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25 May 2021

Company Announcements Office
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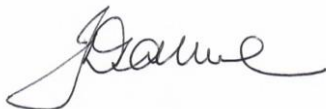
Dear Sir/Madam,

**Magontec Limited – 2021 Annual General
Meeting Tuesday 25 May 2021 11:00am**

Attached is the Executive Chairman's address to be delivered at the Company's 2021 AGM.

The slides referred to in the body of the address appear in this document at the foot of the Chairman's address.

Yours sincerely



John Talbot
Company Secretary
Contact details: +61 (0) 405 317 594

John Talbot, Company Secretary of Magontec Limited has authorised the release of this document to the market on 25 May 2021

ADDRESS BY EXECUTIVE CHAIRMAN MAGONTEC LIMITED TO ANNUAL GENERAL MEETING 25 May 2021

Slide 1

I now want to move on to the presentation of my Chairman's address.

As usual, I will briefly summarise the company's recent financial results, which were examined in detail in the March 2021 Quarterly report, and then move on to a review of our markets and the prospects for our businesses with particular focus on the Magontec Qinghai project.

Slide 2 (Disclaimer)

Slide 3, Revenue and Gross profit performance – last 5 quarters to 31 March 2021

In the quarterly report released a month ago we show the progress of revenues and Gross Profit over the last 5 quarters for both the CCP business (the manufacture and supply of magnesium and electronic anodes to hot water machine manufacturers) and the Metals business (the manufacture and supply of magnesium alloys and specialist metals).

Over the last 15 months Magontec has endured, along with every business around the world, the coronavirus pandemic. It has had a profound effect on our metals business but a much smaller impact on our CCP business.

In the Metals chart on the right side of the screen, the effects of the slowdown in the second quarter of 2020 are very evident. In that period the Romanian plant was forced to close altogether throughout April while work interruptions and low volumes in the German and Chinese Metals operations also reduced output and profitability.

Through the third and fourth quarters and the first quarter of 2021 there has been a stabilisation of revenues and profitability, but the high-volume Metals businesses are yet to recover the levels of the first quarter of 2020.

The recovery from the trough of the second quarter of 2020 is likely to continue through 2021 despite the residual and continuing effects of the pandemic. These continue to interrupt production schedules, particularly in Germany where our cast house suffered from high absenteeism in February as many staff were COVID quarantined. Thankfully vaccination rates in Germany and Romania are rising quickly and both countries are on the way to a more stable work and social situation.

Slide 4, Gross Profit margins – 2014 1st quarter 2021

Despite the reduced volumes in recycling, the group's overall Gross Profit margin throughout the COVID period has remained steady. It was 14% in the first quarter of 2020 falling to 10.9% in the worst period of last year, the second quarter, and now up to 14.2% in the first quarter of 2021. In the context of the last 7 years, as shown in this chart, the wider business is moving to an overall mix of activities with a higher gross profit margin.

This margin has improved because the CCP business has performed so well throughout the last 15 months, both in terms of absolute performance (growing market share and volumes) and in terms of its performance through the COVID period. The group Gross Profit margin has also been boosted by the growth of specialist metals sales; a newer product that has begun to establish a meaningful market position in the last two years.

At the current time the Metals business is about twice the size of the CCP business in terms of revenues but contributes a Gross Profit that is around 30% smaller. This is because the margin in the volume metals business - magnesium alloy ingots - is lower than the margin on CCP products, but also because the Metals business carries the burden of producing alloys at the Qinghai plant which is currently loss making. I'll come back to that later in this discussion.

Slide 5, Net Profit After Tax (emphasis at line “Underlying NPA”)

Coming to the Net Profit line for the year to 31 December 2020, Magontec recorded an underlying loss after tax¹ of \$288,000, an improvement on the underlying loss after tax of \$1.3 million in FY2019, notwithstanding the impact of the pandemic in the second quarter of 2020.

In the first quarter of 2021 the Group also recorded a small loss, due in large part to lower volumes and higher costs at the European recycling plants and again, ongoing losses at the Qinghai project.

This table shows the NPAT result over the last three years and the impact of the Qinghai operation. I have selected a three-year history because the previous primary magnesium alloy plant in Shanxi was closed in 2018 and the Qinghai plant was opened and recorded depreciation for the first time.

The Qinghai business made a positive contribution to group profitability as the plant commenced operation in the latter part of 2018. In 2019 production was halted at the end of March and the plant began to make a negative contribution to net earnings. In 2020 the deficit was even greater.

Slide 6, Net Profit After Tax (emphasis at line “+ Add back Qinghai Cast House losses/(gains) estimate”)

As the table shows Net Profit After Tax in 2020 would have been around \$1.3 million higher if the Qinghai plant had not been operating last year – demonstrating the underlying profitability of Magontec’s other businesses.

Slide 7, Total Group Underlying Cash Flow from Operations & EBIT excluding Qinghai project

I wanted to end the discussion on the group’s financial situation with a general comment on underlying profitability. As we have discussed the group continues to report a loss at the Net Profit After Tax line.

At the same time the group has continuously generated positive underlying cash from its operations (operating cash excluding movements in working capital, interest and tax) in each of the last 4 years as shown in the left-hand chart.

In the last two years the numbers have been lower than in 2018 reflecting the decline in primary magnesium alloy volumes as operations moved from the old Shanxi plant to the new plant at Qinghai. The pandemic also weighed on cash generation in 2020.

Indeed, over a long period now the underlying performance of the company, *excluding the Magontec Qinghai primary magnesium alloy cast house*, has grown steadily.

The chart on the right of the screen shows EBIT growth over the last four years *excluding the effects of the Qinghai primary magnesium alloy business*.

These other businesses are consolidated for reporting purposes into two product silos, CCP and Metals. In reality this is a collection of businesses that have the performance characteristics of a portfolio, delivering variable returns over time.

The average return from the portfolio continues to grow steadily as we increase sales to new regions, introduce new products and improve efficiencies across our operations.

Slide 8, Magontec Qinghai - Qinghai electrolytic magnesium smelter complex (Golmud)

This brings me to the issue of the Qinghai project. A business that has been a short-term burden on Group profitability but one that offers much long-term potential. Management and shareholders are similarly keen to hear when that potential will be realised. While we are unable to provide a specific timetable, the political, strategic and economic imperatives now in play lead us to believe that recommencement of production at Magontec’s Golmud plant should be achieved within 12 months. Let me explain why this view is held.

¹ Underlying loss is defined as Reported Net Loss After Tax excluding unrealised FX gains and losses

To briefly recap on the Qinghai project; Magontec signed Agreements with QSLM in 2014 that committed the company to the construction of a primary magnesium alloy cast house adjacent to the QSLM electrolytic magnesium smelter. The Magontec cast house was completed in 2016 and has the capacity to process up to 56,000 metric tonnes of pure magnesium per annum.

Under the Agreements QSLM is committed to supplying Magontec with this volume of liquid pure magnesium for conversion into magnesium alloy under a pricing formula linked to the Chinese market price of pure magnesium. There are other elements to the Agreements including offsets for transportation costs, given the remote location of the Qinghai facility, and penalties for non-supply.

In 2019 QSLM announced that the magnesium smelter, which was in the final stages of commissioning, would suspend production. QSLM's owner, QSLIC, had announced an intention to restructure under the pressure of its debt load and part of that restructure was the divestment of QSLM.

It has taken QSLM and its ultimate owner, the Qinghai provincial and state authorities, over two years to bring this issue to a resolution. In March this year the company announced that funding had been secured to restart one of the 6 dehydration lines and that this would allow the recommencement of supply to the Magontec cast house.

QSLM also expect to announce a new partnership that will lead to the full recommencement of the project.

It is worth recalling that the QSLM project supplies both magnesium to the Magontec cast house and chlorine gas (in the ratio of 1 tonne of magnesium to 3 tonnes of chlorine gas) to a range of other downstream production facilities such as ethylene and PVC. Thus magnesium is a co-production process alongside chlorine for two different downstream industrial processes. It is not just Magontec's plant that drives the strategic imperative for QSLM to get the electrolytic plant operational again.

We remain of the view that the QSLM project will gather steam over the next 12 months and that our expectations that the plant will restart will be met in that time frame, albeit much later than we had anticipated.

The Agreements between QSLM and Magontec are based on a start date commencing on supply of 13,000 metric tonnes per annum. This has not yet been achieved thus the Agreements have still have 10 years to run with a further 10-year extension at Magontec's option.

Finally, I should mention that this project has risen to the attention of politicians in Beijing. It is considered a project of national importance. Today around 85% of all magnesium produced for global consumption comes from China. It is all from Pidgeon plants that have emissions of over 20 tonnes of CO₂ for every tonne of magnesium produced. The Qinghai project is an environmental benchmark for the global magnesium industry and will have emissions about a quarter of that from the rest of the Chinese and global production base.

The current Chinese Pidgeon magnesium industry is unsustainable. The Qinghai project is a critical stepping-stone to the future for China and the global magnesium industry and Magontec remains at the heart of that project.

Finally, I want to make a few remarks about market conditions for our key customer markets.

Slide 9, Automotive industry 80% of global magnesium alloy demand

As we have discussed in previous notes to shareholders, the automotive industry is by far the largest consumer of magnesium alloys and thus one of Magontec's largest customer groups.

This industry has had a very difficult 15 months. The coronavirus closed factories and caused short-time work through the middle of 2020.

As companies resolved the dislocations caused by the pandemic a shortage of computer chips arose, further constraining production capacity.

In truth output of automobiles has been sliding since 2017. It dropped sharply in 2020 and is likely to continue at lower levels for at least the first half of 2021.

This slowdown has been reflected in Magontec's recycling volumes this year although we have also lost volumes in Europe as a new entrant has sought to buy market share.

The outlook is more positive. Industry volumes are likely to increase sharply through the latter part of the current year and into 2022. Consumers are able to access cheap finance and debt levels are relatively low after the non-spending pandemic months. Indeed, the biggest problem for everyone, producer and consumer, is the backlog in production. Delays on new car deliveries are many months at this time suggesting that as the bottlenecks loosen up automotive sales volumes will rise.

Another consumer market for magnesium anodes is in the power-tool industry where demand from budding gardeners has bloomed.

Slide 10, Hot Water industry Magontec's largest customer base by Gross Profit

Magontec's other major market is the hot water industry. In 2020 the company supplied over 3,000 tonnes of magnesium anodes to hot water manufacturers in China, Europe, the Middle East and North America. It is our ambition to grow these volumes further over the next few years.

Magontec volumes are driven in large part by our ability to offer competitive prices and we have done this by automating our Chinese and Romanian factories. These are among the most efficient Mg anode factories in the world and the investments we have made, and continue to make, have allowed us to remain competitive and continue to grow.

Demand has been strong through the pandemic. The industry supplies around 80% of output to the non-discretionary replacement market, while the new-build market is picking up as governments around the world seek to keep economies afloat through this difficult period.

As these two charts show, Magontec is growing output considerably faster than the industry as a whole and we now sell close to 30% of all magnesium anodes.

In addition to magnesium anodes we also make electronic anodes, a more high-tech product. This anode has a constant mains electrical current and a variety of smart features designed to ensure the longevity of the water heater.

Magontec has established a strong position in this higher margin market through the application of in-house technologies. In 2021 we will complete a new laboratory at the Bottrop site in Germany devoted to developing new technologies for managing water conditions for both the hot water industry and for other water applications.

As water heaters become more complex and more expensive, demand for Magontec's electronic anode has risen steadily. This is a product where our in-house research has allowed Magontec to stay ahead of the competition.

The water heater market is valued at around US\$30 billion per annum and the outlook over the period to 2027 is for much stronger growth, around 5% per annum, driven by a recovery in investment in housing that has been tracking below trend for much of the period since the GFC.

Slide 11, Thank you/ Questions

In summary Magontec has plenty of profitable activity going on in its established markets in China and Europe and is making good progress developing a presence in North America. The Qinghai project clouds this underlying progress but is expected to emerge as a key contributor to earnings as QSLM resolve their corporate and engineering issues.

We are positive about our businesses and confident that Magontec has the ability to grow and further diversify its production base in the years ahead. With the resolution of the issues at Qinghai we will be able to look forward to a consistently profitable period.

As usual I am happy to take any questions before we move on to the formal business of the meeting.



Executive Chairman's Address

Nicholas Andrews
25 May 2021

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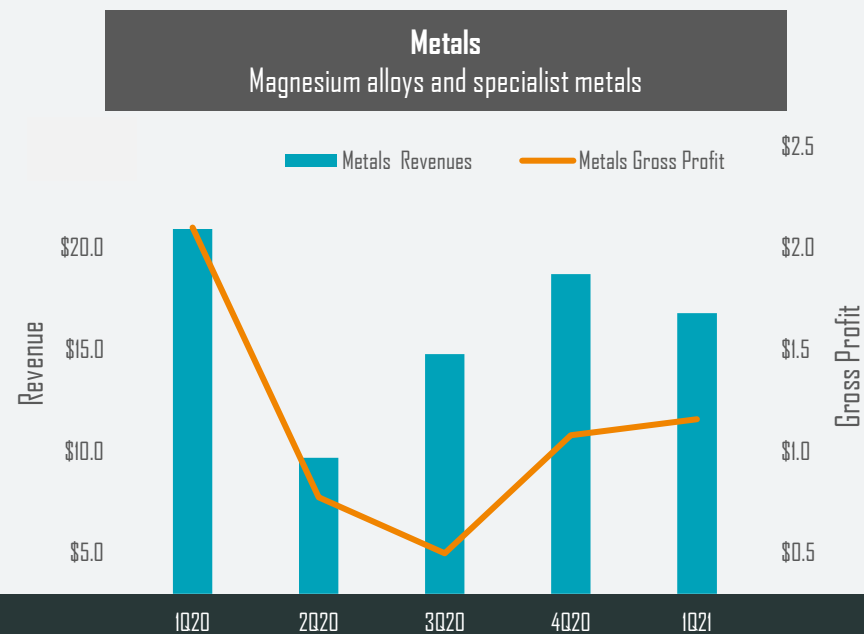
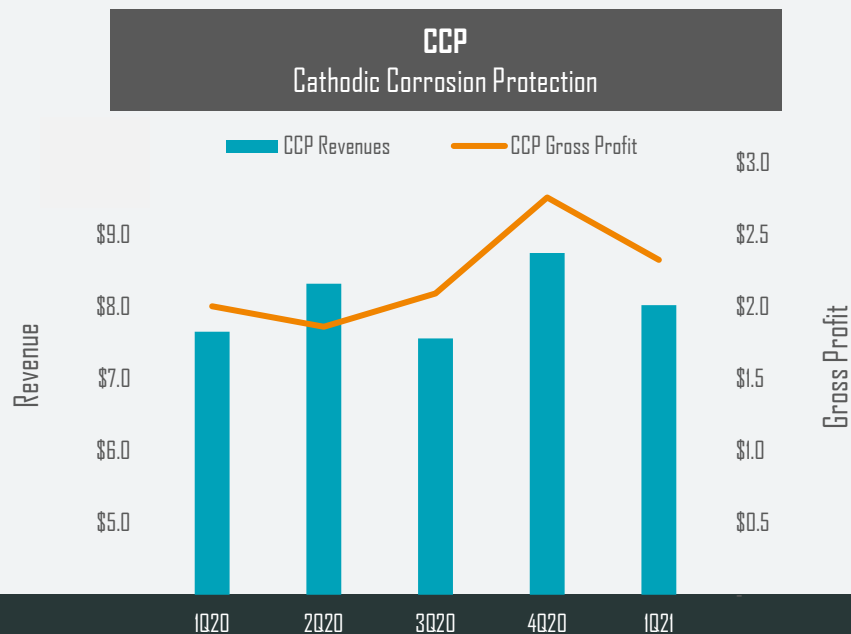
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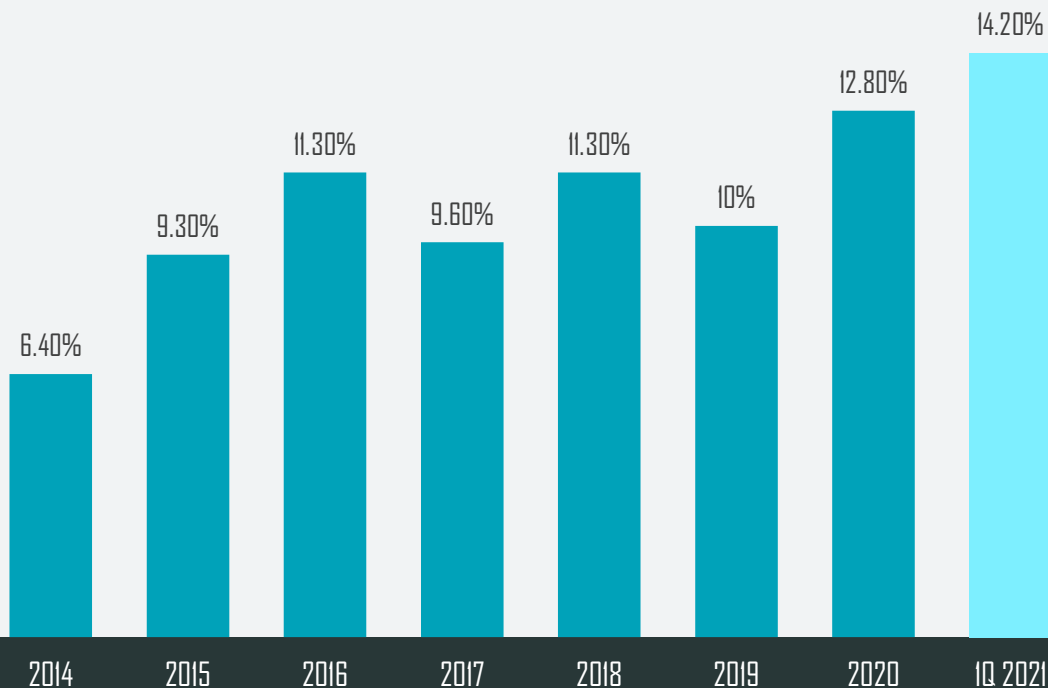
Revenue and Gross Profit performance – last 5 quarters to 31 March 2021

- CCP businesses steady throughout the last 15 months
- Metals businesses suffered from COVID slow down in 2Q & 3Q '21



Gross Profit Margins – 2014 to 1st quarter 2021

Steady growth in Magontec group Gross Profit margins



- Growing revenues from higher margin activities
- Lower volumes in primary magnesium alloy (Qinghai)
- Automation dividends:
 - CCP (2020/21)
 - Recycling (2021/22)
- Steady growth in Gross Profit despite Qinghai non-performance

Net Profit After Tax

Excluding depreciation and operating losses at Qinghai Magontec was profitable at the NPAT line

Magontec Limited NPAT *excluding* Qinghai Primary Magnesium Alloy Cast House

(AUD)	12 months to 31-Dec-18	12 months to 31-Dec-19	12 months to 31-Dec-20
Reported NPAT	776,068	(1,370,122)	(716,611)
+ Add back unrealised FX losses/less FX (gains)	(295,573)	28,340	428,621
Underlying NPAT	480,495	(1,341,782)	(287,989)
+ Add back Qinghai Cast House losses/(gains) estimate	(1,135,896)	972,447	1,327,387
Adjusted NPAT	(655,401)	(369,335)	1,039,398



2020 Underlying NPAT

- - \$287,989



2020 Qinghai cast house NPAT loss

- - \$1,327,387



2020 Adjusted NPAT

- + \$1,039,398

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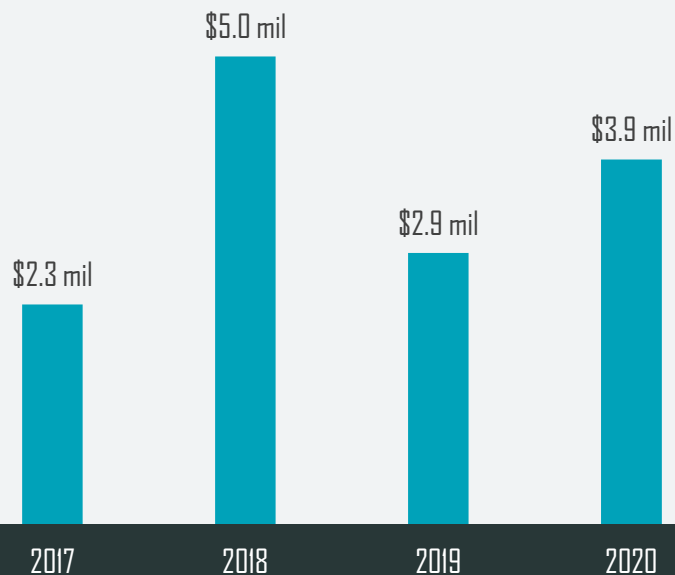


2020 Adjusted NPAT

- + \$1,039,398

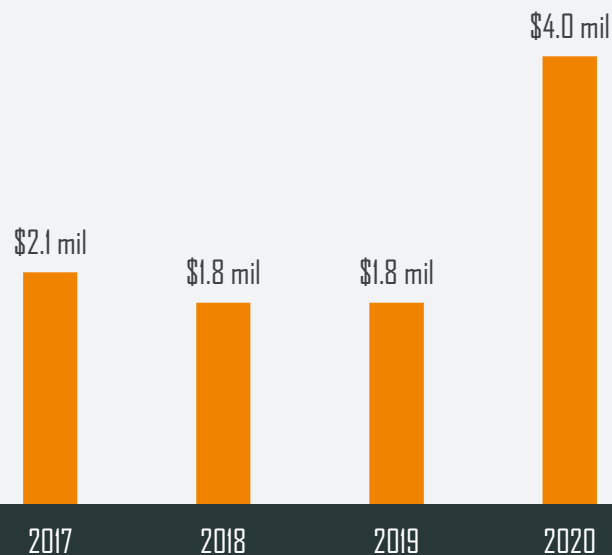
Total Group Underlying Cash Flow from Operations (excluding changes in working capital, interest and tax)

Cash flow from operations remains robust



EBIT excluding Qinghai project

Businesses other than Qinghai cast house growing strongly



Magontec Qinghai

Qinghai electrolytic magnesium smelter complex (Golmud)



Magontec Qinghai
PRC primary Mg alloys

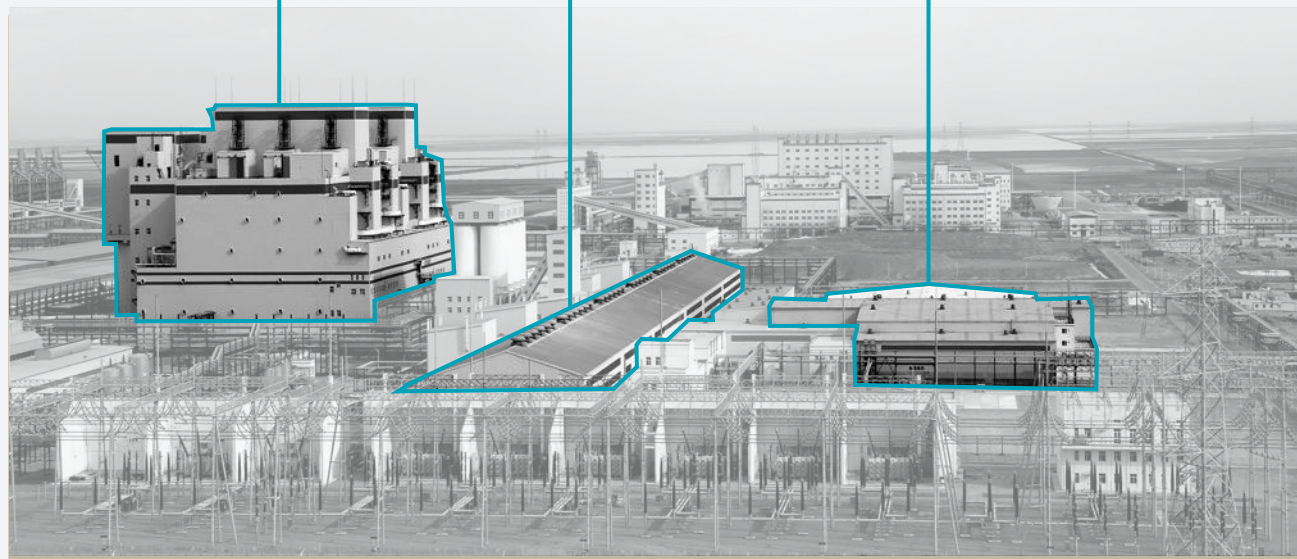
Dehydration



Reduction



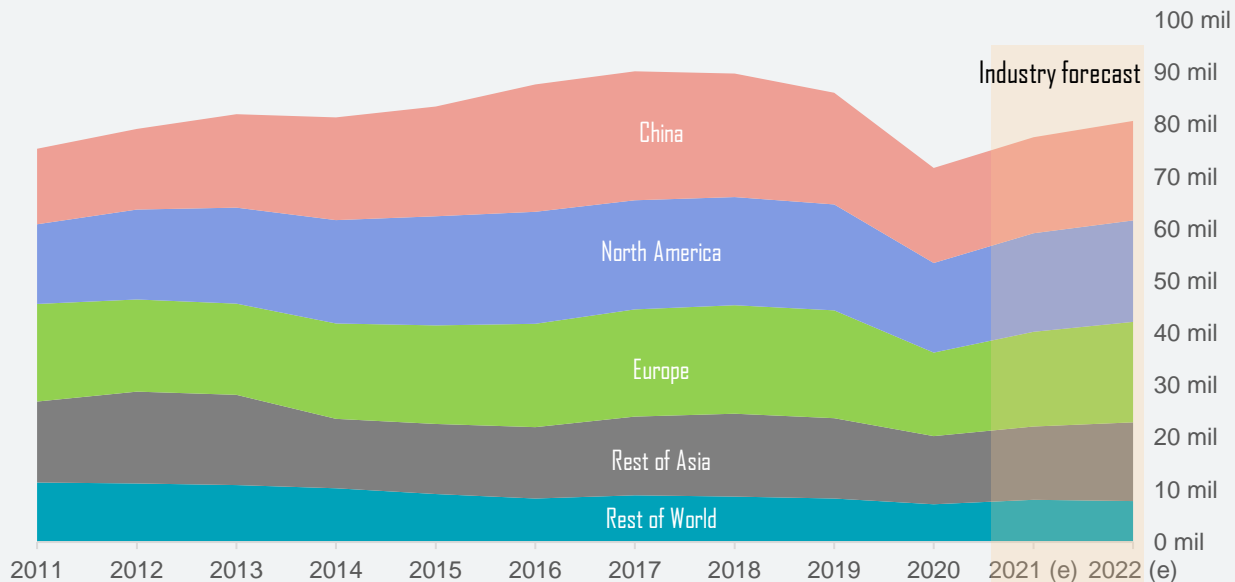
Cast house



- Corporate and financial restructuring of QSLM coming to a conclusion
- QSLM expected to restart 1 of 6 dehydration lines
- Support for Qinghai at highest levels of Chinese Government
- New partnership for QSLM to be announced shortly
- 10+10 year QSLM/MGL Agreements commence on key supply metric (not yet started)
- Chinese Pidgeon Mg industry environmentally unsustainable
- Qinghai remains a significant opportunity for Magontec

Automotive industry 80% of global magnesium alloy demand

Global automotive unit sales 2011 to 2020 and 2021/2022 forecast



2020 global sales

- down -16.7%



Recovery forecast

- 2021 → + 8%
- 2022 → + 4%



Global Vehicle Sales forecast to remain 11% below 2017 in 2022

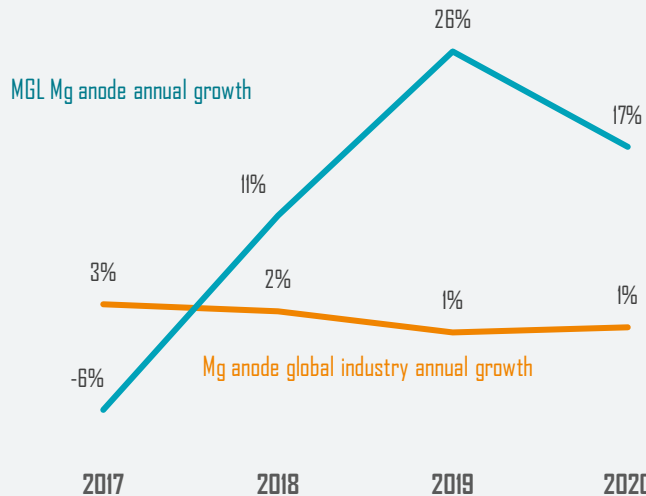
- 2017 90.2 million
- 2018 89.8 million
- 2019 86.1 million
- 2020 71.7 million
- 2021 (f) 77.6 million
- 2022 (f) 80.7 million



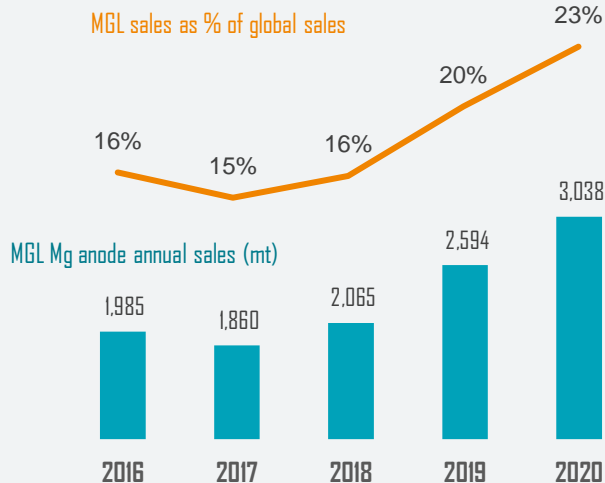
Hot Water Industry

Magontec's largest customer base by Gross Profit

Magontec is growing much faster than the industry



Magontec share of global sales growing quickly



Magontec growing faster than the market

- investment pays off
- MGL market share growing
- automation program continues in Ro and PRC
- targeting new markets in USA and aluminium anodes



A non-discretionary product

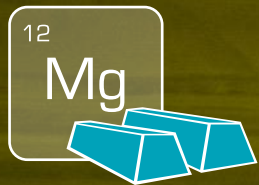
- a sanitary product
- new environment standards / subsidised
- ALL homes and businesses require a hot water system



Demand profile

- 20% new buildings
- 80% replacement





Thank you

Questions from the floor

Shareholders attending online may send written questions at this time.

Magontec Limited – Annual General Meeting
(ASX: MGL)

25 May 2021