



21 February 2013

ASX Release,
By e-lodgement

Mungana Reaches Agreement on Duty Payment Terms

Mungana Goldmines Limited (ASX: MUX) has reached an in principle agreement with the Queensland Office of State Revenue (QOSR) in relation to payment terms for the \$12.19 million duty assessments referred to in the market release dated 14 February 2013. MUX is working with the QOSR to settle legal documentation for this in principle agreement.

The duty assessments relate to the Gold Rights Agreement (GRA) over the Chillagoe assets in North Queensland entered into by MUX, Kagara Limited (administrators appointed) (ASX: KZL) and its subsidiary, Mungana Pty Ltd (administrators appointed) (MPL) in 2010, before the MUX initial public offering. Under the GRA, KZL and MPL are contractually responsible for payment of any duty, penalties and interest.

The payment terms agreement with the QOSR defers payment of a substantial portion of the duty assessments for 12 months and pending the outcome of the administration of KZL and MPL, providing MUX with certainty in respect of its current financial position and also providing MUX with the opportunity:

- to promptly lodge and pursue an objection to the duty assessments;
- to pursue the outcomes contemplated by the Heads of Agreement (HOA) with KZL and MPL announced on 26 November 2012, or an alternative outcome, which would resolve the outstanding matters between MUX, KZL and MPL, including funding the payment of duty on the Gold Rights Agreement between MUX, KZL and MPL (GRA); and
- if the transactions under the HOA (or any alternative arrangement) do not proceed, to receive any final distribution from the administrations of KZL and MPL.

Details of the duty assessments and the in principle payment terms agreement are set out in the attachment. It should be noted that MUX intends to object to the duty assessments and no agreement has been reached with the QOSR as to any compromise of the amount of duty, penalties and interest payable under the assessments.

Update on HOA Conditions

The HOA is subject to a number of conditions set out in the announcement dated 26 November 2012.

MUX provides the following update:

- KZL has received 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.
- No agreement has yet been reached with the QOSR in relation to duty, penalties and interest arising from the GRA, despite the issue of the assessments.
- MUX has received a private ruling from the ATO which does not confirm the full availability of tax losses to offset any tax liability arising from the HOA transactions. As a result, this condition is not satisfied. The HOA currently remains on foot and MUX is currently considering the implications of this ruling with respect to the HOA transactions.

Yours sincerely,



Ben-Louis Ludik
Company Secretary

Attachment - Duty Assessment and Payment Terms

The duty assessments relate to the Gold Rights Agreement over the Chillagoe assets in North Queensland entered into by MUX, KZL and MPL in 2010, before the MUX initial public offering (IPO).

The QOSR believes certain conditions to the duty exemption on which the parties relied have not been satisfied and has issued duty assessments totalling \$12.19 million, including penalties and interest.

MPL and KZL are contractually obliged to pay any duty, penalties or interest assessed on the GRA. However, under the Queensland duties legislation, all the parties to the GRA, including MUX, are jointly and severally liable to the State to pay any duty, penalties or interest assessed. Notwithstanding that KZL and MPL are parties to the GRA, at this stage only MUX has received a duty assessment. KZL and MPL are in administration and the prospects of them meeting the contractual obligation to pay the assessments are subject to the proceeds of the administration being adequate to do so.

The QOSR has agreed in principle with MUX to the following payment terms:

- a deferral of payment of the full amount of the assessments for 12 months;
- an upfront payment of \$500,000 in February 2013;
- partial payment of \$50,000 per month for a period of 12 months from March 2013;
- if a full and final distribution is received from the administration of KZL in respect of any proof of debt lodged in the administration of KZL for the assessments, payment to the QOSR of the full cash distribution but not exceeding the balance of duty outstanding at that time;
- if there is a balance owing after the full and final distribution of the KZL administration, a fresh payment arrangement will be negotiated within 3 months after the final distribution payment is made (failing agreement on such an arrangement, MUX will be required to meet the outstanding balance from other sources);
- interest at a current rate of 11.66% pa will continue to accrue on the assessments until fully paid; and
- if MUX enters into administration, liquidation or receivership the arrangement will be terminated.