



ASX Announcement and Media Release

31 October 2017

First Quarter Activities Report Ending 30 September 2017

Key Points:

- Proposed merger with Lodestone Equities Limited negotiations in final stages.
- Global product marketing and investment attraction initiatives continue including discussions with potential customers and investors in China, Japan, Korea and the Middle East.
- Comprehensive Financial Model completed to assist in the evaluation of fast-tracked project development options.
- Studies assessing project development options for Olary and Razorback Projects underway.
- Numerous engineering, infrastructure, hydrogeology, and transport logistics reports commissioned and/or completed.
- Continuing development of Conceptual Engineering Narrative Report and Preliminary Economic Assessment with expected completion in November 2017.



Figure 1: The Company's flagship project Razorback Ridge

Introduction

Magnetite Mines Limited (**Company**) has continued to make steady progress towards the development of our vast iron ore assets within what may be the world's largest unexploited iron ore region. The potential of the region and the confidence in the future of South Australia's iron ore industry was demonstrated by GFG Alliance's recent acquisition of the Middleback Ranges iron ore tenements and the Whyalla Steelworks. The development and imminent launch of South Australia's Magnetite Strategy represents the State Government's strong support for our sector. Mr Gordon Toll is a member of the strategy steering committee and has been a key contributor and advocate for its development.

The Company's dedicated team has made significant progress during the reporting period as we collectively work towards achieving our aspirational vision that is captured in the following four, simple statements. We aspire to:

- Hold the largest portfolio of magnetite resources in the world;
- Become the largest producer of magnetite concentrates in the world;
- Produce the best quality magnetite concentrates in the world; and
- Have the lowest CFR costs for magnetite concentrates delivered to global steelmakers.

Collective progress towards achieving these objectives is set out below.

Proposed Merger with Lodestone Equities Limited

Work continued as per the Framework Agreement (the **FA**) between the Company, Coffee House Group Limited (**CHG**) and Lodestone Equities Limited (**Lodestone**), 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 details of the FA are summarised in an ASX release on the 7 April 2017. The due diligence for this merger is underway.

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 12 April 2017.

South Australian Magnetite Consortium

The South Australian Magnetite Consortium (**Consortium**) currently comprises of the Company and 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 ore 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. This includes the Olary Project.

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 Case Manager from the Department of the Premier and Cabinet has been assigned to the infrastructure project. This infrastructure is being developed by BIPL for the Consortium. As mentioned above, a process is in train to merge the assets of the Company and Lodestone.

Marketing Activities and Target Market Summary

Marketing activities in the quarter focused on a segmented approach to the market such that the high quality of the magnetite concentrate products from the Mawson Iron Province can attract maximum premiums in each market segment. A high-quality concentrate with 68% iron content is suitable for Blast Furnace Sinter Blends in China and the Far East while an ultra-high-grade product with 70% iron content is highly sought after in Direct Reduction Steel Making in the Middle East and North Africa markets.

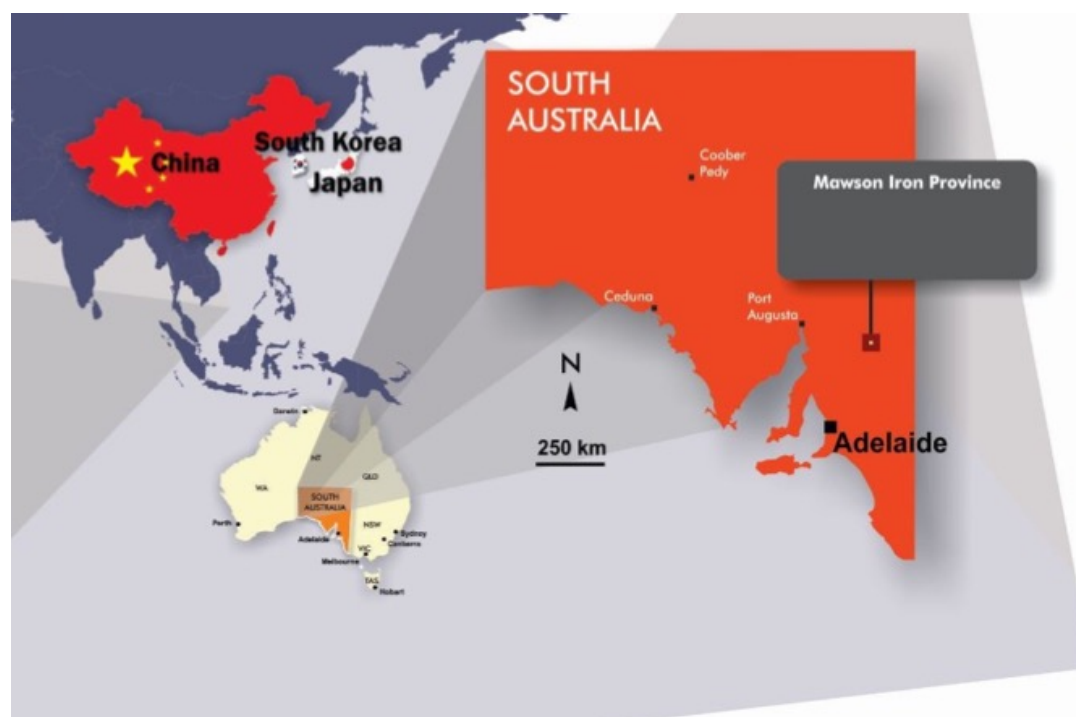


Figure 2: China and the Far East – the global centre of Blast Oxygen Furnace (BOF) steelmaking



Figure 3: Middle East and North Africa – primarily a direct reduction iron (DRI) steelmaking region utilising reformed gas

The Mawson Iron Project

The Mawson Iron Project is a generic nomenclature used to describe the totality of development possibilities within the combined tenements of the Company and Lodestone as per the tenement map shown in Figure 4 below.

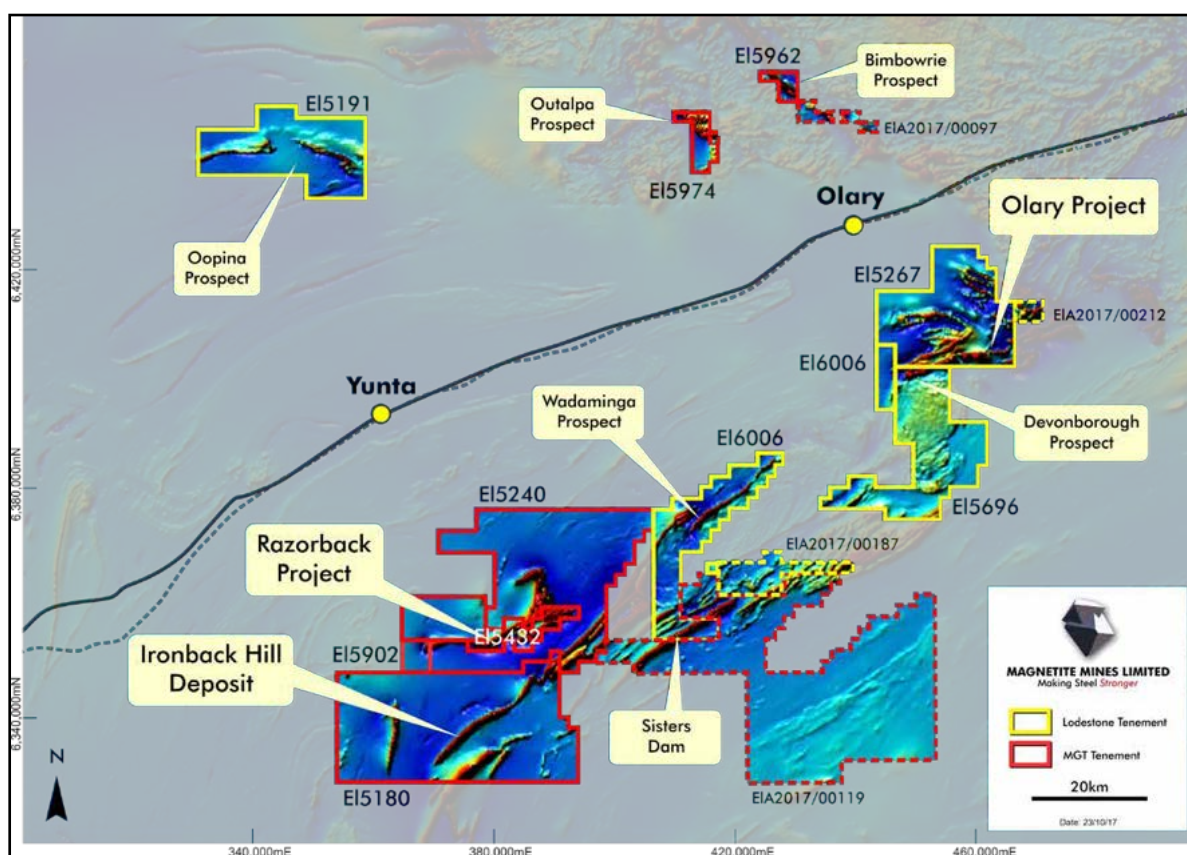


Figure 4: South Australian Magnetite Consortium iron ore tenements

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. A prior agreement with Lodestone for Lodestone’s Braemar Infrastructure Pty Ltd to provide power, water, overland transport infrastructure and port infrastructure has lapsed but could easily be reinstated.

Significant Project Development Activities During the Reporting Period

Geology, Hydrology and Hydrogeology

Work during the reporting period included:

- Leading South Australian hydrology/hydrogeology consultancy engaged to further investigate water supply options identified by the Company.
- Supplied strategic inputs to process engineering design works, particularly in the area of metallurgy.
- Reprocessing of regional geophysics to better define Braemar Iron Formation prospectively within tenement package.
- Preliminary evaluation made of two new exploration tenements north and northwest of Olary (EL5974 and EL5962).
- Completed high-resolution ground magnetic surveys and new 3D magnetic modelling over Lodestone’s Olary Prospect.



Figure 5: Field evaluation of Braemar Iron Formation within the Company’s northern tenements.

Engineering



Figure 6: Examples of various project engineering solutions under development

The past quarter has been a very active and productive period for engineering design works and associated endeavours. The benefits may apply equally to the Company's tenements and to Lodestone's tenements.

Significant progress was made on the development of a comprehensive Conceptual Engineering Narrative Report (the Narrative). It is envisaged that the Narrative will become the foundation document that will lead to the effective, efficient and profitable development of the Consortium's assets within the Mawson Iron Province. The Narrative will greatly assist in attracting investment in, and commissioning of, the Consortium's projects. Completion is scheduled for November 2017.

A Preliminary Economic Assessment (PEA) is also being concurrently developed. The PEA is also scheduled for completion in November 2017.

The Narrative and the PEA will collectively form essential tools required to raise funds that will be used to commission a detailed feasibility study for the development of the Company's assets in the Mawson Iron Province.

A comprehensive Financial Model has been developed during the reporting period. This will serve both the engineering design work that is currently underway and the subsequent capital raising activities. The model is designed to improve understanding of the project economics and will be used to facilitate discussions with potential investors and financiers. The model could easily be applied to any project in the Mawson Iron Province.

The Company engaged on behalf of the Consortium a number of specialists during the reporting period to assist in the preparation of the Narrative, the PEA and the Financial Model.

Once the Narrative is complete, two leading national and international providers of complex engineering solutions to the resources sector have committed to endorsing and name branding the document.

Narrative and Preliminary Economic Assessment (PEA) – summary of progress

- Process flow and power transmission studies undertaken by leading Asia-Pacific engineering consultancy.
- Mining engineering and transport logistics expert engaged to undertake mining and haulage studies.
- Metallurgical processing expert engaged to coordinate and supervise the flow sheet design and metallurgical test work.
- Chinese Design Institute engaged to undertake a comparison flow sheet study.
- Leading Adelaide-based engineering firm that develops, engineers and implements industrial-scale engineering projects engaged to undertake slurry and water pipeline studies as well as potential fuel sourcing studies for potential onsite power generation.
- A Chinese pipeline expert was engaged to undertake pipeline and pumping engineering studies in partnership with leading Adelaide-based engineering firm.
- A financial modelling expert was engaged to design and optimise the Financial Model
- A high-level power options study was completed and the findings of the study have formed part of the Project Narrative.
- An offshore mooring and caisson study was completed that will assist in the design of the proposed export facility at Ward Spit.
- Bulk materials flow properties studies were obtained and reviewed in partnership with a leading flow properties consulting firm.
- A Memorandum of Understanding was prepared and executed with the Australian Rail Track Corporation (ARTC) to facilitate the evaluation of rail paths and provide advice on rail augmentation requirements.
- The team continues to monitor information on the status of all existing and developing iron ore projects in the Midwest.
- A review of GFG Alliance's mining and processing operations in South Australia was undertaken.
- Further developed relationships with numerous potential overseas suppliers continued including a China-based solar thermal technologies company that may assist in developing a power solution for the Mawson Iron Province.
- Meetings were held with a number of other power generation and transmission providers who will investigate sustainable solutions for projects in the Mawson Iron Province.
- Facilitation of OEM cooperation and business development activities took place with Chinese and European mineral processing plant manufacturers.
- Meetings were held with Investment Attraction South Australia – a South Australian Government agency that provides support to raise capital for major projects in South Australia.
- Improved stakeholder engagement strategies are under development which will include more regular, structured dialogue with state and commonwealth government agencies to accelerate project development and future approvals.
- The Company's Executive Chairman is a member of South Australia's Magnetite Strategy steering committee. The Strategy is being produced by the Government of South Australia's

Department of the Premier and Cabinet. Scheduled to be launched in November 2017, it will be useful marketing capital during future overseas capital raising activities.

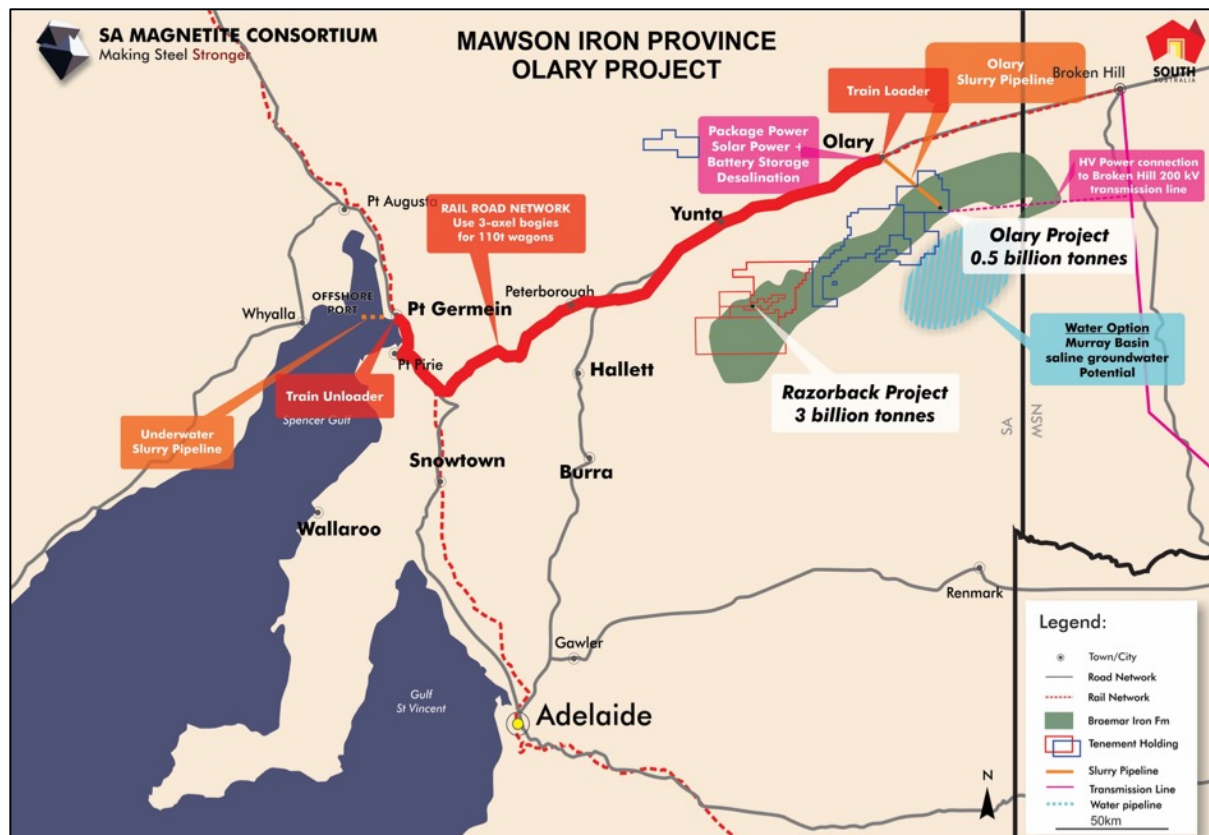


Figure 7: The proposed fast-tracked Olary Project - export route using existing rail network

2017 China Iron and Steel Association Conference

In September 2017, a delegation from the Company and the South Australian Department of the Premier and Cabinet attended the annual China Iron and Steel Association Conference in Qingdao, China.

Useful information gathered during the conference included:

- Quality (high grade/low impurity) inputs (iron ore products) are becoming paramount for steel mills in China.
- The premiums paid for high quality inputs are increasing whilst the discounts for low quality inputs are also increasing.
- Even previously mundane steel product manufactures (e.g. re-bar) are requiring high strength low alloy (HSLA) steel.
- The Central Government is not allowing the growth of privately owned steel companies via mergers and acquisitions. Rather, small mills are being squeezed out of business.
- There is a possible trend towards an "emissions export" strategy represented by the Central Government's encouragement of offshore pellets plant construction.
- There does not appear to be any concerted efforts in China to decrease national steel production. Rather, steelmaking capacity in China is being strategically relocated and improvements in productivity and efficiency in the steelmaking sector is becoming mandatory. The expected result is an increase in demand for the high grade/low impurity concentrates that can be produced from magnetite contained within the Mawson Iron Province.

For further information contact:

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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 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")

30 September 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities	-	-
1.1 Receipts from customers		
1.2 Payments for	(161)	(161)
(a) exploration & evaluation		
(b) development	-	-
(c) production	-	-
(d) staff costs	(108)	(108)
(e) administration and corporate costs	(382)	(382)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	2
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	(649)	(649)

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 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	(398)	(398)
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	237	237
2.6	Net cash from / (used in) investing activities	(163)	(163)
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	-	-
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	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,200	2,200
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(649)	(649)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(163)	(163)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	1,388	1,388

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	1,152	2,198
5.2	Call deposits	236	2
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)	1,388	2,200

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**

65

398

In relation to item 6.2, pursuant to the Framework Agreement between the Company, Lodestone Equities Limited (Lodestone) and Coffee House Group Limited (CHG) announced on 7 April 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 \$500,000.

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	35
9.2 Development	-
9.3 Production	-
9.4 Staff costs	100
9.5 Administration and corporate costs	322
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	457

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	-	-	-	-

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 October 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 30 September 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 ¹	100%	100%	-	-	-
BIMBOWRIE	EL5962	-	100%	100%	-	-
OUTALPA	EL5974	-	100%	100%	-	-

Note 1 – EL5902 was previously known as EL4811