



ASX Announcement and Media Release

31 January 2017

Second Quarter Activities Report Ending 31 December 2016

Key Points:

CORPORATE

- Mawson Iron Project workshop held in Langfang China, to provide an update and open discussions with local equipment manufacturers, engineering firms, steel mills and financial institutions
- LOI signed with Qingdao Steel for 1 million tpy off-take
- Magnetite Mines Limited (MGT) continues with discussions with steel mills in China, Japan, Korea and the Middle East
- Peter Schubert becomes Executive Director responsible for the company investor relations and capital development

MAWSON IRON PROJECT

- Studies continue with optimisation of comminution and extractive metallurgy
- MGT strengthens ground position with additional prospective tenement containing Braeremar Iron Formation

CORPORATE

Langfang Workshop – Hebei Province China

Magnetite Mines Limited (MGT) held a workshop on the Mawson Iron Project on Tuesday 18th October 2016 in Langfang, Hebei Province China. The seminar was jointly hosted by China Petroleum Pipeline Bureau (CPP), MGT, other members of the South Australian Magnetite Consortium and the Red River Group (AMEC).

Langfang is the headquarters location of CPP. CPP is the largest Chinese pipeline EPC contractor and operates globally. During the seminar/workshop, CPP publicly stated their willingness and intention to play a major role in the engineering, financing and construction of the Mawson Iron Project and their intention to invest in the Mawson Iron Project. Details of CPP's participation are the subject of continuing negotiations.



Figure 1. Official Guests and Delegates at the Langfang Seminar -18/10/16

Entitled “The New Epoch in Iron and Steel”, over 80 delegates from China, Japan and Australia were in attendance representing the interests of steel mills, equipment procurement, engineering design, financial and government institutions. Workshop delegates were able to enter into open discussions with MGT senior management, the federal government of Australia, the state government of South Australia and AMEC. Topics discussed with delegates included the Project – its unique configuration and advantages, consortium structure, capital, operating costs, investment models and investing in Australia.

Key delegates include Dalian Heavy Industries and Bohai Shipbuilding who have already begun DFS level and detailed design of the floating port for the project; and Tangshan Iron and Steel Association, who represent 30 steel mills in the Tangshan area. MGT representatives also visited steel mills in the Tangshan area proceeding the workshop. In addition, the MGT representatives also visited In Pit Crushing and Conveying (IPCC) operations in the Pingshuo coal mining area, Shanxi Province designed by MMD, which have similar configuration to what is proposed at Razorback.

LOI with Qingdao Steel

MGT announced on the 28th November 2016, the signing of a Sale and Purchasing Letter of Intent (LOI) between The South Australian Magnetite Consortium (the Consortium) and Qingdao Iron & Steel Group (Qingdao) for the purchase of 1 million tpy of iron ore concentrate.

Qingdao is a modern, and growing steel company that currently produces over 4 million tpy of steel from 2 blast furnaces and with a third blast furnace under construction. They are a progressive company and have a history of actively encouraging the development of new sources of iron ore. Their furnaces run with a high proportion of high grade pellets in the burden (feed to the blast furnace). Their operations have been strategically located close to the Qingdao Iron Ore Port system, and near the newly commissioned Qingdao Dongjiakou port which can receive ValeMax vessels of 400,000 DWT. This bodes well for the plans of the Consortium and their offshore port currently under design, which will be able to load ValeMax vessels.

It is the intent of the parties that the LOI is the prologue to a conditional off-take contract, which will become legally binding as part of the security package for financing of the construction of phase one production, which is planned to have an annual capacity of 25 million tpy of concentrate.

The South Australian Magnetite Consortium currently comprises of the Company and Lodestone Equities Limited (Lodestone). Mr Gordon Toll is the major owner and Chairman of Lodestone. Lodestone, through its subsidiaries, Fe Mines Limited (FML) (previously Braemar Iron Pty Ltd) and Olary Magnetite Limited (Olary), owns outright or has exclusive iron rights to prospective tenements containing Braemar Iron Formation to the east of the Company's exploration leases. Collectively, the ground has over 200km of Braemar Iron Formation prospective strike length and large exploration potential. The Braemar Region is one of the largest unexploited magnetite provinces in the world.

Lodestone also owns Braemar Infrastructure Pty Ltd (BIPL), which is developing cost effective methods of transporting and shipping magnetite concentrate in and from South Australia. The infrastructure will not only be accessible to the Consortium, but also to other potential magnetite producers in the region. The South Australian Government has declared the infrastructure being developed by BIPL "a Major Development". A task force and case officer from the Department of State Development has been assigned to the project. This infrastructure development team has been assembled by BIPL for the Consortium.

The Company and Lodestone intend to simplify their corporate structure and merge all their South Australian entities into one listed company.

Discussions with Overseas Steel Mills

During the quarter, the Consortium continues dialog with a number of potential steel making partners in China, Japan, Korea and the Middle East. This included a visit to Dubai for the 20th Middle Eastern Iron and Steel Conference during December, where early discussions with Direct Reduction steel producers have taken place.

Appointment of Peter Schubert as Executive Director

During the quarter, MGT announced (9th December 2016) that Mr Peter Schubert, previously a non-executive Director of the Company, was appointed an Executive Director responsible for the Company's investor relations and capital development.

Amendment of Terms of Redeemable Convertible Note

During the quarter, MGT announced (13th December 2016) that it has amended the terms of the Redeemable Convertible Notes (Notes) with a face value of \$2.5 million issued to Mintech Resources Pty Ltd (Mintech) on 31st August 2015, as announced to ASX on that date. The amendment was made with the authorisation of Mintech.

The amendments to the terms of the Note enables the Company to make an election to pay the interest either in cash or, at the Company's election, and subject to the consent of Mintech, through the issue of fully paid ordinary shares issued in the capital of the Company (Shares).

Accordingly, 3,846,154 Shares were issued on 15th December 2016 to Mintech at a deemed issue price of 3.9 cents per share (being the volume weighted average price of Shares on the ASX over the 90 consecutive days ending on the business day immediately before 31st August 2016).

MAWSON IRON PROJECT

The Mawson Iron Project is located 250km NNE of Adelaide, South Australia and comprises a number of highly prospective magnetite prospects. The project consists of five exploration licences: EL5432, EL5180, EL5240 and EL4811 that are 100% owned by the Company and the iron-rights to the Iluka Resources-owned EL4842 (Figure 2). The Braemar Iron Formation is the host rock to the magnetite mineralisation in the project area and formation has a strike length of over 120km within the ground controlled by the Company. The Company is focussing on the Razorback Deposit, comprising the Razorback Ridge, Razorback West, and Iron Peak Prospects (Figure 2). The Company has defined and announced over **3.9 Billion tonnes** of resources,^{1,2} from testing less than 20% of the Braemar Iron Formation strike. The Razorback Deposit contains a magnetite concentrate equivalent resource of **418 Million tonnes at 67.4% Fe²**. The exploration potential to increase this resource within the tenements is significant.

MGT has signed a MOU with Braemar Infrastructure Pty Ltd (BIPL)³ to collaborate in the development of an infrastructure corridor from the Mawson Iron Project to the sheltered waters of the Spencer Gulf. This corridor includes: 1) slurry pipeline to transport the magnetite from mine site to port; 2) pipeline from the coast to the mine site to provide seawater for processing; 3) high voltage transmission lines; and 4) a floating port and filter plant ~ 5 miles off the coast, capable of loading Cape-size and Vale-size ships. The Project is also surrounded by an existing infrastructure rich area that has access to nearby existing open user power, gas, heavy engineering and dormitory towns.

The Project also plans to apply innovation to its mining and processing to target operating costs within the 1st quarter of the cost curve, which include; 1) ultra-high power factor blasting; 2) fully mobile in-pit crushing and conveying (IPCC) and 3) intelligent comminution and concentration.

¹ Announced 21st November, 2012, "RED DRAGON VENTURE EXCEEDS 3 BILLION TONNES".

² Announced 11th June, 2013, "ROYAL OPTIMISES RAZORBACK RESOURCE".

³ Announced 25th September, 2013, "ROYAL TO COLLABORATE WITH INFRASTRUCTURE PROVIDER AT RAZORBACK PROJECT".

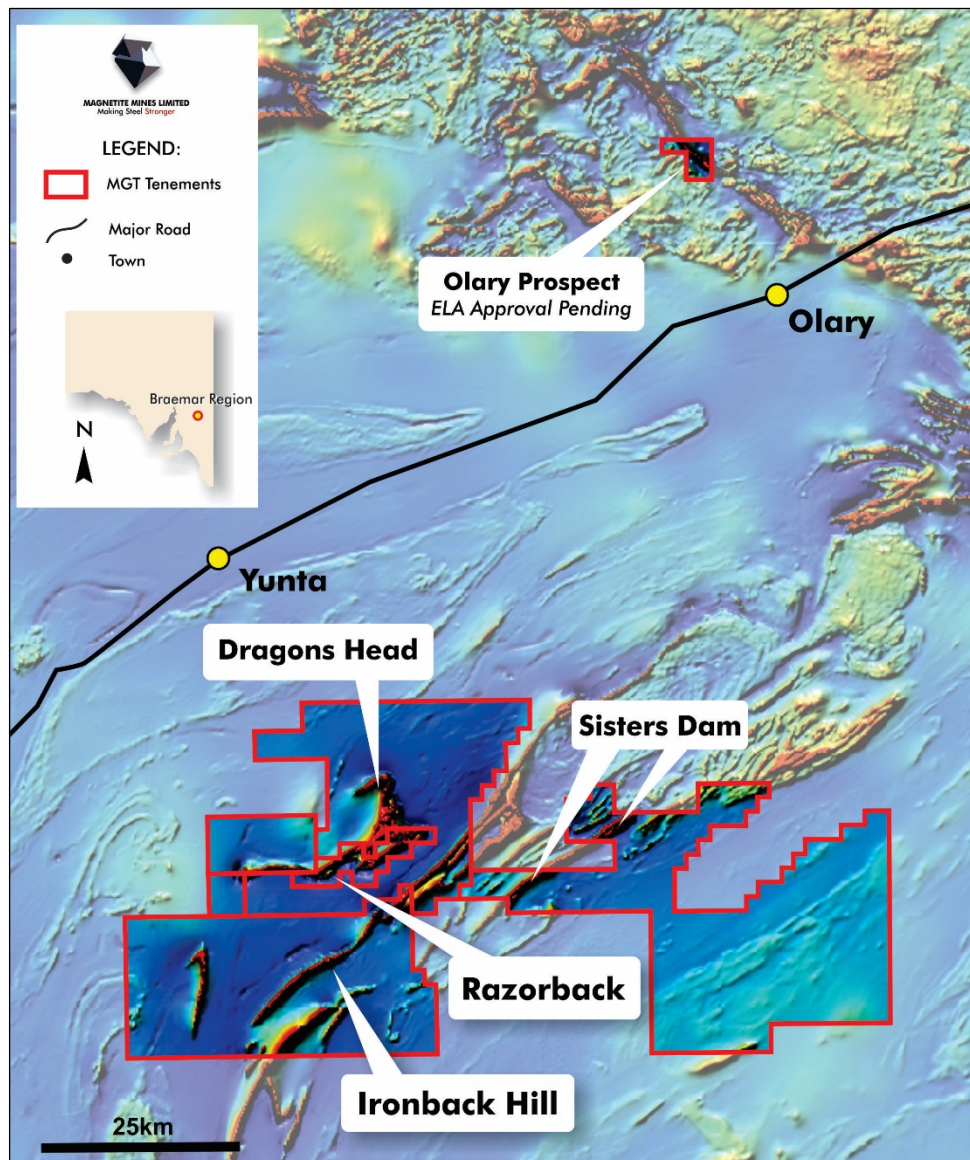


Figure 2: Mawson Iron Project prospect locations and area of the Razorback Deposit

RAZORBACK DEPOSIT ACTIVITIES

Areas of activities at Razorback during the quarter include:

- Further comminution and extractive metallurgical studies have continued on Razorback samples.
- Optimisation studies of comminution has included testwork involving the use of high pressure grind rollers (HPGR) as a replacement to SAG mills in the proposed processing flowsheet, which could provide some significant cost advantages and water savings; Studies are underway in both Perth and the USA.
- A geometallurgical study on the Razorback Project, to better understand the mineralogy and rock properties of the deposit continues.
- Studies on the optimisation of pellet making at the China Iron and Steel Institute

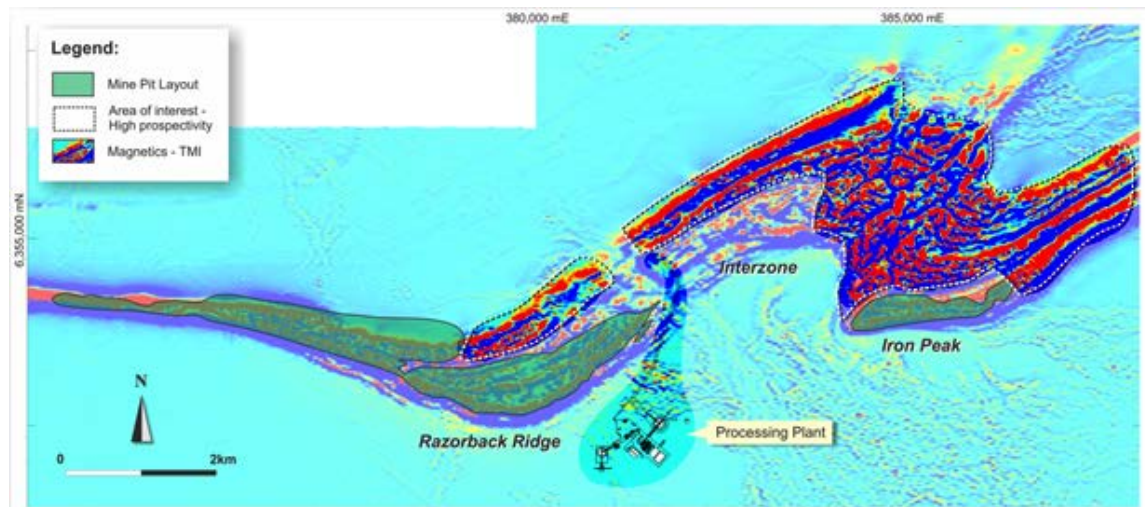


Figure 3: Razorback Deposit magnetic image, with proposed mine development

MAWSON IRON EXPLORATION ACTIVITIES

During the quarter, an exploration tenement application was made for prospective magnetite ground at Bimbowrie, approximately 20 km northwest of the town of Olary, and 100 km NE of the Razorback Deposit (Figure 4). The tenement contains approximately 10 km strike length of Braemar Iron Formation with strong magnetic intensity, determined from open file SA Government magnetic imagery. MGT will now wait for the granting of the tenement, before any further work will be made.

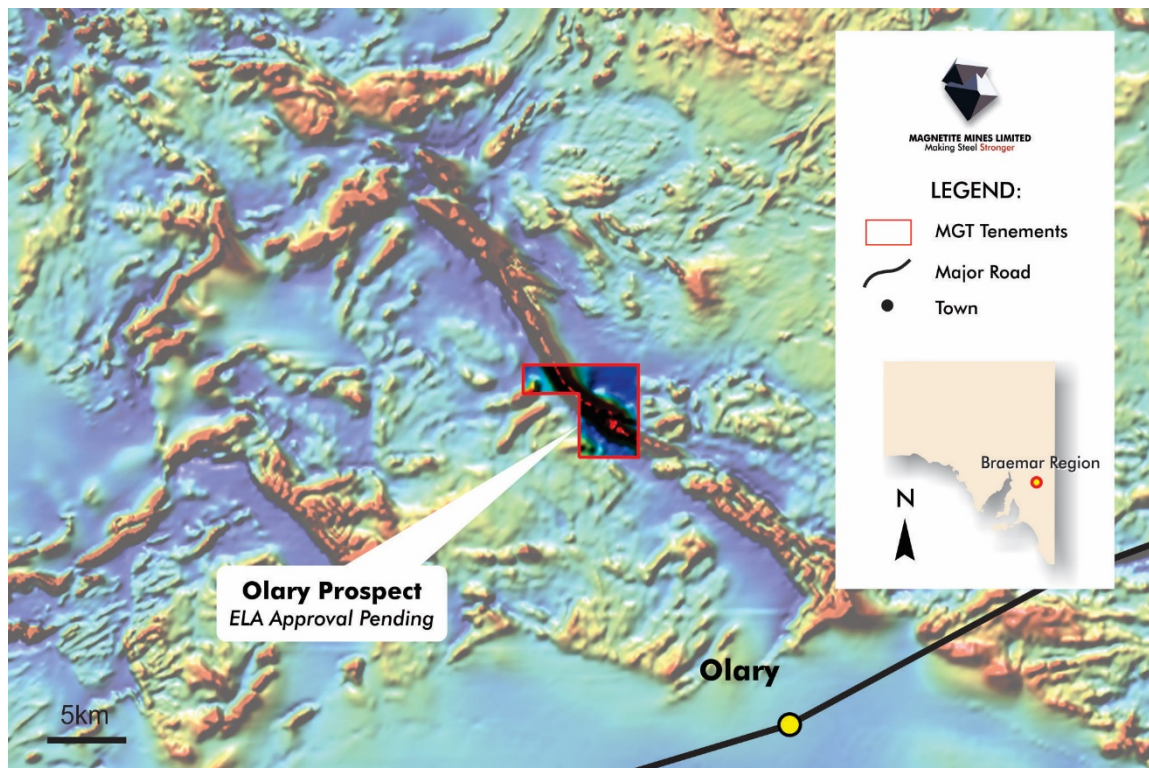


Figure 4: Magnetic image, with proposed tenement application at Bimbowrie

OTHER COMMODITY PROJECTS

NORTHERN TERRITORY – George Gold, Uranium (EL24550 & EL27354)

The George Project is located approximately 100 kilometres southeast of Darwin, in the Northern Territory (Figure 5). The project contains known uranium and gold mineralisation, hosted in Early Proterozoic-aged sedimentary rocks of the Pine Creek Geosyncline. Close to the Adelaide River Township, the two granted tenements that make up the project cover 88 km². The Company has 100% ownership of the George Project.

The Company is currently looking at opportunities to divest this asset.



Figure 5: Project Locations, Northern Territory uranium and gold

For further information, contact:

Gordon Toll

Executive Chairman & CEO

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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 Resource Classification	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)

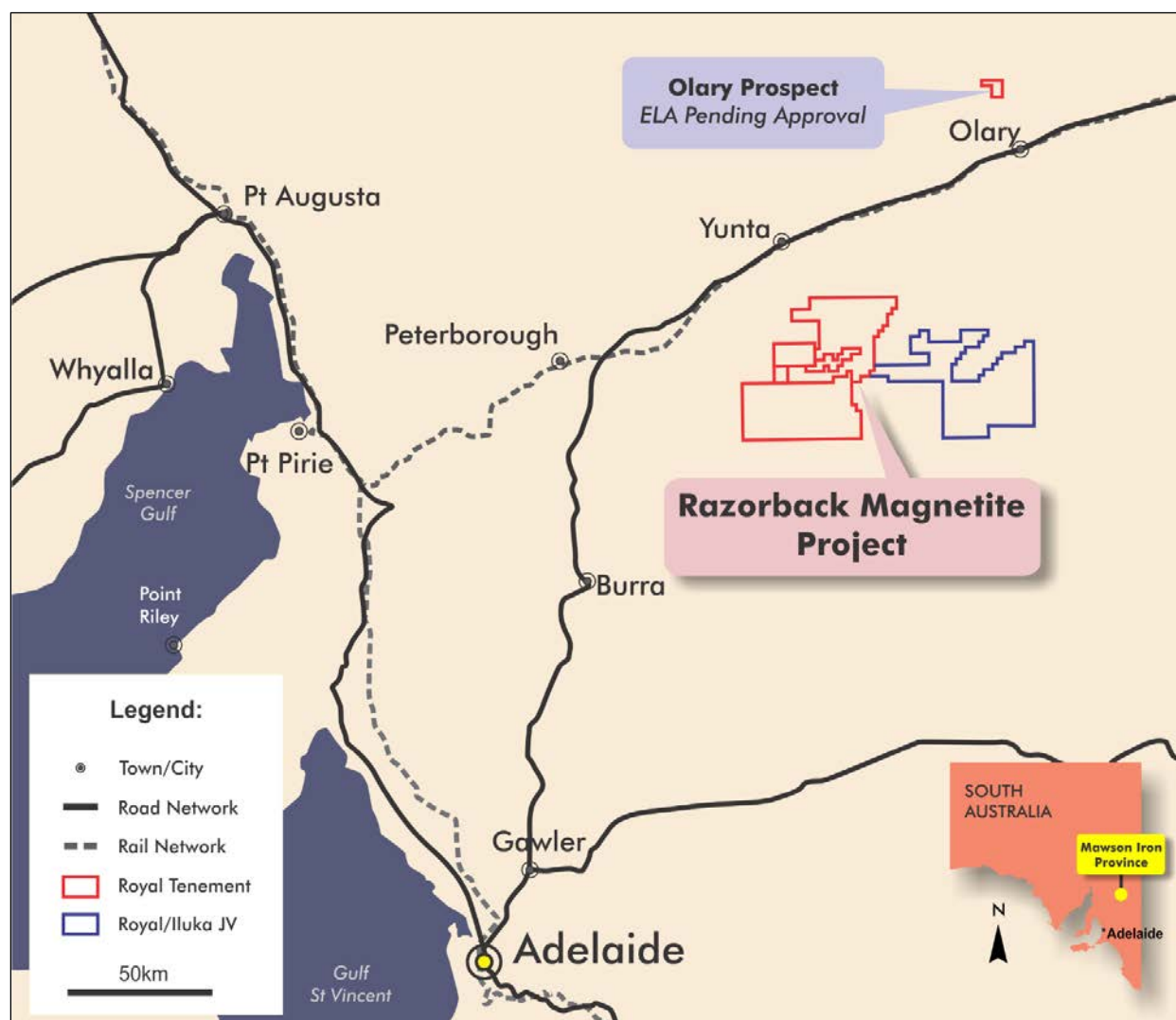


Figure 6. Regional Geographical setting of Mawson Iron Project

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

34 108 102 432

Quarter ended ("current quarter")

31 December 2016

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	(400)	(903)
(b) development	-	-
(c) production	-	-
(d) staff costs	(68)	(143)
(e) administration and corporate costs	(179)	(350)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	6	10
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	152
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(641)	(1,234)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(6)	(13)
(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	-	99
	(d) 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)	-	20
2.6	Net cash from / (used in) investing activities	(6)	106

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	735	735
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	(36)	(36)
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	699	699

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	683	1,164
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(641)	(1,234)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6)	106
4.4	Net cash from / (used in) financing activities (item 3.10 above)	699	699
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	735	735

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	60	157
5.2	Call deposits	675	526
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)	735	683

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
38
-

7. Payments to related entities of the entity and their associates

- 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

Current quarter \$A'000
-
-

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.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	166
9.2 Development	-
9.3 Production	-
9.4 Staff costs	85
9.5 Administration and corporate costs	139
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	390

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	EL5340	Exploration License	100%	-
10.2 Interests in mining tenements and petroleum tenements acquired or increased	-	-	-	-

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 2017

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 2016

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	EL4811	100%	100%	-	-	-
COOPER HILL	EL5340	100%	-	-	-	-
TWO SISTERS ⁽¹⁾	EL4842	-	-	-	-	-

Note 1 Pursuant to an Iron Ore Rights Agreement with Iluka Resources Limited, Magnetite Mines Limited has been granted exclusive rights to explore for iron ore and carry on mining operations subject to the terms and conditions of the Agreement.