



MAGNETITE MINES LIMITED
Making Steel Stronger

ASX Announcement and Media Release

31 January 2018

Second Quarter Activities Report Ending 31 December 2017

HIGHLIGHTS

Corporate:

- Amendments to the framework agreement for the proposed merger with Lodestone Equities Limited completed.
- Due diligence on the proposed merger between Magnetite Mines and Lodestone Equities nearing completion.

Project Planning and Development:

- Development of Preliminary Economic Assessment (PEA) and Conceptual Engineering Narrative Report assessing project development nearing completion.
- Global product marketing and investment attraction initiatives continue including discussions with previously identified customers in the MENA region as well as new potential investors and/or offtake partners in South East Asia.
- Preliminary hydrogeological investigations completed and potential water sources for Razorback and Olary Projects further defined.
- Ground Magnetics survey completed on Olary Project tenement to inform future drill program design.
- Bulk samples from Razorback Project sent to Hazemag in Germany for metallurgical and comminution testwork.
- New tenements hosting prospective Braemar Iron Formation granted, increasing the company's tenement holdings in the Mawson Iron Province.

Introduction

Magnetite Mines actively advanced its assets during the reporting period by:

- a) Amending the Framework Agreement for the proposed merger with Lodestone Equities (and subsidiaries);
- b) Progressing the understanding of development avenues for the Olary Project; and
- c) Continuing to grow its portfolio of tenements in the Mawson Iron Province.

South Australia's Magnetite Strategy was released on the 8 December 2017 at the South Australian Exploration and Mining Conference. The Strategy seeks to attract the investment required to transform the State's in-ground magnetite assets into high-grade products to supply global steelmakers.

According to the Strategy, South Australia is endowed with 44 per cent of the Australia's known magnetite resources but accounts just 13 per cent of the nations' magnetite product output. This presents a clear opportunity for the state to capitalise on its natural endowment of magnetite wealth.

Magnetite Mines' imminent acquisition of Lodestone Equities, including its flagship, railway-based Olary high grade magnetite Project, will increase Magnetite Mines' share of South Australia's magnetite wealth. The Company, and its growing portfolio of projects, are an increasingly important partner for the state as it seeks to unlock its magnetite resources.

The actions contained within the Strategy will guide the South Australian Government's interaction and engagement with companies, such as Magnetite Mines as we continue to develop our projects, build regional infrastructure and grow community support for an industry with high growth potential.

South Australia's Magnetite Strategy aims to attract \$10 billion in investment and expand the output of magnetite products to 50 million tonnes per annum by 2030. Magnetite Mines looks forward to working with government to achieve these bold targets.

Proposed Merger with Lodestone Equities Limited

Work continued as per the amended Framework Agreement between Magnetite Mines Limited, Coffee House Group Limited and Lodestone Equities Limited, as the basis for the negotiation and execution of a formal Share Sale and Purchase Agreement (and associated documents).

The amended Framework Agreement sets out the basis for negotiation of the proposed purchase of 100% of Lodestone Equities and its subsidiaries.

If the acquisition is approved by shareholders, it will result in Magnetite Mines becoming the sole owner of over 4.5 billion tonnes of indicated and inferred magnetite resources within the Mawson Iron Province. This milestone is an incremental achievement towards our aspirational vision of holding the largest portfolio of magnetite assets in the world, and to become the global steel industries primary source of high quality magnetite concentrate.

The details of the Framework Agreement and amendments are summarised in ASX releases on the 7th April 2017 and the 21st December 2017.

Lodestone's assets include the Olary, Wadaminga, and Sister's Dam Projects. A summary of the assets was provided in an ASX announcement on the 12th April 2017.

The due diligence for the merger continues.

Project Planning and Development Activities During the Reporting Period

Mawson Iron Project and South Australian Magnetite Consortium

As previously reported, The Mawson Iron Project is a generic nomenclature used to describe the totality of development possibilities within the combined tenements of Magnetite Mines and Lodestone as per the tenement map shown in Figure 1 below.

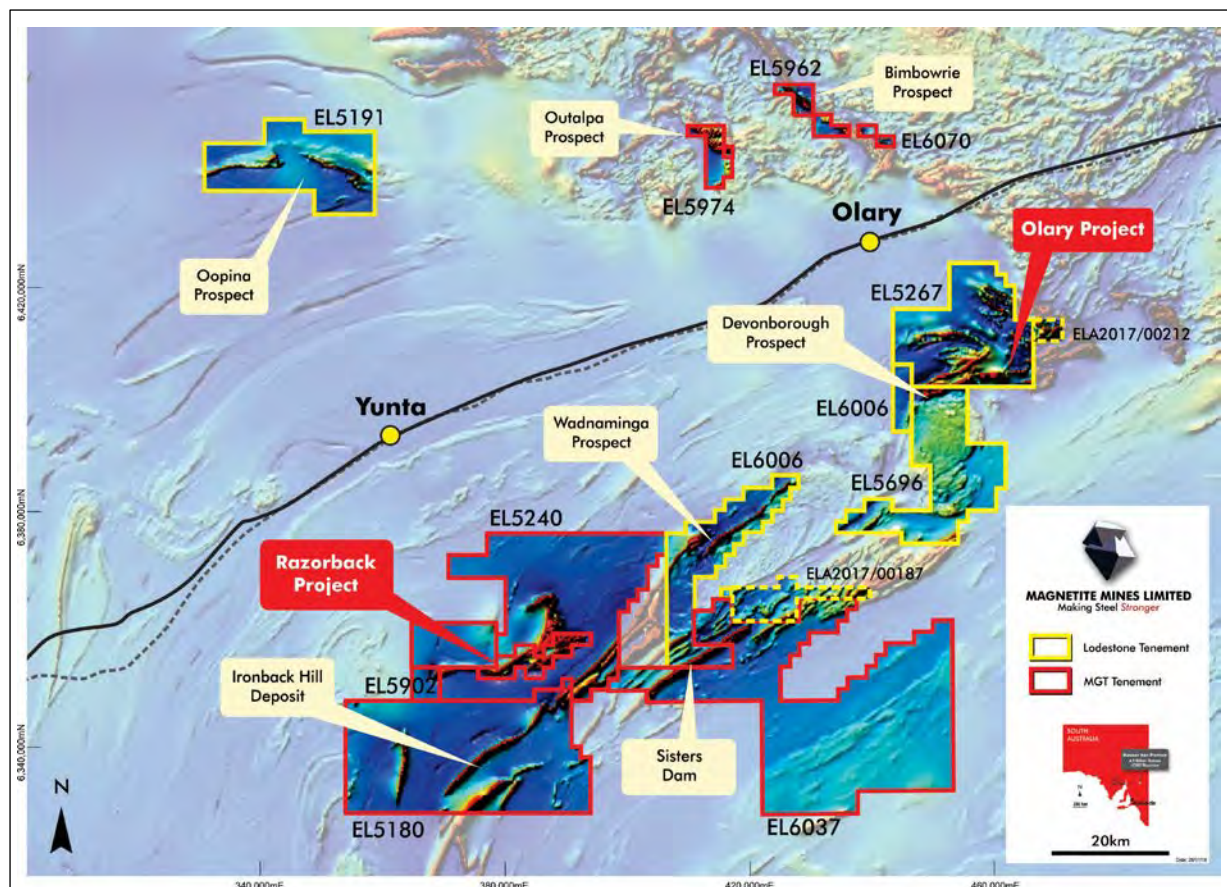


Figure 1: South Australian Magnetite Consortium iron ore tenements

The terms “South Australian Magnetite Consortium” and “Mawson Iron Project” were coined to simplify communications during the merger process but neither are covered by formal agreements.

Conceptual Engineering Narrative Report and Preliminary Economic Assessment

The South Australian Magnetite Consortium has continued to actively progress the development of its assets in the Mawson Iron Province principally through the preparation of the Conceptual Engineering Narrative Report and Preliminary Economic Assessment (PEA) for the Olary Project.

Various development scenarios have been investigated in partnership with engineering, resource, metallurgical and processing consultants and firms.

The documents have been developed to seek capital and operating costs for the fixed project configuration and will be used to attract investment for the completion of a Definitive Feasibility Study (DFS) and Basic Engineering (BE).

Various development scenarios have been considered and several geared and ungeared options will be presented as part of the PEA.

The comprehensive Financial Model has been further refined during the reporting period. The model is designed to improve understanding of the project economics and will be a useful tool during capital raising and investment attraction activities.



Figure 2: Conceptual production flowsheet for the Olary Project

Geology, Hydrology and Hydrogeology

A hydrogeological report by a leading South Australian hydrology/hydrogeology consultancy has been received and reviewed. The report further assessed the groundwater supply options for both the Razorback and Olary Projects. It provides valuable detail on several prospective water sources for the development of both projects. The report will be used to inform the planning and design of future groundwater exploration programs.

Process engineering and metallurgical analysis continued during the reporting period. Most recently, two tonnes of bulk samples from the Razorback Project were sent to Hazemag for metallurgical and comminution testwork. Hazemag is a global mining equipment group based in Germany that specialises in large scale mineral processing and comminution technology for the mining industry. Results of the test work will be used to optimise the mining and process flow sheet.

Ground magnetics surveys were completed over regionally defined OB10 and OB11 to delineate mineralisation and structural controls of ore body adjacent to the primary orebody associated with the Olary Project. This work represents low-cost, low impact data collection and will aid in drill program design as part of proposed DFS level ore definition (see Figure 3).

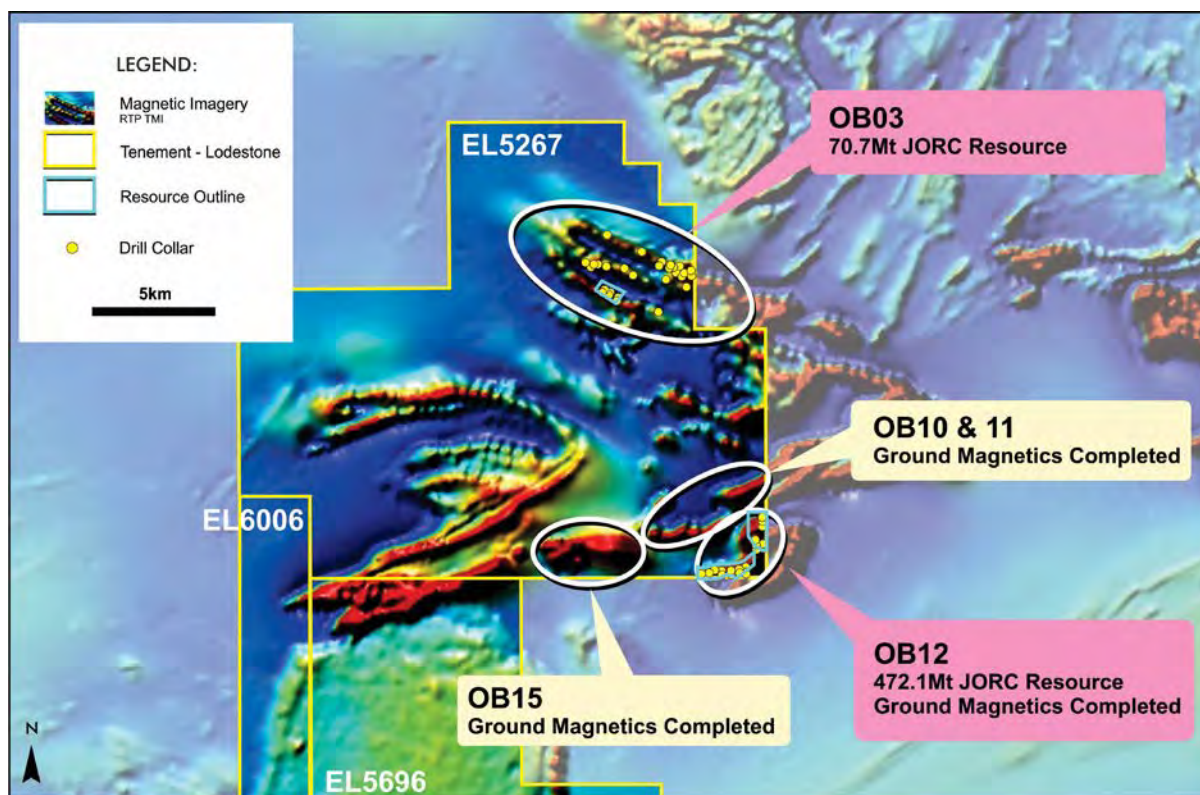


Figure 3: Olary Project resources and completed ground geophysical surveys

Tenement Acquisition

Two tenements (EL6037 and EL6070) were granted during the reporting period. The tenements add an additional 20 kilometres of strike along the highly prospective Braemar Iron Formation to Magnetite Mines' existing suite of exploration tenements in the Mawson Iron Province (see Figure 1).

For further information contact:

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Capital Development
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The details contained in this report that pertains to ore and mineralisation and the resource underpinning the production target is based upon information compiled by Gavin England BSc (Hons), PhD, a full-time employee of the Magnetite Mines Limited and Mr Lynn Widenbar BSc(Hons), MSc, DIC, Principal Consultant Widenbar and Associates Pty Ltd. Dr England and Mr Widenbar is a member of Australian Institute of Geosciences (AIG) and Australian Institute of Mining and Metallurgy. These two people have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Persons as defined in the December 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (JORC 2004 Code), as well as the current JORC 2012 Code. Dr England, and Mr Widenbar consent to the inclusion in this report of the matters based upon their information in the form and context in which it appears. The information for the Razorback Deposit was prepared and first disclosed under the JORC Code 2004. The information has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.

Appendix 1

The Mineral Resource information below for the project was prepared and first disclosed under the JORC Code 2004 and the information has not been updated since to comply with the JORC Code 2012 on the basis the information has not materially changed since it was last reported. The Resource was first announced on 11th June 2013.

Table 1: Total JORC₍₂₀₀₄₎ Mineral Resource from the Razorback Deposit (11% eDTR cutoff).

Prospect	JORC Classification	Resource Million Tonnes*	eDTR%#	Fe%	SiO ₂ %	Al ₂ O ₃ %	P%
Razorback	Indicated	833	16	21.7	45.2	7.3	0.2
	Inferred	1,532	14.6	16.1	50.2	8.5	0.17
Iron Peak	Indicated	203	16.8	20	45	7.67	0.18
	Inferred	163	15.6	17.1	46.7	8	0.16
Total	Mineral Resources	2,732	15.3	18.2	48.1	8	0.18
CONTAINED CONCENTRATE EQUIVALENT		418		67.4	4.74	0.54	0.016

* Tonnages rounded to significant values; totals may not appear correct as a result. The resource has been estimated in accordance with the JORC (2004) Code.

eDTR is determined by DTR and SATMAGAN magnetite estimated % data (see ASX announcement 11th June 2013)

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

Magnetite Mines Limited	
ABN	Quarter ended ("current quarter")
34 108 102 432	31 December 2017

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	(287)	(448)
(b) development	-	-
(c) production	-	-
(d) staff costs	(154)	(262)
(e) administration and corporate costs	(396)	(778)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	6	8
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(831)	(1,480)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(4)	(6)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
2.2 Proceeds from the disposal of:	-	-
(a) property, plant and equipment		
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.3 Cash flows from loans to other entities	(28)	(426)
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	237
2.6 Net cash from / (used in) investing activities	(32)	(195)
Item 2.5 relates to total loan amount of \$237,344 which was repaid by Gordon Toll on 25 August 2017 in relation to loans advanced to him.		

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	150	150
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
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 (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	150	150

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	1,388	2,200
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(831)	(1,480)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(32)	(195)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	150	150
4.5 Effect of movement in exchange rates on cash held	-	-
4.6 Cash and cash equivalents at end of period	675	675

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	321	1,152
5.2 Call deposits	354	236
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)	675	1,388

6. Payments to directors of the entity and their associates

- | | Current quarter
\$A'000 |
|--|----------------------------|
| 6.1 Aggregate amount of payments to these parties included in item 1.2 | 65 |
| 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3 | 28 |
| 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2 | |

In relation to item 6.2, pursuant to the Amended Framework Agreement between the Company, Lodestone Equities Limited (Lodestone) and Coffee House Group Limited (CHG) announced on 21 December 2017;

- (a) The Company must pay its own costs and expenses and those of CHG and Lodestone in relation to the Transaction incurred prior to Completion except as otherwise agreed in writing by the parties.
- (b) From the date of this Framework Agreement and until the earlier of Completion or the termination or expiry of this Agreement, subject to having sufficient working capital, MGT will provide geological and management services in relation to all exploration licences held by the Lodestone subsidiaries - Fe Mines Limited (FML) and Olary Magnetite Pty Ltd (Olary) which in no event shall be less than necessary to maintain those exploration licences in good standing, plus all additional costs incurred by Braemar Infrastructure Pty Ltd (BIPL) in further development of its infrastructure solution. For the avoidance of doubt, MGT will not advance any money to Lodestone or any of the subsidiaries under this clause (b), but will:
 - (i) procure that MGT's existing employees provide geological and management services (charged out at their current employment rates) in relation to all exploration licences held by FML and Olary, which must not be less than necessary to maintain those exploration licences in good standing; and
 - (ii) pay for all additional costs incurred by BIPL in further development of its infrastructure solution,

the total cost of which is estimated to be approximately \$750,000.

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	165
9.2 Development	-
9.3 Production	-
9.4 Staff costs	101
9.5 Administration and corporate costs	320
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	586

Mining exploration entity and oil and gas exploration entity quarterly report

10.	Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	-	-	-	-
10.2	Interests in mining tenements and petroleum tenements acquired or increased	EL 6037 EL 6070	Exploration Licence Exploration Licence	- -	100% 100%

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.



Sign here:
(Director/Company secretary)

Date: 31 January 2018

Print name: Frank DeMarte

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.

The following tenements held by Magnetite Mines Limited (and its controlled entities) as at 31 December 2017

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
NORTHERN TERRITORY						
GEORGE	EL24550	100%	100%	-	-	-
AMANGAL	EL27354	100%	100%	-	-	-
SOUTH AUSTRALIA						
PUALCO	EL5180	100%	100%	-	-	-
RED DRAGON	EL5240	100%	100%	-	-	-
RAZORBACK RIDGE	EL5432	100%	100%	-	-	-
DRAGON'S TAIL	EL5902	100%	100%	-	-	-
BIMBOWRIE	EL5962	100%	100%	-	-	-
OUTALPA	EL5974	100%	100%	-	-	-
SISTER'S DAM	EL6037	-	100%	100%	-	-
BIMBOWRIE	EL6070	-	100%	100%	-	-