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20 April 2020

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

Dear Sirs,

Appendix 4C – Quarter Ended 31 March 2020

In this letter are –

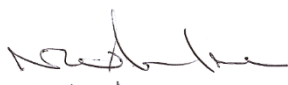
- Attachment 1 – Unaudited Cash Flow Statement for the 3 months to 31 March 2020
- Attachment 2 – Unaudited Appendix 4C cash flow report for the quarter ended 31 March 2020

Attachment 1 is presented in the format that appears in the Company's half year and annual reports and is prepared on a basis consistent with the requirements of accounting standards.

Attachment 2 is presented in the format required by Paragraph 4.7B of Chapter 4 of the ASX listing rules.

It is reiterated that all data presented in this report is unaudited.

Yours sincerely



Nicholas Andrews, Executive Chairman of Magontec Limited has authorised the release of this document to the market on 20 April 2020

Rounding

The data in this report may indicate apparent errors to the extent of one unit (being \$1,000) in the addition of items comprising totals and sub totals and the comparative balances of items from the financial accounts. Such differences arise from the process of converting foreign currency amounts to two decimal places in AUD and subsequent rounding of the AUD amounts to one thousand dollars.

Executive Chairman's Commentary

Magontec Limited (ASX: MGL)

Quarterly Update for the 3 months to 31 March 2020 (Unaudited)

Operational Highlights – First Quarter 2020	3 months to 31-Mar-20	3 months to 31- Mar-19	% Change
Gross Profit	+\$4.122m	+\$4.436m	-7.1%
EBITDA*	+\$1.316m	+\$1.296m	+1.6%
Underlying Net Profit After Tax*	+\$0.123m	+\$0.135m	-8.8%
Underlying Operational Cashflow**	+\$1.776m	+\$1.309m	+35.7%
Reported Net Profit After Tax	+\$1.040m	+\$0.025m	NA

*Excludes the impact of unrealised FX gains and losses

**Operating cashflow excl. working capital, interest and income tax paid. 1Q19 adjusted by \$53k. Not material.

Highlights Commentary

- In the first quarter of 2020 Magontec produced a strong overall result, particularly under the circumstances that prevailed in China in February and across the rest of the world in March
- The underlying Net Profit After Tax (NPAT) for the three months to 31 March 2020 was A\$ 0.123m, an 8.8% drop on the previous corresponding period (PCP)
- At the Gross Profit line there was a 7.1% decline in income but a higher margin, up from 13.2% to 14.0%, while EBITDA in the quarter was steady at A\$ 1.316m
- There was a substantial foreign exchange effect in the period as the Australian dollar declined against the Euro (8%) and the Renminbi (6%), pushing Reported NPAT to \$1.04m, significantly above first quarter 2019
- In China the primary magnesium alloys business was again loss making at the EBIT line while the Chinese magnesium anodes business saw a rise in both volumes and EBIT. The effects of the Chinese New Year closure in January and Covid-19 enforced closure in February significantly reduced demand and production across Magontec's Chinese operations in the quarter
- In Europe the magnesium metals business enjoyed a strong quarter while Cathodic Corrosion Protection (CCP anode) product sales into Europe and the USA were lower than the PCP. Magnesium anodes sales volumes in Europe were particularly weak as factories rapidly closed from the middle of March onwards in some major European markets

Net Profit analysis of significant items	31-Mar-20 YTD
NPAT ex unrealised FX	\$123,212
Add back significant items (tax effected)	
- MAQ depreciation (non-cash)	\$226,074
- Provision for unforeseen costs (non-cash)	\$150,000
Subtotal	\$376,074
NPAT ex FX and significant items	\$499,285

- Underlying Operating Cash generation in the first quarter was positive; up 35.7% to \$1.78 million*. In the period Magontec continued to fully depreciate its Qinghai assets (\$0.266 million in the quarter pre-tax) despite the fact that the facility continues to operate well below rated levels
- On 1 April 2020 Executive management and European staff accepted a 20% cut in salary and the Board have also accepted a substantial reduction in fees. These reductions will be reviewed on 31 August 2020

Gross Profit	3 months to 31 Mar 2020	3 months to 31 Mar 2019	% Change
Metals	\$2.05m	\$1.62m	+26.3%
Anodes	\$2.07m	\$2.81m	-26.3%

** This is defined as cashflow from operations excluding working capital movements, interest and income tax paid*

ABOUT MAGONTEC LIMITED

ASX Code: MGL

Magontec is a leading manufacturer of magnesium alloys and Cathodic Corrosion Protection (magnesium and electronic anode) products

Magontec activities

- Converts pure Mg and alloying elements into Mg alloys
- Casts and extrudes Mg alloys into anodes for supply to the global water heater industry
- Distributes products through a global sales network to customers in Europe, Asia-Pacific and North America

Magontec assets

- World's greenest primary Mg alloy producer
- Leading Mg alloy recycling assets in Europe
- A portfolio of proprietary magnesium alloys and an active R&D program
- Mg & electronic anode manufacturing facilities in Europe and China

Magontec profile

- A leading global magnesium alloy manufacturer and sales organisation
- A pioneer in the field of magnesium alloys and anode products
- Vast experience in production and development of new Mg alloys and anode applications

Headline numbers				
A\$m	3 months to 31 Mar 2020	3 months to 31 Mar 2019	\$ Chg	% Chg
Underlying Operational Cashflow*	\$1.776 m	\$1.309 m	+\$0.467 m	+35.7%
Work cap movement & other op cashflow	\$4.189 m	(\$2.788 m)	+\$6.977 m	
Total Operational Cashflow	\$5.966 m	(\$1.479 m)	+\$7.445 m	
Gross Profit	\$4.122 m	\$4.436 m	(\$0.314 m)	-7.1%
Gross Profit Margin (%)	14.0%	13.2%		
Underlying EBITDA**	\$1.316 m	\$1.296 m	+\$0.021 m	+1.6%
Underlying EBIT**	\$0.563 m	\$0.586 m	(\$0.023 m)	-3.9%
Underlying NPAT**	\$0.123 m	\$0.135 m	(\$0.012 m)	-8.8%
Reported NPAT	\$1.040 m	\$0.025 m	+\$1.016 m	
** Excludes unrealised FX effects of	+\$0.917 m	(\$0.110 m)		

Financial Comment

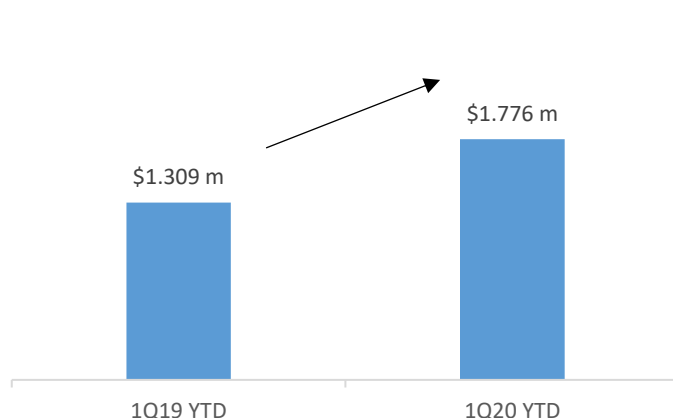
In the March 2020 quarter, Magontec recorded positive underlying operational cash flow* of +\$1.78 million, an increase of 35.7% over the PCP due mostly to the strong operating results from the European metals business.

Reported operating cash flow for 1Q20 was +\$5.966 million, including a large cash working capital inflow of \$4.4 million, driven mostly by the collection of debtors across the group. The current net working capital is more in line with historical levels and resulted in a reduction of net debt to \$11.1 million as at 31 March 2020, compared with the \$15.3 million balance as at 31 December 2019.

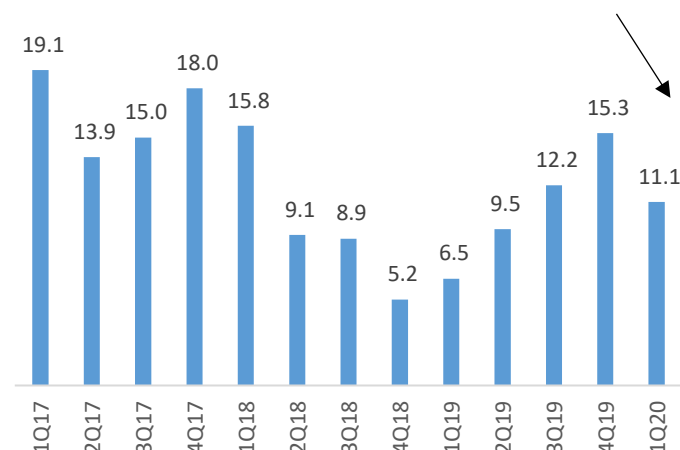
Net debt represented 36.2% of working capital as at 31 March 2020, and the net debt to net debt + equity ratio reduced to 24.2% (33.0%: 31 December 2019) which is also more consistent with historical levels. The overall cash balance increased to \$8.3 million as at 31 March 2020 (\$4.3 million as at 31 December 2019).

* This is defined as cashflow from operations excluding working capital movements, interest and income tax paid

Underlying operational cashflow



Net debt (\$m)



Review of Operations

Primary Magnesium Alloys – China (Magontec Qinghai Cast House Project)

Magontec's Qinghai primary magnesium alloy facility continues to operate at very low levels. The company's partner, Qinghai Salt Lake Magnesium Co Ltd (QSLM) has been undergoing an extensive restructuring process and its pure magnesium production activities remain suspended at this time.

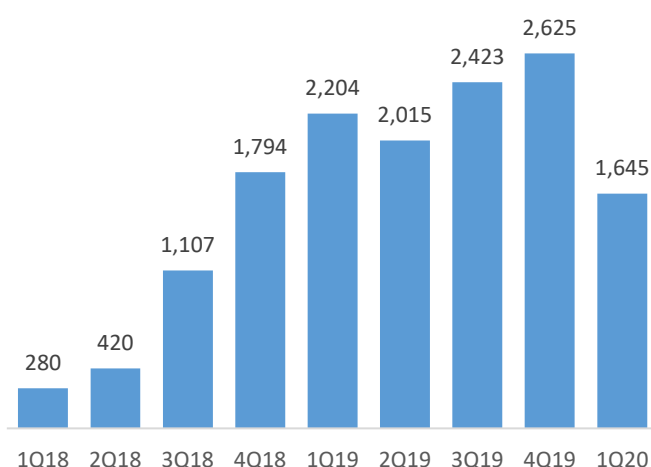
QSLM has now been sold by the Qinghai Salt Lake Industries Co Ltd (QSLIC) to a new state-owned enterprise established to manage the project. The original QSLM corporate entity is unchanged and remains the legal counterparty for Magontec at the Qinghai project under the original cooperation and subsequent operating agreements.

While progress at the Qinghai project has been slow, we understand that the final creditors meeting will take place in the next two months and that when those events are settled, the new owner will be able to set about the task of preparing the facility for re-opening and supplying Magontec with liquid pure magnesium as per the agreements between the two companies.

Due to the limitations imposed on international travel, visits to the site and discussions with QSLM management have been held on only one occasion in 2020. Nonetheless, our Chinese management team are in constant

contact with QSLM senior management, who also sit on the Board of Magontec Limited.

MAQ production volumes by quarter (mt)



Production of primary magnesium alloys at Qinghai has continued throughout the last 12 months, during which supply from the QSLM pure magnesium facility has not been available. In this period the Magontec facility has sourced its raw material requirements from third party Chinese pure magnesium manufacturers. The plant, which is designed to run at up to 60,000 metric tonnes per annum, produced just 1,645 metric tonnes in 1Q 2020.

The costs of logistics (importing raw material to Qinghai and exporting finished goods back to customers from Qinghai) and sub-optimal operational efficiencies at current production levels,

mean that this business continues to operate at a loss at the EBIT line and will continue to do so until supply from QSLM is re-commenced. The combined effect of the Covid-19 pandemic and continued excessive carrying costs in the quarter under review, reduced Gross Profit to slightly above break-even.

In the second quarter and through to the restart of QSLM pure magnesium supply, the Magontec Qinghai facility will continue to operate at levels similar to the quarter just past.

There are a number of reasons why Magontec continues to operate this plant in spite of these conditions;

- The local Magontec company has built and trained a team of operators and managers. These are valuable skills and important employees and we have determined to keep this team together so that the plant is able to quickly scale up production again
- Magontec has customers in China and Japan, as well as in other regions of the World, who have qualified this plant, whom we wish to continue to support and who are important to the company's long-term future as a volume supplier of magnesium alloys into world markets; and
- At this time the losses at MAQ are sustainable within the wider Magontec business and we expect to be able to improve efficiencies at the plant this year by comparison with 2019.

While this is a painful experience in the medium-term, it remains the expectation of the management and Board, based on the expressed intentions of the management of QSLM, that the Qinghai pure magnesium project will recommence supply and that the Magontec Qinghai magnesium alloy cast house will operate at much higher levels.

Magnesium recycling

Magontec's European operations include magnesium alloy recycling at Bottrop in Germany and Santana in Romania as well as a growing specialist metals facility at the German site.

The magnesium alloy recycling business is largely reliant on the automotive industry with smaller volumes going to power tool manufacturers. All of these customers are suffering from a sharp downturn in demand for their products related to Covid-19 shut-downs in multiple countries.

In the three months to the end of March 2020 Mg alloy recycling sales volumes were 6.5% below the PCP, reflecting a slowing off-take by customers in March, while Gross Profit for the two recycling plants rose 17% on PCP, largely the result of improved performance in Romania where the production and management teams have continued to turn around this business and improve productivity.

In the first weeks of April customer scrap deliveries and finished product off-take have dropped sharply. At this time the European recycling business is rolling through intermittent production campaigns and using Romanian and German Government labour assistance programs to maintain its workforce while customers scale back production to meet their own demand levels.

There is little clarity regarding the weeks ahead. The assistance offered by regional Governments is significant and actions taken by management will also help to reduce costs. The company's current cash flow models assume that these recycling assets will operate at very low levels through the second quarter of 2020 and are unlikely to be profitable in this period.

On a brighter note, the European specialist metals business continues to grow its customer base and made a significant contribution to profitability in the first quarter of 2020. This emerging business is the result of many years of product development and marketing initiatives, providing Magontec with additional market diversification and a new source of revenue and profit.

Anode Products (Cathodic Corrosion Protection)

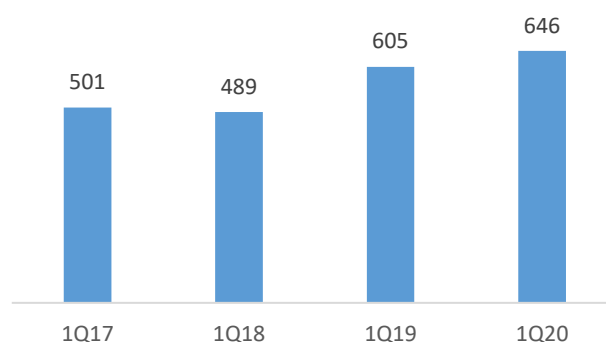
Magontec operates two magnesium anode manufacturing facilities at Xi'an in China and at Santana in Romania supplying the Chinese/US and European/Middle East markets respectively. The company also manufactures electronic anodes for sale into European and US markets.

In China in the period under review, there were significant production interruptions as the early onset of the Covid-19 pandemic closed factories across the country. In addition to the Chinese New Year shut-down the Magontec Xi'an facility was closed for a further two weeks in February under direction from the Xi'an city government.

In Europe the pandemic effects were not felt until late in March. In the last 2 weeks of the first quarter, demand dropped sharply and that trend is likely to continue into the second quarter.

Overall magnesium anode volumes were up 6.7% in the quarter compared with PCP, largely the result of new supply contracts in China and North America. At the Gross Profit level, Magontec's global magnesium anodes business fell by 18.2% compared with the PCP.

Global anode sales YTD (mt)



The electronic anodes business was also lower in terms of sales and profit in the quarter. This business has struggled in recent quarters as customer off-take has been volatile. It remains a strong business and continues to develop new products in a higher margin segment.

Since early March magnesium anode volumes have begun to recover in China and have been stable into the USA. Our Chinese customers, the hot water device manufacturers, have re-started production and have re-commenced off-take of finished product from the Xi'an plant at high levels. While this is an encouraging sign, the financial damage incurred in the quarter has moved these customers to request reduced prices from suppliers making the profit outlook for the second quarter less optimistic than the volumes might otherwise suggest.

In Europe and the US, hot water factory closures introduced in March are slated to be reversed through the latter part of April and into May. Hot water tank replacement is not always a discretionary purchase and, while volumes will reduce, it seems likely that the shape of the curve will be shallower and more sustainable than for many other products.

Summary

As we head into the second half of April 2020, the road ahead for the global economy and for Magontec remains, at best, difficult to determine. Our company is closely aligned to global industrial trends as a supplier to the automotive (Mg alloys) and hot water (CCP) industries in Europe, the Americas and Asia.

In all of our manufacturing activities we are seeing reduced activity and have made appropriate workforce adjustments. To assist the company through this period we have instituted a wide-ranging pay and salary reduction program together with a reduction in required work attendance for administrative staff.

In Europe a large number of our staff have moved to a four-day week and accepted a 20% pay reduction. Executive staff in Australia and Germany have taken a similar pay reduction and continue to work as before. The Board of Magontec has accepted a 50% reduction in fees and a deferment of fees owing until the end of August 2020. These measures were all commenced on 1 April and, under a series of workplace and other agreements, will remain in place for 5 months.

The company has already accessed emergency Government programs in Germany and Romania, including substantial wage and other employee pay support schemes that cover a significant proportion of the company's monthly wage costs. Over the quarter ahead the company expects a patchy recovery in demand for its products in China and a more difficult period for its European volume magnesium alloy and anode activities. However, the Board and management have rapidly introduced a series of financial measures designed to enhance Magontec's ability to manage its way through this Covid-19 disaster by conserving cash and reducing costs in all aspects of the business.

Nic Andrews

Executive Chairman

20 April 2020

Attachment 1

UNAUDITED STATEMENT OF CASH FLOWS

Unaudited Consolidated Cash Flow Statement	
Source: Magontec Limited Consolidated Management Accounts	
\$000	3 months to 31-Mar-20
CASH FLOW FROM OPERATING ACTIVITIES	
Cash generated from/ (utilised in) underlying operating activities	1,776
Net working capital assets	
- Trade and other receivables	4,813
- Inventory	(1,464)
- Trade and other payables	1,037
- Other	41
Cash generated from/ (utilised in) net working capital assets	4,427
- Net Interest paid	(182)
- Income tax paid	(56)
Net Cash generated from/ (utilised in) all operating activities	5,966
CASH FLOW FROM INVESTING ACTIVITIES	
Net cash out on purchase/disposal of property, plant & equipment	(161)
Group information technology	(15)
Security deposit	71
Other	-
Net cash provided by / (used in) investing activities	(105)
CASH FLOW FROM FINANCING ACTIVITIES	
Bank Debt	(2,555)
Net capital raised from issue of securities	-
Other	-
Net cash provided by / (used in) financing activities	(2,555)
Net increase / (decrease) in cash and cash equivalents	3,305
Foreign exchange effects on total cash flow movement	646
Cash and cash equivalents at the beginning of the period	4,303
Cash and cash equivalents at the end of the period	8,254

Attachment 2

APPENDIX 4C



QUARTERLY UNAUDITED CASH FLOW
APPENDIX 4C

for the Period Ended 31 March 2020

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Magontec Limited

ABN

51 010 441 666

Quarter ended ("current quarter")

31 March 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	36,378	36,378
1.2 Payments for		
(a) research and development	(93)	(93)
(b) product manufacturing and operating costs	(26,419)	(26,419)
(c) advertising and marketing	(61)	(61)
(d) leased assets	-	-
(e) staff costs	(2,044)	(2,044)
(f) administration and corporate costs	(1,669)	(1,669)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	13	13
1.5 Interest and other costs of finance paid	(195)	(195)
1.6 Income taxes paid	(56)	(56)
1.7 Government grants and tax incentives	111	111
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	5,966	5,966
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(161)	(161)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	(15)	(15)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from disposal of:	-	-
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	71	71
2.6	Net cash from / (used in) investing activities	(105)	(105)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	430	430
3.6	Repayment of borrowings	(2,986)	(2,986)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	(2,555)	(2,555)
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,303	4,303
4.2	Net cash from / (used in) operating activities (item 1.9 above)	5,966	5,966
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(105)	(105)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(2,555)	(2,555)
4.5	Effect of movement in exchange rates on cash held	646	646
4.6	Cash and cash equivalents at end of period	8,254	8,254

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	8,254	4,303
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	8,254	4,303

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

40

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Explanation

Payments relate to purchase of pure Mg from the Qinghai Salt Lake Magnesium Co Ltd.

7. Financing facilities		Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>			
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>			
7.1	Loan facilities	24,908	21,397
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities		

7.5	Unused financing facilities available at quarter end	3,511
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7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Borrowings facilities as at 31 March 2020					
Lender	Maturity	Interest %	Limit \$A 000	Drawn \$A 000	Security status
Commerzbank Germany	30-Sep-20	1.55%	13,023	10,710	Secured
ING Romania	Open	5.04%	5,209	4,073	Secured
Bank of Communications China	28-Apr-20	4.79%	4,600	4,600	Secured
Total borrowings on balance sheet			22,832	19,383	
Postbank (factoring)	30-Nov-20	1.06%	2,076	2,015	
Total facilities			24,908	21,397	

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	+5,966
8.2 Cash and cash equivalents at quarter end (Item 4.6)	+8,254
8.3 Unused finance facilities available at quarter end (Item 7.5)	+3,511
8.4 Total available funding (Item 8.2 + Item 8.3)	+11,765
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	2.0

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

Not applicable

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

Not applicable

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:
Not applicable

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 20 April 2020

Authorised by: Nicholas Andrews, Executive Chairman
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.