



ASX Announcement

31 January 2020

Second Quarter Activities Report Ending 31 December 2019

Highlights

- Completion of a positive Scoping Study for a smaller scale, staged pathway to production for the Razorback Iron Project
- Scoping Study confirms the applicability of NextOre Pty Ltd's next generation ore sorting technology to Razorback's iron ore
- Private placement and share purchase plan completed, successfully raising \$613,000 (before costs)
- Redeemable convertible note amendments approved by creditors of Mintech Resources Pty Ltd
- The Company continues to aggressively market the Razorback Iron Project towards new investment opportunities

Razorback Iron Project

Positive Scoping Study

During the quarter Magnetite Mines Limited (**Company**)(ASX:MGT) announced the completion of the Scoping Study (Study) on the Razorback Iron Project.¹ The Study investigated a smaller scale, staged operation to produce high grade concentrates from the Project at lower costs. The Study demonstrated that the low angle, outcropping mineralisation available within the existing JORC 2012 resource is available at low stripping ratios and requires limited pre-strip. In addition, cost effective infrastructure solutions related to the transport of the ore to the Chinese sea-borne market were identified.

The approach as taken by the Study marks a divergence from the capital-intensive nature of existing high-tonnage operations and leverages off the availability of existing infrastructure including the use of rail and existing port options available adjacent to the Project. Of particular advantage to the Razorback Iron Project is the low-angle geometry of the resource base which

allows for exceptional stripping ratios and therefore less waste to ore ratios. The outcropping nature of the resource allows for the mining of ore from the onset, without the need for significant costly overburden removal. The large size of the resource affords the Project the ability to increase production in line with demand with the proposed smaller scale operation allowing the project to enter the market at more reasonable costs compared to our contemporaries.

The results of the Study as released to the market have been met with very positive feedback to date with several interested potential partners engaging the Company. The Board are currently pursuing funding options to progress the Project to Pre-Feasibility Study (PFS) that will refine and optimise the findings of the Study.

The proposed PFS is expected to begin pending finance and aims to develop the narrative behind the low-cost pathway to production. As a large part of the physical testwork has already been completed (3.9Bt JORC 2012 global resource)⁸, it is expected that the PFS will represent a cost effective use of funds towards advancing the Project.

Ore Sorting Testwork

The Company released the findings of a technical investigation into the applicability of NextOre Pty Ltd's (NextOre) on-belt Magnetic Resonance ore sorting solution.² The technology, as developed by the CSIRO, effectively measures the composition of ore as it travels to the processing plant. By determining the quality of the ore, the system is able to divert low quality ore away from the processing plant effectively pre-concentrating the ore before processing. The net result of the system is the enhanced recovery of iron concentrate and rejection of low grade ore prior to cost-intensive crushing and processing.

The NextOre study investigated the heterogeneity of the Razorback and Iron Peak resources via numerical modelling and determined the extent to which its system could 'sort' the ore. The findings of the work were very positive and demonstrate the cost effective application of the technology to the current flow sheet. As part of the PFS, further physical testwork will be advanced, with a bulk sampling program for metallurgical testwork currently being planned.

The Company holds the rights to the exclusive use of NextOre's technology for magnetite processing Australia-wide and for all iron ore applications within the Braemar Iron formation for a period of 4 years.³

Corporate

Placement & Share Purchase Plan

During the quarter the Company completed:

- a placement to sophisticated and professional investors to raise \$200,000 (before costs) through the issue of 50,000,000 fully paid ordinary shares at an issue price of \$0.004 per share. The placement was conducted under the Company's existing placement capacity available under ASX Listing Rule 7.1A and was made to unrelated sophisticated and professional investors under section 708 of the Corporations Act 2001; and

- a Share Purchase Plan to eligible shareholders successful raising \$413,000 (before costs) for a total of 103,250,000 shares in the Company at an issue price of \$0.004 each^{4,5}.

The funds raised were used to complete the investigation in relation to a low-capital, low tonnage start-up available at the Razorback project and surrounding areas exploiting higher grade mineralisation together with established mining related infrastructure, to finalise the scope of the prefeasibility study, building on the results of the scoping study; to pay the costs of the capital raising and towards general working capital requirements.

Redeemable Convertible Notes

As previously announced the Company negotiated the signing of a Heads of Agreement with the liquidators of Mintech Resources Pty Ltd (In Liquidation)(Mintech) to amend the terms of the redeemable convertible notes (Notes) held by Mintech.⁶

Pursuant to the Heads of Agreement, the parties agreed to adjust the face value of the Notes by agreeing to certain offsets to which the Company is entitled and by incorporating and deferring payments due. The following changes to the Notes have been agreed upon:

| | Existing terms | Proposed amendments |
|----------------|----------------|---------------------|
| Maturity Date: | 31 August 2019 | 31 August 2023 |
| Interest: | 7% per annum | 5% per annum |
| Face Value: | \$2,500,000 | \$1,975,000 |

On 7 November 2019, the liquidators of Mintech advised the Company that the creditors of Mintech had resolved to approve the amended terms of the Notes held by Mintech.⁷

Marketing

Following the successful completion of the Scoping Study, marketing efforts for the Razorback Iron Project have been doubled and an aggressive marketing campaign initiated. In response, several interested parties have approached the Company towards the evaluating the Project towards potential partnership, finance and offtake opportunities. Discussions with end-users, traders and other potential investors are ongoing with Company continuing to attract new interest in the Razorback Iron Project.

References:

1. ASX Announcement 07/11/19 – Positive Razorback Scoping Study Results
2. ASX Announcement 11/12/19 – Ore Sorting Update Technical Release
3. ASX Announcement 25/10/19 – Ore Sorting Technology Exclusivity Secured
4. ASX Announcement 22/10/19 – Placement & Share Purchase Plan 2019
5. ASX Announcement 06/12/19 – Results of the Share Purchase Plan
6. ASX Announcement 04/09/19 – Redeemable Convertible Notes Update
7. ASX Announcement 12/11/19 – Mintech Creditors Approve Amended Terms of Convertible Notes
8. ASX Announcement 12/11/18 – Razorback Iron Project - JORC 2012 Update

For further information contact:

Peter Schubert
Executive Chairman
+61 416 375 346

Frank DeMarte
Executive Director & Company Secretary
+61 419 908 795

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

MAGNETITE MINES LIMITED

ABN

34 108 102 432

Quarter ended ("current quarter")

31 December 2019

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | - | - |
| 1.2 Payments for | | |
| (a) exploration & evaluation (if expensed) | - | (2) |
| (b) development | - | - |
| (c) production | - | - |
| (d) staff costs | (133) | (228) |
| (e) administration and corporate costs | (104) | (184) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 1 | 5 |
| 1.5 Interest and other costs of finance paid | (50) | (125) |
| 1.6 Income taxes paid | - | - |
| 1.7 Government grants and tax incentives | - | 20 |
| 1.8 Other (provide details if material) | - | - |
| 1.9 Net cash from / (used in) operating activities | (286) | (514) |
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) entities | - | - |
| (b) tenements | - | - |
| (c) property, plant and equipment | - | - |
| (d) exploration & evaluation (if capitalised) | (95) | (191) |
| (e) investments | - | - |
| (f) other non-current assets | - | - |

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|--------------------------------------|---|----------------------------|---------------------------------------|
| 2.2 | Proceeds from the disposal of: | | |
| | (a) entities | - | - |
| | (b) tenements | - | - |
| | (c) property, plant and equipment | - | 5 |
| | (d) investments | - | - |
| | (e) other non-current assets | - | - |
| 2.3 | Cash flows from loans to other entities | - | - |
| 2.4 | Dividends received (see note 3) | - | - |
| 2.5 | Other (provide details if material) | - | - |
| 2.6 | Net cash from / (used in) investing activities | (95) | (186) |

| | | | |
|-------------|---|------------|------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | 613 | 613 |
| 3.2 | Proceeds from issue of convertible debt securities | - | - |
| 3.3 | Proceeds from exercise of options | - | - |
| 3.4 | Transaction costs related to issues of equity securities or convertible debt securities | (21) | (21) |
| 3.5 | Proceeds from borrowings | - | - |
| 3.6 | Repayment of borrowings | - | - |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other – unsecured loan facility | - | 200 |
| 3.10 | Net cash from / (used in) financing activities | 592 | 792 |

| | | | |
|-----------|--|-------|-------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 108 | 227 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (286) | (514) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (95) | (186) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 592 | 792 |

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|---|------------------------------------|--|
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | Cash and cash equivalents at end of period | 319 | 319 |

| 5. | Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter \$A'000 | Previous quarter \$A'000 |
|------------|---|------------------------------------|-------------------------------------|
| 5.1 | Bank balances | 319 | 108 |
| 5.2 | Call deposits | - | - |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (provide details) | - | - |
| 5.5 | Cash and cash equivalents at end of quarter (should equal item 4.6 above) | 319 | 108 |

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

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Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

| 7. Financing facilities | Total facility amount at quarter end \$A'000 | Amount drawn at quarter end \$A'000 |
|---|---|--|
| <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i> | | |
| 7.1 Loan facilities | 200 | 200 |
| 7.2 Credit standby arrangements | - | - |
| 7.3 Other (please specify) | - | - |
| 7.4 Total financing facilities | 200 | 200 |
| 7.5 Unused financing facilities available at quarter end | | - |
| 7.6 | Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well. | |
| On 16 September 2019, Mr Peter Schubert, the Company's Executive Chairman, provided the Company with an unsecured loan of \$200,000 (Loan) pursuant to a Convertible Loan Agreement to assist the Company with its general working capital requirements (see announcement to ASX on 16 September 2019). | | |

| 8. Estimated cash available for future operating activities | \$A'000 |
|---|----------------|
| 8.1 Net cash from / (used in) operating activities (Item 1.9) | (286) |
| 8.2 Capitalised exploration & evaluation (Item 2.1(d)) | (95) |
| 8.3 Total relevant outgoings (Item 8.1 + Item 8.2) | (381) |
| 8.4 Cash and cash equivalents at quarter end (Item 4.6) | 319 |
| 8.5 Unused finance facilities available at quarter end (Item 7.5) | - |
| 8.6 Total available funding (Item 8.4 + Item 8.5) | 319 |
| 8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3) | 0.84 |

8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:

- Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

The Company expects to continue negative operating cashflows as it continues exploration and resources development activities to build the value of its mineral assets. As a junior mineral exploration company, the Company does not have any mining operations at this point in time to generate positive cash flow.

- Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

The Company continually assesses its funding requirements. The Company has the capacity under Listing Rules 7.1 and 7.1A. to raise additional working capital to fund its operations, and also has the ability to conduct a pro-rata issue for the purpose of raising further funding. The Company has a history of raising funds as and when required.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

The Company is confident that it will be able to raise additional funds required to advance disclosed work programs. As such, the Company expects to be able to continue its operations and meet its business objectives, and believes its financial condition is adequate to warrant the continued quotation of its securities on ASX for the purpose of Listing Rule 12.2.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 31 January 2020

This report has been authorised for release to the market by the board.

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The following tenements held by Magnetite Mines Limited (and its controlled entities) as at 31 December 2019

| Tenement/ Project Name | Tenement Number | Interest at Beginning of Quarter | Interest at End of Quarter | Acquired during the Quarter | Disposed during the Quarter | Joint Venture Partner/Farm -In Party |
|------------------------|-----------------|----------------------------------|----------------------------|-----------------------------|-----------------------------|--------------------------------------|
| SOUTH AUSTRALIA | | | | | | |
| PUALCO | EL6126 | 100% | 100% | - | - | - |
| RED DRAGON | EL6127 | 100% | 100% | - | - | - |
| RAZORBACK RIDGE | EL6353 | 100% | 100% | - | - | - |
| DRAGON'S TAIL | EL5902 | 100% | 100% | - | - | - |
| SISTER'S DAM | EL6037 | 100% | 100% | - | - | - |
| BIMBOWRIE | EL6070 | 100% | 100% | - | - | - |