comtel corporation

ASX Release

Debt Restructuring and Proposed Capital Raising

22 September 2008

The Directors of ComTel Corporation Limited (ASX: CMO) are pleased to announce that the company has reached agreement with Co-Investor Capital Partners Pty Ltd (Co-Investor) whereby Co-Investor will, subject to certain conditions being met, refinance ComTel's existing senior debt, take a placement of new ordinary shares, and underwrite a proposed rights issue. Co-Investor (www.co-investor.net) is a Sydney-based active fund manager in ASX and NZX listed small caps.

The proposed capital restructuring, which was foreshadowed in ComTel's FY08 results announcement on 29 August, will:

- enable the company to consolidate and repay its bank debt, as well as progressively reduce its gearing;
- settle the deferred payment obligations that arose from ComTel's acquisition of Empowered Communications last year; and
- stabilise the company's share register through introducing an experienced equity investor as the company's cornerstone shareholder.

Restructuring of Debt Facilities

Co-Investor has agreed that funds managed by it will put in place a $6.75 million debt facility, comprising a three year $5.0 million senior secured loan and a $1.75 million short term bridging finance facility (with the latter to be repaid from the proceeds of the proposed equity raising). Funds will be made available upon ComTel satisfying the conditions precedent contained in the funding agreements with Co-Investor.

The proceeds from the debt facility will be used to repay ComTel's existing bank facilities, which currently amount to $6.75 million. The restructuring of ComTel's debt facilities will also result in reduced interest payments over the three year term.

Proposed Equity Capital Raising

The proposed equity capital raising is intended to raise approximately $10.0 million via a conditional placement of 19,888,091 shares to funds managed by Co-Investor at a price of 4.5 cents per share to raise $0.89 million, to be followed by a 2.3-for-1 renounceable rights issue at 3.0 cents per share to raise $9.11 million, to be fully underwritten by Co-Investor. The volume weighted average share price for the last 5 traded days is $0.0303. The underwriting of the proposed rights issue is subject to ComTel satisfying the conditions precedent contained in the financing proposal from Co-Investor.

The placement will require the approval of ComTel shareholders at the company's Annual General Meeting. Further details, including the timetable for the proposed rights issue and documentation for the offer and shareholder meeting, will be released in due course.

Net funds raised through the proposed equity capital raising will settle $7.9m of settlement obligations from the company's acquisition of Empowered Communications, including a $5.0 million deferred consideration obligation, a $2.0 million vendor loan and the FY08 earn-out payment of $0.9 million. The proposed equity capital raising will also enable repayment of the $1.75 million bridging debt facility.

The fund raising will be accompanied by an issue of 25.0 million 3 year equity options to Co-Investor at an exercise price of 6 cents per share and will require the approval of ComTel shareholders at the company's Annual General Meeting.

Resulting Capital Structure

After the completion of the restructuring, ComTel will have $9.5 million of loan obligations, comprising:

- $5.0 million senior debt owing to Co-Investor, repayable over 3 years;
- $3.0 million vendor finance owing to Vodafone, repayable in monthly instalments of $80,000 until May 2010, when a final balloon payment of $1.1 million will be due; and
- the existing $1.5 million redeemable convertible note which matures in July 2010.

Directors note that in the financial year to 30 June 2008 ComTel reported EBITDA of $8.1 million, implying conservative gearing and interest cover ratios upon completion of the restructuring.

Assuming that $9.1 million is raised pursuant to the rights issue, ComTel would have approximately 455.98 million ordinary shares on issue.

Appointment of Director

ComTel is pleased to announce that Mr. Phillip Pryke, a partner in Co-Investor, will be appointed to the board of directors of ComTel, effective from a date to be determined.

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About ComTel Corporation Limited

ComTel Corporation Limited (www.comtelcorporation.com.au) is an Australian ASX listed (CMO) mobile and e-marketing company, formerly known as CommodiTel. Its competitive mobile offerings incorporate permission-based advertising and internet functionalities to generate value of personal relevance to users and real-time customer reach for advertisers. ComTel has a long-term Network Capacity Agreement with Vodafone Australia, which also enables it to service wholesale customers operating their own mobile and ISP brands.

About Co-Investor Capital Partners Pty Ltd

Co-Investor (www.co-investor.net) is a Sydney-based fund manager that invests capital, skills and time in smaller companies listed on the Australian and New Zealand Stock Exchanges. Co-Investor is a joint venture between its management team and the Victor Smorgon Group.

For further information

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