

MAGNIS RESOURCES LIMITED

ABN 26 115 111 763

**FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2017**

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public pronouncements made by MAGNIS RESOURCES LIMITED during the interim reporting period in accordance with the continuous disclosure requirements of the Australian Securities Exchange.

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity of Magnis Resources Limited (“**Magnis**” or the “**Company**”, ASX Code : MNS) for the half-year ended 31 December 2017.

DIRECTORS

The following persons were Directors of the Company during or since the end of the financial half-year:

Frank Poullas (Non Executive Chairman)
Johann C Jooste-Jacobs (Non Executive Director)
Peter Tsegas (Non Executive Director)
Professor M. Stanley Whittingham (Non Executive Director)
Marc Vogts (Non Executive Director)
Peter Sarantzouklis (Non Executive Director)
Dr Ulrich Helmut Bez (Non Executive Director)

COMPANY OVERVIEW

Magnis is an Australian based company that is aiming to fast develop into a significant contributor to the Lithium-ion battery (LIB) sector.

The Company has involvement and part ownership of 60GWh of future LIB production in three countries. Magnis is also involved with the development and ultimately mining and processing natural flake graphite for use in various industries, including in particular, batteries for storing electrical energy.

The three proposed LIB gigafactories are based in New York USA (15GWh), Townsville Australia (15GWh) and one recently announced in Germany (30GWh). First production is expected in 2019 for New York with production in Germany and Townsville slated for late 2020.

The New York production will be fast tracked with the recent acquisition of LIB plant assets, as announced to the ASX on 8 February 2018.

Magnis maintains its key graphite mining project known as the Nachu Graphite Project (“Nachu”) located in south east Tanzania, circa 220km from the sea port town of Mtwara. The excellent purity levels shown at the metallurgical testing stages combined with the good proportion of super jumbo, jumbo and large flake natural graphite make the project very unique and demands premium prices of its product in the market.

A Bankable Feasibility Study was conducted for Nachu, details of which were released to the ASX on 31 March 2016, with an initial 15 year Run of Mine (ROM) at 240,000tpa graphite concentrate.

Extensive testing for use in batteries, has occurred on the Nachu graphite with outstanding results achieved to date, with potential end users interested in further examining the qualities and performance of the Nachu graphite to be used in the anode for LIBs.

The Company is well supported by a highly experienced and credible Board of Directors and management team with strong capabilities and expertise in the LIB sector. The Board also have specific skills in project development, from the exploration phase through to mining and production.

REVIEW AND RESULTS OF OPERATIONS

The net loss after tax of the consolidated entity for the half-year ended 31 December 2017 was \$3,144,524 (2016: \$5,960,816) which was mainly due to expenditure involved in the land valuation procedures and tenement costs for Nachu, consulting, research and development costs involved in LIB technology.

An operational overview is set out below.

Overview

The operational activities for the half year ended 31 December 2017 were primarily focused on the rapid advancement of the LIB gigafactories scheduled for construction and production in New York, Germany and Australia.

The pre-development and operational work for the Nachu Graphite Project was limited in the past six months, given the legislative and regulatory changes that were introduced in Tanzania. The full impact of these changes on the Nachu Project are yet to be fully determined and the Company maintains constant working contact with the Government of Tanzania to provide mutually beneficial outcomes for both the nation of Tanzania and the Company and its shareholders.

New York, USA - Gigafactory

On 5 October 2017, Magnis announced to the ASX, that Imperium3 NY, (Magnis is a one third owner of Imperium3 NY through the Imperium3 consortium) had 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 New York State. The details of the NY Funding Package were provided in the referred ASX announcement.

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.

The 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 would be at 3GWh with an aggressive ramp up to 15GWh.

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.

Several weeks following the NY Funding Package announcement, Imperium3 NY signed Binding Sales Agreements with several end users amounting to 40% of the planned first years of 3GWh production.

Agreements have been signed with a number of groups for terms ranging from 3-5 years with these counterparties and price details being commercial in confidence. End users are from a diverse range of industries including the automotive and energy sectors. The majority of customers are based in the United States, Asia and the Middle East and had been engaged with the consortium during the year towards building a sustainable supply chain to produce lithium-ion batteries.

Sales agreements are for the consortium's proprietary patented cathode technology, which eliminates the need for cobalt and nickel, while delivering comparable performance in terms of energy density and life at a significantly lower cost.

Over 30 battery inputs, including raw materials, electrolyte, separator, additives and binders have undergone qualification from strategic suppliers of these critical ingredients. Most of these upstream suppliers have production plants in the United States which makes Imperium3 NY batteries independent of Asia which is where most of today's lithium-ion batteries are produced. Combining local content and technology, Imperium3 is evolving as a global player and first in class to produce lithium-ion batteries with a western supply chain.

Imperium3 engineers are working closely with global battery equipment manufacturers to finalise the specifications of its machinery and automation that would make the New York Gigafactory one of the most efficient lithium-ion manufacturing plants globally.

In a subsequent event post the reporting period, the Company announced to the ASX on 8 February 2018, an amount of \$5,000,000 was being raised in a placement of 12,500,000 shares at \$0.40 per share. This raising assisted with the acquisition of lithium-ion battery plant assets to fast track planned production in New York. The purchase price of the plant equipment, raw materials and machinery was US\$5 Million and the purchase completed in late February. The purchase was made through the Imperium3 NY consortium, in which Magnis and fellow partner C4V co-invested to enable the purchase of the plant. This investment resulted in an increased stake for Magnis in the Imperium3 NY consortium.

This equipment acquisition now allows IM3NY to produce over 1GWh at a significantly reduced CAPEX cost of US\$5M plus removal, re-engineering and reassembly costs.



Figure 1: Example of the equipment acquired - Cathode Welding



Figure 2: Cylindrical cells produced by Imperium3 NY

Townsville, Australia - Gigafactory

Magnis noted on 13 November 2017 to the ASX that it referenced an announcement by Queensland Premier Annastacia Palaszczuk for a grant of A\$3.1M towards the feasibility study for the Townsville Lithium-ion battery gigafactory. The grant was conditional upon the re-election of the government, that has proven to be successful.

The Townsville Battery plant project consists of Imperium3, Eastman Kodak Company and C&D Assembly. Magnis is currently a one-third owner of the proposed Townsville battery plant. The consortium signed an exclusive MoU with Townsville City Council to investigate building a 15GWh lithium-ion battery manufacturing plant. Magnis will have both ownership in the plant as well as providing anode materials and technologies.

All parties are committed to transforming Australia's energy security by pledging the new batteries will be cost competitive, better performing, a sustainable supply chain, environmentally friendly and an alternative to current major energy suppliers.

The Imperium3 consortium will await further details on how the grant will be processed and funding discussions continue to progress with government entities and private enterprises. As part of the funding discussion process, land valuation work has been completed on the 400-hectare site in Woodstock, Queensland that has been selected as the location for the Townsville Gigafactory.

Germany - Gigafactory

Magnis announced early in October 2017 the signing of a MoU for a 30GWh Lithium-ion battery with integrated Lithium-ion battery recycling plant in North Rhine Westphalia (NRW), Germany, within the Emscher-Lippe region.

The MoU is supported by the NRW government and has been signed by Magnis 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, a number of financial institutions, government entities and economic development entities such as NRW-Bank, NRW.Invest.

Two sites have been shortlisted with the necessary infrastructure to provide advantages for Lithium-ion battery production.

Under the MoU, 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.

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.

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.

Subsequent to the end reporting period, the Company provided an update whereby an entity to own the Germany battery plant has been established and will be known as Listrom with Magnis holding a 45% stake.

The WIN PPP (or “consortium”) advised that it had been included into the European Union Battery Alliance, the same group whose members include motoring leaders such as BMW, Daimler, Nissan and Peugeot-Citroen among others.

The consortium has approved commencement of the first phase study, which entails seeking government support, project incentives, and the selection of a final project location, chosen from two potential sites.

The establishment of a supply chain cluster has also begun with discussions having commenced with a range of existing conglomerates in regional chemical clusters. The common goal has been to establish a major project stakeholder and additional strategic partnerships while obtaining funding to proceed to the next phase.

Graphite Sales Agreement – World Group

Magnis announced to the ASX on 1 December 2017 the securing of a Sales Agreement for the supply of flake graphite with World Plastik ve Petrokimya Sanayi ve Ticaret, a division of the World Group (“World Group”).

The Agreement was signed for 25,000 tonnes per annum of flake graphite consisting of 15,000 tonnes per annum of Super Jumbo (+500 microns) at 97-99%TGC purity and 10,000 tonnes per annum of Jumbo (+300 microns) at a purity of 97.5% - 99.5%TGC. Under the Agreement, Magnis can source the graphite from its Nachu project, as well as from other mines that produce graphite based on the above specifications.

Pricing is fixed over the initial 3-year term and is commercial in confidence with first delivery expected in 2019. Overall pricing exceeds the forecasts used in the Magnis Bankable Feasibility Study released via an announcement to the ASX on 31 March 2016.

World Group is a major player in the field of Energy, International Commodity Trade, EPC, financing solutions and infrastructure projects. It has headquarters in Istanbul with finance offices in Geneva as well as representative offices in the regions of the Middle East and North African, Commonwealth Independent States and Asia.

The majority of its business activity is physical trading of oil, gas, petrochemical and polymer Products. In addition to trading of commodities through its fully owned and stake holding subsidiary companies, World Group is also a developer, investor and co-owner of power plants, energy and infrastructure projects and oil and gas product storage terminals.

Tanzania Mining Tenements

Magnis' Tanzanian based executives continue to meet with government officials and the Ministry of Minerals in Tanzania to discuss the benefits and support of the integrated development of Nachu coupled with downstream operations of the Special Economic Zone (SEZ). At the time of writing, the exact impact from the regulation changes that form part of the Mining Act in Tanzania on Nachu and the SEZ requires more details from officials at present and the Magnis team based in Tanzania are working together with relevant parties to lay the groundwork for suitable outcomes for the Company and Tanzania.

Over the past year, due to Magnis' pivotal role in the development of proposed Lithium-ion Battery Gigafactories in the United States, Germany and Australia, Magnis has evolved from being solely a supplier of graphite from its Nachu Project to becoming both a potential buyer and seller of graphite as well as being a significant and active participant in Lithium-ion battery manufacturing.

In its role as a graphite buyer, Magnis continues to examine diversifying its sourcing of materials for the Lithium-ion Battery Gigafactories, in which it has interests, to mitigate the risk posed from an over reliance on one source. Through this diversification, Magnis has and continues to assess multiple sources of natural and synthetic graphite.

CORPORATE

CAPITAL FUNDS

The Company did not enter into any significant capital raising events or placements during this reporting period, however as a subsequent event announced to the ASX on 8 February 2018, an amount of \$5,000,000 was raised in a placement of 12,500,000 shares at \$0.40 per share.

An amount of \$1,051,247 was raised through the exercise of unlisted options in the six months to 31 December 2017. The Company at the time of writing this report, had 15,800,000 unlisted options outstanding on the market with varying expiry dates ranging from 7 April 2018 to 7 April 2020 and these options have varying exercise prices ranging from \$0.35 to \$1.00.

The Company reported a cash balance of \$5,346,891 as at 31 December 2017.

SUSTAINABILITY

Magnis continues to believe that the commitment to the principles and practices of good corporate and environmental citizenship goes beyond the requirements of relevant authorities.

We aim to deliver best practice in all areas of sustainable development throughout the life of our projects and activities, including good corporate citizenship, working closely with local communities, protection and minimisation of environmental impacts of exploration and future operations, striving to educate on health and safety management and the development and maintenance of a safety culture.

Although operations at Nachu were reduced during the past six month reporting period, the Company continued to engage itself in various Corporate and Social Responsibility (CSR) programs.

Magnis, through its 100% subsidiary entity, Uranex Tanzania Limited (UTL), were engaged in numerous events aimed at developing social relationships within the community and building a strong support between the corporate and local communities. UTL have provided sponsorships in district events in the Ruangwa region including running. This creates local participation within the community and a positive environment. UTL also provided resources for national festival events held in the Ruangwa district.

The focus and strategy that Magnis has in place with regards to the battery manufacturing business has broader environmental aims of overall reducing the net carbon emissions impact with the use of re-chargeable lithium-ion batteries for power usage and storage.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 10.

This report is made in accordance with a resolution of Directors.



Frank Poullas
Chairman
Sydney, New South Wales
9 March 2018



DECLARATION OF INDEPENDENCE BY GARETH FEW TO THE DIRECTORS OF MAGNIS RESOURCES LIMITED

As lead auditor for the review of Magnis Resources Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Magnis Resources Limited and the entities it controlled during the period.

Gareth Few
Partner

BDO East Coast Partnership

Sydney, 9 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	NOTE	31-Dec 2017 \$	31-Dec 2016 \$
Income	4	42,331	500,263
Total Income		42,331	500,263
Total expenses	4	(3,186,855)	(6,461,079)
Loss before income tax		(3,144,524)	(5,960,816)
Income tax (expense) / benefit		-	-
NET LOSS FOR THE PERIOD		(3,144,524)	(5,960,816)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(95,697)	134,121
Other comprehensive income for the period net of tax		(95,697)	134,121
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(3,240,221)	(5,826,695)
Basic (loss) per share (cents per share)		(1.14)	(1.35)
Diluted (loss) per share (cents per share)		(1.14)	(1.35)

The above Consolidated Statement of Profit or Loss and other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	NOTE	31-Dec 2017 \$	30-Jun 2017 \$
Current Assets			
Cash and cash equivalents		5,346,891	7,554,985
Trade and other receivables	5	303,605	247,820
Total Current Assets		5,650,496	7,802,805
Non-Current Assets			
Other receivables		159,028	162,026
Development assets	6	4,910,130	4,986,400
Property, plant and equipment		159,966	209,161
Total Non-Current Assets		5,229,124	5,357,587
TOTAL ASSETS		10,879,620	13,160,392
Current Liabilities			
Trade and other payables		897,826	1,128,057
Provisions		139,345	236,103
Total Current Liabilities		1,037,171	1,364,160
Non-Current Liabilities			
Provisions		28,515	22,613
Total Non-Current Liabilities		28,515	22,613
TOTAL LIABILITIES		1,065,686	1,386,773
NET ASSETS		9,813,934	11,773,619
Equity			
Contributed equity	7	102,651,762	101,278,402
Reserves		7,692,465	7,997,761
Accumulated losses		(100,530,293)	(97,502,472)
Non controlling interests		-	(72)
TOTAL EQUITY		9,813,934	11,773,619

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	31-Dec 2017 \$	Consolidated 31-Dec 2016 \$
Cash flows from operating activities		
Interest received	15,448	14,392
R&D Grant	-	303,243
Payment for exploration expenditure	(1,171,756)	(2,614,773)
Payments for development expenditure	-	(3,734,152)
Payments to suppliers and employees	(2,084,030)	(2,253,227)
Net cash outflow from operating activities	(3,240,338)	(8,284,517)
Cash flows from investing activities		
Payment for property, plant and equipment	(7,849)	(70,262)
Net cash outflow from investing activities	(7,849)	(70,262)
Cash flows from financing activities		
Proceeds from issue of shares	-	3,272,712
Proceeds from exercise of share options	1,051,247	213,981
Capital raising expenses	(7,284)	(4,038)
Net cash inflow from financing activities	1,043,963	3,482,655
Net cash outflow for the reporting period	(2,204,224)	(4,872,124)
Cash and cash equivalents at the beginning of the period	7,554,985	7,208,404
Effect of exchange rates on cash holdings in foreign currencies	(3,870)	30,471
Cash and cash equivalents at the end of the period	5,346,891	2,366,751

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Issued Capital	Options	Share Based Payment Reserves	Foreign Currency Translation Reserve	Accumulated (Losses)	Non- Controlling Interests	Total Equity
	\$	\$	\$	\$	\$	\$	\$
At 1 July 2017	101,278,402	-	3,274,078	4,723,684	(97,502,472)	(72)	11,773,619
Loss for the period	-	-	-	-	(3,144,524)	-	(3,144,524)
Other comprehensive income (loss)	-	-	-	(95,697)	-	-	(95,697)
Total comprehensive income for the half-year	-	-	-	(95,697)	(3,144,524)	-	(3,240,221)
Transactions with owners in their capacity as owners							
Contributions of equity, net of transaction costs	1,043,960	-	-	-	-	-	1,043,960
Share based payments	-	-	236,575	-	-	-	236,575
Equity transfer on acquiring of share capital in controlled entity	-	-	-	-	(72)	72	-
Reallocation	329,400	-	(446,175)	-	116,775	-	-
At 31 December 2017	102,651,762	-	3,064,478	4,627,987	(100,530,293)	-	9,813,934

	Issued Capital	Options	Share Based Payment Reserves	Foreign Currency Translation Reserve	Accumulated (Losses)	Non- Controlling Interests	Total Equity
	\$	\$	\$	\$	\$	\$	\$
At 1 July 2016	85,501,522	1,974,923	2,235,537	4,899,136	(87,746,111)	-	6,865,007
Loss for the period	-	-	-	-	(5,960,816)	-	(5,960,816)
Other comprehensive income (loss)	-	-	-	134,121	-	-	134,121
Total comprehensive income for the half-year	-	-	-	134,121	(5,960,816)	-	(5,826,695)
Transactions with owners in their capacity as owners							
Contributions of equity, net of transaction costs	3,268,674	-	-	-	-	-	3,268,674
Share based payments	-	-	1,592,040	-	-	-	1,592,040
At 31 December 2016	88,770,196	1,974,923	3,827,577	5,033,257	(93,706,927)	-	5,899,026

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

1. CORPORATE INFORMATION

Magnis Resources Limited (the "Company") is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The half-year report for the six months ended 31 December 2017 of the Company was authorised for issue in accordance with a Directors' resolution dated 9 March 2018.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial report for the half-year ended 31 December 2017 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all the notes of the type normally included in an annual financial report and therefore does not provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full year financial report.

It is recommended that the half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2017 and considered with any public announcements made by Magnis Resources Limited during the half-year ended 31 December 2017 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

Significant judgements

The group measures the cost of equity-settled transactions with consultants, employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of share options is determined by an external valuer using a binomial option pricing model.

(i) New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the mandatory adoption of new and revised Standards and Interpretations issued by the AASB. The adoption of the new and revised Standards and Interpretations had no material impact on these financial statements or on the financial position and performance of the group.

3. GOING CONCERN

The Group is involved in the evaluation, development of its mineral tenements and in part ownership of 60GWh of future LIB production in three countries.

For the half-year ended 31 December 2017 the Group reported a net loss of \$3,144,524 (2016: \$5,960,816) and net cash outflows of \$2,204,224 (2016: \$4,872,124 net outflow). As at 31 December 2017, the Group had net assets of \$9,813,934 (30 June 2017: \$11,773,619) including cash reserves of \$5,346,891 (30 June 2017: \$7,544,985).

The balance of these cash reserves as at 31 December 2017 is not sufficient to meet the Group's planned expenditure budget including LIB Investment, evaluation and development activities for the 12 months to 31 December 2018. The Group expenditure forecast over the next 12 months totalling \$9,302,873. In order to fully implement its exploration and development strategy, the Group will require additional funds.

The above matters give rise to material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Notwithstanding the above, the financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

To continue as a going concern the Group requires additional funding to be secured from sources including but not limited to:

- A further equity capital raising;
- The potential farm out of participating interests in the Group's tenements; and/or
- The generation of sufficient funds from operating activities including the successful development of the existing tenements.

Having carefully assessed the uncertainties relating to the likelihood of securing additional funding, the Company's and the Group's ability to effectively manage their expenditures and cash flows from operations, the opportunity to farm out participating interests in existing permits and surrender non-prospective tenements, the Directors believe that the Group will continue to operate as a going concern for the foreseeable future. Therefore, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

In the event that the assumptions underpinning the basis of preparation do not occur as anticipated, there is significant uncertainty whether the Company and the Group will continue to operate as a going concern. If the Company and the Group are unable to continue as a going concern they may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

No adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the Company and the Group not continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

4. INCOME AND EXPENSES FROM ACTIVITIES

	31-Dec 2017 \$	31-Dec 2016 \$
Income		
Interest received	17,270	15,710
R&D Grant	-	303,243
Foreign exchange gain	20,076	181,310
Other revenue	4,985	-
Total income	42,331	500,263
Expenses		
Administration	581,768	765,256
Legal and consulting	546,522	620,369
Depreciation	56,318	21,445
Director fees	304,351	282,982
Employee benefits expense	507,365	550,519
Employee option contribution	220,450	973,535
Share based payment to non-employees	16,125	618,505
Exploration and evaluation	953,956	2,628,468
Total expenses	3,186,855	6,461,079

5. TRADE AND OTHER RECEIVABLES

	31-Dec 2017 \$	30-Jun 2017 \$
Accrued interest	3,267	1,445
Goods and services tax recoverable	23,639	31,246
Prepayments and other receivables	276,699	215,129
	303,605	247,820

6. DEVELOPMENT

	31-Dec 2017 \$	30-Jun 2017 \$
Development	4,910,130	4,986,400
	4,910,130	4,986,400

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Development represents the accumulation of all the compensation and resettlement expenditure incurred by, or on behalf of, the entity in relation to areas of interest in which construction or development has commenced. Compensation and resettlement expenditures are capitalised as development.

Development costs in which the Group has an interest are amortised over the life of the area of interest to which the costs relates on a units of production basis over the estimated proved and probable ore reserves and a proportion of other measured and indicated mineral resources where there is a high degree of confidence that they can be extracted economically. Changes in the life of the area of interest and/or ore reserves and other mineral resources are accounted for prospectively.

7. CONTRIBUTED EQUITY

	31-Dec 2017 \$	30-Jun 2017 \$
Ordinary shares fully paid	102,651,762	101,278,402
	102,651,762	101,278,402

During the period the Company raised:

- \$1,043,963 (31 Dec 2016: \$3,268,674) from the exercise of options and subsequent issue of 3,750,000 ordinary fully paid shares.

8. COMMITMENTS AND CONTINGENCIES

There has been no significant change to contingent liabilities and commitment since 30 June 2017.

9. SEGMENT INFORMATION

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (chief operating decision maker) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the exploration expenditure is allocated to the geographical region. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the exploration expenditure, as these are the sources of the Group's major risks.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 1 to the 30 June 2017 financial report and in the prior period. It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocation within segments which management believe would be inconsistent.

The following table presents revenue and profit information for reportable segments for the half-years ended 31 December 2017 and 31 December 2016, and assets and liabilities for reportable segments at 31 December 2017 and 30 June 2016.

	Half-year 31-Dec 2017 Loss Before Tax \$	Half-year 31-Dec 2017 Segment Revenue \$	Half-year 31-Dec 2016 Loss Before Tax \$	Half-year 31-Dec 2016 Segment Revenue \$
Segment results and revenues				
Segments				
Australia	(3,300,413)	9,131	(10,250,509)	731,271
East Africa	119,901	893,574	(964,069)	1,940,960
Inter segment elimination	35,986	(860,374)	5,253,762	(2,171,968)
Consolidated	(3,144,526)	42,331	(5,960,816)	500,263
<hr/>				
	31-Dec 2017 Segment Assets \$	31-Dec 2017 Segment Liabilities \$	30-Jun 2017 Segment Assets \$	30-Jun 2017 Segment Liabilities \$
Segment assets and liabilities				
Segments				
Australia	5,697,267	648,923	7,818,329	745,591
East Africa	5,198,658	60,383,394	5,369,737	61,520,334
Inter segment elimination	(16,305)	(59,966,631)	(27,674)	(60,879,152)
Consolidated	10,879,620	1,065,686	13,160,392	1,386,773

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

10. SHARE-BASED PAYMENTS

a) Recognised share-based payment expenses

The expense recognised for employee and contractor services received during the period is shown below:

	Half-year 31-Dec-17 \$	Half-year 31-Dec-16 \$
Expense arising from equity-settled share-based payment transactions	236,575	1,592,040
Total expense arising from share-based payment transactions	236,575	1,592,040

b) Summaries of options and rights granted

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options issued during the half-year.

	Half-year 31-Dec-17 Number	Half-year 31-Dec-17 WAEP
Outstanding at the beginning of the half-year	19,750,000	0.52
Granted during the period	5,500,000	0.70
Exercised during the period	(3,750,000)	0.28
Expired during the period	(1,250,000)	0.42
Outstanding at the end of the half-year	20,250,000	0.62
Exercisable at the end of the half-year	20,250,000	0.62

11. SUBSEQUENT EVENTS

The Company undertook capital raising events or placements subsequent to reporting period as announced to the ASX on 8 February 2018, an amount of \$5,000,000 was being raised in a placement of 12,500,000 shares at \$0.40 per share.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Magnis Resources Limited, I state that:

In the opinion of the Directors:

- a. The financial statements and notes of Magnis Resources Limited for the half-year ended 31 December 2017 are in accordance with the Corporation Act 2001, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the financial half-year ended on that date;
 - ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001; and
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board.



Frank Poullas
Chairman
Sydney, New South Wales
9 March 2018

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Magnis Resources Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Magnis Resources Limited and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 3 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134



Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO East Coast Partnership



Gareth Few
Partner

Sydney, 9 March 2018