

8 June 2012

Company Announcements Office  
Australian Stock Exchange Limited  
20 Bridge Street  
Sydney, NSW, 2000

Dear Sirs,

### **Reorganisation of Debt Owning By Magontec Limited (MGL) to Straits Mine Management Pty (SMM)**

Certain initiatives being rolled out in the period to 31 December 2012 in pursuit of the Group's strategic plan were announced by MGL on 29 May 2012. The development described below is one such initiative.

When MGL acquired the Magontec Group of companies from SMM on 4 July 2011, it did so by purchasing all of the shares of the holding company - Varomet Holdings Limited (VHL) - that owned the various Magontec operating units. At acquisition VHL owed SMM certain monies.

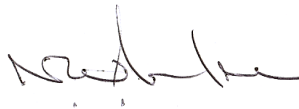
In terms of a loan agreement between VHL and SMM, the amount owing by VHL on 4 July 2012 will be \$13,114,726. MGL is pleased to announce that in terms of a Heads of Agreement signed with SMM on 7 June 2012 this debt has been reorganised. The reorganisation has the following features.

1. In the period on and after 5 July 2012 the loan amount outstanding will attract no interest.
2. Prior to 31 December 2012 MGL will make a repayment to SMM of \$6,000,000. Payment of this amount will be facilitated by other elements of the Group's strategic plan to be rolled out in the period to 31 December 2012.
3. Subject to the approval of shareholders at MGL's 2012 Annual General Meeting, MGL will issue an unsecured convertible note to SMM with the following essential characteristics.
  - **Face Value:** \$2,000,000
  - **Interest Rate:** Zero
  - **Maturity Date:** 3 years after the date of issue of the note.
  - **Conversion:**
    - **Compulsory** - If SMM has not previously requested MGL to redeem the note then, at the Maturity Date, the note will automatically convert into 49,822,719 ordinary shares of MGL.
    - **Optional** – SMM may elect to convert a part or all of the note at any time in the period to and including the day prior to the Maturity Date into the relevant part of 49,822,719 ordinary shares of MGL.

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- **Conversion Ratio:** The conversion ratio into 49,822,719 ordinary shares of MGL reflects a price per share of \$0.040142 being the 10-day volume weighted average price for the period prior to the signing of the Heads of Agreement.
  - **Redemption:** SMM may require MGL to redeem the note at Face Value at any time in the period from the first anniversary of issue of the note to and including the day prior to the Maturity Date.
4. Subject to repayment of \$6,000,000 and issue of the convertible note, SMM has agreed to forego its claim for the balance of the debt of \$5,114,726.
  5. In the event shareholders do not approve the issue of the convertible note to SMM, the loan amount owing to SMM will reduce to \$7,114,726 (the balance of the loan having been repaid). The interest rate regime that applies to the existing loan will continue in respect of any residual loan.

Yours sincerely



Nicholas Andrews  
Executive Chairman  
Magontec Limited

For more information please contact

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