



**MAGNETITE MINES LIMITED**  
Making Steel Stronger

## ASX Announcement

21 December 2017

# *Amendments to the Framework Agreement for the proposed merger with Lodestone Equities Limited*

- *The Framework Agreement, which sets out the basis for negotiation of the proposed purchase of 100% of Lodestone Equities Limited and its subsidiaries, has been amended*
- *This acquisition positions Magnetite Mines Limited as potentially one of the most significant sources of high quality magnetite concentrates to feed a global steel industry hungry for such higher quality steel making raw materials.*
- *The acquisition includes the same Lodestone assets - its flagship project - the railway based Olary high grade magnetite Project and 100% of the South Australian infrastructure solutions being developed by Braemar Infrastructure Pty Ltd.*
- *The FA (as amended) involves a very significant reduction in upfront consideration share to be issued and makes the issue of additional shares dependent on milestones being achieved*

**Executive Director, Mr. Peter Schubert** said "The board of Magnetite Mines Limited is very pleased to present the revised merger framework terms to the market.

It represents months of hard work and co-operation by all concerned, but more importantly becomes the cornerstone document that will lead to the amalgamation of tenements and delivery solutions over what we believe to be the largest body of undeveloped magnetite in the world – the Braemar formation in South Australia.

Iron Ore has for some considerable time been a backbone of economic support to Australia. As we move forward to the developing growth cycles of Asia, Africa and the Middle East we believe the magnetite concentrate we are planning to supply represents the iron ore of the future. With the concentrates potential for very high grades >68% and a very low impurity profile, it satisfies the demanding requirements of the modern steel industry. Growth is built on steel.

Successful iron ore operations tend to be generational in both their economic impact and mine longevity and they require amongst all other, scale and quality. This merger brings both and we believe this to be unique to Magnetite Mines in Australia.

The board is united in it's support for the terms as outlined and will be working as fast is possible to complete all necessary documentation for shareholder approval in the New Year. We thank shareholders for their ongoing support."

The Board of Magnetite Mines Limited (ASX: MGT) (**Company**) refers to its previous announcements regarding the signing of a Framework Agreement (the **FA**) between the Company, Coffee House Group Limited (**CHGL**) and Lodestone Equities Limited (**Lodestone**) on 7 April 2017, as the basis for the negotiation and execution of a formal Share Sale and Purchase Agreement (and associated documents) (the **SSPA**) for the proposed acquisition of Lodestone (a private Isle of Man company) by the Company (the **Transaction**).

The Company announces that the terms of the FA have been amended, with the amended FA now forming the basis for the finalisation and execution of the SSPA and other related documents for the Transaction.

As previously advised, CHG is currently the sole shareholder of Lodestone, and is a related party of the Company - being indirectly owned equally by Heather Toll and the Company's Chairman and Chief Executive Officer, Gordon Toll. CHG is also a substantial shareholder in the Company, currently owning 14.37% of the Company's shares.

Whilst the FA (as amended) is legally binding on the Company, CHG and Lodestone, the FA does not create any legally binding obligation on any party to acquire or sell Lodestone until the SSPA is executed by the parties and certain conditions precedent are satisfied (as summarised below).

### **Framework Agreement (as amended)**

The Company's binding exclusivity period to proceed with the finalisation of the SSPA to purchase Lodestone for the issue of scrip has been extended under the FA (as amended) to 28 February 2018). The FA will terminate at the end of this exclusivity period.

As previously agreed, until the earlier of completion under the SSPA or the termination or expiry of the FA (as amended), the Company will (subject to having sufficient working capital) provide geological and management services in relation to all exploration licences held by Lodestone (through its subsidiaries) necessary to maintain those exploration licences in good standing, plus all additional costs incurred by Braemar Infrastructure Pty Ltd (**BIPL**) to continue the development of the infrastructure solutions. As also previously agreed, the Company will pay CHG's and Lodestone's costs and expenses in relation to the Transaction, incurred prior to completion of the Transaction.

Under the terms of the FA (as amended), the parties have agreed the following amended key terms in respect of the Transaction:

- a) **Consideration:** Should the SSPA be executed, the SSPA will provide that the Company will offer to CHG or its nominee(s) scrip as consideration for all the Lodestone shares as set out below.
  - At completion of the Transaction, the Company will issue 220,000,000 fully paid ordinary shares in the Company to CHG or its nominee(s) (at a deemed issue price equal to the 15 trading day volume weighted average price of the Company's shares on ASX immediately prior to completion);
  - In addition, but subject to the satisfaction of certain milestones (as described below), the Company will issue up to a maximum of 110,000,000 additional fully paid ordinary shares in the Company to CHG or its nominee(s) as follows:
    - i. **Milestone 1**
      - 1. The first milestone is the completion of an industry standard definitive feasibility study for a minimum 5 million tonne per annum magnetite concentrate production operation on any of the Company's or Lodestone's tenements ("**Milestone 1**");

2. If Milestone 1 is satisfied within 24 months from completion of the Transaction, the Company will issue an additional 55,000,000 fully paid ordinary shares in the Company to CHG or its nominee(s);
3. If Milestone 1 is satisfied after 24 months from completion of the Transaction, the Company will issue a number of fully paid ordinary shares in the Company to CHG or its nominee(s) equal to 55,000,000 less 3,055,555 fully paid ordinary shares in the Company for every month that Milestone 1 has not been satisfied after the 24 months from Completion;
4. Shares issued in the Company on satisfaction of Milestone 1 will be issued at a deemed issue price equal to the 15 trading day volume weighted average price of the Company's shares on ASX immediately prior to satisfaction of Milestone 1.

ii. **Milestone 2**

1. The second milestone is a unanimous decision by the Company's board to commence commercial mining and magnetite production operations, which can only occur after satisfaction of Milestone 1 and after the Company has obtained a financing facility to develop a magnetite concentrate production operation of at least 5 million tonne per annum on the existing Company or Lodestone tenements ("**Milestone 2**");
2. If Milestone 2 is satisfied within 18 months of satisfaction of Milestone 1, the Company will issue an additional 55,000,000 fully paid ordinary shares in the Company to CHG or its nominee(s);
3. If Milestone 2 is satisfied after 18 months of satisfaction of Milestone 1, the Company will issue a number of fully paid ordinary shares in the Company to CHG or its nominee(s) equal to 55,000,000 less 3,055,555 fully paid ordinary shares in the Company for every month that Milestone 2 has not been satisfied after 18 months of satisfaction of Milestone 1;
4. Shares issued in the Company on satisfaction of Milestone 2 will be issued at a deemed issue price equal to the 15 trading day volume weighted average price of the Company's shares on ASX immediately prior to satisfaction of Milestone 2.

The Company intends to apply to ASX for a waiver from certain ASX Listing Rules as required in connection with the proposed issue of the shares on satisfaction of Milestone 1 and Milestone 2.

**b) Conditions precedent:** The FA (as amended) itself is subject to conditions precedent relating to board approval of each of the parties, as well as the Company completing (and being satisfied with the results of) the due diligence on Lodestone and its subsidiaries. In this regard, the Company advises that it is in the final stages of its due diligence investigations. In addition, the parties have agreed that the SSPA will be subject to conditions precedent including:

- i. the parties obtaining all required shareholder and regulatory approvals and ASX listing rule waivers;
- ii. Gordon Toll entering into a services agreement with the Company for a prescribed period until 31 December 2022; and
- iii. the Company's shareholders approving the grant of a maximum of 20,000,000 options to Gordon Toll, in lieu of the cash payment of directors' fees and in lieu of the cash payment for his role as the Company's CEO for each quarter ending 31 March 2017, 30 June 2017, 30 September 2017 and 31 December 2017 with each option having an expiry date that is 5 years after the date of issue, and exercise prices as follows

- (i) 5,000,000 options, each having an exercise price of \$0.045;
- (ii) 5,000,000 options, each having an exercise price of \$0.037;
- (iii) 5,000,000 options, each having an exercise price of \$0.032; and
- (iv) 5,000,000 options, each having an exercise price equal to the 15 trading day volume weighted average price of the Company's shares on the ASX immediately prior to 31 December 2017.

**c) Board representation:** From completion of the Transaction, CHG will have the right to nominate only 1 additional director to the board of the Company (in addition to Gordon Toll). The board of the Company has also agreed to appoint an additional director to the board, who will be an independent director with appropriate skills, expertise, qualifications and experience.

### **Next Steps**

The Company will now complete the due diligence process in relation to Lodestone, its subsidiaries and its assets, and work towards finalising the SSPA with CHGL and Lodestone based on the terms in the FA (as amended).

If the SSPA is entered into, a Notice of General Meeting and accompanying Explanatory Memorandum will be prepared and despatched to the Company's shareholders in preparation for the shareholders to vote on the Transaction at the General Meeting.

### **For further information, contact:**

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