

19 February 2018

Off-take agreement term sheet with electric vehicle battery manufacturer for 100% cobalt and nickel production from Sconi Project

- Signed off-take agreement term sheet with leading global electric vehicle battery manufacturer SK Innovation for 100% of the cobalt and nickel production from Sconi Cobalt-Nickel-Scandium Project in Queensland
 - Initial agreement for 7-year period with a further 6-year extension option with quantities of agreed offtake volumes of 12,000 tonnes per year of cobalt sulphate and 60,000 tonnes per year of nickel sulphate
 - Collaborating with SK Innovation to optimise Bankable Feasibility Study on the Sconi Project
 - Assistance from SK Innovation in optimization of Sconi's processing plant and mining operation through sample validation at battery level for hybrid and electric vehicles (xEV) is expected
 - Australian Mines' Sconi partner, Korean-headquartered SK, is the world's 57th largest company with annual revenue in excess of US\$120 billion
 - Option agreement for SK Innovation to acquire up to 19.9% of Australian Mines' ordinary shares
 - Confirms Sconi Project's status as Australia's most advanced project of its type and Australian Mines as a leader in the Australian cobalt sector
 - Sconi Project is held 100% by Australian Mines
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Australian Mines Limited (“**Australian Mines**” or “the Company”) (AUZ: ASX) is pleased to announce that the Company has signed an off-take agreement term sheet (Agreement) with **SK Innovation** for 100% of the expected cobalt sulphate and nickel sulphate production from the Sconi Project for an initial period of 7 years, with an option exercisable by SK Innovation to extend this commodity supply agreement for a further 6 years.

The Agreement is subject to the following material conditions precedent:

- sample validation to be conducted is satisfactory to SK Innovation;
- execution of final full legal documentation; and
- the Company obtaining financing for the development and construction of the Sconi project before 31 December 2018 (or such later date as SK innovation and Australian Mines may agree), and that mining commences before 31 December 2020 (or such later date as both the Buyer and Seller may agree). The timing of both these Conditions Precedent are comfortably within the timelines being pursued by Australian Mines prior to the Agreement being signed.

The quantities of the agreed offtake volumes pursuant to the Agreement is up to 12,000 tonnes per year of cobalt sulphate and 60,000 tonnes per year of nickel sulphate¹, with the sale prices linked to the corresponding London Metal Exchange (LME) cobalt and nickel metals price².

Australian Mines is now working to optimise the Sconi Project’s mining production profile and engineering plans for the processing plant in line with the above offtake volume. As a result, the timeframe for the delivery of the project’s Bankable Feasibility Study (BFS)³ has been extended to the end of June 2018 to accommodate this Agreement with SK Innovation.

SK Holdings (“SK”), which is listed on the Korean Stock Exchange under code 034730, is the 57th largest company in the world with annual revenues exceeding US\$120 billion⁴.

¹ Offtake volumes Year 1 - up to 1,000 tonnes of cobalt sulphate and 5,000 tonnes of nickel sulphate, Offtake volumes in Year 2 - up to 8,000 tonnes of cobalt sulphate and 40,000 tonnes of nickel sulphate, Offtake volumes in Year 3 and beyond - up to 12,000 tonnes of cobalt sulphate and 60,000 tonnes of nickel sulphate. Under the Agreement, Australian Mines and SK Innovation agree to ensure that final annual off-take quantity is at least 90% of the indicative annual quantity above, provided that at no time the cumulative production falls below 75% of the indicative agreed cumulative production.

See Australian Mines’ announcement dated 31 March 2017 and 28 April 2017 for detailed information on Sconi Pre-Feasibility Study (PFS)

See Australian Mines announcement dated 31 March 2017 for full details of the Sconi Mineral Resource.

Sconi global Mineral Resource: Measured 17Mt @ 0.07% Co, Indicated 48Mt @ 0.07% Co, Inferred 24Mt @ 0.04% Co for total Mineral Resource of 89Mt @ 0.06% Co. There has been no Material Change or Re-estimation of the Mineral Resource since this 31 March 2017 announcement by Australian Mines.

² The US dollar price for the cobalt sulphate and nickel sulphate products are adjusted for the percentage of contained cobalt or nickel, and impurities in the product. The exact magnitude of any price premium or adjustment remains commercial-in-confidence.

³ Under Section 40 of the JORC Code 2012 Edition, terms such as “Bankable Feasibility Study”, “Definitive Feasibility Study” and “Feasibility Study” all mean the same thing and are, therefore, interchangeable.

⁴ See <https://australianmines.com.au/asx-announcement>

See SK’s website (www.sk.co.kr) for further information on Australian Mines’ partner on the Sconi Project

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In addition to being the largest energy & chemical company in Korea and second largest semiconductor manufacturer in the world⁵, SK has a long history of successfully developing resource projects.

To date, SK has developed 20 oil and gas projects across 11 separate countries as well as building and operating the world's second largest single-site refinery (being the Ulsan Complex in Korea).

SK Innovation has indicated that the cobalt sulphate and nickel sulphate off-take from Sconi appears destined for their newly developed battery manufacturing plant in Hungary and Korea, which services German premium car makers.

Beyond their off-take agreement term sheet, SK Innovation's confidence in Australian Mines, both in its cobalt-nickel-scandium assets as well as the Company's personnel, is further exemplified by an option allowing SK Innovation to acquire up to 19.99% of Australian Mines' ordinary shares at 12 cents per share at the date of this announcement, being 669,000,000 shares⁶. This option agreement is subject to shareholder approval.

If exercised⁷, the cash investment by SK Innovation will further boost Australian Mines' existing strong balance sheet⁸ with the additional cash ear-marked to fund the initial construction phase of the full-scale processing plant at the Sconi Project, including the purchase of longer lead-time components such as the autoclave vessels.

Australian Mines Managing Director Benjamin Bell commented: *"The signing of the agreement with SK Innovation is a landmark occasion for Australian Mines and its shareholders. As the only Australian cobalt-nickel-scandium company to have secured an off-take for 100% of its expected cobalt and nickel output, the Company has, once again, demonstrated that the Sconi Project in northern Queensland is the most advanced project of its type in Australia, and that Australian Mines is unequivocally a leader in Australia's cobalt sector.*

"Australian Mines is delighted to be partnering with a leading electric vehicle battery manufacturer in SK Innovation to develop the Sconi Project – a company that has a solid track record in developing and operating multi-billion-dollar resource projects around the world, and we are looking forward to a long relationship with them.

⁵ See <https://australianmines.com.au/asx-announcement>

⁶ SK Innovation is to be granted an option to subscribe for up to 669,000,000 shares in Australian Mines at 12 Australian cents per share subject to Australian Mines obtaining shareholder approval for the entire issue of the options.

⁷ The share option agreement terms expire three months after the date of delivery of Sconi Project Bankable Feasibility Study by Australian Mines. Again, such options and/or shares will be issued subject to Australian Mines obtaining shareholder approval for the options and the requirements of the Australian Securities Exchange and other Australian laws.

⁸ Australian Mines had \$16 million cash-in bank, reported as of 31 December 2017.

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“Now that Australian Mines has secured an off-take partner for the Sconi Project, we are the only company that is in a position to align the technical production and processing parameters of the Bankable Feasibility Study (BFS) with the demands of its end-user partner, who will also be our key strategic partner in the construction and financing of the overall project.

“As such, we have modified the scope of the BFS to align with SK Innovation’s requirements for 12,000 tonnes of cobalt sulphate and 60,000 tonnes of nickel sulphate per year. This work, which will commence immediately, will include a modified mining pit shell and production schedule that optimises the extraction of the nickel and cobalt in keeping with the volumes specified in the off-take agreement.

“Although these changes will extend the BFS timetable by a few months resulting in delivery by the end of June 2018 there is no doubt this Agreement with SK Innovation will assist Australian Mines in moving very quickly post the completion of the BFS to finalise the remaining financing required to construct the full-scale mining and processing operation at the Sconi Project.

“We have enjoyed a good reception from potential end-customers throughout Asia and Europe while on roadshows to key markets in the past 12 months. We also are also currently engaged in productive conversations with separate entities around possible off-take agreements for the scandium oxide component of production from the Sconi Project.”

*****ENDS*****

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About SK Innovation

SK Innovation started as the Korea Oil Corporation⁹, the first refining and chemical company in the country, which was integral to Korea's economic development. The Company has grown into a global energy and chemical company, expanding into the future energy sector alongside its traditional fields of petroleum production, refining, chemicals and lubricants. SK Innovation has partnerships with global automotive manufacturers to develop and apply electric vehicle battery technology world-wide.

In November 2017, SK Innovation committed to invest US\$777 million to build an electric vehicle battery plant in Hungary¹⁰ to meet demand from automakers in Europe. Construction of the Hungary plant is scheduled to start in February 2018 and production from early 2020, with the plant to have the capacity to produce 7.5 gigawatt hours per year of batteries, predominantly for the electric vehicle market.

SK Innovation's battery manufacturing technology is also widely used in its home market of Korea, with mass global vehicle manufacturer Kia Motors Corp¹¹ using specially engineered NMC (nickel-cobalt-manganese) lithium-ion polymer battery cells supplied by SK Innovation in its EVs. The battery pack, featuring a high energy density, was the result of a three-year joint development program between Kia and SK Innovation.

SK Innovation is also due to bring its second South Korean-based electric vehicle lithium-ion battery production facility¹² online in 2018, lifting total production capacity within its home market from 1 to 4 gigawatt-hours (GWh) a year.

For further information on SK Innovation is available at:

<https://australianmines.com.au/asx-announcement>

Important notice about forward looking statements

This announcement may contain some references to forecasts, estimates, assumptions and other forward-looking statements. Although the Company believes that its expectations, estimates and forecast outcomes are based on reasonable assumptions, it can give no assurance that they will be achieved. They are indicative and may be affected by a variety of variables and changes in underlying assumptions that are subject to risk factors associated with the nature of the business, which could cause actual results to differ materially from those expressed herein. Investors should make and rely upon their own enquiries before deciding to acquire or deal in the Company's securities.

⁹ For further detail, please refer: <http://eng.skinnovation.com/>

¹⁰ For further detail, please refer: <https://www.reuters.com/article/southkorea-sk-innovation/update-1-s-koreas-sk-innovation-to-build-ev-battery-plant-in-hungary-idUSL3N1NZ6JV>

¹¹ For further detail, please refer: www.greencarcongress.com/2014/02/20140224-kia.html

¹² For further detail, please refer: <https://cleantechnica.com/2016/11/14/sk-innovation-set-quadruple-ev-battery-cell-production-2018/>