



MAGNETITE MINES
High Grade Iron Ore Concentrate

**INTERIM FINANCIAL STATEMENTS
31 DECEMBER 2020**

INTERIM FINANCIAL STATEMENTS – 31 DECEMBER 2020

CONTENTS

Corporate Directory	1
Directors' Report	2
Auditor's Independence Declaration	3
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income.....	4
Condensed Consolidated Statement of Financial Position	5
Condensed Consolidated Statement of Cash Flows	6
Condensed Consolidated Statement of Changes in Equity	7
Condensed Notes to the Consolidated Financial Statements.....	8
Directors' Declaration.....	18
Independent Auditor's Review Report.....	19

CORPORATE DIRECTORY

DIRECTORS

Peter Schubert	(Executive Chairman)
Malcolm RJ Randall	(Non-Executive Director)
Mark R Eames	(Non-Executive Director)
Frank DeMarte	(Executive Director – resigned on 31 July 2020)

COMPANY SECRETARY

Frank DeMarte

REGISTERED OFFICE

Suite 16, 1st Floor, 22 Greenhill Road
Wayville, South Australia 5034

Telephone: (+61 8) 8427 0516

Email: info@magnetitemines.com

Website: www.magnetitemines.com

ABN: 34 108 102 432

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 11, 172 St Georges Terrace
PERTH WA 6000

Telephone (within Australia): 1300 850 505

Telephone (outside Australia): (+61 3) 9415 4000

Facsimile: (+61 8) 9323 2033

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 2020.

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.

Peter J Schubert	(Executive Chairman)
Malcolm RJ Randall	(Non-Executive Director)
Mark R Eames	(Non-Executive Director)

Frank DeMarte	(Executive Director – resigned on 31 July 2020)
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RESULT

The operating loss of the Consolidated Entity after tax for the period ended 31 December 2020 was \$795,243 (2019: Loss \$2,195).

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.

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 2020.

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



Peter Schubert
Executive Chairman

Perth, Western Australia
5 March 2021

AUDITOR'S INDEPENDENCE DECLARATION

Stantons International Audit and Consulting Pty Ltd
trading as

Stantons International
Chartered Accountants and Consultants

P O Box 1908
West Perth WA 6872
Australia

Level 2, 1 Walker Avenue
West Perth WA 6005
Australia

Tel: +61 8 9481 3188
Fax: +61 8 9321 1204

ABN: 84 144 581 519
www.stantons.com.au

5 March 2021

Board of Directors
Magnetite Mines Limited
Suite 16, 1st Floor, 22 Greenhill Road
WAYVILLE, SA 5034

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 2020 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

Martin Michalik
Director

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2020

		Consolidated	
		31 December 2020	31 December 2019
	Notes	\$	\$
REVENUE FROM CONTINUING OPERATIONS			
Finance revenue	3(a)	7,456	415
Other income	3(b)	37,500	975,036
		<u>44,956</u>	<u>975,451</u>
EXPENDITURE			
Depreciation and amortisation expenses		(3,527)	(5,133)
Employee benefits expenses	3(c)	(532,421)	(296,642)
Exploration expenses	4	(6,100)	(181,814)
Other expenses	3(d)	(247,716)	(431,968)
Borrowing costs	15 & 18	(50,435)	(62,089)
Loss from continuing operations before income tax expense		<u>(840,199)</u>	<u>(977,646)</u>
Income tax expense		-	-
Net Loss from continuing operations for the period		<u>(795,243)</u>	<u>(2,195)</u>
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 for the period		<u>(795,243)</u>	<u>(2,195)</u>
Net Loss attributable to:			
Members of the parent entity		<u>(795,243)</u>	<u>(2,195)</u>
Total comprehensive loss attributable to:			
Members of the parent entity		<u>(795,243)</u>	<u>(2,195)</u>
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	(0.031)	(0.00026)
Diluted (loss)/earnings for the half-year	5	(0.031)	(0.00026)

The accompanying condensed notes form part of the financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

		Consolidated	
		31 December 2020	30 June 2020
	Notes	\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	7	4,908,120	830,872
Trade and other receivables		130,194	32,377
Total Current Assets		5,038,314	863,249
Non-Current Assets			
Trade and other receivables	13(d)	32,588	32,588
Property, plant and equipment		26,617	27,613
Exploration and evaluation expenditure	4	10,433,839	9,500,844
Intangibles		80	107
Total Non-Current Assets		10,493,124	9,561,152
TOTAL ASSETS		15,531,438	10,424,401
LIABILITIES			
Current Liabilities			
Trade and other payables	16	311,555	146,558
Provisions	17	204,474	61,487
Unsecured loan	18	-	102,082
Total Current Liabilities		516,029	310,127
Non-Current Liabilities			
Convertible loan	15	1,975,000	1,975,000
Total Non-Current Liabilities		1,975,000	1,975,000
TOTAL LIABILITIES		2,491,029	2,285,127
NET ASSETS		13,040,409	8,139,274
EQUITY			
Contributed equity	9(a)	59,866,967	54,390,770
Reserves		10,844,579	10,624,398
Accumulated losses		(57,671,137)	(56,875,894)
TOTAL EQUITY		13,040,409	8,139,274

The accompanying condensed notes form part of the financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

		Consolidated	
	Notes	31 December 2020	31 December 2019
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(517,612)	(412,364)
Interest received		1,529	393
Income tax benefit		-	20,248
ATO COVID relief		37,500	-
Interest paid		(101,901)	(125,000)
Payment for exploration and evaluation		(6,100)	(1,814)
Net cash flows used in operating activities		(586,584)	(518,537)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for tenements, exploration and evaluation expenditure		(706,563)	(186,456)
Payments for plant and equipment		(8,802)	-
Redemption of security deposits		-	-
Proceeds from disposal of plant and equipment		3,000	4,500
Net cash flows used in investing activities		(712,365)	(181,956)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares net of capital raising costs		5,476,197	591,885
Loan from related party		-	200,000
Repayment of loan from related party		(100,000)	-
Net cash flows from financing activities		5,376,197	791,885
Net increase in cash and cash equivalents		4,077,248	91,392
Cash and cash equivalents at the beginning of period		830,872	227,736
Cash and cash equivalents at the end of period	7	4,908,120	319,128

The accompanying condensed notes form part of the financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2020**

Consolidated	Equity \$	Accumulated losses \$	Option Reserve \$	Share Based Payments Reserve \$	Total \$
Balance at 1 July 2020	54,390,770	(56,875,894)	1,007,941	9,616,457	8,139,274
Total comprehensive income for the period Loss for the period	-	(795,243)	-	-	(795,243)
Total comprehensive income/(loss) for the period	-	(795,243)	-	-	(795,243)
Transactions with owners recorded directly in equity: Contributions of equity, net of transaction costs Recognised value of share based payments	5,476,197 -	- -	- -	- 220,181	5,476,197 220,181
Balance at 31 December 2020	59,866,967	(57,671,137)	1,007,941	9,836,638	13,040,409

Consolidated	Equity \$	Accumulated losses \$	Option Reserve \$	Share Based Payments Reserve \$	Total \$
Balance at 1 July 2019	52,621,691	(56,502,383)	1,007,941	9,541,541	6,668,790
Total comprehensive income for the period Loss for the period	-	(2,195)	-	-	(2,195)
Total comprehensive income/(loss) for the period	-	(2,195)	-	-	(2,195)
Transactions with owners recorded directly in equity: Contributions of equity, net of transaction costs Recognised value of share based payments	659,463 -	- -	- -	- 63,699	659,463 63,699
Balance at 31 December 2019	53,281,154	(56,504,578)	1,007,941	9,605,240	7,389,757

The accompanying condensed notes form part of the financial statements.

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

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 2020 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 2020, together with any public announcements made during the following half-year.

These interim financial statements were approved and authorized for issue by the board on 4 March 2021.

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.

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2020 affected any of the amounts recognised in the current period or any prior period.

The Company has adopted the new Conceptual Framework for Financial Reporting, which is applicable to annual reporting periods beginning on or after 1 January 2020. The adoption of this Conceptual Framework from 1 January 2020 has not led to any changes in accounting or disclosure for the Company, but the new Conceptual Framework may be referred to if accounting matters arise that are not addressed by accounting standards.

The Company has adopted the new definition of Material included in AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material, which is applicable to annual reporting periods beginning on or after 1 January 2020. The amendments provide a new definition of material which now extends materiality consideration to obscurity and clarify that materiality now depends on the nature or magnitude of information.

The Company has adopted the new definitions of Business and associated guidance in AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business, which is applicable to annual reporting periods beginning on or after 1 January 2020. The amendments clarify the minimum requirements for a business, narrowing the definition of business and of outputs, and also provide guidance to help entities assess whether an acquired process is substantive.

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 that are relevant to their operations and effective for the current half-year.

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

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

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 \$795,243 for the half year ended 31 December 2020. Total exploration expenditure written off in the period is \$6,100 and no provision for impairment loss was made. The Group had cash assets of \$4,908,120 at 31 December 2020. The Company continually assesses its funding requirements. The directors believe they have the capacity to raise additional working capital should and when that becomes necessary.

The Company has the capacity under Listing Rules 7.1 and 7.1A. to raise additional working capital to fund its operations for the ensuing 12 months as well as for corporate and administrative overhead costs and also has the ability to conduct a pro-rata issue for the purpose of raising further funding. The Company has a history of raising funds as and when required.

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 2020	31 December 2019
	\$	\$
a) Finance revenue		
Bank interest received and receivable	7,456	415
b) Other income		
Sundry income	-	142
R&D claim refund	-	20,248
ATO COVID relief	37,500	-
Refund of legal fees paid on behalf of Mintech Resources Pty Ltd	-	954,646
	37,500	975,036
c) Employee benefits expense		
Share based payments	220,181	63,699
Salaries and wages	312,240	232,943
	532,421	296,642
d) Other expenses		
Contractors and consultants services	106,515	79,824
General and administrative expenses	137,904	356,482
(Profit)/loss on sale of fixed asset	3,297	(4,338)
	247,716	431,968

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

4. EXPLORATION AND EVALUATION EXPENDITURE

	6 months ended 31 December 2020	12 months ended 30 June 2020
	\$	\$
Balance at the beginning of the period	9,500,844	9,117,768
Exploration and evaluation expenditure	939,095	564,890
Provision for impairment of capitalised exploration expense	-	-
Exploration written off	(6,100)	(181,814)
	<u>10,433,839</u>	<u>9,500,844</u>

5. EARNINGS PER SHARE

	31 December 2020 Cents	31 December 2019 Cents
Basic loss per share (cents per share)	(0.031)	(0.00026)
Diluted loss per share (cents per share)	(0.031)	(0.00026)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	2,539,009,737	839,332,810
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	2,539,009,737	839,332,810

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 is 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 2020	30 June 2020
	\$	\$
Cash at bank and in hand	103,120	330,872
Short-term deposits	4,805,000	500,000
	<u>4,908,120</u>	<u>830,872</u>

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.

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

8. CONTROLLED ENTITIES

Name	Country of Incorporation	Percentage interest held	
		2020 %	2019 %
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 2020 \$	30 June 2020 \$
Ordinary shares		
Issued and fully paid	60,390,913	54,583,404
Less: issue costs	(523,946)	(192,634)
	<u>59,866,967</u>	<u>54,390,770</u>

b) Movement in ordinary shares on issue to 31 December 2020

	Number of shares	\$
At 1 July 2020	2,246,041,255	54,390,770
Exercise of unquoted options	15,000,000	45,000
Rights Issue	565,261,289	5,652,613
Placement	30,000,000	300,000
Exercise of quoted options	50,616	2,530
Capital raising cost	-	(523,946)
At 31 December 2020	<u>2,856,353,160</u>	<u>59,866,967</u>

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

10. SHARE OPTIONS

	Expiry Date	Exercise Price	Balance at 1 July 2020	Issued during the period	Exercised during the period	Lapsed during the period	Expired during the period	Balance at 31 December 2020
Unquoted options	26 November 2020	2 cents	10,000,000	-	-	-	(10,000,000)	-
Unquoted options	26 April 2021	2 cents	3,000,000	-	-	-	-	3,000,000
Quoted options	31 May 2021	5 cents	172,624,545	-	-	-	-	172,624,545
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
Quoted options	29 October 2021	5 cents	-	297,630,801	(50,616)	-	-	297,580,185
Unquoted options	30 November 2021	2 cents	10,000,000	-	-	-	-	10,000,000
Unquoted options	5 December 2021	10 cents	5,000,000	-	-	-	-	5,000,000
Unquoted options	18 March 2022	1.5 cents	6,500,000	-	-	-	-	6,500,000
Unquoted options	5 June 2022	4 cents	3,000,000	-	-	-	-	3,000,000
Unquoted options	5 July 2022	4 cents	7,500,000	-	-	-	-	7,500,000
Unquoted options	30 November 2022	5 cents	10,000,000	-	-	-	-	10,000,000
Unquoted options	27 April 2023	0.3 cents	15,000,000	-	(15,000,000)	-	-	-
Unquoted options	4 June 2023	3.5 cents	3,000,000	-	-	-	-	3,000,000
Unquoted options	11 August 2023	1.5 cents	-	7,000,000	-	-	-	7,000,000
Unquoted options	1 December 2024	1.5 cents	20,000,000	-	-	-	-	20,000,000
Unquoted options	15 December 2025	2 cents	-	30,000,000	-	-	-	30,000,000
Total			269,624,545	334,630,801	(15,050,616)	-	(10,000,000)	579,204,730

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

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 2020	31 December 2019
	\$	\$
Expense arising from options issued to Directors, employees and consultants	220,181	63,699

Terms of valuation of options is as below.

Number of options	7,000,000	Number of options	30,000,000
Grant date	12/08/2020	Grant date	27/11/2020
Share Price at grant date	0.8 cents	Share Price at grant date	1 cent
Option exercise price	1.5 cents	Option exercise price	2 cents
Expiry date	11/08/2023	Expiry date	15/12/2025
Expected life of the option (years)	3 years	Expected life of the option (years)	5 years
Vesting period (months)	-	Vesting period (months)	-
Dividend yield (%)	-	Dividend yield (%)	-
Expected volatility (%)	100%	Expected volatility (%)	100%
Risk-free interest rate (%)	0.27%	Risk-free interest rate (%)	0.29%
Fair value of options	0.39 cents	Fair value of options	0.64 cents
Vesting date	12/08/2020	Vesting date	27/11/2020

b) Issue of Directors and Employees Options

The Company has an Employee Share Option Plan in place which was approved by shareholders on 30 November 2016. During the 6 months ended 31 December 2020, 37,000,000 (2019: 20,000,000) options were issued to directors and employees.

c) Directors and Employee Options

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

	Consolidated	
	Number of Options	WAEP cents
Outstanding at beginning of the period	64,000,000	2.5
Issued during the period	37,000,000	1.9
Expired / lapsed during the period	(10,000,000)	2.0
Outstanding at end of the period	91,000,000	2.3
Exercisable at the end of the period	91,000,000	2.3

d) Consultant Options

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

	Consolidated	
	Number of Options	WAEP cents
Outstanding at beginning of the period	18,000,000	5
Issued during the period	-	-
Expired / lapsed during the period	-	-
Outstanding at end of the period	18,000,000	5
Exercisable at the end of the period	18,000,000	5

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

e) Underwriter Options

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

	Consolidated	
	Number of Options	WAEP cents
Outstanding at beginning of the period	15,000,000	0.3
Issued during the period	-	-
Exercised during the period	(15,000,000)	0.3
Expired / lapsed during the period	-	-
Outstanding at end of the period	-	-
Exercisable at the end of the period	-	-

12. INTEREST IN JOINT VENTURES

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

13. COMMITMENTS

There are no material outstanding commitments or contingencies which are not disclosed in the interim financial statements of the Company as at 31 December 2020 other than:

a) Mineral tenement expenditure commitments – Australia

The Group has annual expenditure obligations of approximately \$1,460,000 with respect to the core assets being the Razorback Iron Project.

If the Group 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 Group has a commercial non cancellable lease expiring on 31 December 2021 on its storage unit in Wingfield, South.

	31 December 2020 \$	30 June 2020 \$
Within one year	32,501	16,090
After one year but not more than five years	-	-
	32,501	16,090

c) Agreement with NextOre Pty Ltd

On 30 September 2020 the company entered into an Agreement with NextOre Pty Ltd (NextOre) to supply a mobile bulk ore sorting plant using a Magnetic Resonance (MR) sensor for a trial of the technology to the Razorback High Grade Iron Ore Project.

The NextOre agreement includes a non-refundable deposit of \$100,000 which was paid on 27 October 2020 and contemplates the following further, staged payments.

Second Milestone Date: \$221,200 payable 30 days from 28 February 2021
Third Milestone Date: \$221,200 payable 30 days from 31 August 2021
Fourth Milestone Date: \$247,200 payable 30 days from 15 November 2021

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

d) Bonds

As at 31 December 2020, the Group has outstanding \$32,588 (30 June 2020: \$32,588) as bonds provided by the Company's bank for mineral tenements in Australia.

e) Bank guarantee

As at 31 December 2020, the Group does not have any bank guarantee provided by the Group's bankers (30 June 2020: \$Nil). The Company has an available bank guarantee limit of \$287,412 and currently this facility has not been utilised by the Company.

14. CONTINGENCIES

Contingent asset

As at 31 December 2020, the Group has the following contingent asset:

Rothsay Royalty Agreement

Pursuant to a Royalty Agreement between Silverlake Resources Limited and the Company, dated June 2007 in relation to the Rothsay gold operation owned by Silver Lake, the Company anticipates the revenue from the royalty to commence in the second half of 2021, when ore from the Rothsay gold operation located in Western Australia is expected to be processed and sold. Under the Royalty Agreement, the Company is entitled to a royalty of A\$10 per ounce of gold extracted from Rothsay tenements commencing once Silver Lake has sold 10,000 ounces. The royalty payable to the Company will cease after the cumulative royalty payments reach an amount of A\$595,000.

Contingent liabilities

As at 31 December 2020, the Group 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 6353 covering the Razorback Ridge area. On 4 September 2019, the Company entered into a Heads of Agreement with the liquidators of Mintech Resources Pty Ltd. The terms of the agreement are as follows:

- 1) The amended face value of the Redeemable Convertible Notes is \$1.975 million (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".

Mintech was placed in voluntary administration on 9 October 2017 and subsequently placed in the hands of liquidators on 19 April 2019.

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 EL6126 and EL6127 which surround the Razorback Ridge area. The Company has the following obligations:

- 1) Resource payments to Goldus calculated at \$0.01 per DTR tonne of measured resources;
- 2) 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
- 3) A 1% Royalty on the Value of the Product produced from the tenement measured at the "mine gate".

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

15. CONVERTIBLE NOTE LIABILITY

Non-current Liability

	Consolidated	
	31 December 2020	30 June 2020
	\$	\$
Redeemable Convertible Notes – Mintech Resources Pty Ltd	1,975,000	1,975,000

Agreement with Mintech Resources Pty Ltd

On 4 September 2019, the Company entered into a Heads of Agreement (HOA) with the liquidators of Mintech Resources Pty Ltd (in liquidation) (Mintech) to amend the terms of the redeemable convertible notes (Notes) held by Mintech.

The Notes were originally issued to Mintech on 31 August 2015 following a renegotiation of the terms of a tenement sale agreement between the Company and Mintech for the acquisition by the Company of the Razorback Project.

Pursuant to the HOA, the parties have agreed to adjust the face value of the Notes by agreeing to certain offsets to which the Company is entitled and by incorporating and deferring payments due and have agreed to make the following changes to the Notes which were approved by the creditors of Mintech at a meeting held on 7 November 2019.

	Amended Terms
Maturity Date:	31 August 2023
Interest:	5% per annum
Face value:	\$1,975,000

The significant reduction in the face value of the Notes follows agreement with the liquidators of Mintech that certain amounts agreed to be paid to Mintech (including the extension fee payment of \$250,000 and a payment of \$180,000 for exploration and evaluation services to Mintech on its other exploration licenses pursuant to the Clause 8 of the Third Variation Deed dated 11 August 2015) be offset against an amount of \$954,646 that Mintech was obligated to pay the Company in connection with the Company's costs of historical litigation in respect of the Razorback Project from 2010-2012.

The liquidators of Mintech have also agreed to a deferred payment plan for the current \$175,000 interest payment due on the Notes, such that \$75,000 was paid on 13 September 2019, and another \$50,000 was paid on 31 December 2019 and the remaining \$50,000 was paid on 30 April 2020.

There is no change to the redemption or conversion of the Notes, which as previously disclosed permits the Company, at least five days before maturity or redemption of the Notes, to elect to:

- redeem the Notes for cash to the face value of the Notes;
- convert the face value into fully paid ordinary shares of the Company at a price equivalent to the Company's VWAP over 90 consecutive days; or
- a combination of cash and fully paid ordinary shares per the conversion formula above.

16. TRADE AND OTHER PAYABLES

	Consolidated	
	31 December 2020	30 June 2020
	\$	\$
Trade and other payables (1)	278,632	39,370
Accruals (2)	32,923	107,188
	311,555	146,558

Note 1 - Trade payables are non-interest bearing and are normally settled on 30-60 day terms

Note 2 – Includes interest accrued on Mintech Convertible loan note of \$32,923

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2020

17. PROVISIONS

	Consolidated	
	31 December 2020	30 June 2020
	\$	\$
Provision for annual and long service leave	104,474	61,487
Provision for rehabilitation	100,000	-
	<u>204,474</u>	<u>61,487</u>

18. UNSECURED LOAN

	Consolidated	
	31 December 2020	30 June 2020
	\$	\$
Unsecured loan	-	102,082
	<u>-</u>	<u>102,082</u>

On 16 September 2019, the Company's Executive Chairman, Peter Schubert, provided the Company with an unsecured loan of \$200,000 pursuant to a Convertible Loan Agreement to assist the Company with general working capital requirements. Interest was accrued on the Loan at the rate of 5% per annum. Interest which accrued on the Loan was capitalised and was payable on the earlier of:

- i. the date on which the Loan is repaid in full; and
- ii. the repayment date.

The Loan was repayable in cash on the date that is six months after the date of the Convertible Loan (or such later date as may be agreed between the parties in writing). The Chairman could elect to convert all or part of the Loan and any interest amount into fully paid ordinary shares at the price equal to a 10% discount to the VWAP for the 15 Trading Days prior to the date of the conversion notice. The conversion right is subject to and conditional upon the Company obtaining the approval of its members in general meeting by the requisite majority for the purposes of ASX Listing Rule 10.11 and section 208 of the Corporations Act.

On 16 March 2020, the parties agreed that the repayment date under the Convertible Loan Agreement was extended to 16 September 2020 (or such later date as may be further agreed by the parties in writing). An interest payment of \$5,123 was paid on 23 March 2020. On 4 May 2020, a partial repayment of \$100,000 of this loan was made to Peter Schubert.

On 16 September 2020, the Company repaid the remaining balance of the loan including interest totalling \$103,151.

19. 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.

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 17 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 2020 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.



Peter Schubert
Executive Chairman

Perth, Western Australia
5 March 2021

INDEPENDENT AUDITOR'S REVIEW REPORT

Stantons International Audit and Consulting Pty Ltd
trading as

Stantons International
Chartered Accountants and Consultants

PO Box 1908
West Perth WA 6872
Australia

Level 2, 1 Walker Avenue
West Perth WA 6005
Australia

Tel: +61 8 9481 3188
Fax: +61 8 9321 1204

ABN: 84 144 581 519
www.stantons.com.au

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

Report on the Half Year Financial Report

Conclusion

We have reviewed the half-year financial report of Magnetite Mines Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2020, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (a) giving a true and fair view of the Magnetite Mines Limited financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* has been given to the directors of the Company on 5 March 2021.

Responsibility of the Directors for the Financial Report

The directors of the Group are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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INDEPENDENT AUDITOR'S REVIEW REPORT

Stantons International

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 Company's financial position as at 31 December 2020 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*.

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.

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

Stantons International Audit & Consulting Pty Ltd



Martin Michalik
Director

West Perth, Western Australia
5 March 2021