

BISALLOY STEEL GROUP LIMITED

ABN 22 098 674 545

PROSPECTUS

A renounceable rights issue of 4 New Shares for every 5 Shares held at an issue price of \$0.25 per New Share to raise approximately \$20.9 million

LEAD MANAGER AND UNDERWRITER
ABN AMRO MORGANS CORPORATE LIMITED



THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ THIS PROSPECTUS CAREFULLY IN ITS ENTIRETY AND CONSULT YOUR STOCKBROKER, SOLICITOR, ACCOUNTANT OR OTHER FINANCIAL ADVISER IF YOU ARE IN ANY DOUBT AS TO HOW TO DEAL WITH IT.

IMPORTANT NOTICE

This Prospectus is dated 2 December 2008 and was lodged with ASIC on that date with the consent of all the Directors. Neither ASIC nor ASX nor their respective officers take any responsibility for the contents of this Prospectus. No securities will be allotted or issued on the basis of this Prospectus later than 13 months after the date of this Prospectus. Please refer to the instructions in sections 1 and 4 of this Prospectus regarding the options available to you.

Bisalloy Steel Group Limited (“**Bisalloy**” or “**the Company**”) will apply for quotation of the New Shares on ASX within 7 days of the date of this Prospectus.

No Overseas offering

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to lodge this Prospectus in any jurisdiction outside of Australia, or to otherwise permit a public offering of Rights or New Shares, in any jurisdiction outside Australia and New Zealand.

This Prospectus must not be distributed, and does not constitute an offer of Rights or New Shares, in any countries other than Australia and New Zealand. In particular, the Rights and the New Shares have not been and will not be registered under the US Securities Act and may not be offered, sold or resold in, the United States or to, or for the account or benefit of a US Person except in accordance with an available exemption from registration. Accordingly, this Offer is not being made in the United States and Rights and New Shares will not be distributed to any persons with registered addresses in the United States. In addition, Rights may not be exercised by any person who cannot make the representations and warranties in section 4.12.

Note to Applicants

This document is important and should be read in its entirety before you decide whether to participate in the Offer. This Offer does not take into account the investment objectives, financial or taxation situation or particular needs of any Applicant, whether a Shareholder or a potential investor. Before making any investment in the Company, each Applicant should consider whether such an investment is appropriate to his/her particular needs, and consider their individual risk profile for speculative investments, investment objectives and individual financial circumstances. Each Applicant should consult his / her stockbroker, solicitor, accountant or other professional adviser without delay. Each Applicant should consider the risks that could affect the performance of the New Shares before deciding whether to invest in the Company. Some of the risks that should be considered by potential investors are outlined in section 5.

By making an Application, you acknowledge that you have received and read this Prospectus and you have acted in accordance with the terms of the Offer detailed in this Prospectus.

Rights may have value

Shareholders should be aware that their Rights may have value. The Rights Issue is renounceable which enables Eligible Shareholders who do not wish to take up all or part of their Entitlement to seek to sell their Rights. It is important that Eligible Shareholders either take up all or some of their Rights or deal with their Rights as described in this Prospectus. Eligible Shareholders who take no action in respect of their Rights will receive no benefits and their shareholding in the Company will be diluted.

Forward looking statements

This Prospectus contains forward looking statements which are subject to known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements of the Company to vary materially from those expressed or implied in such forward looking statements. Some of the risks that impact on forward looking statements in this Prospectus are set out in sections 1.16 and 5. Past performance is not a reliable indicator of future performance.

No representations other than in this Prospectus

You should rely only on the information in this Prospectus. No person is authorised to provide any information or to make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not contained in this Prospectus may not be relied upon as having been authorised by the Company in connection with the Offer.

Shareholders outside Australia or New Zealand should refer to section 1.9 of this Prospectus for details of how your Entitlement will be dealt with.

Definitions, financial amounts and time

Definitions of certain terms used in this Prospectus are contained in section 7. All references to currency are to Australian dollars and all references to time are to Melbourne time, unless otherwise indicated.

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IMPORTANT DATES

Date of Prospectus	Tuesday, 2 December 2008
Shares trade "ex-rights" and Rights trading commences on ASX	Thursday, 4 December 2008
Record Date to determine Entitlements under the Rights Issue (7.00pm)	Wednesday, 10 December 2008
Prospectus and Entitlement and Acceptance Form despatched	Friday, 12 December 2008
Last day of Rights trading	Thursday, 18 December 2008
Trading of New Shares commences on a deferred settlement basis	Friday, 19 December 2008
Closing Date for Applications (5.00pm)	Tuesday, 30 December 2008
Allotment and issue of New Shares ¹	Wednesday, 7 January 2009
Despatch of shareholding statements for New Shares ¹	Thursday, 8 January 2009
Trading of New Shares commences on a normal settlement basis ¹	Friday, 9 January 2009
Allotment and issue of any Shortfall Shares to the Sub-Underwriter.	Wednesday, 21 January 2009
Trading of any Shortfall Shares commences on a normal settlement basis.	Thursday, 22 January 2009

This timetable is indicative only and subject to change. The Directors reserve the right to vary these dates, including the Closing Date without prior notice and may accept late applications either generally or in particular cases. The Directors also reserve the right not to proceed with the whole or part of the Rights Issue any time prior to allotment. In that event, the relevant Application Money will be refunded without interest.

¹ Not including any Shortfall Shares

LETTER FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Dear Shareholder,

The Directors are pleased to offer you an opportunity to participate in Bisalloy Steel Group Limited's ("Bisalloy") renounceable Rights Issue.

In summary, this is a 4 for 5 rights issue of New Shares at an issue price of \$0.25 per New Share representing a discount of 7.4% to the last traded price of the Company's shares on 1 December 2008. It is expected to result in the issue of approximately 83,654,286 New Shares, raising approximately \$19.9 million, net of Offer costs. The Offer is fully underwritten by ABN AMRO Morgans Corporate Limited.

The funds raised will be used to provide funding for working capital requirements and to strengthen the Company's balance sheet.

Anchorage (BSG) Pty Ltd, a wholly owned subsidiary of the Anchorage Capital Partners 1 Fund (a private equity fund in which the Chairman of Bisalloy, Mr Phillip Cave AM, and Non-executive Director Mr Kym Godson, have an interest), has entered into a sub-underwriting agreement with the Underwriter to sub-underwrite the entire Rights Issue. As such, the independent directors of Bisalloy, being Mr Richard Grellman AM and Mr Graeme Pettigrew, represented the Company on behalf of all directors in relation to the Rights Issue and the preparation of this Prospectus. Details of the potential effect of the Rights Issue on control of the Company, further details of the interests of Mr Cave and Mr Godson in the Sub-Underwriter and information on the Sub-Underwriting Agreement are set out in sections 1.8 and 6.6 respectively.

We draw your attention to the courses of action available to you as set out in sections 1 and 4. Your Entitlement to the New Shares is set out on the accompanying Entitlement and Acceptance Form.

We also draw your attention to section 5, Risks, and ask that you carefully consider the potential risks outlined before deciding whether to participate in the Rights Issue.

The proceeds of the Rights Issue will enhance the future of the Company and on behalf of the Board, we invite you to consider the contents of this Prospectus and encourage you to participate in the Rights Issue.

Yours sincerely,



Richard Grellman AM
Independent Non-executive Director



Graeme Pettigrew
Independent Non-executive Director

2 December 2008

1. DETAILS OF THE RIGHTS ISSUE

1.1 Description of the Rights Issue

The Company is making a pro-rata renounceable rights issue to Eligible Shareholders.

Under the Offer each Eligible Shareholder can subscribe for 4 New Shares for every 5 Shares purchased before the Ex Date and which they continue to hold at 7pm (Melbourne time) on the Record Date, being 10 December 2008, at an issue price of \$0.25 per New Share.

1.2 Entitlement to New Shares

Set out below is a summary of the choices available to Eligible Shareholders. You should refer to section 4 for full details of the choices available to you in relation to your Entitlement, and what you need to do to exercise your choices. If you do not take up all your Rights, your shareholding will be diluted.

Take up all your Rights

To take up your full Entitlement, Eligible Shareholders must ensure that their Application Money for their full Entitlement is received before the Closing Date by either completing and returning the accompanying Entitlement and Acceptance Form or making a payment by BPAY. If paying by cheque, the Entitlement and Acceptance Form together with a cheque for the Application Money must be received by the Share Registry by no later than 5.00pm (Melbourne time) on 30 December 2008. A reply paid envelope is enclosed.

Sell all your Rights on ASX

Eligible Shareholders may sell their Rights on ASX. If you wish to sell all of your Rights, you should instruct your stockbroker as soon as possible and follow their instructions. Eligible Shareholders can seek to sell their Rights on ASX from 4 December 2008 to 18 December 2008. If you wish to sell all your Rights on the ASX, do NOT return your Entitlement and Acceptance Form to the Share Registry.

Take up some of your Rights and sell the balance on ASX

Eligible Shareholders may take up some of their Rights and seek to sell their remaining Rights on ASX. If you wish to take up some of your Rights and seek to sell your remaining Rights you should instruct your stockbroker as soon as possible and follow their instructions.

To take up your remaining Rights, please follow the instructions in section 4 and on the Entitlement and Acceptance Form. To subscribe for New Shares, you must ensure your Application Money is received by the Share Registry by no later than 5.00pm (Melbourne time) on the Closing Date of 30 December 2008, by either completing and returning the accompanying Entitlement and Acceptance Form with a cheque or making a payment by BPAY.

Sell your Rights other than on ASX

Eligible Shareholders may elect to transfer all or part of their Rights to another person other than on ASX.

A transfer of Rights to or from a CHESS holding can only be performed by the CHESS Controlling Participant (normally your stockbroker). To transfer your Rights from an issuer sponsored holding to another person other than on ASX, send a completed renunciation and transfer form (available from the Share Registry) and the purchaser's cheque for the New Shares they want to acquire, to the Share Registry so that it is received by no later than 5.00pm (Melbourne time) on 30 December 2008.

If the proposed purchaser of your Rights is an Ineligible Shareholder or a person that would be an Ineligible Shareholder if they were a registered holder of Shares, that proposed purchaser will not be able to take up the Rights.

1.3 Rights Issue price

The Company, in making the Rights Issue, has set the issue price of the New Shares at \$0.25 per New Share which represents a discount of 7.4% to the closing price of the Shares of \$0.27 on 1 December 2008, being the last day of trading before the announcement of the Rights Issue.

1.4 Size of the Offer

Pursuant to this Prospectus, approximately 83,654,286 New Shares are being offered. The Company expects to raise approximately \$20.9 million, before costs, under the Offer and will use the proceeds as set out in sections 3.1 and 3.2.

1.5 Allocation Policy

All Eligible Shareholders who accept the Offer will receive the number of New Shares they have applied for up to the full amount of their Entitlement.

1.6 Closing Date

The closing date for acceptance of your Entitlement is 5.00 pm (Melbourne time) on 30 December 2008. This date may be varied by the Company without notice. Further, the Company reserves the right not to proceed with the whole or part of the Rights Issue at any time prior to allotment of the New Shares.

1.7 Rights Trading

The Rights Issue is renounceable which means that all or part of an Eligible Shareholder's rights to subscribe for New Shares under the Rights Issue may be traded on ASX during the Trading Period, should an Eligible Shareholder choose not to accept all or part of their Entitlement.

Trading of Rights will commence on ASX at 10am Melbourne time on 4 December 2008 and will cease at 4:00 pm Melbourne time on 18 December 2008.

All or some of an Eligible Shareholder's Rights may be traded on ASX or otherwise sold between these dates should they choose not to take up all or part of their Entitlement.

There is no guarantee that an Eligible Shareholder will be able to sell all or any of their Rights on ASX or that any particular price will be paid for the Rights sold on ASX.

1.8 Underwriting

The Rights Issue is fully underwritten by ABN AMRO Morgans Corporate Limited. A summary of the Underwriting Agreement (including the circumstances in which that agreement may be terminated) is set out in section 6.5.

Anchorage (BSG) Pty Ltd ("**Anchorage**") has entered into a sub-underwriting agreement with the Underwriter to sub-underwrite the entire Rights Issue. A summary of the Sub-Underwriting Agreement (including the circumstances in which the agreement may be terminated) is set out in section 6.6.

Anchorage is a wholly owned subsidiary of the Anchorage Capital Partners 1 Fund ("**ACP 1 Fund**"), which is managed by Anchorage Capital Partners Pty Ltd ("**Anchorage Capital**"). Anchorage Capital (www.anchoragecapital.com.au), a private equity investment management company, was established in 2007. Its partners have a combined experience of over 70 years in private equity, finance, management consulting and operations. In August 2008 Anchorage Capital completed a first close of \$100 million for its \$200 million ACP 1 Fund. The fund's mandate is to target special situation investments such as Bisalloy.

The Chairman of the Company, Mr Phillip Cave AM, is a director of and has a substantial interest in Anchorage Capital and a 10% interest in the ACP 1 Fund. Mr Kym Godson, a non-executive director, previously the managing director, of the Company has a 2.5% interest in the ACP 1 Fund.

If the Offer is not fully subscribed, Anchorage as the sub-underwriter will acquire any Shortfall Shares. Consequently, Anchorage's voting power in the Company will increase. The amount by which Anchorage's voting power in the Company will increase will depend on the number of Shortfall Shares it acquires. Anchorage's voting power could increase to approximately 44.4% if no New Shares are subscribed for under the Offer.

Mr Phillip Cave, the chairman of the Company, currently has voting power in the Company of 3.6%. Anchorage and Anchorage Capital Partners, as the manager of the ACP 1 Fund, could be deemed to be associates. As Phillip Cave is a director of Anchorage Capital, this would result in Mr Cave also being an associate of Anchorage and Anchorage being deemed to currently have voting power in the Company of 3.6%, and, in the event of 100% of the New Shares not being taken up under the Offer, being deemed to have voting power in the Company of 48%.

For more information about the potential effect of the sub-underwriting on the voting power in the Company, see section 6.6.

1.9 Treatment of Overseas Shareholders

Ineligible Shareholders

The Offer in this Prospectus is not being extended to any Shareholder as at the Record Date whose registered address is not in Australia or New Zealand ("**Ineligible Shareholders**") because of the small number of such Shareholders and the cost of complying with applicable regulations in jurisdictions outside Australia and New Zealand.

The Offer to Shareholders with registered addresses in New Zealand is made in reliance on the *Securities Act (Overseas Companies) Exemption Notice 2002* (New Zealand), by virtue of which this Prospectus is not required to be registered in New Zealand. No person in New Zealand may accept the Offer made under this Prospectus except in reliance on the *Securities Act (Overseas Companies) Exemption Notice 2002* (New Zealand). This Prospectus is not an investment statement or prospectus under New Zealand law and has not been registered, filed with or approved by any New Zealand regulatory authority or other relevant law in New Zealand. This Prospectus may not contain all the information that an investment statement or prospectus under New Zealand law is required to contain. Members of the public in New Zealand who are not existing

Shareholders on the Record Date are not entitled to apply for any New Shares.

The Rights and the New Shares have not been and will not be registered under the US Securities Act and may not be offered, sold or resold in the United States or to, or for the account or benefit of, a US Person except in accordance with an available exemption from registration. Accordingly, the Offer is not being made in the United States and Rights and New Shares will not be distributed to Applicants with registered addresses in the United States.

In addition, Rights may not be exercised by any person who cannot make the representation and warranties in section 4.12, including that the person is not in the United States, a US Person or a person acting for the account or benefit of a US Person.

Recipients may not send or otherwise distribute this Prospectus or the Entitlement and Acceptance Form to any person in the United States, a US Person or any person acting for the account or benefit of a US Person. The Company reserves the right to treat as invalid any Entitlement and Acceptance Form (a) that appears to the Company or its agents to have been executed in, or despatched from, the United States or (b) that provides an address in the United States as the registered address of the person.

Nominee to sell rights of Ineligible Shareholders

The Company has appointed the Lead Manager and Underwriter (or its associates) as nominee to sell the Ineligible Shareholders' Rights ("**Nominee**"). The Nominee will only sell the Ineligible Shareholders' Rights if there is a viable market in the Rights and a premium over the expenses of the sale can be obtained. Any such sale will be at a price and in a manner that the Nominee will determine in its absolute discretion. The ability to sell the Ineligible Shareholders' Rights and the price obtained will be dependent, amongst other things, on market conditions. The proceeds of the sale (in Australian dollars) will be distributed to the Ineligible Shareholders for whose benefits the Rights have been sold in proportion to their shareholdings as at the Record Date (after deducting the costs of the sale and the costs of distributing the proceeds). There is no guarantee that the Nominee will be able to sell Ineligible Shareholders' Rights on ASX and Ineligible Shareholders may receive no value for the Rights. Both the Company and the Nominee take no responsibility for the outcome of the sale of Ineligible Shareholders' Rights or the failure to sell such Rights.

If there is no viable market for the Ineligible Shareholders' Rights, their Rights will be allowed to lapse.

1.10 Application money

Until the allotment and issue of New Shares under this Prospectus, the Application Money of each Applicant will be held by the Company on trust in accordance with section 722 of the Corporations Act. Any interest earned on the Application Money will be for the benefit of the Company and will be retained by the Company irrespective of whether allotment and issue of New Shares takes place or the Application Money is refunded, for any reason.

1.11 Handling fee

The Lead Manager will pay out of its own funds to participating organisations of ASX a handling fee of 1.0% of the total value of successful applications made by private clients and lodged by the participating organisation and which bear their stamp. The handling fee will be capped at \$200 per application.

1.12 Allotment and Dispatch of Shareholding Statements

No allotment and issue of New Shares will be made until approval is granted for the New Shares to be quoted on the ASX. It is expected that allotment and issue of New Shares to Applicants will take place on or about 7 January 2009. It is also expected that shareholding statements for the New Shares issued to Applicants will be dispatched as soon as possible after that date.

1.13 Rights attaching to New Shares

From allotment and issue, the New Shares allotted and issued pursuant to the Prospectus will rank equally in all respects with Existing Shares. A summary of the rights and liabilities attaching to Shares is set out in section 6.3 of this Prospectus.

1.14 Rights Issue expenses

The estimated expenses of the Rights Issue are outlined in the following table:

Professional fees (legal, corporate and share registry)	\$280,000
Lead Manager and Underwriter fees	\$590,000
Lodgement and quotation fees	\$30,000
Postage, printing & stationery	\$30,000
Contingencies	\$40,000
Total Rights Issue expenses	\$970,000

1.15 Taxation implications

The Directors consider that it is not appropriate to give advice regarding the taxation consequences associated with the acquisition, sale or exercising of Rights, or the subsequent disposal of any New Shares allotted and issued under this Prospectus. The Company, its advisors and officers do not accept any responsibility or liability for any taxation consequences to potential Applicants. The Directors recommend that all Eligible Shareholders consult their own professional tax advisers in connection with the acquisition, sale or exercise of Rights or subsequent disposal of New Shares allotted and issued under this Prospectus.

1.16 Risk of investing in the Company

There are a number of risks associated with an investment in the Company which are described in section 5. Shareholders should consider these risks carefully before deciding whether to take up any part of their Entitlement.

Some of the key risks are:

- cyclical nature of industries in which Bisalloy's customers operate;
- changes in the price of Greenfeed;
- competition;
- sustainability of growth and margins;
- financing;
- country risk;
- personal risk;
- importance of key relationships;
- risks related to joint ventures;
- foreign exchange risk;
- industrial risk;
- environmental risk;
- guarantee exposure following the sale of Atlas Distribution; and
- Atlas Distribution foreign exchange purchase orders.

These and other risks are described in more detail in section 5.

2. COMPANY INFORMATION

2.1 Background to Bisalloy and its business

The Company listed on the ASX in June 2003 under the name Atlas Group Holdings Limited with two principal business divisions, Atlas Specialty Metals Pty Limited (“Atlas Distribution”) and Bisalloy Steels Pty Limited (“Bisalloy Steels”). In recent years, Bisalloy Steels has been the main contributor of profit while Atlas Distribution has been unprofitable.

On 5 November 2008, the Company completed the sale of Atlas Distribution to a consortium including Balron Nominees Pty Limited and entities associated with Greestone Partners Private Capital. The Company changed its name to Bisalloy Steel Group Limited after the sale.

Bisalloy received an initial payment of \$81.75m for the sale of Atlas Distribution. However, as advised at the shareholders meeting to approve the sale on 30 October 2008, the recent extreme volatility in exchange rates and nickel prices is expected to result in net proceeds from the sale being less than that.

At present, Bisalloy expects to realise net proceeds for the sale of approximately \$74.75m subject to completion account adjustments being finalised in February 2009.

2.2 Bisalloy Steels

(a) Overview

Bisalloy Steels is Australia’s only manufacturer of high tensile, abrasion resistant and armour grade Quench and Tempered (“Q&T”) alloyed steel plates.

It has operations in Australia and two distribution joint ventures – Bisalloy (Thailand) Co Limited and PT Bima Bisalloy in Indonesia.

Bisalloy Steels commenced operations in Unanderra as Bunge Industrial Steels in 1980. It was acquired by Email Limited in 1989 and renamed Bisalloy Steels. As part of the takeover of Email Limited in 2001, Bisalloy Steels and Atlas Distribution were divested and acquired by the Company.

At its Unanderra facility south of Sydney, Bisalloy Steels manufactures Q&T products under the Bisplate® brand. Bisplate® is sold through a network of distributors across Australia, through the joint venture businesses in Indonesia and Thailand and through agents in at least a dozen countries worldwide.

The process used to manufacture Q&T alloyed steel plate is not easily replicated. Product quality and cost

competitive output is highly dependent on the intellectual property associated with:

- Input alloyed steel plate (“Greenfeed”) formulations;
- Processes and timings required to achieve the metallurgical changes desired;
- Reliability and suitability of the continuous processing equipment; and
- Quality and experience of the workforce.

Bisalloy sources Greenfeed (alloyed carbon steel plate) from several steel mills located in Australia and China. The Greenfeed is heated and rapidly cooled so as to alter the grain structure of the steel plate to achieve the desired physical properties.

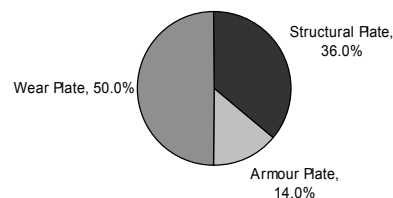
The move to introduce Chinese greenfeed has been beneficial to Bisalloy Steels. It has enabled Bisalloy Steels to supplement shortages in domestic supply and partially defray the rising cost of domestic greenfeed.

(b) Products

Under the Bisplate® brand Bisalloy Steels manufactures:

- Wear plates for mining applications such as lining in dump trucks and dragline buckets;
- Structural plates for applications such as booms on cranes and other applications which require light weight and high strength; and
- Armour plates for applications such as armoured personnel carriers and riot police vehicles.

The graph below shows the product mix for Bisalloy Steels measured by tonnes of product sold for the financial year ended 30 June 2008.



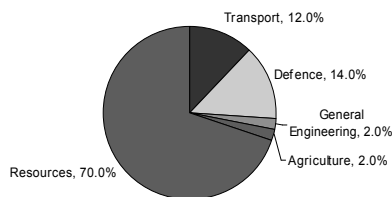
Bisalloy Steels has an estimated Australian market share of between 55-60% and has a strong exposure to the resources sector. It has benefited from strong export demand, especially for armoured plates, and has a significant market in Asia via its joint venture distributors.

(c) Industry Sectors

The future growth and profitability of Bisalloy Steels is underpinned by continuing growth in the world-wide demand for Q&T plate.

The Australian Q&T market is expected to remain strong with a broad customer base in resources, defence and transport industries.

The graph below shows the mix of tonnes of product sold, split by industry sectors for the financial year ended 30 June 2008.



Bisalloy Steels benefits from both new investment in resource projects and the maintenance of existing resource infrastructure. As the resource sector growth slows, solid demand is expected for the existing levels of production of Bisplate. While some softening of demand is expected in the United States and Europe, the Company expects developing economies such as China and India to increase their consumption of Q&T plate in coming years.

In recent months, the decline in the Australian dollar against major world currencies has presented Bisalloy Steels with the opportunity to target exports sales opportunities as Bisplate has become more competitive in overseas markets.

(d) Customers

Bisalloy Steels markets its product through distributors and directly to original equipment manufacturers in Australia and overseas. Major customers include:

- BlueScope Distribution;
- OneSteel; and
- Atlas Distribution.

(e) Joint Ventures

The two joint venture operations – PT Bima Bisalloy, which is 60% owned by Bisalloy and Bisalloy Thailand, which is 85% owned by Bisalloy – distribute product in Indonesia and Thailand respectively. In addition there are a number of agents for Bisplate® located throughout Asia.

2.3 Strategy and future growth

The sale of Atlas Distribution and the use of the proceeds to pay down debt has allowed management to focus on the development and growth of Bisalloy Steels.

For the year ending 30 June 2009, Bisalloy Steels' forecast sales tonnes are expected to be approximately 44,147. In recent years, Bisalloy Steels has grown its revenue through targeted investments designed to increase its production capacity. A second shot blaster was acquired and became fully operational in the third quarter of the financial year ended 30 June 2007. Further, a laser guided vehicle was installed in the third quarter of the financial year ended 30 June 2008 increasing the efficiency and process flow of the mill. These two investments delivered significant production increases towards the end of the financial year ended 30 June 2008.

The original Granowski shot blaster is 14 years old and nearing the end of its serviceable life. Its replacement is underway with installation planned for Easter 2009.

With these investments, Bisalloy Steels expects to be able to meet medium term growth in demand by increasing the utilisation of the existing processing equipment through the realignment of shift arrangements from 24/5 to 24/6 and 24/7 as required.

With a view to the longer term, Bisalloy Steels has signed a letter of intent with a Chinese steel mill to evaluate the feasibility of a 140,000 tonne joint venture heat treatment facility in China. If the Company proceeds with the development of this joint venture it could allow Bisalloy Steels to supply its existing Asian businesses with production from China while focusing its Australian production on the domestic demand and the production of high value armour plate when demand warrants.

With extensive marketing experience, Bisalloy Steels could also use available capacity from a Chinese joint venture to support the expansion of distribution joint ventures in the Asian region, excluding The Peoples' Republic of China which would likely be serviced by the domestically based joint venture partner.

Further, if more capacity (especially thin gauge plates) is made available through the joint venture, Bisalloy Steels' Australian production could be targeted toward the heavier plate production which could deliver production tonne increases of between 40-50% with no additional production equipment required at the Unanderra facility.

Whilst the letter of intent has been signed the details of the joint venture are yet to be agreed.

3. PURPOSE AND EFFECT OF THE RIGHTS ISSUE

3.1 Purpose of the Rights Issue

The maximum amount to be raised under the Rights Issue is approximately \$20.9 million before costs. There is no minimum subscription amount, however the Rights Issue is fully underwritten.

The net proceeds of the Rights Issue will provide funding for working capital requirements and strengthen the Company's balance sheet.

3.2 Allocation of the Proceeds of the Rights Issue

Bisalloy is seeking to raise gross proceeds of approximately \$20.9 million which will be applied approximately as outlined in the table below:

Application of gross proceeds	\$ million (approximately)
Provide funding for working capital	20.9
Expenses of the Rights Issue ²	1.0
Total	19.9

² See section 1.14 for details of Expenses of the Rights Issue.

The Rights Issue is fully underwritten. If the Underwriting Agreement was terminated, and the Rights Issue was not fully subscribed, the Rights Issue will raise less than the maximum amount of approximately \$20.9 million.

3.3 Effect of Rights Issue

The principal effects of the Rights Issue, if all New Shares offered under the Rights Issue are issued, will be to:

- decrease Bisalloy's working capital debt levels by \$19.9 million (after taking into account the costs of the Rights Issue); and
- increase the total number of issued Shares to 188,222,143 (see section 3.4 below).

Pro forma historical and forecast financial information is provided below to illustrate the effects of the Rights Issue.

3.4 Effect of the Rights Issue on capital structure

The approximate effect of the Rights Issue on Bisalloy's issued share capital assuming that all New Shares offered under the Rights Issue are issued, will be as follows:

Number of existing issued Shares	104,567,857
New Shares issued under Rights Issue	83,654,286
Total Shares on issue after the Rights Issue	188,222,143

3.5 Pro forma income statement

Set out below is the pro forma forecast income statement for Bisalloy for the year ending 30 June 2009. The pro forma historical income statement for Bisalloy for the year ended 30 June 2008 is presented for comparative purposes.

	Pro forma historical 2008 \$000's	Pro forma forecast 2009 \$000's
Revenue		
Sale of Goods	138,777	164,602
Cost of sales	-95,988	-124,270
Gross profit	42,789	40,332
Other income	509	567
Operating expenses	-11,466	-10,042
Administrative expenses	-3,178	-3,520
Other expenses	-	5
	-14,135	-12,990
EBIT before corporate costs and foreign exchange gains	28,654	27,342
Corporate costs	-4,923	-3,450
Foreign exchange gains		17,784
EBIT from continuing operations	23,731	41,676
Profit/(loss) from discontinued operations	-78,578	-22,108
Transaction costs arising from divestment	-	-4,284
Finance costs	-92	-5,655
Profit/(loss) before income tax and minority interests	-54,939	9,629
Income tax expense	-8,316	-6,078
Profit/(loss) before minority interests	-63,255	3,552
Minority Interests	653	669
Profit/(loss) after tax attributable to members	-63,908	2,882
Shares on issue (000's)	104,235	188,222
Earnings per share (basic) cents	-61.31	1.53

The pro forma forecast EBIT before corporate costs and foreign exchange gain of \$27.3m compares to the pro forma forecast EBIT (before corporate costs) contained in the Explanatory Statement to the Company's notice of annual general meeting dated 26 September 2008 of \$30.3m. This forecast decrease is primarily attributable to:

- A forecast decrease in sales volume from 53,000 tonnes to 44,147 tonnes;
- A forecast reduction in production days from 270 days to 239 days; offset by
- A forecast reduction in variable expenses (freight and distribution costs) due to the reduction in sales volume.

These assumptions are discussed in more detail in the forecast assumptions section below.

Bisalloy net profit after tax attributable to members on an on-going basis and excluding non-recurring transactions is forecast to be \$14.3m for the year ending 30 June 2009, calculated as follows:

	\$ 000's
EBIT before corporate costs and foreign exchange gains	27,342
Corporate costs	-3,450
Finance costs	-2,555
Income tax expense	-6,401
Profit/(loss) before income tax and minority interests	14,936
Minority Interests	669
Forecast adjusted Bisalloy NPAT excluding non-recurring items	14,267

The above calculation assumes:

- Atlas Distribution was divested on 1 July 2008 and the cash proceeds applied to reduce borrowings on that date;
- The rights issue occurred on 1 July 2008 and the proceeds applied in accordance with section 3.2;
- The interest rate applied to outstanding month end borrowings is assumed to be 8.75% per annum for the year ending 30 June 2009; and
- All income is assessable at a tax rate of 30%.

Basis of preparation

The forecasts for Bisalloy included in this Prospectus are based on a number of estimates and assumptions concerning future events, including the assumptions set out below.

These assumptions have been presented to provide Shareholders with a guide to the anticipated financial performance of Bisalloy during the forecast period. The Directors of Bisalloy prepared this information with proper care and attention and considered all assumptions, when taken as a whole, to be reasonable at the time of preparing this Prospectus based on present circumstances and market conditions.

Investors should be aware, however, that forecast financial information is likely to vary from actual results and any variation could be materially positive or negative.

The forecasts and the best estimate assumptions are subject to business, economic and competitive uncertainties, contingencies and risks, many of which are not reliably predictable and are beyond the control of the Directors of Bisalloy as well as upon assumptions regarding future business decisions. Accordingly the Directors cannot be sure that the forecasts or any prospective statement in this Prospectus will be achieved. The inclusion of such information should not be regarded as a representation or warranty with respect to its accuracy or that the underlying best estimate assumptions will be achieved. Investors are therefore cautioned not to place undue reliance on this information.

The forecasts should be read in conjunction with the assumptions below, the risks in Section 5 and all the other information contained in the Prospectus.

The pro forma historical and forecast income statements have been prepared in accordance with the recognition, measurement and presentation accounting principles disclosed in the Bisalloy Annual Report (under its former name, Atlas Group Holdings Limited) for the year ended 30 June 2008 with the exception of sales from Bisalloy to Atlas Distribution which, as detailed below, have not been eliminated.

In both the pro forma historical and forecast income statements, sales from Bisalloy to the divested Atlas Distribution business have not been eliminated so as to present the Bisalloy business on a go forward basis, in which Atlas Distribution will be an external customer and as though the divestment was effective from 1 July 2008.

The pro forma historical income statement has been reconstructed from the Bisalloy 30 June 2008 audited accounts using the basis of preparation noted above.

The pro forma forecast income statement represents actual unaudited financial performance for the four months ended 31 October 2008 and Directors' forecasts for the eight months ending 30 June 2009.

The FY09 loss attributed to discontinued operations (\$22.1m) was incurred by Atlas Distribution for the four months ended 31 October 2008. This loss included foreign exchange losses of \$13.9m arising from the company's inability to fully hedge the Atlas Distribution order book and \$8.2m from trading operations.

The key forecast assumptions presented below provide details of the basis upon which the revised Bisalloy forecast has been prepared.

Forecast assumptions

The pro forma forecasts for the year ending 30 June 2009 were prepared based on the following specific and general assumptions.

Specific Assumptions

1. Total volume for the year ending 30 June 2009 is forecast to total 44,147 tonnes which is 16.7% below the volume previously forecast of 53,000 tonnes in the Explanatory Statement dated 26 September 2008. Volumes are expected to reduce compared in December 2008 and January 2009 compared to current levels

reflecting the normal seasonal downturn and also the assumption that customers will destock over this period. Demand is forecast to recover thereafter in line with historical trends, however, sales are not forecast to recover to the same level as the prior year as the impact and duration of the current economic downturn is unclear.

2. Production days in FY09 are expected to total 239 days, compared to 270 days previously forecast. The shut-down for planned replacement of the old Granowski shot blaster has been moved from Christmas to Easter 2009 due to delivery delays and the proposed move to 24/7 production has been deferred.
3. Both average production (a total of 204 saleable tonnes per day) and yield loss are expected to remain in accordance with the previous forecast.
4. Existing gross profit per tonne is expected to remain unchanged. That is, if selling prices fall, greenfeed prices are expected to fall by the same amount so as to maintain the existing gross profit generated.
5. Reduced greenfeed from Chinese sources. It is expected that Chinese sourced greenfeed plate prices will fall albeit not sufficiently to offset the decline in the Australian dollar. Strategically, Chinese greenfeed is important to ensure the reliability of supply and competitiveness of greenfeed prices in the long-term. However, tonnages purchased in the short-term from Chinese sources are likely to be less than previously forecast.
6. Reduced tonnage output and lower transport costs are expected to result in lower variable expenses. Operating expenses are forecast to fall in line with the reforecast sales tonnage.
7. Corporate costs are forecast to total \$3.5m (excluding costs associated with the sale of Atlas Distribution). Corporate costs for the year ending 30 June 2009 are higher than originally forecast as they reflect the full Bisalloy Steel Group Limited corporate costs from 1 July 2008 to 31 October 2008 and transitional arrangements to 28 February 2009 as it was not practical to separate these costs between Bisalloy and Atlas Distribution. Foreign exchange losses related to Atlas Distribution were allocated to that business and are not included in the forecast EBIT from continuing operations.
8. Income tax expense has been calculated at 30% of Earnings Before Tax. Adjustment has been made for non-deductible capital costs associated with the foreign exchange purchase orders compensation agreed as part of the sale of the Distribution business and as such is assumed as non deductible.
9. The existing finance facility and arrangements are forecast to continue for the duration of the forecast period. The forecast interest rate applied to outstanding month end borrowings is assumed to be 8.75% per annum.
10. The Board has determined that a dividend will not be paid in respect of the half year ending 31 December 2008. The future dividend policy of the Company will be decided once the sale of Atlas Distribution is complete and the restructure of Bisalloy is finalised.
11. No unforeseen issues arise from the finalisation of audited completion accounts for the sale of Atlas Distribution division.

General Assumptions

1. No further significant changes in the prevailing economic conditions in Australia.
2. No significant changes in the competitive operating environment in which Bisalloy operates.
3. No significant changes in federal, state or local government laws, regulations or policies, or in taxation legislation, that will have a material impact on the financial performance of Bisalloy during the forecast period.
4. No loss of key personnel.
5. No material amendment to any material agreement relating to Bisalloy's business.
6. No significant disruptions to the continuity of operations of Bisalloy or other material changes in Bisalloy's business.
7. No material acquisitions or disposals of businesses.
8. No material change in the accounting policies adopted by Bisalloy and no material changes in IFRS or Urgent Issues Group Interpretations adopted by the AASB, or the Corporations Act, that will have a material effect on Bisalloy's financial performance or accounting policies in the forecast period.
9. The Offer will be fully subscribed and the net proceeds from the Offer will be received by Bisalloy in January 2009 and applied in the manner referred to in Sections 3.1 and 3.2.
10. The following average foreign exchange rates have been assumed in the forecast period:

- AUD 1 = 0.65 USD
- AUD 1 = 7,717 IDR
- AUD 1 = 22.67 THB

Sensitivity analysis

The forecast financial information is sensitive to variations in assumptions used in its preparation. A summary of the effects that variations to sales volume may have on EBIT for the year ending 30 June 2009 is presented below.

Care should be taken in interpreting these sensitivities. These sensitivities treat each movement in the variables in isolation, whereas in reality the movements could be interdependent. The effects of movements may offset each other or may be additive. Accordingly, the effect presented for each sensitivity is not intended to indicate the likely range of outcomes with respect to each sensitivity.

The primary driver of revenue is sales volume, which is susceptible to uncertainty due to the current weak economic conditions and the timing of the forecast recovery of the quenched & tempered steel industry. The sensitivities below consider a 5% change in the forecast sales volume for the 8 months ending 30 June 2009.

Forecast variable	Change	Impact on FY09 revenue	Impact on FY09 EBIT
Sales volume	-/+5%	-/+ \$4.0m	-/+ \$0.8m

Sensitivity assumptions

1. A 5% decrease in sales volume is expected to reduce the required production days by 5% in the forecast period.
2. A 5% increase in sales volume is expected to require a 2.2% increase in production days due to surplus capacity.

3.6 Effect of the Rights Issue on the Company's financial position – pro forma balance sheet

The pro-forma balance sheet of Bisalloy as at 30 June 2008 is set out below. It demonstrates the impact of the sale of Atlas Distribution and the impact of the proposed rights issue on Bisalloy's balance sheet as if these transactions had occurred on 30 June 2008.

The pro forma balance sheet has been prepared in accordance with Australian Accounting Standards. The detailed accounting policies of Bisalloy are set out in the financial report for the year ended 30 June 2008.

The pro forma balance sheet is presented in abbreviated form and does not contain all the disclosures that are usually provided in an annual report in accordance with the Corporations Act.

The pro forma adjustments are explained as follows:

1. The Sale of Atlas Distribution

The sale of Atlas Distribution is assumed to have occurred as at 30 June 2008. The discount to net assets of \$50m has already been brought to account as part of the restatement of the Disposal Group Held for Sale to fair value. In addition, certain other assets of Atlas Distribution amounting to \$4.95m have also been impaired as at 30 June 2008.

The value of the assets held for sale at 30 June 2008 as part of the divestment of Atlas Distribution was \$146.1m and the value of associated liabilities was \$62.4m. The net of the Assets and Liabilities held for sale (\$83.7m) has been offset against the net borrowings as at 30 June 2008 as this would have been the amount received at completion had the transaction occurred as at that date.

2. Compensation to the Buyers of the Distribution business for unhedged purchase orders

An amount of \$7.0m has been brought to account in the pro-forma balance sheet to recognise an additional discount granted to the purchaser of Atlas Distribution. This amount is compensation for certain unhedged purchase orders placed in certain foreign currencies. As at completion no liability had been recognised in the accounts. The compensation will be calculated as the difference between an agreed contracted foreign currency rate at the date the order was placed and the foreign currency on the dates of settlement. An estimate of compensation has been recorded in the pro forma adjustments, representing the difference

between the agreed contracted foreign exchange rate at the date the order was placed and the date of completion, being 5 November 2008. Compensation is payable to the buyer as each identified order is settled.

3. Rights issue

The impact of the right issue is illustrated. The issue restores shareholders' funds following the disposal of Atlas Distribution and reduces debt. The reduction in debt as at 30 June 2008 does not take into account the increases in working capital which occurred in the four months ended 31 October 2008 or any trading operations after 30 June 2008.

Pro forma balance sheet

	30 June 2008 Actual \$000's	Sale of Atlas Distribution \$000's	Proforma post-sale \$000's	Rights Issue \$000's	Proforma Post-sale and post right issue \$000's
ASSETS					
Current Assets					
Cash and cash equivalents	2,381		2,381		2,381
Trade and other receivables	31,577		31,577		31,577
Inventories	11,709		11,709		11,709
Other current assets	1,231		1,231		1,231
Derivative financial instruments	944		944		944
Income tax receivable	1,275		1,275		1,275
	<u>49,117</u>		<u>49,117</u>		<u>49,117</u>
Assets of disposal group classified as held for sale	146,109	(146,109)	0		0
Total current assets	195,226	(146,109)	49,117	0	49,117
Non-current assets					
Trade and other receivables	24		24		24
Investments - subsidiaries	0		0		0
Deferred income tax asset	802		802		802
Property, plant and equipment	10,771		10,771		10,771
Intangible assets	0		0		0
Total non-current assets	11,597	0	11,597	0	11,597
Total assets	206,823	(146,109)	60,714	0	60,714
LIABILITIES					
Current liabilities					
Trade and other payables	21,531	7,031	28,562		28,562
Interest bearing loans and borrowings	130,707	(83,730)	46,977	(19,943)	27,034
Income tax payable	697		697		697
Provisions	1,703		1,703		1,703
Derivative financial instruments	295		295		295
	<u>154,933</u>	<u>(76,699)</u>	<u>78,234</u>	<u>(19,943)</u>	<u>58,291</u>
Liabilities directly associated with assets of disposal group classified as held for sale	62,379	(62,379)	0		0
Total current liabilities	217,312	(139,078)	78,234	(19,943)	58,291
Non-current liabilities					
Trade and other payables	1,260		1,260		1,260
Interest bearing loans and borrowings	0		0		0
Provisions	320		320		320
Total non-current liabilities	1,580	0	1,580	0	1,580
Total liabilities	218,892	(139,078)	79,814	(19,943)	59,871
NET ASSETS	(12,069)	(7,031)	(19,100)	19,943	843
EQUITY					
Equity attributable to equity holders of the parent					
Contributed equity	40,933		40,933	19,943	60,876
Retained earnings	(52,812)	(7,031)	(59,843)		(59,843)
Other reserves	(3,122)		(3,122)		(3,122)
Parent interests	(15,001)	(7,031)	(22,032)	19,943	(2,089)
Minority interests	2,932		2,932		2,932
TOTAL EQUITY	(12,069)	(7,031)	(19,100)	19,943	843

The pro forma Bisalloy equity balance based on the above pro forma balance sheet (\$0.8m), and including the pro forma forecast profit before minority interests for the year ending 30 June 2009 is \$11.4m as set out in the table below. The pro forma net profit of \$10.6m below differs from the pro forma forecast income statement net profit before minority interests of \$3.6m, as the \$7.0m attributed to the divestment of Atlas Distribution is included in the pro forma forecast income statement and in the pro forma balance sheet as a pro forma adjustment to retained earnings.

	Pro forma Post-sale and post Rights Issue
	\$'000
Pro forma equity post divestment and rights issue	843
Pro forma net profit after tax for the year ending 30 June 2009	10,583
Pro forma equity	11,426
Attributed to:	
Parent interests	7,825
Minority interests	3,601

3.7 Dividends

The Board has determined that a dividend will not be paid in respect of the half year ending 31 December 2008. The future dividend policy of the Company will be decided once the sale of Atlas Distribution is complete and the restructure of Bisalloy is finalised.

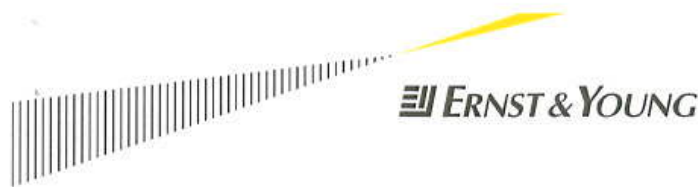
3.8 Market price of Shares

The highest and lowest market prices of Bisalloy Shares on ASX during the 3 months immediately preceding the date of this Prospectus and the respective dates of those sales were:

Highest:	\$0.71 on 1 September 2008
Lowest:	\$0.26 on 27 October 2008

The volume weighted average sale price on ASX of Bisalloy's Shares during the 3 months immediately preceding the date of this Prospectus was approximately \$0.42.

The latest available market sale price of Bisalloy's Shares on ASX prior to the date of this Prospectus was \$0.27 on 1 December 2008.



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2 December 2008

The Directors
Bisalloy Steel Group Limited
Level 24, HWT Tower
40 City Road
SOUTHBANK VIC 3006

Dear Directors

Independent Accountant's Report on Historical and Pro Forma Financial Information

We have prepared this Independent Accountant's Report ("Report") on the historical and pro forma financial information of Bisalloy Steel Group Limited ("Bisalloy") for inclusion in a Prospectus to be dated on or about 2 December 2008 (the "Prospectus") relating to the proposed renounceable rights issue of ordinary shares in Bisalloy (the "Offer").

Expressions defined in the Prospectus have the same meaning in this Report.

Scope

We have been requested to prepare an Independent Accountant's Report covering the following financial information:

- ▶ Historical Balance Sheet as at 30 June 2008 for Bisalloy, as set out in Section 3.6 of the Prospectus;
- ▶ Pro Forma Historical Income Statement for the year ended 30 June 2008 for Bisalloy, as set out in Section 3.5 of the Prospectus; and
- ▶ Pro Forma Balance Sheet as at 30 June 2008 for Bisalloy, which assumes completion of the contemplated transactions as at that date as set out in Section 3.6 of the Prospectus.

The Historical Balance Sheet has been extracted from the statutory financial statements of Atlas Group Holdings Limited for the year ended 30 June 2008, which were audited by Ernst & Young and on which an unqualified audit opinion was issued on 26 September 2008. No adjustments have been made to the audited statutory financial statements in respect of the Historical Balance Sheet.

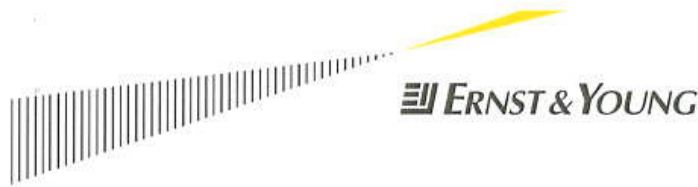
The Pro Forma Historical Income Statement has been prepared by reference to the audited statutory financial statements of Atlas Group Holdings Limited for the year ended 30 June 2008. Adjustments have been made to the audited statutory financial statements to reflect the transactions between the continuing and discontinued operations as if they were transactions with parties external to the Bisalloy group.

The Pro Forma Balance Sheet has been prepared to reflect (i) the sale of Atlas Speciality Metals Pty Limited, and (ii) the proposed rights issue, as if these transactions had occurred on 30 June 2008. The effect of these transactions has been applied to the Historical Balance Sheet as at 30 June 2008.

The Directors have prepared and are responsible for the historical and pro forma financial information. We disclaim any responsibility for any reliance on this report or on the financial information to which it relates for any purposes other than that for which it was prepared. This report should be read in conjunction with the full Prospectus and the financial report of Bisalloy for the year ended 30 June 2008.

Liability limited by a scheme approved
under Professional Standards Legislation

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Audit of Historical Financial Information

We have conducted an independent audit of the Historical Balance Sheet at 30 June 2008 in order to express an audit opinion thereon. Our audit has been conducted in accordance with Australian Auditing and Assurance Standards applicable to audit engagements to provide reasonable assurance whether the Historical Balance Sheet is free of material misstatement.

Our procedures included examination, on a test basis, of evidence supporting the amounts in the Historical Balance Sheet, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the Balance Sheet is presented fairly in accordance with the recognition, measurement and presentation requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and so as to present a view which is consistent with our understanding of Bisalloy's financial position as at 30 June 2008.

Review of Pro Forma Historical Income Statement

We have conducted an independent review of the Pro Forma Historical Income Statement in order to state whether on the basis of the procedures described, anything has come to our attention that would cause us to believe that the Pro Forma Historical Income Statement is not applying the recognition, measurement and presentation principles disclosed in the basis of preparation set out in Section 3.5 of the Prospectus.

Review of Pro Forma Balance Sheet

We have conducted an independent review of the Pro Forma Balance Sheet in order to state whether on the basis of the procedures described, anything has come to our attention that would cause us to believe that the pro forma Balance Sheet:

- a. has not been prepared on the basis of the assumptions set out in Section 3.6 of the Prospectus; and
- b. is not applying the recognition, measurement and presentation requirements (but not all of the disclosure requirements) of the applicable Accounting Standards and other mandatory professional reporting requirements in Australia as if the pro forma transactions set out in Section 3.6 of the Prospectus had occurred at 30 June 2008.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements and has been limited to reading of relevant Board minutes, reading of contracts and other legal documents, inquiries of management personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Opinion and Statement

Audit Opinion on Historical Balance Sheet

In accordance with our opinion dated 26 September 2008, the extracted Historical Balance Sheet of Bisalloy as set out in Section 3.6 of the Prospectus presents fairly, in all material respects, the financial position of Bisalloy at 30 June 2008, in accordance with the recognition, measurement and presentation requirements (but not all of the disclosure requirements) of Australian Accounting Standards and other mandatory professional reporting requirements in Australia.



Review Statement on Pro Forma Historical Income Statement

Based on our review, which is not an audit, nothing has come to our attention which would cause us to believe the Pro Forma Historical Income Statement has not been properly prepared in accordance with the recognition, measurement and presentation principles disclosed in the basis of preparation, set out in Section 3.5 of the Prospectus.

Review Statement on Pro Forma Balance Sheet

Based on our review, which is not an audit, nothing has come to our attention which would cause us to believe the Pro Forma Balance Sheet has not been properly prepared:

- a) on the basis of the assumptions as set out in Section 3.6 of the Prospectus of Company as at 30 June 2008, and
- b) in accordance with the recognition, measurement and presentation requirements (but not all of the disclosure requirements) of Australian Accounting Standards and other mandatory professional reporting requirements in Australia as if the pro forma transactions set out in Section 3.6 of the Prospectus had occurred at 30 June 2008.

Subsequent Events

Apart from the matters dealt with in this Report and having regard to the scope of our Report, to the best of our knowledge and belief, no material transactions or events outside the ordinary business of Bisalloy subsequent to 30 June 2008 have come to our attention which require comment on or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Independence or Disclosure of Interest

Ernst & Young does not have any interest in the outcome of the Offer other than in connection with the preparation of this Report and participation in due diligence procedures. Ernst & Young will receive a professional fee for the preparation of this Report. Ernst & Young acted as statutory auditor of Bisalloy for the year ended 30 June 2008 and have provided tax services for which we received a market based fee.

Consent to the inclusion of the Independent Accountant's Report in the Prospectus in the form and context in which it appears, has been given. At the date of this Report, this consent has not been withdrawn.

Yours faithfully

A handwritten signature in black ink, appearing to read "David McGregor".

Ernst & Young

David McGregor

Partner

Melbourne

2 December 2008



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Advisory Services Limited**
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2 December 2008

The Directors
Bisalloy Steel Group Limited
Level 24, HWT Tower
40 City Road
SOUTHBANK VIC 3006

Dear Directors

Independent Accountant's Report on Pro Forma Forecast Financial Information

PART 1 - INDEPENDENT ACCOUNTANT'S REPORT ON PRO FORMA FORECAST FINANCIAL INFORMATION

We have prepared this Independent Accountant's Report ("Report") on the pro forma forecast financial information of the continuing Bisalloy Steel Group Limited business ("Bisalloy") for the financial year ending 30 June 2009 as if Atlas Specialty Metals Pty Ltd and its controlled entities ("Atlas Distribution") had been divested on 1 July 2008, for inclusion in a Prospectus to be dated on or about 2 December 2008 (the "Prospectus") relating to the proposed renounceable rights issue of ordinary shares in Bisalloy (the "Offer"). Our review excludes a review of the loss from discontinued operations for the four months ended 31 October 2008.

Expressions defined in the Prospectus have the same meaning in this Report.

The nature of this Report is such that it can be given only by an entity, which holds an Australian Financial Services Licence under the Corporations Act. Ernst & Young Transaction Advisory Services Limited holds the appropriate Australian Financial Services Licence.

Scope

You have requested Ernst & Young Transaction Advisory Services Limited prepare a report for inclusion in the Prospectus covering the pro forma forecast income statement summary of Bisalloy for the year ending 30 June 2009 as if Atlas Specialty Metals Pty Ltd and its controlled entities ("Atlas Distribution") had been divested on 1 July 2008 (excluding the loss from discontinued operations for the four months ended 31 October 2008) as set out in Section 3.5 of the Prospectus, referred to as the "Directors' Forecasts".

The Directors are responsible for the preparation and presentation of the Directors' Forecasts, including the best-estimate assumptions, which include the pro forma transactions, on which they are based. The Directors' Forecasts have been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the Directors' Forecasts to which it relates for any purposes other than for which it was prepared.

Review of Directors' Forecasts

Our review of the Directors' Forecasts was conducted in accordance with the Australian Auditing and Assurance Standard AUS 902 "Review of Financial Reports". Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary. These procedures included discussion with the Directors and management of Bisalloy and have been undertaken to form an opinion on whether anything has come to our attention which causes us to believe that:



- (a) the Directors' best-estimate assumptions do not provide a reasonable basis for the preparation of the Directors' Forecasts (excluding the loss from discontinued operations for the four months ended 31 October 2008);
- (b) in all material respects, the Directors' Forecasts (excluding the loss from discontinued operations for the four months ended 31 October 2008) are not properly compiled on the basis of the best-estimate assumptions; and
- (c) the Directors' Forecasts (excluding the loss from discontinued operations for the four months ended 31 October 2008) are not presented fairly in accordance with the recognition and measurement principles (but not all of the presentation and disclosure requirements) prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia and the accounting policies of Bisalloy as if Atlas Distribution had been divested on 1 July 2008.

The Directors' Forecasts have been prepared by the Directors to provide investors with a guide to Bisalloy's potential future financial performance based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of the Directors' Forecasts. Actual results may vary materially from those Directors' Forecasts and the variation may be materially positive or negative. Accordingly, investors should have regard to the Risk Factors set out in Section 5 of the Prospectus and Sensitivity Analysis set out in Section 3.5 of the Prospectus.

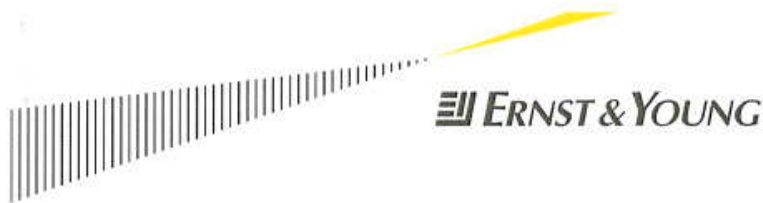
Our review of the Directors' Forecasts that are based on best-estimate assumptions, is substantially less in scope than an audit examination conducted in accordance with Australian Auditing and Assurance Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the Directors' Forecasts included in the Prospectus.

Review Statement

Based on our review of the Directors' Forecasts (excluding the loss from discontinued operations for the four months ended 31 October 2008) as set out in Section 3.5 of the Prospectus, which is not an audit, and based on an investigation of the reasonableness of the Directors' best-estimate assumptions giving rise to the prospective financial information, nothing has come to our attention which causes us to believe that:

- (a) the Directors' best-estimate assumptions set out in Section 3.5 of the Prospectus do not provide a reasonable basis for the preparation of the Directors' Forecasts (excluding the loss from discontinued operations for the four months ended 31 October 2008);
- (b) the Directors' Forecasts (excluding the loss from discontinued operations for the four months ended 31 October 2008) are not properly compiled on the basis of the Directors' best-estimate assumptions; and
- (c) the Directors' Forecasts (excluding the loss from discontinued operations for the four months ended 31 October 2008) are not presented fairly in accordance with the recognition and measurement principles (but not all of the presentation and disclosure requirements) prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia and the accounting policies of Bisalloy as if Atlas Distribution had been divested on 1 July 2008.

The underlying assumptions are subject to significant uncertainties and contingencies often outside the control of Bisalloy and the Directors. If events do not occur as assumed, actual results achieved and distributions provided by Bisalloy may vary significantly from the Directors' Forecasts. Accordingly, we do not confirm or guarantee the achievement of the Directors' Forecasts, as future events, by their very nature, are not capable of independent substantiation. Investors should have regard to the Risk Factors detailed in Section 5 of the Prospectus and Sensitivity Analysis set out in Section 3.5 of the Prospectus.



Subsequent Events

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary business of Bisalloy have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services Limited does not have any interest in the outcome of the Offer other than in connection with the preparation of this Report and participation in due diligence procedures. Ernst & Young Transaction Advisory Services Limited will receive a professional fee for the preparation of this Report. Ernst & Young acted as statutory auditor of Bisalloy for the year ended 30 June 2008 and have provided tax services for which we received a market based fee.

The Directors of Bisalloy have agreed to indemnify and hold harmless Ernst & Young Transaction Advisory Services Limited, Ernst & Young and its employees from claims arising out of misstatement or omissions in any material or information supplied by the Directors.

Consent to the inclusion of the Independent Accountant's Report in the Prospectus in the form and context in which it appears, has been given. At the date of this Report, this consent has not been withdrawn.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

A handwritten signature in blue ink, appearing to read "Jenny Rayner".

Jenny Rayner
Representative

A handwritten signature in black ink, appearing to read "Stephen Lomas".

Stephen Lomas
Director and Representative



**Ernst & Young Transaction
Advisory Services Limited**
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680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001
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www.ey.com/au

**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT ACCOUNTANT'S
REPORT**

PART 2 - FINANCIAL SERVICES GUIDE

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Accountant's Report ("Report") in connection with a financial product of another person. The Report is to be included in documentation being sent to you by that person.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

Ernst & Young Transaction Advisory Services Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585



5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or the Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

Contacting Ernst & Young Transaction Advisory Services AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Contacting the Independent Dispute Resolution Scheme: Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08
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This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

4. ACTION REQUIRED BY SHAREHOLDERS

4.1 What Eligible Shareholders may do

The number of New Shares to which Eligible Shareholders are entitled is shown on the accompanying personalised Entitlement and Acceptance Form. Eligible Shareholders may:

- take up all of their Rights (refer section 4.2);
- sell all of their Rights on ASX (refer section 4.3);
- take up some of their Rights and sell the balance on ASX (refer section 4.4);
- take up some of their Rights and allow the balance to lapse (refer section 4.5);
- sell some or all of their Rights other than on ASX (refer section 4.6); or
- allow all or part of their Rights to lapse (refer section 4.7).

If you do not take up all your Rights, your shareholding will be diluted.

Ineligible Shareholders may not take any of the steps set out in sections 4.2 to 4.7. Refer to section 1.9 for details regarding the treatment of Ineligible Shareholders.

If you have bought Rights on ASX or otherwise, you need to consult with stockbroker about how you can take up your Rights.

4.2 Taking up all of your Rights

If you wish to take up your full Entitlement either

- ◆ complete the accompanying personalised Entitlement and Acceptance Form for New Shares in accordance with the instructions set out on the form and forward it together with your Application Money in accordance with section 4.8 for the amount shown on the form using the reply paid envelope provided to reach the Share Registry no later than 5.00 pm (Melbourne time) on 30 December 2008 at the address set out below:

Bisalloy Steel Group Limited
c/- Computershare Investor Services Pty Limited
GPO Box 505
Melbourne VIC 3001, or
- ◆ make a payment by BPAY in accordance with the instructions on your personalised Entitlement and Acceptance Form and section 4.8 so that

your payment is received by no later than 5.00pm (Melbourne time) on 30 December 2008.

4.3 Selling all your Rights on ASX

If you wish to sell all of your Rights on ASX provide instructions to your stockbroker regarding the number of Rights you wish to sell on ASX. Trading of Rights will commence on ASX on 4 December 2008 and will cease on 18 December 2008.

4.4 Taking up some of your Rights and selling the balance on ASX

If you wish to take up only some of your Rights, complete the accompanying personalised Entitlement and Acceptance Form for the number of New Shares you wish to take up and follow the steps in section 4.2, or make a payment by BPAY in accordance with section 4.2.

Subsequently, provide instructions to your stockbroker regarding the number of Rights you wish to sell on ASX.

4.5 Taking up some of your Rights and allowing the balance to lapse

If you wish to take up some of your Rights and allow the balance to lapse, complete the accompanying personalised Entitlement and Acceptance Form for the number of New Shares you wish to take up and follow the steps in section 4.2. If you take no further action, the balance of your Rights will lapse and you will have forfeited any potential benefit to be gained from taking up or selling those Rights.

4.6 Selling some or all of your Rights other than on ASX

You may elect to transfer all or some of your Rights to another person other than on ASX. If the purchaser of your Rights is an Ineligible Shareholder or a person that would be an Ineligible Shareholder if they were a registered holder of Shares, that purchaser will not be able to take up the Rights they have purchased.

If you are a shareholder on the issuer sponsored subregister and you wish to transfer all or some of your Rights to another person other than on ASX, forward a completed standard renunciation and transfer form (obtainable from the Share Registry) and the applicable transferee's cheque for the New Shares they wish to subscribe for payable to "Bisalloy Steel Group Limited - Rights Issue Account" and crossed "Not Negotiable" to the Share Registry by 5.00pm (Melbourne time) on 30 December 2008 at the following address:

Bisalloy Steel Group Limited
c/- Computershare Investor Services Pty Limited
GPO Box 505

Melbourne VIC 3001

If you wish to transfer all or some of your Rights to or from another person on the CHESS subregister you must engage your CHESS controlling participant (usually your stockbroker). If the transferee wants to exercise some or all of those Rights, you should follow your stockbroker's instructions as to the most appropriate way to take up those Rights on their behalf. The Application Money for New Shares the transferee of the Rights wants to acquire must be received by Share Registry in accordance with section 4.2.

4.7 Allow all or part of your Entitlement to lapse

Shareholders should be aware that their Rights may have value. Rights are renounceable, which enable Eligible Shareholders who do not wish to take up part or all of their Entitlement to seek to sell or trade all or some of their Rights on ASX.

4.8 Payment

The issue price for the New Shares is payable in full on application by a payment of \$0.25 per New Share. The Entitlement and Acceptance Form must be accompanied by a cheque for the Application Monies. Cheques must be drawn in Australian currency on an Australian bank and made payable to "Bisalloy Steels Group Limited - Rights Issue Account" and crossed "Not Negotiable". Cash postal notes or other forms of payment (other than BPAY) will not be accepted. Receipts for payment will not be issued.

Alternatively, Eligible Shareholders may apply by BPAY by following the instructions on the accompanying personalised Entitlement and Acceptance Form using the BPAY Biller Code and unique Customer Reference Number shown on the form.

4.9 Enquiries

If you have any queries about your Entitlement please contact the Company's Share Registry:

Computershare Investor Services Pty Limited
Computershare Investor Services
GPO Box 505
Melbourne VIC 3001
Telephone: 1300 540 876 (within Australia)
+61 3 9415 4664 (outside Australia)
Facsimile: +61 3 9473 2500

Alternatively, contact your stockbroker or other professional adviser.

4.10 Brokerage

No brokerage fee is payable by Shareholders who subscribe for their Entitlement of New Shares. However, brokerage fees are payable by persons who, through a broker, trade Rights on ASX during the Trading Period.

No stamp duty is payable for trading Rights or subscribing for New Shares.

4.11 Privacy

If you apply for New Shares, you will provide personal information to the Company and Computershare Investor Services Pty Limited (**Share Registry**). Company laws and tax laws require some of the information to be collected and kept. The Company will collect, hold and use the information provided by you to process your application and to administer your investment in the Company.

If you do not provide the information requested in the Entitlement and Acceptance Form, the Company and the Share Registry may not be able to process your application.

The Company may disclose your personal information for purposes related to your investment to the Company's agents and service providers. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the Register;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Company's shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising, on Shares and for associated actions.

The Company complies with its legal obligations under the Privacy Act 1988 (Cth).

You may request access to your personal information held by (or on behalf of) the Company. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. You can request access to your personal information by writing to or telephoning the Share Registry as follows:

Computershare Investor Services Pty Limited
GPO Box 505
Melbourne VIC 3001
Telephone: 1300 850 505 (within Australia)
 +61 3 9415 4664 (outside Australia)
Facsimile: +61 3 9473 2500

4.12 Representation and Warranties of Applicants

An application to subscribe for New Shares under this Prospectus will be taken to constitute a representation by the Applicant that they:

- (a) have a registered address in Australia or New Zealand;
- (b) are not in the United States, are not a US Person and are not acting for the account or benefit of a US Person
- (c) have received a printed copy of this Prospectus (and any supplementary or replacement document) and accompanying Entitlement and Acceptance Form and have read them in full;
- (d) declare that all details and statements in the Entitlement and Acceptance Form are complete and accurate;
- (e) acknowledge that once the Entitlement and Acceptance Form is returned or payment by BPAY made, it may not be withdrawn;
- (f) agree to being issued the number of New Shares for which they subscribed; and
- (g) authorise the Company, the Underwriter and the Sub-Underwriter and their officers or agents to do anything on their behalf necessary for New Shares to be issued to the Applicant, including to act on instructions received by the Share Registry using the contact details in the Entitlement and Acceptance Form.

5. RISKS

5.1 Overview

A number of risks which are both specific to the Company and of a more general nature, may affect the future operating and financial performance of the Company, its investment returns and the value of its securities. This section describes some of the risks associated with an investment in the Company. Each of the risks outlined below could, if they eventuate, have a material adverse impact on the Company's operating and financial performance and its ability to pay distributions. Potential investors should note that risks included in this section are not exhaustive and must be considered in conjunction with all other information disclosed in this Prospectus.

Prior to deciding whether to invest in the Company, potential investors should read the entire Prospectus, and specifically consider the risks contained in this section. Potential investors should carefully consider these risks in light of their personal circumstances and seek professional advice from an accountant, stockbroker, solicitor or other professional adviser before deciding whether to invest in the Company.

5.2 Risks that relate specifically to an investment in the Company

In addition to the general market and economic risks noted in section 5.3 below, investors should be aware of the risks specific to an investment in the Company. The risks include:

- (a) ***Cyclical nature of industries in which Bisalloy's customer operate*** – Bisalloy's revenues and earnings are sensitive to the level of activity in the industries in which Bisalloy's customers operate, in particular mining and defence applications. Bisalloy is not able to predict the timing, extent and duration of the economic cycles of the markets in which its customers operate. Any significant or extended downturn in the industries in which Bisalloy's customers operate may negatively impact on the demand for the Company's products which would adversely affect the Company's operating and financial performance.
- (b) ***Changes in the price of Greenfeed*** – Bisalloy's key input into the production process is Greenfeed (alloyed carbon steel plate). Bisalloy's operating margins are dependent upon the availability of adequate quantities of competitively priced Greenfeed. In times of high global demand for carbon steel plate, steel mill customers are sometimes placed on "allocation" – a process used by steel mills to allocate available production to excessive demand. Conditions resulting in allocation have existed in the carbon steel

market for the past few years but have largely been removed since September 2008 with the rapid slowing of world steel demands. The development of multiple sourcing options for Greenfeed by Bisalloy over the past two years will also minimise this specific risk going forward.

- (c) ***Competition*** – Increased competition could result in price reductions, reduced operating margins and loss of market share. In recent years, competition in the Australian markets in which Bisalloy operates has been limited by a world-wide shortage of Q&T plate. Should supply increase, including through increased imports this could adversely affect the Company's operating and financial performance. The competitive nature of the industry in which the Company operates necessarily implies that there can be no assurance that it will be able to compete successfully against current or future competitors.
- (d) ***Sustainability of growth and margins*** – The sustainability of growth and the level of profit margins from the Company's operations are dependant on a number of factors outside of the Company's control. There is no assurance that the historical performance of the Company is indicative of future operating results.
- (e) ***Financing*** – Bisalloy's continued ability to effectively implement its business plan over time may depend in part on its ability to raise additional equity or obtain additional debt.

There can be no assurance that any such equity or debt funding will be available to the Company on favourable terms or at all. If adequate funds are not available on acceptable terms, the Company may not be able to take advantage of opportunities or otherwise respond to competitive pressures.

Increases in interest rates will impact on Bisalloy's profitability. Bisalloy will have obligations under its financing arrangements and will be exposed to the risk of interest rate fluctuations.
- (f) ***Dividends*** – The payment of a dividend by Bisalloy is at the discretion of the Directors. There is no guarantee that Bisalloy will pay any dividends. Whether dividends are paid will be a function of a number of factors, including the general business environment, the operating results and the financial condition of Bisalloy, future funding requirements, capital management initiatives, potential strategic growth opportunities, taxation considerations (such as the level of

franking available), and any contractual, legal or regulatory restrictions on the payment of dividends by Bisalloy.

The Board has determined that a dividend will not be paid in respect of the half year ending 31 December 2008. The future dividend policy of the Company will be decided once the sale of Atlas Distribution is complete and the restructure of Bisalloy is finalised.

- (g) **Country Risk** – Bisalloy operates in three countries, being Australia, Indonesia and Thailand. Indonesia and Thailand have developing legal, regulatory and political systems. The profitability of each of Bisalloy's foreign operations and its ability to maintain and repatriate funds from them may be adversely impacted by factors specific to the foreign country. In addition, some countries, particularly in South East Asia, may be susceptible to greater political and social instability than Australia. Bisalloy has limited exposure to its operations in South East Asia and, in the past, it has not suffered materially as a result of such instability. However, sustained periods of instability in South East Asia may affect Bisalloy's operating and financial performance.
- (h) **Personnel Risk** – Whilst efforts are made to retain key employees and contractors and to recruit new personnel as the need arises, loss of a number of key personnel may adversely affect the Company's operating and financial performance.
- (i) **Importance of key relationships** – Bisalloy obtains its raw steel supply from a number of steel mills in Australia and China.

Key distributors of a significant amount of quenched and tempered steel plate in Australia for Bisalloy are BlueScope Steel, OneSteel and Atlas Distribution.

The loss or impairment of any of these relationships could have a material adverse effect on Bisalloy's operating and financial performance, at least until alternative arrangements could be implemented. In some instances, however, alternative arrangements may not be available or may be less financially advantageous than the current arrangements.

- (j) **Risks related to joint ventures** – Bisalloy has entered into joint venture agreements with local distributors in Indonesia and Thailand to export its quenched and tempered steel product into their local markets. The governing arrangements of some of these joint ventures provide that key matters and decisions require the agreement of Bisalloy's

joint venture partners. Bisalloy may be unable to reach agreement with its joint venture partners concerning these matters, or may only be able to do so on less favourable terms than would otherwise be the case if it had outright control, and this may affect the operating and financial performance of Bisalloy.

In addition, in some cases Bisalloy may provide guarantees or indemnities covering joint and several liabilities. These guarantees may be called upon as a result of conduct by certain joint venture parties over which the company has no control. However, Bisalloy does not believe there are any unusual exposures under these arrangements.

- (k) **Foreign Exchange Risk** – The revenues, earnings, assets and liabilities of Bisalloy are exposed to exchange rate fluctuation. Recent market and economic volatility has limited Bisalloy's ability to hedge net foreign currency exposures. Bisalloy manages the foreign exchange risk on net imports by purchasing wherever possible in Australian dollars. Bisalloy's ability to compete against imported product in the processing of quenched and tempered steel may be adversely affected by movements in the exchange rate that would reduce the Company's operating margins or increase the cost of inputs. An increase in the Australian dollar relative to other currencies may also make Bisalloy's products less competitive in its export markets.
- (l) **Product Risk** – Bisalloy maintains an internal risk management process and also follows quality assurance procedures in relation to the downstream processing and distribution of its products. However, due to the nature of its operations, it is possible that notwithstanding the procedures in place designed to minimise exposure and risks, claims against Bisalloy could arise from defects in products supplied by Bisalloy. Claims could be made concerning such things as product liability or damage or loss arising from defective products. If any such claims are determined adversely to Bisalloy, and Bisalloy's existing insurance arrangements did not cover the liability, this could have a material adverse effect on the operating and financial performance of Bisalloy.
- (m) **Industrial Risk** – Industrial disruptions, work stoppages and accidents in the course of Bisalloy's operations can result in losses and delays, which may adversely affect profitability. Bisalloy's Workplace Agreement is due for renegotiation by 30 June 2009. At this stage it is not envisaged any disruption to the business will occur during these

negotiations based on the sound employee relations record over recent times.

- (n) **Environmental Risk** – Bisalloy uses natural gas to heat its furnaces. Natural gas is a source of carbon emissions. Bisalloy's future profitability may be impacted by any emissions trading scheme introduced by the Federal Government.

Environmental laws and regulations commonly provide that failure to comply or the existence of an offending condition on a person's property regardless of the cause may result in orders being made or proceedings being taken to rectify the breach, or to cease operation pending rectification or altogether (if rectification is not possible), and for penalties and costs. This may in time cause certain of Bisalloy's operations to cease or be restricted, or may require the carrying out of remedial work or the installation of additional equipment at substantial cost. There may also be requirements that third parties, which suffer loss or damage by reason of any breach, be compensated or indemnified. Further, if a breach of environmental laws or regulations is established, then the person in breach may also be exposed to criminal prosecution and penalty.

- (o) **Catastrophic event** – Bisalloy's manufacturing operation is concentrated at one site at Unanderra. The site may be impacted by flood due to the existence of a storm water culvert under the freeway adjacent to the property. In addition, the use of gas to heat the furnaces carries the risk of fire. The Company carries an industrial special risks policy the includes insurance against flood and business interruption.

- (p) **Change in voting power risk**

If the Offer is not fully subscribed, Anchorage, the Sub-Underwriter, will be required to subscribe for the Shortfall Shares. This will result in an increase in Anchorage's voting power in the Company and could result in Anchorage acquiring a significant interest in the Company.

Refer to section 6.6 for more information.

- (q) **Guarantee exposure following sale of Atlas Distribution**

Before the sale of Atlas Distribution, Bisalloy provided several parent company guarantees in favour of Atlas Speciality Metals Pty Ltd or its subsidiaries' obligations under certain leases. Bisalloy was unable to secure releases from

certain of these parent guarantees as part of the sale of Atlas Distribution, and remains primarily liable under these parent guarantees. The buyers of Atlas Distribution are obliged to seek the prompt release of these guarantees and should Bisalloy be called on to perform any obligations under these guarantees, Bisalloy has the benefit of an indemnity from Atlas Specialty Metals Pty Ltd, however the value of the indemnity is subject to the continued good financial standing of Atlas Specialty Metals Pty Ltd. However, if a guarantee is called on, Bisalloy also has a right to seek the assignment of the lease to which the guarantee relates from Atlas Speciality Metals Pty Ltd.

- (r) **Atlas Distribution Foreign Exchange Purchase Orders**

Atlas Distribution has certain purchase orders denominated in US Dollars. Such arrangements are not hedged. Bisalloy agreed, as part of the sale of Atlas Distribution, to pay Atlas Specialty Metals Pty Ltd an amount equal to that which the Australian dollar spot price or the New Zealand dollar spot price exceeds the Australian dollar booked price or the New Zealand dollar booked price, as applicable, in relation to a specific agreed list of purchase orders. If the Australian dollar or New Zealand dollar weaken, Bisalloy's exposure increases. However should the Australian dollar or New Zealand dollar strengthen, Bisalloy's exposure will be reduced. Further, should the spot price fall below the booked price, Atlas Speciality Metals Pty Ltd is required to pay the difference to Bisalloy.

5.3 General Risks

- (a) **Share market investments** - The price at which the Shares trade on ASX after the Offer has been completed may be higher or lower than the issue price of \$0.25 per Share and will be affected by the financial performance of Bisalloy and by external factors over which the Directors and Bisalloy have no control including:

- general economic conditions, including inflation rates and interest rates;
- variations in the local and global market for listed companies;
- changes to government policy, legislation or regulation (including taxation);

- domestic or international political uncertainty;
- inclusion or removal of Bisalloy from major market indices;
- the nature of competition in the markets in which Bisalloy operates; and
- general operations and business risk.

In particular, the share prices for many companies have in recent times been subject to wide fluctuations, which in many cases may reflect a diverse range of non-company specific influences such as global hostilities and tensions, acts of terrorism and the general state of the global economy. Such market fluctuations may materially adversely affect the market prices of the Shares.

No assurances can be made that Bisalloy's market performance will not be adversely affected by market fluctuations. No guarantee is given relating to Bisalloy's market performance.

- (b) ***Economic factors*** – Bisalloy's operating and financial performance is influenced by a variety of general economic and business conditions including the level of inflation, interest rates, exchange rates and government fiscal, monetary and regulatory policies. Prolonged deterioration in general economic conditions, including an increase in interest rates or a decrease in consumer and business demand, could be expected to have a corresponding adverse impact on the Company's operating and financial performance.

6. ADDITIONAL INFORMATION

6.1 Nature of the Prospectus

This Prospectus is issued pursuant to section 713 of the Corporations Act as a prospectus for the offer of continuously quoted securities (as defined in the Corporations Act).

6.2 ASX listing

The Company participates in CHES and will despatch holding statements instead of share certificates that set out the number of New Shares issued to each successful Applicant under this Prospectus.

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

6.3 Rights and liabilities attaching to New Shares

The Company only has one class of shares being fully paid ordinary shares in the capital of the Company (“Shares”).

The New Shares to be issued under the Offer will be issued fully paid and will rank equally with Existing Shares.

The rights and liabilities attaching to the ownership of Shares arise from a combination of the Constitution, the Corporations Act, the Listing Rules and general law.

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

- (a) **Voting** - At a general meeting of Bisalloy, every member present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll every member present has one vote for each Share held. On a poll, partly paid shares confer a fraction of a vote pro rata to the amount paid up on the Shares. Voting at any meeting of members is by a show of hands unless a poll is demanded by the Chairperson of the meeting, at least five members entitled to vote on the resolution, or members holding at least 5% of the votes that may be cast on the resolution on a poll.

The quorum required for a meeting of members is five members present and entitled to vote on the proposed resolution. In the case of an equality of votes upon any proposed resolution, the Chairperson of the meeting, in

addition to his or her deliberative vote, has a casting vote.

- (b) **Dividends** - The Directors may from time to time resolve to pay dividends to members. The payment of a dividend does not require any confirmation by general meeting.

Subject to any special terms and conditions of issue, all dividends must be paid to members in proportion to the number of, and the amounts paid on, Shares held.

The Constitution contains a provision allowing the Directors to implement a dividend reinvestment plan and a dividend selection plan on such terms as they think fit.

- (c) **Issue of shares** - The Directors may (subject to the restrictions on the issue of shares imposed by the Constitution and ASX Listing Rules) issue or grant options in respect of, or otherwise dispose of, shares to such persons, for such price, on such conditions, at such times and with such preferred, deferred or other special rights or special restrictions, whether with regard to dividend, voting, return of capital, participation in the property of Bisalloy on a winding up or otherwise, as the Directors think fit.

- (d) **Variation of class rights** - The rights attached to any class of shares may be varied with the consent in writing of the holders of three quarters of the issued shares in the particular class or the sanction of a special resolution passed at a separate meeting of holders of shares in that class.

- (e) **Transfer of Shares** - Subject to the Constitution, the Corporations Act and the Listing Rules, Shares are freely tradeable.

- (f) **Unmarketable parcels of Shares** - The Constitution reflects the unmarketable parcel sale requirements in the Listing Rules. Bisalloy may sell Shares which make up less than a marketable parcel by giving relevant members a notice of its intention to do so, unless a member elects in writing to be exempt from this rule.

- (g) **General meetings and notices** - Each member is entitled to receive notice of and, except in certain circumstances, to attend and vote at general meetings of Bisalloy and to receive all financial statements, notices and other documents required to be sent to members under the Constitution, the Corporations Act and the Listing Rules.

- (h) **Winding Up** - Shares all rank equally in the event of liquidation. Subject to the

Constitution and any rights or restrictions attached to any shares or classes of shares, a liquidator in winding up may, with the sanction of special resolution of the members, distribute among the members the whole or any part of the property of Bisalloy.

- (i) **Directors** – The minimum number of Directors is three and the maximum number of Directors may be fixed by the Directors, but must not be more than 14 unless members in a general meeting determine otherwise.

Directors are elected at annual general meetings. At each such meeting, one-third of the Directors (or, if there are five or less Directors, two Directors) excluding the Managing Director and any Board appointees standing for election, must retire from office. Retiring Directors who are eligible to do so may stand for re-election.

Questions arising at a meeting of Directors will be decided by a majority of votes of the Directors present and voting. Except in the case where there are only two Directors, the Chairperson of the meeting, in addition to his or her deliberative vote, has a casting vote where there is an equality of votes.

- (j) The Constitution provides that Directors are entitled to such remuneration as the Directors determine, but the total amount provided to all non-executive Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by Bisalloy in general meeting. That amount has been fixed for the time being at \$500,000.
- (j) **Directors' indemnity** – Bisalloy must, subject to certain exceptions set out in the Constitution, indemnify each of its officers on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses incurred by the officer as an officer of Bisalloy including any liability for negligence and for reasonable legal costs.
- (k) **Alterations to the Constitution** – In accordance with the provisions of the Corporations Act, the Constitution can only be amended by a special resolution passed by at least three-quarters of members present and voting at a general meeting of Bisalloy.
- (l) **Share buy-backs** – Bisalloy may buy back shares in itself in accordance with the provisions of the Corporations Act.

6.4 Reporting and disclosure obligations and availability of other documents

The Company is a disclosing entity (as defined in the Corporations Act) and as such is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules. These obligations require the Company to notify ASX of information about specific events and matters as they arise for the purpose of ASX making the information available to the securities market conducted by ASX. In particular, the Company has an obligation under the Listing Rules (subject to certain limited exceptions), to notify ASX once it is, or becomes aware of information concerning the Company which a reasonable person would expect to have a material effect on the price or value of the Company's securities. The Company is also required to prepare and lodge with ASIC and ASX yearly and half-yearly financial statements accompanied by a Directors' declaration and report, and an audit review or report.

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

The Company will provide a copy (free of charge), of any of the following documents, to any person who requests them in the period starting from the date of this Prospectus and ending on the Closing Date:

- (a) the annual financial report lodged with ASIC by the Company for the year ended 30 June 2008; and
- (b) any other document used to notify ASX of information relating to the Company under the continuous disclosure provisions of the Listing Rules and the Corporations Act after the date of lodgement with ASIC of the annual financial report referred to above and before lodgement of this Prospectus with ASIC.

6.5 Material Contracts

This section contains a summary of those contracts which the Directors consider to be significant or material to Bisalloy (“**Material Contracts**”). As this section only contains a summary, the provisions of each Material Contract are not fully described.

Underwriting Agreement

The Underwriter and Bisalloy have entered into an underwriting agreement setting out their rights and obligations with respect to the Offer dated on or around 2 December 2008 (“**Underwriting Agreement**”). Under the Underwriting Agreement, the Underwriter has agreed to act as lead manager and underwriter. In consideration for the services provided by the Underwriter to Bisalloy, Bisalloy has agreed to pay the Underwriter an underwriting fee of 2.25% of the gross proceeds of the Offer, a management fee of \$120,000 and various incidental

and out-of-pocket expenses incurred by the Underwriter.

It is a condition precedent to the Underwriter obligation to subscribe for Shortfall Shares that the Sub-underwriting Agreement has not been terminated.

Customary and usual representations and warranties are given by the parties in relation to matters such as power to enter into the Underwriting Agreement, corporate authority and approvals and Bisalloy's compliance with the Corporations Act and ASX Listing Rules in relation to the Rights Issue.

Bisalloy gives a number of further representations and warranties, including that this Prospectus and related public documents and information will not contain any misleading or deceptive statements or omissions, and that none of the information supplied to the Underwriter is misleading or deceptive in a material respect. Bisalloy indemnifies the Underwriter in respect of certain loss suffered in connection with the Entitlement Offer other than where the indemnity would be illegal or unenforceable under any applicable law, and in the event of fraud, wilful misconduct and negligence.

Termination of the Underwriting Agreement

(a) Right of Termination

The Underwriter may at any time up to and including the date the New Shares are allotted, currently expected to be 7 January 2009 ("**Allotment Date**"), by notice given to Bisalloy, and without any cost or liability to the Underwriter, immediately terminate the Underwriting Agreement if any one or more of the termination events in paragraph (b) of this summary occurs on or before the Allotment Date.

The Underwriter may at any time up to and including the Allotment Date, by notice given to Bisalloy, and without any cost or liability to the Underwriter, immediately terminate the Underwriting Agreement if:

- any one or more of the termination events in paragraph (c) of this summary occurs on or before the Allotment Date; and
- in the reasonable opinion of the Underwriter:
 - the event has had or is likely to have a material adverse effect on the financial condition, financial position or financial prospects of Bisalloy or any of its subsidiaries; or
 - the event has caused, or is likely to cause, a material reduction in the number of Shareholders who take up their Entitlements or the level or likely level of settlement of those Entitlements; or

- it is likely that the Underwriter will contravene, be involved in a contravention of, or incur a liability under the Corporations Act or any other applicable law as a result of the event.

(b) Automatic Termination Events

- (i) (**prescribed occurrence**) at any time during the period commencing on the date of the Underwriting Agreement and expiring on the Closing Date, any of the events listed in sections 652C(1) or (2) of the Corporations Act occurs (where references to "target" in those sections are read as references to Bisalloy), excluding the issue by Bisalloy of the New Shares;
- (ii) (**index fall**) the S&P/ASX300 Index of ASX or the ASX All Ordinaries Index closes on any Business Day before the Allotment Date at a level that is 10% or more below the level at market close on the Business Day before the date of the Underwriting Agreement and remains at or below that level for at least 3 consecutive Business Days;
- (iii) (**material adverse change**) there is a material adverse change in the condition, financial or otherwise, or in the assets, earnings, business, results of operations, management or prospects of Bisalloy or any of its subsidiaries from that described in the Prospectus;
- (iv) (**ASIC action**) ASIC:
 - A. gives notice of an intention to hold a hearing in relation to the Prospectus under section 739 of the Corporations Act or issues an order under section 739 of the Corporations Act and that order is not withdrawn within three Business Days;
 - B. makes an application for an order under Part 9.5 of the Corporations Act in relation to the Prospectus or any associated document relating to the Offer and that application is not dismissed or withdrawn within three Business Days after it is made; or
 - C. commences an investigation or hearing under Part 3 of the *Australian Securities and Investments Commission Act 2001* (Cth) in relation to the Prospectus and that investigation or hearing is not withdrawn within three Business Days after it is made;

- (v) **(withdrawal of Prospectus)** Bisalloy withdraws the Prospectus or the invitations to apply for New Shares under the Prospectus;
- (vi) **(Right of withdrawal)** Bisalloy offers to repay or is required by law to repay any application monies received for New Shares and/or offers applicants the right to withdraw their applications for New Shares under the Offer;
- (vii) **(ASX approvals – New Shares)** ASX does not approve the granting of official quotation to the New Shares (subject only to conditions acceptable to the Underwriter, acting reasonably) by 5pm on the Closing Date or, if granted, the approval is subsequently withdrawn, qualified (other than by conditions acceptable to the Underwriter, acting reasonably) or withheld (or ASX indicates to Bisalloy or the Underwriter that the approval is likely to be withdrawn, qualified or withheld);
- (viii) **(listing)** Bisalloy ceases to be admitted to the official list of the ASX;
- (ix) **(suspension)**
- A. trading in Shares on the financial market operated by ASX is suspended for a period of more than 3 consecutive business days (other than at the request of Bisalloy and with the prior written consent of the Underwriter); or
- B. Shares cease to be officially quoted; and
- (x) **(Insolvency)** Bisalloy or any of its subsidiaries becomes insolvent; or
- (xi) **(Directors and Senior Management)**
- A. a director or any member of Bisalloy's senior management is charged with a criminal offence (other than traffic fines);
- B. a change in Bisalloy's senior management or board of directors occurs, except as disclosed in the Prospectus;
- C. any regulatory body commences any public action against Bisalloy, any of the Directors or any member of Bisalloy's senior management, or announces that it intends to take any such action; or
- D. a director is disqualified under the Corporations Act from managing a corporation.
- (c) **Non-Automatic Termination Events**
- (i) **(disclosure by due diligence committee)** the results of the investigations conducted the due diligence committee or any other information supplied by or on behalf of the Company to the Underwriter in relation to Bisalloy or any of its subsidiaries or the Offer is or becomes misleading or deceptive;
- (ii) **(withdrawal of consent)**
- A. any person (other than the Underwriter) whose consent to the issue of the Prospectus is required by the Corporations Act and who has previously consented to the issue of the Prospectus withdraws such consent; or
- B. any person gives a notice under section 730 of the Corporations Act in relation to the Prospectus;
- (iii) **(amendment of Prospectus)** Bisalloy varies or amends the Prospectus without obtaining the Underwriter's prior consent in writing, such consent not to be unreasonably withheld or delayed;
- (iv) **(supplementary or replacement prospectus)** at any time during the Offer Period, a Supplementary Prospectus is required to be lodged under the Corporations Act in relation to the Offer;
- (v) **(breach)** Bisalloy fails to comply with any of its obligations under the Underwriting Agreement, or any representation or warranty in the Underwriting Agreement is or becomes incorrect and, in the case of any such non-compliance or breach of representation or warranty that is capable of being remedied, the non-compliance or breach is not remedied by Bisalloy to the satisfaction of the Underwriter (acting reasonably) within 48 hours after the non-compliance or breach occurs;
- (vi) **(Panel application)** any person applies to the Takeovers Panel for a declaration

- under section 657A of the Act, and order under section 656B, 657D or 657E of the Corporations Act or a decision under section 656A of the Corporations Act, or proceedings before the Takeovers Panel or any court are otherwise commenced, in relation to, or in any way in connection with, the Offer and such application or proceedings are not withdrawn or discontinued within 3 Business Days;
- (vii) **(hostilities)** in respect of any one or more of Australia, the United States of America, any member state of the European Union, Japan, Russia or the Peoples Republic of China:
- A. hostilities not presently existing commence (whether or not war has been declared);
- B. a major escalation in existing hostilities occurs (whether or not war has been declared);
- C. a declaration is made of a national emergency or war; or
- D. a major terrorist act is perpetrated in any of those countries or a diplomatic, military, commercial or political establishment of any of those countries elsewhere in the world;
- (viii) **(change in law)** there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of the Commonwealth of Australia or any State or Territory of Australia a new law, or the Government of Australia, or any State or Territory of Australia, the Reserve Bank of Australia, or any Minister or other Governmental Authority of Australia or any State or Territory of Australia, adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Underwriting Agreement);
- (ix) **(material adverse change in financial markets)** any of the following occurs:
- A. any material adverse change or disruption to the political conditions or financial markets of Australia, Japan, the United Kingdom, the United States of America or the international financial markets or any change or development involving a prospective change in national or international political, financial or economic conditions;
- B. a general moratorium on commercial banking activities in Australia, the United States of America, Japan or the United Kingdom is declared by the relevant central banking authority in any of those countries, or there is a material disruption in commercial banking or security settlement or clearance services in any of those countries; or
- C. trading in all securities quoted or listed on ASX, the London Stock Exchange or the New York Stock Exchange is suspended or limited in a material respect for one day on which that exchange is open for trading;
- (x) **(unauthorised alterations)** without the prior written consent of the Underwriter (such consent not to be unreasonably withheld), Bisalloy alters its capital structure or the Constitution;
- (xi) **(Certificate)** a certificate which is required to be given under the Underwriting Agreement is not given within the specified time or a statement in the certificate is not true or the certificate contains any qualification or exception that is not satisfactory to the Underwriter; or
- (xii) **(Prospectus to comply)** the Prospectus or any aspect of the Offer does not comply with the Corporations Act, Listing Rules or any other applicable law or regulation.
- (b) Financing Arrangements**
- Bisalloy and Bisalloy Steels Pty Limited (“**Borrowers**”) are parties to a finance facility agreement with GE Commercial Corporations (Australia) Pty Limited and GE Commercial Australasia Pty Limited (“**Lenders**”) dated 5 November 2008 (“**Facility Agreement**”). Atlas Alloys Pty Limited, Stainless Bar Co Pty Limited and Exhaust Systems (Australia) Pty Limited are guarantors of the Borrowers under the Facility Agreement.
- The Facility Agreement provides the Borrowers with:
- a \$40,000,000 revolving loan facility (“**Revolving Loan Facility**”); and
 - a \$12,000,000 term loan facility (“**Term Loan Facility**”).

Both the Revolving Loan Facility and the Term Loan Facility mature on 30 June 2009, but the Borrowers, provided that the Borrowers are not in breach of any of the terms of the Transaction Documents (as defined in the Facility Agreement), have an option to extend the facilities to 31 October 2010 at an additional cost of \$195,000 per quarter.

Various representations and warranties, general undertakings, covenants and events of default customary for such facilities are contained in the Facility Agreement. In addition:

- total drawings under the Revolving Loan Facility at any time must not exceed the lesser of A\$40,000,000, the Aggregate Borrowing Base (as defined in the Facility Agreement) and the Leverage Limit (being the last twelve months EBIDA of the Borrowers times two) minus the total drawings under the Term Loan Facility;
- Capital Expenditure of the Borrowers in any financial year must not exceed A\$6,000,000 for financial years ended 30 June 2009, 2010 and 2011 or such other amount agreed between the Borrowers and the Lenders based on the annual operating plan produced by the Borrowers;
- Tangible Net Worth of the Borrowers must be at least \$A28,000,000 at all times; and
- Fixed Charge Cover Ratio (EBITDA to Fixed Charges) of the Borrowers (calculated on a rolling 12 month basis) must not be less than 1.25.

The "Aggregate Borrowing Base" is calculated on the basis of the certain account receivables and inventory of the Borrowers being aggregated with 85% of the agreed value of certain plant and equipment and real estate of the Borrowers. Certain accounts receivables and inventory are excluded from the Aggregate Borrowing Base on the basis of customary criteria for facilities of this nature including in the case of accounts receivable being a specified number of days past invoice date.

- For the purposes of the Offer, the Lenders have provided the Borrowers with written confirmation that the Lenders accept that the Borrowers intend to undertake the Offer; and
- confirm that the Offer will not breach certain sections of the Facility Agreement.

6.6 Sub-underwriting Agreement

(a) Sub-underwriting Agreement and Sub-Underwriter

The Underwriter has entered into a sub-underwriting agreement with Anchorage (**Sub-Underwriter**) for the Sub-Underwriter to sub-underwrite the entire Rights Issue.

Under the Sub-Underwriting Agreement, Anchorage has agreed to act as the sub-underwriter for the entire Offer. In consideration, the Underwriter has agreed to pay Anchorage a sub-underwriting fee of 1.5% of the total gross proceeds of the Offer. Anchorage's entitlement to the sub-underwriting fee is dependent on the Company paying the Underwriter the underwriting fee of 2.25% of the total gross proceeds of the Offer referred to above.

The Sub-Underwriting Agreement is contingent on the continued operation of the Underwriting Agreement. If the Underwriting Agreement is terminated, the Sub-Underwriting Agreement automatically terminates and all obligations of the Underwriter to Anchorage, including the obligation to pay the sub-underwriting fee, will come to an end.

Ultimately the decision whether or not to terminate the Underwriting Agreement lies solely with the Underwriter. However, if the Underwriter receives a notice in writing from the Sub-Underwriter (provided the Sub-Underwriter is acting reasonably and in good faith in determining that an event has occurred that would enable the Underwriter to terminate the Underwriting Agreement) requesting that the right of termination be exercised, and the Underwriter nevertheless determines for whatever reason not to exercise such a right of termination, Sub-Underwriter may terminate the Sub-Underwriting Agreement immediately without any further liability to the Underwriter.

Anchorage is a wholly owned subsidiary of the ACP 1 Fund, which is managed by Anchorage Capital, a private equity investment management company. Anchorage Capital (www.anchoragecapital.com.au) was established in 2007. Its partners have a combined experience of over 70 years in private equity, finance, management consulting and operations. In August 2008 Anchorage Capital completed a first close of \$100 million of its \$200 million ACP 1 Fund. The fund's mandate is to target special situation investments such as Bisalloy.

The Chairman of the Company, Mr Phillip Cave, is a director of and has approximately a 40% interest in Anchorage Capital and a 10% interest in ACP 1 Fund. Mr Kym Godson, a non-executive director, previously the managing director, of the Company has a 2.5% interest in the ACP 1 Fund.

(b) Potential effect of the Offer on the voting power of the Sub-Underwriter

Anchorage has sub-underwritten the entire Rights Issue. Anchorage may acquire a significant voting interest in the Company as a result of the sub-underwriting. The extent of any such voting power will depend on the amount of any New Shares that are not subscribed for under the Offer (**Shortfall Shares**). The following table sets out the effect on Anchorage’s voting power assuming 50% of the New Shares are not taken up under the Offer and 100% of the New Shares are not taken up under the Offer.

	Current	50% of New Shares not taken up	100% of New Shares not taken up
Voting power ¹	Nil	22.2%	44.4%

¹ Assuming Mr Phillip Cave is not an associate of Anchorage, however, see paragraph below.

Mr Phillip Cave, the chairman of the Company, currently has voting power in the Company of 3.6%. Anchorage and Anchorage Capital Partners, as the manager of the ACP 1 Fund, could be deemed to be associates. As Phillip Cave is a director of Anchorage Capital, this would result in Mr Cave also being an associate of Anchorage and Anchorage being deemed to currently have voting power in the Company of 3.6%, and, in the event of 100% of the New Shares not being taken up under the Offer, being deemed to have voting power in the Company of 48%.

Based on the register of the Company at the date of this Prospectus, if Anchorage acquires 50% of the New Shares as Shortfall Shares it will become the largest Shareholder in the Company.

6.7 Interests of Directors

Other than as set out below or elsewhere in this Prospectus, no Director has, or had within two years before lodgement of this Prospectus with ASIC any interest in:

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

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any Director or proposed director:

- to induce him or her to become, or to qualify him or her as, a director; or

- for services provided by him or her in connection with the formation or promotion of the Company, or the Offer.

Holdings of Shares and options

As at the date of this Prospectus, the Directors held relevant interests in Shares, option over Shares and rights to acquire shares, either directly or indirectly, as follows:

	Direct interest		Indirect interest	
	Shares	Performance Rights	Shares	Performance Rights
Philip Cave AM	3,773,090			
Kym Godson	1,195,392		2,093,692	
Richard Grellman AM	115,813			
Graeme Pettigrew	28,124			
Robert Terpening	306,367	90,000	43,020	

Each of the directors, other than Mr Godson, have advised the Company that they intend to take up all of their Rights. Mr Godson has advised the Company that he intends to take up at least 50% of his Rights.

6.8 Interests of experts and advisers

Except as set out in this Prospectus, no:

- person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of the Company; or
- broker or underwriter to the Offer,

(each a “**relevant person**”) holds, at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- the Offer; or
- any property acquired or proposed to be acquired by the Company in connection with the formation or promotion of the Company or the Offer.

Except as set out in this Prospectus, no one has paid or agreed to pay any amount or given or agreed to give any benefit for services provided by a relevant person in connection with the formation or promotion of the Company or the Offer. The amounts below are exclusive of GST.

ABN AMRO Morgans Corporate are acting as lead manager and underwriter to the Offer, in respect of which they will receive fees (see section 6.5).

Ernst & Young Transaction Advisory Services Limited has acted as independent accountant to the Company in relation to the pro forma forecast financial information. In aggregate, the Company has paid or agreed to pay Ernst & Young Transaction Advisory Services Limited approximately A\$90,000 (excluding disbursements and GST) for these services to the date of this Prospectus. Further amounts may be paid to Ernst & Young Transaction Advisory Services Limited in accordance with its normal time-based charges.

Ernst & Young has acted as independent accountant to the Company in relation to the pro forma and historical financial information and auditor for the year ended 30 June 2008. In aggregate, the Company has paid or agreed to pay Ernst & Young approximately A\$40,000 (excluding disbursements and GST) for its role as independent accountant to the date of this Prospectus. Further amounts may be paid to Ernst & Young in accordance with its normal time-based charges.

Freehills has acted as Australian legal adviser to the Company in connection with the Offer. In aggregate, the Company has paid or agreed to pay Freehills approximately A\$150,000 (excluding disbursements and GST) for these services to the date of this Prospectus. Further amounts may be paid to Freehills in accordance with its normal time-based charges.

6.9 Consents

Each of the parties referred to as consenting parties who are named below:

- (a) has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named;
- (b) has not made any statement in this Prospectus or any statement on which a statement made in this Prospectus is based, other than as set out in paragraphs (d) and (e) below;
- (c) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Prospectus;
- (d) in the case of Ernst & Young, as independent accountant on pro forma and historical financial information and auditor for the year ended 30 June 2008, has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its consent to the inclusion of the Independent Accountant's Report on Pro-Forma and Historical Financial Information and the statements made by it in the form and context in which that report and those statements appear in the Prospectus; and

- (e) in the case of Ernst & Young Transaction Advisory Services Limited, as independent accountant on pro forma forecast financial information, has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its consent to the inclusion of the Independent Accountant's Report on pro forma forecast financial information and the statements made by it in the form and context in which that report and those statements appear in the Prospectus.

Role	Consenting parties
Lead Manager and Underwriter	ABN AMRO Morgans Corporate Limited
Sub-Underwriter	Anchorage (BSG) Pty Ltd
Share Registry	Computershare Investor Services Pty Limited
Australian legal adviser	Freehills
Auditor	Ernst & Young
Independent accountant on pro forma forecast financial information	Ernst & Young Transaction Advisory Services Limited
Independent accountant on pro forma and historical financial information	Ernst & Young

6.10 Governing Law

This Prospectus, the Offer and the contracts formed on acceptance of Applications under the Offer are governed by the laws in force in the State of Victoria and each Applicant submits to the non-exclusive jurisdiction of the courts of Victoria.

6.11 Director's Authorisation

Each Director of Bisalloy has given, and not withdrawn, their consent to the issue of this Prospectus and to its lodgement with ASIC under the Corporations Act.

7. DEFINITIONS

These definitions are provided to assist persons in understanding some of the expressions used in this Prospectus.

ACP 1 Fund	Anchorage Capital Partners 1 Fund
AIFRS	Australian equivalents to International Financial Reporting Standards
Anchorage Capital	Anchorage Capital Partners Pty Limited, the manager of ACP1 Fund
Applicant	A person who makes an Application
Application	An application to subscribe for New Shares under this Prospectus
Application Money	Money submitted by Applicants in respect of Applications
ASIC	Australian Securities and Investments Commission
ASTC Settlement Rules	means the operating rules of the settlement facility operated by ASX Settlement and Transfer Corporation Pty Limited, as amended from time to time
ASX	ASX Limited or the securities market it operates, as applicable
Atlas Distribution	Atlas Speciality Metals Pty Ltd, its subsidiaries and the businesses it and its subsidiaries own, comprising: <ul style="list-style-type: none"> - Atlas Speciality Metals Australia; - Atlas Speciality Metals New Zealand; - Atlas Metal Processors; - Durinox stainless steel reinforcing bar; - Shumag bar mill; - New Zealand Tube Mills; and - Distribution Support – Senior Management, Finance, Human Resources, Procurement and Information Technology Services Support
Auditor	Ernst and Young
AASB	Australian Accounting Standards Board
Australian GAAP	means generally accepted accounting principles in Australia, including but not limited to applicable Australian Accounting Standards, the accounts provisions of the Corporations Act, Urgent Issues Group Consensus Views, and other authoritative pronouncements of the Australian Accounting Standards Board
Bisalloy	Bisalloy Steel Group Limited ABN 22 098 674 545
Bisalloy Steels	Bisalloy Steels Pty Limited
Board	The board of Directors of the Company
Business Day	Has the same meaning as in Listing Rules
Business hours	8.30 am to 5.00 pm Monday to Friday
CHESS	ASX Clearing House Electronic Sub register System
Closing Date	30 December 2008 or such earlier or later time as the Directors may determine
Company	Bisalloy Steel Group Limited ABN 22 098 674 545

Constitution	The constitution of the Company
Corporations Act	<i>Corporations Act</i> 2001 (Commonwealth)
Directors	The directors of the Company at the date of this Prospectus
EBIT	Earnings before interest and tax
Eligible Shareholder	A Shareholder of the Company as at the Record Date other than an Ineligible Shareholder
Entitlement	The number of Rights to which a n Eligible Shareholder is entitled pursuant to the Rights Issue
Entitlement and Acceptance Form	The Entitlement and Acceptance Form accompanying this Prospectus that sets out the Entitlement of Shareholders to subscribe for New Shares pursuant to the Rights Issue
EPS	Earnings per Share
Ex-Date	4 December 2008 or such earlier or later time as the Directors may determine
Existing Shares	Shares on issue before the Record Date
Expiry Date	The expiry date of the Prospectus which is the date which is 13 months after the date of this Prospectus
FY08	Financial year ended 30 June 2008
FY09	Financial year ending 30 June 2009
Lead Manager	ABN AMRO Morgans Corporate Limited
Listing Rules	The listing rules of ASX
New Shares	Shares offered under the Rights Issue
Ineligible Shareholder	A Shareholder as at the Record Date whose registered address is not situated in Australia or New Zealand
Official List	Means the official list of ASX
Prospectus	This Prospectus
Record Date	7.00 pm (Melbourne time) on 10 December 2008
Register	The register of Shareholders of the Company
Rights Issue or Offer	The renounceable pro rata rights issue pursuant to this Prospectus by the Company to Eligible Shareholders of 4 New Shares for every 5 Shares an Eligible Shareholder purchased before the Ex Date and continues to hold on the Record Date at an issue price of \$0.25 per New Share
Rights	The right to subscribe for New Shares pursuant to this Prospectus
Share Registry	Computershare Investor Services Pty Limited
Shareholders	Holders of Shares
Shares	Fully paid ordinary shares in the capital of the Company
Shortfall Shares	Any New Shares not subscribed for under the Offer
Sub-Underwriter or Anchorage	Anchorage (BSG) Pty Ltd, a wholly owned subsidiary of ACP1 Fund, which is managed by Anchorage Capital
Sub-Underwriting Agreement	An agreement dated on or around 2 December 2008 between the Company and

the Sub-Underwriter

Trading Period	The Rights trading period, namely 4 December 2008 to 18 December 2008
Underwriter	ABN AMRO Morgans Corporate Limited
Underwriting Agreement	An agreement dated on or around 2 December 2008 between the Company and the Underwriter
United States	For the purposes of this Prospectus and the Entitlement and Acceptance Form, "United States" means the United States of America, its territories and possessions, any State of the United States and the District of Columbia
US Person	as defined in Rule 902(k) under Regulation S under the US Securities Act
US Securities Act	The United States Securities Act of 1933, as amended
"\$" or AUD	Australian dollars

CORPORATE INFORMATION

Directors

Mr Phillip Cave AM – Non executive Chairman
Mr Kym Godson – Non executive Director
Mr Richard Grellman AM – Non executive Director
Mr Graeme Pettigrew – Non executive Director
Mr Robert Terpening – Managing Director
Mr David Cleland – Company Secretary

Registered Office

Level 23, HWT Tower
40 City Road
Southbank Victoria 3006

Auditor

Ernst and Young
8 Exhibition Street
Melbourne VIC 3000

Independent Accountant on Pro Forma Forecast Financial Information

Ernst and Young Transaction Advisory Services Limited
8 Exhibition Street
Melbourne VIC 3000

Independent Accountant on Historical and Pro Forma Financial Information

Ernst and Young
8 Exhibition Street
Melbourne VIC 3000

Lead Manager and Underwriter

ABN AMRO Morgans Corporate Limited
Level 7, 88 Phillip Street
Sydney NSW 2000

Legal Advisers

Freehills
101 Collins Street
Melbourne VIC 3000

Share Registry

Computershare Investor Services
452 Johnston St
Abbotsford VIC 3000