



Magnis Resources
LIMITED

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QUARTERLY REPORT TO 31 MARCH 2018

HIGHLIGHTS

- NY Battery Plant Acquisition and Relocation Update
- Strategic Investment in US Lithium-ion Battery Technology Group – C4V
- Joint Development Agreement Signed with Battery Separator Leader – Celgard
- Letter of Intent Signed with SIEMENS
- Agreement reached with Tanzanian Government to progress Nachu development

Corporate

- Cash position for the Company at 31 March 2018 A\$3.47M

Magnis Resources Limited [**“Magnis”** or the **“Company”**] [ASX: MNS] is pleased to present its Quarterly Activities Report for the period ended 31 March 2018.

Magnis 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. The Company is also involved with the development and ultimately mining natural flake graphite for use in various industries, including batteries for storing electrical energy.

The major activities announced during the past quarter are summarised in this report.

Acquisition of Lithium-ion Battery Plant Assets

In February, Imperium3 New York [iM3NY] placed the winning bid for the acquisition of near new lithium-ion battery manufacturing equipment located in North Carolina, USA. The purchase price of the plant equipment, raw materials and machinery was US\$5 Million.

With the contribution made by Magnis to fund the plant acquisition, the Company’s ownership in iM3NY has increased to 41%.

The lithium-ion battery plant assets consist of high quality new and near new equipment from major United States and European suppliers. Over US\$200M was initially invested by the previous owners into the plant which was constructed and commenced full scale operations in 2016 and employed over 290 people. The liquidation sale of the equipment occurred as the previous manufacturers constrained production to bespoke lithium-ion batteries that had limited commercial appeal, while the facility itself was equipped to manufacture large volume batteries for the auto industry or power walls for home usage which are now growing in demand. The iM3NY team thoroughly reviewed the technology and confirmed the procured plant can easily and cost effectively be calibrated for such large volume manufacturing runs. As a result, the Imperium3 consortium is of the firm view that this is a low risk, cost-effective and value-accretive transaction.

The plant was housed in a facility in North Carolina and includes all operations from slurry making to coating to cell assembly, formation and testing and even includes module assembly and packing.

Details of the Relocation

The relocation process of the battery plant from North Carolina to Huron Campus in New York, where it will be reassembled and re-engineered for battery production at an initial nominal 1GWh scale is now underway.

Subsequent to the quarter end, iM3NY has assembled a leading project team consisting of individuals, companies and strategic partners, such as SIEMENS, to undertake a systematic mobilisation process. Recently, the assembled team of experts conducted a site visit to evaluate engineering, de-assembly and mobilisation plans. This team included individuals with process and engineering knowledge on high tech manufacturing as well as significant experience in large plant relocations within the USA and other regions.

The identification and subsequent hiring process of highly skilled engineers and experts in lithium-ion battery and high tech manufacturing is now underway. This has included personnel who have previously held senior roles in groups including Apple and LG.

In recent months, the Company has had ongoing discussions with numerous large OEM's (Original Equipment Manufacturers) regarding both potential project participation and offtake agreements. These discussions have led to site visits to both the New York and North Carolina facilities in the recent weeks. iM3NY is pleased with the interest they have received to date and will update the market as any developments materialise.

Progress includes the mobilisation of machinery as well as re-engineering design work for future plant operation and automation.

iM3NY will work closely with its global supply chain partners to ensure reliable future production when the plant is restarted and realise maximum value capture and cost savings from the purchased equipment.

Near-Term Battery Production

The commencement of plant operations is scheduled for the first half of 2019. This strategic acquisition will thus bring forward commercial cell production at Huron Campus, New York from the previously indicated end of 2019 year target. Such operation will have the following major implications for the development of Imperium3's and Magnis' development plans for future gigafactories:

- Qualification of its performance leading, low cost and sustainable materials technologies;
- Demonstration of its supply chain viability;
- Acceleration of strategic partnering with major corporations in Lithium-ion Battery production;
- Validation of high yield battery production; and
- Acceleration of marketing and qualification of battery product to major Original Equipment Manufacturer



Figure 1 : Portion of iM3NY's fully automated cell assembly line



Figure 2: Portion of fully robotized formation equipment

Members of the Imperium3 consortium have been working together for the last 3 years to develop a sustainable supply chain to produce lithium-ion batteries across the globe in multiple locations. The first project, "iM3NY" has received NY State Government support and partial funding to build the first Gigafactory [15GWh/year once complete] for lithium-ion battery cell production. Phase 1 will have 3GWh targeted production levels, with the first line going into production for 1GWh in H1 2019. The consortium includes New York based Charge CCCV [C4V], Primet Precision Materials, C&D Assembly, Magnis and Boston Energy and Innovation, along with over 45+ Global companies as strategic value chain partners including Siemens, Celgard and B&W Megtec. The consortium members have been involved in producing batteries and have the expertise and capabilities needed for lithium-ion battery manufacture from raw materials, to particle engineering and cell/battery manufacturing.

The consortium's objectives are to ensure a balanced and available capacity of lithium-ion battery manufacturing outside of the Pacific Rim. Secondly, the organisation and its partners are framing a structure to enable the agility for rapid commercialisation of new lithium-ion technologies, supporting the open innovation necessary for sustained high performance and low-cost products.

During the quarter to assist with the acquisition, the Company raised A\$5.0 million via a placement to Institutional and sophisticated investors locally. The placement consisted of 12,500,000 shares in MNS at A\$0.40 per share.

Investment in US Lithium-ion Battery Technology Group – C4V

Late in the quarter, the Company announced that it had made a strategic investment to acquire a 10% interest in leading US based, lithium-ion battery technology group, Charge CCCV LLC [“C4V”], and secured an exclusive agreement over selective patents, which will assist in driving the Company’s growth in the lithium-ion battery sector.

Details of the Agreement

Under the terms of the Agreement, Magnis will acquire a 10% stake in C4V for a total of US\$7.5 million, comprising an upfront consideration of US\$2 million, US\$2.5 million in fully paid ordinary shares in Magnis and a further \$3 million cash payment to be paid within the next 12 months.

The number of ordinary shares in Magnis that were issued to C4V was 6,940,544. This calculation was based on the VWAP [Volume Weighted Average Price] for the 15 trading days prior to the close of trade 28 March 2018 and using an exchange rate of one AUD equalling USD 0.7694.

The Company will appoint one representative to the Board of Directors of C4V and has also secured a first right of refusal for any future capital raising initiatives that C4V undertake. Further to the agreement, Magnis will also have an exclusive agreement for 5 years over selected C4V patents, which will expand the Company’s materials technologies in the rapidly growing lithium-ion battery sector.

Recognising the tremendous future demand for electric vehicles and energy storage, and with significant new opportunities in multiple regions, Magnis and C4V will co-share respective intellectual properties and expertise in pursuit of select projects to drive shareholder value.

Both parties believe that the result of this agreement will create unique competitive advantages providing strong leverage against alternative lithium-ion battery producers. These advantages have already been witnessed through the Company’s previous collaborations with C4V, which repeatedly generate tremendous interest from major global corporations.

Joint Development Agreement Signed with Battery Separator Leader – Celgard

During the middle of the quarter, a Joint Development Agreement was executed between Magnis and Celgard for the supply of advanced separators to lithium-ion battery production plants that are being developed by Magnis and its respective partners including C4V. Separators, which are critical to the performance and safety of batteries, are continually evolving and it is important to select an experienced and stable supplier with a track record for leading technology.

Both Magnis and Celgard will closely collaborate with the goal of realising mutual benefits, particularly on innovation, purchase and supply commitments, and technology.

Under the agreement, a minimum of 70% of the separator used by Magnis plants is to be provided by Celgard.

Separators provide critical performance benefits at the battery level. Over the past several years Magnis has built comprehensive anode designs to optimise battery performance for power and/or energy applications such as electric drivetrain or grid storage. Working directly with the global leader Celgard would enhance Magnis’ commercial offering to produce high performance and cost-effective batteries and would also assure a secure and sustainable supply of a critical component that enhances Magnis product.



Figure 3 : Cylindrical cells produced by Magnis part-owned consortium using Celgard® Separator

Letter of Intent Signed with SIEMENS

As per the announcement to the ASX on 5 March 2018, Magnis has signed a Letter of Intent (LOI) with Siemens to allow collaboration with Magnis and Charge CCCV (C4V) to enhance its lithium-ion manufacturing technology via synchronous approach of digitisation and automation.

This collaboration would be extended to all Imperium3 projects, starting with New York. Siemens will play a major role in the factory digitisation, automation and in-line manufacturing technology for the next generation of lithium-ion battery plants. Under the agreement, Siemens will identify resources at their expense to develop a clearly defined functional specification for the use of Siemens industry software and automation solutions, and to provide the benefit of technology standards to help build next generation manufacturing plants - the digital enterprise for battery production.

SPA with B&W MEGTEC

A Strategic Partnership Agreement (SPA) was signed with Babcock & Wilcox MEGTEC (B&W MEGTEC) and Charge CCCV (C4V) for the specification and procurement of market leading, double-sided coating technology for lithium-ion battery manufacturing.

Through the technical development of numerous lithium-ion battery manufacturing projects, Magnis and C4V have identified B&W MEGTEC as a leading manufacturer of coating equipment, whose proprietary, double-sided technology will deliver significant capital and operating cost advantages over existing alternative commercial coating offerings.

As a result of the agreement, a works program has commenced for the specification of the B&W MEGTEC GigaCoater™ line for use in future Magnis projects, including the Imperium3 New York lithium-ion gigafactory. Progress to date includes first production on the B&W MEGTEC pilot testing line of coated cathode and anode electrodes that were subsequently used to produce lithium-ion batteries.

To ensure continued future cooperation, the SPA has been formed between B&W MEGTEC, Magnis and C4V to deliver project priority, joint marketing objectives, competitive pricing, and technology collaboration and protection.

This is consistent with Magnis' development approach of combining its superior battery materials expertise with leading manufacturing equipment technologies to deliver a globally sustainable, highest performing battery product at the most competitive cost from various projects under development.

Babcock & Wilcox MEGTEC, a subsidiary of Babcock & Wilcox Enterprises, Inc., designs, engineers, manufactures and services sophisticated air pollution control systems, and coating and drying equipment for the industrial sector.

Progress with Lithium-ion Battery Gigafactory Plans in Germany

In the previous quarter, a Memorandum of Understanding [MOU] for the construction of a 30GWh lithium-ion battery plant was announced on 6 October 2017. The MOU was signed between Magnis and WIN for a plant based in North Rhine Westfalia, Germany.

The entity owning the German battery plant will be known as Listrom with Magnis holding a 45% stake.

The consortium was included into the European Union Battery Alliance, the same group whose members include motoring leaders such as BMW, Daimler, Nissan and Peugeot-Citroen amongst others.

Meetings have taken place at both regional and federal governments levels in recent months with significant progress being made towards receiving strong support from all levels of government in Germany and more broadly across Europe.

First Phase Study

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.

Agreement reached with Tanzanian Government to progress Nachu development

As per the announcement to the ASX on 9 March 2018, agreement has been reached with the Government of Tanzania [GOT] on amendments to the Special Economic Zone [SEZ] licence, granted to Magnis Technologies Tanzania Ltd [MTT], a 100% owned subsidiary of Magnis.

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

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

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

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

Details of the New Agreement

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

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

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

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

Uranex Tanzania

Government Jurisdiction:

- Ministry of Minerals

Scope of Operations:

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

Capital Expenditure

- ~US\$40 million

Magnis Technologies Tanzania

Government Jurisdiction:

- Ministry of Industry, Trade and Investment

Scope of Operations:

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

Capital Expenditure:

- ~US\$230 million

Incentives:

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



Figure 4: Magnis representatives with the Director General and CEO of EPZA Col. [retired] Joseph Leon Simbakalia

Key Changes Under the New Agreement

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

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

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

The revised SEZ area is now 206 hectares and will be excised from the original Nachu SML.

Special Economic Zone License

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

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

- MTT will be 100% owned by Magnis Resources Limited [Australia];
- The amended legislation treats the SEZ area as effectively as an offshore entity and hence the revised licence will help to mitigate the concerns regarding investment following the aforementioned legislative changes;
- Access International Arbitration in case of disputes;
- Ability to retain revenue offshore as required;

- Maintains a stable fiscal environment for 10 years which includes no corporate tax allowing the capital investment to be recovered in reasonable time frames;
- The processing plant will achieve the GOT objective of having the advanced treatment of mineral concentrates take place in Tanzania; and
- Introduction and transfer of new skills and technology to Tanzania.

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

- Remission of customs duty, value added tax and any other tax charged on raw materials and goods of capital nature related to the production in the Export Processing Zones;
- Exemption from any payment of corporate tax for an initial period of ten years and thereafter a corporate tax shall be charged at the rate specified in the Income Tax Act;
- Exemption from payment of withholding tax on dividends and interest for the first ten years;
- Exemption from payment of all taxes and levies imposed by local government authorities for products produced in the Export Processing Zones for a period of ten years;
- Unconditional transferability through any authorised dealer bank in freely convertible currency of: net profit or dividends attributable to the investment; payments in respect of loan servicing where foreign loan has been obtained; royalties, fees and charges in respect of any technology transfer agreement; and payments of emoluments and other benefits to foreign personnel employed in Tanzania in connection with the business enterprise.

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

Background on Special Export Zone (SEZ)

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

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

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

Funding

The cash position for the Company at 31 March 2018 was A\$3.47M.

The funding position provides a capital base for the future as the Company continues its focus on the lithium-ion battery factory strategy including the responsibility for the end to end supply chain in sourcing the raw materials and associated technologies for lithium-ion battery cells.

Resignation of Director

Subsequent to the quarter end period, Mr Peter Sarantzouklis resigned as a director of the Company on 16 April 2018.

Tenements

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

SML550/2015	SML Nachu	[100%]
PL10929/2016	Nachu	[100%]



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