



ASX Announcement

31 July 2020

Fourth Quarter Activities Report Ending 30 June 2020

Highlights

- Prefeasibility study commenced assessing a staged, low tonnage mining scenario for the Razorback Iron Project
- Non-binding terms sheet executed with Braemar Mining Developments Pty Ltd for proposed Razorback Iron Project farm-in
- Oversubscribed renounceable rights issue and private placement raises \$1.281 million (before costs)
- Expert advisors engaged to review geology and selective mining options for the Razorback Iron Project
- Continued promotion of the Razorback Iron Project to new investors

RAZORBACK IRON PROJECT

Prefeasibility Study

During the quarter, Magnetite Mines Limited (**Company**) announced the commencement of a Prefeasibility Study (PFS) for the Razorback Iron Project.¹ The PFS follows the completion of a positive scoping study conducted in late 2019 and supports the Company's strategy to develop a staged, low tonnage mining development for the Razorback Iron Project (**Project**).²

Work on the PFS was initiated during the reporting period and included the engagement of expert advisors Mr. Kerry Whitby of McElroy Bryan Geological Services Pty Ltd (**MBGS**) and consultant Mr. Richard Harmsworth.¹ Both Mr. Whitby and Mr. Harmsworth were selected for their extensive geological experience in the development of iron ore and stratiform deposits.

A geological, geometallurgical and trial mining review is currently being undertaken on the Project to better define the stated development pathway and investigate the potential

application of more selective mining techniques to the Project. A selective mining approach would exploit laterally continuous horizons of high grade magnetite mineralisation within the existing 2012 JORC resource together with the use of NextOre's magnetic resonance ore sorting technology³. If successful, selective mining is expected to result in increased head grades for the concentrator. Further definition of this approach will better define the development pathway of the Project before scaling up option generation and assessment as part of the prefeasibility study.

The selective mining and geometallurgical studies are ongoing and are largely based on the considerable existing database as defined by extensive past drilling and metallurgical studies completed to date, representing a cost effective exercise in further improving project economics.

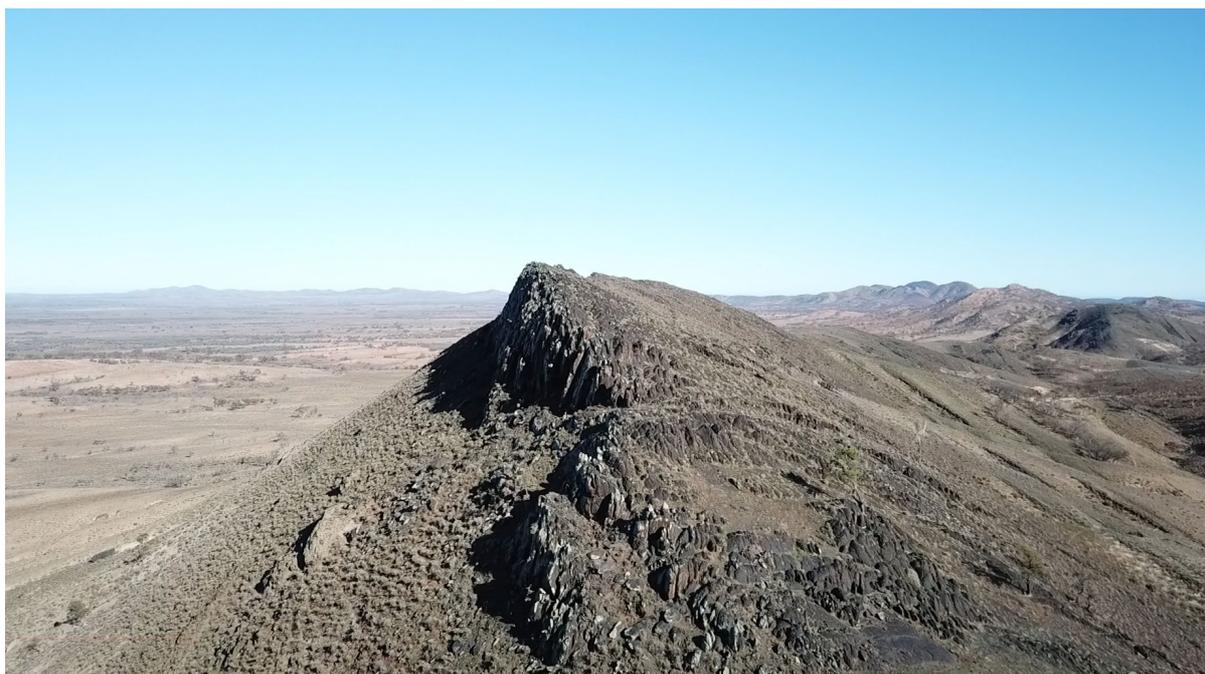


Figure 1. Outcropping ore body at the Razorback Iron Project.

CORPORATE

Braemar Mining Developments Pty Ltd Farm-In Proposal

On the 15 April 2020, the Company received a non-binding indicative farm-in proposal from Braemar Mining Developments Pty Limited (**BMD**), a Company founded by RFC Ambrian Group Limited.

On 15 June 2020, the Company announced that following further constructive negotiations with BMD, the parties had agreed in principle on the material terms of the farm-in offer and executed a non-binding term sheet with BMD.

The BMD farm in arrangement would be staged and based on BMD funding a bulk ore sorting trial and then a Pre-feasibility Study (**PFS**) over the Razorback Project to earn a 49.99% interest. The subsequent Bankable Feasibility Study (**BFS**) stage can be co-funded at the Company's election. This means that the Company will retain a majority interest in the Razorback Iron Ore Project with a final interest of at least 50.01% if the Company chooses to exercise its co-funding rights through the proposed stages.

Under the terms of the offer, BMD proposed to farm in to the Razorback Iron Ore Project, (comprising of EL6353, E6126 and EL6126) (Project) by spending up to A\$20 million and through completing a number of activities using its own internal and external resources (**Farm-in**).

The Farm-in is proposed to be undertaken in 3 stages, with BMD to fund:

- Stage 1 – Commencement of PFS & NextOre trial
BMD can earn up to 30% interest if BMD spends \$5 million on the Project, and completes the NextOre trial, including commercial testing of the NextOre Technology pursuant to the Exclusivity Agreement announced on 25 October 2019.
- Stage 2 – Completion of PFS
BMD can earn a further 19.99% interest if BMD spends a further \$5 million on the Project, in Stage 2 with the intent to complete a PFS. The Company would have the right to fund up to 50% of the Stage 2 PFS work (subject to BMD's agreement); and
- Stage 3 – Completion of BFS
The BFS can either be co-funded, in which case MGT retains a 50.01% interest, or BMD can earn up to an additional 20.01% interest if BMD sole funds a further \$10 million by funding a bankable feasibility study (BFS) on the Project.

Capital Raising – Renounceable Rights Issue & Placement

During the quarter the Company announced the results of a renounceable pro-rata rights issue to eligible shareholders (**Rights Issue**) which closed on Tuesday 21 April 2020, oversubscribed after taking into account the demand for possible shortfall.

Strong support from the directors, existing shareholders and new investors resulted in the Company receiving valid entitlements for shares, raising approximately \$857,637 (before costs) and representing a 71% take up under the Rights Issue.

The maximum number of New Shares that were available to be issued was 1,206,134,287 leaving a shortfall of 348,497,547 shares (Shortfall Securities). Applications from existing shareholders for additional shares, when combined with the high demand from new investors to participate in any shortfall, led to the total demand for Shortfall Securities far exceeding the number of Shortfall Securities available.

To accommodate some of this demand, the Company agreed to undertake an additional private placement (Additional Placement). The Additional Placement, to unrelated sophisticated investors was issued on the same terms as the Rights Issue for shares to raise an additional \$75,000 (before costs) using a portion of the Company's capacity available under Listing Rule 7.1. The funds raised from the Additional Placement will be used for general working capital purposes.

Funds raised by the Rights Issue and Additional Placement total approximately \$1.281 million (before costs) will be used to commence work as part of the pre-feasibility study phase and to seek strategic partners for the Razorback Iron Project, for general corporate and promotional expenses, for working capital and the costs of the Rights Issue.

Management Changes

The Magnetite Mines Remuneration Committee met on 30 June 2020 and subsequently in July 2020 to review director and senior executive remuneration. The Committee's last meeting prior to this was held in 2013. The Remuneration Policy (<https://magnetitemines.com/corporate/>) of the company is for the aggregate compensation of non-executive directors to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board may grant options to non-executive directors. The grant of the options is designed to attract and retain suitably qualified non-executive directors. For executive compensation, the objective is for the Company to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the Company so as to reward executives against targets set by to appropriate benchmarks and to remunerate fairly and responsibly. Remuneration details are disclosed in the Annual Report. In determining the level and make-up of executive remuneration, the Remuneration Committee will review individual performance, relevant comparative compensation in the market and internally and, where appropriate, external advice on policies and practices.

Since the departure of the Chief Executive Officer (CEO) in September 2018, the board has taken on the duties and responsibilities of the CEO as follows:

1. Mr Peter Schubert was appointed a Non-Executive Director on 17 December 2015, then appointed as an Executive Director - Investor Relations and Capital Development and subsequently as Executive Chairman and executed a new employment agreement in January 2017 to reflect his full time position.
2. Mr Frank DeMarte is Executive Director of Company since 2004 and was re-employed as the Company's Company Secretary and Chief Financial Officer (CFO) on 20 August 2013 but has not executed a new employment agreement to reflect his expanded part-time role.
3. Mr Mark Eames was appointed a Director on 11 March 2020. In addition to his roles as a Non-Executive Director, he provides consulting services to assist the company with the development of the Razorback Project.

All of the previous Compensation arrangements for Executives, Non-Executives and key management personnel have been disclosed in Remuneration Report section of the Company's Annual Report.

Following a review of the Company's present circumstances and its corporate strategy going forward, the Company's Remuneration Committee has, after due consideration, resolved the following changes:

1. There will be no change to the remuneration of Non-Executive Directors who are receiving a base fee of \$50,000 per annum.
2. Mr Schubert's existing employment agreement will be amended to reflect his expanded duties going forward which will include strategic management, fundraising and leadership of the business as well as investor relations and his base salary will be increased from \$100,000 to \$175,000 per annum.
3. Mr DeMarte has advised the board that he will resign from his role as an Executive Director effective from the date of this announcement and that he will continue his part time role as

Company Secretary and CFO and his base salary will be increased from \$90,000 to \$130,000 per annum.

4. There is no proposal for further cash incentive payments for executives, although the Board may recommend that options are awarded in future to ensure alignment of incentives.

The Board believes that this long overdue reassessment will set the Company up for the future while still providing an aggregate Board and senior executive compensation that is much lower than the Company's peers.

Marketing

Marketing of the Project continues following the positive Scoping Study and announcement of the commencement of the Prefeasibility Study. The COVID-19 pandemic and associated travel restrictions has resulted in some difficulty in direct marketing of the Project however discussions with potential investors using alternative methods have continued.

Mr Peter Schubert, Chairman said:

"We are making substantial progress towards a compelling development pathway for the Razorback Iron Project. The Scoping Study last year redefined our approach, focussing on a staged, low capital strategy producing a high grade product. This potential is starting to be recognised, with strong support via a capital raising from existing and new investors. Together with the farm-in proposal from BMD, it demonstrates the credibility of the Project as an investment proposition.

During this quarter, we started work that has the potential to further transform the project outcomes. The combined application of selective mining and ore-sorting technology to our project offers the potential to deliver much higher iron ore grade, representing another step in bringing a more tangible low-tonnage, staged Razorback development to fruition."

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

For further information contact:

Peter Schubert
Executive Chairman
+61 416 375 346

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

ABOUT THE RAZORBACK IRON PROJECT

The Razorback Iron Project (Project) is a magnetite iron ore deposit capable of producing a high grade iron ore concentrate product for use in steel production. The Project is 100% owned and operated by the ASX listed Magnetite Mines Limited (ASX: MGT).

With a defined 2012 JORC resource of 3.9Bt Iron Ore⁷, the Razorback Iron Project consists of two very large magnetite iron ore deposits, the Razorback and the Ironback Hill deposits hosted in the Braemar Iron Formation. It is located 240 NE of Adelaide, South Australia, near the regional town of Yunta in arid, low intensity pastoral country.

The large resource base is held within five 100% owned and operated tenements totalling 1,690 square kilometres. The Project is situated 45km from open-user rail, 100km from the power grid and 200km to existing deep water ports.²

Magnetite Mines has completed a scoping study into a low cost, staged development using existing infrastructure and simple magnetic processing to produce a high grade concentrate at competitive capital and operating cost. The Company has commenced planning a Pre-feasibility Study(PFS) in 2020 to progress the low cost development.²

In parallel, the Company has exclusivity over a new technology developed by CSIRO in Australia for magnetic resonance ore sorting.⁸ This technology has the potential to substantially enhance the project's competitiveness and efficiency and will be investigated as part of the PFS.³

ABOUT MAGNETITE MINES LIMITED

Magnetite Mines Limited is a development stage mineral exploration company advancing the Razorback Iron Project located in the Braemar Iron Province of north-east South Australia.

Directors

Peter Schubert	Executive Chairman
Frank DeMarte	Executive Director and Company Secretary
Mark Eames	Non-Executive Director
Malcom Randal	Non-Executive Director

References:

1. ASX Announcement – 18/06/2020 – Commencement of PFS and Appointment of Expert Advisors
2. ASX Announcement – 07/11/2019 - Positive Razorback Scoping Study Results
3. ASX Announcement – 11/12/2019 - Ore Sorting Update - Technical Release
4. ASX Announcement – 15/04/2020 - Receipt of Proposal for Razorback Iron Project Farm-In
5. ASX Announcement – 15/06/2020 - Update on Razorback Farm-In Offer
6. ASX Announcement – 23/04/2020 - Results of Renounceable Rights Issue & Private Placement
7. ASX Announcement - 12/11/18 – Razorback Iron Project - JORC 2012 Update
8. ASX Announcement - 25/10/19 – Ore Sorting Technology Exclusivity Secured

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")

30 June 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation (if expensed)	(1)	(3)
(b) development	-	-
(c) production	-	-
(d) staff costs	(116)	(450)
(e) administration and corporate costs	(57)	(321)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	5
1.5 Interest and other costs of finance paid	(50)	(180)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	20
1.8 Other – COVID-19 Cashflow boost	50	50
1.9 Net cash from / (used in) operating activities	(174)	(879)

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)	(99)	(336)
(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 (12 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	6
	(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	(99)	(330)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	1,281	1,894
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	(157)	(181)
3.5	Proceeds from borrowings	-	200
3.6	Repayment of borrowings	(100)	(100)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other – unsecured loan facility	-	-
3.10	Net cash from / (used in) financing activities	(1,024)	1,813
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	80	227
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(174)	(879)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(99)	(330)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,024	1,813

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 (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	831	831

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	331	80
5.2	Call deposits	500	-
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)	831	80

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**

-

-

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 <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>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	100	100
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	100	100

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 announcements to ASX on 16 September 2019 and 17 March 2020). On 16 March 2020, the parties agreed that the repayment date under the Convertible Loan Agreement was extended to 16 September 2020 (or such later date as may be further agreed by the parties in writing). An interest payment of \$5,123.29 was paid on 23 March 2020 and on 4 May 2020, the Company made a partial repayment of \$100,000 off the loan.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(174)
8.2 Capitalised exploration & evaluation (Item 2.1(d))	(99)
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	(273)
8.4 Cash and cash equivalents at quarter end (Item 4.6)	831
8.5 Unused finance facilities available at quarter end (Item 7.5)	-
8.6 Total available funding (Item 8.4 + Item 8.5)	831
8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	3.04

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

1. 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: Not applicable

2. 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: Not applicable

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: Not applicable

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 July 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 July 2020

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%	-	-	-