MAGNETITE MINES LIMITED
Making Steel Stronger

ASX Announcement
29 October 2018

First Quarter Activities Report Ending 30 September 2018

Summary

Corporate:

- Termination of Final Framework Agreement
- Resignation of the chairman Mr. Gordon Toll
- Appointment of Mr. Peter Schubert as Executive Chairman
- Board undertaking CEO role

Project Planning and Development:

- Strategic evaluation of tenement assets in South Australia underway towards potential options for development
- Metallurgical testwork continues on Razorback samples towards flowsheet optimisation

Corporate

During the majority of the quarter, Magnetite Mines Limited (ASX: MGT, MGTOC) (Company) continued its negotiations with Coffee House Group Limited (CHG), following further due diligence and liaison with the ASX in order to finalise the terms and conditions in respect to the formal Share Sale and Purchase Agreement (and associated documents) (SSPA) for the proposed acquisition of Lodestone Equities Limited (Lodestone) by the Company (Proposed Transaction).

Despite the best efforts by the independent Company directors, the parties were unable to agree further commercial amendments satisfactory to both parties and therefore the Final Framework Agreement (FFA) between the Company, CHG, Lodestone and Toll Resources (Toll Resources) was terminated on 3 September 2018. The FFA provide the basis for the negotiation and execution of a formal Share Sale and Purchase Agreement for the acquisition of Lodestone (a private Isle of Man company) by the Company.

As a result of the termination of the Proposed Transaction, Mr Gordon Toll resigned from the Company as Executive Chairman, Director and Chief Executive Officer (CEO). Subsequent to Mr Toll's resignation, the board appointed Mr Peter Schubert as Executive Chairman and the existing board are undertaking the responsibilities of the position of CEO until the appropriate candidate is found.

Going forward

Whilst the independent directors are disappointed with the termination of the Proposed Transaction, the board has maintained the position for many years that a structural shift was evolving in the Iron Ore market. A shift where grade and impurity levels take precedence over volume. A shift driven by modern steel producers chasing efficiency, pollution control and profitability. The Board believes that shift is now very apparent and supported by the pursuit of higher grade, from both end user steel makers and the iron ore mines that hope to supply them.

Exploration and Evaluation

During the reporting period, the Company continued to complete work towards flow sheet optimisation. To that end, work on the Razorback Iron Project consisted of the evaluation of recent test work as completed by Weir Minerals and Hazemag in Europe. Further to Air Classification test work as completed by Weir Minerals, mineralogical test work was initiated and completed on a portion of the products as derived from the Air Classification process towards evaluating its effectiveness and defining potential optimisations moving forward.

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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	Quarter ended ("current quarter")
34 108 102 432	**30 September 2018**

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		
	(a) exploration & evaluation	(26)	(26)
	(b) development	-	-
	(c) production	-	-
	(d) staff costs	(151)	(151)
	(e) administration and corporate costs	(317)	(317)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	6	6
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Research and development refunds	-	-
1.8	Other (details required)	-	-
1.9	**Net cash from / (used in) operating activities**	**(488)**	**(488)**

Item 1.8 relates to Research and Development grant received for 2016-17.

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(5)	(5)
	(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	(122)	(122)
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**(127)**	**(127)**

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	1,744	1,744
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(488)	(488)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(127)	(127)
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**	**1,129**	**1,129**

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	152	243
5.2	Call deposits	977	976
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)**	**1,129**	**1,744**

6.	**Payments to directors of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to these parties included in item 1.2	65
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	122

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Item 6.2 relates to payments made on behalf of Lodestone Equities Limited pursuant to the Final Framework Agreement between the Company, Coffee House Group Limited (CHG), Lodestone Equities Limited (Lodestone) and Toll Resources Limited as announced on 29 March 2018 and 2 July 2018. As announced on 3 September 2018, due to the parties unable to agree to further commercial amendments satisfactory to both parties the Company terminated the Final Framework Agreement in relation to the proposed acquisition of Lodestone Equities Limited.

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** *Add notes as necessary for an understanding of the position*	**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	75
9.2	Development	-
9.3	Production	-
9.4	Staff costs	121
9.5	Administration and corporate costs	300
9.6	Other (provide details if material)	-
9.7	**Total estimated cash outflows**	**496**

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: .... Date: 29 October 2018
(Director/Company secretary)

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 2018

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
SOUTH AUSTRALIA						
PUALCO	EL6126	100%	100%	-	-	-
RED DRAGON	EL6127	100%	100%	-	-	-
RAZORBACK RIDGE	EL5432	100%	100%	-	-	-
DRAGON'S TAIL	EL5902	100%	100%	-	-	-
BIMBOWRIE	EL5962	100%	100%	-	-	-
OUTALPA	EL5974	100%	100%	-	-	-
SISTER'S DAM	EL6037	100%	100%	-	-	-
BIMBOWRIE	EL6070	100%	100%	-	-	-