



Company Announcements
ASX Limited
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Magnum Mining and Exploration Limited

OPTION TO ACQUIRE BRAZILIAN IRON ORE PROJECT

Highlights:

- **Magnum has an exclusive option to acquire an iron ore project in Minas Gerais, Brazil**
- **The Company has commenced due diligence investigations in respect of the project**
- **Magnum will be required to re-comply with Chapters 1 and 2 of the Listing Rules if it exercises the option.**

The directors of Magnum Mining and Exploration Limited (**Magnum** or the **Company**) (ASX: MGU) are pleased to announce that the Company has entered into an option and exclusivity agreement (**Option Agreement**) pursuant to which OCRA Trustees (Seychelles) Limited as trustee of Global Trust (**OCRA**) has granted to Magnum an irrevocable exclusive option to acquire all of the fully paid issued shares (**Shares**) in Irongates (Aust) Pty Ltd (**IAPL**).

IAPL holds 100% of the issued capital in Gates Minerals Pty Ltd (**GMPL**). IAPL also holds 99% of Irongates Brasil Recursos Mineraiis Ltda (a company registered in Sao Paulo) (**IBRML**) and GMPL holds the remaining 1% in IBRML.

IBRML holds contractual rights to acquire Emicon Mineracao Terraplenagem Ltda's (**Emicon**) iron ore project in Brazil (**Brazilian Iron Ore Project**).

Details of the Brazilian Iron Ore Project

The Brazilian Iron Ore Project is located in the south western part of the well known "Iron Quadrangle" in Serra Azul in the state of Minas Gerais, Brazil. The Iron Quadrangle is an important iron mining region and one of the most important metallogenic provinces in the world and has been mined for iron ore since the nineteenth century.

The Brazilian Iron Ore Project consists of an in situ exploration project and a sinter feed project containing alluvial tailings (**Sinter Feed Project**). Due to the alluvial nature of the Sinter Feed Project, the sinter feed fines present an early production opportunity.

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Both the Brazilian Iron Ore Project and Sinter Feed Project areas are located approximately 18km away from Brazil's MRS railway network, providing excellent infrastructure logistics to transport its iron ore to major ports located off the coast of Rio de Janeiro and São Paulo.

The Company has commenced comprehensive due diligence investigations in respect of the Brazilian Iron Ore Project and Sinter Feed Project.

Material Terms of Option Agreement

Pursuant to the Option Agreement, Magnum has until 14 January 2012 (**Exercise Period**) in which to exercise the Option, subject to the Company being satisfied with its due diligence investigations on the Brazilian Iron Ore Project and Sinter Feed Project. In consideration for the grant of the Option, Magnum has paid to OCRA an option fee of US\$200,000.

During the Exercise Period, each of IAPL and GMPL must ensure that:

- 1) none of OCRA, IAPL, GMPL, IBRML or their respective representatives directly or indirectly solicits, invites, encourages or otherwise facilitates or initiates any enquiries, negotiations or discussions or communicates any intention to do any of these things with a view to obtaining any expression of interest, offer or proposal from any person in relation to a Competing Proposal;
- 2) none of OCRA, IAPL, GMPL, IBRML or any of their respective representatives directly or indirectly negotiates or enters into, continues or participates in negotiations or discussions with, or provides any information to, any third Party regarding a Competing Proposal, even if:
 - a) the Competing Proposal was not directly or indirectly solicited, initiated or encouraged by OCRA, IAPL, GMPL or IBRML or any of their respective representatives;
 - b) negotiations or discussions in relation to the Competing Proposal commenced before the date of the Option Agreement; or
 - c) that third party has publicly announced its Competing Proposal;
- 3) any third party which has received confidential information in the 18 months before the date of the Option Agreement for the purpose of investigating a potential transaction with OCRA, IAPL, GMPL or IBRML which may or could constitute a Competing Proposal has been asked to return or destroy all such confidential information;
- 4) it immediately notifies Magnum in writing if any communication, invitation, approach or enquiry, or any information request is received by OCRA, IAPL, GMPL or IBRML from any third party in relation to, or which could lead to, a possible Competing Proposal;
- 5) none of OCRA, IAPL, GMPL, IBRML or any of their respective Representatives:
 - a) solicits, invites, facilitates or encourages any party to undertake a due diligence investigation on OCRA, IAPL, GMPL, IBRML, the Brazilian Iron Ore Project or Sinter Feed Project; or
 - b) makes available to any person or permits any person to receive any non-public information relating to OCRA, IAPL, GMPL, IBRML, the Brazilian Iron Ore Project or Sinter Feed Project; and
- 6) it has ceased and terminated any discussions or negotiations which OCRA, IAPL, GMPL or IBRML or may be having with any third party relating to a Competing Proposal,

(together, the **Exclusivity Arrangements**). For the purpose of the Exclusivity Arrangements, **Competing Proposal** means any expression of interest, offer or proposal by a third party in respect of a transaction under which, if the transaction were completed, a person would:

- acquire a legal, equitable or economic interest or relevant interest in 10% or more of the Shares;
- acquire the whole or a substantial part of the business or assets of IAPL, GMPL or IBRML;
- acquire any of IBRML's interests in the Brazilian Iron Ore Project or the Sinter Feed Project;
- acquire control of IAPL, GMPL or IBRML within the meaning of section 50AA of the Corporations Act; or
- otherwise acquire or merge with IAPL, GMPL or IBRML.

In addition, each of IAPL and GMPL has agreed to provide to Magnum, or procure the provision of, such access to the senior management, premises and records of IAPL, GMPL and IBRML as Magnum shall reasonably require for the purposes of Magnum's due diligence investigations.

If IAPL or GMPL breaches any of the Exclusivity Arrangements or withdraws from negotiations with Magnum during the Exercise Period, each of IAPL and GMPL must pay to Magnum the sum of US\$200,000 within seven days of such breach or event occurring.

Proposed Terms of Formal Agreement

Subject to the exercise of the Option by Magnum, the parties have agreed to use their best endeavours to enter into a formal share sale agreement (**Formal Agreement**) on the following material terms and conditions:

- 1) **Proposed Transaction:** it is proposed that OCRA will sell, and Magnum will purchase, 100% of the issued capital in IAPL (the **Shares**) on the material terms set out below (**Proposed Transaction**);
- 2) **Conditions Precedent:** the Proposed Transaction will be subject to the satisfaction or waiver of a number of conditions precedent on or before that date which is 90 days after the execution of a Formal Agreement (or such other date as may be agreed) including the following (the **Conditions**):
 - a) Magnum being satisfied in its sole and absolute discretion with the results of the legal technical and financial due diligence review on IAPL, GMPL and IBRML, the Brazilian Iron Ore Project and the Sinter Feed Project;
 - b) Magnum obtaining all necessary shareholder approvals under the ASX Listing Rules and Corporations Act 2001 (Cth) for the Proposed Transaction;
 - c) Magnum complying with any conditions imposed by ASX as a result of the application of Chapter 11;
 - d) Magnum successfully completing a capital raising of \$13,000,000 (before costs and expenses);
 - e) the parties obtaining all governmental and regulatory consents and approvals required to transfer the Shares; and
 - f) IAPL obtaining such other third party consents, waivers and approvals as Magnum considers appropriate for the Proposed Transaction.
- 3) **Consideration:** the consideration payable by Magnum to OCRA for the transfer of the Shares shall consist of:
 - a) US\$1,000,000 within seven days of the date of settlement of the acquisition (**Settlement**) of the Shares (**Settlement Date**);
 - b) the payment of the following amounts (collectively referred to as the **Deferred Consideration**):
 - i) US\$20,000,000 on the earlier of:
 - A) 30 days after the determination that an indicated or measured JORC resource exists on the Brazilian Iron Ore Project; and
 - B) the date that is two years after the Settlement Date;
 - ii) US\$15,000,000 on the earlier of:
 - A) 30 days after the date of completion of a bankable feasibility study in relation to the Brazilian Iron Ore Project; and
 - B) the date that is three years after the Settlement Date;
 - iii) US\$15,000,000 on the earlier of:
 - A) 30 days after the date on which the production of iron ore from the Brazilian Iron Ore Project equals or exceeds one million tonnes per annum; and
 - B) the date that is three years after the Settlement Date.
 - c) a quarterly royalty payment equal to US\$3 per tonne of iron ore from the Brazilian Iron Ore Project, Sinter Feed Project and Stockpile Material.
- 4) **Payments in Advance:** the parties will acknowledge and agree that:
 - a) 50% of the profits received by Magnum (after tax and royalties) from the sale of the stockpile material located on the Brazilian Iron Ore Project (**Stockpile Material**) will be paid to OCRA on

a quarterly basis as an advance payment in satisfaction of Magnum's obligation to pay the Deferred Consideration up to a maximum aggregate of US\$50,000,000 (**Aggregate Amount**); and

- b) once the Aggregate Amount has been paid, 50% of the profits received by Magnum (after tax and royalties) from the sale of the Stockpile Material will be used to make various payments to Emicon in respect of IBRML's contractual rights to acquire the Brazilian Iron Ore Project;
- 5) **Consideration Shares:** OCRA may elect to receive all or part of each payment of the Deferred Consideration in the form of fully paid ordinary shares in the capital of Magnum in lieu of a cash payment, subject to Magnum obtaining all necessary shareholder approvals and, if required, FIRB approval;
- 6) **Sinter Feed Project:** if, at that date which is 15 months after the Settlement Date, Magnum elects in its sole and absolute discretion that it will not develop the Sinter Feed Project, then Magnum will grant to OCRA an exclusive irrevocable right to develop the Sinter Feed Project and be entitled to take any iron ore fines produced from the Sinter Feed Project on the basis that OCRA satisfies any contractual obligations owed by IBRML to Emicon in respect of the Sinter Feed Project;
- 7) **Tail Product Rights:** Magnum will grant to OCRA the non-exclusive right to access the results of Magnum's metallurgical studies of any concentrator tail product (as defined in any pre-feasibility study or bankable feasibility study undertaken by Magnum in respect of the Brazilian Iron Ore Project site) and use any samples produced as a result of such studies;
- 8) **Acknowledgements:** As from the date of satisfaction or waiver of the Conditions, but subject to Settlement, Magnum agrees to be responsible for the performance of all contractual rights owed by IBRML to Emicon. This includes the payment of a total of US\$20 million in three tranches and a royalty payment equivalent to US\$2 per tonne of iron ore from the Brazilian Iron Ore Project and \$2.50 per tonne of iron ore from the Sinter Feed Project;
- 9) **Right of First Refusal:** if Magnum wishes to sell any part of its interest in the Brazilian Iron Ore Project, OCRA will have the right for a period of 75 days to elect to purchase such interest on the same terms and conditions as offered by the prospective purchaser;
- 10) **Default:** If Magnum defaults in its obligation to make a payment of the Deferred Consideration when due:
 - a) and the default continues for 14 days after written notice from OCRA, OCRA may, should the default persist after the expiry of a further 60 day period, rescind the Formal Agreement and retake possession of the Brazilian Iron Ore Project and Sinter Feed Project; and
 - b) Magnum must pay interest on that sum at a rate of 10% per annum; and
- 11) **Termination:** Magnum will be entitled to terminate the Formal Agreement if:
 - a) a court of competent jurisdiction makes a final determination that IBRML does not have any right to acquire the Project from Emicon;
 - b) the tenements the subject of the Brazilian Iron Ore Project have not been transferred to IBRML seven days prior to that date which is two years after the Settlement Date; or
 - c) a competent person has not determined that an indicated or measured JORC resource exists on the Brazilian Iron Ore Project seven days prior to the date which is two years after the Settlement Date.

The ability of the Company to achieve its objectives will depend on the performance by each of the relevant parties of their respective obligations under the Option Agreement and, in the event that Magnum exercises the Option, the Formal Agreement. Further, IBRML's interests in the Brazilian Iron Ore Project and Sinter Feed Project will depend on Emicon's compliance with the contractual arrangements between Emicon and IBRML and the ability of IBRML to enforce those rights. Failure by the parties to comply with their respective contractual obligations may adversely affect the interests of the Company and there can be no guarantee that a legal remedy will be ultimately granted on the appropriate terms.

Re-compliance with Chapters 1 and 2 upon exercise of Option

In the event that the Company exercises the Option, it will be required to re-comply with the requirements of Chapters 1 and 2 of the ASX Listing Rules which will include, among other things, obtaining shareholder approval for the Proposed Transaction and issuing a prospectus.

For further information please contact:

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The information in this announcement that relates to Exploration Results is based on information compiled by Dr Bernard Olivier, who is a member of The Australasian Institute of Mining and Metallurgy. Dr Olivier is employed by Serengeti Resources Pty Ltd and provides consulting services to the Company. Dr Olivier has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Dr Olivier consents to the inclusion in the announcement of the matters based on his information in the form and context in which it appears.