

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
ABN 28 009 120 405

SHORT FORM PROSPECTUS

FOR THE OFFER OF 16,000,000 SHARES IN THE CAPITAL OF THE COMPANY TO THE SHAREHOLDERS OF ASIA PACIFIC COAL & STEEL PTY LTD IN CONSIDERATION FOR THE ACQUISITION OF ALL OF THE ISSUED CAPITAL OF ASIA PACIFIC COAL & STEEL PTY LTD.

Important Notice

This Prospectus is a short form prospectus issued in accordance with Section 712 of the Corporations Act. This Prospectus does not of itself contain all the information that is generally required to be set out in a document of this type but refers to another document the information of which is deemed to be incorporated in this Prospectus.

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Important Dates

EVENT	DATE
Prospectus lodged with the ASIC	17 May 2006
Opening Date	17 May 2006
Closing Date	19 May 2006
Despatch of Holding Statements	26 May 2006
Expected date securities will commence trading on ASX*	26 May 2006

These dates are indicative only. The Company reserves the right to extend the Closing Date or close the Offer early without notice.

IMPORTANT NOTICE

This Prospectus is dated 17 May 2006 and a copy of this Prospectus was lodged with the ASIC on that date. The ASIC takes no responsibility for the contents of this Prospectus.

No Shares will be issued on the basis of this Prospectus later than thirteen (13) months after the date of this Prospectus. Application will be made within seven (7) days after the date of this Prospectus for permission for the Shares offered by this Prospectus to be listed for Quotation.

Applicants should read this document in its entirety and, if in any doubt, consult with their professional advisors before deciding whether to apply for Shares. There are risks associated with an investment in the Company and the Shares offered under this Prospectus must be regarded as a speculative investment. The Shares offered under this Prospectus carry no guarantee with respect to return on capital investment, payment of dividends or the future value of the Shares.

Details of the definitions and abbreviations used in this Prospectus are set out in section 13.

Short Form Prospectus

This Prospectus is a short form prospectus issued in accordance with section 712 of the Corporations Act. This means this Prospectus alone does not contain all the information that is generally required to satisfy the disclosure requirements of the Corporations Act. Rather, it incorporates all other necessary information by reference to information contained in the notice of meeting prepared by the Company and lodged with ASX on 10 April 2006 (**Notice of Meeting**).

In referring to the Notice of Meeting, the Company:

- (a) identifies the Notice of Meeting as being relevant to the offer of Shares under this Prospectus and containing information that will provide investors and their professional advisers to assist them in making an informed assessment of:
 - (i) the rights and liabilities attaching to the Shares;
 - (ii) the capacity of the Company to issue the Shares; and
 - (iii) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company;
- (b) refers investors and their professional advisers to section 6 of this Prospectus which summarises the information in the Notice of Meeting deemed to be incorporated in this Prospectus;
- (c) informs investors and their professional advisers that they are able to obtain, free of charge, a copy of the Notice of Meeting by contacting the Company at its registered office during normal business hours during the Offer Period; and
- (d) advises that the information in the Notice of Meeting will be primarily of interest to investors and their professional advisers or analysts.

1. CORPORATE DIRECTORY

Directors

Mr Gregory Fendis
Mr Sachlan Fraval
Mr Faldi Ismail

Share Registry

Security Transfer Registrars*
770 Canning Highway
APPLECROSS WA 6153

Telephone: (08) 9315 2333

Proposed Director

Mr Murray D'Almeida

Solicitors to the Company

Steinepreis Paganin
Lawyers and Consultants
Level 4, Next Building
16 Milligan Street
PERTH WA 6000

Company Secretary

Mr Sean Henbury

Registered Office

C/- FJH Solutions Pty Ltd
Ground Floor
21 Teddington Road
BURSWOOD WA 6100

Telephone: (08) 9486 2333

Facsimile: (08) 9355 4580

* This entity is included for information purposes only. It has not been involved in the preparation of this Prospectus.

2. OVERVIEW OF OFFER

2.1 Important Notice

This section is not intended to provide full information for APCS Shareholders. This Prospectus should be read and considered in its entirety.

2.2 Summary of the Offer

By this Prospectus, the Company offers to allot and issue to the shareholders of Asia Pacific Coal and Steel Pty Ltd (**APCS Shareholders**) 16,000,000 Shares, as consideration for the acquisition of 100% of the issued capital of Asia Pacific Coal & Steel Pty Ltd (**APCS**).

2.3 Indicative Timetable

Lodgement of Prospectus with ASIC and Opening Date	17 May 2006
Closing Date (5:00pm WST)	19 May 2006

The above dates are indicative only and may change without notice. The Company reserves the right to extend the Closing Date or close the Offer early without notice.

2.4 Objectives

The Company's objectives are to complete the acquisition of APCS by the issue of Shares pursuant to this Prospectus.

2.5 Proceeds

No funds will be raised pursuant to the Offer.

The Company intends to use its working capital reserves to cover the expenses of the Offer (of approximately \$15,000).

2.6 Capital Structure

The capital structure of the Company following completion of the Offer is summarised below:

Shares	Number
Current Shares on issue	227,634,974
Shares issued pursuant to the Offer	16,000,000
TOTAL	243,634,974

There will be no change to the Options on issue – currently 30,393,000 as at the date of this Offer.

2.7 Market Price of Shares

The Company is a disclosing entity for the purposes of the Corporations Act.

The last trading price for Shares prior to the lodgement of this Prospectus with the ASIC was \$0.79 on 17 May 2006.

The highest and lowest market sale prices of the Company's Shares on ASX during the 3 months immediately preceding the date this Prospectus was lodged with the ASIC and the respective dates of those sales were:

Highest: \$0.96 per Share on 1 March 2006

Lowest: \$0.57 per Share on 17 February 2006

The Company's Options are not quoted on ASX.

3. DETAILS OF THE OFFER

3.1 Offer of Shares

By this Prospectus, the Company makes an offer to all APCS Shareholders to acquire all the fully paid ordinary shares they own in APCS (**Offer**).

The full terms and conditions of the Offer are set out in Section 14 of this Prospectus.

3.2 Conditions of the Offer

The Offer is conditional upon:

- (a) all of the conditions precedent set out in the Share Sale Agreement being satisfied or waived by 31 May 2006 (refer to Section 8 for further details); and
- (b) ASX granting official quotation for the Shares to issued pursuant to this Prospectus.

3.3 Restriction on sale of Shares

Certain of the APCS Shareholders will be prohibited from selling or dealing with the Shares which they are to be issued pursuant to the Offer for a period of 12 months from the date of issue of those Shares. Please refer to Schedule 1 for further details.

3.4 Acceptance of the Offer

The Offer may only be accepted by an APCS Shareholder for his or her entire shareholding.

Acceptance of the Offer must be made using the Acceptance and Transfer Form attached to this Prospectus. Acceptance must be received before 5.00pm WST on 19 May 2006 (unless the Closing Date is extended).

Completed Acceptance and Transfer Forms must be delivered to:

Security Transfer Registrars Pty Limited
770 Canning Highway
APPLECROSS WA 6153

or mailed to:

Security Transfer Registrars Pty Limited
PO Box 635
APPLECROSS WA 6953

3.5 Australian Stock Exchange Listing

Application for official quotation by ASX of the Shares offered pursuant to this Prospectus will be made within 7 days after the date of this Prospectus. If approval is not obtained from ASX before the expiration of 3 months after the date of issue of the Prospectus, (or such longer period as varied by the ASIC), none of the Shares offered by this Prospectus will be allotted or issued. In these

circumstances, the Acquisition will not proceed and all applications will be dealt with in accordance with the Corporations Act.

The fact that ASX may grant official quotation to the Shares is not to be taken in any way as an indication of the merits of the Company or the Offer.

3.6 Allotment

Subject to ASX confirming it will grant quotation of the Shares pursuant to the Offer and the satisfaction (or waiver) of the conditions set out in Section 3.2, allotment of the Shares offered pursuant to this Prospectus will take place as soon as practicable after the Closing Dated.

3.7 Residents Outside Australia and New Zealand

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction where, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities law. No action has been taken to register or qualify these Shares or otherwise permit a public offering of the securities the subject of this Prospectus in any jurisdiction outside Australia and New Zealand.

It is the responsibility of applicants outside Australia and New Zealand to obtain all necessary approvals for the allotment and issue of Shares pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by the applicant that all relevant approvals have been obtained.

3.8 Taxation Implications

The Directors do not consider that it is appropriate to give potential applicants advice regarding the taxation consequences of applying for Shares under this Prospectus, as it is not possible to provide a comprehensive summary of the possible taxation consequences. The Company, its advisers and officers, do not accept any responsibility or liability for any taxation consequences to potential applicants. Applicants should, therefore, consult their own professional tax adviser in connection with the taxation implications of the Offer.

3.9 Clearing House Electronic Sub-Register System ("CHESS") and Issuer Sponsorship

The Company will not be issuing share certificates. The Company will apply to ASX to participate in CHESS, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHESS will be issuer sponsored by the Company. Because the sub-registers are electronic, ownership of securities can be transferred without having to rely upon paper documentation.

Electronic registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with a statement (similar to a bank account statement) that sets out the number of Shares allotted to them under this Prospectus. The notice will also advise holders of their Holder Identification Number (**HIN**) and explain, for future reference, the sale and purchase procedures under CHESS and issuer sponsorship.

Further monthly statements will be provided to holders in circumstances in which there have been any changes in their security holding in the Company during the preceding month.

3.10 Privacy Act

If you complete an application for Shares, you will be providing personal information to the Company (directly or by the Company's share registry). The Company collects, holds and will use that information to assess your application, service your needs as a shareholder, facilitate distribution payments and corporate communications to you as a shareholder and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Company share registry.

You can access, correct and update the personal information that we hold about you. Please contact the Company or its registry if you wish to do so at the relevant contact numbers set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (as amended), the Corporations Act and certain rules such as the ASTC Settlement Rules. You should note that if you do not provide the information required on the Application for Shares, the Company may not be able to accept or process your application.

3.11 Enquiries

Any questions concerning the Offer should be directed to the Company Secretary, Mr Sean Henbury on (08) 9486 2333.

4. COMPANY AND APCS OVERVIEW

4.1 Overview of the Company

ESI's recent historical focus was on the development of the Enersludge technology. Whilst the Company enjoyed some success for a period, a continued period of losses and finally the closure of the WA commercial scale demonstration plant caused the appointment of a Receiver & Manager on 17 November 2004, followed by the appointment of Voluntary Administrators on 22 November 2004.

In January 2005, the Company's water treatment design and construct business was sold leaving only minor residual assets and the Enersludge technology. In December 2005, the shareholders agreed to a recapitalisation proposal whereby Rofin Australia Pty Ltd subscribed for 190 million shares at \$0.001 each. A further \$2.2 million was raised by subscription from new shareholders (22 million shares at \$0.10 each) to discharge the obligations to secured and other creditors pursuant to a Deed of Company Arrangement (**DOCA**) and pay the costs of the Administration. The DOCA provided for approximately \$1 million to be paid to creditors, which has now been completed and all obligations of the Company in relation to the 'pre-administration' period have been discharged.

At the date of this Prospectus, the Company's assets consist of cash and the Enersludge assets.

The completion of the acquisition of APCS should enable the Company to properly evaluate the options available for commercialisation of transportable ENERSLUDGE™ units using the dewatering process..

The securing of APCS will also enable ESI to continue APCS's business strategy of commercialising its strategically important technology for the dewatering of brown coal. The Coldry brown coal dewatering process produces a product (in stabilised pellet form) of equivalent calorific value to high grade black coal¹ enabling it to be used in existing black coal fired power stations.

For wet brown coal dependent power stations such as Hazelwood in the Latrobe Valley of Victoria, between 10% - 20% of the enhanced energy pellets can be used as a replacement for existing wet feedstock to reduce CO2 emissions by between 3% - 8%.

Composite Pellets for the production of steel (nickel and zinc) are made by mixing equal parts of low grade iron ore, wet brown coal and minor quantities of flux with precursors and processed into pellets for use in the patented Matmor Retort. The result being high quality low cost steel. The Matmor technology has also been identified to have other potential applications which the Company will continue to investigate.

The ENERSLUDGE™ Assets

The Company's "Enersludge Assets" comprise of:

- all patents and pending application for patents;

¹ Based on tests against black coal from Tarong, Queensland by Melbourne University

- all design information including hard copy and electronic design files;
- all other hard copy or electronic files;
- all rights of ESI to the pilot plant in Germany and all files and other assets relating to it;
- the PDU (lab scale process development unit) and Perspex reactor in storage; and
- all rights to the name 'Enersludge'.

Background on the ENERSLUDGE™ technology

ENERSLUDGE™ is derived from a technology developed by the late Professor Bayer at Tübingen University in Germany in the mid 1980s. The Bayer lab scale technology was originally sold to the Canadian Government (Environment Canada) before being purchased by ESI in 1989. Over the next 5 years, ESI, in close cooperation with the inventor, Professor Bayer, embarked on a comprehensive development programme for the newly named ENERSLUDGE™ technology which included:

a demonstration pilot plant built in conjunction with Sydney Water; and

- (a) extensive Process Development Unit (**PDU**) trials to research, test and characterise a variety of feed materials in order to determine the optimum process configuration and operating parameters for new plants.

In 1996, ESI was awarded its first order for a commercial scale 'demonstration' ENERSLUDGE™ plant for sewage sludge from the Water Corporation of Western Australia. This contract included one year of plant operation and was successfully completed in 2001.

Shortly thereafter, ESI won a second contract for a pilot demonstration project to process waste sludge from tanneries in Europe and Brazil. This project was funded by the German Government and included 2 years of tannery sludge testing/demonstration.

Since the successful completion of both of these projects, ESI has continued to refine and improve its ENERSLUDGE™ technology and in particular, build upon the lessons learned from its 'first-generation' plant designs. A much simpler and more robust design, based on not condensing the oil, but rather combusting the hot vapours has been successfully demonstrated on a 1 tonne per day ("tpd") pilot plant in Germany. As a result, a series of lower cost and more flexible 'second-generation' designs are now ready for market.

In the last few years, ENERSLUDGE™ has won a number of industry awards including the West Australian Industry and Export Award for Research and Development, and the Inaugural Banksia Foundation Award for Research and Development.

How it works

The key to ENERSLUDGE™ is molecular re-arrangement by heating – achieved by a process of slow pyrolysis plus intimate contacting of the product streams in the main conversion reactor to obtain the optimum quality of products. In this process, the sludge molecules are heated in an oxygen free environment (no combustion), and re-ordered into syngas and char. The syngas can be condensed to produce an oil product

The conversion products capture all the energy that is in the incoming dry sludge. ENERSLUDGE™ requires dry waste or sludge as feedstock (typically not more than 10% water by weight) and, since most sludge has a relatively high water content, the incoming sludge usually requires mechanical dewatering and thermal drying (or equivalent) before entering the ENERSLUDGE™ process.

One of the key strengths of ENERSLUDGE™ is its ability to handle pollutants. With a sludge containing a number of pollutants such as heavy metals, organochlorines, pathogens, toxins and/or Endocrine Disrupting Compounds (**EDC's**). The majority of the heavy metals partition into the char and, when this is combusted, the heavy metals become tightly bonded to the resulting ash. Unlike almost all other thermal processes, the heavy metals remain in the solid phase and are neither vaporised nor leachable all organochlorines, toxins, pathogens and EDC's are destroyed.

Latest Technology Development

Based on the knowledge gained from both the Australian demonstration plant and the tannery pilot plant, ESI continued development of the technology to simplify the process, make it more robust, and most importantly, reduce capital and operating costs. In conjunction with APCS and its dewatering technology, the Company will properly evaluate the options available for commercialisation of transportable ENERSLUDGE™ units using the dewatering process.

4.2 Overview of APCS

Background on APCS

APCS is a specifically created commercial vehicle charged with the responsibility of commercialising the patented Coldry Process® and the Matmor® Process. The business was formed in October 2004 when its investor group acquired the rights to develop commercial opportunities arising from the drying and pelletising of brown coal (**Coldry Process®**) for CO₂ reduced power generation and the infusion of low-grade iron ore into coal pellets for steel production (**Matmor® Process**) patented by the Calleja Group, owners of the Maddingley Brown Coal Mine at Bacchus Marsh in Victoria.

In July 2005, final Participants and Licence Agreements were executed between APCS and the Calleja Group of companies.

The Coldry Process®

The patented Coldry Process® is unique, low cost and easy to replicate. The Coldry Process® reduces moisture content in brown coal by up to 78% and produces a pellet that has greater density and calorific energy (heating value)² than raw brown coal and is capable of being shipped and transported over long distances, unlike raw brown coal.

The addition of small amounts of water and a low level shear attrition process are key features of the Coldry Process®. Raw coal is attrition-kneaded for a short period (less than one minute) producing a paste-like material that is extruded through dies to produce pellets of 10-20mm diameter and any suitable length (not unlike a large dog food pellet to look at).

The increased calorific energy of the Coldry® pellet means that it can be used by existing power generators as a part substitute for existing brown coal potentially providing cost savings and reduction of greenhouse gas emissions. The process opens up Victoria's substantial brown coal reserves as a new exportable energy commodity for Asian markets where anticipated demand far exceeds current capacity to supply. In addition, by-product benefits that flow from the technology, (including water recovery and an entirely new method for steelmaking) add to the compelling argument that Coldry Process® constitutes a genuine breakthrough in the way in which APCS can substantially use brown coal for future power generation purposes.

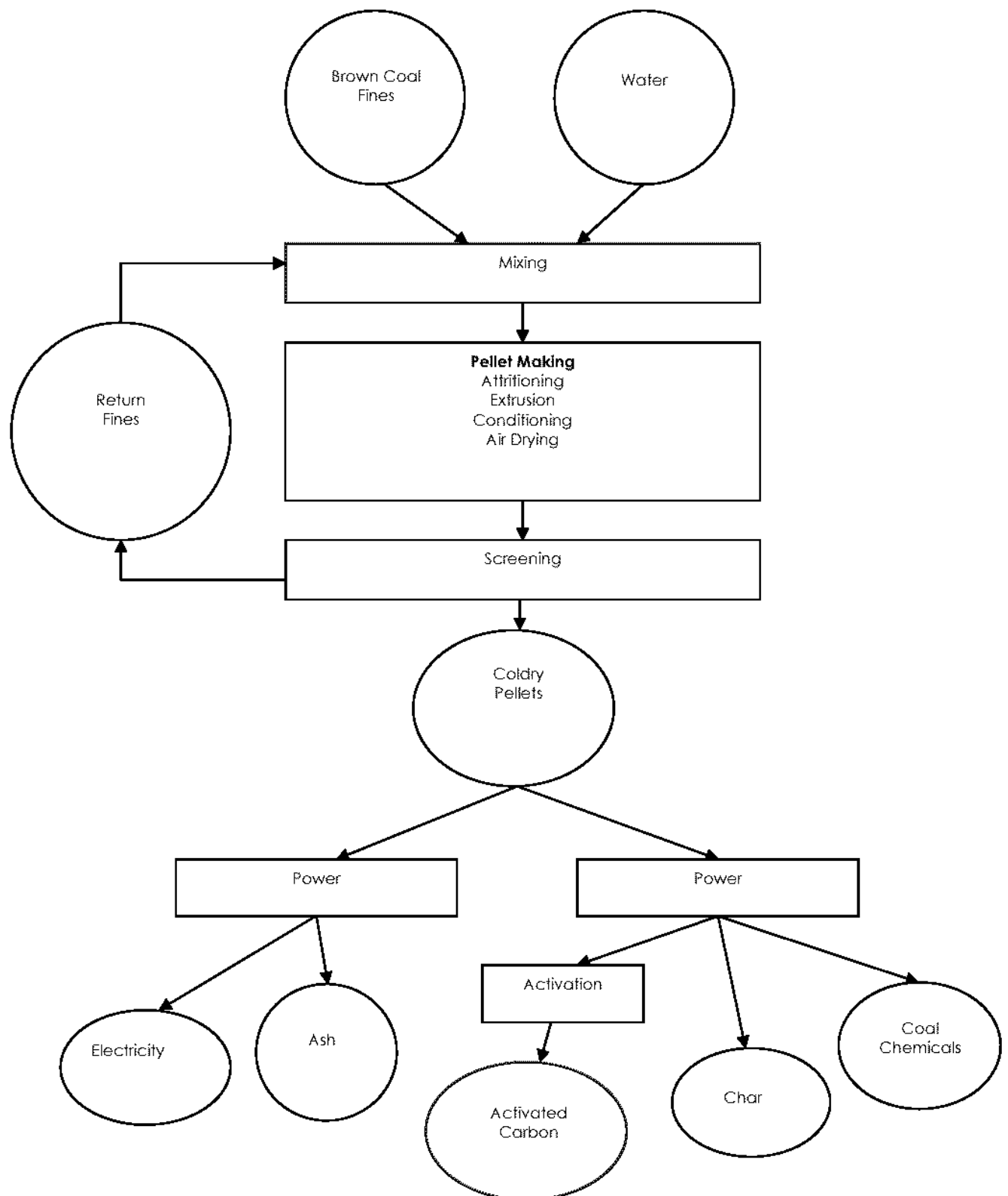
The process consists of the following steps:

- (a) water added;
- (b) mechanically shear;
- (c) extrusion;
- (d) condition; and
- (e) air dry.

When normal (wet) brown coal is subjected to low level mechanical shear it loses its particulate nature and forms a plastic mass that changes the physical chemistry of brown coal and releases moisture from the internal cellular structure. The plastic mass is then transformed into pellets by a simple low pressure extrusion. The pellets are then air dried to moisture contents of less than 14% from their original mined moisture content of over 60%. Optimally, the process harnesses waste heat released from power station boilers and requires negligible levels of electrical energy for its low-level shear and extrusion processes.

² Improved brown coal pellets burn at temperature around 1350 - 1400° Celsius, compared to normal untreated brown coal which burns at 700 - 800° Celsius.

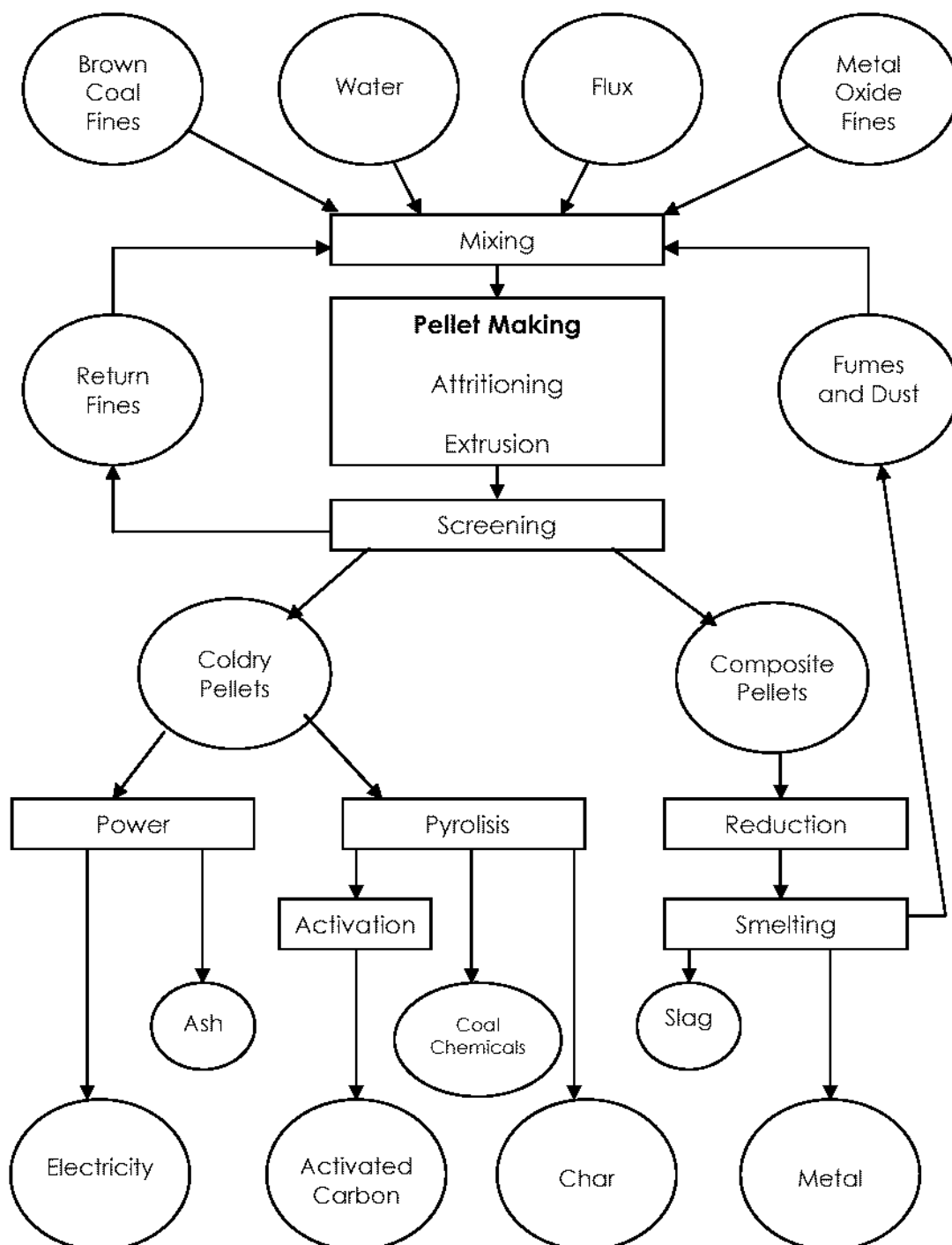
The diagram below provides a flow chart illustration of how the process works.



Matmor® Process

Harnessing the simplicity of the Coldry Process® for dewatering brown coal, the Matmor® Process employs a patented retort using the “composite” brown coal pellets as a reductant to produce zinc, iron and other metals from low grade ore or metal wastes at a much lower cost than traditional metallurgical processes and with substantially less emissions.

Brown coal fines, metal oxide fines and flux precursors are mixed in the same manner for the production of Coldry® pellets. Once the pellets are produced they are introduced to the retort and heated, oxygen is injected and then the slag separated. This process produces 99.8% steel at a 95% recovery rate.



The process replaces the coking coal traditional blast furnace or electric arch furnace and uses (based on testing to date) one part wet brown coal and one part iron ore. Scientific analysis and modelling has indicated a significant number of advantages over those traditional methods for steel production including:-

- Thermal Efficiency Factors:
 - more steel from a given amount of carbon;
 - less heat required to make the reaction proceed; and
 - uses all the heat available from oxidation of carbon.
- Less capital intensive and easy to construct as there are no high technology steps involved.
- Lower production costs by utilising low cost of brown and is able to be controlled by semi - skilled labour and with fewer and simpler plant items repair maintenance costs.
- It is likely to be more environmental friendly as in the traditional steel making process all the carbon is released as carbon dioxide. Using raw brown coal the Matmor® Process makes use of some of the hydrogen in the volatiles to help with the reduction releasing this as water vapour, not considered to be a greenhouse gas.

APCS provides an innovative pathway blueprint to early emissions reductions in power generation and steelmaking that is perfectly consistent with LETDF aims and objectives.

APCS Infrastructure

Currently, APCS operates its 10,000 tpa Coldry Process® Pilot Demonstration Plant at JBD Industrial Park, Bacchus Marsh. APCS is currently engaged in a program to upgrade the pilot plant to operate 24/7 over a 90 day period. The upgrade has commenced and is scheduled to be completed by mid-July 2006, at which point the 90 day controlled trial with independent evaluation will commence. APCS expects the trial to be completed by end October 2006.

The Calleja Group currently owns and operates the Maddingley Brown Coal mine located 3km south of Bacchus Marsh, Victoria and adjacent to JBD Industrial Park. APCS have been advised that the mine area has identified resources of over 440 million tonnes of high quality brown coal, consisting of 40m tonne under current licence and mining, 80m tonne adjoining the current open cut and 320m tonne available in adjoining land which is subject to future licensing. APCS has agreement in principle and is currently concluding arrangements with the Calleja's for brown coal supply from the deposit. APCS expects that it will invest in the site to establish commercial production facilities to service existing international export orders of 3 million tonnes p.a. of Coldry® brown coal pellets and expected export orders for Matmor steel.

Commercialisation History

August 2005 was a defining moment in international validation of the Coldry Process®. International Power Hazelwood utilised 20 tonnes of Coldry pellets to achieve a cold start fire up of the Number 5 generator at Hazelwood in the Latrobe Valley. The results of the test exceeded all expectations and unequivocally demonstrated that Coldry is a superior feedstock to wet brown

coal fired power generation. Also, during that month GRD Minproc Ltd completed their independent validation of the ability to scale up the Coldry pellet production process.

Future Commercialisation

APCS will commence commercialisation of both the Coldry Process® and Matmor® Process in 2006-07. Foundation steps in this program will take place at the APCS facility at JBD Industrial Park, Bacchus Marsh.

APCS is currently completing an upgrade to its existing 10,000 tpa Coldry Process® Pilot Plant into a 24/7 continuously operating plant and research and development centre, around which the large scale (150,000 t.p.a.) demonstration Coldry Process® Pelletising module will be developed in late 2006 to early 2007. This demonstration plant will draw on the adjacent Maddingley brown coal mine for its coal resource. This plant is expected to be commissioned and commence operation by July 2007.

From experience gained in the development of the large scale demonstration Coldry Plant, APCS aims to commence expansion of the Bacchus Marsh production facility up to 3 million t.p.a. and finalise arrangements for the construction of a Coldry Process® production facility in the Latrobe Valley or Gippsland with a view to having the project completed by December 2009.

Research and Development

If APCS acquires sufficient funding then it will undertake specific research and development and applied science programs wholly centred around refinement of Coldry Process® (and related water and other applications) operations at large scale.

Research and Development would be conducted in collaboration with Monash University and the Latrobe Valley power generators.

5. DIRECTORS AND CORPORATE GOVERNANCE

5.1 Directors

Mr Gregory Fendis

Greg has formal qualifications, Bachelor of Engineering (Communications), from Royal Melbourne Institute of Technology (RMIT). His specialised experience in Communications, Data Systems, Smart Card Technology and Medical Electronics spans over 25 years. His thorough understanding of Telecommunications networks, Data Systems, Smart Card Technologies, the Internet and has placed him at the forefront of business solutions, providing engineering design and project supervision to both Private and Government sectors. Greg has been actively involved in the development, introduction and application of technology into Australia and overseas countries, principally in the areas of Telecommunications, Information Technology, Digital Imaging, the Internet and Smart Cards. His professional mission is to bridge the gap between leading edge technology and innovative business ideas. In this regard, he has assisted the largest security printer in the region to become the world's first third-party activator for Visa Cash Smart Cards.

Greg has had extensive experience in the design, installation and commissioning of large complex computer-based systems. He has been instrumental in the establishment of technology transfer agreements with some of the largest Telecommunications, Smart Cards and System Integration organisations in the world.

He has provided consultancy and project management assignments for a wide range of business and government enterprises and in particular has developed a business process optimisation skill that focuses the efforts of the organisation into strategic areas. He has demonstrated this process at Ericsson, NEC, Exicom and Telecom Australia International. Greg has also had extensive consultancy experience in strategic network planning, budgeting and management consultancy for engineering services groups. During a three-year international consultancy term, Greg was involved in analysing, recommending and establishing network facilities for the support of the Saudi Arabian Telecommunications Network. He was also actively involved in the preliminary evaluation phase of a global Low Earth Orbiting Satellite system and the establishment of overseas turnkey projects in Data and Telecommunications. His software and project management skills were utilised as Project Director in the building of software for the ICONET global Satellite Network. These large-scale systems required specialised knowledge in both computer hardware and software along with the implementation logistics.

Additionally, he has worked in strategic partnering arrangements with various companies and ventures that have been particularly successful when addressing projects that have had varied and multi-faceted requirements.

Mr Sachlan Fraval

Sachlan is an accountant by training and a former Fellow of the Institute of Chartered Accountants, London. During 1966 to 1971 he was Articled to Turquand Young & Co, now Ernst & Young. During his term at TY&Co Sachlan carried out every aspect of large company audits, taxation, management accountancy and system development in a variety of industries.

For the last nine years Sachlan has been directly involved in the development and marketing of a range of Scientific Instruments and Components worldwide. His main focus during this period was in the field of forensic science particularly in the use of high powered tuneable light sources for trace evidence enhancement. He has introduced systems and provided business development strategies for all company divisions including:

- (a) Forensic Science;
- (b) Light Guides;
- (c) Automatic Waste plastic bottle sorting; and
- (d) Biometrics.

He has specialised in the development of innovation at the individual level, believing that Australia has great innovation which demands to be resourced to reach its full potential.

Sachlan has over 30 years experience in corporate and business development of private and public companies in the UK, USA and Australia. He has been actively involved as a director of high tech companies in development and marketing of lasers, hand held computers, forensic science equipment, biometrics solutions and light guide products.

Mr Faldi Ismail

Faldi currently consults to a number of clients providing corporate advisory services in Australia and abroad. Prior to corporate consulting, Mr Ismail has spent over 4 years working as a tax senior with Pitcher Partners in Perth and a senior within their corporate restructuring division. Mr Ismail facilitated with a number of the ASX restructures including Matrix Oil NL and Deep Yellow Ltd during his term.

Faldi is currently a director of Kalimantan Investment Corporation Limited (the major shareholder of Canadian public listed company Kalimantan Gold Corporation Limited) and recently resigned his position as company secretary of ASX listed Eldore Mining Corporation Limited (ASX code: EDM) (formerly Riley Corporation Limited) and Cascara Corporation Limited (now Incitive Limited).

Faldi holds a Bachelor of Business from Edith Cowan University where he double majored in Accounting and Finance.

Faldi will resign from the Company upon settlement of the APCS acquisition.

5.2 Proposed Director

Pursuant to Resolutions 2, 3 and 4 of the Notice of Meeting, shareholder approval was obtained for Mr Murray D'Almeida, Mr Neil O'Keefe and Dr John White to be appointed as directors of the Company. Mr Murray D'Almeida will be appointed as a director of ESI upon completion of the Acquisition.

Mr Neil O'Keefe and Dr John White have relinquished their rights to be appointed as directors of ESI upon the completion of the Acquisition. Accordingly, Mr Neil O'Keefe and Dr John White will not become directors of ESI unless they are invited to do so by the Board and if they accept such invitations.

The background on Mr Murray D'Almeida is set out below.

Mr Murray D'Almeida

Murray is currently a director of APCS.

He has 30 years national and international business experience. He began his career with a firm of Chartered Accountants in Perth. He founded Retail Food Group Australia and was instrumental in the growth of that company's brands Donut King and BB's Coffee to in excess of 300 stores in Australia and in 9 other countries.

He has also been involved in the restaurant, wholesaling, farming and liquor industries. Murray is currently extensively involved in Food Importation and Distribution.

He sits on several Boards, is the Chairman of Bartercard Australia and is a Director of the London Stock Exchange listed, Bartercard International P.L.C. He has also recently been appointed Chairman of The Institute of Business Leaders.

Murray was formerly a Director of the Australian Small Business Association, the Franchisors Association of Australia and New Zealand, Capricorn Resources N.L. (an Australian Stock Exchange listed mining company), and has held a variety of non-executive positions with the Queensland Branch of the Liberal Party of Australia, both as a member of the Finance Committee and the Queensland State Executive.

5.3 Corporate Governance

The Company's main corporate governance policies and practices are outlined below:

5.3.1 The Board of Directors

The Company's Board of Directors is responsible for corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives and monitors performance against those objectives. The goals of the corporate governance processes are to:

- (a) maintain and increase shareholder value;
- (b) ensure a prudent and ethical basis for the Company's conduct and activities; and
- (c) ensure compliance with the Company's legal and regulatory objectives.

Consistent with these goals, the Board assumes the following responsibilities:

- (a) developing initiatives for profit and asset growth;
- (b) reviewing the corporate, commercial and financial performance of the Company on a regular basis;
- (c) acting on behalf of, and being accountable to, the Shareholders; and

- (d) identifying business risks and implementing actions to manage those risks and corporate systems to assure quality.

The Company is committed to the circulation of relevant materials to Directors in a timely manner to facilitate Directors' participation in the Board discussions on a fully-informed basis.

5.3.2 Composition of the Board

Election of Board members is substantially the province of the Shareholders in general meeting. However, subject thereto, the Company is committed to the following principles:

- (a) the Board is to comprise Directors with a blend of skills, experience and attributes appropriate for the Company and its business; and
- (b) the principal criterion for the appointment of new Directors is their ability to add value to the Company and its business.

No formal nomination committee or procedures have been adopted for the identification, appointment and review of the Board membership, but an informal assessment process, facilitated by the Chairman in consultation with the Company's professional advisors, has been committed to by the Board.

5.3.3 Independent professional advice

Subject to the Chairman's approval (not to be unreasonably withheld), the Directors, at the Company's expense, may obtain independent professional advice on issues arising in the course of their duties.

5.3.4 Remuneration arrangements

The remuneration of an executive director will be decided by the Board, without the affected executive director participating in that decision-making process.

The total maximum remuneration of non-executive Directors is the subject of a Shareholder resolution in accordance with the Company's Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of non-executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each non-executive Director.

The Board may award additional remuneration to non-executive Directors called upon to perform extra services or make special exertions on behalf of the Company.

5.3.5 External audit

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

5.3.6 Audit committee

The Company is to have a separate constituted audit committee.

5.3.7 Identification and management of risk

The Board's collective experience will enable accurate identification of the principal risks that may affect the Company's business. Key operational risks and their management will be recurring items for deliberation at Board Meetings.

5.3.8 Ethical standards

The Board is committed to the establishment and maintenance of appropriate ethical standards.

6. INFORMATION DEEMED TO BE INCORPORATED IN PROSPECTUS

6.1 Short Form Prospectus

This Prospectus is a short form prospectus issued in accordance with section 712 of the Corporations Act. This means that this Prospectus does not of itself contain all the information that is generally required to be set out in a document of this type, however, it incorporates by reference information contained in the Notice of Meeting that has been lodged with the ASIC.

The information to be incorporated by reference into this Prospectus is summarised below in section 6.2 and will primarily be of interest to the APCS Shareholders and their professional advisers or analysts.

APCS Shareholders and their professional advisers are able to obtain a copy of the Notice of Meeting free of charge by contacting the Company at its registered office during normal business hours during the Offer Period. The Notice of Meeting will also be available by searching the ASIC's records in relation to the Company, or by visiting ASX's website at www.asx.com.au.

6.2 Summary of Information Deemed to be Incorporated

Set out below is a summary of the information contained in the Notice of Meeting that is deemed to be incorporated in this Prospectus to assist investors and their professional advisers to determine whether they need to obtain a copy of the Notice of Meeting for the purposes of making an informed investment decision in relation to the Shares.

APCS Acquisition

Section 1.1 of the Explanatory Statement to the Notice of Meeting sets out the following information:

- (a) a brief description of the terms of the Acquisition;
- (b) a brief description of the material contracts for APCS (including a description of the licence agreements for the Matmor® Process and the Coldry Process® and the agreement for the commercialisation of this technology);
- (c) a brief description of the Coldry Process® and the Matmor® Process; and
- (d) a description of the strategic rationale behind the acquisition of APCS.

Independent Expert's Report

The Notice of Meeting included an independent expert's report prepared by Stanton Partners Corporate Pty Ltd. The report sets out a detailed examination of the Acquisition to enable shareholders to assess the merits of the Acquisition and decide whether to approve resolutions 1 and 5 of the Notice of Meeting.

The report concludes that the proposals as outlined in Resolution 5 of the Notice of Meeting are on balance, fair and reasonable to the non-associated shareholders of the Company. Due to the nature of the business of the Company and APCS, valuations are dependent upon the value placed on the technology and patent interests of the companies. The valuation of technology

and patent interests and valuing future profitability and cash flows is extremely subjective as it involves assumptions regarding future events that are not capable of independent substantiation. As the independent expert was unable to place a fair value or range of values on the Company and APCS (in particular), under ASX guidelines, the independent expert concluded that the proposal under resolution 1 of the Notice of Meeting is not fair, however, in the independent expert's opinion the proposal under resolution 1 may, on balance, be considered reasonable.

The report also includes a statement of financial position of the Company sharing the expected financial position of the company following settlement of the Acquisition.

7. MATERIAL CONTRACTS

Set out below is a summary of the contracts to which the Company and/or APCS is a party which may be material in terms of this Prospectus.

7.1 Company Agreements

Share Sale Agreement

The Company, APCS and various APCS Shareholders have entered into the Share Sale Agreement pursuant to which the Company has agreed to offer to acquire 100% of the fully paid ordinary shares in the capital of APCS in consideration for allotting and issuing up to 16,000,000 Shares to the APCS Shareholders.

Completion of the Share Sale Agreement is subject to and conditional upon the satisfaction or waiver of a number of conditions precedent, all of which have been satisfied other than that which requires the APCS Shareholders to accept the Offer under this Prospectus.

7.2 APCS Agreements

Participant's Agreement

APCS, Coldry, Matmor and certain other parties have entered into the Participant's Agreement to govern the commercialisation of the Matmor® Process and the Coldry Process®. APCS has been granted licenses to use this intellectual property (refer to the summary of the Licence Agreements below).

The material terms of the Participant's Agreement are as follows.

- (a) Matmor and MBC grant to APCS an option to purchase the Technology or the Matmor/Coldry Equity in consideration for the payment by the Company to MBC of \$30,000,000 on or before 6 November 2006;
- (b) if this option is not exercised on or before 6 November 2006, then upon the achievement of certain milestones by APCS:
 - (i) the Licensors will grant to APCS an option to purchase the Technology (**Buy Option**); and
 - (ii) APCS will grant the Licensors and MBC an option to sell either the Matmor/Coldry Equity or the Technology (**Sell Option**);
- (c) the consideration for the sale of the Technology or the Matmor/Coldry Equity pursuant to the Buy Option and the Sell Option is a minimum undiluted 20% of the equity and quasi-equity (post money) in the Company, with that equity and quasi-equity having a minimum value of not less than \$20,000,000 (or such lesser sum as approved and notified by MBC to APCS in writing);
- (d) upon purchase of the Technology APCS must continue to pay the royalties pursuant to the Licence Agreements;
- (e) APCS may elect to upgrade the Coldry processing plant. If APCS does so elect then upon commencement of the modifications, MBC will

procure a lease of land on which the Coldry processing plant is situated for a period of 3 years with nominal rent;

- (f) upon the expiration of this lease the ownership of the modifications of the Coldry processing plant will pass to MBC;
- (g) APCS or the Company must commence construction of a Matmor® Process plant and complete construction in accordance with the critical path set out in the Participant's Agreement. MBC must procure a 3 year lease for this purpose;
- (h) upon expiration of this lease the ownership of the Matmor® Process plant will pass to MBC or its nominee; and
- (i) APCS acknowledges that all rights granted to it pursuant to the Licence Agreements and the Participant's Agreement are subject to the satisfactory completion of each milestone by the date specified for that milestone in the critical path denoted in the Participant's Agreement.

7.3 Licence Agreements

Both the Coldry Licence Agreement and the Matmor Licence Agreement contain the same material terms.

APCS has entered into 2 licence agreements for the Coldry Process ® and the Matmor® Process.

The Licence Agreements contain the following material terms:

- (a) the Licensor grants an exclusive licence throughout the world to commercialise and exploit the Technology and to manufacture, use, market and sell the products manufactured from the Technology (**Product**);
- (a) in consideration for the grant of this licence, APCS is to provide a monthly royalty on the sales or production of the Product which is 3% of the greater of:
 - (i) the net sales price for Product sales; or
 - (ii) an agreed benchmarking mechanism and pricing linked to finished steel production anticipated from tonnes of Product produced and sold or used for any purpose other than stockpiling by the producer;
- (b) APCS must use its best endeavours to commercialise and exploit the Technology and to manufacture and sell the Product;
- (c) upon the transfer of the Technology to APCS as a consequence of the exercise of the option pursuant to the Participant's Agreement the royalties to be paid pursuant to the Licence Agreements must continue to be paid by APCS to the Licensor; and
- (d) upon completion of the transfer of the technology APCS shall grant or procure the grant to the Licensor of a royalty free transfer of a licence for the world to commercialise the technology and sell the products.

8. PURPOSE AND EFFECT OF THE ISSUE**8.1 Purpose of the Offer**

The purpose of the Offer is to enable the Company to acquire all of the APCS Shares on issue by the issue of the Shares pursuant to this Prospectus.

No funds will be raised from the Offer and the Company intends to meet the anticipated costs of the Offer (\$15,000) using working capital reserves.

8.2 Effect of the Offer and Pro Forma Balance Sheet

The principal effect of the Offer will be to increase the number of Shares on issue from 227,634,974 as at the date of this Prospectus to up to 243,634,947 Shares.

Set out below is:

- (a) an unaudited statement of financial position of the Company as at 31 March 2006 and
- (b) an unaudited pro forma balance sheet as at 31 March 2006 incorporating the effect of the Offer and the acquisition of 100% of the APCS issued shares.

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Pro-forma Balance Sheet

	ESI 31 March 2006 Unaudited \$000's \$ '000	ESI 31 March 2006 (assuming acquisition of 100% of APCS) unaudited \$000's \$ '000
CURRENT ASSETS		
Cash	1,038	1,038
GST receivable	21	21
TOTAL CURRENT ASSETS	1,059	1,059
NON CURRENT ASSETS		
Shares in unlisted subsidiary	-	12,000
TOTAL NON CURRENT ASSETS	-	12,000
TOTAL ASSETS	1,059	13,059
CURRENT LIABILITIES		
Payables	30	30
TOTAL CURRENT LIABILITIES	30	30
TOTAL LIABILITIES	30	30
NET ASSETS	1,029	13,029
EQUITY		
Contributed equity	25,646	37,646
Accumulated losses	(24,617)	(24,617)
TOTAL EQUITY	1,029	13,029

Note: The term sheet for the acquisition of APCS Shares agreed upon by APCS Shareholders on 10 February 2006 stated a deemed offer price of 10 cents per APCS Share. However the actual cost to ESI will be the market value of the ESI Shares at the date of completion of the Acquisition. For the purpose of this pro forma we have assumed a market price of 75 cents per Share.

9. RIGHTS AND LIABILITIES ATTACHING TO SECURITIES

The following is a summary of the more significant rights and liabilities attaching to securities.

Full details of the rights attaching to Shares are set out in the Company's Constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

9.1 Rights Attaching to Shares

The rights, privileges and restrictions attaching to Shares can be summarised as follows:

(a) General Meetings

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with Section 249D of the Corporations Act and the Company's Constitution.

(b) Voting Rights

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, at general meetings of Shareholders or classes of Shareholders:

- (i) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative; and
- (ii) on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- (iii) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the Share, but in respect of partly paid Shares, shall have such number of votes as bears the same proportion which the amount paid (not credited) is of the total of such Shares registered in the Shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited).

(c) Dividend Rights

The Directors may from time to time declare a dividend to be paid to the Shareholders entitled to the dividend.

Subject to the rights of any preference Shareholders and to the rights of the holders of any Shares created or raised under any special arrangement as to dividends, the dividend as declared shall be payable on all Shares in proportion to the Shares held by the Shareholders. The Directors may from time to time pay to the

Shareholders any interim dividends that they may determine. No dividend shall be payable except out of profits. A determination by the Directors as to the profits of the Company shall be conclusive. No dividend shall carry interest as against the Company.

(d) Variation of Rights

Under the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of shareholders vary or abrogate the rights attaching to shares. If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of the issue of the shares of that class), whether or not the Company is being wound up may be varied or abrogated with the consent in writing of the holders of three quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

(e) Rights on Winding-up

If the Company is wound up, the liquidator may, with the authority of a special resolution, divide among the Shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he or she considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders.

The liquidator may, with the authority of a special resolution, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no Shareholder is compelled to accept any Shares or other securities in respect of which there is any liability.

(f) Transfer of Shares

Generally, Shares in the Company are freely transferable, subject to formal requirements, and so long as the registration of the transfer does not result in a contravention of or failure to observe the provisions of a law of Australia and the transfer is not in breach of the Corporations Act or the Listing Rules.

(g) Creation and offer of further shares

The allotment and issue of any new shares is at the discretion of the Board of the Company. Subject to any restrictions on the allotment of shares imposed by the Company's Constitution, the Corporation Act and the Listing Rules, the Board of the Company may issue those new shares on such terms and conditions, and with rights and privileges, as the Board of the Company from time to time may determine.

10. RISK FACTORS

10.1 General

The Shares offered under this Prospectus should be considered speculative because of the nature of the Company's business.

The business activities of the Company are subject to various risks that may impact on the future performance of the Company. Some of these risks can be mitigated by the use of safeguards and appropriate systems and controls, but some are outside the control of the Company and cannot be mitigated. Accordingly, an investment in the Company carries no guarantee with respect to the payment of dividends, return of capital or price at which Shares will trade.

The purpose of the Offer is to successfully complete the acquisition of APCS. As a result, the risks that are inherent in the APCS business will also be applicable to the Company going forward.

A number of material risk factors are set out below. This list is not exhaustive and potential applicants should examine the contents of this Prospectus and consult their professional advisers before deciding whether to apply for Shares.

10.2 Status of the Company's Business

The Company is subject to all the usual risks encountered by evolving organisations including:

- (a) capital adequacy;
- (b) cash flow;
- (c) commodity markets; and
- (d) continuity of personnel.

10.3 General Economic Climate

Factors such as inflation, currency fluctuations, interest rates, supply and demand of capital and industrial disruption have an impact on business costs, commodity prices and stock market prices. The Company's share price, operations, business and profitability can be affected by these factors, which are beyond the control of the Company and its directors.

10.4 Share Market Conditions

There are general risks associated with any investment and the share market. The price of Shares may rise and fall depending on a range of factors beyond the Company's control and which are unrelated to the Company's financial performance. These factors may include movements on international stock markets, interest rates and exchange rates, together with domestic and international economic conditions, inflation rates, commodity supply and demand, government taxation and royalties, war, global hostilities and acts of terrorism.

10.5 Future Capital Requirements

The Company's capital requirements depend on numerous factors. Depending on the Company's ability to generate income from its investments, the Company may require further financing in addition to the amounts raised under the Offer.

If additional capital is raised by an issue of securities this may have the effect of diluting Shareholders' interests in the Company. Any debt financing, if available, may involve financial covenants which limit the Company's operations. If the Company cannot obtain such additional capital, the Company may be required to reduce the scope of any expansion which could adversely affect its business, operating results and financial condition.

10.6 Reliance on Key Personnel

The Company is dependent on its management, the loss of whose services could materially and adversely affect the Company and impede the growth of its business.

There can be no assurance that the Company will be able to attract or retain sufficiently qualified personnel on a timely basis to develop its business.

10.7 Development and Commercialisation of Technology

The Company is relying on its ability to develop and commercialise the Technology. A failure to successfully develop and commercialise the Technology could lead to a loss of opportunities and adversely impact on the Company's operating results and financial position.

10.8 Technology Rights

Securing rights to Technology, and in particular patents, is an integral part of securing potential product value in the outcomes of the Company's research and development. Competition in retaining and sustaining protection of Technology and the complex nature of Technology can lead to expensive and lengthy patents disputes for which there can be no guaranteed outcome.

The granting of a patent does not guarantee that the rights of others are not infringed or that competitors will not develop competing Technology that circumvents such patents. The Company's success depends, in part, on its ability to obtain patents, maintain trade secret protection and operate without infringing the proprietary rights of third parties. Because the position of patents can be highly uncertain and frequently involve complex legal and scientific evaluation, neither the breadth of claims allowed in the Company's patents nor their enforceability can be predicted. There can be no assurance that any patents the Company may own or control or licence now and in the future will afford the Company commercially significant protection of the Technology, or that any of the projects that may arise from the Technology will have commercial applications.

Although the Company is not aware of any third party interests in relation to its Technology rights in the Technology, and has taken steps to protect and confirm its interest in these rights, there is always a risk of third parties claiming involvement in technological discoveries, and if any disputes arise, they could adversely affect the Company.

Although the Company will implement all reasonable endeavours to protect the Technology, there can be no assurance that these measures have been, or will be sufficient.

10.9 Research and Development

The Company can make no representation that any of its research into or development of the Technology will be successful, that the development milestones will be achieved, or that the Technology will be developed into products that are commercially exploitable.

There are many risks inherent in the development of the Company's technology. Projects can be delayed or fail to demonstrate any benefit, or research may cease to be viable for a range of scientific and commercial reasons.

10.10 Product Liability and Insurance Risk

Through its business, the Company is exposed to potential product liability risks that are inherent in the research and development, manufacturing, marketing and use of its products or products developed in the future. It will be necessary to secure insurance to help manage such risks. The Company may not be able to maintain insurance for product or service liability on reasonable terms in the future and, in addition, the Company's insurance may not be sufficient to cover large claims, or the insurer could disclaim coverage on claims.

Although the Company endeavours to work to rigorous standards, there is still the potential for the products to contain defects that may result in system failures. These defects or problems could result in the loss of or delay in generating revenue, loss of market share, failure to achieve market acceptance, diversion of development resources, injury to the Company's reputation or increased insurance costs.

If the Company fails to meet its clients' expectations, the Company's reputation could suffer and it could be liable for damages.

Further, the Company is exposed to the risk of catastrophic loss to necessary equipment or other facilities, which would have a serious impact on the Company's operations. The Company gives no assurance that all such risks will be adequately managed through its insurance policies to ensure that catastrophic loss does not have an adverse effect on its performance.

10.11 Regulatory Risk

The introduction of new legislation or amendments to existing legislation by governments, developments in existing common law, or the respective interpretation of the legal requirements in any of the legal jurisdictions that govern the Company's operations or contractual obligations, could impact adversely on the assets, operations and, ultimately, the financial performance of the Company and its shares. In addition, there is a commercial risk that legal action may be taken against the Company in relation to commercial matters.

10.12 Unforeseen Expenditure Risk

Expenditure may need to be incurred that has not been taken into account in the preparation of this Prospectus. Although the Company is not aware of any such additional expenditure requirements, if such expenditure is subsequently incurred, this may adversely affect the expenditure proposals of the Company.

10.13 Speculative Nature of Investment

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Shares offered under this Prospectus.

Therefore, the Shares offered pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of the Shares.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for Shares.

11. FURTHER INFORMATION

11.1 Continuous Disclosure and Documents Available for Inspection

The Company is listed on ASX and its Shares are quoted on ASX. The Company is a disclosing entity under the Corporations Act and, as such, is subject to regular reporting and disclosure requirements. As a listed company, the Company is subject to the Listing Rules that require it to immediately notify ASX of any information concerning the Company of which it is or becomes aware and which a reasonable person would expect to have a material effect on the price or value of Shares.

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

Information that is already in the public domain has not been reported in this document, other than that which is considered necessary to make this document complete.

The Company will provide a copy of all documents used to notify ASX of information relating to the Company under the provisions of the Listing Rules since the lodgement of the Notice of Meeting.

11.2 Taxation

It is the responsibility of all persons to satisfy themselves of the particular taxation treatment that applies to them by consulting their own professional tax advisers before investing in the Shares. Taxation consequences will depend on particular circumstances. Neither the Company nor any of its officers accept any liability or responsibility in respect of the taxation consequences of the matters referred to above or any other taxation consequences connected with an investment in the Shares in the Company.

11.3 Interests of Directors, Proposed Director and Advisers

Other than as set out below or elsewhere in this Prospectus, no Director/Proposed Director nor any firm in which such a Director/Proposed Director is a partner, has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

- (a) the promotion or formation of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the offer of securities pursuant to this Prospectus; or
- (c) the offer of securities pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or shares or otherwise) to any Director/Proposed Director or to any firm in which any such Director/Proposed Director is a partner, either to induce him to become, or to qualify him as, a Director or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the Company.

Each of the Directors are currently paid a directors' fee of \$2,000 each per month.

The Company has entered into consultancy agreements with:

- (a) Austcom International Pty Ltd (a company controlled by Mr Greg Fendis) (**Austcom**); and
- (b) R & D Consulting Services Pty Ltd (an entity associated with Mr Sachlan Fraval) (**RDC**),

for the provision of corporate and technology administration services. Pursuant to the terms of these agreements Austcom and RDC will each receive fees of \$12,500 (plus GST) per month. Both agreements will terminate unless renewed on 1 July 2006.

The Company has entered into a consultancy agreement with Mr Faldi Ismail for the provision of corporate administration services. Pursuant to the terms of this agreement Mr Ismail will receive fees of \$10,000 (plus GST) per month. This agreement will terminate on the date Mr Ismail ceases to be a director of the Company, which is anticipated to be upon settlement of the Acquisition.

Murray D'Almeida will be paid a fee of \$2,000 per month and will not be paid any other remuneration. This may be reviewed as the Company increases the scope of its operations.

The Directors' interests in Shares and Options at the date of this Prospectus are:

Director	Shares	Options*
Gamed Pty Ltd (an entity controlled by Mr Greg Fendis).	Nil	6,000,000
Romfal Sifat Pty Ltd (an entity controlled by Mr Faldi Ismail).	Nil	6,000,000
Research and Development Consulting Services Pty Ltd as bare trustee holds Options on trust for Mr Sachlan Fraval.	Nil	7,960,000 Options (6,000,000 of which are held on trust for Mr Sachlan Fraval)

In addition to the above, Rofin Australia Pty Ltd (of which Mr Sachlan Fraval is a director and shareholder) is the registered holder of 190,000,000 Shares. A maximum of 185,830,000 of these Shares may be transferred to various parties if certain conditions are met. Please refer to the notice of meeting dated 5 December 2005 for further details.

Murray D'Almeida has an interest in 1,863,632 Shares at the date of this Prospectus.

11.4 Interests of Experts and Advisers

Other than as set out below or elsewhere in this Prospectus, no expert or adviser nor any firm in which such an expert or adviser is a partner, has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

- (a) the promotion or formation of the Company;
- (b) property acquired or proposed to be acquired by the Company in

connection with its formation or promotion or the offer of securities pursuant to this Prospectus; or

- (c) the offer of securities pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or shares or otherwise) to any expert or adviser or to any firm in which any such expert or adviser is a partner, either to induce him to become, or to qualify him as, an expert or adviser or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the Company.

Steinepreis Paganin have acted as solicitors to the Company and will be paid approximately \$10,000 for providing legal services in respect of the Prospectus. Subsequently, fees will be charged in accordance with normal charge out rates.

11.5 Consents

Persons who make statements in this Prospectus or who made statements in the Notice of Meeting which is being incorporated by reference into this Prospectus need to provide their written consent for such use.

Each of the parties referred to in this section 11.5:

- (a) does not make, or purport to make, any statement in this Prospectus other than those referred to in this section; and
- (b) to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this section.

Steinepreis Paganin have given their written consent to being named as the solicitors to the Company in this Prospectus and have not withdrawn their consent prior to the lodgement of this Prospectus with the ASIC.

Stanton Partners Corporate Pty Ltd has consented to the incorporation by reference in this Prospectus of its independent expert's report as referred to in Section 6.2 of this Prospectus. Stanton Partners Corporate Pty Ltd does not make, or purport to make, any other statement in the Prospectus and to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any other part of the Prospectus. Stanton Partners Corporate Pty Ltd has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

11.6 Legal Proceedings

The Company is aware of a potential claim from Tenix Alliance Pty Ltd (**Tenix**) relating to the use by the Company names, words and trademark "Environmental Solutions International" "ESI" and "Environ". The claim relates to an Asset Sale Agreement entered into between Tenix and the Company when the Company was in administration.

The Company is currently obtaining legal advice on the matter. In a worse case scenario, the Company would be required to cease using these names, words and trademarks.

There is no other litigation, arbitration or proceedings pending against or involving the Company as at the date of this Prospectus.

11.7 Expenses of the Issue

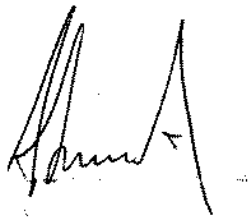
The total expenses of the Offer are estimated to be \$15,000 and are expected to be applied towards the items set out in the table below:

Item of Expenditure	Amount (\$)
ASIC Fees	2,010
Advisers' Fees	10,000
Miscellaneous	2,090
TOTAL	15,000

12. AUTHORITY OF DIRECTORS

Each of the Directors has consented to the lodgement of this Prospectus with the ASIC in accordance with section 720 of the Corporations Act.

Dated the 17th day of May 2006

A handwritten signature in black ink, appearing to read 'Faldi Ismail', with a stylized flourish at the end.

Faldi Ismail
Director
For and on behalf of
Environmental Solutions International Limited

13. DEFINITIONS

Acceptance and Transfer Form means the Acceptance and Transfer Form attached to or accompanying this Prospectus.

Acquisition means the acquisition of all of the fully paid Shares in the capital of APCS by the Company pursuant to the Share Sale Agreement.

APCS means Asia Pacific Coal & Steel Pty Ltd (ACN 111 577 041).

APCS Shares means any and all fully paid ordinary shares in APCS held by an APCS Shareholder, and all Rights attaching to those securities.

APCS Shareholder means a holder of APCS Shares.

Applicant means a person who submits an Acceptance and Transfer Form.

ASIC means Australian Securities and Investments Commission.

ASX means Australian Stock Exchange Limited (ACN 008 624 691).

Board means the board of Directors unless the context indicates otherwise.

Business Day means a day other than a Saturday or Sunday on which banks are open for business in Perth, Western Australia.

Calleja Group means Coldry, Matmor and MBC.

CHESS means ASX Clearing House Electronic Subregistry System.

Closing Date means 5.00pm WST on 19 May 2006 (unless extended or closed early).

Coldry means Maddingley Coldry Pty Ltd (ACN 109 941 175).

Coldry Licence Agreement means the agreement dated 29 January 2005 between Coldry, APCS and MCB.

Coldry Process® has the meaning given in Section 4.2.

Company or ESI means Environmental Solutions International Limited (ABN 28 009 120 405).

Company's Constitution means constitution of the Company as at the date of this Prospectus.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the directors of the Company from time to time.

Dollars or \$ means Australian dollars unless otherwise stated.

Enersludge Technology means the technology described in Section 4 of this Prospectus.

General Meeting means the general meeting of the Company to be convened pursuant to the Notice Meeting and held on 12 May 2006.

Licence Agreements means the Matmor Licence Agreement and the Coldry Licence Agreement.

Licensors means Coldry and Matmor or any one of them.

Listing Rules or **ASX Listing Rules** means the official Listing Rules of ASX.

Matmor Licence Agreement means the agreement dated 29 July 2005 between Matmor, the Company and MBC.

Matmor means Matmor Steel Pty Ltd (ACN 088 896 360).

Matmor® Process has the meaning given in Section 4.2.

Matmor/Coldry Equity means:

- (a) the six shares in Coldry held by MBC; and
- (b) the six shares in Matmor held by MBC.

MBC means Maddingley Brown Coal Pty Ltd (ACN 007 397 686).

Notice of Meeting means the notice of meeting of the company lodged with ASIC on 10 April 2006.

Offer means the offer of Shares pursuant to this Prospectus.

Offer Period means the period commencing on the Opening Date and ending on the Closing Date.

Official List means the official list of ASX.

Opening Date means 17 May 2006.

Participant's Agreement means the agreement dated 29 July 2005 between Coldry, Matmor, APCS and various other parties (as amended).

Proposed Director means Mr Murray D'Almeida.

Prospectus means the prospectus issued by ESI for the purpose of making the Offers.

Quotation and **Official Quotation** means official quotation on ASX.

Rights means all accretions to and rights attaching to the relevant APCS Shares at or after the Settlement Date (including, but not limited to, all dividends that are declared after the Settlement Date and all rights to receive dividends that are declared after Settlement Date and to receive or subscribe for shares, stock units, notes or options declared, paid, or issued by APCS). **Rights** does not include any dividends declared by APCS prior to the Settlement Date and the right to receive payment of those declared dividends whether before or after the Settlement Date.

Settlement Date means that date which is 2 business days after the date on which the last of the Conditions is satisfied (or such other date agreed to by ESI and APCS).

Share or ESI Share means one fully paid ordinary share in the capital of the Company.

Share Sale Agreement means the terms sheet between the Company and the APCS Shareholders, as summarised in Section 7.2 of this Prospectus.

Shareholder means a holder of Shares.

Technology means the technology under the Licence Agreements and the Enersludge Technology.

Transaction Documents means the Participant's Agreement and the Licence Agreements.

WST means Western Standard Time, Perth, Western Australia.

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED

ACN 009 120 405

OFFER

TO THE SHAREHOLDERS OF

ASIA PACIFIC COAL & STEEL PTY LTD

ACN 111 577 041

TERMS OF OFFER

1. General Terms

1.1 ESI offers to acquire 100% of your APCS Shares on the terms and conditions of this Offer.

1.2 This Offer relates to all APCS Shares which exist as at the Settlement Date.

1.3 The consideration offered by ESI for the acquisition of 100% of your APCS Shares is fully paid ordinary shares in the capital of ESI (**ESI Shares**).

For the particular Offer being made to you, please refer to the table in Schedule 1 at the end of this Section.

1.4 If you accept this Offer and ESI acquires your APCS Shares, ESI will become entitled to any Rights in respect of your APCS Shares.

1.5 ESI will apply to ASX for quotation of the Shares to be issued pursuant to this Offer (within 7 days) after the date of the Prospectus.

1.6 The Shares to be issued pursuant to this Offer will from their date of issue rank equally in all respects with the existing Shares currently on issue.

2. Offer Period

2.1 Unless withdrawn due to the failure of any of the Conditions, this Offer will remain open for acceptance during the period commencing on the date of this Offer until the Closing Date.

3. How to Accept this Offer

3.1 You may only accept this Offer in respect of 100% (and not a lesser proportion) of your APCS Shares.

3.2 In order to accept the Offer, you must complete and sign the Acceptance and Transfer Form in accordance with the instructions on the Acceptance and Transfer Form and deliver all documents of title in respect of your APCS Shares to ESI's share registry in accordance with the instructions set out in Section 3.4 of the Prospectus before the end of the Offer Period.

3.3 ESI may in its sole discretion at any time deem any Acceptance and Transfer Form it receives to be a valid acceptance in respect of your APCS Shares even if a requirement for acceptance has not been complied with.

3.4 Subject to paragraph 6.1, once you have accepted this Offer, you will be unable to revoke your acceptance and the contract resulting from your acceptance is binding on you.

4. The Effect of Acceptance

4.1 By following the procedures set out in this Offer you will be deemed to have:

- (a) accepted this Offer in respect of your APCS Shares registered in your name to which this Offer relates (**Purchased Shares**) regardless of the number of APCS Shares specified in the Acceptance and Transfer Form;
- (b) agreed to transfer your Purchased Shares to ESI and waived all rights of pre-emption (if any) you have in respect of the APCS Shares held by

each other shareholder of APCS enabling those persons to likewise accept the Offer;

- (c) authorised ESI to complete the Acceptance and Transfer Form by correcting any errors in or omissions from the Acceptance and Transfer Form as may be necessary for the purpose of effecting acceptance of the Offer and registering the transfer of your Purchased Shares;
- (d) authorised and consented to ESI placing a Holding Lock on the ESI Shares issued to you for a period of 12 months from their issue, if Schedule 1 indicates that the Shares to be issued to you are to be restricted from sale in this manner;
- (e) irrevocably authorised and directed APCS to pay to ESI or to the account of ESI all Rights in respect of the Purchased Shares;
- (f) irrevocably appointed ESI as your lawful attorney to execute on your behalf and in your name a Restriction Agreement in respect of that number of Shares that are to be issued to you upon your acceptance of the Offer that ASX determines will be subject to escrow restrictions as provided for by Chapter 9 of the ASX Listing Rules (if any);
- (g) represented and warranted to ESI that ESI will acquire good title to and beneficial ownership of all your Purchased Shares free from all mortgages, charges, liens, encumbrances (whether legal or equitable) and other third party interests of any kind;
- (h) agreed to indemnify ESI fully in respect of any claim, demand, action, suit or proceeding made or brought against ESI and any loss, costs, expense, damage or liability whatsoever suffered or incurred by ESI as a result of ESI not receiving from you any certificates for your Purchased Shares; and
- (i) appointed ESI or any nominee of ESI as your agent and attorney to exercise all the powers and Rights attaching to your Purchased Shares and have agreed not to revoke that appointment during the period from the date of your acceptance of this Offer and the date on which ESI is registered as the holder of your Purchased Shares.

5. ESI Obligations in respect of your APCS Shares Acquired

Subject to this Offer, ESI will provide the consideration for your APCS Shares to you on the Settlement Date. A holding statement for the Shares to which you become entitled by accepting this Offer will be sent by pre-paid mail to your address as shown on the Acceptance and Transfer Form.

6. Conditions of the Offer

6.1 This Offer and any contract that results from acceptance of this Offer are each conditional on the satisfaction of all of the conditions set out in Section 3.2 of the Prospectus.

6.2 Each condition set out in Section 3.2 of the Prospectus is a separate, several and distinct condition, operates as a condition precedent and is for the benefit of ESI and APCS. ESI and APCS may, by mutual agreement, waive any or all of these conditions.

7. No stamp duty or other costs

All costs and expenses of the preparation, dispatch and circulation of the Offers and any stamp duty payable in respect of the transfers will be paid by ESI.

8. Definitions

In this Section, defined terms have the same meaning given to them in the Prospectus, unless they are separately set out below:

Conditions means the conditions set out in Section 3.2.

Holding Lock has the meaning given to that term in the ASTC Settlement Rules.

Restriction Agreement means an agreement substantially in the form set out in Appendix 9A of the ASX Listing Rules between the Company and the relevant APCS Shareholder.

SCHEDULE 1 – APCS SHAREHOLDERS

APCS Shareholders	Number of ESI Shares to be issued as consideration for APCS Shares
Paldar Nominees Pty Ltd*	3,997,349
R C Johnson Pty Ltd*	7,894,168
R C Johnson Pty Ltd <#2>*	240,147
Caracob Pty Ltd*	1,489,032
D Wilson Investments Pty Ltd*	476,219
Rhonda O'Keefe*	159,588
Markstone Pty Ltd	159,588
Adam David Giles*	159,588
John Hutchinson	159,588
John Graham	159,588
Jogenwatodo Pty Ltd <aff B.C. Unit Trust>	240,147
Neil & Rhonda O'Keefe*	240,147
Colin Rawdon & Felicity Macnamara	96,059
Wilaway Pty Ltd	88,054
Mr Tom O'Brien	80,049
Rerori Pty Ltd	80,049
Mr Alan Moody	80,049
MSV Energy Pty Ltd	200,122

*These Shareholders will be prohibited from selling or dealing with the ESI Shares which they will receive pursuant to the Offer for a period of 12 months from the date of issue of those Shares.

OFFER TO SHAREHOLDERS OF ASIA PACIFIC COAL & STEEL PTY LTD

ACCEPTANCE AND TRANSFER FORM

IN RELATION TO A PROSPECTUS ISSUED BY ENVIRONMENTAL SOLUTIONS INTERNATIONAL
LIMITED DATED 17 May 2006

ONLY COMPLETE THIS FORM IF YOU ARE A SHAREHOLDER OF
ASIA PACIFIC COAL & STEEL PTY LTD

Full Name
(PLEASE PRINT)

Title, Given Name(s) & Surname or Company Name

[illegible]

OF

Postal Address
(PLEASE PRINT)

Street Number	Street
---------------	--------

[illegible]

Suburb/Town

State

Post Code

A visual representation of the number 120 using base ten blocks. It consists of one large square representing 100, one row of ten small squares representing 10, and one row of ten small squares representing another 10.

I/We, the person(s) named above, being the holder(s) of _____ Asia Pacific Coal & Steel Pty Ltd Shares (**APCS Shares**) accept the APCS Shares in respect of my/our APCS Shares and agree to transfer to Environmental Solutions International Limited all my/our APCS Shares in accordance with the Prospectus dated 17 May 2006 and accept the consideration and agree to be bound by the terms and conditions of the APCS Shares and the constitution of Environmental Solutions International Limited. If this form is signed under Power of Attorney, the Attorney declares that he has no notice of revocation of that power.

Dated this day of 2006

By:

Individuals and joint holders

Signature _____

Signature _____

Signature _____

Companies (affix common seal if appropriate)

Director

Director/Company Secretary

Sole Director and Sole Company Secretary