



Magnis Resources

L I M I T E D

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QUARTERLY REPORT TO 30 SEPTEMBER 2017

HIGHLIGHTS

- MOU signed with future German lithium-ion gigafactory TerraE
- Update on Tanzania legislative changes to the Mining Industry

Subsequent Events

- New York Funding Package and Clarification
- Energy Giants Join Magnis to Develop German Gigafactory
- Townsville Enterprise Recommendation

Corporate

- Cash position for the Company at 30 September 2017 A\$5.7M

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

Magnis recently has announced its participation in global consortiums, including ownership, to operate lithium-ion battery gigafactories in both Australia, the USA and Germany. As a member of these consortiums, Magnis' role will be to provide anode materials and associated technologies to assist in the production process.

Memorandum of Understanding signed with future German lithium-ion Gigafactory TerraE

Magnis announced to the ASX on 28 August 2017 that it had signed a Memorandum of Understanding (MOU) with German Lithium-ion battery consortium TerraE – Holding GmbH (TerraE) for the supply of materials. Under the agreement, Magnis will supply raw materials to the TerraE Gigafactories.

TerraE plans to build 34GWh of production capacity across two locations in Germany, with first stage production expected to commence in late 2019.

TerraE was recently established with the target to setup mass production of Lithium-ion battery cells of 34 GWh in Germany. TerraE leads a project made up of 18 German companies and research

institutes, which is planning the construction, development and fit-out of the gigafactories during the next two years. The consortium includes companies throughout the supply chain including infrastructure, manufacturing planners, material producers, machine engineering groups, cell manufacturers and industrial consumers.

Target markets that have been identified are power tools, electric vehicles, utility electric vehicles, energy storage systems and industrial sectors.

Update on Tanzania legislative changes to the Mining Industry

During the quarter, the Company provided 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 notes the recent appointment of a new Minister of Mining, the Honourable Angellah Kairuki, and now awaits the formation of the actual Mining Commission to assist with mining licence agreements and to allow meaningful and authoritative communication to occur.

As stated during the quarter, 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. 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 Mining Commission under the President's Office has not been formed.
- The establishment of the Commission is 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.

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.

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 has been informed of 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 Mining in Tanzania. Once the Mining Commission has been appointed, further discussions on the UTZ listing and or waiver can be negotiated.

In 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.

Subsequent Events

Energy Giants Join Magnis to Develop German Gigafactory

Magnis announced early in October the signing of a MoU for a 30GWh Lithium-ion battery with integrated Lithium-ion battery recycling plant in North Rhine Westphalia, Germany, with the industrialised Emscher-Lippe region.

The agreement is supported by the North Rhine Westphalia (NRW) government and has been signed by Magnis Resources and Public-Private Partnership (PPP) WiN Emscher-Lippe GmbH (WIN).

The WIN PPP members include Energy and Chemicals giants such as British Petroleum (BP), EVONIK, INEOS, SABIC, SASOL, E.ON, Uniper, RAG and RWE/ Innogy, a number of financial institutions, government entities and economic development entities such as NRW-Bank, NRW.Invest. Thirteen regional municipalities for the economic development of the Emscher-Lippe region an industrialised area in NRW, are also members.

NRW

With a population of 17 million and having US\$800 billion GDP, the Federal State of NRW, is Germany's largest Federal State and the largest industrial activity centre within Europe. Two sites have been shortlisted with the necessary infrastructure to provide advantages for Lithium-ion battery production.

Key Terms of the Development Agreement

Under the Agreement, a 30 GWh Lithium ion battery manufacturing with integrated Lithium-ion battery recycling facility will be setup in NRW. The battery manufacturing plant development will be an integrated facility aimed at achieving the most sustainable supply chain solutions and include product qualification, quality control and close loop on site recycling.

The Emscher-Lippe region has a strong industrial base with one of the largest energy-chemicals clusters in Europe and there is existing infrastructure in place to house future industries such as the proposed gigafactory. The development of new industries, such as battery manufacturing, is regarded as an essential prerequisite for future employment and economic activity in NRW, especially in the Emscher-Lippe region. This would be a gain for the existing automotive industry and in the new industries that include renewable energies and consumer technologies.

Magnis will be responsible for sourcing raw materials and associated technologies. With its partners, Magnis will assist with general project development and management of the project.

Target Markets

The automotive industry is critical to the German economy and electromobility is a major target market for the project. Germany is also leading the world in the transition to renewables, with over one-third of electricity generation now from renewables. Such a high proportion of intermittent renewables is starting to impact grid stability and hence stationary energy storage is another key target market for future production.

Meetings have been held with groups in the target markets based in Germany who have expressed interest in potential offtake and co-operation with more information expected in the near future.

To date, a scoping study has been completed highlighting the financial viability of the plant with a feasibility study to commence in Q4, 2017. Additional consortium members and partners are expected to be announced in the current quarter.

Townsville Update

Magnis noted on 5 October 2017 the Townsville Enterprise 2017 State Government Election Priorities Report [“the Report”] and the recommendation that Local Government is calling on the State Government of Queensland to commit to funding for the Lithium-ion battery gigafactory on the Lansdown site at Woodstock.

Magnis has previously announced to the ASX, in April this year, that it is part of a global consortium which has signed an exclusive MOU with Townsville City Council to investigate building a 15GWh Lithium-ion Battery Manufacturing Plant. Site selection at Woodstock, approximately 40km from the Port of Townsville was then confirmed in an announcement in late June this year.

The Report recommends funding of A\$103M for stages 1 and 2 below.

- Stage 1: Development of a detailed Feasibility Study, detailed design and studies.
- Stage 2: Delivery of key infrastructure [Roads, Power, Water, Sewer, Telecommunications, etc.]
- Stage 3: Establishment of the proposed Lithium-ion Battery Plant

The full Report can be found at <http://www.townsvilleenterprise.com.au/documents/2017-State-Government-Election-Priorities.pdf>

New York State Government Funding

Post quarter end, Magnis announced that Imperium3 NY, part of the global consortium Imperium3, in which Magnis is a one third owner, has received funding [“the NY Funding Package”] totalling US\$13.25 million for Stage 1 production at the New York State Lithium-ion Gigafactory to be located at the Huron Campus in Upper State New York.

An update and further details of the NY Funding Package is provided below for shareholders along with the official New York State Government Press Release and official press conference links.

The NY Funding Package was offered by Empire State Development [ESD], a NY Government Fund, to Imperium3 New York, which duly accepted the package. Imperium3 New York is a fully owned subsidiary of Imperium3. The incentives offered by ESD and accepted include:

1. A capital grant of US\$4 million from the Upstate Revitalization Initiative that is payable in arrears and primarily based on achieving full time employment targets;
2. Refundable tax credits of up to US\$3.5 million under the Excelsior Jobs Program that is contingent on full time employment targets and R&D expenditures;
3. US\$5.75 million of tax credits under the New York Investment Tax Credit scheme to Imperium3 NY, for New York based corporations.

The production of the gigafactory is expected to create hundreds of employment positions for the local Endicott area in New York and to encourage this collaborative effort, the ESD offered the performance based incentives and tax credits.

The New York State Government Press Release can be found here:

<https://www.governor.ny.gov/news/governor-cuomo-announces-imperium3-new-york-establish-lithium-ion-battery-giga-factory-southern>

The press conference can be viewed here:

<http://www.wbng.com/story/36520211/gov-cuomo-endicott-battery-factory-to-create-more-than-230-jobs>

About the New York Gigafactory

A Joint Manufacturing Establishment Agreement was signed for a 15GWh lithium-ion battery plant as announced on 22 May 2017. The agreement was signed by Magnis, Charge CCCV [C4V], Boston Energy and Innovation, C&D Assembly and Primet Precision Materials.

Over 25 international companies are undergoing qualification process as strategic suppliers of critical ingredients for Lithium-ion battery cells including raw materials, electrolyte and separator.

The recent completion of the scoping study priced the capital costs for Stage 1 at US\$130m, with an expected first production date in the second half of 2019. First stage production will be at 3GWh with an aggressive ramp up to 15GWh.

The detailed engineering contract for stage 1 is expected in the current quarter with groups shortlisted all having extensive experience in the Lithium-ion battery industry.

Battery Production

Using its innovative technology and industry experts, the batteries to be produced by the consortium have been qualified as safer, more efficient and less expensive. The consortium is currently producing batteries in a Megawatt scale facility, mainly for product evaluation, supplier qualification and system level performance validations.



Figure 1 – Cylindrical cells produced by Imperium3 NY

An experienced team has been assembled to lead the project with key members having previous experience working in the production of Lithium-ion batteries for one of the global leaders from Korea and an Auto manufacturer from the US.

The general market for Lithium-ion batteries continues to grow rapidly with announcements by current and future end-users being made on a regular basis. The target markets identified for Stage 1 production following end user discussions include Electric Vehicles, Stationary Energy Storage, consumer electronics and niche products. Under the 50by30 program, New York's utilities and other electricity suppliers are required to obtain 50% of New York's electricity from renewables, which would require many GWh of annual storage to make it possible and this gigafactory will play a large role in meeting New York State's internal demand and allowing them to achieve this goal.

The NY Funding Package builds on the significant work being done by the consortium in New York State and receiving the support from the New York State Government is a key milestone for financing the project. Discussions have been very positive to date on the remainder of the funding and these discussions will continue with Magnis updating the market accordingly. A signed term sheet is expected in the current quarter with serious interest being received in the US.

Offtake discussions are nearing completion with a high demand coming from the global market including stationary storage and electric mobility.

Funding

Cash position for the Company at 30 September 2017 was A\$5.71M.

The funding position of the Company provides a strong capital base for the future as the Company continues its focus on Nachu and the lithium-ion battery factory strategy.

In addition to this, there are unlisted options that are currently trading in the money with expiry dates over the next few months that potentially could provide an increase to current cash levels.

Tenements

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

PL7377/2011	Ruangwa	[100%]
SML550/2015	SML Nachu	[100%]
PL10929/2016	Nachu	[100%]



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