

ASX RELEASE

SOLCO LIMITED

17th October 2006

Solco Reports Progress on Re-capitalisation

Solco Ltd (ASX: SOO): The Independent Directors of Solco Limited (Messrs Forbes and Beech) advise that the proposed re-capitalisation of Solco is proceeding satisfactorily and is on schedule for completion in late November subject to shareholder and regulatory approvals.

On 22nd August 2006, the Company entered into a conditional Heads of Agreement with interests associated with then non executive director (now Managing Director), Mr. David Richardson to re-capitalise the Solco Group. Under the arrangement:

- (i) Mr Richardson's interests were required to procure for Solco to be provided up to \$1.5 million in loan funds (on a secured basis) for immediate working capital requirements to alleviate Solco's current financial pressures. Such a facility was procured for Solco with the National Australia Bank by Mr. Richardson with the first drawdown on 8th September 2006
- (ii) Mr. Richardson was to become the Managing Director of Solco effective from 28th August 2006 until 30 June 2007 at a salary of \$276,000 per annum. Mr. Richardson has been very actively engaged as Solco's Managing Director since 28th August 2006. A Consultancy Agreement covering the terms of Mr. Richardson's employment has been signed. The Independent Directors stated that they are encouraged by the operational changes and re-invigorated strategy direction that Mr. Richardson has introduced in a short time.
- (iii) The Company will be seeking shareholder approval to raise \$1.53 million in equity by placing approximately 61,818,181 million shares or 43.57% of the diluted capital of Solco after placement with interests associated with Mr. Richardson with the proceeds being applied to retire the \$1.5 million loan in (i) above and otherwise for working capital purposes. In addition the Company will be seeking shareholder approval for Mr Richardson's remuneration of \$230,000 to 30 June 2007 to be reinvested in Solco shares which would result in interests associated with Mr. Richardson holding 47.04% the diluted capital base of Solco after the placement for \$1.53 million and the remuneration. A Share Subscription Agreement, conditional on shareholder approval, has been signed by the Company and interests associated with Mr. Richardson covering the above arrangements.
- (iv) A shareholder rights issue by Solco is contemplated in the first half of 2007 to further recapitalise the Company for future growth business ventures. The present intention of Mr Richardson and his interests is to support such a rights issue to maintain their percentage holding in Solco. They have also undertaken to use their influence to seek to procure third party underwriting support for such capital raising.

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The Heads of Agreement and associated transactions are conditional upon all requisite regulatory (ASIC and ASX) and shareholder approvals as well as completion of satisfactory due diligence by the Richardson interests on the Solco Group.

The interests associated with Mr. Richardson have formally advised that the due diligence has been completed to their satisfaction.

All formal documents associated with transaction have been completed and signed by the parties. The Notice of Meeting including the Independent Expert's Report have been finalised and lodged with ASIC and ASX for their review.

The revised timetable for the transactions is as follows:

- Issue of notice of shareholder meeting (by 20th October 2006);
- Solco shareholders' meeting (by late November 2006); and
- Completion (by mid December 2006).

The Company suspended trading in its securities on 7th August 2006 pending an announcement as to the outcome of a financial review and recapitalisation negotiations. It is anticipated that Solco will apply to the ASX to lift its current trading suspension shortly after completion of the transactions in early December 2006. For further information on Solco visit www.solco.com.au.

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