



Financial Report Half- Year Ended

31 December 2019

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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 2019 and any public pronouncements made by MAGNIS ENERGY TECHNOLOGIES LIMITED during the interim reporting period in accordance with the continuous disclosure requirements of the Australian Securities Exchange.



DIRECTORS' REPORT

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity of Magnis Energy Technologies Ltd ("Magnis" or the "Company", ASX Code: MNS) for the half-year ended 31 December 2019.

DIRECTORS

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

Frank Poullas	(Non Executive Chairman)
The Hon. Warwick Smith AO	(Non Executive Director, Resigned 1 January 2020)
Johann C Jooste-Jacobs	(Non Executive Director)
Marc Vogts	(Managing Director, Retired 31 January 2020)
Professor M. Stanley Whittingham	(Non Executive Director)
Leslie Hosking	(Non Executive Director appointed as Interim Managing Director on 31 January, Resigned 21 February 2020)
Peter Tsegas	(Non Executive Director)
Subhas DeGamia	(Non Executive Director, Appointed 1 January 2020, Resigned 25 February 2020)

COMPANY OVERVIEW

Magnis is an Australian based company with a strategy to develop into a significant contributor to the lithium-ion battery (LIB) sector. This is to be achieved via:

- applying technology to produce effective battery cells for the electric energy market; and
- the production and downstream processing of high-quality natural flake graphite used in anode composition of the battery.

The Company has ownership interests in two proposed LIB production facilities in New York and Townsville (Australia).

The production and processing of graphite is targeted through its 100% owned mining project known as the Nachu Graphite Project ("Nachu") located in south east Tanzania, circa 220km from the 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 unique and demands premium prices in the LIB 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.

DIRECTORS' REPORT

REVIEW AND RESULTS OF OPERATIONS

The net loss after tax of the consolidated entity for the half-year ended 31 December 2019 was \$5,295,846 (2018: 2,771,021) which was mainly due to expenditure involved in the land clearing and maintenance, tenement and licensing retention and administration costs for Nachu, consulting, research and development costs involved in LIB technology for both New York and Townsville.

An operational overview is set out below.

Overview

The operational activities for the half year ended 31 December 2019 were focused on the advancement of the LIB gigafactories planned for production in both New York and Townsville, combined with the pre-development and operational work for the Nachu Graphite Project.

Nachu Graphite Project (Tanzania)

In December 2019, Magnis executed a Binding Engineering, Procurement and Construction ("EPC") contract with Metallurgical Corporation of China ("MCC"), to provide turn-key solution for a 240,000 tpa graphite production facility at the Company's Nachu Project in Tanzania.

MCC is the world's largest metallurgical construction contractor and operation service provider, with over 130,000 employees, US\$50 Billion of assets and over US\$28 Billion in annual revenue.

Funding applications and negotiations have commenced with export credit agencies and banks for contributions to project funding, with at least 80% in debt or delayed payments targeted.

The clearing of the Nachu Graphite Project access roads and infrastructure areas occurred during the past six months. Roads were surveyed and cleared providing over 16 kilometres of additional logistically beneficial vehicle access to key planned project areas including main access routes, camp, plant site, tailings storage facility and mine laydown plus the clearing of the community southern diversion road. The southern diversion road is a new access road along the southern mining lease boundary developed to keep communities connected without the need to traverse the mining lease.

Community projects in recent months included the refurbishment of a water tank and new amenities for the Chunyu medical clinic, maintenance of community areas and general support and involvement in community events.

DIRECTORS' REPORT

New York, USA – Gigafactory

Imperium3 New York Incorporated (iM3NY), have ownership for the New York Gigafactory project. Physical relocation including the disassembly, packaging and shipment of the acquired equipment from the previous battery manufacturing plant in North Carolina to the new iM3NY facility at the Huron Campus in Endicott, New York occurred in late 2018.

As at 31 December 2019, the Company's investment holding via its indirect and direct shareholding in iM3NY was 51.24%. iM3NY has share capital consisting of ordinary shares and redeemable preference shares. The proportion of ordinary shares held indirectly by Magnis through Australian Holding Company, Imperium3 Pty Ltd, represents 31% of the voting rights in iM3NY.

In addition to the ordinary shares held indirectly through Imperium3 Pty Ltd, Magnis has made a direct investment in iM3NY by way of the acquisition of 3,301,329 redeemable preference shares for total consideration of US\$4,397,502. The preference shares give rights to dividends, liquidation preferences and redemption rights. They do not carry voting rights. As at 31 December 2019 Magnis does not control iM3NY as a result of its holding.

The equipment and inventory remain in approximately 100,000sq feet of storage space while plans for the design and installation of production lines and facilities are developed subject to funding. Production would be planned in a more robust 300,000sq feet facility that is located within the adjacent storage facility on the former IBM manufacturing campus at Endicott.

The iM3NY team continue to actively assesses potential financing arrangements and investment opportunities to allow production to commence.

As part of due diligence for the iM3NY battery plant funding, an independent valuation completed in late September 2019 by O'Brien & Gere Engineers, a wholly owned subsidiary of Dutch engineering giant Ramboll Group, valued equipment at US\$71.34 Million (A\$105.5 Million). The valuation commenced in August 2019 and reviewed all items purchased as part of the acquisition made in early 2018.



Figure 1: LIB Manufacturing facility for proposed Townsville plant.



Figure 2: Cylindrical cells produced by Imperium3 NY

DIRECTORS' REPORT

Townsville, Australia – Gigafactory

In August 2018, Imperium3 Townsville (“iM3TSV”), the subsidiary of Imperium3 Pty Ltd, of which the Company owns one third, received government approvals for a \$3.1M grant supporting the Feasibility Study (FS) into the establishment of a LIB manufacturing plant in Townsville, Queensland.

The Jobs and Regional Growth Fund Assistance Agreement for the FS was formally signed by iM3TSV directors and the State of Queensland, acting through the Department of State Development, Manufacturing, Infrastructure and Planning.

On 1 October 2019, Magnis announced that iM3TSV had submitted the FS to the Queensland Government, for the 18 GWh (increased from a planned 15GWh) lithium-ion battery cell manufacturing facility. The FS incorporated a staged approach whereby the facility would be built in three equal tranches of 6GWh.

The FS demonstrated sound financial viability on a project basis with an NPV of A\$2.55 Billion and 21% IRR, with the project capital cost for all 3 stages estimated at A\$3 Billion, providing 1150 direct jobs when operating at full capacity. Contributors to the FS included GHD, Ausenco, Siemens, NAB and leading vendors of battery manufacturing equipment.

In September 2019, the Company announced that National Australian Bank (“NAB”) had been engaged as an advisor to iM3TSV, bringing extensive experience in advising funding large projects in the renewables sector, including working alongside government bodies, to advise projects in North Queensland.

CORPORATE

CAPITAL FUNDS

On 27 September 2019, Magnis announced that it had executed an agreement to secure \$8,000,000 in funding from Middle East based Negma Group.

Under the terms of the agreement, Negma will provide up to \$8,000,000 over the course of 12 months with a maximum monthly subscription of \$700,000. The shares will be issued at an 8% discount to the previous ten-day volume weighted average price (“VWAP”). The Company has the flexibility to call the monthly amounts and can cancel the agreement at any stage without penalty.

The agreement provides an option for an additional subscription amount of \$4,000,000 on the same terms following completion of the initial 12 months.

A commitment fee of \$400,000 was payable by the issue of shares over the first four monthly subscriptions. On 26 November 2019, Magnis issued 4,000,0000 unlisted options in the Company to Negma at an exercise price of \$0.40 per share with an expiry date of 30 April 2021 as a further condition of the agreement.

At 31 December 2019, the Company had 20,850,000 unlisted options outstanding with varying expiry dates ranging from 7 April 2020 to 31 October 2022. The options also have varying exercise prices ranging from \$0.40 to \$1.00.

The Company reported a cash balance of \$433,159 as at 31 December 2019.

DIRECTORS' REPORT

HEALTH, SAFETY and SUSTAINABILITY (HSS)

Magnis continues its commitment to upholding high standards in the areas of health, safety, environment and community relationships. This commitment includes a dedication to the principles and practices of good corporate and environmental citizenship integrating all aspects of an activity to ensure the appropriate and balanced path is taken to satisfy regulatory requirements whilst in line with best practice and the highest standards.

Building continues on the fostering of the positive relationships with governments and local communities and support of the host communities and our various stakeholders. A prime example being the Magnis Community Partnership Program (MCP), where during the reporting period, Magnis was the major contributor of materials and technical support to the development of a washroom block within the Ruangwa District for the Chunya Village medical clinic.

The contribution to the construction of the washroom block was a result of the proactive work completed by Magnis working with the communities in identifying community needs, shortfalls and prioritising cost-effective solutions. In this case the medical clinic, being a central and somewhat isolated clinic that holds weekly practice for newborn babies and maternity assessments with an estimated usage of around 500 patients a week, risked being closed should the existing facilities fail. The new facility built in co-operation with the community and finalised in December 2019, includes two male and two female toilets and a central washing area and is additionally designed to be accessible by anyone who is mobility impaired.

The MCP contributes various inputs, from time and planning skills, to materials and equipment for community development programs in matters such as cultural awareness, education, agriculture, environment, sport and health. The MCP has in the past contributed learning materials to local schools within the Ruangwa District and is a varied initiative that covers ongoing programs such as maintenance of community areas, general support and involvement in community events or support and staff participation in community health awareness programs.

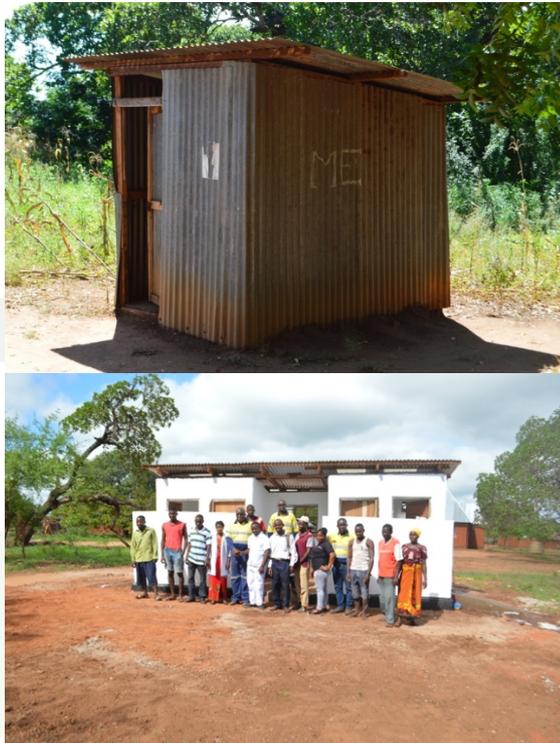
Magnis actively promotes employee participation in continuous improvement processes within the broader area of Occupational Health and Safety. The goal continues to be "zero harm". Staff at Uranex Tanzania (subsidiary of Magnis) are involved in emergency response plans, workplace risk assessments and contributions to monthly safety topics. Magnis ensures staff have access to general medical and health services for regular evaluations and provides staff training in safety, safety leadership and reporting. Through employee training and engagement in this area, Magnis has a high standard of workplace safety with no work-related incidents during the period. Continuous improvement is always a focus in minimising the risk to employee safety as the Magnis Group moves through the stages of project development.

DIRECTORS' REPORT

Magnis continues to have a well-respected presence and relationship with the communities in which they operate both with local governments and businesses. This presence benefits local communities through direct employment and indirect economic benefits through the local procurement of supplies where possible. This naturally aids the positive community relationship setting Magnis up for future success in project development and local benefits that go together with the ongoing and planned MCPP community support programs.

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.

A combined HSS committee is in the final process of being formed to focus on the areas related to projects that the Company have exposure in and will install Environmental, Social and Governance (ESG) principles.



Figures 3 and 4: Improvements made (bottom picture) to the previous (top picture) amenities facility in an adjacent location for the Chunyu Village medical clinic in the Ruangwa District.



Figure 5: Image of land clearing at the Nachu Graphite Project in Tanzania.

DIRECTORS' REPORT

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 11.

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



Frank Poullas
Chairman
Sydney, New South Wales
13 March 2020

DECLARATION OF INDEPENDENCE BY GARETH FEW TO THE DIRECTORS OF MAGNIS ENERGY TECHNOLOGIES LIMITED

As lead auditor of Magnis Energy Technologies Limited for the year ended 31 December 2019, 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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



Gareth Few
Partner

BDO East Coast Partnership

Sydney, 13 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	NOTE	31-Dec 2019 \$	31-Dec 2018 \$
Income	4	236,288	60,147
Total income		236,288	60,147
Total expenses	4	(5,532,134)	(2,831,168)
Loss before income tax		(5,295,846)	(2,771,021)
Income tax (expense) / benefit		-	-
NET LOSS FOR THE PERIOD		(5,295,846)	(2,771,021)
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Change in fair value of financial assets at FVOCI	8,19	(2,524,523)	-
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(29,656)	219,579
Other comprehensive income for the period net of tax		(2,554,179)	219,579
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(7,850,025)	(2,551,442)
Basic (loss) per share (cents per share)		(0.86)	(0.46)
Diluted (loss) per share (cents per share)		(0.86)	(0.46)

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 2019

	NOTE	31-Dec 2019	30-Jun 2019
Current Assets		\$	\$
Cash and cash equivalents		433,159	1,829,817
Trade and other receivables	5	298,905	307,623
Loan receivables	6	197,758	1,822,647
Total Current Assets		929,822	3,960,087
Non-Current Assets			
Other receivables	7	150,977	-
Financial assets at FVOCI	8	7,495,561	10,020,084
Investment accounted for using the equity method	9	5,195,082	5,291,105
Financial assets at FVTPL		26,895	-
Right-of-use assets	10	462,877	-
Development assets	11	5,468,464	5,466,492
Plant and equipment		28,308	53,298
Total Non-Current Assets		18,828,164	20,830,979
TOTAL ASSETS		19,757,986	24,791,066
Current Liabilities			
Trade and other payables	12	1,565,085	590,800
Lease liabilities	13	154,835	-
Provisions		130,448	137,740
Total Current Liabilities		1,850,368	728,540
Non-Current Liabilities			
Lease liabilities	13	312,352	-
Provisions		51,200	40,821
Total Non-Current Liabilities		363,552	40,821
TOTAL LIABILITIES		2,213,920	769,361
NET ASSETS		17,544,066	24,021,705
Equity			
Contributed equity	14	125,548,257	124,177,419
Reserves		2,705,870	6,396,921
Accumulated losses		(110,710,061)	(106,552,635)
TOTAL EQUITY		17,544,066	24,021,705

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 2019

	Consolidated	
	31-Dec 2019	31-Dec 2018
Cash flows from operating activities	\$	\$
Interest received	4,239	20,417
Research and development grant	116,385	-
Payment for exploration expenditure	(720,653)	(628,378)
Payments for development expenditure	(8,821)	(415,977)
Payments to suppliers and employees	(2,045,235)	(2,453,188)
Net cash outflow used in operating activities	(2,654,085)	(3,477,126)
Cash flows from investing activities		
Payment for property, plant and equipment	(926)	(8,728)
Proceeds from related party loan	250,598	
Acquisition of interest in associate	(118,068)	(1,125,660)
Acquisition of interest in financial asset	-	(1,393,592)
Net cash inflow/(outflow) from/used in investing activities	131,604	(2,527,980)
Cash flows from financing activities		
Repayment of lease liabilities	(44,504)	-
Proceeds from issue of shares	1,400,000	11,100,000
Proceeds from exercise of share options	-	300,000
Capital raising expenses	(229,161)	(702,795)
Net cash inflow from financing activities	1,126,335	10,697,205
Net cash inflows/ (outflow) for the reporting period	(1,396,146)	4,692,099
Cash and cash equivalents at the beginning of the period	1,829,817	1,523,886
Effect of exchange rates on cash holdings in foreign currencies	(512)	1,161
Cash and cash equivalents at the end of the period	433,159	6,217,146

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 2019

	Contributed equity	FVOCI Reserve	Share Based Payment Reserves	Foreign Currency Translation Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$	\$	\$
At 1 July 2019	124,177,419	-	1,290,644	5,106,277	(106,552,635)	24,021,705
Loss for the period	-	-	-	-	(5,295,846)	(5,295,846)
Other comprehensive income (loss)	-	(2,524,523)	-	(29,656)	-	(2,554,179)
Total comprehensive income for the half-year	-	(2,524,523)	-	(29,656)	(5,295,846)	(7,850,025)
Transactions with owners in their capacity as owners						
Contributions of equity, net of transaction costs	1,170,838	-	-	-	-	1,170,838
Share based payments	200,000	-	1,548	-	-	201,548
Forfeiture of share-based payments	-	-	(1,138,420)	-	1,138,420	-
At 31 December 2019	125,548,257	(2,524,523)	153,772	5,076,621	(110,710,061)	17,544,066

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	Issued Capital	Options	Share Based Payment Reserves	Foreign Currency Translation Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$	\$	\$
At 1 July 2018	110,637,523	-	2,171,507	4,865,446	(101,840,932)	15,833,544
Loss for the period	-	-	-	-	(2,771,021)	(2,771,021)
Other comprehensive income (loss)	-	-	-	219,579	-	219,579
Total comprehensive income for the half-year	-	-	-	219,579	(2,771,021)	(2,551,442)
Transactions with owners in their capacity as owners						
Contributions of equity, net of transaction costs	13,474,983	-	-	-	-	13,474,983
Share based payments	-	-	21,900	-	-	21,900
Forfeiture of share-based payments	-	-	(789,150)	-	789,150	-
Reallocation	64,913	-	(64,913)	-	-	-
At 31 December 2018	124,177,419	-	1,339,344	5,085,025	(103,822,803)	26,778,985

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



NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED
31 DECEMBER 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Magnis Energy Technologies 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 2019 of the Company was authorised for issue in accordance with a Directors’ resolution dated 13 March 2020.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial report for the half-year ended 31 December 2019 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 2019 and considered with any public announcements made by Magnis Energy Technologies Limited during the half-year ended 31 December 2019 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

(i) New Accounting Standards and Interpretations

Since 1 July 2019, the Group has adopted all Accounting Standards and Interpretations mandatory to annual periods beginning on or after 1 July 2019. The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 30 June 2019, except for the adoption of new standards and interpretations as of 1 July 2019. The Group adopted AASB 16 *Leases* (“AASB 16”) and AASB Interpretation 23 *Uncertainty Over Income Tax Treatments* (“*Interpretation 23*”) with the date of initial application of 1 July 2019.

AASB 16 Leases

(a) *Nature of the effect of adoption of AASB 16*

The Group applied the modified retrospective transition method to adopt AASB 16 and thus prior comparatives were not restated.

Under this method, the cumulative effect of initially applying the standard is recognised directly as an adjustment to equity at the date of initial application, 1 July 2019. The Group elected to use the recognition exemptions for lease contracts that have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

The Group has lease contracts for its head offices in Australia and Tanzania. Prior to the adoption of AASB 16, the Group classified each of its leases at the inception date as operating leases. Operating leases were not capitalised and the lease payments were recognised as rent expense in the profit or loss on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases, except short-term leases and leases of low-value assets. The Group has elected to present right-of-use assets and lease liabilities separately in the statement of financial position. On transition, no right-of-use asset or lease liability was recognised due to the recognition exemptions of excluding short-term leases. Subsequent to transition, lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted-average discount rate applied was 5.5%.

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not restated. The impact of the adoption is summarised as follows:

	31-Dec-2019
	\$
Lease liabilities	
Operating lease commitments disclosed as at 30 June 2019	73,775
Short term and low value lease commitments as at 30 June 2019	(73,775)
Discounted using the company's incremental borrowing rate of 5.5%	-
Lease liability recognised as at 1 July 2019	-
<i>Reconciliation of movement in lease liabilities:</i>	
Lease liability recognised as at 1 July 2019	-
Additions	504,813
Interest expense	6,878
Repayment of lease liabilities	(44,504)
Total Lease liabilities as at 31 December 2019	(467,187)
Right-of-use assets	
Lease liability recognised as at 1 July 2019	-
Lease incentives received	-
Right-of-use assets as at 1 July 2019	-
<i>Reconciliation of movement in right-of-use assets</i>	
Right-of-use assets as at 1 July 2019	-
Additions	504,957
Depreciation expense	(42,080)
Right-of-use assets as at 31 December 2019	462,877

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The impact of IFRS 16 adoption on closing 31 December 2019 reported balances is summarised as follows:

	Accounting under new accounting policy (AASB 16)	Accounting under previous policy (AASB 117)	Effect of change to accounting policy
Statement of Profit or Loss and Other Comprehensive Income			
Occupancy expenses	63,945	117,003	(53,058)
Depreciation and amortisation	42,080	-	42,080
Finance expenses	6,878	-	6,878
	112,703	117,003	(4,300)
Statement of Financial Position			
Right-of-use assets	462,887		462,887
Lease liabilities – current	(154,835)	-	(154,835)
Lease liabilities – non current	(312,352)	-	(312,352)
	(4,300)	-	(4,300)
Accumulated losses	(110,710,061)	(110,705,762)	(4,300)

(b) Summary of new accounting policies for leases (applied 1 July 2019)

Below are the new accounting policies of the Group upon the adoption of AASB 16 which have been applied from the date of initial application:

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract contains the right to control the use of an identifiable asset for a period of time in exchange for consideration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Right-of-use-assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonable certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payment includes fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonable certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease terms reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggered the payment occurs.

In calculating the present value of the lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases. It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term lease and lease of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Interpretation 23 Uncertainty over income tax treatments

(a) Nature of the effect of adoption of Interpretation

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 112 *Income Taxes* ("AASB112"). It does not apply to taxes or levies outside the scope of AASB 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by tax authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, used tax credits; and
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group applies significant judgment in identifying uncertainties over income tax treatments. The interpretation did not have an impact on the consolidated financial statements of the Group.

3. GOING CONCERN

The Group has a multi strategy business of lithium-ion battery technology manufacture in multiple continents combined with pre-mine development of its Nachu Graphite project in Tanzania. The Group is committed to development expenditure in respect of its Nachu tenements.

For the half-year ended 31 December 2019 the Group reported a net loss of \$5,295,846 (2018: \$2,771,021) and net cash outflows of \$1,396,146 (2018: \$4,692,099 net inflows). As at 31 December 2019, the Group had net assets of \$17,544,066 (30 June 2019: \$24,021,705) including cash reserves of \$433,159 (30 June 2019: \$1,829,817).

The balance of these cash reserves as at 31 December 2019 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 2020. The Group's expenditure forecast over the next 12 months totals \$9,237,887. In order to fully implement its multi strategy, the Group will require additional funds.

On 27 September 2019, Magnis announced that it had executed an Agreement to secure \$8,000,000 in funding from Middle East based Negma Group. As at 13 March 2020, Magnis has an undrawn facility of \$5,600,000 which can be called in eight (8) monthly amounts of \$700,000.

Under the terms of the Agreement, Negma will provide up to \$8,000,000 over the course of 12 months with a maximum monthly subscription of \$700,000. The shares will be issued at an 8% discount to the previous ten-day volume weighted average price ("VWAP"). The Company has the flexibility to call the monthly amounts and can cancel the Agreement at any stage without penalty.

The agreement provides an option for an additional subscription amount of \$4,000,000 on the same terms following completion of the initial 12 months.

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

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
- Sale of assets or ownership interests in the three projects;
- The generation of sufficient funds from operating activities including the successful development of the existing tenements. This is dependent on project funding being secured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. The Group also has the ability to defer its investment decisions until further funding has been secured.

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 material uncertainty and significant doubt 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 assets and extinguish 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 CONSOLIDATED FINANCIAL STATEMENTS

4. INCOME AND EXPENSES FROM ACTIVITIES

	31-Dec 2019	31-Dec 2018
	\$	\$
Income		
Interest received	68,901	37,841
Foreign exchange gain	22,612	22,306
Other revenue	28,390	-
Research and development grant	116,385	-
Total income	<u>236,288</u>	<u>60,147</u>
Expenses		
Administration	602,511	509,276
Legal and consulting	429,213	738,030
Depreciation	68,526	70,265
Director fees	272,464	281,455
Employee benefits expense	585,984	576,282
Employee option contribution	747	11,400
Share based payment to non-employees	200,800	10,500
Share of net loss of associate accounted for using the equity method	214,091	142,078
Service supply agreement (Note 15)	1,069,481	-
Expected credit loss on C4V loan	1,467,924	-
Exploration and evaluation	620,393	491,882
Total expenses	<u>5,532,134</u>	<u>2,831,168</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. TRADE AND OTHER RECEIVABLES

	31-Dec 2019	30-Jun 2019
	\$	\$
Accrued interest	1,134	1,562
Goods and services tax recoverable	29,601	30,661
Prepayments and other receivables	305,633	231,637
Less: allowance for expected credit loss	(37,463)	(107,214)
Security deposit	-	150,977
	298,905	307,623

6. LOAN RECEIVABLES

	31-Dec 2019	30-Jun 2019
	\$	\$
Accrued interest	108,494	43,404
Short-term loan- Charge CCCV LLC	1,517,754	1,354,073
Less: allowance for expected credit loss	(1,517,754)	(49,830)
Short-term loan- Olympic Exploration Limited	28,543	-
Short-term loan- Imperium3 Townsville	60,721	475,000
	197,758	1,822,647

As at 31 December 2019, the Group assessed the recoverability of the short-term loan to strategic partner Charge CCCV LLC ("C4V"). At the same time, the Group assessed its investment in C4V for indicators of impairment. As outlined further in Note 8 and Note 19, the assessment has resulted in a decrease in the fair value of C4V in the amount of \$2,524,523. In consideration of this assessment the Group has made the decision to provide against the loan in full.

As at 31 December 2020, the short-term loan due from C4V was in default and attracts a 15% interest charge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. LOAN RECEIVABLES (CONTINUED)

During the six months to 31 December 2019, Magnis provided funds to related party Olympic Exploration Tanzania Limited (“OEL”) for outstanding liabilities to shared service providers in-country. OEL is related by the common directorship of Mr Peter Tsegas. The loan has been provided interest free on the basis given that the amount is expected to be repaid upon securitisation of working capital finance expected before 30 June 2020.

7. NON CURRENT ASSET – RECEIVABLES

	31-Dec 2019	30-Jun 2019
	\$	\$
Security Deposit	150,977	-
	<hr/>	<hr/>
	150,977	-
	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL ASSETS AT FVOCI

	31-Dec 2019	30-Jun 2019
	\$	\$
Equity investment in Charge CCCV LLC	7,495,561	10,020,084
	<u>7,495,561</u>	<u>10,020,084</u>

On 29 March 2018, Magnis announced 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.

Under the terms of the agreement, Magnis acquired a 10% stake in C4V for total consideration of US\$7.5million, comprising an upfront cash payment of US\$2m together with the issue of 6,940,544 ordinary shares in Magnis [representing US\$2.5m in value]. A further cash payment of US\$1 million was made on 12 September 2018 together with the issue of 7,507,508 ordinary shares in Magnis. As at 31 December 2019, Magnis held a 10% stake in C4V.

Magnis has appointed one representative to the Board of Directors of C4V and has also secured a first rights of refusal for any future capital raising initiatives that C4V undertake. Further to the Agreement, Magnis also has an exclusive agreement for 5 years over selective patents, which will expend the Company’s material technologies in the rapidly growing lithium-ion battery sector.

Subsequent to the period end, Magnis executed a Dissolution of Partnership Agreement between the Imperium3 Consortium members being Magnis Energy Technologies Limited (‘Magnis’), Charge CCCV LLC (‘C4V’), Boston Energy and Innovation Pty Ltd (‘BEI’) and Imperium3 Pty Limited (‘iM3’). The Agreement terminates all rights and responsibilities of the consortium members including payments for exclusive license of C4V chemistry for use by iM3 projects. Whilst separate licencing agreements are to be executed between C4V and each of the iM3 projects subject to ongoing negotiation, the cancellation of rights to receive royalty income from the projects has resulted in a reduction in the carrying value of Magnis’ investment in C4V. Detailed explanation is outlined under Note 19.

Movement in Financial Assets at FVOCI carrying value

	31-Dec 2019	30-Jun 2019
	\$	\$
Carrying amount at start of period	10,020,084	5,848,713
New investment during the period	-	4,353,371
Change in fair value	(2,524,523)	
Carrying value of financial assets at FVOCI	<u>7,495,561</u>	<u>10,020,084</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	31-Dec 2019	30-Jun 2019
	\$	\$
Equity investment in iM3NY	5,195,082	5,291,105
	5,195,082	5,291,105

Magnis holds a 51.24% (30 June 2019: 50.86%) direct and indirect interest in a New York lithium-ion battery production plant, Imperium3 New York Inc [iM3NY].

iM3NY has share capital consisting of ordinary shares and redeemable preference shares. The proportion of ordinary shares held indirectly by Magnis through Australian Holding Company, Imperium3 Pty Ltd, represents 31% of the voting rights in iM3NY. As at 31 December 2019 Magnis does not control iM3NY as a result of its holdings in iM3NY.

In addition to the ordinary shares held indirectly through Imperium3 Pty Ltd, Magnis has made a direct investment in iM3NY by way of the acquisition of 3,301,329 redeemable preference shares for total consideration of US\$4,397,502. The preference shares give rights to dividends, liquidation preferences and redemption rights. They do not carry voting rights

Movement in equity accounted carrying values

	31-Dec 2019	30-Jun 2019
	\$	\$
Carrying amount at start of period	5,291,105	4,020,647
New investment during the period	118,068	1,571,602
Share of losses after income tax	(214,091)	(301,144)
Equity accounted carrying amount	5,195,082	5,291,105

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. RIGHT OF USE ASSET

	31-Dec 2019	30-Jun 2019
	\$	\$
Right-of-use asset- Sydney head office	462,877	-
	462,877	-

Magnis signed a new rental agreement for its Sydney head office commencing 1 October 2019 for a three-year term.

Impairment

At each reporting date, the Group reviews the carrying value of its right-of-use assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit and loss.

11. DEVELOPMENT

	31-Dec 2019	30-Jun 2019
	\$	\$
Development	5,468,464	5,466,492
	5,468,464	5,466,492

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 costs.

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.

Impairment

At each reporting date, the Group reviews the carrying value of its development assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit and loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. DEVELOPMENT (CONTINUED)

Movement in Development Assets

	31-Dec 2019	30-Jun 2019
	\$	\$
Carrying amount at start of period	5,466,492	5,176,682
Development costs capitalized during the period	-	57,087
Currency translation difference	1,972	232,723
Carrying value of development assets	5,468,464	5,466,492

12. TRADE AND OTHER PAYABLES

	31-Dec 2019	30-Jun 2019
	\$	\$
Trade payables	187,116	94,734
Other payables and accruals	308,488	496,066
Service Supply liability (Note 15)	1,069,481	-
	1,565,085	590,800

13. LEASE LIABILITIES

	31-Dec 2019	30-Jun 2019
	\$	\$
Current		
Lease Liabilities	154,835	-
	154,835	-
Non- Current		
Lease Liabilities	312,352	-
	312,352	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. CONTRIBUTED EQUITY

	31-Dec 2019	30-Jun 2019
	\$	\$
Ordinary shares fully paid	125,548,257	124,177,419
	<u>125,548,257</u>	<u>124,177,419</u>

Movement in fully paid shares

	No of shares	\$
At 1 July 2019	611,135,996	124,177,419
Shares issued	10,104,928	1,400,000
Share based payment	1,823,154	200,000
Transaction costs		(229,162)
At 31 December 2019	<u>623,064,078</u>	<u>125,548,257</u>

During the period the Company raised funds from equity as follows:

- \$1,400,000 (2018: \$11,100,000) from a share placement of 8,719,597 fully paid ordinary shares.
- No funds (31 Dec 2018: \$300,000) were raised from the exercise of options and subsequent issue of 750,000 fully paid ordinary shares.
- Transactions costs for the period amounted to \$229,162, being \$29,162 in general transactions costs and \$200,000 in share-based payments.
- The share-based payment was made on 21 November 2019 to Negma Group as compensation for the volume-weighted-average-price (VWAP) as calculated for the shares issue on 15 October 2019 being higher than the VWAP calculated over the 22-trading day cooling down period post subscription.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. COMMITMENTS AND CONTINGENCIES

At 31 December 2019, the Group has commitments of:

- Quarterly US\$375,000 relating to contractual commitments to Charge CCCV LLC for maintaining exclusivity over certain patents for the processing of lithium-ion battery anode ready materials.
- At 31 December 2019 US\$750,000 (AU\$1,069,481) are recorded within Trade and Other Payables in recognition of amounts due.

The minimum quarterly fee is payable until the earlier of:

- The commencement of production at Nachu Graphite Project; and
- Termination of the exclusivity period being five years from 31 March 2018.

There has been no other identified contingent liabilities and commitments.

16. 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 Group participates in global consortiums, including ownership, to operate lithium-ion battery gigafactories in Australia and the USA. As a member of these consortiums, Magnis' role will be to provide anode materials and associated technologies to assist in the production process.

This activity is supplemented by the involvement in the development and ultimate mining of natural flake graphite for use in various industries, including in particular, batteries for storing electrical energy.

Due to the infancy of its interests in the lithium-ion battery sector, the Group has determined its reportable segments for the financial period to be;

- Lithium-ion battery investments
- Graphite exploration and development

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 2019 financial report. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. SEGMENT INFORMATION (CONTINUED)

The following table presents revenue and profit information for reportable segments for the half-years ended 31 December 2019 and 31 December 2018, and assets and liabilities for reportable segments at 31 December 2019 and 30 June 2019.

	Lithium-ion Battery Investment USA	Lithium-ion Battery Investment Australia	Graphite Exploration and Development Tanzania	Consolidated
31 December 2019	\$	\$	\$	\$
Segment financial information				
Segment income	-	-	236,288	236,288
Segment loss before tax	(1,682,015)	-	(3,613,831)	(5,295,846)
Segment current assets	-	60,721	869,101	929,822
Segment non-current assets	12,690,643	-	6,137,521	18,828,164
Segment liabilities	-	-	(2,213,920)	(2,213,920)
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	Lithium-ion Battery Investment USA	Lithium-ion Battery Investment Australia	Graphite Exploration and Development Tanzania	Consolidated
31 December 2018				
Segment financial information				
Segment income	467	-	59,680	60,147
Segment loss before tax	(142,078)	-	(2,628,943)	(2,771,021)
Segment current assets- 30 Jun 19	1,343,230	479,418	2,137,439	3,960,087
Segment non-current assets- 30 Jun 19	15,311,189	-	5,519,790	20,830,979
Segment liabilities- 30 Jun 19	-	-	(769,361)	(769,361)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. 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-19	Half-year 31 Dec-18
	\$	\$
Expense arising from equity-settled share-based payment transactions	201,548	21,900
Total expense arising from share-based payment transactions	201,548	21,900

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-19 Number	Half-year 31-Dec-19 WAEP
	\$	\$
Outstanding at the beginning of the half-year	15,800,000	0.71
Granted during the period	12,100,000	0.61
Exercised during the period	-	-
Expired during the period	(7,050,000)	0.70
Outstanding at the end of the half-year	20,850,000	0.66
Exercisable at the end of the half-year	20,850,000	0.66

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. TRANSACTIONS AND BALANCES WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

Transactions with Directors' related entities:

Identity of Related Party	Nature of Relationship	Type of Transaction	Terms & Conditions of Transaction	31 Dec 2019 \$	30 Jun 2019 \$
Strong Solutions Pty Limited	Frank Poullas is a related party of Strong Solutions and a director of Magnis Energy Technologies Limited	Consulting fees and PP&E purchases	Normal commercial terms	135,770	314,568
Peter Tsegas	Peter Tsegas is a Director of Magnis Energy Technologies Limited	Consulting Fees	Normal commercial terms	132,643	420,000
Olympic Exploration Tanzania	Peter Tsegas is a Director of Magnis Energy Technologies Limited and Olympic Exploration Tanzania	Short- term loan	Interest free	28,543	-
Optimal Mining Limited	Peter Tsegas is a Director of Magnis Energy Technologies Limited and Optimal Mining Limited	Share based payment	Normal commercial terms	102,630	-
Dr Ulrich Bez HonDTech	Dr Ulrich Bez is a Director of Magnis Energy Technologies Limited	Consulting Fees	Normal commercial terms	-	9,900

19. FAIR VALUE MEASUREMENT

The fair value of financial assets and financial liabilities are the equivalent to the net carrying amount. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The carrying amounts of cash, trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The Group classified the fair value of its other financial instruments according to the following fair value hierarchy based on the amount of observable inputs used to value the instruments;

The three levels of the fair value hierarchy are:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FAIR VALUE MEASUREMENT (CONTINUED)

- Level 1- Values based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2- Values based on inputs, including quoted prices, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3- Values based on prices or valuation techniques that are not based on observable market data.

	Level in Fair Value hierarchy	Consolidated	
		31 Dec 2019	30 June 2019
Financial assets measured at fair value		\$	\$
Financial assets at FVTPL	1	26,895	-
Financial assets at FVOCI	3	7,495,561	10,020,084
Investment accounted for using the equity method	3	5,266,905	5,291,105
		12,789,361	15,311,189

Financial assets at FVTPL

Financial assets at FVOCI comprise the Group’s investment in ASX listed Marenica Energy Ltd. The investment is quoted in an active market and accordingly the fair value of this investment is included within Level 1 of the hierarchy.

Financial assets at FVOCI

Financial assets at FVOCI comprise the Group’s investment in private US based, lithium-ion battery technology group, Charge CCCV LLC (‘C4V’) which is accounted for as a financial asset measured at fair value through other comprehensive income. The investment is not quoted in an active market and accordingly the fair value of this investment is included within Level 3 of the hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FAIR VALUE MEASUREMENT (CONTINUED)

C4V has expertise and patented discoveries in lithium-ion battery composition and manufacture. C4V has executed a binding agreement to receive royalty income for maintaining exclusivity over certain patents for the processing of lithium-ion battery anode ready materials

The royalty income is dependent upon the successful development of the Group's Nachu Graphite Project which involves the mining and processing of natural flake graphite.

C4V also has a 45.85% strategic investment in a New York lithium-ion battery production plant, Imperium3 New York Inc ('iM3NY'). iM3NY owns battery plant assets located in a planned lithium-ion battery manufacturing facility based at the Huron Campus in Endicott, New York.

Valuation Techniques- Level 3

The Group has utilised a combination of the discounted cash flow (DCF) method together with the fair value of C4V's strategic investment in iM3NY to calculate the enterprise value of C4V. The DCF involves the projection of a series of cash flows and to this an appropriate market derived discount rate is applied to establish the present value of the income stream. The fair value of C4V's investment in iM3NY has been determined by independent valuation of the plant equipment purchased in 2018.

The valuation of the plant equipment was undertaken in August 2019 by leading engineering firm O'Brien & Gere who assessed - all the items purchased. In its current status and condition the external valuer has attributed a valuation of US\$71.34 Million of which C4V has a direct interest equivalent to US\$33.21 Million.

The Group decides its valuation policies and procedures in line with its business objectives and with reference to the Group's assessment of its investment in individual projects. Position papers are prepared to apprise the audit committee of the valuation techniques adopted. The Group reviews the valuation of its financial assets at FVOCI at least once every six months, in line with the group's half-yearly reporting requirements. Changes in level 3 fair values are analysed at the end of each reporting period during this review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FAIR VALUE MEASUREMENT (CONTINUED)

Quantitative information on significant unobservable inputs- Level 3

The following table summarises the quantitative information about the significant unobservable inputs used in the fair value measurement of the Group’s investment in C4V.

Unobservable inputs	Valuation Method	Nachu Graphite Project	Imperium3 New York	Relationship of Unobservable input to fair value
Project Status	DCF	Preliminary (Bankable Feasibility Study)	n/a	The more advanced the project the higher the fair value
Timeline to production	DCF	2 yrs post finance	n/a	The longer the time to production the lower the fair value
Project life	DCF	20yrs	n/a	The longer the lifespan the higher the fair value
Risk adjusted discount rate	DCF	20%	n/a	The higher the discount rate the lower the fair value
Capital required	DCF	AU\$385M (US\$270M)	n/a	The higher the capital required the lower the fair value
Expected annual volumes	DCF	240,000 tpa	n/a	The higher the annual volumes the higher the fair value
Valuation of battery manufacturing equipment	FV	n/a	AU\$102M (US\$71.34)	The lower the recoverable amount of the equipment the lower the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FAIR VALUE MEASUREMENT (CONTINUED)

Project and Investment Risk

The fair value of the Group's investment in C4V is measured against the enterprise value of C4V which is calculated using fair value incorporating present value techniques. The present value calculations use cash flows that are estimates rather than known amounts. There is inherent uncertainty in this valuation technique. As a result, the fair value is exposed to various forms of risk. The fair value of as at 31 December 2019 is measured using a number of significant unobservable inputs. Risks specific to these unobservable inputs are detailed below and have been factored into the individual projects through the risk adjusted discount rate applied.

The Group has performed detailed risk analysis as part of the feasibility study undertaken on the individual projects. In performing this analysis, the Group has identified areas of key risk and has developed risk management and mitigation strategies to implement in order to reduce the likely exposure to these risks.

Project status

The current status of the projects has been determined as being preliminary. The projects are also characterised as being greenfield projects which relates to the lack of existing facility to verify outcomes.

There is a risk that the projects will not be advanced due to the significant capital required to commence construction. There is also a risk that legislative approvals required to commence construction may be delayed or not granted. Project status is aligned to the timeline to production. Any slippage in timeline milestone will reduce the fair value.

Detailed implementation plans have been established for each of the individual projects. The implementation plan identifies areas that are critical to the successful advancement of the projects. Strategies to mitigate and manage risk associated with project success have been documented in detail for implementation. This includes pre-finance testing and market development work. Establishment of strategic partnerships with credible industry professionals such as engineering, procurement and construction contractors, original equipment manufacturers, and financing professionals is also considered critical in reducing the risk of greenfield operations.

Timeline to production

Scheduling for the projects has not factored significant delays or cost overruns. Factors which could create significant delays include adverse weather conditions, construction risks particularly in-ground risks, the securing of water supply for construction and requisite approvals for infrastructure upgrades.

There is a risk that such delays or cost overruns will impact the payback capability of the project and reduce the overall cashflows. An increase to the timeline to production will result in a lower fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FAIR VALUE MEASUREMENT (CONTINUED)

Capital required

The total construction cost of the Nachu Graphite Project is AUD\$385M (US\$270M). This is considered a significant amount of capital. This is compounded by the sovereign risk of developing a graphite mine in Tanzania. There is a risk that the capital required is not secured or that the funding will be on less favourable terms. The Group has identified target funding partners with experience in Tanzania, who have in-depth appreciation and understanding of developing a large-scale resource projects in a jurisdiction with high sovereign risk.

Expected annual production

The Nachu Graphite Project has been reported as the largest mineral resources of large flake graphite in the world. There is a risk, at a production rate of 240,000tpa, that supply will outstrip demand resulting in an unsustainable production rate. The project is also subject to significant sovereign risk arising from changes in legislation, government, environmental permits, employment, disease, community relations all of which could impact the annual production. A reduction in the expected annual production would reduce the fair value.

The Nachu Graphite Project is however capable of being phased into two stages of production. The staged approach allows the project risks and the Group's response to be tested at a smaller scale with reduced capital outlay.

Royalties & Reservation Fee

On 13 November 2018, C4V executed a binding partnership agreement with Imperium3 Consortium members being Magnis Energy Technologies Limited ("Magnis"), Boston Energy and Innovation Pty Ltd ("BEI") and Imperium3 Pty Limited ("iM3") to receive royalty income from the exclusive use of its patented BMLMP chemistry at each of the iM3 lithium-ion battery projects. Under the agreement C4V retained the right to receive a once off reservation fee upon the granting of exclusive use of its patented IP at each of the approved iM3 battery plants.

Subsequent to the period end, C4V and the Imperium3 Consortium members executed a Dissolution of Partnership Agreement. The Agreement terminates all rights and responsibilities of the consortium members including payments for exclusive license of C4V chemistry for use by iM3 projects.

Whilst separate licencing agreements are to be executed subject to negotiation between C4V and each of the iM3 projects, the cancellation of rights to receive royalty income from the projects has resulted in a reduction in the fair value of Magnis' investment in C4V. As a result, a reduction in fair value of AU\$2.5m to the carrying value of Magnis' investment in C4V has been recorded at 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FAIR VALUE MEASUREMENT (CONTINUED)

On 1 March 2017 Magnis executed a Service Supply Agreement with Charge CCCV LLC (“C4V”) relating to the exclusive use of certain C4V patents for the processing of lithium-ion battery anode ready materials. Under the agreement, Magnis is required to pay C4V a minimum quarterly fee of US\$375,000 per quarter commencing 1 July 2019.

The minimum quarterly fee is payable until the earlier of:

- The commencement of production at Nachu Graphite Project; and
- Termination of the exclusivity period being five years from 31 March 2018.

At the commencement of production, C4V retains the right to receive royalty income from the exclusive use of the patents. The royalty income is dependent upon the successful development of the Nachu Graphite Project and processing of natural flake graphite or the production of lithium-ion batteries.

There is a risk that C4V will not receive the estimated reservation fee or royalty income if the Group is unsuccessful in securing the required capital to commence construction of the Nachu Graphite Project.

There is also a risk that the annual royalty income derived from the Nachu Graphite Project will be less than estimated due to delays in production timelines or reduction in the expected annual production.

Any reduction in annual royalty income or reservation fee income will lower the fair value.

The contracts between C4V and Magnis contain commercially sensitive information and as such cannot be disclosed in the financial report as it would likely be prejudicial to Magnis. The contracted royalty and reservation fees have been used by the Group in determining the fair value of C4V.

Recoverable amount- C4V’s investment in iM3NY

Realising the recoverable amount of C4V’s investment in iM3NY is dependent on proceed of sale equalling the estimated US\$71.34 Million. There is a risk that there may be significant advancements in state-of-the-art equipment and that buyers will become increasingly difficult to identify. The valuation of the battery manufacturing equipment does not factor in the cost of relocating the equipment from iM3NY to the buyer(s). In the event that iM3NY was unsuccessful in assigning these costs to the buyer, the fair value would be reduced.

There is also a risk that C4V’s investment in iM3 NY may be diluted as iM3NY seeks the capital required to commence recommissioning of the plant. This would lower the fair value.

Interest rate risk

The main interest rate risk arises from expected long-term borrowings to fund the construction costs. Borrowings obtained at variable rates expose interest rate risk. Borrowings obtained at fixed rates expose the consolidated entity to fair value risk. There is also a risk that the greenfield status of the project could attract interest rates with embedded risk premiums.

The Group is targeting potential funding partners for the Nachu Graphite Project who have an in-depth knowledge and experience in Tanzania to reduce the probability of significant risk premiums being added to interest rates. Targeting funding via engineering, construction and procurement contractors who have a vested interest in the success of the project is one strategy the Group believes will mitigate the risk of attracting finance with substantial risk premium embedded in the interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FAIR VALUE MEASUREMENT (CONTINUED)

Currency rate risk

The individual projects undertake certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. Adverse foreign currency fluctuation can add significant additional costs to the estimated construction costs of the project.

The Nachu project is exposed to currency fluctuations between the United States Dollar (USD) and the Tanzanian Schillings (Tzs). Where possible, the Group mitigates this risk by executing supply agreements in USD, however local content requirements limits the extent that this strategy can be implemented.

In order to protect against exchange rate movements, the Group will consider entering into simple forward foreign exchange contracts.

Risk adjusted discount rate

The above risks have been factored into the risk adjusted discount rate. Any favourable mitigation of the risks outlined above would result in a decrease in the discount rate and an increase in the fair value.

Investment accounted for using the equity method – Magnis direct investment in iM3NY

Investment accounted for using the equity method comprises the Group's investment in a private New York lithium-ion battery production plant, Imperium3 New York Inc ('iM3NY'). The investment which is accounted for using the equity method is measured at cost and the carrying value of the investment is subsequently adjusted for the Group's interest in the associates profit or loss. The investment is not quoted in an active market and accordingly the fair value of this investment is included within Level 3 of the hierarchy.

Valuation Techniques- Level 3

The Group has determined the fair value of its strategic investment in iM3 NY by obtaining a third-party valuation of the recoverable amount of the battery plant equipment purchased in 2018.

The valuation of the battery plant equipment was undertaken in August 2019 by leading engineering firm O'Brien & Gere who assessed of all the items purchased. In its current status and condition the external valuer has attributed a valuation of AU\$101.7 Million (US\$71.34 Million) of which MNS has a direct & indirect interest equivalent to AU\$52.94 Million (US\$37.12 Million) as at 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FAIR VALUE MEASUREMENT (CONTINUED)

Quantitative information on significant unobservable inputs- Level 3

Description	Valuation technique	Unobservable inputs	Imperium3 New York	Sensitivity
Investment accounted for using the equity method	FV	Valuation of battery manufacturing equipment	AU\$102M (US\$71.34M)	5% change would increase/ (decrease) fair value by AU\$2.63m/ (AU\$2.63m)

20. SUBSEQUENT EVENTS

On 20 February 2020, Magnis executed Share Sale Agreements (“Agreements”) to purchase the shares held by Boston Energy and Innovation Pty Limited (“BEI”) and its related entity in the US based entity, Imperium 3 New York LLC (“iM3NY”).

Under the terms of the Agreements, Magnis will acquire the 6.05% direct and indirect shareholdings of BEI and its related entity, Boston Opportunities No.1 Pty Limited’s (“BOI”), held in iM3NY.

The total consideration for purchase of the direct and indirect shareholding is US\$350,000 and will be staged over three monthly payments, with the final instalment due on 30 June 2020. An initial instalment of US\$10,000 has already been paid.

An additional US\$150,000 bonus payment is to be paid to BEI if iM3NY secures Project Finance or secures a joint venture agreement with an offtake partner for the iM3 New York Battery Plant within twelve months of executing the Agreement.

Importantly the Agreements will remove the complicated shareholding of the Imperium3 head entity, Imperium3 Pty Ltd (“iM3”), and will provide each of Magnis and Charge CCCV LLC (C4V) with a direct holding of 62% and 31% of voting rights in iM3NY respectively. At completion of the Agreements, Magnis will have a 53.39% direct holding. C4V will have a direct holding of 45.17%.

Following completion of the Agreement to purchase the common stock shares of iM3NY, Magnis will hold 62% of the voting rights of iM3NY. Control of iM3 NY will be achieved at this point as the Group will be exposed, or will have the rights, to variable returns from its involvement with the investee and will have the ability to affect those returns through its power over the investee.

Upon the date that control is established, Magnis will undertake a business combination calculation and will consolidate the financial statements of iM3NY from the date on which control is established. This is estimated to occur on or around 30 April 2020.

On 3 March 2020 Magnis executed a Dissolution of Partnership Agreement between the Imperium3 Consortium members being Magnis Energy Technologies Limited, Charge CCCV LLC, Boston Energy and Innovation Pty Ltd and Imperium3 Pty Limited. The Agreement terminates all rights and responsibilities of the consortium members including payments for exclusive license of Charge CCCV chemistry for use by iM3 projects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. SUBSEQUENT EVENTS (CONTINUED)

Whilst separate licencing agreements are to be executed between C4V and each of the iM3 projects subject to ongoing negotiation, the cancellation of rights to receive royalty income from the projects has resulted in a reduction in the carrying value of Magnis' investment in C4V. Detailed explanation is outlined under Note 19.

The Service Supply Agreement outlined in Note 12 and 15 is unchanged by the execution of the Dissolution of the Partnership Agreement.

Other than the above, no other matter or circumstance has arisen since 31 December 2019, which has significantly affected, or may significantly affect the operations of the Group, the result of those operations or the state of affairs of the Group in subsequent periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DIRECTORS' DECLARATION

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

In the opinion of the Directors:

- a. The financial statements and notes of Magnis Energy Technologies Limited for the half-year ended 31 December 2019 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 2019 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
13 March 2020

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Magnis Energy Technologies Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Magnis Energy Technologies Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, 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 2019 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 *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 2019 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

A handwritten signature in black ink, appearing to read 'Gareth Few', is written over a faint, larger 'BDO' logo.

Gareth Few
Partner

Sydney, 13 March 2020