

Magontec Limited**31 July 2019****ASX Announcement****UPDATE - Supply of pure magnesium to the Magontec Qinghai Magnesium Alloy Cast House (MACH)**

In April 2019 Magontec alerted the market to operational circumstances that have constrained delivery of pure magnesium raw material to the Magontec Qinghai MACH by our partner company, Qinghai Salt Lake Magnesium (QSLM).

The Magontec Qinghai plant is located adjacent to the QSLM electrolytic magnesium smelter and is designed to take liquid pure magnesium into its alloying furnaces under agreements signed between QSLM and Magontec in May 2014.

Magontec Qinghai began commissioning of the MACH in early 2017 and began producing material for sale to customers in October 2017. In the intervening period the MACH has been in receipt of varying levels of supply of liquid pure magnesium from QSLM.

Through the first 6 months of 2019 Magontec Qinghai produced 4,219mt of magnesium alloys from raw material supplied by QSLM and from third parties. In the second quarter the supply of raw material from the QSLM facility has been at lower levels, as anticipated in the April release.

Supply has been constrained by two factors; operational deficiencies in the equipment used by QSLM to transfer material from the electrolytic cell house to the MACH furnaces ('metal transfer trucks') and the presence of nickel in the liquid pure magnesium at levels above that specified by Magontec in its agreements with QSLM.

The acquisition of new transfer metal trucks in April and May 2019 has increased the capacity of QSLM to consistently supply pure magnesium in liquid form. However, the presence of nickel in the raw material delivered to Magontec, together with other process stability issues, has caused QSLM to commission a thorough review of all the manufacturing steps including brine purification, MgCl dehydration, electrolytic reduction and other processes integral to the running of the facility.

QSLM appointed a well-known Chinese chemical engineering company to conduct the review. On completion, in May 2019, QSLM appointed this organisation to oversight a maintenance and remediation program.

This engineering company is now under contract to QSLM to manage the remediation of all parts of the facility identified in the review as underperforming and to raise production levels to the rated capacity of the facility.

From communications with QSLM we understand that the appointed Chinese chemical engineering company is scheduled to complete work on the first dehydration line in October 2019 and build output to 25,000 metric tonnes of annual pure magnesium production by year end. It is then contracted to remediate the remaining lines through 2020. At this time, we estimate that supply levels of liquid pure magnesium to the MACH will begin to rise again in the fourth quarter of 2019.

Magontec Qinghai meanwhile continues to produce magnesium alloys at its MACH at Golmud and to meet its contractual obligations, notwithstanding diminished operating economics.

A comprehensive report on the performance of all Magontec businesses will be forthcoming at the end of August 2019 with the publication of the company's Interim Report.

The report will show that, despite higher than planned costs associated with the Magontec Qinghai primary magnesium alloy facility, the group has performed well in the first half of 2019 with strong performances from the company's magnesium and electronic anode businesses in Europe and China and free cash flow excluding working capital movements higher than in the previous corresponding period.

Subject to the normal auditor review process, it is the expectation of management and Board that the company will report a net profit after tax in excess of that reported for the six months to 30 June 2018.

Nicholas Andrews
Executive Chairman
Sydney, 31 July 2019

For more information please contact Nicholas Andrews on 0402220077