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Manager of Company Announcements  
Australian Securities Exchange  
Level 6, 20 Bridge Street  
SYDNEY WA 2000

## LEGAL PROCEEDINGS

The Directors of Mount Magnet South NL (the Company) provide a market update on matters previously announced on 27 May 2011, relating to potential claims against the Company by entities associated with Mr Fred McMurray, a former director of the Company, and Mr Gary Johnson.

### Background

On 28 September 2010 a general meeting of shareholders of the Company was held to consider, among other matters, approval for a related party transaction, and approval for the conversion of convertible notes to ordinary shares as required by the terms of various convertible note deeds (the CN Deeds).

The terms of the related party transaction were contained in a deed which in essence provided that (subject to shareholder approval) in consideration for extending bank guarantees to the Minister for Mines on behalf of the Company of \$1.485m, the Company would pay Messrs McMurray and Johnson's entities a fee of \$4.5m on the date two years from the date of the bank guarantee, or (at the Company's election) transfer the Company's plant at Kirkalocka to the entities (the Deed). A separate deed, also subject to shareholder approval, provided for a charge over the Company's plant to secure the obligations under the Deed (the Charge).

The resolutions seeking approval of the Deed and the Charge were rejected by shareholders, and accordingly the Deed and the Charge did not become effective.

The CN Deeds provided, among other things, that the conversion of the notes was subject to the Company obtaining shareholder approval to the conversion, if the listing rules of the Australian Securities Exchange required. At the time conversion of the notes was sought, the Company did not have the capacity to issue the number of shares under the conversion without shareholder approval.

Shareholders at the meeting resolved not to approve the conversion of the notes to ordinary shares. The notes were repaid in cash by the Company, with interest calculated to the date of re-payment, on their expiry in March 2011, in accordance with the terms of the CN Deeds.

### **Update**

On Friday 9 December 2011 the Company was served with a Writ of Summons ("Writ") issued out of the Supreme Court of Western Australia to answer claims by the Messrs McMurray and Johnson's entities, claiming various remedies in respect of the Deed, the Charge and the CN Deeds.

The various claims are for damages or compensation (as the case may be) at common law and under the Trade Practices Act 1974, and/or the Fair Trading Act 1987 (WA), and/or the Corporations Act 2001 and/or the Australian Securities and Investments Commission Act 2001, common law rectification of, and/or orders to vary, the Deed, the Charge and the CN Deeds, estoppel, and specific performance of the Deed and the Charge.

The Company and its legal advisers are currently reviewing the Writ, but it remains the Company's intention to vigorously defend the action, and the decisions of its shareholders in September 2010.

The Company's Managing Director, Matt Shackleton, and the solicitor acting for Messrs McMurray and Johnson's entities at that time, have been joined with the Company in the Writ.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S. Shah', written in a cursive style.

Susmit Shah  
Company Secretary