

Magnis Resources

L I M I T E D

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FOR RELEASE

31 January 2017

QUARTERLY REPORT TO 31 DECEMBER 2016

HIGHLIGHTS

Spherical graphite and lithium-ion battery strategy

- Significant lithium-ion Battery Developments
- Land valuation complete

Subsequent Events

- Project Financing and Offtake MOU signed with ROSATOM in January 2017

Corporate

- Cash position for the Company at 31 December 2016 A\$2.4M – excludes funding from option conversions which provides Magnis with the financial flexibility to fund operations in the current quarter
- Expected amounts of A\$9M over the next four months as listed options expire
- Key Board appointments

Magnis Resources Limited ("**Magnis**" or the "**Company**") (ASX: MNS) is pleased to present its quarterly report for the period ended 31 December 2016.

Magnis continues to focus on progressing the development of its Nachu Graphite Project ("Nachu") in southern Tanzania and has made significant progress in the quarter.

Nachu project background

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

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

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

Significant lithium-ion battery developments

During the quarter, Magnis updated the market on its lithium-ion battery results and continued progress at Nachu.

The Magnis lithium-ion battery development team made significant progress in recent months with Thermo Gravimetric Analysis of graphite flakes produced using only physical steps (milling and flotation processes) with purity >99.95% TGC. This demonstrates potential to use bulk physical processes to produce anode materials that meet the current <0.05% ash content specification.

Full cell fabrication in a number of form factors with anode materials containing Nachu graphite was undertaken by an external testing facility. This final part in the commercial development program not only generates performance data around cycling and safety but also provides samples to potential end users for their own evaluation.

After initial cycling at the external testing facility, the full cells were delivered to the Magnis testing facility in New York where they are undergoing extended cycling. Full cells have also been delivered to end users including major players in the automotive industry. Initial test results have been excellent in terms of first cycle efficiency and charge/discharge capacity.

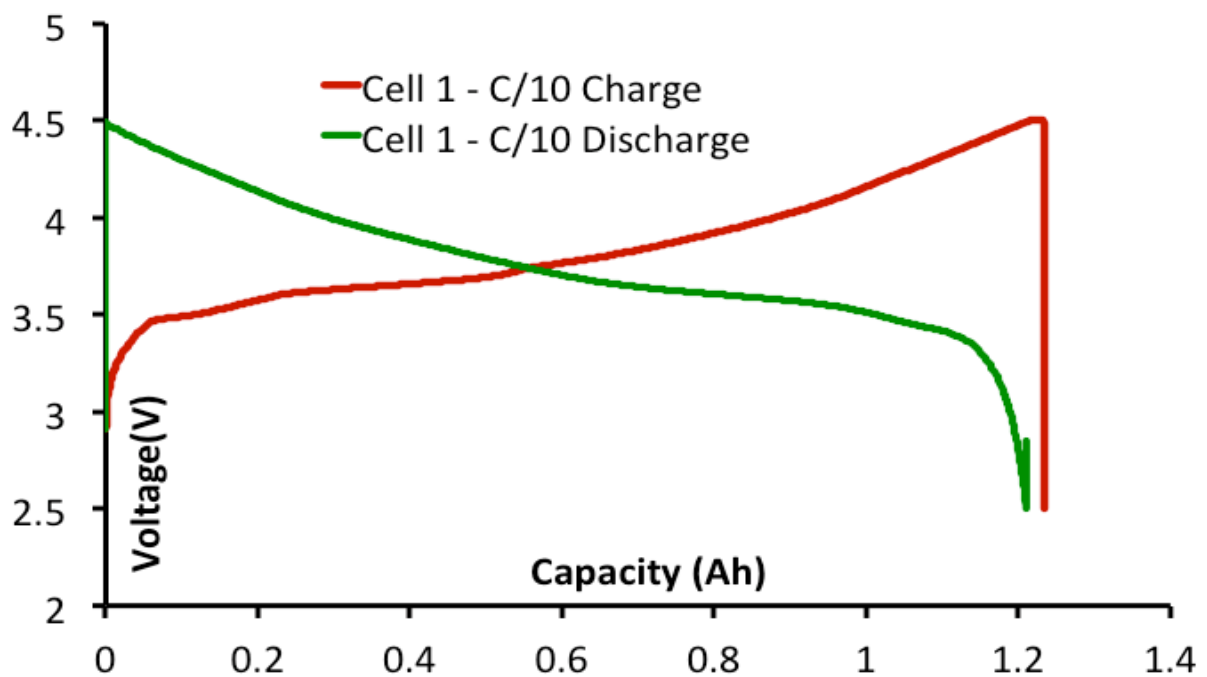


Figure 1- First Cycle after formation for pouch cell containing Nachu Graphite anode with capacity of 1.2 Ah.

Breakthrough cost reductions for graphite silicon blend anode

Magnis has realised significant reductions in the manufacturing cost of graphite silicon blend anode material. Pricing per unit weight equivalent to that of current coated spherical natural graphite anode products has been attained. Taking into account the greater than 65% increase in energy density of the graphite silicon blend, means that this material will be very cost effective given the level of cell performance it can deliver.

In recent months, Magnis and its partners have received several approaches from parties interested in its graphite silicon blend anode material including major players in the automotive industry. In one case a purchase order has been placed to evaluate our product.

Commercialisation of Milling and Spheronisation

The Magnis battery development team has sought to improve the energy efficiency and yield of the milling and spheronisation steps in making spherical graphite, identifying exciting opportunities for commercialisation. An agreement was reached with a major European equipment vendor to carry out a joint R&D and commercialisation program involving the modification of existing commercial equipment to achieve significant cost savings while delivering a high-quality product.

Detailed Engineering Work in Progress

Ausenco was recently selected to undertake the detailed engineering program of work in preparation for construction at the Nachu Graphite Project. An important aspect of this work has been equipment vendor testing to confirm the selected process flowsheet and associated equipment.

In parallel to generating samples for vendor testing there has also been process optimisation work to demonstrate flexibility in the range of products that can be produced at the mine site. This optimisation work has demonstrated that the addition of cleaner flotation stages to the process can generate up to 99.9% TGC purity product when processing concentrate product from the mine processing plant flowsheet.

This work continues to demonstrate to potential end users the versatility of the Nachu Graphite Project in being able to produce a range of graphite products in terms of size and purity to suit numerous applications.

Nachu site based progress – Land Valuation and Compensation

Magnis completed the land valuation process during the quarter and is well advanced in the Nachu landowner re-settlement and compensation process, paving the way forward for construction of the mine.

An official valuation of the area within the Special Mining Licence (SML 550/2015) was completed and a total of US\$3.4 million was calculated for the complete compensation package of crops and trees, land area, structures and other required items such as disturbance allowance. The valuation documents were accepted and approved for payment by the Chief Government Valuer.

Compensation and Valuation

The area of the SML is approximately 30km² and the valuation covered a total of 773 people or households who are affected by the project (Figure 2). Most of the people affected were being compensated for farm plots and there are 58 households on the SML that will be offered relocation to a new village area.

Following the announcement on 25 November 2016 on the completion of the land valuation process, Magnis is pleased to report that the second phase of the compensation process was completed on Saturday 21 January 2017 with 95% of the affected parties compensated.

Over 720 people have been compensated following the most recent payment process while 58 residents who are affected by the SML have been offered and accepted resettlement to the new village area.

The Ruangwa District Council is now in the process of issuing the documentation for surface rights to the Company. Extensive community involvement has been conducted throughout the process with community working group meetings beginning in late 2014. IFC principles and guidelines have been used throughout the whole process with affected residents being resettled into new accommodation to an equivalent or better standard. The new resettlement village proposed by the company will exceed these guidelines.

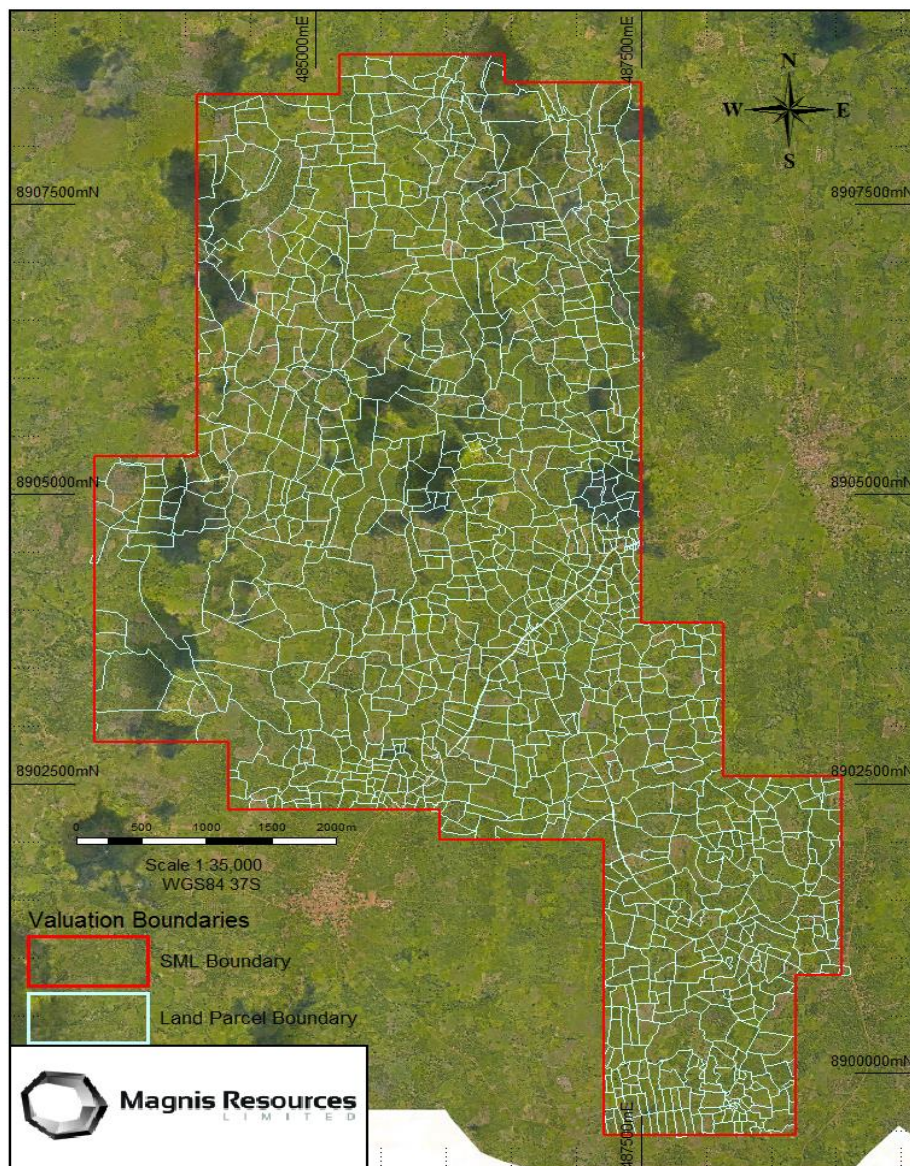


Figure 2 - Plan showing the individual parcels of land in the Special Mining Licence area.

Re-settlement Process

Land has been purchased for the re-settlement of homeowners. The land has been cleared with construction activities beginning after the completion of the wet season for a new housing village set to be completed in Quarters 2-3 of 2017.

The cost of both the compensation and re-settlement is consistent with estimations within the Bankable Feasibility Study.

Subsequent Events

The Company announced yesterday (30 January 2017) another key milestone in the development of its Nachu Graphite Project in Tanzania with the signing of a Memorandum of Understanding (MOU) with Russia's ROSATOM International Network (ROSATOM) for project financing and offtake of Super Jumbo and Jumbo flake graphite.

This MOU is a significant development for Magnis and positions the Company alongside a highly regarded group that is a world leader in the construction and operating of nuclear reactors with flake graphite being a key material used in nuclear reactors.

Under the agreement, both organisations will work together towards a binding offtake agreement once further negotiations take place and certain milestones are met. Interest revolves around the Super Jumbo (+500 microns) and Jumbo (+300 microns) flake graphite sizes. The larger flake sizes are currently being consumed by ROSATOM in several of its business divisions including nuclear power generation, aerospace and creating composites.

Discussions are continuing on the project financing of the Nachu Graphite Project in tandem with these offtake discussions.

As well as the ROSATOM MoU, Magnis expects to report on other offtake agreements in the near term.

Termination of Sinosteel and SINOMA Offtake Agreements

The Company has notified Sinosteel Liaoning and China National Materials Import and Export Corporation (SINOMA) that it has terminated both offtake agreements. The original agreements signed gave both parties the right to execute terminations if desired on conditions of operational precedents.

Port Agreement extension

The Tanzanian Port Authority has notified the Company that progress is being made towards the execution of a lease for land adjacent to Mtwara Port. This is an important

development for Magnis given the land is critical for future logistics once the Nachu mine is in production.

Funding

Cash position for the Company at 31 December 2016 was A\$2.36M. Estimated cash outflows for the next quarter is A\$2.84M per the Appendix 5B Quarterly Report. The estimated deficit of \$0.48M has already been comfortably funded from both listed and unlisted option conversion to date. The Company received in excess of A\$1.6M during the December 2016 quarter from proceeds of share options.

Working capital is expected to be funded further via option conversions, particularly given the expiry date of 31 May 2017 for the ASX listed MNSO with an exercise price of A\$0.09533 and given the current share price is well above A\$0.70. As at 30 January 2017, over 95M MNSO remain listed on the market eligible for conversion and in addition to this, unlisted options with varying exercise prices and expiry dates remain.

Key Board Appointments

Three directors were appointed to the Board during the quarter following the resignations of Mr Len Eldridge and Mr Colin (Cobb) Johnstone.

The following new Non-Executive Directors, Mr Marc Vogts, Mr Peter Sarantzouklis and Distinguished Professor M. Stanley Whittingham were appointed to assist guiding the Company in the next stage of its development.

Further details and experience of the three recently appointed directors can be located on the Company website.

Other Tenements

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

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

The PL10906/2016 Nachu tenement was granted during the quarter.

The following tenements were relinquished or lapsed during the quarter:

PL8697/2012	Rutamba North	(100%)
PL8696/2012	Lihehe East	(100%)

A handwritten signature in black ink, appearing to read 'Dr. Houllis', with a small dot at the end.

Dr Frank Houllis, Chief Executive Officer
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