

Magnis Resources
LIMITED

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Agreement reached with Tanzanian Government to progress Nachu development

- Amendments to original SEZ license increases value-addition from the Nachu Graphite Project
- Magnis to progress development plans given stability provided by amended SEZ
- SEZ license permits 100% ownership by Magnis Resources Limited
- Legislative amendments allow for International Arbitration if disputes arise
- Revenues from product sales to be paid into overseas bank accounts – defraying major sovereign risk
- Fiscal stability ensured with a range of incentives including a favourable 10-year corporate tax-free period
- Magnis has the option to enter agreements with other graphite miners in Tanzania for processing and marketing of graphite

Magnis Resources Limited (“**Magnis**” or the “**Company**”) (ASX: MNS) is pleased to advise that agreement has been reached with the Government of Tanzania (GOT) on amendments to the Special Economic Zone (SEZ) licence, granted to Magnis Technologies Tanzania Ltd (MTT), a 100% owned subsidiary of Magnis.

The SEZ under the jurisdiction of the Department of Industry, Trade and Investment, governs the operation of the graphite processing plant and is not subject to the changes in the mining legislation promulgated last year. The SEZ license for production of value added graphite products is the only such license to be granted in Tanzania.

The amendments are significant and a major value catalyst for Magnis and underpins the development of the Company’s Nachu Graphite Project which includes the processing facility.

Following the introduction of new mining sector legislation in Tanzania during the second half of 2017, Magnis has continued to progress discussions with the GOT regarding the development of the mining and processing projects. The GOT has expressed its desire to see the implementation of large projects that will add significant value to the country's economy and development.

Those discussions led to Magnis submitting a proposal outlining that the entire Nachu processing plant will operate under MTT in the SEZ licence area, with the products from the SEZ continuing to be advanced graphite products that can be made using Magnis' proprietary technology.

Details of the New Agreement

Magnis has two subsidiaries in Tanzania – MTT and Uranex Tanzania Ltd [Uranex].

MTT will own and operate 100% of the Company's processing plant at the Nachu Graphite Project under the laws applicable to the SEZ under the Export Processing Zone Authority (EPZA) with the objective of promoting investment in Tanzania. MTT will initially produce refined Jumbo and Super Jumbo Flake products and spheroidal graphite products for the lithium-ion battery market.

Uranex will operate under the laws and regulations applicable to the country's mining industry under the Ministry of Minerals [previously Ministry of Energy and Minerals].

The impacts of the amended SEZ on Magnis Tanzania subsidiaries Uranex Tanzania Ltd [Uranex] and MTT is tabled below.

Uranex Tanzania

Government Jurisdiction:

- Ministry of Minerals

Scope of Operations:

- Ownership of mining license
- Establish mining quarry to deliver ore to SEZ and includes operation of mining pits and waste stockpiles
- Contract mining operations

Capital Expenditure

- ~US\$40 million

Magnis Technologies Tanzania

Government Jurisdiction:

- Ministry of Industry, Trade and Investment

Scope of Operations:

- Ownership of processing plant in SEZ
- Ownership of utilities including power plant located within the SEZ
- Ownership of warehouse and port storage facilities
- Graphite rock crushing, grinding and flotation circuit operations for concentrate production
- Operation of purification operations for high purity graphite production
- Processing of high purity graphite to make value added products for applications that include lithium ion battery
- Marketing and export of products

Capital Expenditure:

- ~US\$230 million

Incentives:

- Tax and duty breaks
- Full ownership by Magnis
- International arbitration
- No restriction of retaining earnings outside of Tanzania

Director General and CEO of EPZA Col. [retired] Joseph Leon Simbakalia said: “His Excellency President Dr. John Pombe Magufuli has set Tanzania on a firm path towards industrial development, with the processing of industrial mineral ores at the top of the industrialization agenda. In that regard, EPZA has been mandated by law to play the critical role of promoting and facilitating the establishment of Special Economic Zones (“SEZ”) to host minerals ore beneficiation industries linked to a value chain of associated downstream industries.”

“We are pleased to announce with Magnis that, **Honourable Charles Mwijage, [MP]** the Minister for Industry, Trade and Investment who is Chairman of the Board of EPZA has already signed to endorse amendment of the Magnis Resources Export Processing Zones [Declaration] made under Government Notice Number 221 of 2017.”

“We look forward to working closely with Magnis by way of facilitation and assistance that will enable execution of this exciting project in optimum time; with the introduction of new technologies to process graphite as well as the development of new skills for Tanzanians.”

Magnis Chairman Frank Poullas said: “The Board and Management are delighted with the amendments to our SEZ licence and for the ongoing support provided to us by the Tanzanian Government. This agreement crystallises the value of our Nachu Graphite Project and establishes MTT as an approved graphite processor in Tanzania. This is a great outcome for shareholders and we thank them for their continued support.”

“We would like to thank His Excellency President, Dr. John Pombe Magufuli, The Minister of Industry, Trade and Investment, Honourable Charles Mwijage, [MP], and CEO of EPZA Col. [retired] Joseph Leon Simbakalia along with his management team for their support in assisting Magnis with our world class graphite project. We look forward to progressing development at Nachu and bringing considerable economic and skills benefits to Tanzania through the development of the mine and the processing operations through MTT.”



Figure 1: Magnis representatives with the Director General and CEO of EPZA Col. [retired] Joseph Leon Simbakalia

Key Changes Under the New Agreement

The key change under the amended agreement is that MTT will now purchase graphite ore directly from Uranex, which is the holder of the Special Mining License [SML] for Nachu. This differs from the previous arrangement whereby, it was agreed that MTT would buy graphite concentrate from Uranex. The sale price of graphite ore from Nachu, as per the proposal to the GOT, will be based on an agreed formula for the value of the ore at the gate with consideration to international benchmark pricing to ensure transparency.

At a project level, Uranex will control the mining or quarry operations, water supply system and tailings dam operation, and will deliver ore to the MTT processing plant. Uranex will also operate in accordance with the legislation changes made in 2017 regarding GOT participation.

Based on the Bankable Feasibility Study [BFS] completed in 2016, the majority of the capital investment will now be made by MTT at approximately \$230 million [USD] with the remainder by Uranex at approximately \$40 million [USD]. The only capital expenditure associated with Uranex will be for the tailings dam and site water supply system. The SEZ is sited over the original SML plant infrastructure location allowing for continued best case economics for ore transportation. Magnis will now reassess the previous BFS with revised pricing and obtain separate Capex and Opex costs for both MTT and Uranex.

The revised SEZ area is now 206 hectares and will be excised from the original Nachu SML. A map showing the new SEZ licence area is depicted in Figure 2.

Special Economic Zone License

The SEZ is licenced by the EPZA, which is an autonomous agency under the Minister of Industry, Trade and Investment.

The key advantages of this amendment to the SEZ licence that are beneficial to Magnis and the GOT are:

- MTT will be 100% owned by Magnis Resources Limited [Australia];
- The amended legislation treats the SEZ area as effectively as an offshore entity and hence the revised licence will help to mitigate the concerns regarding investment following the aforementioned legislative changes;
- Access International Arbitration in case of disputes;
- Ability to retain revenue offshore as required;
- Maintains a stable fiscal environment for 10 years which includes no corporate tax allowing the capital investment to be recovered in reasonable time frames;
- The processing plant will achieve the GOT objective of having the advanced treatment of mineral concentrates take place in Tanzania; and
- Introduction and transfer of new skills and technology to Tanzania.

Some of the incentives afforded by the amended SEZ license are outlined in the Special Economic Zones Act Cap. 420 Revised Edition of 2012 and the Export Processing Zones Act, Chapter 373, Revised Edition of 2012 include:

- Remission of customs duty, value added tax and any other tax charged on raw materials and goods of capital nature related to the production in the Export Processing Zones;
- Exemption from any payment of corporate tax for an initial period of ten years and thereafter a corporate tax shall be charged at the rate specified in the Income Tax Act;
- Exemption from payment of withholding tax on dividends and interest for the first ten years;

- Exemption from payment of all taxes and levies imposed by local government authorities for products produced in the Export Processing Zones for a period of ten years;
- Unconditional transferability through any authorised dealer bank in freely convertible currency of: net profit or dividends attributable to the investment; payments in respect of loan servicing where foreign loan has been obtained; royalties, fees and charges in respect of any technology transfer agreement; and payments of emoluments and other benefits to foreign personnel employed in Tanzania in connection with the business enterprise.

The Export Processing Zones Act also conditionally precludes ownership by government or property acquisition by government in the EPZ. It also stipulates arbitration in accordance with the rules and procedures of the International Chamber of Commerce.

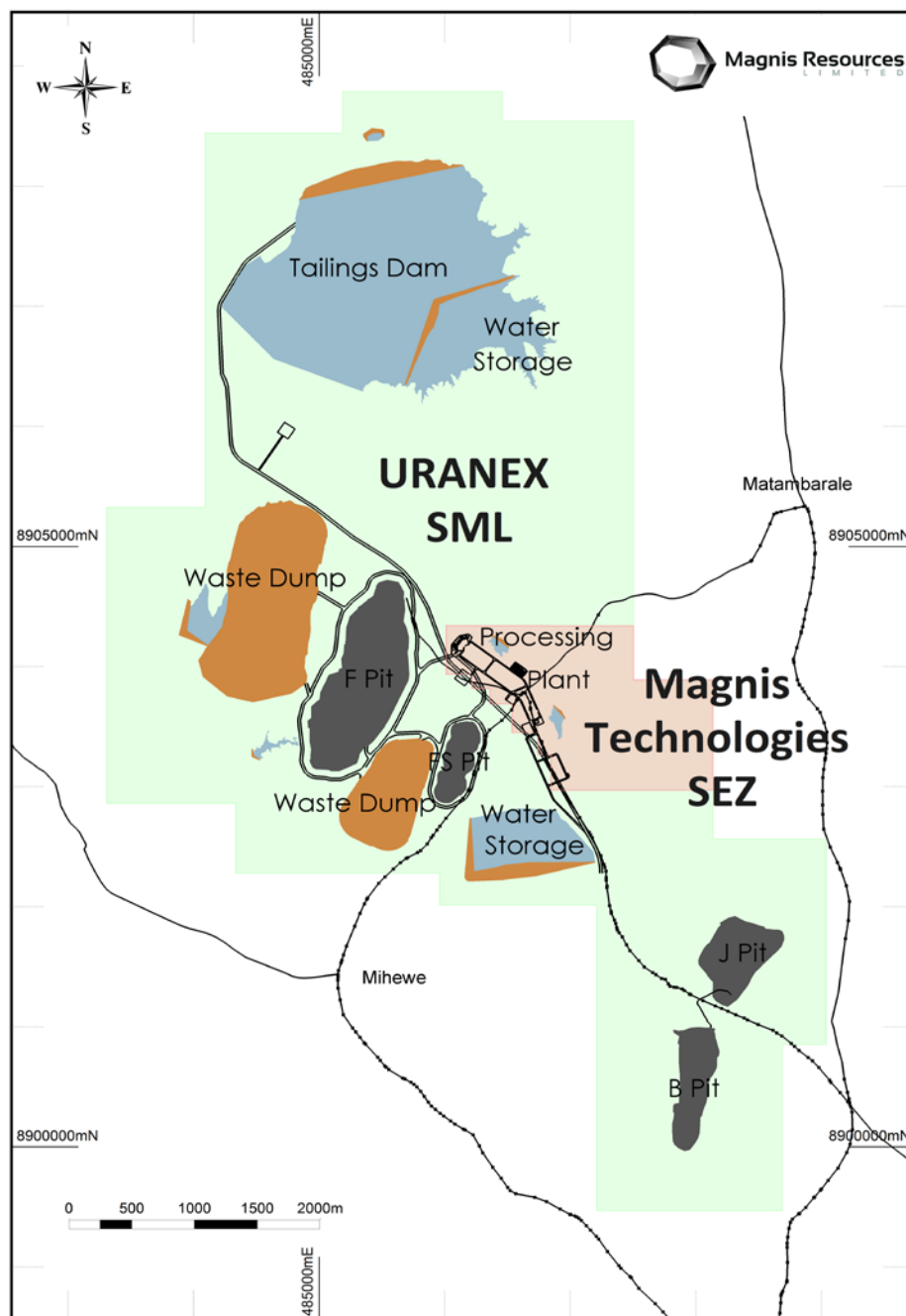


Figure 2 : The new SEZ licence area

Background on Special Export Zone (SEZ)

SEZ legislation was introduced in Tanzania in 2006. The legislation provides incentives for companies to create value addition and advance employment and development of the country.

SEZ licences are issued by the Minister of Industry and Trade with key benefits including the exemption from payment of corporate tax for up to 10 years, the exemption of taxes and duties for machinery, equipment and construction materials for the development of SEZ infrastructure and the exemption from payment of withholding tax on rent, dividends and interest for 10 years.

To date the majority of existing SEZ license owners come from the Agriculture Processing, Assembly and Engineering and Textile and Apparel sectors.

Other Tanzanian Graphite Projects

Several other companies with graphite operations in the Nachu region have expressed interest in either having ore or graphite concentrate treated at the Nachu plant to create advanced products that will be permitted to export. These companies are currently arranging samples to be sent for metallurgical testwork using the Magnis process. Magnis stands to benefit considerably from the potential supply of suitable ore from other sources in the region, as it will be the owner and operator of the first advanced graphite processing plant in Tanzania. It has the potential to be a regional processing facility that would allow other companies graphite concentrates to be processed into advanced products.

Funding discussions

Discussions with potential funding parties that have previously shown interest in investing into the Nachu Graphite Project will begin again in the near term. Potential funders of the Company's proposed lithium-ion battery plants have also expressed interest in Nachu and the Company looks forward to updating shareholders as to how this funding process advances.

Frank Poullas

Chairman

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