

Magnis Resources

L I M I T E D

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FOR RELEASE

31 July 2017

QUARTERLY REPORT TO 30 JUNE 2017

HIGHLIGHTS

Value added graphite products for lithium-ion battery strategy

- Nachu Graphite Project Update
- Global consortium established to transform Australia's energy security
- Consortiums formed and sites selected for lithium-ion battery gigafactories in Australia and USA

Subsequent Events

- Amendments to the Tanzanian Mining and Resources Legislation

Corporate

- Cash position for the Company at 30 June 2017 A\$7.55M

Magnis Resources Limited ("**Magnis**" or the "**Company**") (ASX: MNS) is pleased to present its quarterly report for the period ended 30 June 2017.

Magnis continues to focus on progressing the development of its Nachu Graphite Project ("Nachu") in southern Tanzania and recently has announced its participation in global consortiums, including ownership, to operate lithium-ion battery gigafactories in both Australia and the USA.

Nachu background

The high quality and purity from Nachu underpins Magnis' strategy to become a globally significant producer of high value graphite products with a particular focus on supplying the lithium-ion battery market.

For Nachu, Magnis has finalised all regulatory and environmental permits, completed a Bankable Feasibility Study (BFS), a power supply agreement and a clearly defined concentrate export route.

As one of the world's most advanced and shovel-ready graphite projects globally, Nachu is on target to meet the forecast increase in graphite demand for lithium-ion battery uses as numerous "mega-factories" are commissioned from 2018 onwards.

Nachu Graphite Project Update

Valuation and Compensation Progress

Magnis advised late in the June quarter that land valuations are now almost complete. Of the 776 parties affected, only three people remain who are not local residents and were unavailable to complete the valuation of claimed properties during the previous valuation exercise. They will now be covered under a supplementary valuation. The final compensation payments will be made after the supplementary valuation has been accepted by the Chief Government Valuer.

The compensation process included an extensive financial literacy program instigated by Magnis which covers the valuation process and compensation being provided, full details and education about the banking system and its advantages, basic financial literacy, the need to use money wisely, and common money scams of which recipient of funds should be aware.

Grave Relocation

During the valuation, a number of graves (140) were identified and will need to be relocated outside of the project area. This is a common procedure in Tanzania and the necessary meetings with all people associated with the graves have been held. The correct representatives have been identified and have accepted the need to relocate. The relocation will be conducted by the Ruangwa District Administration under the required health and community procedures. The process, once commenced, is estimated to take approximately three weeks.

Construction of Relocation Housing

The construction of the resettlement village for a total of 59 families living on the project area will commence after the compensation payments have been completed. The final construction tender is now being finalised. There are four types of houses in this scope of works, these being one, two, three, and four bedroom houses varying in size with storage, lounge room and verandah(s) included with detached latrine toilet and washroom building and outside cooking area.

The buildings also include a small solar power system for lighting and fans, and guttering and a water tank for rainwater harvesting. Construction materials, building components

and labour will be sourced locally as much as possible. Locally extracted sand and crushed aggregate, along with production of doors by local woodworkers, will be used in construction.



Figure 1 - Planned two bedroom house for construction

Stable Low-Cost Power Access

Discussions with the Tanzanian Power Development Corporation (TPDC) on gas supply pricing are ongoing and constructive. Recently, the rates for gas sales applying to companies that are classified as “Strategic investors” have been released. The Company qualifies for this status under the Tanzanian Investment Centre requirement and is awaiting the official response from the TPDC.

Magnis intends to construct a 90km pipeline to the site so that gas can be used for power and process requirements, as well as potentially in the transport fleet for moving the products to the port and for any mining equipment that may be suitable. This will provide cost savings to the Company as well as significant benefits to the Government of Tanzania.

Initial Water Storage Dam

Detailed engineering has commenced on the design of one of the site water storage dams. This dam is planned to be constructed in the second half of 2017 and will then act as a source of water to be used in conjunction with the current water bores during the project construction phase. While the water bore pump tests show sufficient flow for our requirements, the Company feels it prudent to have a backup supply as part of a risk mitigation strategy.

Roads

Road upgrades have been taking place for the stretch of road between Nanganga and Ruangwa which is approximately 60 kms. The funding of the project has been done by Tanroads. It is expected the project will take 12 months to upgrade the existing road to a high-quality gravel road whilst the process of sealing with bitumen will be ongoing, approximately 5km of bitumen is already completed whilst another 5km is in progress. It is now expected that Magnis' main road upgrade priority will be the upgrade of some 12 kms of road that leads directly into the site north from Ruangwa.

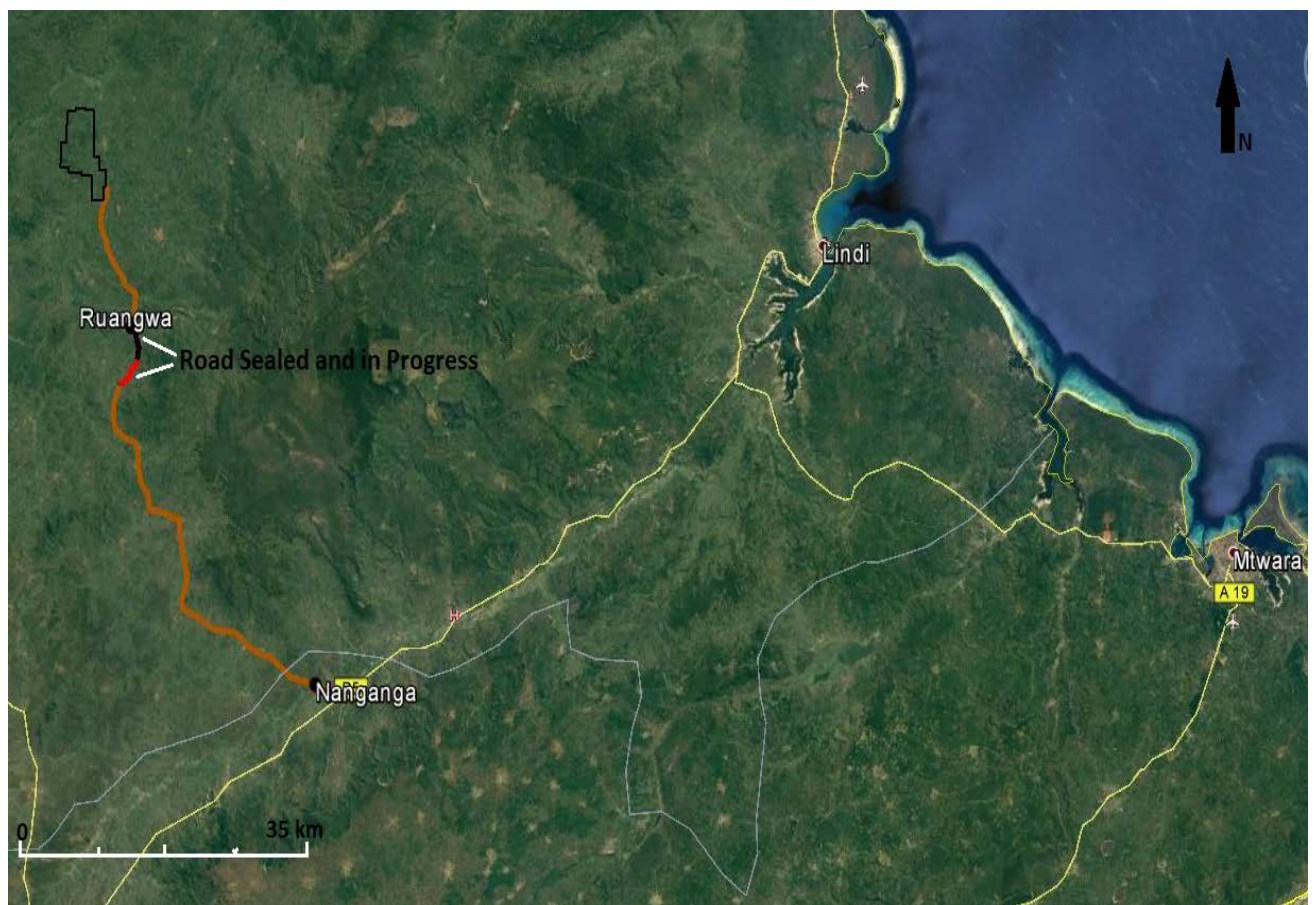


Figure 2 - Locality image of Southern Tanzania highlighting gravel road and sections under improvement.



Figure 3 - Progress of upgrading to bitumen road near Ruangwa

Magnis will continue to update shareholders on the progress of the above initiatives given the Amendments to the Tanzanian Mining and Resources Legislation that have been recently released following the quarter end and as outlined in the subsequent events in this report.

Australian Lithium-ion Battery Plant

Magnis announced it is part of a global consortium led by Boston Energy and innovation (BEI) which has signed an exclusive Memorandum of Understanding (MoU) with Townsville City Council to investigate building a 15GWh lithium-ion battery manufacturing plant in the Townsville region.

The consortium will investigate the financial viability of building the manufacturing facility that once in full production could provide either 250,000 car batteries per annum (up to 400kms range) or one million home battery units or support 300 microgrids to power small towns. This project is committed to transforming Australia's energy security by

pledging the new batteries will be cost competitive, better performing, be a sustainable and ethically sourced supply chain, environmentally friendly and an alternative to current major energy suppliers.

The consortium is chaired by well-respected and highly regarded Australian businessman and philanthropist, Mr Bill Moss AO and consists of New York Stock Exchange listed Eastman Kodak Company (NYSE:KODK), Charge CCCV (C4V) and C&D Assembly both leaders in the lithium-ion battery space and based in New York. Magnis will have both an ownership in the plant as well as providing anode materials and technologies.

Meetings have taken place with senior officials of Townsville City Council and Members of Parliament in the Queensland State Government with a high level of support for the project. This resulted in the identification and provision of a number of potential local council and state development sites, which met the consortium's criteria. These were assessed by Magnis, independent engineers and key members of the consortium on the preferred location.

In late June, the consortium announced that an area of land of approximately 400 hectares in the Woodstock area was offered by the Townsville City Council in exchange for equity in the project.

Woodstock is located on the Flinders Highway, approximately 40kms from the Port of Townsville. The parcel of land offered is on flat terrain and high lying with major nearby infrastructure including rail, power and fibre-optic cable.



Figure 4 – Woodstock Site

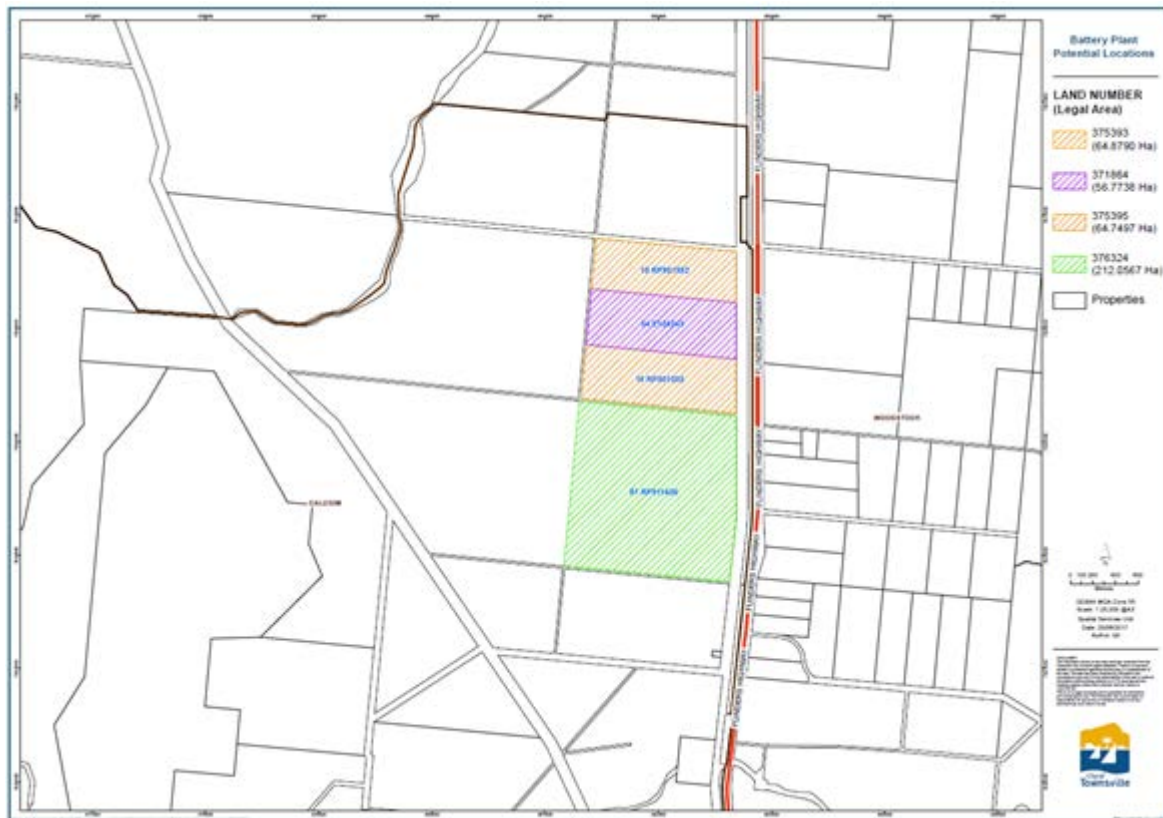


Figure 5 - Site Location Map

Site selection is a key milestone which demonstrates the commitment by all parties including the local and state government to fast track the project and paves the way for the commencement of the feasibility study to initiate the design and engineering phase of the project.

To date, a high level of local and overseas interest has been received for both the funding of the project and for offtake. Further details on both these issues will be reported as they come to hand.

Bulk sample with ROSATOM

During the quarter, the Company announced that following the successful testing of its graphite samples sent to Russia's ROSATOM, a bulk sample program is going to begin soon funded by U1, a wholly owned subsidiary of ROSATOM.

U1 will fund a bulk sampling program to produce Super Jumbo, Jumbo and battery feedstock. It is expected approximately 18 tonnes of ore will be required. The ore will be extracted from drill sample to give a full representation of the ore body and minimise any

risk from localised variability. Most of the drill sample is already available with concentrate to be produced in Australia and sent to U1 for testing.

New York State Government supports Lithium-ion Battery Gigafactory

Magnis announced the signing of a Joint Manufacturing Establishment Agreement for a 15GWh lithium-ion battery facility in New York State. The agreement is supported by New York State Government officials and has been signed by Magnis, C4V, BEI, C&D Assembly and Primet Precision Materials (Primet).

Under the terms of the Development Agreement, a new 15GWh Lithium-ion battery manufacturing plant will make use of existing facilities and infrastructure in the State of New York. All parties will work towards the scale up of current operational MWh capacity towards 15GWh. Component supply, cell manufacturing and the supply chain for raw materials is consistent with each party's policy regarding business ethics and sustainability.

Target markets that have been identified are Electric Vehicles, Heavy Electric Vehicles, Energy Stationary Storage Systems and the replacement of Lead-Acid Batteries.

Magnis will be responsible for supplying the anode materials and technologies, while the cathode materials and technologies, manufacturing processes to produce electrodes and the battery cells comprised of those electrodes will be handled by C4V and Primet.

C&D Assembly with its state of the art electronics manufacturing facility located in Groton, New York will provide the battery management systems and power harnessing.

BEI will assist with project structuring, capital raising and global expansion.

Over the last 6 months, consortium members have been inspecting potential facilities which are ideal for the manufacture of Lithium-ion batteries. It was announced in late May that an agreement had been signed by consortium partners with officials from the Huron Campus for the primary manufacturing location.

Located at Endicott near Binghamton, New York, the Huron Campus is the Birthplace of IBM, and it is a world class high tech facility which was previously used by IBM (NYSE: IBM) for the manufacture of equipment, including, high end circuit boards, semiconductor packaging, and advanced electronics. The facility is ideal for the manufacture of both battery materials and batteries/cells alike, as it has temperature and humidity controlled buildings and warehouse facilities ready to integrate new technologies. The site has a transmission level substation with 50MW of capacity, and the Campus includes competitive low-cost power supply.

The Huron Campus contains technology, specialised equipment, an experienced team, and nearly 100 years in logistics business expertise – all key contributors in shortlisting and choosing this site.

The Campus covers 150 acres, and the building earmarked for the manufacture of the consortia's batteries totals 60 acres.

State-of-the-art facilities include site feed from two independent substations. A large central powerhouse delivers steam, compressed air and chilled water to the site. Compressed air is dried to -27 Celsius.

In recent months, members of the consortium visited the Huron Campus and were impressed with its facilities. Other current tenants include IBM, BAE Systems, Geodis, and Cadence Design Systems in combination with existing roll-to-roll manufacturing system among others.



Figure 6 - Aerial photo of a section of Huron Campus



Figure 7 - Huron private water treatment plant (bottom Left) and central utility plant (bottom right)



Figures 8 and 9 - Modern Facilities of Huron Campus

An internal scoping study on LIB manufacture in New York and other jurisdictions has been undertaken and completed to assess the key project aspects, which included battery market forecasting, raw materials supply, material technologies, manufacturing processes, key stakeholders and financial viability. The scoping study was initiated by Magnis and C4V who have been collaborating for over 18 months and harnessed input from all consortium members in the operational supply chain and project funding. The

outcomes of the scoping study were instrumental in bringing all consortium members together to fast track the 15GWh LIB plant in New York towards future production.

In recent months, sample batteries have been produced by the consortium members for potential customers. Discussions with these customers are progressing well and include advanced discussions on future offtake agreements.

Amendments to the Tanzanian Mining and Resources Legislation

Within a few days of the June quarter ceasing, there were legislative amendments to the legal framework governing the mining and natural resources sector in Tanzania

Three supplementary Bills were passed by the Tanzanian parliament and have since been officially signed so that the Bills have become Acts and operate as law.

The three Bills can be found on the Tanzanian Parliament website as copies and are as follows:

- The Natural Wealth and Resources Contracts (Review and Re-Negotiation of Unconscionable Terms) Bill 2017;
- The Natural Wealth and Resources (Permanent Sovereignty) Bill 2017;
- The Written Laws (Miscellaneous Amendments) Bill 2017.

The Company has reviewed and received initial legal advice on the new legislation and its impact on the Company's activities in Tanzania. The legal advice confirms the in-country management and Board's assessment that further clarity is required before an appropriate assessment of the impacts can be made on Nachu.

Magnis' Current Structure in Tanzania

The new legislation appears as though it will impact Magnis' wholly-owned subsidiary, Uranex Tanzania Ltd ("UTZ"), that plans to conduct the graphite mining operations and the production of a graphite concentrate. The level of impact requires further clarification given that the Project holds a Special Mining Licence (SML) that was referred to in the Australian Securities Exchange (ASX) announcement on 8 September 2015 and Mineral Development Agreement (MDA) that was referred to in the ASX announcement on 23 October 2015.

In particular, The Written Laws (Miscellaneous Amendments) Bill 2017 will require clarification on its potential impact on UTZ, as the Company notes the inclusion of section 10 of the Bill referencing not less than 16 percent non-dilutable free carried interest in shares of the mining company (UTZ in this case) in comparison to the 5 percent free carried shareholding in the Project for the Government of Tanzania as was originally agreed upon in the MDA.

The Natural Wealth and Resources Contracts Act, 2017 mentions Government re-negotiation of unconscionable terms that will need to be investigated further and require clarification for the Company.

In addition to the free carried interest shares in UTZ, the government can acquire up to 50 percent of the shares in the mining company commensurate with the total tax expenditures incurred by the Government or tax incentives in favour of the mining company. One of the key terms agreed to in the MDA was a tax rate of 30%, thus no special tax concessions were applicable given the current tax rate in Tanzania already is 30%.

A production royalty of 3% was also agreed to in the original MDA and this remains unchanged when the new legislation applies.

An amendment to the Mining Act in section 90 has occurred whereby an inspection fee of 1% of the gross value of exportation of mineral or minerals shall apply. This is a new inclusion that will have an impact on the Project however the extent of this has yet to be fully determined.

Magnis is in ongoing discussions with Tanzania Government and is seeking advice on these legislative changes, particularly with reference to the existing SML and MDA and will provide further updates to shareholders and the market when received.

Special Economic Zone

The Company has been advised by the Export Processing Zone Authority (EPZA) that the new legislation will not have impact on the subsidiary, Magnis Technologies Tanzania Ltd ("MTT") which will utilise Magnis' developed technology in the Special Economic Zone (SEZ) for processing of graphite concentrate to final products. It should be noted that the SEZ was approved by the current government and announced to the ASX on 29 March 2017.

The approval to operate within a SEZ allows the Company to apply the advanced technologies it has been developing to produce value enhanced graphite products. SEZ legislation was introduced in Tanzania in 2006 and provides incentives for companies to create value addition and advance employment and development of Tanzania. The SEZ licences are issued by the Minister of Industry and Trade.

UTZ will be conducting the mining operations and processing plant operations to produce a basic graphite concentrate which will then be sold to MTT at commercial rates. MTT will then use the technology the Company has developed to produce the final advanced products.

Magnis has been actively developing advanced technologies to produce high quality graphite products and this technology is well suited to the SEZ requirements. The

Company has also been very cognisant of the focus that the Tanzanian government has recently had on value enhancement of exports and this SEZ development is a result of the commitment to those objectives.

Summary

A high level of uncertainty and speculation remains within the Tanzanian mining framework. Until this uncertainty abates, the Company has been granted voluntary suspension of its securities (ASX:MNS) and will remain in voluntary suspension from trading on the ASX as further clarification is required and to be provided on the status of the SML and MDA on the Project. The Company and its advisors will assess the impact of these changes and update shareholders and the market.

The Company's Board and Management have always acted in the best interests of all stakeholders in the Project and have been respectful in our dealings with the Government of Tanzania and will continue to develop that relationship with authorities. The Company respects the Government's ambition to amend the mining legislative laws to provide the country with a structured framework for the industry going forward

Further discussions with the Tanzanian ministries will be made to clarify the position of Nachu that holds a SML and an MDA. Magnis is only one of a select number of companies that holds a SML and MDA in Tanzania.

An SML linked with an MDA aims to provide special parameters including fiscal stability that involves locking in tax rates, royalties and the Government free carry interest for a select number of years.

An announcement will be made to the market regarding the level of impact that the mining legislative changes will have on the Company. This announcement is expected to end the period of voluntary suspension and will be made on or before market open on Monday 28 August 2017.

Funding

Cash position for the Company at 30 June 2017 was A\$7.55M.

The funding position of the Company was boosted from the large numbers of listed options that were exercised during the quarter. These listed options with an exercise price of \$0.09533 expired on 31 May 2017 and approximately A\$8M was raised in the quarter.

The Company is very encouraged by the level of support received from the exercise of these securities and provides a strong capital base for the future as the Company continues its focus on Nachu and the lithium-ion battery factory strategy.

Tenements

The following is the Schedule of Mineral Tenements held by the Company:

| | | |
|--------------|-----------|--------|
| PL7377/2011 | Ruangwa | (100%) |
| SML550/2015 | SML Nachu | (100%) |
| PL10906/2016 | Nachu | (100%) |



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