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12 April 2019

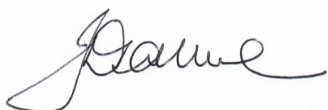
Company Announcements Office
Australian Securities Exchange Limited
20 Bridge Street
Sydney, NSW, 2000

Dear Sirs,

Alloy Production at Golmud in Qinghai Province China

Attached is a release to shareholders providing a status report on production at the Golmud project.

Yours sincerely



Mr John Talbot
Company Secretary
Magontec Limited

12th April 2019

ASX Announcement

Supply of pure magnesium to the Magontec Qinghai Magnesium Alloy Cast House

The Magontec Limited 2018 Annual Report, released to the market on 28th February 2019, noted that in the fourth quarter of 2018, Magontec's new Magnesium Alloy Cast House (MACH) at Golmud in Qinghai Province PRC had produced 1,794 metric tonnes of magnesium alloy.

The Report also noted that Qinghai Salt Lake Magnesium Co. Ltd (QSLM), the supplier of raw material to Magontec, had commissioned both dehydration units and around 30% of the electrolytic cell house capacity.

As we have discussed in previous communications, the transfer of raw material (liquid pure magnesium) to the MACH has functioned at lower levels than anticipated. This is due in part to lower operating levels within the QSLM facility and in part the result of operating issues associated with QSLMs metal transfer trucks.

The chemical composition of raw material available to Magontec's MACH has also emerged as an intermittent problem. Fluctuations in the chemistry of material manufactured by QSLM has resulted in pure magnesium production with nickel content that has frequently been at levels above specification.

As a result of these issues QSLM has been unable to supply the anticipated volumes of raw material to the MACH. Magontec has been able to acquire raw material from other sources to maintain output at around 2,000 metric tonnes a quarter.

Under these circumstances the volumes that can be produced by the MACH and the profitability of this business unit are lower than expected for the first quarter of 2019.

Report from QSLM management

In a report to the Board of Magontec, dated 10 April 2019, the management of QSLM noted:

- Six new metal wagons have been ordered. Two have arrived on site and four more will arrive on the 17th April 2019. These wagons will be able to meet the liquid Mg delivery requirement from the electrolytic cells.
- The causes and resolution of the nickel content issue have been the subject of a detailed examination by QSLM. Management are in the process of replacing material transfer equipment assessed to be the source of additional nickel, reviewing the key production processes and enhancing quality control measures. QSLM expect the electrolytic magnesium complex to return to higher operating levels and to have the nickel content issue under control by August 2019.

Outlook

In the light of the report from QSLM the Magontec Qinghai plant is likely to continue to operate at levels around 2,000 metric tonnes a quarter until August 2019. This will be sufficient for the Company to meet its current supply obligations, however the Magontec Qinghai business unit is unlikely to be profitable through this period.

In the first quarter of 2019 Magontec's other businesses have performed close to or above targeted levels and the Company expects to record a Net Profit After Tax (unaudited) in this period, excluding the effects of unrealised foreign exchange movements. This compares with a Net Loss After Tax of \$0.307million in the same period last year.

Nicholas Andrews
Executive Chairman & CEO

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