

26 November 2012
Company Announcement Office
Australian Stock Exchange Ltd
4th Floor, 20 Bridge Street, Sydney NSW

Mungana Goldmines enters into Heads of Agreement with Kagara Ltd (Administrators appointed)

Mungana Goldmines Ltd (MUX), Kagara Ltd (administrators appointed) (KZL) and its wholly owned subsidiary Mungana Pty Ltd (administrators appointed) (MPL) have entered into a binding Heads of Agreement for the dissolution of the Gold Rights agreement (GRA) over the Chillagoe assets in North Queensland.

The key feature of the Heads of Agreement is a proposed buy-back of 95,563,135 ordinary shares in MUX currently owned by MPL at an effective buy-back price of \$0.384 per ordinary share (resulting in a reduction of KZL's equity position in MUX from 60.7% to approximately 2.7%) and in exchange the parties agree to:

1. terminate the GRA,
2. settle a \$1.7m net receivable from KZL to MUX,
3. settle outstanding claims between the two companies.

The key terms of the Heads of Agreement are summarised in the attached schedule.

The Heads of Agreement is subject to a number of conditions, including:

- obtaining MUX shareholder approval of the buy-back of KZL's shares, a resolution to which neither MPL or KZL [or its representatives] will be entitled to vote,
- an independent expert concluding that the buy-back terms are reasonable to MUX shareholders not associated with KZL and MPL,
- KZL obtaining consent of Investec Bank (Australia) Limited,
- resolution with the Queensland Office of State Revenue of certain stamp duty liabilities on the GRA,
- MUX receiving an ATO private ruling in connection with the transactions contemplated by the HOA; and
- all necessary government and regulatory approvals and other KZL or MUX shareholder approvals that may be required.

MUX will engage an independent expert to provide MUX shareholders with an assessment of whether the buy-back is fair and reasonable to shareholders not associated with KZL and MPL. The independent expert report will be sent to shareholders with the notice of meeting that will be convened to consider the buy-back approval.

The timing of the meeting and completion depends on the satisfaction of the conditions, which in some cases are not within the control of MUX. Subject to this, MUX anticipates that completion will take place before 30 April 2013.

The Independent Board Committee of MUX engaged Deloitte Corporate Finance Pty Limited as lead financial adviser, and Clayton Utz as legal adviser with respect to the proposed transaction.

Yours faithfully

A handwritten signature in dark ink, appearing to be 'Patrick Scott', with a long horizontal stroke extending to the right.

Patrick Scott
Managing Director

Contact

Investors

Patrick Scott, Managing Director,
Mungana Goldmines Ltd.
(07) 3835 0800

Media

Bruce Ruddy,
Rowland,
(07) 3229 4499

Schedule - summary of Heads of Agreement key terms

Share Buy-Back

Under the terms of the HOA, MUX and MPL will agree the terms of a buy-back agreement under which MUX will buy-back 95,563,135 ordinary shares currently owned by MPL (the **Buy Back Shares**) at the buy-back price of \$0.384 per ordinary share. In consideration of the share buy-back, MUX will issue a promissory note to the value of \$36,696,243 in favour of MPL (the **Promissory Note**). The MPL nominated directors on the board of MUX will also resign at completion of the transaction.

Following the share buy-back, MPL will hold 1,983,808 ordinary shares in MUX.

Termination of GRA

MPL will then transfer the benefit of the Promissory Note to MUX, in consideration for the following taking place under the HOA:

- (a) the termination of the GRA;
- (b) the inter-company receivables and payables owing between KZL and MPL and MUX (subject to certain express exceptions) being set off against one another and the balance, being \$1,696,243 owed by KZL and MPL to MUX, being deemed satisfied; and
- (c) claims between MUX, KZL and MPL being settled and various other claims between them being released save that there be provision for MUX to lodge a proof of debt at the appropriate time; and
- (d) all encumbrances MUX may have over KZL, MPL and their respective tenements being released.

Completion

Completion is subject to certain conditions being satisfied by 30 April 2013, including:

- (a) the consent of Investec Bank (Australia) Limited to the proposed transactions in accordance with the terms of its financing facilities to KZL and its subsidiaries;
- (b) agreement being reached with the Queensland Office of State Revenue in relation to any stamp duty, penalties and interest payable arising directly from the execution of the GRA and the transactions contemplated by the GRA;
- (c) MUX receiving an ATO private ruling in connection with the transactions contemplated by the HOA;
- (d) MUX shareholder approval of the buy-back of the Buy Back Shares;
- (e) an independent expert concluding that the buy-back terms are reasonable to MUX shareholders not associated with KZI and MPL;
- (f) all necessary government and regulatory approvals and other KZL or MUX shareholder approvals that may be required.

Recommendation

Each of the independent directors of MUX (Mr Bruce Rathie and Mr John Fitzgerald) will recommend that MUX shareholders vote in favour of the buy-back resolution, subject to the independent expert concluding that the buy-back terms are fair and reasonable to shareholders not associated with KZL and MPL and subject to their fiduciary duties.