred tax liabilities	3,033		3,033
Provisions	3,191		3,191
Total Non-Current Liabilities	21,658	20,000	41,658
TOTAL LIABILITIES	54,142	20,000	74,142
NET ASSETS	102,853		102,853
SHAREHOLDERS' EQUITY			
Contributed equity	94,739		94,739
Retained earnings	8,114		8,114
TOTAL SHAREHOLDERS' EQUITY	102,853		102,853

5. RISK FACTORS

5.1 Risks related to the Notes

Convertible Notes have rights which differ substantially from those of Shares. Investors should therefore consider whether the Convertible Notes are a suitable investment in the light of their investment objectives, financial circumstances and the risk factors set out in this Prospectus.

5.2 General risks of investing

There are general risks associated with listed interest bearing securities such as the Convertible Notes. Market prices for Convertible Notes could be affected by changes in interest rates, general equity and debt market conditions, changes in credit spreads or movements in the price of Shares.

5.3 Unsecured subordinated nature of the Convertible Notes

The Convertible Notes are not secured by any charge over any assets of the Company or any subsidiary of the Company. They constitute unsecured liabilities of the Company. In the event of a winding up, the Convertible Notes would rank behind:

- (a) all secured creditors of the Company;
- (b) the Group's banks and other financial institutions; and
- (c) any other creditors notified by the Company in writing to the Trustee.

In the event of a shortfall of funds on a winding up, there is a risk that Convertible Noteholders will not be repaid in full or receive any accrued interest entitlement.

5.4 Liquidity

The market for Convertible Notes may be less liquid than the market for Shares. A lack of liquidity may adversely affect the value investors receive for Convertible Notes sold on ASX and AIM.

5.5 Rights of redemption or buy-back prior to maturity

The Convertible Notes may be redeemed at the Issue Price or bought back by the Company prior to the Maturity Date upon the occurrence of the following events:

- (a) less than 1 million Convertible Notes remain on issue at any time after 30 September 2003;
- (b) a Takeover Event; or
- (c) a Tax Event.

If the Company elects to redeem early in these circumstances, Convertible Noteholders may convert their Convertible Notes into Shares.

5.6 Buy-back option

- (a) The Company has the right to buy back Convertible Notes in certain circumstances, including:
 - (i) at maturity; and
 - (ii) in circumstances where the Company has an early redemption right.
- (b) Upon a buy-back, Convertible Noteholders will receive an amount equal to at least 101% of VWAP over the 10 Business Days prior to the date of the buy-back plus any accrued interest, instead of receiving Shares. There is a risk that the amount received may be more or less than the value of the Shares that the Convertible Noteholder would have received if the Company had not elected to buy back the Convertible Notes.
- (c) In addition, the tax consequences for investors of a buy-back may differ from the tax consequences upon conversion of the Convertible Notes.

5.7 Taxation considerations

- (a) A general outline of the taxation consequences of investing in Convertible Notes is set out in Section 6. This discussion is in general terms and is not intended to provide specific advice in relation to the circumstances of any particular investor. Accordingly, investors should seek independent advice in relation to their own individual taxation position.
- (b) The Australian Government is in the process of a major review of the business tax system. If a change is made to the system and that change materially increases the net cost to the Company of having the Convertible Notes on issue, the Company is entitled to redeem the Convertible Notes at the Issue Price. Investors should refer to the Conditions of Issue set out in Section 9 for further information.

5.8 Business Risks

The business activities of the Company are subject to risks, and there are many factors which may affect its performance in the future. Some of these risks can be mitigated by the use of safeguards, and appropriate systems and actions, but many others are outside the control of the Company and cannot be mitigated. Also, there are general risks associated with any investment. There are a number of business risks which potential investors should consider before deciding whether or not to apply for Convertible Notes.

These risks include:

- (a) *General Economic Conditions*

The Company's business may be affected by general economic conditions (including, for example, interest rates, inflation, foreign exchange rates, the labour market environment and oil prices). Changes in economic conditions in the markets in which the Company operates may result in lower demand for the Company's products which may have an adverse effect on the Company's financial performance, the price of Shares and the value of Convertible Notes.

(b) *Mining Risks and Mineral Processing Risks*

There are risks inherent in the development and exploration of mineral deposits. The business of mining and mineral processing by its nature involves significant risks and hazards including mine planning and production risks (ore grade/quality, tonnages and recovery/yields), environmental hazards, industrial incidents, labour disputes, discharge of toxic chemicals, fire, drought, flooding and other acts of God. The occurrence of any of these hazards can delay or interrupt production, increase production costs and result in liability to the owner or operator of the mine and/or project. The Group may become subject to pollution or other hazards against which it has not insured or cannot insure, including those in respect of past mining or other activities for which it was not responsible.

(c) *Volatility of Gold and Coal Prices*

Historically, gold and coal prices have fluctuated widely and are affected by numerous factors over which the Group has no control, including world production levels, international economic trends, currency exchange rate fluctuations, expectations for inflation, speculative activity, consumption patterns and global or regional political events. The aggregate effect of these factors is impossible to predict.

(d) *Mining and Processing Licences*

The Group's mining and processing activities are dependent upon the grant of appropriate licences, concessions, leases, permits, planning and regulatory consents which may be withdrawn or made subject to conditions. Although the Group believes that the licences, permits and consents it holds will be renewed, there can be no assurance that they will be renewed or as to the terms of any such renewal.

(e) *Production Estimates*

Actual production may vary from estimates of future production for a variety of reasons. There is a greater likelihood that actual production will vary from estimates of production for properties not yet in production or from operations that are to be expanded.

(f) *Currency and Exchange Rate Fluctuations*

The exchange rate between various currencies may fluctuate substantially and the result of these fluctuations may have a material adverse impact on the Group's operating margins, results of operations and financial position.

(g) *Industrial Action*

There can be no assurance that the Group's businesses will not be affected by work stoppages and other forms of industrial action in the future.

(h) *Environmental Factors*

The Group's operations are and will be subject to environmental regulation (with regular environmental impact assessments and evaluation of operations

before any permits are granted to the Company) in all the jurisdictions in which it operates. Environmental regulations are likely to evolve in a manner that will require stricter standards and enforcement, increase in fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors and employees. Environmental regulations could impact on the Group's projects to the point where they are no longer commercially viable.

(i) *Limitations on Foreign Control of Mining Companies*

There are restrictions on foreign ownership of companies which involves the exercise of discretion on the part of relevant governments. There can be no assurance that the discretion will be exercised in a manner that is not materially adverse to the Group.

6. SUMMARY OF AUSTRALIAN TAXATION ISSUES

This section is a summary prepared by Ernst & Young of the Australian income tax implications of the acquisition, holding and disposal of the Convertible Notes. The summary reflects the Australian income tax law at the date of this Prospectus.

The income tax implications can vary depending on the nature and character of the circumstances affecting each particular Investor. This summary describes the generic income tax implications that could be expected to arise for an Investor who is not conducting a business of trading or dealing in shares or marketable securities and in the case of non-resident Investors, does not have a permanent establishment in Australia.

This summary is not an exhaustive statement of the possible tax implications for each prospective investor. Due to the complexity of the Australian tax legislation governing the acquisition, disposal, redemption and conversion of convertible notes, **each prospective investor is urged to seek independent financial and taxation advice about the consequences of the acquisition, disposal, redemption, conversion or sale of the Convertible Notes having regard to their specific personal circumstances. Neither the Company, its agents nor any of its officers accept any liability or responsibility in respect of the taxation consequences connected with the Offer or dealing with the Convertible Notes.**

6.1 Interest Payable on Convertible Notes

Australian Resident Investors

The Convertible Notes should be classified as debt interests for the purpose of the Income Tax Assessment Act 1936 (the '1936 Act') and the Income Tax Assessment Act 1997 (the '1997 Act'). On this basis, Investors (other than financial institutions) should include the interest received on the Convertible Notes in their assessable income in the year of income in which the interest is received or applied by them.

Non-Resident Investors

Interest payable to non-residents is generally subject to Australian interest withholding tax. The Convertible Notes issued under this offer should however be exempt from Australian interest withholding tax pursuant to Section 128F of the 1936 Act. Accordingly, there should be no Australian interest withholding tax payable on interest received by non-resident Investors on the Convertible Notes.

6.2 Disposal of Convertible Notes prior to Conversion or Redemption

Australian Resident Investors

The Convertible Notes will be considered to be “traditional securities” for the purposes of Sections 26BB and 70B of the 1936 Act.

Where an investor disposes of a Convertible Note to a third party prior to the conversion or redemption of that Convertible Note any gain will be included in the Investor’s assessable income under Section 26BB of the 1936 Act. Section 26BB will operate to override the capital gains tax (“CGT”) provisions, such that individual, trust and complying superannuation fund Investors will not be eligible for the CGT discount on any gains made in these circumstances.

Where an investor disposes of a Convertible Note to a third party prior to the conversion or redemption of that Convertible Note for less than their issue price, the loss will ordinarily be deductible under Section 70B of the 1936 Act.

Non-Resident Investors

Non-resident Investors should not be subject to Australian tax on the disposal of the Convertible Notes where they are disposed of outside Australia. Non-resident Investors may be subject to tax on the disposal of the Convertible Notes in their respective tax jurisdictions. Non-resident Investors should obtain their own independent advice as to the taxation consequences in their country of residence.

6.3 Conversion to Ordinary Shares

Australian Resident Investors

Where an Investor elects to convert a Convertible Note that is considered to be a “traditional security” to ordinary shares no capital gain or loss should arise at the time of conversion. Nor will the conversion result in a gain or loss for income tax purposes.

When the election to convert is made by the Investor, the Convertible Notes will be redeemed at their issue price with the redemption monies being applied to subscribe for Shares in Gympie Gold. As the amount receivable on redemption is equal to the issue price of the Convertible Notes there should be no taxable gain or loss on redemption of the Convertible Notes.

Our opinion is based on the position that the conversion of the Convertible Notes to ordinary shares is a two step process (ie a redemption of the Note and a separate issue of shares).

There is however, an alternative view that the conversion of Convertible Notes to ordinary shares is a one step process. This being that the shares received upon the conversion of the Convertible Note are to be treated as the consideration received for the disposal or redemption of the Convertible Note. On this basis an assessable gain may arise on conversion under section 26BB of the 1936 Act to the extent that the market value of the shares is greater than the amount paid for the acquisition of the Convertible Note. The Federal Government have however, in Media Release No. C057 issued on 14 May 2002, indicated an intention to clarify that no taxing point for traditional securities convertible or exchangeable into equity will arise on conversion. Under this proposal the taxing point will be moved from the time of conversion or exchange into equity to the time when the security is ultimately disposed of, resulting in the same tax outcome as we have outlined above under the two step process.

Investors should obtain their own independent advice as to the application and operation of these provisions.

Non-Resident Investors

Non-resident Investors should not be subject to Australian tax on the conversion of the Convertible Notes to ordinary shares. Non-resident Investors may be subject to tax on the conversion of the Convertible Notes to ordinary shares in their respective tax jurisdictions. Non-resident Investors should obtain their own independent advice as to the taxation consequences in their country of residence.

6.4 Cost Base of the Shares Resulting from the Conversion of Notes*Australian Resident Investors*

Investors will be deemed to have acquired the ordinary shares at the time of conversion with a cost base and reduced cost base in the ordinary shares for CGT purposes equal to the Investor's cost base in the Convertible Notes (the issue price) plus the amount (if any) included in their assessable income as a result of the conversion.

Non-Resident Investors

Non-resident investors will generally only be subject to Australian CGT provisions where they hold more than 10% of the issued capital of Gympie Gold. Accordingly, if a non-resident investor acquires more than 10% of the issued capital of Gympie Gold as a result of the conversion (or at any subsequent time) they would be subject to Australian CGT in broadly the same manner as for resident investors, subject to the operation of any relevant Double Tax Agreement.

6.5 Redemption of the Convertible Notes Upon Maturity*Australian Resident Investors*

In the situation where the Investor does not convert the Convertible Note prior to the Maturity date, Gympie Gold will be required to redeem the Convertible Notes for their issue price. Whilst the redemption of the convertible note constitutes a disposal for the purposes of Sections 26BB and 70B of the 1936 Act, no taxation implications should arise for Investors in this situation on the basis the proceeds equal the amount paid to acquire the Note.

Non-Resident Investors

Non-resident Investors should not be subject to Australian tax on the redemption of the Convertible Notes. Non-resident Investors may be subject to tax on the redemption of the Convertible Notes in their respective tax jurisdictions. Non-resident Investors should obtain their own independent advice as to the taxation consequences in their country of residence.

6.6 Early Redemption of the Convertible Notes by Gympie Gold

Australian Resident Investors

Where Gympie Gold elects to exercise the Event Buy Back Option and redeem the Convertible Notes prior to maturity, a gain under Section 26BB may arise. Where the Buy Back Amount of the Convertible Notes exceeds their issue price a gain for the purposes of Section 26BB will arise to the Investor at the date of redemption. The Investor will be required to include this gain in their assessable income in the year of redemption.

Non-Resident Investors

Non-resident Investors should not be subject to Australian tax on the early redemption of the Convertible Notes. Non-resident Investors may be subject to tax on the early redemption of the Convertible Notes in their respective tax jurisdictions. Non-resident Investors should obtain their own independent advice as to the taxation consequences in their country of residence.

7. ADDITIONAL INFORMATION

7.1 Transaction Specific Prospectus

Gympie Gold is a disclosing entity and therefore subject to regular reporting and disclosure obligations under the *Corporations Act 2001*. Under those obligations, Gympie Gold is obliged to comply with all applicable continuous disclosure and reporting requirements in the ASX Listing Rules.

This Prospectus is issued under Section 713 of the *Corporations Act 2001*. This section enables disclosing entities to issue a prospectus in relation to securities in a class of securities which has been quoted by ASX at all times during the 12 months before the date of the Prospectus or options to acquire such securities. Apart from formal matters, this Prospectus need only contain information relating to the terms and conditions of the Offer, the effect of the Offer on the Company and the rights and liabilities attaching to the Convertible Notes and the underlying securities, the Shares.

Copies of the documents lodged by Gympie Gold with ASIC may be obtained from, or inspected at, an office of ASIC.

The Company will provide a copy of any of the following documents, free of charge, to any person who asks for a copy of the document before the Closing Date in relation to this Prospectus:

1. the financial statements for the Company for the year ended 30 June 2001;
2. the financial report lodged with ASIC for the Company for the half-year ended 31 December 2001;
3. any continuous disclosure notices (including any announcements, documents or financial statements) lodged by the Company with ASIC or the ASX under the continuous disclosure and reporting requirements in the period from the date of lodgement of the 30 June 2001 financial statements to the date of this Prospectus; and
4. the Chairman's address to Shareholders at the Annual General Meeting of the Company held on 7 November 2001.

7.2 Rights and liabilities attaching to Shares issued on conversion of Convertible Notes

The rights attaching to ownership of the Shares issued on conversion of the Convertible Notes arise from a combination of the following:

1. the Constitution of the Company; and
2. in certain circumstances, regulated by the *Corporations Act*, the ASX Listing Rules, the SCH Business Rules and the general law.

A summary of the more significant rights attaching to the Shares is set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of the Company's shareholders.

Notice of Meetings

Each Shareholder is entitled to at least 28 days written notice of a meeting of members of the Company. Shareholders are also entitled to all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the *Corporations Act 2001* or the ASX Listing Rules.

Voting Rights

Subject to the Constitution and to any rights and restrictions attaching to any class of shares, at meetings of Shareholders or classes of Shareholders, each Shareholder entitled to attend and vote may attend and vote in person or by proxy or by attorney and, where the Shareholders is a body corporate, by representative.

On a show of hands every Shareholder present having the right to vote at the meeting has one vote. On a poll every Shareholder present has one vote for each fully paid share and, in the case of partly paid shares or shares held by the Shareholder, a fraction of a vote equivalent to the proportion which the amount paid (but not credited) is of the total amounts paid and payable (excluding amounts credited) on the share or shares held.

Dividends

Subject to *Corporations Act 2001* and to any special rights or restrictions attached to any shares, Directors may from time to time authorise the Company to pay interim and final dividends which appear to the Directors to be justified by the profits of the Company.

Transfer of Shares

Uncertificated System

Transfer of shares may be effected by an instrument of transfer in accordance with any system recognised by the ASX Listing Rules and effected in accordance with the Securities Clearing House Business Rules approved under the *Corporations Act 2001* SCH Business Rules or by an instrument of transfer in any usual form or by any other form approved by the Directors or recognised by the *Corporations Act 2001* or the ASX Listing Rules.

Certificated System

Subject to the Constitution and the *Corporations Act 2001*, a Shareholder's share may be transferred by instrument in writing, in any form authorised by the *Corporations Act 2001* and the ASX Listing Rules or in any other form authorised by the *Corporations Act 2001* and the ASX Listing Rules or in any other form that the Directors approve. No fee shall be charged by the Company on the transfer of any shares.

Refusal to Register

The Directors may, in their absolute discretion, refuse to register any transfer of shares or other securities where permitted to do so by the *Corporations Act 2001*, the ASX Listing Rules or the SCH Business Rules. The Directors must refuse to register any transfer of shares or other securities when required to do so by the Corporations Act, the ASX Listing Rules or by the SCH Business Rules. If the Directors decline to register a transfer, the Company must within 5 business days after the date of lodgment of such transfer give to the lodging party written notice of the refusal and the reasons for it.

Winding up

If the Company is wound up and the assets available for distribution are of an amount insufficient to repay the whole of the paid up capital, the assets shall be distributed so that, as nearly as may be, the losses shall be borne by the Shareholders in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up, on the shares held by them respectively.

If, in a winding up, the assets available for distribution among the Shareholders are more than required to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed among the Shareholders in proportion to the capital paid up, or which ought to have been paid up at the commencement of the winding up, on the shares held by them respectively.

If the Company is wound up, the liquidator may:

- (a) with the sanction of a special resolution passed by the Shareholders, divide among the Shareholders in kind the whole or any part of the property of the Company;
- (b) for that purpose set a value as the liquidator considers fair on any property to be so divided; and
- (c) decide how the division is to be carried out as between the members or different classes of members.

Variations of Rights

The rights attached to any class of Share may, unless their terms of issue state otherwise, be varied or cancelled with the written consent of the holders of three quarters of the issued shares of the class or by a special resolution passed at a separate meeting of the Shareholders of the class.

The rights conferred on holders of shares which are not ordinary shares and which have preferential or other special rights will, unless otherwise expressly provided by their respective terms of issue, be taken to be varied or abrogated by the issue of more shares or the conversion of securities to new securities which rank equally with or in priority to those shares.

7.3 Directors' interests

The nature and extent of the interest (if any) that any of the Directors of the Company holds, or held at any time during the last 2 years in:

- (a) the formation or promotion of the Company;
- (b) property acquired or to be acquired by the Company in connection with:
 - (i) its formation or promotion; or
 - (ii) the Offer; or
- (c) the Offer,

is set out below.

No one has paid or agreed to pay any amount, and no one has given or agreed to give any benefit to any director or proposed director:

- (a) to induce them to become, or to qualify as, a director of the Company; or
- (b) for services provided by a director in connection with:
 - (i) the formation or promotion of the Company; or
 - (ii) the Offer.

Set out below are details of the interests of the Directors in the securities of the Company immediately prior to lodgement of the Prospectus with the ASIC. Interests include those held directly and indirectly.

Director	Number of Shares	Number of options
M G Darling	44,723,842*	-
Harry Adams	1,982,035	4,000,000
Peter Cadwallader	466,405	-
John Leach	16,000	1,500,000
Roy Woodall, AO	120,000	250,000

* Mr Darling's interest includes the right to vote on behalf of four listed companies for an aggregate of 5,624,558 Shares.

7.4 Summary of the Trust Deed

The Trust Deed governs the terms and conditions on which the Notes are to be issued. Schedule 1 to the Trust Deed contains the Conditions of Issue of the Notes. The Conditions of Issue are set out in section 9 to this Prospectus.

The following is a summary of the Trust Deed and is not intended to set out in detail all of its provisions. The Trust Deed complies with section 283AB of the *Corporations Act 2001* and sets out the duties of the Company and Trustee as required by Chapter 2L of the *Corporations Act 2001*. The Trust Deed provides that the Notes are to be issued to such persons as the Company determines.

- (a) *Company's obligations*

Under the Trust Deed, the Company must:

- carry on and conduct its businesses in a proper and efficient manner and in accordance with all applicable laws and regulations;
- make available for inspection to the Trustee or to any registered Company auditor appointed by the Trustee all of the accounting or other records of the Group;
- advise the Trustee if the Company creates any charge over its assets; and

- comply with the *Corporations Act 2001* and the Listing Rules.

(b) *Reporting*

The Company is required to provide a copy of the Company's quarterly financial statements and annual report to the Trustee.

(c) *Trustee*

There are certain powers that the Trustee may exercise under the Trust Deed in addition to those powers of trustees arising under law. These additional powers include that it may waive any breach by the Company of any of the covenants or obligations binding upon the Company under the Trust Deed except for the obligation to pay the Principal Amounts of the Convertible Notes as and when required.

Subject to the *Corporations Act 2001*, the Trustee is not under any liability in connection with the Trust Deed except where the Trustee has been negligent, fraudulent or breached the terms of the trust. In addition, without prejudice to any indemnity allowed by law, the Company has agreed to indemnify the Trustee for all liabilities and expenses incurred by the Trustee in the execution of any of the powers, authorities or discretions vested in the Trustee.

The power of appointing a new trustee is vested in the Company and the Company may at any time remove the Trustee and appoint a new trustee. If on the expiration of a specified period after the Trustee gives notice that it wishes to retire, and a new trustee has not been appointed, the existing trustee has the power to appoint a new trustee.

The Trustee makes no statement in this Prospectus and does not guarantee the payment of interest on the Convertible Notes, the repayment of the Issue Price of the Convertible Notes or any other obligations of the Company under the Trust Deed.

(d) *Meetings of Noteholders*

Under the provisions of the Trust Deed, the Trustee or the Company may convene a meeting of the Noteholders by giving not less than 10 business days' prior notice to the Noteholders. The Company must, upon delivery to the Note Registry of an application by persons holding notes representing not less than 10% in value of the total redemption amount, summon a meeting of Noteholders by providing the requisite notice.

There will be a quorum for a meeting of Noteholders if any Noteholder or Noteholders present in person or by proxy or, being a corporation, by proxy or duly authorised representative, hold in aggregate notes representing 10% in value of the total redemption amount.

Every question submitted to a meeting of Noteholders must be decided in the first instance by a show of hands. At every meeting of Noteholders each Noteholder is entitled on a show of hands to one vote. At any meeting of Noteholders a poll may be demanded by the chairman or in writing by one or more Noteholders present in person, by proxy, by attorney or by duly authorised representative and holding or representing at least 5% in value of

the total redemption amount. On a poll every Noteholder shall have one vote for every note with respect to which he is the registered holder.

(e) *Release of Company*

The Company is released from the obligations under the Trust Deed upon the Convertible Notes and interest accrued on them being paid in full or otherwise redeemed or satisfied and payment of all costs, charges, liabilities and expenses properly incurred by the Trustee.

7.5 Interests of professionals, advisers and promoters

The nature and extent of the interests (if any) that:

- (a) a person named in the Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus;
- (b) a promoter of the Company; or
- (c) a stockbroker or underwriter (but not a sub-underwriter) to the Issue,

holds, or held at any time during the last 2 years in:

- (a) the formation or promotion of the Company;
- (b) property acquired or to be acquired by the Company in connection with:
 - (i) its formation or promotion; or
 - (ii) the Offer; or
- (c) the Offer,

is set out below.

The amount that anyone has paid or agreed to pay, or the nature and value of any benefit anyone has given or agreed to give for services provided by:

- (a) a person named in the Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus;
- (b) a promoter of the Company; or
- (c) a stockbroker or underwriter (but not a sub-underwriter) to the Issue,

in connection with:

- (d) the formation or promotion of the Company; or
- (e) the Offer,

is set out below.

Brokers

Southern Cross Equities is entitled to 4% of the amount of the Offer raised by Southern Cross Equities (5% if the amount raised is more than A\$30 million).

W.H. Ireland Limited has agreed to act as Broker to the Company in connection with the issue in United Kingdom and Europe. The Company has agreed to pay a retainer of £ 10,000 plus 4% of the amount of the Offer raised by W.H. Ireland Limited (5% if the amount raised is more than A\$30 million).

Solicitors

Minter Ellison have acted for the Company as its legal advisor in Australia in respect of this Prospectus and will be paid legal fees and disbursements in accordance with its usual rates for its work in connection with this Prospectus. These will not exceed A\$65,000 (plus disbursements).

Hobson Audley have acted as solicitors to the Company in the United Kingdom and advised as to United Kingdom law. The Company has paid or agreed to pay an amount of approximately £20,000 (plus disbursements) in respect of these services.

Ernst & Young

Ernst & Young has acted for the Company as its taxation advisor in respect of this Prospectus and will be paid fees and disbursements in accordance with its usual rates for its work in connection with this Prospectus. These will not exceed A\$10,000.

Note Registry

Computershare Investor Services Pty Limited and Computershare Services plc has performed work in its capacity as the Company's share and convertible note registry in relation to the Offer. The Company has agreed to pay Computershare Registry Services Pty Limited an amount of A\$2,000 and Computershare Services plc an amount of £2,500 for these services.

7.6 Consents and Disclaimers

Each of the parties referred to in this section:

- (a) does not make, or purport to make, any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by any of those parties, other than as specified in this section; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of the Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this section.

PricewaterhouseCoopers have given, and at the time of lodgment of this Prospectus have not withdrawn, their consent to be named in this Prospectus as auditor to the Company in the form and context in which they are named.

Ernst & Young have given and at the time of lodgment of this Prospectus have not withdrawn their consent to be named in this Prospectus as tax advisers to the Company

in the form and context in which they are named and the inclusion of the tax summary which Ernst & Young have prepared as included in section 6 of this Prospectus.

Minter Ellison have given, and at the time of lodgment of this Prospectus have not withdrawn, their consent to be named in this Prospectus as solicitors to the Company.

W.H. Ireland Ltd has given, and at the time of lodgment of this Prospectus has not withdrawn, its consent to be named in this Prospectus as the Broker to the Offer in the United Kingdom.

Southern Cross Equities Limited has given, and at the time of lodgment of this Prospectus has not withdrawn, its consent to be named in this Prospectus as the Broker to the Offer in Australia.

Computershare Registry Services Pty Limited has given, and at the time of lodgment of this Prospectus has not withdrawn, its consent to be named in this Prospectus as the note registry to the Company in Australia.

Computershare Services plc has given, and at the time of lodgment of this Prospectus has not withdrawn, its consent to be named in this Prospectus as the note registry to the Company in the United Kingdom.

Guardian Trust Australia Limited has given, and at the time of lodgment of this Prospectus has not withdrawn, its consent to be named in this Prospectus as the Trustee under the Trust Deed.

7.7 Expenses

The total estimated expenses of the Offer (including legal fees and other consulting fees, registration fees and other expenses) will depend on the amount raised under the Offer. If the Company raises the minimum subscription amount of A\$20 million, the Company's expenses will be approximately A\$1.1 million. If the Company raises the maximum subscription amount of A\$40 million, the Company's expenses will be approximately A\$2.3 million.

7.8 Directors' Consents

The Directors state that they have made all reasonable enquiries and have reasonable grounds to believe that all statements made by the Directors in this Prospectus are true and not misleading.

Each director consents to the lodgement of this Prospectus with ASIC.

8. GLOSSARY

Some capitalised terms used in this Prospectus, if not found in this Glossary, have the meaning ascribed to that term in the Conditions of Issue set out in Section 9.

'**AEST**' means Australian Eastern Standard Time.

'**AIM**' means the Alternative Investment Market of the London Stock Exchange.

'**Allotment Date**' means the date of allotment of the Convertible Notes (as at the date of this Prospectus, expected to be 17 June 2002).

'**Application Form**' means an application form which accompanies this Prospectus in regard to the offer.

'**Application Monies**' means the issue price multiplied by the number of Convertible Notes applied for.

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

'**ASX**' means Australian Stock Exchange Limited.

'**ASX Listing Rules**' means the listing rules of ASX from time to time.

'**Board**' means the board of Directors.

'**Business Day**' has the same meaning as in the ASX Listing Rules.

'**CHESS**' means the Clearing House Electronic Sub-Register System, being the system established and operated by SCH for the transfer and registration of securities.

'**Closing Date**' means, subject to section 2.4 of this Prospectus, 14 June 2002.

'**Company**' or '**Gympie Gold**' means Gympie Gold Limited ACN 000 759 535.

'**Conditions of Issue**' means the conditions on which the Convertible Notes are issued, as set out in Section 9 of this Prospectus.

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

'**Convertible Note**' or '**Note**' means the Convertible Unsecured Subordinated Note with an issue price of A\$1.00 issued under this Prospectus;

'**Convertible Noteholder**' means a register holder of a Convertible Note.

'**Director**' means a director of the Company.

'**\$**' means Australian dollars unless otherwise indicated.

'**Early Redemption Event**' has the meaning given in clause 8.3 of the Conditions of Issue.

'Exposure Period' means, in accordance with section 727(3) of the *Corporations Act 2001*, the period of seven days (which may be extended by ASIC to up to 14 days) following lodgment of this Prospectus with ASIC during which the Company must not process Applications.

'Group' means the Company and each related body corporate of the Company.

'Guarantor' means a guarantor of the Company's obligations under the Trust Deed.

'Maturity Date' means 30 September 2007.

'Note Registry' means the place where the Note Register is kept, which at the date of this Prospectus is Computershare Registry Services Pty Ltd at Level 2, Reserve Bank Building, 45 St George's Terrace, Perth, Western Australia.

'Offer' means the offer of Convertible Notes as set out in this Prospectus.

'Prospectus' means this prospectus dated 17 May 2002.

'Related Body Corporate of the Company' means another body corporate which is related to the Company within the meaning of section 50 of the *Corporations Act 2001*.

'SCH' means ASX Settlement and Transfer Corporation Pty Limited approved as the clearing and settlement facility under the *Corporations Act 2001* and where the case requires, includes an agent appointed by SCH.

'SCH Business Rules' means the Business Rules of SCH.

'Shareholders' means the holders of Shares.

'Shares' means fully paid ordinary shares in the Company.

'Takeover Event' has the meaning given in clause 7.3 of the Conditions of Issue.

'Tax Event' has the meaning given in clause 6.3 of the Conditions of Issue.

'Trust Deed' means the Trust Deed dated on or about [#date#] May 2002 between the Company and the Trustee.

'Trustee' means Guardian Trust Australia Limited, the Trustee for the Convertible Noteholders under the Trust Deed.

'VWAP' means the arithmetic average of the daily volume weighted average sale price of the Shares sold on ASX during the relevant period but does not include any transaction defined in the ASX Business Rules as special, crossings prior to the commencement of normal trading, crossings during the after hours adjust phase nor the exercise of options over Shares.

9. CONDITIONS OF ISSUE OF CONVERTIBLE NOTES

GYMPIE GOLD LIMITED
ACN 000 759 535

CONDITIONS OF ISSUE OF CONVERTIBLE UNSECURED SUBORDINATED NOTES

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In these Conditions:

'**ASTC**' means ASX Settlement and Transfer Corporation Pty Ltd and, where the case requires, includes an agent appointed by ASTC;

'**ASX**' means Australian Stock Exchange Limited or any successor body;

'**ASX Business Rules**' means the business rules of ASX as amended or replaced from time to time;

'**Bonus Issue**' means a pro rata issue made to holders of Ordinary Shares of any Securities credited as fully paid by way of capitalisation of profits, reserves or otherwise, but excluding any issue of Securities made either in lieu of a cash payment as a dividend under the constitution of the Company or pursuant to a Spinoff;

'**Bonus Securities**' means Securities issued under a Bonus Issue;

'**Business Day**' means a trading day as defined in the Listing Rules;

'**Buy-Back Amount**' has the meaning given in clause 5.3;

'**Buy-Back Notice**' means a notice from the Company that it will purchase the number of Notes specified in the notice from a Noteholder at the Buy-Back Amount in such a form as the Board may from time to time approve;

'**Company**' means Gympie Gold Limited (ACN 000 759 535);

'**Conditions**' means these conditions of issue;

'**Conversion Date**' means an Event Conversion Date, a Standard Conversion Date or the Maturity Date, as the case may be;

'**Conversion Notice**' means a notice from a Noteholder that it requires the Company to convert the number of Notes specified in the notice into Ordinary Shares in such a form as the Board may from time to time approve;

'**Conversion Ratio**' means 0.7407, subject to adjustment pursuant to these Conditions;

'**Directors**' means the directors of the Company;

'**Early Redemption Event**' has the meaning given in clause 8.3;

'Early Redemption Notice' means a notice from the Company that it will redeem the number of Notes specified in the Notice for the Redemption Amount in such a form as the Board may from time to time approve;

'Election Date' means the day 20 Business Days prior to a Standard Conversion Date;

'Event Buy-Back Date' means (as the context requires):

- (a) the Maturity Date; or
- (b) the day 20 Business Days after the date of a Buy-Back Notice issued by the Company upon the occurrence of an Early Redemption Event, Takeover Event or Tax Event;

'Event Buy-Back Option' means the Company's right to buy-back Notes in accordance with clauses 5.1(a) and 5.1(b);

'Event Conversion Date' means (as the context requires):

- (a) the day 20 Business Days after the date of an Early Redemption Notice issued by the Company upon the occurrence of an Early Redemption Event or a Tax Event; or
- (b) the day 20 Business Days after the date of a Takeover Notice issued by the Company upon the occurrence of a Takeover Event.

'Event Conversion Right' means a Noteholder's right to convert their Notes into Ordinary Shares in accordance with clause 4.2;

'Governmental Agency' means a government or a governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity;;

'Group' means the Company and each Related Body Corporate of the Company;

'Group Company' means the Company or a Subsidiary of the Company;

'Guarantor' means a guarantor of the Company's obligations under the Trust Deed;

'GST' has the meaning given in the A New Tax System (Goods and Services Tax) Act 1999 (Cth) as amended from time to time;

'Income Tax' means any tax which is assessed, levied, imposed or collected on income or capital gains by or on behalf of any Governmental Agency and includes, but is not limited to, any interest, fine, penalty, charge, fee or other amount imposed in respect of the above;

'Interest Payment Date' means:

- (a) 31 December, 31 March, 30 June and 30 September of each calendar year until and including the Maturity Date for any Notes that have not been previously converted, redeemed or bought back; and
- (b) the Redemption Date.

'Interest Rate' means 8.5% per annum;

'Issue Date' means the date on which the Company issues the Notes;

'Issue Price' means, in relation to a Note, A\$1.00, regardless of the price or currency applicable to the offer of the Note for issue;

'Listing Rules' means the official listing rules of the ASX and any other rules of the ASX which are applicable while any Notes are admitted to the official list of the ASX, each as amended or replaced from time to time, except to the extent of any express written waiver by the ASX;

'Maturity Date' means 30 September 2007 for those Notes which have not been converted, redeemed or bought back prior to that date;

'Maturity Election Date' means the day 5 Business Days prior to the Maturity Date;

'Moneys Owning' at any time, means the sum of the Total Redemption Amount, any interest payable on the Notes which is then outstanding and any other moneys payable by the Company or a Guarantor to the Trustee or the Noteholders (as applicable) under these Conditions or the provisions of the Trust Deed;

'Note' means an unsecured subordinated redeemable note convertible into fully paid Ordinary Shares, having an Issue Price of A\$1.00 and issued in accordance with these Conditions and the provisions of the Trust Deed;

'Note Certificate' means a certificate in respect of Notes;

'Noteholder' means the holder of a Note as recorded in the Note Register;

'Note Register' means the register of Noteholders and, where appropriate, includes:

- (a) a sub-register conducted by or for the Company pursuant to the Corporations Act, Listing Rules or SCH Business Rules; and
- (b) any branch register.

'Note Registry' means the place where the Note Register is kept, which at the date of the Trust Deed, is care of Computershare Registry Services Pty Ltd, Level 2, Reserve Bank Building, 45 St George's Terrace, Perth, Western Australia, unless otherwise determined by the Company by notice in writing to the Trustee;

'Ordinary Share' means a fully paid ordinary share in the capital of the Company;

'Proper ASTC Transfer' has the meaning given in Corporations Regulation 1.0.02;

'Prospectus' means the prospectus in respect of the Notes to be lodged with the Australian Securities and Investments Commission on or about 17 May 2002 by the Company;

'Redemption Amount' means the Issue Price;

'Redemption Date' means (as the context requires):

- (a) the Maturity Date;
- (b) the day 20 Business Days after the Company issues an Early Redemption Notice;

'Related Body Corporate' of a body corporate means another body corporate which is related to the first within the meaning of section 50 of the Corporations Act;

'Rights Issue' means any pro rata offer or invitation of Securities (not being an offer of Securities which are issued in lieu of distributions or by way of a dividend reinvestment or under a scheme for the benefit of employees of the Company or its Related Bodies Corporate or under a share purchase plan or by way of a Spinoff or under a Bonus Issue) to the holders of Ordinary Shares;

'Securities' includes shares, debentures, debenture stock, notes and any option or right to subscribe for the same;

'SCH Business Rules' means the operating rules of ASTC, currently known as the SCH Business Rules, as amended or replaced from time to time;

'Spinoff' means the sale or divestment of any business of a Group Company where that process includes either a priority entitlement to, in specie distribution of, transfer of, or any other distribution or sale or subscription of Securities, in the entity conducting the business that is being sold or divested, to holders of Ordinary Shares;

'Standard Conversion Date' means the last day of each month between the Issue Date and the Maturity Date excluding the last day of the month in which the Issue Date falls;

'Standard Conversion Right' means a Noteholder's right to convert their Notes into Ordinary Shares in accordance with clause 4.1(a);

'Subsidiary' has the meaning given in section 9 of the Corporations Act;

'Takeover Event' has the meaning given in clause 7.3;

'Takeover Notice' means a notice in such form as the Board approves issued by the Company to a Noteholder that a Takeover Event has occurred;

'Tax' means:

- (a) a tax, levy, charge, impost, duty, fee, deduction, compulsory loan or withholding;
- (b) income, stamp or transaction duty, tax or charge; or
- (c) GST,

which is assessed, levied, imposed or collected by, or payable to, a Governmental Agency (excluding Income Tax other than interest withholding tax) and includes, but is not limited to, interest, fines, penalties, charges, fees or other amounts imposed on or in respect of any of the above;

'Tax Act' means:

- (a) the Income Tax Assessment Act 1936 or the Income Tax Assessment Act 1997 as the case may be as amended;
- (b) any other Act setting the rate of income tax payable; and
- (c) any regulation promulgated thereunder.

'Tax Event' has the meaning given in clause 6.3;

'Total Redemption Amount' means the sum of the Redemption Amounts of all Notes which at any time remain outstanding or unconverted;

'Trust Deed' means the trust deed of which these Conditions form a part, dated on or about 15 May 2002 between the Company and the Trustee;

'Trustee' means Guardian Trust Australia Limited ACN 050 294 052, the trustee for the Noteholders under the Trust Deed or any replacement trustee under the Trust Deed;

'VWAP' has the meaning given in clause 13.

1.2 Interpretation

- (a) Unless the context otherwise requires, these Conditions shall be interpreted in accordance with clause 1.3 of the Trust Deed, and any terms defined in the Trust Deed shall have the same meanings when used in these Conditions.
- (b) If an Interest Payment Date, Conversion Date, Redemption Date, Buy-Back Date or Maturity Date falls on a day which is not a Business Day, the time for performing any acts to be done on that day will be extended to the next succeeding Business Day subject to paragraph 2 of Appendix 6A of the Listing Rules.

2. ISSUE OF NOTES AND INTEREST

2.1 Issue of Notes

- (a) The Company may issue Notes with an Issue Price of A\$1.00 each pursuant and subject to Listing Rule 7.1.
- (b) The Notes must each be paid for in full on application.
- (c) The price applicable to the offer of a Note for issue:
 - (i) may be denominated in a currency other than Australian dollars; and
 - (ii) must be a fixed price in the applicable currency.

2.2 Interest

- (a) The Company must pay interest in Australian dollars on each Note at the Interest Rate.
- (b) Interest will accrue daily on the basis of a 365 day year from the Issue Date until the Note is redeemed, converted or bought back (as the case may be) in accordance with these Conditions and will be due and payable in arrears on each Interest Payment Date.
- (c) The first interest payment will be due on 30 September 2002 in respect of the period from the Issue Date until 30 September 2002. Thereafter interest will be computed from the day after each Interest Payment Date until the next succeeding Interest Payment Date (inclusive).

- (d) If the Company fails to make an interest payment when due and payable, interest will also accrue at the Interest Rate on the due but unpaid amount.
- (e) The record date to identify the Noteholder entitled to receive an interest payment will be 7 calendar days before the Interest Payment Date unless the Listing Rules require otherwise.

3. REDEMPTION

- 3.1 If the Notes are not otherwise redeemed, converted or bought back in accordance with these Conditions, the Notes will be redeemed by the Company on the Maturity Date by payment in Australian dollars to the Noteholder of the Redemption Amount.
- 3.2 Subject to these Conditions, the Company shall also have the right to redeem all of the Notes on a Redemption Date by payment of the Redemption Amount to the Noteholder upon the occurrence of:
 - (a) a Tax Event, as set out in clause 6;
 - (b) a Takeover Event, as set out in clause 7; and
 - (c) an Early Redemption Event, as set out in clause 8.

4. CONVERSION

4.1 Standard Conversion Right

- (a) Subject to these Conditions, a Noteholder has the right to convert all or some of their Notes in multiples of 1000 Notes into the number of Ordinary Shares calculated in accordance with the following formula:

$$\text{Number of Notes subject to Conversion Notice} \times \text{Conversion Ratio} = \text{Number of Ordinary Shares}$$

by delivering a Conversion Notice to the Note Registry during the 10 Business Days immediately preceding the Election Date.

- (b) Subject to these Conditions, in the event that a Noteholder exercises their Standard Conversion Right, the conversion of the Notes to Ordinary Shares will occur on the Standard Conversion Date, in accordance with clause 4.4.
- (c) The Company will pay the Noteholder on the Standard Conversion Date any interest that is accrued and unpaid up to the Standard Conversion Date except where the Noteholder is already entitled to an interest payment by virtue of a record date in respect of an Interest Payment Date on which the Standard Conversion Date falls.

4.2 Event Conversion Right

- (a) Subject to these Conditions, a Noteholder has the right to convert all or some of their Notes into the number of Ordinary Shares calculated in accordance with the following formula:

$$\text{Number of Notes subject to Conversion Notice} \times \text{Conversion Ratio} = \text{Number of Ordinary Shares}$$

by delivering a Conversion Notice to the Note Registry in the following circumstances:

- (i) during the 15 Business Days immediately preceding the Maturity Election Date; or
 - (ii) during the 15 Business Days after the date of an Early Redemption Notice issued by the Company upon the occurrence of an Early Redemption Event or Tax Event; or
 - (iii) during the 15 Business Days after the date of a Takeover Notice issued by the Company.
- (b) In the event that a Noteholder exercises their Event Conversion Right pursuant to clause 4.2(a)(i):
- (i) the conversion of the Notes to Ordinary Shares will occur on the Maturity Date in accordance with clause 4.4; and
 - (ii) the Company will also pay the Noteholder on the Maturity Date any interest that is accrued but unpaid up to the Maturity Date.
- (c) In the event that a Noteholder exercises their Event Conversion Right pursuant to clause 4.2(a)(ii) or (iii):
- (i) the conversion of the Notes to Ordinary Shares will occur on the Event Conversion Date in accordance with clause 4.4; and
 - (ii) the Company will also pay the Noteholder on the Event Conversion Date any interest that is accrued and unpaid up to the Event Conversion Date.

4.3 **Conversion Notices**

- (a) The Company will, upon request by a Noteholder to the Note Registry, procure that the Noteholder is sent a pro forma Conversion Notice.
- (b) A Conversion Notice cannot be withdrawn without the consent in writing of the Company.
- (c) Not less than 25 Business Days prior to the Maturity Date, the Company must send to Noteholders a notice notifying them of this date and of the Maturity Election Date together with a pro forma Conversion Notice.
- (d) A Conversion Notice served subsequent to a Buy-Back Notice will not result in the conversion of Notes to Ordinary Shares.

4.4 **Method of conversion**

- (a) On receipt of a Conversion Notice from a Noteholder:
 - (i) the Company shall redeem each of the Notes which are being converted for the Redemption Amount on the Conversion Date; and
 - (ii) the holder of the Notes which are being converted irrevocably and unconditionally directs the Company to apply the whole of the

Redemption Amount to subscribe for the number of Ordinary Shares to which the Noteholder is entitled under clauses 4.1 and 4.2 (as adjusted in accordance with these Conditions).

- (b) Where the total number of Ordinary Shares to be issued to a holder on conversion includes a fraction, that fraction will be disregarded.
- (c) The Company will within 3 Business Days following the Conversion Date issue Ordinary Shares in respect of converted Notes, except in the event of a Takeover Event, in which event Ordinary Shares in respect of converted Notes will be issued on the next Business Day following the Conversion Date. Any such issue will have effect and be deemed to have been made on the Conversion Date.
- (d) The issue of Ordinary Shares as a result of the conversion of Notes will be treated for all purposes as full repayment of the Redemption Amount payable with respect to such Notes and the obligations of the Company in relation thereto will thereupon cease, except in respect of any obligation or liability which has arisen on or before the Conversion Date.

5. BUY-BACK

5.1 Event Buy-Back Option

- (a) The Company (or such other Related Body Corporate of the Company that the Company nominates) has the right to purchase all or some of the Notes on an Event Buy-Back Date (for the purposes of this clause, the Maturity Date) for the Buy-Back Amount provided that the Company issues a Buy-Back Notice at least 20 Business Days before the Maturity Date.
- (b) Further to clause 5.1(a), the Company (or such other Related Body Corporate of the Company that the Company nominates) has the right to purchase all or some of the Notes on an Event Buy-Back Date for the Buy-Back Amount provided that the Company issues a Buy-Back Notice within five Business Days of the occurrence of:
 - (i) a Tax Event, as set out in clause 6;
 - (ii) a Takeover Event, as set out in clause 7; or
 - (iii) an Early Redemption Event, as set out in clause 8.
- (c) If the Company exercises its Event Buy-Back Option, the Notes the subject of the Buy-Back Notices shall be deemed cancelled on the Event Buy-Back Date. The Company will within 5 Business Days of the Event Buy-Back Date pay the Buy-Back Amount to the relevant Noteholders.

5.2 Deleted

5.3 Buy-Back Amount

With respect to each Note, the Buy-Back Amount is the amount which is calculated in accordance with the formula:

$$\text{Buy-Back Amount} = A + B$$

where:

A means the higher of $1.01 \times \text{Conversion Ratio} \times \text{VWAP}$ during the 10 Business Days prior to the Event Buy-Back Date and the Issue Price; and

B means any interest which is accrued but unpaid up to the Buy-Back Date.

5.4 **Buy-Back generally**

The Company's obligations in respect of the Notes subject to the Event Buy-Back Option will cease upon payment of the Buy-Back Amount, except in respect of any obligation or liability which has arisen on or before the Event Buy-Back Date.

5.5 **Rounding**

The Company may round down to the nearest cent any fractional part of the Buy-Back Amount.

6. **TAX EVENT**

6.1 If a Tax Event occurs:

- (a) the Company will issue to Noteholders within 5 Business Days following a Tax Event a notice to the effect that a Tax Event has occurred; and
- (b) the Company may at its discretion, at the same time as issuing a notice under clause 6.1(a), issue:
 - (i) an Early Redemption Notice in respect of all Notes; or
 - (ii) a Buy-Back Notice in respect of all Notes.

6.2 Noteholders may, within 15 Business Days of the date of an Early Redemption Notice issued by the Company under clause 6.1(b)(i), exercise their Event Conversion Right.

6.3 A Tax Event occurs if the Directors resolve on reasonable grounds (having obtained an opinion from reputable legal counsel or tax adviser) that a change in any taxation law, interpretation or ruling issued by any relevant governmental body has occurred (or is announced) and that change will materially increase the net costs to the Company of having the Notes on issue (having regard, without limitation, to any tax deductions available to the Company in connection with the payment of interest).

7. **TAKEOVER EVENT**

7.1 If a Takeover Event occurs:

- (a) the Company will issue a Takeover Notice to Noteholders within 5 Business Days after the occurrence of the Takeover Event; and
- (b) the Company may, at its discretion, at the same time as issuing a Takeover Notice, issue:
 - (i) an Early Redemption Notice in respect of all Notes; or
 - (ii) a Buy-Back Notice in respect of all Notes.

- 7.2 If the Company issues a Takeover Notice, or a Takeover Notice together with an Early Redemption Notice, in accordance with clause 7.1 Noteholders may, within 15 Business Days of the date of the notice(s), exercise their Event Conversion Right.
- 7.3 A Takeover Event occurs if, at any time on or before the Maturity Date, an off-market bid, a market bid, scheme of arrangement, or offer or invitation is made to all holders of Ordinary Shares to purchase or otherwise acquire Ordinary Shares from them within a specified period and the bid, scheme or offer becomes unconditional, and:
- (a) the offeror has at least 50% of the voting power (as defined by the Corporations Act) in the Company; or
 - (b) the Board issues a statement recommending that the bid, scheme or offer (as the case may be) be accepted or approved by holders of Ordinary Shares.

8. EARLY REDEMPTION EVENT

- 8.1 Within 5 Business Days after the occurrence of an Early Redemption Event, the Company may:
- (a) issue an Early Redemption Notice in respect of all Notes; or
 - (b) issue a Buy-Back Notice in respect of all Notes.
- 8.2 Each Noteholder may, within 15 Business Days of the date of an Early Redemption Notice issued by the Company under clause 8.1(a), exercise their Event Conversion Right.
- 8.3 An Early Redemption Event occurs if at any time after 30 September 2003 less than 1 million Notes remain on issue.

9. RIGHTS ISSUES, BONUS ISSUES & CAPITAL RECONSTRUCTIONS

9.1 Rights issues and Bonus issues

- (a) Subject to paragraph (b) below, if the Company makes a Bonus Issue or Rights Issue, the Conversion Ratio shall be adjusted immediately in accordance with the following formula:

$$CN = CN_0 \times P \times \left[\frac{(RD + RN)}{(RD \times P) + (RN \times A)} \right]$$

where:

CN: means the Conversion Ratio applying immediately after the application of this formula;

CN₀: means the Conversion Ratio applying immediately prior to the application of this formula;

P: means the VWAP calculated in respect of the period from (and including) the first Business Day after the announcement of the Bonus Issue or Rights Issue to ASX to (and including) the last Business Day of trading *cum* Bonus Issue or Rights Issue;

- A:** means, in the case of a Rights Issue, the subscription price per new Ordinary Share and, in the case of a Bonus Issue, zero;
- RN:** means the number of Ordinary Shares issued pursuant to the Bonus Issue; and
- RD:** means the number of Ordinary Shares on issue immediately prior to the allotment of new Ordinary Shares pursuant to the Bonus Issue.

- (b) Paragraph (a) does not apply to Ordinary Shares issued as part of a bonus share plan, employee or executive share plan, executive option plan, share top up plan or a dividend reinvestment plan.

9.2 Capital reconstructions

If, whilst any Note remains capable of being converted, the Ordinary Shares are reconstructed, consolidated or divided (other than by way of a Bonus Issue) into a greater or lesser number of Securities, then the Notes must, in accordance with the Listing Rules, be reconstructed, consolidated or divided on the same basis so that neither the Noteholders nor the holders of Ordinary Shares will receive a benefit that the other does not receive.

9.3 Listing Rules not to be contravened

Notwithstanding any provision of clauses 9 to 12 (inclusive):

- (a) no adjustment under those clauses may contravene any Listing Rule; and
- (b) if an adjustment under those clauses would contravene paragraph (a), the Notes are to be adjusted in accordance with the relevant adjustment required or permitted under the Listing Rules (and, if more than one, that one chosen by the Company).

10. SPINOFFS

10.1 Noteholders will be entitled to participate (without first having to convert Notes to Ordinary Shares) in any Spinoff on the following terms:

- (a) if the Spinoff is conducted by way of a priority offer to holders of Ordinary Shares, Noteholders will be entitled to participate in the priority offer on the same terms as if the Noteholders had converted their Notes to Ordinary Shares immediately before the date of entitlement to the Spinoff (without having to convert their Notes) so that Noteholders are treated in the same manner as the holders of Ordinary Shares;
- (b) if the Spinoff is conducted by way of a new issue of Securities in the Entity to holders of Ordinary Shares, Noteholders will be entitled to participate on the same terms as if the Noteholders had converted their Notes to Ordinary Shares immediately before the date of entitlement to the Spinoff (without having to convert their Notes) so that Noteholders are treated in the same manner as the holders of Ordinary Shares;
- (c) if the Spinoff is conducted in any other way, including but not limited to an in specie distribution of existing Securities to holders of Ordinary Shares, the value transferred to each Ordinary Share pursuant to the Spinoff shall be

deemed to be a return of capital, and the Conversion Ratio shall be adjusted in accordance with Clause 11.

11. RETURN OF CAPITAL OR EXCESS DISTRIBUTION

11.1 If the Company makes a return of capital or there is an Excess Distribution to holders of Ordinary Shares the Conversion Ratio shall be adjusted in accordance with the following formula:

$$CN = CN_0 \times \frac{P}{(P - C)}$$

where:

CN: means the Conversion Ratio applying immediately after the application of this formula;

CN₀: means the Conversion Ratio applying immediately prior to the application of this formula;

P: means VWAP during the period from the first Business Day after the announcement of the return of capital to ASX up to and including the last Business Day of trading *cum* the return of capital or Excess Distribution; and

C: means with respect to a return of capital, the amount of the cash and/or the value (as reasonably determined by the Directors) of any other property distributed to holders of Ordinary Shares per Ordinary Share (or such lesser amount such that the difference between P and C is greater than zero), and with respect to an Excess Distribution, the amount of such Excess Distribution.

11.2 For the purposes of clause 11.1, Excess Distribution means the amount by which the sum of all dividends per Ordinary Share (including, if the dividend is franked, the amount that would be included in the assessable income of a recipient of the dividend or distribution who is a natural person under the Tax Act) paid by the Company in respect of a financial year exceeds 125% of the sum of all dividends per Ordinary Share (including, if the dividend is franked, the amount that would be included in the assessable income of a recipient of the dividend or distribution who is a natural person for the purposes of the Tax Act) paid by the Company in respect of the previous financial year.

12. ADJUSTMENTS FOR OFF MARKET BUY-BACKS

12.1 Subject to **clause 12.2**, if the Company undertakes an off market buy-back of any of its Ordinary Shares, the Conversion Ratio shall be adjusted immediately in accordance with the following formula:

$$CN = CN_0 \times P \times \left[\frac{(BD - BN)}{(BD \times P) - (BN \times A)} \right]$$

where:

CN: means the Conversion Ratio applying immediately after the application of this formula;

CN₀: means the Conversion Ratio applying immediately prior to the application of this formula;

P means the VWAP during the 20 Business Days prior to the announcement of the buy-back;

A means the buy-back price per Ordinary Share;

BN means the number of Ordinary Shares bought back; and

BD means the number of Ordinary Shares on issue immediately prior to the buy-back.

12.2 The Conversion Ratio shall not be adjusted in accordance with clause 12.1 if P exceeds A.

13. VWAP

13.1 VWAP is the arithmetic average of the daily volume weighted average sale price of the Company's Ordinary Shares sold on ASX during the relevant period but does not include:

- (a) special crossings;
- (b) crossings prior to the commencement of normal trading,
- (c) crossings during the after hours adjust phase; or
- (d) the exercise of options over Ordinary Shares,

as described in the ASX Business Rules.

13.2 If Ordinary Shares are suspended by ASX at any time when VWAP is being calculated, the relevant period for calculation of VWAP will be the 10 consecutive Business Days up to but not including the first day of suspension.

13.3 For the purposes of calculating VWAP, if, on some or all of the Business Days in the relevant period, Ordinary Shares have been quoted on ASX as *cum* dividend or *cum* any other distribution or entitlement, then the VWAP on the Business Days on which those shares have been quoted *cum* dividend or *cum* entitlement shall be reduced by an amount equal to:

- (a) (in the case of a dividend or other distribution), the amount of that dividend or distribution including, if the dividend is franked the amount that would be included in the assessable income of a recipient of the dividend or distribution who is a natural person under the Tax Act;
- (b) (in the case of an entitlement which is traded on ASX on any of those Business Days), the volume weighted average price of all such entitlements sold on ASX during the relevant period on the Business Days on which those entitlements were traded; or
- (c) in the case of an entitlement not traded on ASX during the relevant period), the value of the entitlement as reasonably determined by the Directors.

14. GENERAL

14.1 Payments

Any amount which is payable to Noteholders in respect of the Notes in accordance with these Conditions will, unless the Company and the Noteholder otherwise agree, be paid by direct credit to a nominated account at an Australian financial institution or by Australian dollar cheque drawn in favour of such Noteholder and sent by pre-paid post to the address of the Noteholder in the Note Register.

14.2 Quotation

Application will be made for the Notes to be quoted on the official list of ASX and AIM within 7 days of the date of the Prospectus.

14.3 Ranking of Ordinary Shares

Each Ordinary Share issued on conversion of a Note will, as from the Conversion Date of that Note, rank equally in all respects with the then issued Ordinary Shares, except that they will not be entitled to any dividend that has been declared or determined but not paid as at the Conversion Date.

14.4 Security and Subordination

(a) The Notes are unsecured obligations of the Company and, subject to paragraph (b), will rank equally with all other unsecured creditors of the Company, excluding unsecured creditors preferred by mandatory provisions of law. The Notes will rank equally amongst themselves and in priority to Ordinary Shares on a winding up of the Company and interest on Convertible Notes will be paid in priority to dividends on Ordinary Shares.

(b) The Notes will rank behind all amounts owing to:

- (i) secured creditors;
- (ii) the Group's banks and financial institutions; and
- (iii) any other creditors notified by the Company in writing to the Trustee in respect of any financial accommodation provided to the Group from time to time to enable the Group to meet its ongoing funding requirements in connection with the conduct of its business,

(the '**Senior Debt**').

(c) So long as the Senior Debt remains outstanding, Noteholders will not be entitled to:

- (i) receive payment of any amounts owing in respect of a Note;
- (ii) demand payment of, sue for or take any other action to cause payment or acceleration of payment of any amounts owing in respect of a Note;
- (iii) take or be a party to any proceeding or action for the purpose of appointment of an External Administrator to or the Winding Up of the

Company or any Guarantor in relation to any amounts owing in respect of a Note; or

- (iv) exercise any right of set off or combination of accounts in respect of the Company or any Guarantor in relation to any amounts owing in respect of a Note,

unless no part of the Senior Debt is, at the relevant time, due and unpaid.

14.5 Voting

Noteholders may attend general meetings of the Company but the Notes do not carry a right to vote at a general meeting of the Company, unless provided for by the Listing Rules or the Corporations Act.

14.6 Reporting Requirements

The Company will observe the reporting requirements set out in the Trust Deed, which include requirements to furnish reports on the financial performance of the Company.

The Company will send to each Noteholder a copy of all reports, notices and announcements sent to holders of Ordinary Shares at the time they are sent.

14.7 Notes redeemed or bought back

All Notes redeemed or bought back by the Company in accordance with these Conditions will thereupon be cancelled and may not be reissued.

15. HOLDING STATEMENTS AND CERTIFICATES

15.1 Uncertificated holdings and holding statements

The Directors may determine not to issue Note Certificates where not contrary to the Corporations Act, the Listing Rules and the SCH Business Rules. Where the Directors have made such a determination, a Noteholder will be entitled to receive statements of the holdings of Notes of the Noteholder as the Company is required to give pursuant to the Corporations Act, the Listing Rules and the SCH Business Rules.

15.2 Cancellation of Note Certificates

The ranking of the Notes will in no way be affected by the cancellation of any Note Certificate on which they were originally included or of any subsequent Note Certificate on which they were included.

16. TRANSFER OF NOTES

16.1 Forms of transfer

A Noteholder may transfer any Notes the Noteholder holds by:

- (a) a Proper ASTC Transfer or any other method of transferring or dealing in Notes introduced by the ASX or operated in accordance with the SCH Business Rules or Listing Rules and, in any such case, recognised under the Corporations Act; or

- (b) a written instrument of transfer in any usual form or in any other form approved by either the Directors or the ASX, that is otherwise permitted by law.

16.2 Registration of transfer

A transferor of Notes remains the owner of the Notes transferred until the transfer is registered and the name of the transferee entered in the Note Register in respect of the Notes, and the transferee of Notes on being entered on the Note Register shall have all the rights and obligations which the transferor had and all the rights and obligations of a Noteholder under this Deed.

16.3 Transfers which are not Proper ASTC Transfers

The following provisions apply to instruments of transfer referred to in clause 16.1(b):

- (a) unless the instrument of transfer is otherwise a sufficient transfer under the Corporations Act, the instrument will be signed by, or executed by or on behalf of:
 - (i) the transferor; and
 - (ii) if required by the Company, the transferee;
- (b) the instrument of transfer duly stamped will be left at the place where the Note Register is kept, accompanied by the Note Certificate (if any) in respect of the Notes to be transferred and such other evidence as the Directors require to prove the transferor's title to, or right to transfer, the Notes;
- (c) the instrument of transfer must be endorsed or accompanied by an instrument executed by the transferee to the effect that the transferee agrees to accept the Notes subject to the terms and conditions on which the transferor held them, to become a Noteholder and to be bound by the Trust Deed and these Conditions; and
- (d) on registration of a transfer of Notes, the Company will cancel the old Note Certificate (if any).

16.4 Directors to register transfers

Subject to clauses 16.3 and 16.5, the Directors will not refuse to register or fail to register or give effect to a transfer of Notes.

16.5 Refusal to register transfers other than Proper ASTC Transfer

- (a) The Directors may refuse to register any transfer of Notes (other than a Proper ASTC Transfer) where the Listing Rules permit the Company to do so.
- (b) The Directors will refuse to register any transfer of Notes (other than a Proper ASTC Transfer) where the Corporations Act or the Listing Rules require the Company to do so, or the transfer is in breach of the Listing Rules.

16.6 Notice of refusal to register

- (a) Where the Directors refuse to register a transfer of Notes under clause 16.5, the Company will give written notice of the refusal and the reasons for the refusal

to the transferee and the person who lodged the transfer, if not the transferee, within 5 Business Days after the date on which the transfer was lodged with the Company.

- (b) Failure by the Company to give notice under clause 16.6(a) will not invalidate the refusal to register the transfer in any way.

17. JOINT NOTEHOLDERS

17.1 Note Certificates

- (a) Subject to clause 15.1, joint Noteholders will be entitled to one Note Certificate only in respect of Notes held by them jointly and the Note Certificate will be delivered to the first joint holder named on the register.
- (b) Delivery of a Note Certificate for any Note to the first joint holder named in the Register in relation to that Note is deemed to be delivery to all the joint holders.

17.2 Payment to one Noteholder effective discharge

If several persons are entered in the Note Register as joint Noteholders in respect of a Note, the payment to any one of such persons any moneys from time to time payable to the joint Noteholders will be an effective discharge to the Company for the moneys so paid.

17.3 More than three joint Noteholders

Subject to the SCH Business Rules, the Company will not be bound to register more than three persons as the joint holders of any Notes.

17.4 Actions of joint Noteholders

All of the joint Noteholders in respect of any Note must join in any:

- (a) transfer of the relevant Note;
- (b) application for the replacement of a Note Certificate which has been lost or destroyed; or
- (c) delivery of a Conversion Notice.

18. NON-RESIDENT NOTEHOLDERS

18.1 Where Notes are held by, or on behalf of, a person resident outside the Commonwealth of Australia, then, despite anything to the contrary contained in or implied by these Conditions, it is a condition precedent to any right of the Noteholder:

- (a) to receive payment of any moneys in respect of those Notes; or
- (b) to obtain Ordinary Shares on conversion of any of those Notes,

that all necessary Authorisations (if any) and any other statutory requirements which may then be in existence are obtained at the cost of the Noteholder and satisfied.

- 18.2 For the purposes of clause 18.1, Authorisation includes any consent, authorisation, registration, filing, lodgement, permit, franchise, agreement, notarisation, certificate, permission, licence, approval, direction, declaration, authority or exemption from, by or with any government or any Governmental Agency.

19. INDEMNITY TO THE ISSUER

- 19.1 Whenever in consequence of:

- (a) the death of a Noteholder;
- (b) the non-payment of any income Tax or other Tax payable by a Noteholder;
- (c) the non-payment of any stamp or other duty by the legal personal representatives of a Noteholder or his estate; or
- (d) any other act or thing in relation to a Note or a Noteholder;

any law for the time being of any country or place, in respect of a Note, imposes or purports to impose any liability of any nature whatever on the Company to make any payments to any Governmental Agency, the Company will in respect of that liability be indemnified by that Noteholder and his legal personal representatives and any moneys paid by the Company in respect of that liability may be recovered from that Noteholder and/or the Noteholder's legal personal representative as a debt due to the Company and the Company will have a lien in respect of those moneys upon the Notes held by that Noteholder or his legal personal representatives and upon any moneys payable in respect thereof.

- 19.2 Nothing in **clause 19.1** will prejudice or affect any right or remedy which any such law may confer or purport to confer on the Company.

20. DEATH, LEGAL DISABILITY

20.1 Death, legal disability

If a Noteholder dies, becomes subject to a legal disability, becomes bankrupt or is liquidated, the survivor (in the case of joint Noteholders), the legal personal representative or the person entitled to Notes as a result of bankruptcy or liquidation will be recognised as having an enforceable claim to Notes registered in the Noteholder's name.

20.2 Transfer, transmission under clause 20.1

Subject to the Listing Rules, the Company need not register any transfer or transmission under clause 20.1 unless the transferee provides an indemnity in favour of the Company in a form determined by or satisfactory to the Company in respect of any consequence arising from the transfer or transmission.

20.3 Two or more persons jointly entitled

Where 2 or more persons are jointly entitled to any Note in consequence of the death of the registered holder of that Note, for the purpose of these Conditions they will be deemed to be joint holders of that Note.

20.4 Moneys payable in respect of Notes

The Directors will be at liberty to retain any moneys payable in respect of any Notes which any person under this **clause 20** is entitled to or to transfer until such person is registered or has duly transferred the Notes in accordance with these Conditions.

10. CORPORATE DIRECTORY*Directors:*

M G Darling
 Harry Adams
 Peter Cadwallader
 John Leach
 Roy Woodall, AO
 Dr Chris Rawlings

Company Secretary:

Ms Anne Adaley

Registered office:

Level 9 Gold Fields House
 1 Alfred Street
 Sydney NSW 2000

Telephone: (612) 9251 2777

Facsimile: (612) 9251 2666

Share registry:

(Australia)
 Computershare Registry Pty Limited
 Level 2 Reserve Bank Building
 45 St Georges Terrace
 Perth WA 6000

Brokers:

(Australia)
 Southern Cross Equities Ltd
 Level 15
 167 Macquarie Street
 Sydney NSW 2000

(United Kingdom)
 Computershare Services plc
 The Pavilions
 Bridgwater Road
 Bristol BS99 7DS UK

(United Kingdom)
 W.H Ireland Limited
 11 St James' Square
 Manchester M2 6BR UK

Lawyers:

Minter Ellison
 Aurora Place
 88 Phillip Street
 Sydney NSW 2000

Auditors:

PricewaterhouseCoopers
 201 Sussex Street
 Sydney NSW 2000

Tax Advisers

Ernst & Young
 152 St George's Terrace
 Perth WA, Australia 6000