

29 October 2012

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

Dear Sirs,

### **Reorganisation of Debt Owning By Magontec Limited (the “Company” or “MGL”) to Straits Mine Management Pty (SMM)**

On 8 June 2012 MGL announced the principal features of a debt reorganisation that had been agreed with SMM. That agreement has been cancelled and replaced by a new Heads of Agreement signed by SMM and MGL on 26 October 2012. The context to the reorganisation and the principal features of the modified Heads of Agreement are reflected below.

#### **Context**

As at 22 August 2012 an amount of \$12,215,198 remained outstanding to SMM under a Loan Agreement entered into between MGL and SMM on 4 July 2011.

#### **Principal Features Of Heads Of Agreement Signed On 26 October 2012**

In consideration for MGL making a debt reduction of \$2,000,0000 under the Loan Agreement and issuing to SMM a Convertible Loan Note for \$3,500,000, SMM will reduce the amount owing by MGL under the Loan Agreement from \$12,215,198 to \$2,100,046.

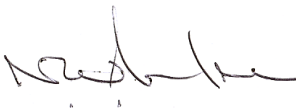
The following steps will give effect to the above arrangement.

- a) The Company will reduce the debt owing to SMM by the amount of \$2,000,000 from the proceeds of an equity issue to be conducted by Magontec Limited (the details of which are yet to be determined by the Board).
- b) The Company will issue Convertible Loan Note 2 (CLN 2) to SMM with the following principal terms
  - i. **Compulsory Conversion:** If SMM has not exercised its right to convert CLN 2 then, at the Maturity Date (see definition below), the note will automatically convert into the number of ordinary shares of MGL in accordance with the formula in the Conversion Ratio.
  - ii. **Optional Conversion:** SMM may elect to convert at any time in the period to and including the day prior to the maturity date a portion or all of its notes into the relevant portion of the number of ordinary shares of MGL.
  - iii. **Conversion Price:** The price at which shareholders will subscribe for shares under an equity raising to be conducted by the Company.
  - iv. **Conversion Ratio:** CLN 2 will convert into the number of ordinary shares of MGL determined by the formula –  
$$\text{Face Value} \div \text{Conversion Price} + \text{additional ordinary shares to compensate for any dilution resulting from the issue of ordinary shares in the period after the date of the second convertible loan note to the date of its conversion.}$$

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- v. **Interest rate:** Zero
  - vi. **Face Value:** \$3,500,000.
  - vii. **Issue Date:** Within 5 business days following the date of Shareholder Approval of the issue of CLN2.
  - viii. **Maturity Date:** the date 3 years after the Issue Date.
  - ix. **Note Holder Redemption:** SMM may require the Company to redeem the notes at any time for Face Value in the period from six months prior to the Maturity Date to and including the day prior to the Maturity Date.
  - x. **Ranking:** The note will rank equally with all other unsecured creditors.
  - xi. **Security:** Nil
- c) Subject to the debt reduction of \$2,000,000 (in a) and issue of CLN 2, SMM will agree
- i. to reduce the Company's liability to \$2,100,046 under the Loan Agreement; and
  - ii. apply a zero rate of interest in the period on and after 5 July 2012 to that residual debt.
- d) The Company will agree to repay the amount outstanding (\$2,100,046) under the Loan Agreement on or before 31 December 2014.
- e) In the event Shareholder Approval to the issue of the CLN 2 is not obtained then the terms of the existing Loan Agreement remain in place but with the following amendments acknowledged in a supplementary document to the Loan Agreement.
- The amount outstanding under the Loan Agreement as at the date Shareholder Approval has been denied by MGL shareholders is acknowledged by the Parties to be \$10,215,198.
  - The interest rate regime specified in the Loan Agreement would continue to apply to the residual loan from the date Shareholder Approval has been denied.

Yours sincerely



Nicholas Andrews  
Executive Chairman  
Magontec Limited

For more information please contact

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