

# Magnis Resources

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## UPDATE ON MAGNIS RESOURCES IN TANZANIA

Magnis Resources Limited [ASX:MNS] [**"Magnis"** or the **"Company"**] is pleased to provide an update on the position in Tanzania regarding Magnis Technologies Tanzania Limited [MTT] and Uranex Tanzania Limited [UTZ].

Magnis is the only company that, through its subsidiaries, holds a Special Mining Licence [SML] and Special Economic Zone status [SEZ] in Tanzania allowing for an integrated working relationship.

The situation, with the recently introduced legislation, in Tanzania continues to evolve, impacting all companies working within the mining and exploration sector, including those that hold Mining Licences [ML] and SMLs.

The Company awaits appointments for the newly prescribed "Mining Commission", to confirm all mining licence agreements, and await the appointment of a new Minister for the Ministry of Energy and Minerals to allow meaningful and authoritative communication to occur.

Magnis has received and reviewed legal advice and government directives on the revised legislation and its impact on the Company's activities in Tanzania.

### Current Arrangement

Uranex Tanzania Limited [UTZ] is the exploration and mining entity that will produce a graphite concentrate of 90% to 95% purity at the Nachu Graphite Project [the **"Project"**].

Magnis Technologies Tanzania Ltd [MTT] is the entity that will further process and beneficiate graphite concentrate in the Special Economic Zone [SEZ], into higher grade graphite products using proprietary technology, that Magnis has developed for this graphite.

The graphite concentrate produced by UTZ will be sold at market rates [arm's length transfer pricing principles] to MTT. At current market pricing, the transfer price would be between US\$600 - \$650 per tonne.

### Tanzanian Mining Legislation

The legislative amendments to the legal framework governing the mining and natural resources sector in Tanzania, notably the three Bills that were passed by the Tanzanian parliament on the 3rd and 4th July 2017, have since been officially signed so that the Bills have become Acts and operate as law by the President on 7th July. The three Bills can be found on the Tanzanian Parliament website and are as follows:

- The National Wealth and Resources [Permanent Sovereignty] Act, 2017. Act Supplementary No. 5 G N 27 vol. 98 dated 7 July 2017.
- The National Wealth and Resources Contracts [Review and Re-negotiation of Unconscionable Terms] Act, 2017. Act Supplementary No. 6 GN 27 vol. 98 dated 7 July 2017.
- The Written Laws [Miscellaneous Amendments] Act, 2017. Act Supplementary No. 7 G N 27 vol. 98 dated 7 July 2017.

Key points of note are:

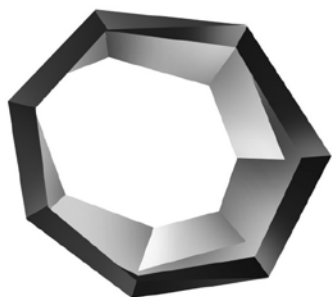
- The sections of the Written Laws [Miscellaneous Amendments] Act, 2017 that were changed shall be clarified in the new regulations and mining rules which are currently said to be under preparations and technical review for workability.
- The Minister responsible for minerals has not been appointed.
- The Commission under the President's Office has not been formed.
- The appointment of the Minister and establishment of the Commission are very important to the Mining Sector upon which major decisions are premised.

Our legal advice confirms the in-country management and Board's assessment that until all the above items are completed and clarifications on uncertainties have been issued by competent authorities, particularly in regard to working regulations that append to the legislation, the Company cannot have a final statement on the impacts of changes in the legislation to the Project at this time. Magnis continues to have a close working relationship with the Government and is still carefully following up developments with relevant authorities so that all objectives are met.

### **Magnis Technologies Tanzania Limited**

The Company has received confirmation in writing by the Export Processing Zone Authority [EPZA] on 21 August 2017 that the new legislation will not impact the subsidiary, Magnis Technologies Tanzania Ltd [MTT], which will utilise Magnis' developed proprietary technology in the 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.

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 real value enhancement of exports and this SEZ development is a result of the commitment to those objectives.



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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 were issued by the Minister of Industry and Trade. The SEZ that is owned and operated by MTT unilaterally allows for the purchase of graphite from any graphite mine for creating higher end graphite products. The planned beneficiation is far in excess of quoted “beneficiation” of other aspirant Tanzanian graphite miners. Currently, the MTT SEZ is the only graphite processing area of its kind in Tanzania offering approved graphite mineral beneficiation suitable for export as per the Government objectives.

## Uranex Tanzania Limited

The new legislation will potentially impact Magnis’ wholly-owned subsidiary, Uranex Tanzania Ltd [UTZ], that plans to conduct the graphite mining operations and the production of a standard graphite concentrate. The level of impact requires further clarification given that the Project holds a 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. The MDA is now invalid due to the legislation changes although this event has less impacting material effect to the Company than to some companies that didn’t have an MDA, notably the introduction of a minimum Government free carried shareholding of a project.

The Written Laws [Miscellaneous Amendments] Bill 2017 has 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. It’s notable the comparative impact to Magnis is much less than that of many other Mining Licence holders who have previously been working towards an unconscionable zero free carried interest.

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. Although the Company believes this does not affect its current position it will require the regulations to be finalised and the Mining Commission to confirm any impacts.

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%. Again, the Company believes this does not affect its current position. A production royalty of 3% was also agreed to in the original MDA, and this remains unchanged for industrial minerals within the new legislation.

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 a minor impact on the Project.

Within the revisions, the benefits to Tanzania from Natural Resources requires exploration and mining companies to demonstrate how mining projects benefit the Tanzanian economy and people. A portion of returns from mining projects must be re-invested in Tanzania. Preference must be given to goods produced in Tanzania and must be acquired and imported through Tanzanian companies. Magnis has always encouraged and developed local employment and training and has always purchased locally wherever possible.

UTZ has been formally notified as holder of a SML that listing of 30% of UTZ on the Dar es Salaam Stock Exchange [DSE] is required in accordance with the provisions of the Capital Market and Securities Act; to meet the requirements of the Mining [Minimum Shareholding and Public Offering] Regulations, 2016 as amended in 2017. The Company have been informed that the requirement to list 30% of shares in UTZ (UTZ only) in a period of 6-12 months.

Although UTZ will exhaust all avenues to a successful listing it is apparent, through initial legal and expert references, UTZ may not meet the requirements of listing on the DSE and so shall work towards a point in which this can be confirmed and the trigger point for obtaining a waiver from listing from the Minister of the Ministry of Energy and Minerals of Tanzania. Once a Minister and Commission are appointed further discussions on the UTZ listing and or waiver can be negotiated.

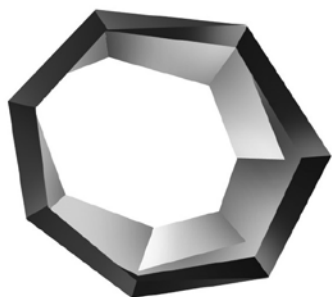
## **Summary**

A level of uncertainty remains within the Tanzanian mining framework. The Company and its advisors will continue to assess the impact of these changes and update shareholders accordingly.

All recent developments have had no net detrimental impact on the Project financial viability as set out in the 2016 Bankable Feasibility Study and the Company's Board and Management continue to support the Project's development.

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. This will continue. 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.

The Company plans to remain in a suspension until 28 August 2017 where it will announce details of a Memorandum of Understanding relating to its involvement in a Lithium-ion Gigafactory in Europe.



**Magnis Resources**  
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Frank Poullas  
Chairman  
**Magnis Resources Limited**  
+61 2 8397 9888