

31 October 2022

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

### **Quarterly Report to 30 September 2022**

On 9 September 2022 the Australian Securities Exchange exercised its discretion to lift the requirement for Magontec to lodge Appendix 4C quarterly reports with ASX. Although the Company is no longer subject to a mandatory form of quarterly reporting, it will continue to report both business developments and summary financial results for the quarters ended 31 March and 30 September (i.e. those periods not covered by formal half year and annual reporting requirements).

This announcement includes commentary with respect to trading for the 9 months to September 2022 and relevant financial information (unaudited).

### **ENDS**

*Nicholas Andrews, Executive Chairman and Chief Executive Officer of Magontec Limited, has authorised the release of this document to the market on 31 October 2022*

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## Executive Chairman's Quarterly Report 9 months to 30 September 2022 (Unaudited)

Operational Highlights – 3Q 2022	9 months to 30-Sep-22	9 months to 30-Sep-21	% Change
Gross Profit	+\$32.5m	+\$11.7m	+ 178%
Reported EBITDA	+\$24.9m	+\$5.3m	+370%
Underlying Operating Cashflow*	+\$24.3m	+\$4.4m	+ 451%
Net debt/(net cash)	(\$2.2m)	\$6.6m	-
Net tangible assets per share (cents)**	65.7	37.3	+ 76%

\* Underlying Operating Cashflow = Operating Cashflow excl. working capital movements, interest and tax paid

\*\* Net tangible assets include deferred tax assets and exclude AASB 16 right of use lease assets

### 3<sup>rd</sup> Quarter 2022 Highlights

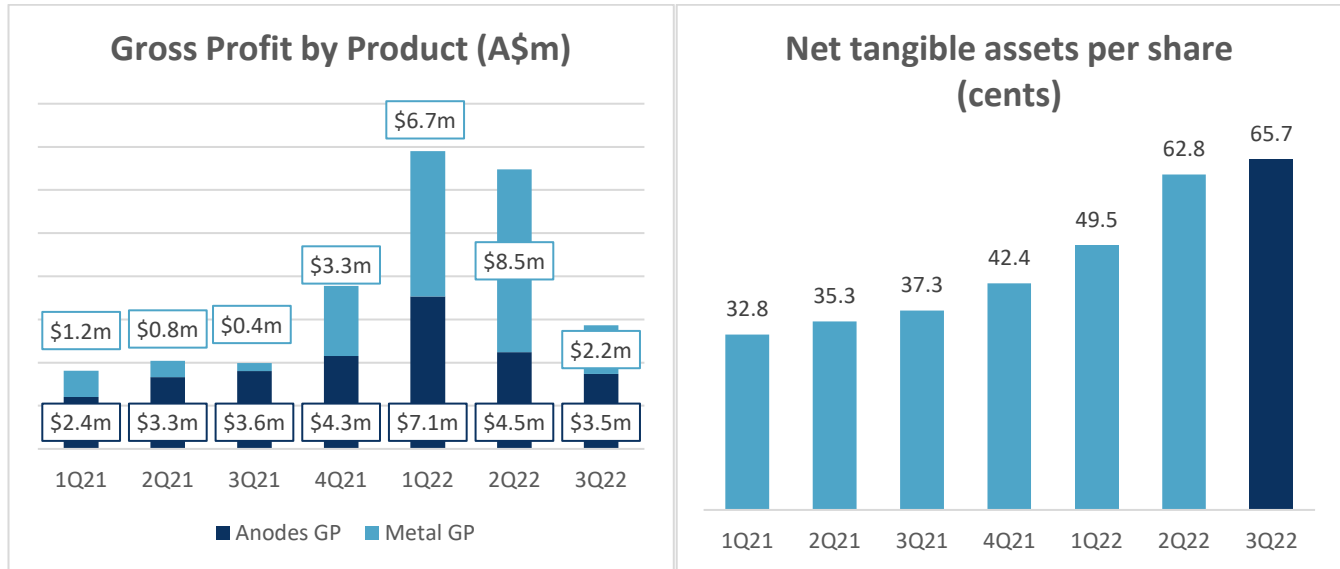
- Third quarter 2022 underlying operating cash flow of +\$3.1 million
- Net cash of +\$2.2 million as of 30 September 2022, likely to rise in 4Q22 as average Mg prices decline
- Net Tangible Assets per share of 65.7 cents, up 4.6% on 2Q 2022
- 3Q 2022 Gross Profit of +\$5.7 million, 44% ahead of the previous corresponding period (PCP)
- Interim Dividend of 0.6 cents per share (unfranked) to be paid on 31 October 2022. Around 65% of shareholders elected to participate in the Dividend Reinvestment Plan.
- Working capital<sup>1</sup> of \$49 million, up \$2.8 million in the quarter and up \$13.1 million year to date, reflecting elevated average 2022 magnesium prices and associated inventory costs
- Chinese COVID restrictions and reduced operating availability in Europe negatively impacted 3Q earnings
- Average Mg prices 13.5% lower than PCP, reducing 3Q margins in all Mg products
- CCP (magnesium and powered anodes) Gross Profit flat versus PCP on volumes down -5% on PCP
- Metals Gross Profit up +515% in 3Q 2022 versus PCP, also on lower volumes
- QSLM now expect to recommence supply of liquid pure Mg to Magontec's Qinghai facility in late 2023

Net Profit analysis of significant items	30-Sep-22 YTD	30-Sep-21 YTD
<b>NPAT ex unrealised FX</b>	<b>\$14,922,419</b>	<b>\$956,046</b>
Add back significant items		
+ MAQ EBITDA loss/(gain)	(\$369,439)	\$627,903
+ MAQ depreciation, post tax (non-cash)	\$585,014	\$571,477
+ Long-Term Incentive Plan options accrual (non-cash)	\$398,758	\$224,474
+ Provision for unforeseen costs (non-cash)	\$150,000	\$150,000
- MAR VAT receivable gain (one off)	-	(\$226,180)
<b>Subtotal</b>	<b>\$764,333</b>	<b>\$1,347,674</b>
<b>NPAT ex unrealised FX and significant items</b>	<b>\$15,686,752</b>	<b>\$2,303,720</b>

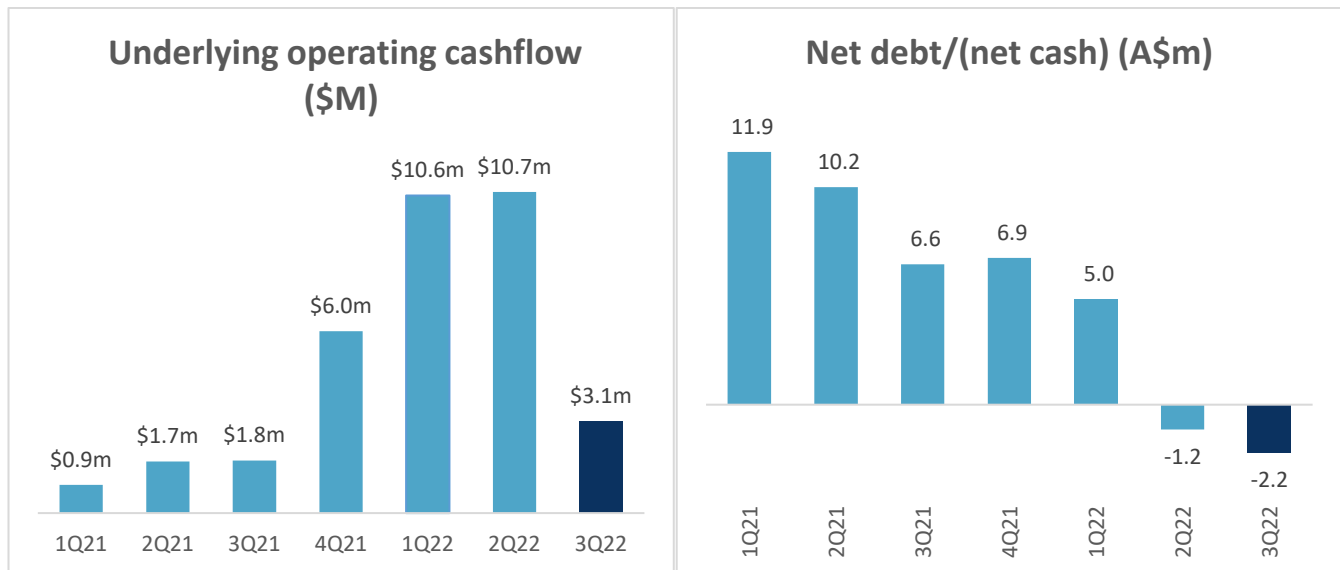
<sup>1</sup> Working capital = Receivables + Inventory + Prepayments less Payables

## Financial and Operations Summary

Gross Profit of \$5.7 million in the quarter to September 2022 was lower than the first and second quarters of the year due to softening business trends (particularly in Metals), but still 44% higher than the Prior Corresponding Period. In the period under review Northern Hemisphere summer maintenance, COVID restrictions in China and a fire at Magontec's German facility contributed to a lower overall result. Net tangible assets<sup>2</sup> rose from 62.8 cents per share at 30 June 2022 to 65.7 cents per share at 30 September 2022.



Underlying quarterly operating cashflow of \$3.1m<sup>3</sup> was 72% higher than the PCP. Combined with positive working capital flows this moved the company into a net cash position of \$2.2 million as of 30 September 2022. Lower period average pure Mg prices are expected to continue to benefit cashflow as working capital requirements decline towards year end.



<sup>2</sup> Net tangible assets include deferred tax assets and exclude AASB 16 right of use lease assets

<sup>3</sup> Underlying Operating Cashflow = Operating Cashflow excluding working capital movements, interest and tax paid

## Operations Commentary

At the end of the third quarter of 2022 Magontec finds itself in a strong financial position but with demand and prices in retreat. Quarterly cashflow from underlying operations<sup>4</sup> was \$3.1 million while working capital rose 6% to \$49 million. In the months ahead, lower raw material prices are likely to reduce inventory and working capital values and increase cash on the balance sheet.

The key metrics for Magontec are the automotive markets for the metals business and home building markets for CCP products. Both magnesium alloys and magnesium anodes are also strongly impacted by the market price of pure magnesium.

The magnesium price has recently settled in a range between ¥23,000 and ¥25,000 per tonne as the underlying raw materials for the manufacture of Chinese magnesium (80% + of global supply), coal, dolomite and ferro silicon, are subject to energy input prices that are rising in China, albeit to a lesser extent than elsewhere in the World.

The rising cost of energy is also an important factor in Magontec's other magnesium manufacturing processes. In Germany energy costs have risen sharply through 2022, with average 3Q 2022 prices 245% higher than PCP, albeit falling towards the end of the quarter. German and EU Governments are reviewing the introduction of an energy price cap or subsidy that may commence in the New Year, but current and 4Q pricing reflect direct market costs. In Romania, where energy costs rose a more manageable 27% in Q3 2022 over PCP, the Government has initially capped energy costs but now plans to move closer to a market rate.

At both European recycling plants our furnaces and other equipment are powered by electricity and not gas and around 70% of that electricity comes from renewable energy. In common with all European manufacturing processes that are heavy energy users, Magontec has a cautious outlook on energy costs for the coming 12 months, attempting to lock in and manage tariffs where possible. To an extent this is ameliorated by our ability to pass on some energy cost increases to customers within contract pricing formulae.

As global economies slow, demand in the automotive and home building industries will also subside. As a low-cost manufacturer of anodes with a high market share, we expect to continue to be profitable in our CCP businesses as around 80% of demand within the hot water appliance manufacturing industry is derived from the replacement market. While inventories appear to be high at this time, which may reduce offtake for some months, we expect this product to be resilient.

The automotive market is less predictable, however the shift to electric vehicles and pandemic era automotive component supply shortfalls, seem likely to result in a swift exit from lower unit sales when the current rising interest rate cycle reverses.

For Magontec's metals businesses the delay of raw material supply from QSLM at the Qinghai project is more impactful than all the macroeconomic trends. When supply resumes from the world's lowest emission pure magnesium producer, we expect to be able to quickly raise volumes of primary Mg alloy sales to customers all over the world and tie those volumes to our recycling businesses in Europe. While the recently announced delay is disappointing, it is worth noting that there are no new magnesium projects that are likely to threaten the future status of Qinghai as the world's lowest emission electrolytic magnesium production facility.

As Magontec waits for supply from the QSLM factory we continue to operate our adjacent magnesium alloy cast house. We have a team of nearly 60 people at Qinghai, including highly experienced operators, administrators and managers who will be critical in bringing mass production on stream next year. In the nine months to the end of September the business has been profitable at the EBITDA line, driven by higher sales prices reflecting higher magnesium prices, while operating costs have not been impacted by energy price increases common in other locations.

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<sup>4</sup> Underlying Operating Cashflow = Operating Cashflow excluding working capital movements, interest and tax paid

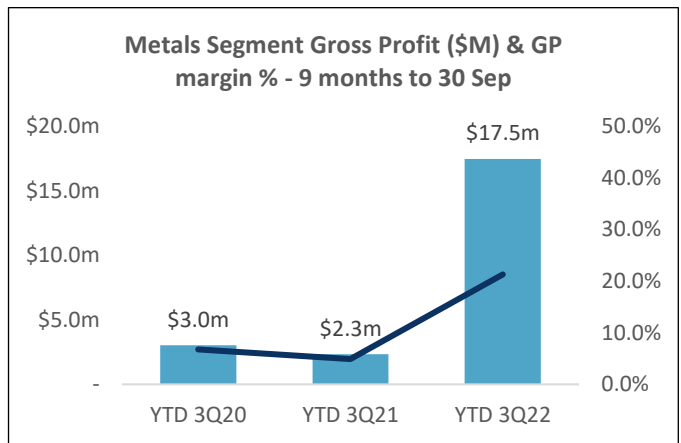
## Metals

Magontec's metals businesses in Europe and China experienced a more difficult period in the third quarter of 2022. While the year-to-date Gross Profit and Gross Profit margins remain well ahead of 2021, momentum has waned in Q3 2022.

Over the last 12 months stronger revenues and profits have been driven by sharply higher underlying magnesium prices that remained at elevated levels through to the end of the second quarter of 2022. Having fallen slowly through the January to June period, prices then dipped sharply through the third quarter as economic concerns emerged for global growth.

The specialist metals division has been less impacted by magnesium price declines and has continued to perform well through the third quarter. The outlook for this business, a supplier of defence and aerospace contractors with high value master alloys in a period of global defence restocking, is positive.

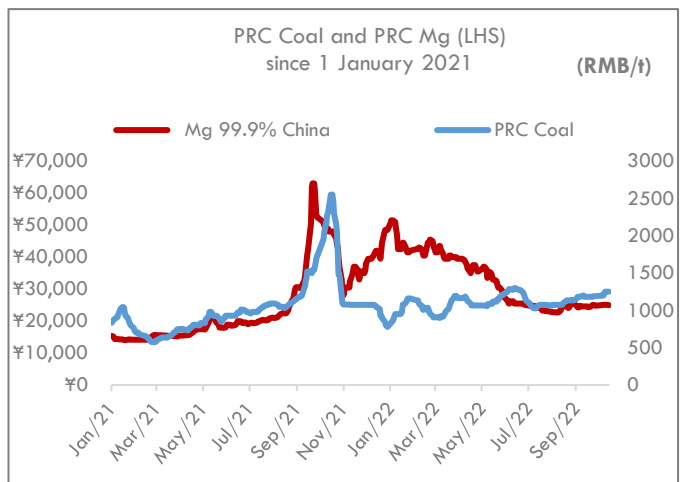
Other factors, unrelated to magnesium prices or customer demand, have also impacted third quarter metal production volumes China and Europe.



Our Chinese primary magnesium alloy facility has been under highly restrictive COVID regulations for the last few weeks. This has reduced output and raised costs, although we have continued to meet all material delivery agreements and expect to be able to continue to do so.

At our German plant, where magnesium alloy scrap is converted to magnesium alloy ingots, a fire occurred in a stockpile of unprocessed material, (noted in our Interim commentary). The fire was a low-level event but persisted for a number of weeks. It was contained to a slow burn that had to be managed through much of August. This interrupted other operating activity on that site, incurred additional costs and consumed many tonnes of material. After an initial engagement with our insurance agents, it is anticipated that the company will be able to achieve significant financial compensation.

The key themes of the period under review were a declining magnesium price and product margins, lower volumes of recycled material from our European plants to regional customers and higher volumes to the North American markets from both Europe and China, where prices have remained higher for longer.



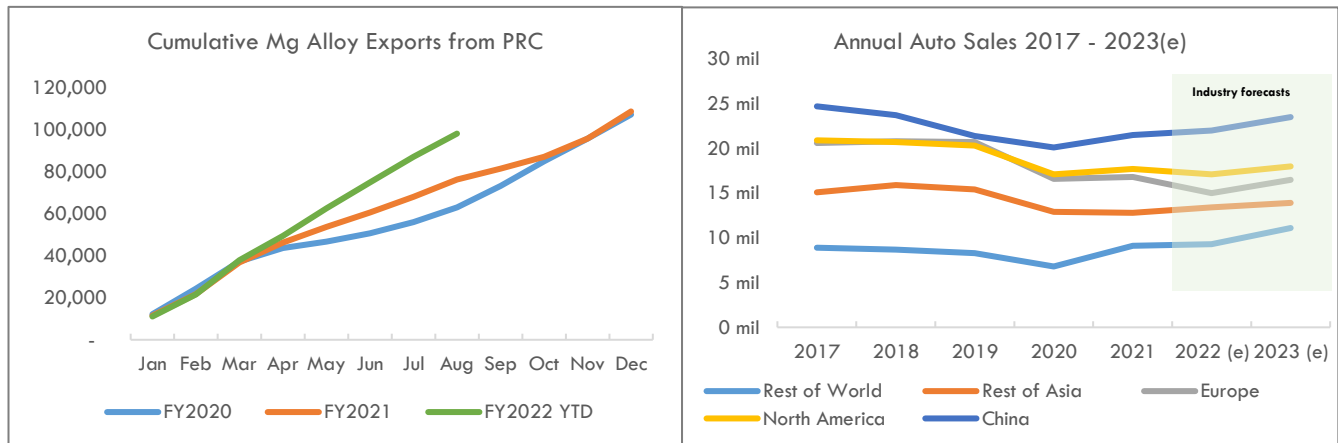
The outlook for the magnesium price, a key driver for metals division profitability, reflects in part Chinese underlying commodity prices for dolomite, coal and ferro silicon. All of these are at elevated levels and reflect higher global energy prices. While Chinese energy prices are lower than global prices, the trend through all of 2022 has been steadily upwards and underpins magnesium prices at current levels.

The outlook for magnesium alloy demand principally reflects, as usual, the global automobile industry. Total automotive unit sales in 2022 are expected to be similar to 2021 and, as things currently stand, market expectations for 2023 and 2024 are for rising output in each period. The degree to which interest rates continue to tighten will play an outsized role in short-term automotive demand but there likely remains underlying momentum following a steep retreat in unit sales through 2020 and 2021. The global cumulative deficit in automotive sales in the three years since the start of the pandemic is around 30 million units.

Many automotive consumer purchase decisions have been delayed over this period due to uncertainty and unavailability. Sales have been interrupted by shortfalls in computer chips and labour, and are now further delayed by economic uncertainty, conflict in Ukraine, Chinese COVID policies and high petrol prices.

Our customers, Mg alloy die casting companies that supply the automotive OEMs, are understandably pessimistic at this time. Despite this the volume of magnesium alloy shipped to Europe in the first 7 months of 2022 was 29% above the same period in 2021 and 56% higher than the same period in 2020, suggesting that inventories are now at higher levels and bottlenecks have been resolved.

Through this fourth quarter of 2022 and perhaps into the first quarter of 2023 the automotive industry supply chain is likely to remain cautious, something we are already seeing in European recycling volumes. At some stage in the next 12-to-18 months confidence will return and positive momentum will be restored.



From an operational perspective there are two key themes for Magontec's metals businesses: a further delay in the supply of raw material from QSLM's electrolytic magnesium plant and a broadening of our magnesium operational footprint in Europe.

At Qinghai, as we announced in September, our partner company and major shareholder, Qinghai Salt Lake Magnesium Co Ltd (QSLM), have told us that production of pure magnesium for delivery to Magontec's adjacent magnesium alloying facility will now not be possible until the end of 2023.

QSLM have successfully remediated the  $MgCl_2$  dehydration process, as we have noted in earlier commentaries, and have been able to produce qualified prill material for electrolysis. As a part of their review of the wider project efficiency, chlorine production issues within the electrolysis process have now been identified. They have taken the decision to address those issues prior to a full facility re-start.

The new General Manager of QSLM's parent company, Mr Xingcai Li, conducted this review in the period since his appointment in early 2022. In a meeting with Magontec executives in September he re-committed to the relationship with our company and agreed to join the Board of Magontec as a non-executive director. QSLM are a 29% shareholder in Magontec.

Prior to QSLM recommencing supply of liquid pure magnesium to our Qinghai facility, Magontec will continue to manufacture magnesium alloys for Chinese, Japanese and North American customers as it has done over the last five years. This key primary magnesium alloy facility will continue to operate at a reduced level of output, maintaining staff, experience and equipment as well as the customer relationships that Magontec has developed over many years.

In Europe we continue to broaden our offering, entering markets for various grades of magnesium products that go to the steel and chemicals industries. Over the years ahead we expect that this higher margin activity will grow its profit contribution to the European business.

We see our European recycling business, the largest and most efficient in Europe, as an increasingly valuable asset, particularly as environmental regulations impose higher requirements on the use of recycled products for regional manufacturers. Our recycling assets are under-utilised as they await supply of primary magnesium alloy product from our Qinghai plant. While this is disappointing, we have taken the opportunity to further diversify our product offering within the magnesium sector by developing new markets for other, higher margin, magnesium products.

### Cathodic Corrosion Protection (Anodes - 'CCP')

Revenue and profitability remained steady for Magontec's CCP businesses (magnesium and powered anodes) in the third quarter while magnesium anode volumes and powered anode revenues were marginally lower than in the previous corresponding period.

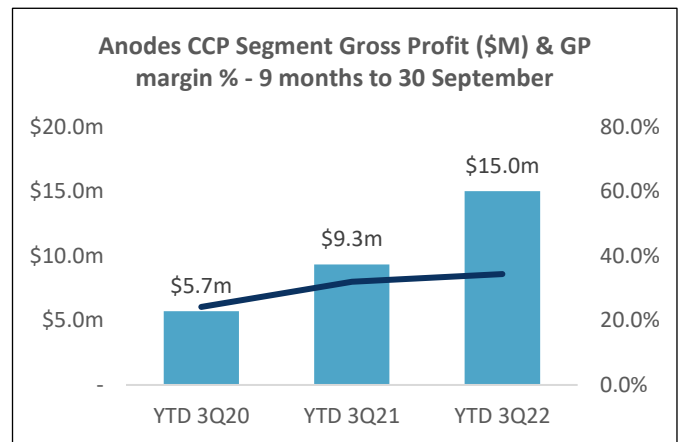
Gross profit margins for European magnesium and powered anodes, were steady in the period while Chinese magnesium anode margins were down on PCP.

Over the last 12 months revenues and margins of magnesium anodes have been boosted by higher underlying magnesium prices and supported by agreements with customers that are linked to global or regional benchmarks. As prices decline this effect began to reverse in the quarter under review and will continue to do so in the fourth quarter.

Product deliveries were particularly strong in the first half of the year and customer inventories appear to be at higher-than-normal levels. In the US, hot water appliance customers have more markedly reduced output and component offtake, a trend that is likely to persist into the fourth quarter.

The anode business supplies manufacturers of all types of hot water systems. In more settled times volumes show modest volatility as housing starts rise and fall through the economic cycle. In the current circumstances there are emerging trends that may disrupt the normal cycle, including a more profound than usual cooling in the Chinese home building sector and an energy crisis that is likely to be more impactful in Europe but evident in most markets.

The longer-term trend continues to favour Magontec's powered anodes that are widely applied to higher value heat pump appliances. The energy efficiency of heat pump technology has driven sales in markets where climate change and abatement policies are commonly found and well supported. We expect to ship higher volumes of these products in 2023.



### Outlook

The surge in earnings that Magontec experienced over the last nine months has waned in the quarter under review and may reduce again in the fourth quarter. Profitability in 2022 year-to-date has been driven by higher prices for magnesium products, access to lower cost magnesium scrap for conversion to magnesium alloy ingots, the benefits of volume production metrics, particularly in the magnesium anodes business where global market shares are high, and a suite of higher technology and higher margin products in the CCP and metals businesses that continue to generate solid returns. Not all of these advantages will evaporate as magnesium prices retrace.

Looking forward over the next quarter to the year end and into 2023, absent another rise in pure magnesium pricing, it is difficult to see a repeat in recent levels of profitability.

We think magnesium pricing is unlikely to fall back to the lower levels of 2021 - as underlying energy prices are key to primary magnesium production costs - but high inventory levels, falling consumer confidence and input cost inflation will impact margins and profitability in the period ahead.

Having experienced a period of strong earnings the company is now less vulnerable to the pressures of the current rising interest rate environment. Magontec's balance sheet has net cash of \$2.2 million and our businesses remain cash flow positive and profitable. We continue to pursue several projects that are in various phases of development. As these projects mature, they are expected to enhance earnings in each of our businesses. We are also continuing to explore ways to expand our suite of magnesium and other products sold into the global die casting, magnesium and hot water appliance industries.

In August Magontec announced an Interim dividend of 0.6 cents per share (unfranked) that is to be paid on 31 October 2022. We also offered a Dividend Reinvestment Plan (DRP) at a discount of 5% to a 10-day volume



weighted average price. Shareholders of 65% of the shares on issues elected to take the DRP, including most of the company's largest investors. The company paid cash to shareholders that elected not to take the DRP.

Finally, we are very pleased to welcome Xingcai Li to our Board. As the General Manager of Qinghai Huixin Asset Management (the owner of QSLM, a 29% shareholder of Magontec) and an executive with long experience in the light metals industry, Mr Li will bring valuable new experience to Magontec Board discussions and a greater insight into the challenges at the Qinghai magnesium project. In late September the company announced the appointment of Robert Kaye as Lead Independent Director. In this new role Robert will work more closely with myself and non-executive Board members in an important leadership role that enhances Magontec's corporate governance status.

Nic Andrews  
Executive Chairman  
31 October 2022

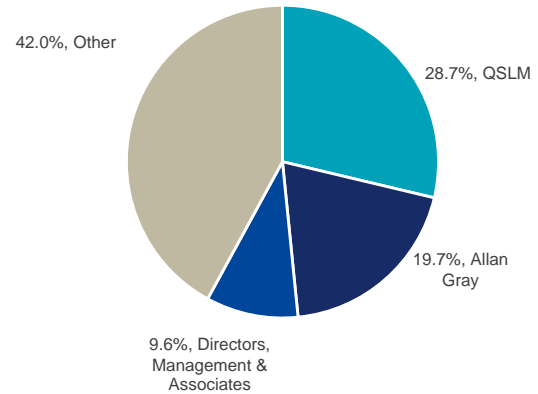


## Magontec Limited Market Information

ASX Code: MGL	Total	Per Share
Ordinary shares on issue	76,729,210	
Market capitalisation <sup>1</sup>	\$26.1 million	34.0 cents/share
Book value of net assets – 30 June 2022	\$51.8 million	67.6 cents/share
Net debt/(cash) – 30 June 2022	(\$1.2 million)	
Enterprise value	\$50.7 million	
LTM <sup>2</sup> EBITDA to 30 June 2022	\$28.0 million	
LTM <sup>2</sup> Reported NPAT to 30 June 2022	\$17.7 million	23.0 cents/share
Performance rights on issue 30 June 2022	7,210,560	

<sup>1</sup> Based on share price of \$0.34 as of 24 October 2022  
<sup>2</sup> LTM = Last 12 Months

### Shareholder Structure 30 June 2022

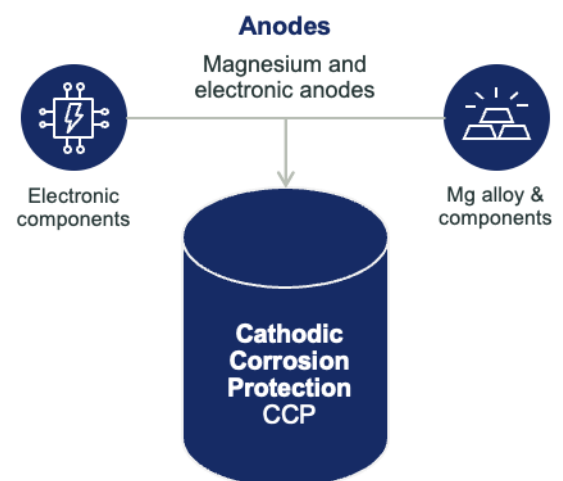
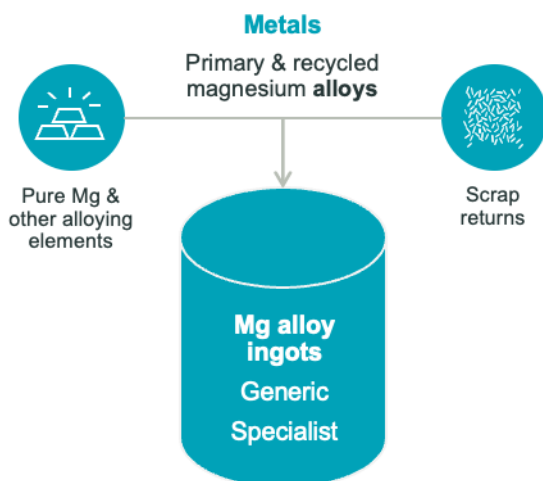


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## Manufacturing Activities – Magnesium Metals and Cathodic Corrosion Protection

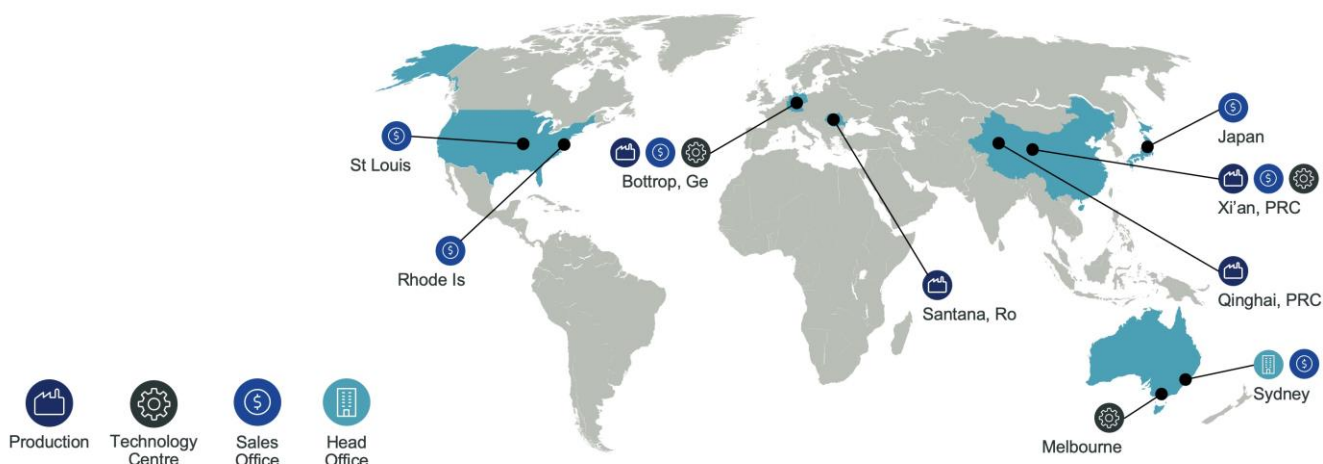
Manufacture of Mg alloys from pure Mg and Mg alloy scrap supplying the global die casting industry

Manufacture of Mg and electronic anodes supplying the global water heater industry



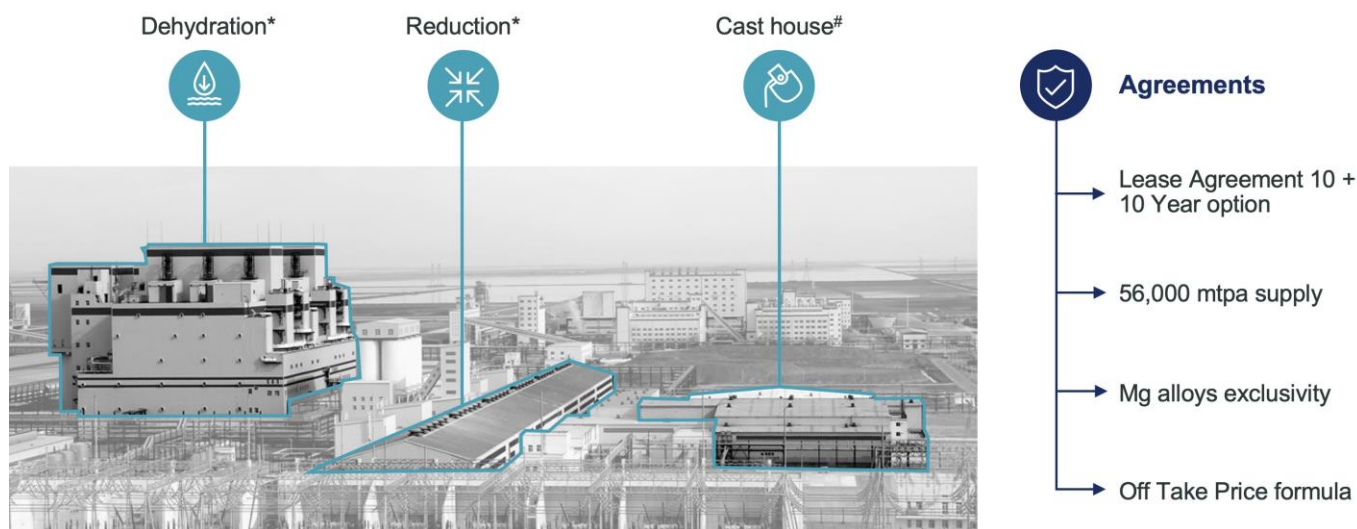
## Global Manufacturing & Distribution Platform

A leading global magnesium alloy and Cathodic Corrosion Protection (anode) manufacturing and sales organisation



## Qinghai electrolytic magnesium smelter complex

Emerging growth in 'green' magnesium at World's largest low emission electrolytic facility



\* Qinghai Salt Lake Magnesium Co Ltd assets

# Magontec Qinghai Primary Magnesium Alloy Cast House

## Attachment 1

### UNAUDITED COMPREHENSIVE INCOME STATEMENT AND BANK BORROWING SUMMARY TO 30 SEPTEMBER 2022

Unaudited Consolidated Comprehensive Income Statement		
Source: Magontec Limited Management Accounts		
\$000	9 months to 30-Sep-22	9 months to 30-Sep-21
Sale of goods	125,737	76,935
Cost of sales	(93,256)	(65,260)
<b>Gross profit</b>	<b>32,482</b>	<b>11,674</b>
Other income	483	840
Interest expense	(504)	(377)
Impairment	-	-
Travel accommodation and meals	(340)	(119)
Research & development	(438)	(329)
Promotional activity	(121)	(115)
Information technology	(285)	(314)
Personnel	(6,844)	(5,609)
Depreciation & Amortisation	(444)	(490)
Office expenses	(422)	(432)
Corporate and other	(2,662)	(2,344)
Foreign exchange gain/(loss)	1,406	416
<b>Profit/(Loss) before tax</b>	<b>22,312</b>	<b>2,801</b>
Income tax (expense)/benefit	(6,517)	(1,129)
<b>Profit/(Loss) after tax</b>	<b>15,795</b>	<b>1,672</b>
<b>Other comprehensive income</b>		
Exchange differences taken to equity	210	1,250
Movement in actuarial assessments and other OCI	1,718	380
<b>Total comprehensive income</b>	<b>17,722</b>	<b>3,302</b>

COGS included \$1.61m of depreciation in the 9 months to 30 Sep 2022 (9 months to Sep 2021: \$1.62m)

Borrowings facilities as at 30 Sep 22					
Lender	Maturity	Interest %	Limit \$A 000	Drawn \$A 000	Security status
Commerzbank Germany	30-Nov-23	2.72%	7,797	-	Secured
Commerzbank Germany	31-Dec-23	1.85%	950	950	Secured
Unicredit SA (Romania)	28-Feb-23	7.67%	4,472	1,858	Secured
Zheshang Bank China*	12-Jun-23	3.50%	6,768	4,585	Secured
<b>Total borrowings on balance sheet</b>			<b>19,988</b>	<b>7,393</b>	
Commerzbank (factoring)	28-Feb-25	2.37%	2,031	1,781	
<b>Total facilities</b>			<b>22,019</b>	<b>9,174</b>	

## Attachment 2

### UNAUDITED BALANCE SHEET

Unaudited Consolidated Balance Sheet		
Source: Magontec Limited Management Accounts		
\$000	As at 30-Sep-22	As at 31-Dec-21
Cash & cash equivalents	9,633	4,636
Trade & other receivables	24,388	21,317
Inventory	35,721	23,689
Other	4,174	8,840
<b>Total Current Assets</b>	<b>73,917</b>	<b>58,482</b>
Property, plant & equipment	16,991	17,753
Intangible assets	3,096	3,241
Deferred tax assets	2,591	2,720
Other	307	316
<b>Total Non-Current Assets</b>	<b>22,984</b>	<b>24,030</b>
<b>Total Assets</b>	<b>96,901</b>	<b>82,512</b>
Trade & other payables	14,880	17,570
Bank borrowings	6,443	7,309
Provisions	9,232	3,491
<b>Total Current Liabilities</b>	<b>30,555</b>	<b>28,370</b>
Other payables	765	255
Bank borrowings	950	4,217
Provisions	10,695	13,395
<b>Total Non-Current Liabilities</b>	<b>12,410</b>	<b>17,867</b>
<b>Total Liabilities</b>	<b>42,966</b>	<b>46,237</b>
<b>Net Assets</b>	<b>53,936</b>	<b>36,275</b>
<b>Equity attributable to members of MGL</b>		
Share capital	58,918	58,918
Reserves	7,480	5,153
Accumulated (losses)/profits	(12,462)	(27,796)
<b>Total equity</b>	<b>53,936</b>	<b>36,275</b>

## Attachment 3

### UNAUDITED STATEMENT OF CASH FLOWS

Unaudited Consolidated Cash Flow Statement			
Source: Magontec Limited Consolidated Management Accounts			
\$000	6 months to 30-Jun-22	3 months to 30-Sep-22	9 months to 30-Sep-22
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash generated from/ (utilised in) underlying operating activities	21,251	3,054	24,306
<b>Net working capital assets</b>			
- Trade receivables & other current assets	3,448	(3,214)	235
- Inventory	(14,691)	2,805	(11,886)
- Trade payables & other current liabilities	737	(1,353)	(616)
- Other	-	-	-
Cash generated from/ (utilised in) net working capital assets	(10,506)	(1,761)	(12,267)
<b>Other operating activities</b>			
- Net Interest paid	(294)	(211)	(505)
- Income tax paid	(1,537)	(166)	(1,703)
Cash generated from/ (utilised in) other operating activities	(1,831)	(376)	(2,208)
<b>Net Cash generated from/ (utilised in) all operating activities</b>	<b>8,914</b>	<b>917</b>	<b>9,831</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net cash out on purchase/disposal of property, plant & equipment	(720)	(421)	(1,141)
Group information technology	-	(15)	(15)
Security deposit	(195)	446	250
<b>Net cash provided by / (used in) investing activities</b>	<b>(915)</b>	<b>9</b>	<b>(906)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Bank Debt	(7,714)	3,758	(3,956)
Cashflow from leasing activities	(189)	(30)	(219)
<b>Net cash provided by / (used in) financing activities</b>	<b>(7,903)</b>	<b>3,728</b>	<b>(4,175)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>96</b>	<b>4,654</b>	<b>4,750</b>
Foreign exchange effects on total cash flow movement	23	224	248
<b>Cash and cash equivalents at the beginning of the period</b>	<b>4,636</b>	<b>4,755</b>	<b>4,636</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>4,755</b>	<b>9,633</b>	<b>9,633</b>