MAGNETITE MINES LIMITED

Making Steel Stronger

INTERIM FINANCIAL STATEMENTS
31 DECEMBER 2017

CONTENTS

CORPORATE DIRECTORY

DIRECTORS	Gordon Toll Frank DeMarte Peter Schubert Malcolm RJ Randall	(Executive Chairman) (Executive Director) (Executive Director) (Non-Executive Director)
COMPANY SECRETARY	Frank DeMarte	
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AUDITORS	Stantons International Level 2, 1 Walker Avenue WEST PERTH WA 6005	

STOCK EXCHANGE LISTING

The Company's shares are listed and quoted on the Australian Securities Exchange Limited ("ASX").

Home Exchange: Perth, Western Australia

ASX Code: MGT

DIRECTORS' REPORT

The directors present their financial statements for the half year ended 31 December 2017.

DIRECTORS

The names of the Company's directors in office during the half year and until the date of this statement are set out below. Directors were in office for this entire period unless otherwise stated.

Gordon Toll	(Executive Chairman)
Frank DeMarte	(Executive Director)
Peter J Schubert	(Executive Director)
Malcolm RJ Randall	(Non-Executive Director)

RESULT

The operating loss of the Consolidated Entity after tax for the period ended 31 December 2017 was $2,250,969 (2016: Loss $2,754,408).

REVIEW OF OPERATIONS

During the period, the Consolidated Entity continued its iron ore activities in South Australia.

EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the half year, the Directors are not aware of any matter or circumstance not otherwise dealt with in the Directors' Report or the Financial Statements that has significantly or may significantly affect the state of affairs or operations of the reporting entity in the future financial periods.

- ***Issue of Shares***
  (i) 2,600,000 unquoted options with an exercise price of 2 cents each were exercised on 8 January 2018.
  (ii) 4,900,000 unquoted options with an exercise price of 2 cents each were exercised on 8 January 2018.

- ***Options Lapsed***
  10,000,000 unquoted options with an exercise price of 4 cents each lapsed on 15 February 2018.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration to the Directors of Magnetite Mines Limited is set out on page 3 and forms part of the Directors' Report for the period ended 31 December 2017.

This statement is signed in accordance with a resolution of the Directors:

Frank DeMarte
Director

Perth, Western Australia
15 March 2018

Stantons International Audit and Consulting Pty Ltd
trading as
Stantons International
Chartered Accountants and Consultants

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15 March 2018

Board of Directors
Magnetite Mines Limited
118B Glen Osmond Road
Parkside SA 5063

Dear Directors

RE: MAGNETITE MINES LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Magnetite Mines Limited.

As Audit Director for the review of the financial statements of Magnetite Mines Limited for the six months ended 31 December 2017 I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LIMITED
(Trading as Stantons International)
(An Authorised Audit Company)

Samir Tirodkar
Director

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 December 2017

	Notes	Consolidated 31 December 2017 $	 31 December 2016 $
REVENUE FROM CONTINUING OPERATIONS			
Finance revenue	3(a)	11,847	8,977
Other income	3(b)	-	159,113
		11,847	168,090
EXPENDITURE			
Depreciation and amortisation expenses		(15,941)	(19,045)
Employee benefits expenses	3(c)	(814,399)	(1,953,050)
Exploration expenses	4	(48,727)	(8,744)
Other expenses	3(d)	(731,319)	(854,159)
Borrowing costs	15	(87,500)	(87,500)
Provision for non-recovery of loan to related party		(564,930)	-
Loss from continuing operations before income tax expense		(2,250,969)	(2,754,408)
Income tax expense		-	-
Net (Loss)/Profit from continuing operations for the period		(2,250,969)	(2,754,408)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss		-	-
Items that will not be reclassified to profit or loss		-	-
Total comprehensive (loss)/income for the period		(2,250,969)	(2,754,408)
Net (Loss)/Profit attributable to:			
Members of the parent entity		(2,250,969)	(2,754,408)
Total comprehensive (loss)/income attributable to:			
Members of the parent entity		(2,250,969)	(2,754,408)
Earnings per share from continuing operations attributable to the ordinary equity holders of the parent entity:		Cents per share	Cents per share
Basic (loss)/earnings for the half-year	5	(0.41)	(0.62)
Diluted (loss)/earnings for the half-year	5	(0.41)	(0.62)

The accompanying condensed notes form part of the financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 December 2017

	Notes	Consolidated 31 December 2017 $	Consolidated 30 June 2017 $
ASSETS			
Current Assets			
Cash and cash equivalents	7	674,668	2,199,645
Trade and other receivables		99,767	319,880
Total Current Assets		774,435	2,519,525
Non-Current Assets			
Trade and other receivables		42,988	42,988
Property, plant and equipment		75,267	80,912
Exploration and evaluation expenditure	4	8,807,601	8,712,362
Intangibles		1,896	5,570
Total Non-Current Assets		8,927,752	8,841,832
TOTAL ASSETS		9,702,187	11,361,357
LIABILITIES			
Current Liabilities			
Trade and other payables		706,865	818,782
Provisions		85,548	74,846
Total Current Liabilities		792,413	893,628
Non-Current Liabilities			
Convertible loan note liability	15	2,500,000	2,500,000
Total Non-Current Liabilities		2,500,000	2,500,000
TOTAL LIABILITIES		3,292,413	3,393,628
NET ASSETS		6,409,774	7,967,729
EQUITY			
Contributed equity	9(a)	49,779,411	49,631,512
Reserves		10,515,470	9,970,355
Accumulated losses		(53,885,107)	(51,634,138)
TOTAL EQUITY		6,409,774	7,967,729

The accompanying condensed notes form part of the financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 December 2017

	Notes	Consolidated 31 December 2017 $	Consolidated 31 December 2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(1,028,907)	(516,494)
Other revenue received		-	-
Interest received		8,024	10,705
Payment for exploration and evaluation		(48,727)	(295,315)
Income tax benefit – R&D refund		-	151,532
Net cash flows used in operating activities		(1,069,610)	(649,572)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for tenements, exploration and evaluation expenditure		(409,967)	(585,132)
Payments for intangibles		-	(2,800)
Payments for plant and equipment		(6,621)	(10,841)
Redemption of security deposits		-	20,000
Proceeds from disposal of investment		-	99,592
Loan to related party		(426,123)	-
Repayment of loan from Directors		237,344	-
Net cash flows used in investing activities		(605,367)	(479,181)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from shares to be issued		150,000	-
Proceeds from issue of shares net capital raising costs		-	699,318
Net cash flows from financing activities		150,000	699,318
Net decrease in cash and cash equivalents		(1,524,977)	(429,435)
Cash and cash equivalents at the beginning of period		2,199,645	1,164,415
Cash and cash equivalents at the end of period	7	674,668	734,980

The accompanying condensed notes form part of the financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 December 2017

Consolidated	Equity $	Accumulated losses $	Option Reserve $	Share Based Payments Reserve $	Fair Value Reserve $	Total $
Balance at 1 July 2017	49,631,512	(51,634,138)	1,007,941	8,962,414	-	7,967,729
Total comprehensive income for the period						
Loss for the period	-	(2,250,969)	-	-	-	(2,250,969)
Total comprehensive income/(loss) for the period	-	(2,250,969)	-	-	-	(2,250,969)
Transactions with owners recorded directly in equity:						
Contributions of equity, net of transaction costs	147,899	-	-	-	-	147,899
Recognised value of share based payments	-	-	-	545,115	-	545,115
Balance at 31 December 2017	49,779,411	(53,885,107)	1,007,941	9,507,529	-	6,409,774

Consolidated	Equity $	Accumulated losses $	Option Reserve $	Share Based Payments Reserve $	Fair Value Reserve $	Total $
Balance at 1 July 2016	46,249,323	(47,198,092)	1,007,941	6,891,935	-	6,951,107
Total comprehensive income for the period						
Loss for the period	-	(2,754,408)	-	-	-	(2,754,408)
Total comprehensive income/(loss) for the period	-	(2,754,408)	-	-	-	(2,754,408)
Transactions with owners recorded directly in equity:						
Contributions of equity, net of transaction costs	849,318	-	-	-	-	849,318
Recognised value of share based payments	-	-	-	1,984,605	-	1,984,605
Balance at 31 December 2016	47,098,641	(49,952,500)	1,007,941	8,876,540	-	7,030,622

The accompanying condensed notes form part of the financial statements.

1. CORPORATE INFORMATION

This financial report includes the consolidated financial statements and notes of Magnetite Mines Limited and its controlled entities ("consolidated entity or group").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

These general purpose interim financial statements for the half-year reporting period ended 31 December 2017 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: *Interim Financial Reporting*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Magnetite Mines Limited and its controlled entities (referred to as the "Consolidated Group" or "Group"). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2017, together with any public announcements made during the following half-year.

These interim financial statements were authorized for issue on 15 March 2018.

a) Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

The Group has considered the implications of new and amended Accounting Standards but determined that their application to the financial statements is either not relevant or not material.

b) Amendments to AASBs and new Interpretations that are mandatorily effective for the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year.

The adoption of these amendments has had no impact on the disclosures or the amounts recognised in the Group's condensed consolidated financial statements.

c) Mineral exploration and evaluation

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of a Joint Ore Reserves Committee (JORC) resource is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in the statement of profit and loss in the period when the new information becomes available.

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest. Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and valuation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision was made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they may not be recoverable in the future. Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

d) Going concern

The accounts have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the normal course of business

The group recorded a loss of $2,250,969 for the half year ended 31 December 2017. Total exploration expenditure written off in the period is $48,727 and no provision for impairment loss was made. The group had cash assets of $674,668 at 31 December 2017. The directors consider these funds, combined with additional funds from further capital raising to be sufficient for the planned expenditure on the mineral projects for the ensuing 12 months as well as for corporate and administrative overhead costs. The directors also believe that they have the capacity to raise additional capital should that become necessary. For these reasons, the directors believe the going concern basis of preparation is appropriate.

3. REVENUE AND EXPENSES

Revenues and expenses from continuing operations:

		Consolidated	
		31 December 2017 $	31 December 2016 $
a)	**Finance revenue**		
	Bank interest received and receivable	11,847	8,977
b)	**Other Income**		
	Sundry income	-	1,166
	R&D claim refund	-	151,532
	Gain on sale of investments	-	6,415
		-	159,113
c)	**Employee benefits expense**		
	Share based payments	545,115	1,777,617
	Salaries and wages	269,284	175,433
		814,399	1,953,050
d)	**Other expenses**		
	Contractors and consultants services	435,016	580,189
	General and administrative expenses	296,303	273,970
		731,319	854,159

4. EXPLORATION EXPENDITURE

	6 months ended 31 December 2017 $	12 months ended 30 June 2017 $
Balance at the beginning of the period	8,712,362	8,315,729
Exploration expenditure	143,966	423,285
Provision for impairment of capitalised exploration expense	-	-
Exploration written off	(48,727)	(26,652)
	8,807,601	8,712,362

5. EARNINGS PER SHARE

	31 December 2017 Cents	31 December 2016 Cents
Basic loss per share (cents per share)	(0.41)	(0.62)
Diluted loss per share (cents per share)	(0.41)	(0.62)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	546,294,264	444,071,018
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	546,294,264	444,071,018

6. SEGMENT INFORMATION

The consolidated entity has applied AASB 8 Operating Segments. AASB 8 requires the entity to identify operating segments and disclose segment information on the basis of internal reports that are provided to, and reviewed by, the chief operating decision maker of the consolidated entity to allocate resources and assess performance. In the case of the consolidated entity, the chief operating decision maker is the Board of Directors. Operating segments now represent the basis on which the Group reports its segment information to the Board.

Magnetite Mines Limited operates within the exploration industry in Australia and viewed as a single segment by management. Therefore, no separate segment report is considered necessary.

7. CASH AND CASH EQUIVALENTS

For the purposes of the half year Condensed Consolidated Statement of Cash Flows, cash and cash equivalents comprise the following:

	Consolidated	
	31 December 2017 $	30 June 2017 $
Cash at bank and in hand	524,668	2,198,032
Short-term deposits	150,000	1,613
	674,668	2,199,645

Cash at bank earns interest at floating rates based on daily bank deposit rates. Deposits at call earn interest on a 30 to 180 day term basis at bank deposit rates.

8. CONTROLLED ENTITIES

Name	Country of Incorporation	Percentage interest held	
		2017 %	2016 %
Razorback Iron Pty Ltd	AUS	100	100
Razorback Operations Pty Ltd	AUS	100	100
Red Dragon Mining Pty Ltd	AUS	100	100
Ironback Pty Ltd	AUS	100	100

9. CONTRIBUTED EQUITY

a) Issued and paid up capital

	31 December 2017 $	30 June 2017 $
Ordinary shares		
Issued and fully paid	51,783,890	51,783,890
Shares yet to be issued[1]	150,000	-
Less: issue costs	(2,154,479)	(2,152,378)
	49,779,411	49,631,512

Note 1: The shares were allotted on 8 January 2018.

b) Movement in ordinary shares on issue to 31 December 2017

	Number of shares	$
At 1 July 2017	546,294,264	49,631,512
Capital raising cost	-	(2,101)
Shares yet to be issued[1]	-	150,000
At 31 December 2017	546,294,264	49,779,411

Note 1: The shares were allotted on 8 January 2018.

10. SHARE OPTIONS

	Expiry Date	Exercise Price	Balance at 1 July 2017	Issued during the period	Exercised during the period	Lapsed during the period	Expired during the period	Balance at 31 December 2017
Unquoted options	1 July 2017	7 cents	1,450,000	-	-	-	(1,450,000)	**-**
Unquoted options	27 November 2017	16 cents	6,500,000	-	-	-	(6,500,000)	**-**
Unquoted options	28 December 2017	5 cents	16,428,572	-	-	-	(16,428,572)	**-**
Unquoted options	7 October 2018	2 cents	5,300,000	-	-	-	-	**5,300,000**
Unquoted options	31 October 2018	10 cents	6,500,000	-	-	-	-	**6,500,000**
Unquoted options	12 January 2019	2 cents	1,000,000	-	-	-	-	**1,000,000**
Unquoted options	5 August 2019	4.5 cents	8,000,000	-	-	-	-	**8,000,000**
Unquoted options	26 November 2020	2 cents	12,600,000	-	-	-	-	**12,600,000**
Unquoted options	26 April 2021	2 cents	3,000,000	-	-	-	-	**3,000,000**
Unquoted options	24 August 2021	4.5 cents	1,000,000	-	-	-	-	**1,000,000**
Unquoted options	7 September 2021	2.5 cents	3,000,000	-	-	-	-	**3,000,000**
Unquoted options	30 November 2021	2 cents	20,000,000	-	-	-	-	**20,000,000**
Unquoted options	30 November 2021	4.4 cents	10,000,000	-	-	-	-	**10,000,000**
Unquoted options	30 November 2021	3.7 cents	10,000,000	-	-	-	-	**10,000,000**
Unquoted options	5 December 2021	10 cents	5,000,000	-	-	-	-	**5,000,000**
Unquoted options	8 January 2021	4 cents	10,000,000	-	-	-	-	**10,000,000**
Unquoted options	5 June 2022	4 cents	3,000,000	-	-	-	-	**3,000,000**
Unquoted options	5 July 2022	4 cents	-	17,500,000	-	-	-	**17,500,000**
Unquoted options	30 November 2022	5 cents	-	10,000,000	-	-	-	**10,000,000**
Total			122,778,572	27,500,000	-	-	(24,378,572)	**125,900,000**

11. SHARE BASED PAYMENTS

a) Recognised share based payment expenses

The expense recognised for services received during the period is shown in the table below:

	Consolidated	
	31 December 2017 $	**31 December 2016 $**
Expense arising from options issued to Directors, employees and consultants	545,115	1,984,605

b) Issue of Directors, Employee and Consultants Options

The Company has an Employee Share Option Plan in place which was approved by shareholders on 28 November 2014. During the 6 months ended 31 December 2017, 10,000,000 (2016: 50,000,000) unquoted options exercisable at 5 cents each expiring on or before 30 November 2022 were issued to a Director. During this period 17,500,000 unquoted options exercisable at 4 cents each on or before 5 July 2022 were issued to employees.

The following table lists the inputs to the model used for the period ended 31 December 2017

Number of options	17,500,000	10,000,000
Share Price at grant date	3.6 cents	4.1 cents
Option exercise price	4 cents	5 cents
Expiry date	5/07/22	30/11/22
Expected life of the option (years)	5 years	5 years
Vesting period (months)	-	-
Dividend yield (%)	-	-
Expected volatility (%)	105%	101.1%
Risk-free interest rate (%)	2.16%	2.37%
Fair value of options	1.9 cents	2.1 cents
Vesting date	Grant date	Grant date

c) Directors and Employee Options

The following table illustrates the number and weighted average exercise price of and the movements in share options issued during the period:

	Consolidated	
	Number of Options	**WAEP cents**
Outstanding at beginning of the period	91,350,000	5
Issued during the period	27,500,000	4.4
Expired / lapsed during the period	(7,950,000)	1.4
Outstanding at end of the period	110,900,000	3.8
Exercisable at the end of the period	110,900,000	3.8

12. INTEREST IN JOINT VENTURES

The Group has not entered into any joint venture agreements with third parties in Australia.

13. COMMITMENTS

In the opinion of the Directors, there are no commitments or contingent liabilities at 31 December 2017 and none were incurred in the interval between the period end and the date of this financial report other than as disclosed in Notes 13 and 14.

a) Mineral tenement expenditure commitments – Australia

The Company has annual expenditure obligations of approximately $1,114,999 with respect to the core assets being the Razorback Project and the collective Mawson Iron Project. Non core tenements (EL24550 – George and EL27354 – Amangal) are currently in the final stages of relinquishment.

If the Company decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

b) Operating Lease Commitments

The Company has a lease expiring on 11 March 2018 for an accommodation unit in Adelaide, South Australia that has not been recognised as liability or payable in the financial statements.

	31 December 2017 $	30 June 2017 $
Within one year	7,900	59,909
After one year but not more than five years	-	-
	7,900	59,909

c) Bonds

As at 31 December 2017, the Company has outstanding $32,588 (30 June 2017: $32,588) as bonds provided by the Company's bank for mineral tenements in Australia.

d) Bank guarantee

As at 31 December 2017, the Company has outstanding $10,400 (30 June 2017: $10,400) as a guarantee provided by the Company's bank for corporate office lease.

14. CONTINGENCIES

Contingent liabilities

As at 31 December 2017, the Company has the following contingent liabilities:

Agreement with Mintech Resources Pty Ltd

Pursuant to a Variation Deed dated 11 August 2015, the Company finalised the acquisition of a 100% interest in EL 5432 (formally EL 4267) covering the Razorback Ridge area on the following terms:

1) The issue of Redeemable Convertible Notes on 31 August 2015 with a face value of $2.5 million (Notes issued on 31 August 2015 - refer to note 15)
2) Resource payments to Mintech calculated at $0.01 per DTR tonne of measured resources (resource payment = tonne of measured resource x $0.01 x [(Average DTR% of Resource tonnes)/100]). DTR means potentially recoverable tonnes of magnetite as determined by the Davis Tube Recovery technique;
3) A Production Payment of $3,000,000 to Mintech within 20 Business Days of the Company receiving payment of at least 95% of the purchase price for the first commercial shipment of Product from the tenement; and
4) A 1% Royalty on the Value of the Product produced from the tenement measured at the "mine gate".

Agreement with Goldus Pty Ltd

Pursuant to a Variation Deed dated 11 August 2015, the Company has finalised the acquisition of a 100% interest in EL 5180 and EL 5240 which surround the Razorback Ridge area on the following terms:

1) A payment of $350,000 (paid to Goldus on 11 August 2015);
2) A second payment of $420,000 (paid to Goldus on 31 August 2015);
3) Resource payments to Goldus calculated at $0.01 per DTR tonne of measured resources;
4) A Production Payment of $3,000,000 to Goldus within 20 Business Days of the Company receiving payment of at least 95% of the purchase price for the first commercial shipment of Product from the tenements; and
5) A 1% Royalty on the Value of the Product produced from the tenement measured at the "mine gate".

The Company has also agreed to provide geological and other technical and commercial services for the evaluation of other EL's held by Goldus and Mintech.

ATO Garnishee Notice

On 22 August 2017, the Company received correspondence from the Australian Taxation Office (ATO) in relation to a notice pursuant to section 260-5 of the Taxation Administration Act 1953 (Cth) (Notice) that was issued to the Company on 24 June 2016 by the Australian Taxation Office (ATO). The Notice requires the Company to pay to the ATO any money which the Company owes, or may owe in the future, to an identified third party (up to a specified amount). The maximum liability under the Notice (as at the date when the financial report was authorised for issue) is $325,000 relating to amounts which the ATO asserts were payable to it on 31 August 2016 and 31 August 2017

but have not been paid to the ATO. The Company issued shares to the identified third party on 15 December 2016 to satisfy the 31 August 2016 payment. The Company has sought independent legal advice and is communicating with the ATO in relation to the Notice.

R&D Tax Incentive Claim for 2014/2015

On 7 September 2017, the Department of industry, Innovation and Science advised the Company that following a review of the Company's R&D Tax Incentive registration for 2014/2015 financial year, the registration is considered to have a high risk of non-compliance with the eligibility requirements of the programme. The R&D refund for 2014/2015 was an amount of $151,531.80. Following the Company's request for an explanation for the decision by the DIIS, the Company will then consider whether to request a variation to withdraw the non-compliance activities or consider whether the claimed activities have been misunderstood and provide additional information for a formal assessment of eligibility of the claimed R&D activities. The formal assessment may result in a finding that some or all of the activities are ineligible under the programme and could extend to all years covered by the project. MGT is negotiating the issues with AusIndustry with the aim of resolving the matter in the near future.

15. CONVERTIBLE LOAN NOTE LIABILITY

	Consolidated	
	31 December 2017 $	**30 June 2017** $
Convertible Notes	2,500,000	2,500,000

Pursuant to a Variation Deed dated 11 August 2015 with Mintech Resources Pty Ltd, the Company issued Redeemable Convertible Notes on 31 August 2015 with a face value of $2,500,000 on the following terms:

a) the Redeemable Convertible Notes have a 48 month term from the issue date;

b) interest of 7% per annum, payable 12 months in arrears on the anniversary from the issue date;

c) at least 5 days before maturity or redemption of the Redeemable Convertible Notes the Company can elect the:

   (i) Redeemable Convertible Notes be redeemed by cash equivalent to the face value of the Redeemable Convertible Notes;

   (ii) Redeemable Convertible Notes convert into fully paid ordinary shares in the Company equivalent to the face value of the Redeemable Convertible Notes at a price equivalent to the Company's VWAP over 90 consecutive days;

   (iii) Redeemable Convertible Notes convert into a combination of cash and fully paid ordinary shares as defined in (i) and (ii); or

   (iv) Company may extend the maturity date by a single further period of 12 months on a cash payment of $250,000 extension fee to Mintech.

Pursuant to a Deed of Amendments to Conditions of Issue relating to convertible loan notes dated 12 December 2016, the Company issued 3,846,154 shares to Mintech Pty Ltd on 13 December 2016 in lieu of cash payment of $150,000 for accrued interest concerning a period from mid October 2015 to 31 August 2016.

16. SUBSEQUENT EVENTS

Since the end of the half year, the Directors are not aware of any matter or circumstance not otherwise dealt with in the Directors' Report or the Financial Statements that has significantly or may significantly affect the state of affairs or operations of the reporting entity in the future financial periods.

- ***Issue of Shares***
  (i) 2,600,000 unquoted options with an exercise price of 2 cents each were exercised on 8 January 2018.
  (ii) 4,900,000 unquoted options with an exercise price of 2 cents each were exercised on 8 January 2018.

- ***Options Lapsed***
  10,000,000 unquoted options with an exercise price of 4 cents each lapsed on 15 February 2018.

DIRECTORS' DECLARATION

In the opinion of the Directors of Magnetite Mines Limited ("The Company"):

(1) the financial statements and notes, as set out in pages 4 to 16 are in accordance with the Corporations Act 2001, including:

   a) complying with Accounting Standards AASB 134: "Interim Financial Reporting" and the Corporations Regulations 2001; and
   b) giving a true and fair view of the financial position of the Consolidated entity as at 31 December 2017 and of its performance for the half-year ended on that date of the Consolidated entity; and

(2) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Frank DeMarte
Director

Perth, Western Australia
15 March 2018

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**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
MAGNETITE MINES LIMITED**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Magnetite Mines Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2017, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity, and the condensed consolidated statement of cash flows for the half-year ended on that date, condensed notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for Magnetite Mines Limited (the consolidated entity). The consolidated entity comprises both Magnetite Mines Limited (the Company) and the entities it controlled during the half year.

Directors' Responsibility for the Half-Year Financial Report

The directors of Magnetite Mines Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Magnetite Mines Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Whilst we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by the directors or management.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of Magnetite Mines Limited on 15 March 2018.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Magnetite Mines Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Material Uncertainty Regarding Going Concern

We draw attention to note 2 of the financial report, which describes that the financial report has been prepared on a going concern basis. At 31 December 2017 the Group had net assets of $6,409,774, cash and cash equivalents of $674,668 and net working capital deficit of $17,978. The Group had incurred a loss for the period ended 31 December 2017 of $2,250,969 and had net cash outflows from operating activities of $1,069,610.

The ability of the Group to continue as a going concern and meet its planned exploration, administration, and other commitments is dependent upon the future successful raising of necessary funding through equity or borrowings, successful exploitation of the Group's exploration assets, and or sale of non-core assets. In the event that the Group cannot raise further equity, the Group may not be able to meet its liabilities as they fall due or realise its assets in the normal course of business.

Our conclusion is not modified in respect of this matter.

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International)

(An Authorised Audit Company)

Stantons International Audit and Consulting Pty Ltd

Samir Tirodkar
Director

West Perth, Western Australia
15 March 2018