



MAGNETITE MINES LIMITED
Making Steel *Stronger*

**INTERIM FINANCIAL STATEMENTS
31 DECEMBER 2015**

INTERIM FINANCIAL STATEMENTS – 31 DECEMBER 2015

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CORPORATE DIRECTORY

DIRECTORS	Gordon Toll Frank DeMarte Malcolm RJ Randall Peter Schubert	(Executive Chairman) (Executive Director) (Non-Executive Director) (Non-Executive Director)
COMPANY SECRETARY	Frank DeMarte	
REGISTERED OFFICE	118B Glen Osmond Road Parkside, South Australia 5063	
	Telephone:	(+61 8) 8427 0516
	Facsimile:	(+61 8) 8427 0515
	Email:	info@magnetitemines.com
	Website:	www.magnetitemines.com
SHARE REGISTRY	Computershare Investor Services Pty Ltd Level 11, 172 St Georges Terrace PERTH WA 6000	
	Telephone (within Australia):	1300 850 505
	Telephone (outside Australia):	(+61 3) 9415 4000
	Facsimile:	(+61 8) 9323 2033
AUDITORS	Stantons International Level 2, 1 Walker Avenue WEST PERTH WA 6005	
STOCK EXCHANGE LISTING	The Company's shares are listed and quoted on the Australian Securities Exchange Limited ("ASX").	
	Home Exchange: Perth, Western Australia	
	ASX Code:	MGT

DIRECTORS' REPORT

The directors present their financial statements for the half year ended 31 December 2015.

DIRECTORS

The names of the Company's directors in office during the half year and until the date of this statement are set out below. Directors were in office for this entire period unless otherwise stated.

Gordon Toll	(Executive Chairman)
Frank DeMarte	(Executive Director)
Malcolm RJ Randall	(Non-Executive Director)
Peter J Schubert	(Non-Executive Director) appointed on 17 December 2015

RESULT

The operating loss of the Consolidated Entity after tax for the period ended 31 December 2015 was \$1,159,883 (2014: Loss \$23,755,244).

REVIEW OF OPERATIONS

During the period, the Consolidated Entity continued its iron ore activities in South Australia.

EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the half year, the Directors are not aware of any matter or circumstance not otherwise dealt with in the Directors' Report or the Financial Statements that has significantly or may significantly affect the state of affairs or operations of the Group in the future financial periods.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration to the Directors of Magnetite Mines Limited is set out on page 3 and forms part of the Directors' Report for the period ended 31 December 2015.

This statement is signed in accordance with a resolution of the Directors:



Frank DeMarte
Director

Perth, Western Australia
28 January 2016

28 January 2016

Board of Directors
Magnetite Mines Limited
118B Glen Osmond Road
Parkside SA 5063

Dear Directors

RE: MAGNETITE MINES LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Magnetite Mines Limited.

As Audit Director for the review of the financial statements of Magnetite Mines Limited for the six months ended 31 December 2015 I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LIMITED
(Trading as Stantons International)
(An Authorised Audit Company)



Samir Tirodkar
Director

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

	Notes	Consolidated	
		31 December 2015 \$	31 December 2014 \$
REVENUE FROM CONTINUING OPERATIONS			
Finance revenue	3(a)	11,512	47,398
Other income	3(b)	4,397	1,829
		<u>15,909</u>	<u>49,227</u>
EXPENDITURE			
Depreciation and amortisation expenses		(20,192)	(26,846)
Employee benefits expenses	3(c)	(334,885)	(764,989)
Exploration expenses	4	(8,102)	(15,401)
Other expenses	3(d)	(540,170)	(463,601)
Borrowing costs	15	(58,333)	-
Share of net loss of associate	3(e)	(42,762)	(51,799)
(Increase in)/reversal of impairment provision of investment in associate	3(e)	(166,951)	66,404
Provision for impairment of capitalised exploration expense	4	-	(23,177,609)
Non-recovery of loan to associate provision		(4,397)	(101,019)
Loss from continuing operations before income tax expense		<u>(1,159,883)</u>	<u>(24,485,633)</u>
Income tax benefit	5	-	730,389
Net (Loss)/Profit from continuing operations for the period		<u>(1,159,883)</u>	<u>(23,755,244)</u>
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss		-	-
Items that will not be reclassified to profit or loss		-	-
Total comprehensive (loss)/income for the period		<u>(1,159,883)</u>	<u>(23,755,244)</u>
Net (Loss)/Profit attributable to:			
Members of the parent entity		<u>(1,159,883)</u>	<u>(23,755,244)</u>
Total comprehensive (loss)/income attributable to:			
Members of the parent entity		<u>(1,159,883)</u>	<u>(23,755,244)</u>
Earnings per share from continuing operations attributable to the ordinary equity holders of the parent entity:			
		Cents per share	Cents per share
Basic (loss)/earnings for the half-year	6	(0.31)	(6.78)
Diluted (loss)/earnings for the half-year	6	(0.31)	(6.78)

The accompanying condensed notes form part of the financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015**

		Consolidated	
	Notes	31 December 2015 \$	30 June 2015 \$
ASSETS			
Current Assets			
Cash and cash equivalents	8	690,766	1,752,741
Trade and other receivables		204,994	148,062
Other financial assets		18,018	13,268
Total Current Assets		<u>913,778</u>	<u>1,914,071</u>
Non-Current Assets			
Trade and other receivables		62,988	120,742
Investment in associate	3(e)	131,781	341,494
Property, plant and equipment		114,669	124,783
Exploration and evaluation expenditure	4	7,913,653	4,484,902
Intangibles		2,572	3,430
Total Non-Current Assets		<u>8,225,663</u>	<u>5,075,351</u>
TOTAL ASSETS		<u>9,139,441</u>	<u>6,989,422</u>
LIABILITIES			
Current Liabilities			
Trade and other payables		139,310	86,172
Provisions		27,168	34,899
Total Current Liabilities		<u>166,478</u>	<u>121,071</u>
Non-Current Liabilities			
Convertible loan note liability	15	2,500,000	-
Total Non-Current Liabilities		<u>2,500,000</u>	<u>-</u>
TOTAL LIABILITIES		<u>2,666,478</u>	<u>121,071</u>
NET ASSETS		<u>6,472,963</u>	<u>6,868,351</u>
EQUITY			
Contributed equity	10(a)	45,105,477	44,519,005
Reserves		7,903,030	7,725,007
Accumulated losses		(46,535,544)	(45,375,661)
TOTAL EQUITY		<u>6,472,963</u>	<u>6,868,351</u>

The accompanying condensed notes form part of the financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

		Consolidated	
	Notes	31 December 2015 \$	31 December 2014 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(819,018)	(1,414,703)
Other revenue received		-	-
Interest received		14,727	59,770
Payment for exploration and evaluation		(8,102)	(241,699)
Income tax benefit – R&D refund		-	-
Net cash flows used in operating activities		<u>(812,393)</u>	<u>(1,596,632)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for tenements, exploration and evaluation expenditure		(853,834)	(50,000)
Payments for plant and equipment		(9,221)	(7,500)
Redemption of security deposits		27,001	-
Proceeds from disposal of fixed assets	3(f)	-	1,482
Loan to Aldershot		-	(99,227)
Net cash flows used in investing activities		<u>(836,054)</u>	<u>(155,245)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and options		586,472	193,086
Net cash flows from financing activities		<u>586,472</u>	<u>193,086</u>
Net decrease in cash and cash equivalents		(1,061,975)	(1,558,791)
Cash and cash equivalents at the beginning of period		1,752,741	3,671,290
Cash and cash equivalents at the end of period	8	<u>690,766</u>	<u>2,112,499</u>

The accompanying condensed notes form part of the financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

	Equity	Accumulated losses	Option Reserve	Share Based Payments Reserve	Foreign Currency Reserve	Fair Value Reserve	Total
Consolidated	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2015	44,519,005	(45,375,661)	1,007,941	6,658,187	58,879	-	6,868,351
Total comprehensive income for the period							
Loss for the period	-	(1,159,883)	-	-	-	-	(1,159,883)
Total comprehensive gain/(loss) for the period	-	(1,159,883)	-	-	-	-	(1,159,883)
Transactions with owners recorded directly in equity:							
Contributions of equity, net of transaction costs	586,472	-	-	-	-	-	586,472
Recognised value of share based payments	-	-	-	178,023	-	-	178,023
Balance at 31 December 2015	45,105,477	(46,535,544)	1,007,941	6,836,210	58,879	-	6,472,963

	Equity	Accumulated losses	Option Reserve	Share Based Payments Reserve	Foreign Currency Reserve	Fair Value Reserve	Total
Consolidated	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2014	44,325,919	(17,008,360)	1,007,941	6,637,415	71,554	(96,157)	34,938,312
Total comprehensive income for the period							
Loss for the period	-	(23,755,244)	-	-	-	-	(23,755,244)
Total comprehensive gain/(loss) for the period	-	(23,755,244)	-	-	-	-	(23,755,244)
Transactions with owners recorded directly in equity:							
Contributions of equity, net of transaction costs	193,086	-	-	-	-	-	193,086
Recognised value of share based payments	-	-	-	20,773	-	-	20,773
Balance at 31 December 2014	44,519,005	(40,763,604)	1,007,941	6,658,188	71,554	(96,157)	11,396,927

The accompanying condensed notes form part of the financial statements.

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

1. CORPORATE INFORMATION

This financial report includes the consolidated financial statements and notes of Magnetite Mines Limited and its controlled entities ("consolidated entity or group").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

These general purpose interim financial statements for the half-year reporting period ended 31 December 2015 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Magnetite Mines Limited and its controlled entities (referred to as the "Consolidated Group" or "Group"). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2015, together with any public announcements made during the following half-year.

These interim financial statements were authorized for issue on 28 January 2016.

a) Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements. The Group has considered the implications of new and amended Accounting Standards but determined that their application to the financial statements is either not relevant or not material.

b) Mineral exploration and evaluation

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of a Joint Ore Reserves Committee (JORC) resource is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in the statement of profit and loss in the period when the new information becomes available.

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest. Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and valuation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision was made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they may not be recoverable in the future. Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

Going concern

The accounts have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the normal course of business

The group recorded a loss of \$1,159,883 for the half year ended 31 December 2015. Total exploration expenditure written off in the year is \$8,102 and no provision for impairment loss was made. The group had cash assets of \$690,766 at 31 December 2015 and investments held for trading and available for sale valued at \$18,018 at the reporting date. The directors consider these funds, combined with additional funds from any capital raising to be sufficient for the planned expenditure on the mineral projects for the ensuing 12 months as well as for corporate and administrative overhead costs. The directors also believe that they have the capacity to raise additional capital should that become necessary. For these reasons, the directors believe the going concern basis of preparation is appropriate.

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

3. REVENUE AND EXPENSES

Revenues and expenses from continuing operations:

		Consolidated	
		31 December 2015	31 December 2014
		\$	\$
		_____	_____
a) Finance revenue			
Bank interest received and receivable		11,512	47,398
		_____	_____
b) Other Income			
Sundry income		4,397	1,791
Foreign currency gain		-	38
		_____	_____
		4,397	1,829
		_____	_____
c) Employee benefits expense			
Share based payments (note 12a)		178,023	20,773
Salaries and wages		156,862	744,216
		_____	_____
		334,885	764,989
		_____	_____
d) Other expenses			
Contractors and consultants services		248,362	137,243
General and administrative expenses		291,808	325,753
Loss on disposal of property, plant and equipment	3(f)	-	605
		_____	_____
		540,170	463,601
		_____	_____
e) Investment accounted for using equity method			
Balance at the beginning of the year		341,494	326,853
Share of associated company's loss after tax		(42,762)	(51,799)
Share of translation reserve of associate		-	-
Share of fair value reserve of associate		-	-
Recognised value of share based payments of associate		-	-
(Increase in)/reversal of impairment provision		(166,951)	66,404
		_____	_____
		131,781	341,458
		_____	_____
At 31 December 2015 the market value of the shares that the group held in Aldershot was \$131,781 and as at 27 January 2016 the market value was \$131,114.			
f) Loss on disposal of property, plant and equipment			
Proceeds from disposal of property, plant and equipment		-	1,482
Less carrying value of disposed property, plant and equipment		-	(2,087)
		_____	_____
Net loss on disposal of property, plant and equipment	3(d)	-	(605)
		_____	_____

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

4. EXPLORATION EXPENDITURE

	31 December 2015	30 June 2015
	\$	\$
Balance at the beginning of the period	4,484,902	31,595,944
Exploration expenditure	3,436,853	481,843
Provision for impairment of capitalised exploration expense	-	(27,558,704)
Exploration written off	(8,102)	(34,181)
	7,913,653	4,484,902

5. INCOME TAX BENEFIT

	31 December 2015	31 December 2014
	\$	\$
Income Tax Benefit	-	730,389

6. EARNINGS PER SHARE

	31 December 2015	31 December 2014
	Cents	Cents
Basic loss per share (cents per share)	(0.31)	(6.78)
Diluted loss per share (cents per share)	(0.31)	(6.78)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	373,868,398	350,257,800
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	373,868,398	350,257,800

7. SEGMENT INFORMATION

Magnetite Mines Limited operates within the exploration industry in Australia and has an interest in Aldershot, a TSX Venture Exchange listed company.

The consolidated entity has applied AASB 8 Operating Segments. AASB 8 requires the entity to identify operating segments and disclose segment information on the basis of internal reports that are provided to, and reviewed by, the chief operating decision maker of the consolidated entity to allocate resources and assess performance. In the case of the consolidated entity, the chief operating decision maker is the Board of Directors. Operating segments now represent the basis on which the Company reports its segment information to the Board. The change in policy has not resulted in a change to the disclosure presented.

Primary Reporting Geographical Segments	Segment Revenues	Segment Revenues	Segment Results	Segment Results
	Dec 2015 \$	Dec 2014 \$	Dec 2015 \$	Dec 2014 \$
Australia	15,909	49,227	(1,159,883)	(23,755,244)
Canada	-	-	-	-
Eliminations/Unallocated	-	-	-	-
Total	15,909	49,227	(1,159,883)	(23,755,244)

Primary Reporting Geographical Segments	Segment Assets	Segment Assets	Segment Liabilities	Segment Liabilities
	Dec 2015 \$	June 2015 \$	Dec 2015 \$	June 2015 \$
Australia	9,007,660	6,647,928	2,666,478	121,071
Canada	131,781	341,494	-	-
Eliminations/Unallocated	-	-	-	-
Total	9,139,441	6,989,422	2,666,478	121,071

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

8. CASH AND CASH EQUIVALENTS

For the purposes of the half year Condensed Consolidated Statement of Cash Flows, cash and cash equivalents comprise the following:

	Consolidated	
	31 December 2015	30 June 2015
	\$	\$
Cash at bank and in hand	90,766	552,741
Short-term deposits	600,000	1,200,000
	690,766	1,752,741

Cash at bank earns interest at floating rates based on daily bank deposit rates. Deposits at call earn interest on a 30 to 180 day term basis at bank deposit rates.

9. CONTROLLED ENTITIES

Name	Country of Incorporation	Percentage interest held		Carrying Amount of parent entity's investment	
		2015 %	2014 %	2015 \$	2014 \$
Razorback Iron Pty Ltd	AUS	100	100	20	20
Razorback Operations Pty Ltd	AUS	100	100	20	20
Red Dragon Mining Pty Ltd	AUS	100	100	20	20
Ironback Pty Ltd	AUS	100	100	100	100

The Company has a direct equity interest of 40.69% in Aldershot Resources Ltd (Aldershot) a listed company on the Toronto Stock Exchange. Whilst the Company has a significant equity interest in Aldershot, the directors have determined that the Company does not control Aldershot as it does not have the power or current ability to direct the activities of Aldershot.

10. CONTRIBUTED EQUITY

a) Issued and paid up capital

	31 December 2015	30 June 2015
	\$	\$
Ordinary shares Issued and fully paid	47,105,740	46,515,490
Less: issue costs	(2,000,263)	(1,996,485)
	45,105,477	44,519,005

b) Movement in ordinary shares on issue 2015

	Number of shares	\$
At 1 July 2015	353,979,539	44,519,005
Movement	39,350,000	586,473
At 31 December 2015	393,329,539	45,105,478

**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

11. SHARE OPTIONS

	Balance at 1 July 2015	Issued during the period	Exercised during the period	Lapsed during the period	Expired during the period	Balance at 31 December 2015
Unquoted options exercisable at 22.5 cents, on or before 9 July 2015	2,100,000	-	-	-	(2,100,000)	-
Unquoted options exercisable at 19 cents, on or before 29 July 2015	500,000	-	-	-	(500,000)	-
Unquoted options exercisable at 28 cents, on or before 29 November 2015	5,750,000	-	-	-	(5,750,000)	-
Unquoted options exercisable at 7.5 cents, on or before 25 March 2016	500,000	-	-	-	-	500,000
Unquoted options exercisable at 21 cents, on or before 27 November 2016	6,750,000	-	-	-	-	6,750,000
Unquoted options exercisable at 4.9 cents, on or before 1 July 2016	2,700,000	-	-	-	-	2,700,000
Unquoted options exercisable at 7 cents, on or before 1 July 2017	1,450,000	-	-	-	-	1,450,000
Unquoted options exercisable at 16 cents, on or before 27 November 2017	6,500,000	-	-	-	-	6,500,000
Unquoted options exercisable at 2 cents, on or before 7 October 2018	-	5,300,000	-	-	-	5,300,000
Unquoted options exercisable at 10 cents, on or before 31 October 2018	6,500,000	-	-	-	-	6,500,000
Unquoted options exercisable at 2 cents, on or before 26 November 2020	-	20,000,000	-	-	-	20,000,000
Total	32,750,000	25,300,000	-	-	(8,350,000)	49,700,000

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

12. SHARE BASED PAYMENTS

a) Recognised share based payment expenses

The expense recognised for services received during the period is shown in the table below:

	Consolidated	
	31 December 2015	31 December 2014
	\$	\$
Expense arising from options issued to Directors, employees and contractors (note 3c)	178,023	20,773

b) Issue of Directors and Employee Options

The Company has an Employee Share Option Plan in place which was approved by shareholders on 28 November 2011. During the 6 months ended 31 December 2015, 20,000,000 (2014: Nil) unquoted options exercisable at 2 cents each on or before 26 November 2020 were issued to Directors. Also during this period 5,300,000 unquoted options exercisable at 2 cents each on or before 7 October 2018 were issued to employees.

c) Directors, Employee and Vendor Options

The following table illustrates the number and weighted average exercise price of and the movements in share options issued during the period:

	Consolidated	
	Number of Options	WAEP cents
Outstanding at beginning of the period	32,750,000	17
Granted during the period	25,300,000	2
Exercised during the period	-	-
Expired / lapsed during the period	(8,350,000)	26
Outstanding at end of the period	49,700,000	7.8
Exercisable at the end of the period	49,700,000	7.8

The terms and conditions of the options issued during the period are as follows:

- (i) 5,300,000 unquoted options issued to employees, at an exercise price of 2 cents each and an expiry date of 7 October 2018. The share price of Magnetite Mines Limited at the grant date 7 October 2015 was 1.7 cents per share. The fair value of the options has been calculated using the Black-Scholes Option Pricing Model applying the following inputs:

Weighted average exercise price (cents)	2 cents
Weighted average life of the options (years)	3 years
Share price at grant date (cents)	1.7 cents
Expected share price volatility (%)	102%
Risk free interest rate (%)	1.86%
Fair value per option	0.7 cents

- (ii) 20,000,000 unquoted options issued to employees, at an exercise price of 2 cents each and an expiry date of 26 November 2020. The share price of Magnetite Mines Limited at the grant date 27 November 2015 was 1.3 cents per share. The fair value of the options has been calculated using the Black-Scholes Option Pricing Model applying the following inputs:

Weighted average exercise price (cents)	2 cents
Weighted average life of the options (years)	5 years
Share price at grant date (cents)	1.3 cents
Expected share price volatility (%)	112.3%
Risk free interest rate (%)	2.27%
Fair value per option	0.7 cents

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

13. INTEREST IN JOINT VENTURES

The Group has not entered into any joint venture agreements with third parties in Australia.

14. COMMITMENTS

In the opinion of the Directors, there are no commitments or contingent liabilities at 31 December 2015 and none were incurred in the interval between the period end and the date of this financial report other than as disclosed in Notes 14 and 15.

a) Mineral tenement expenditure commitments – Australia

The Company has expenditure obligations of approximately \$917,222 with respect to the core assets being the Razorback Premium Iron Project and the Red Dragon Venture. Non core tenements (EL5340 – Cooper Hill, EL4842 – Two Sisters, EL24550 – George and EL27354 – Amangal) are currently in the initial stage of divestment.

If the Company decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

b) Operating Lease Commitments

The Company has a commercial non cancellable lease expiring on 28 February 2017 on its corporate office premise in Adelaide, South Australia. The Company also has a commercial lease on its corporate office premises in Perth. This is a non-cancellable lease expiring 31 May 2016 that has not been recognised as liability or payable in the financial statements. The Company relocated its corporate office to Adelaide on 1 December 2014 and has subleased the Perth office lease to a new tenant on 13 April 2015. The shortfall in rent is payable by the Company until the expiration of the lease on 31 May 2016.

	31 December 2015	30 June 2015
	\$	\$
Within one year	49,503	63,707
After one year but not more than five years	6,278	25,111
	<u>55,781</u>	<u>88,818</u>

c) Bonds

As at 31 December 2015, the Company has outstanding \$63,341 (30 June 2015: \$90,342) as bonds provided by the Company's bank for mineral tenements in Australia.

d) Bank guarantee

As at 31 December 2015, the Company has outstanding \$30,400 (30 June 2015: \$30,400) as a guarantee provided by the Company's bank for corporate office lease.

15. CONTINGENCIES

Contingent liabilities

As at 31 December 2015, the Company has no outstanding commitments or contingencies, which are not disclosed in Note 15 other than the early tenement payments payable by Magnetite Mines Limited (Company) to complete the acquisition of the Red Dragon Venture tenements, host to the Razorback Premium Iron Project.

Agreement with Mintech Resources Pty Ltd

Pursuant to a Variation Deed dated 11 August 2015, the Company has negotiated to finalise the acquisition of a 100% interest in EL 5432 (formally EL 4267) covering the Razorback Ridge area on the following terms:

- (1) the issue of Redeemable Convertible Notes on 31 August 2015 with a face value of \$2.5 million on the following terms:
 - a) the Redeemable Convertible Notes have a 48 month term from the issue date;
 - b) interest of 7% per annum, payable 12 months in arrears on the anniversary from the issue date;

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

- c) at least 5 days before maturity or redemption of the Redeemable Convertible Notes the Company can elect the:
- (i) Redeemable Convertible Notes be redeemed by cash equivalent to the face value of the Redeemable Convertible Notes;
 - (ii) Redeemable Convertible Notes convert into fully paid ordinary shares in the Company equivalent to the face value of the Redeemable Convertible Notes at a price equivalent to the Company's VWAP over 90 consecutive days;
 - (iii) Redeemable Convertible Notes convert into a combination of cash and fully paid ordinary shares as defined in (i) and (ii); or
 - (iv) Company may extend the maturity date by a single further period of 12 months on a cash payment of \$250,000 extension fee to Mintech;
- (2) Resource payments to Mintech calculated at \$0.01 per DTR tonne of measured resources (resource payment = tonne of measured resource x \$0.01 x [(Average DTR% of Resource tonnes)/100]). DTR means potentially recoverable tonnes of magnetite as determined by the Davis Tube Recovery technique;
- (3) A Production Payment of \$3,000,000 to Mintech within 20 Business Days of the Company receiving payment of at least 95% of the purchase price for the first commercial shipment of Product from the tenement; and
- (4) A 1% Royalty on the Value of the Product produced from the tenement measured at the "mine gate".

Agreement with Goldus Pty Ltd

Pursuant to a Variation Deed dated 11 August 2015, the Company has negotiated to finalise the acquisition of a 100% interest in EL 5180 and EL 5240 which surround the Razorback Ridge area on the following terms:

- (1) a payment of \$350,000 (paid to Goldus on 11 August 2015);
- (2) a second payment of \$420,000 (paid to Goldus on 31 August 2015);
- (3) Resource payments to Goldus calculated at \$0.01 per DTR tonne of measured resources;
- (4) A Production Payment of \$3,000,000 to Goldus within 20 Business Days of the Company receiving payment of at least 95% of the purchase price for the first commercial shipment of Product from the tenements; and
- (5) A 1% Royalty on the Value of the Product produced from the tenement measured at the "mine gate".

The Company has also agreed to provide geological and other technical and commercial services for the evaluation of other EL's held by Goldus and Mintech.

Consultancy Agreement

On 14 August 2015, the Company entered into a Consultancy Agreement with Kyung Ok Chung (Kerry Davidson) to provide specialist, marketing advice and fund raising assessment services particularly in relation to South Korea for a period of 2 years at a fee of \$84,000 per year payable on a monthly basis. An establishment fee of \$130,000 was paid to Kerry Davidson on 14 August 2015.

16. SUBSEQUENT EVENTS

Since the end of the half year, the Directors are not aware of any matter or circumstance not otherwise dealt with in the Directors' Report or the Financial Statements that has significantly or may significantly affect the state of affairs or operations of the reporting entity in the future financial periods.

- **Proposed Issue of Options to a Director**

In January 2016 the Board of the Company resolved (subject to shareholder approval at the next General Meeting and the grant of an ASX waiver from Listing Rule 3.10.3) to issue 10 million options to acquire fully paid shares to a Director – Mr Peter Schubert in lieu of payment of directors fees for a period of 12 months commencing from the date Mr Schubert was appointed to the Board.

- **Issue of Employee Options**

On 12 January 2016, the Company issued 1,000,000 unquoted options exercisable a 2 cents each with an expiry date of 12 January 2019 to an eligible employee pursuant to the terms and conditions of the Company's Employee Share Option Plan.

DIRECTORS' DECLARATION

In the opinion of the Directors of Magnetite Mines Limited ("The Company"):

- (1) the financial statements and notes, as set out in pages 4 to 15 are in accordance with the Corporations Act 2001, including:
 - a) complying with Accounting Standards AASB 134: "Interim Financial Reporting" and the Corporations Regulations 2001; and
 - b) giving a true and fair view of the financial position of the Consolidated entity as at 31 December 2015 and of its performance for the half-year ended on that date of the Consolidated entity; and
- (2) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Frank DeMarte
Director

Perth, Western Australia
28 January 2016

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
MAGNETITE MINES LIMITED**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Magnetite Mines Limited, which comprises the consolidated condensed statement of financial position as at 31 December 2015, the consolidated condensed statement of profit or loss and other comprehensive income, the consolidated condensed statement of changes in equity, and the consolidated condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for Magnetite Mines Limited (the consolidated entity). The consolidated entity comprises both Magnetite Mines Limited (the Company) and the entities it controlled during the half year.

Directors' Responsibility for the Half-Year Financial Report

The directors of Magnetite Mines Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Magnetite Mines Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Whilst we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by the directors or management.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of Magnetite Mines Limited on 28 January 2016.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Magnetite Mines Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

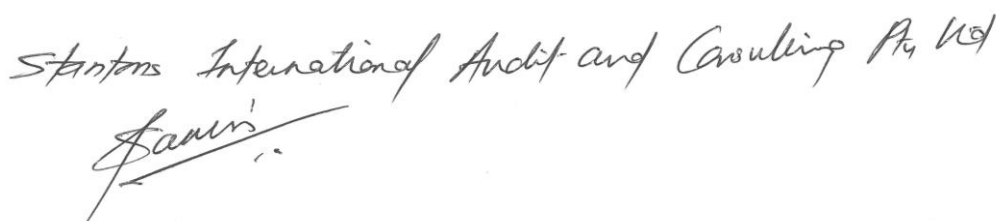
Inherent Uncertainty Regarding Going Concern

Without qualification to the review conclusion expressed above, attention is drawn to the following matter:

As referred to in note 2 to the financial report, the financial report has been prepared on a going concern basis. At 31 December 2015 the Group had net assets of \$6,472,963, cash and cash equivalents of \$690,766 and net working capital of \$747,300. The Group had incurred a loss for the period ended 31 December 2015 of \$1,159,883 and had net cash outflows from operating activities of \$812,393.

The ability of the Group to continue as a going concern and meet its planned exploration, administration, and other commitments is dependent upon the future successful raising of necessary funding through equity or borrowings, successful exploitation of the Group's exploration assets, and or sale of non core assets. In the event that the Group cannot raise further equity, the Group may not be able to meet its liabilities as they fall due or realise its assets in the normal course of business.

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International)



Samir Tirodkar
Director

West Perth, Western Australia
28 January 2016