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26 July 2024

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

Dear Sir/Madam,

### **QSLM purported termination of agreements with Magontec**

Between 2012 and 2014, Magontec Limited (MGL, the Company) entered into four Agreements with Qinghai Salt Lake Magnesium Co Ltd (QSLM) relating to the development of a magnesium project at Golmud in Qinghai Province, China (the Agreements).

By letter dated 21 July 2024, QSLM has purported to terminate the Agreements between the two companies.

MGL's provisional position is that QSLM's purported termination of the Agreements is not valid. MGL, through its appointed subcommittee (which excludes QSLM representatives), is obtaining legal advice on MGL rights and options.

### **Background**

The Agreements committed MGL to the construction of a magnesium alloy cast house adjacent to a magnesium smelter, then under construction by QSLM, and further committed MGL to an annual offtake of pure magnesium equivalent to 56% of QSLM's output. The MGL magnesium cast house was completed in 2017 and has been operating consistently since early 2018.

In the period since MGL commenced production, QSLM has never succeeded in producing liquid pure magnesium, has been unable to supply qualified pure magnesium to MGL and has failed to fulfil many of its obligations under the Agreements.

In October 2019 QSLM, which is a Chinese state-owned enterprise, entered a process of restructuring following the failure of its parent company. At various times since that event, MGL has sought assurance that the Agreements between the Company and QSLM remain valid. Following each request MGL has been reassured on this point. As recently as February 2024 the Chairman of QSLM's parent company and Magontec Board Director Li Xing Cai reiterated that commitment in writing.

At a meeting in Xining on 17 June 2024 the management of QSLM proposed amendments to the Agreements. QSLM proposed that the offtake price metric, the magnesium alloy production exclusivity clause and key termination clauses be amended or excised from the Agreements. These amendment requests were then delivered to MGL in writing on 26 June 2024.

MGL reviewed the proposed amendments and concluded that they would fundamentally diminish the financial proposition for the Company at Qinghai and would cause its magnesium alloy cast house activities to operate at an even greater financial loss than is currently the case. At the meeting in Xining, QSLM also indicated that there would be further delays to qualified liquid magnesium production and that their cost of production remains uncertain, such that the prospect of supply of pure magnesium from QSLM to MGL remains unlikely for the foreseeable future.

While the Qinghai project has been a key element of MGL's strategic efforts to re-enter the volume primary magnesium alloy business, the long and still uncertain period to production, together with demands on the part of QSLM to unfavourably amend the agreements, are cause for MGL to consider its position in this project, the conduct of QSLM and its rights, including in response to the amendment request.

On 11 July 2024, in response to QSLM's amendment request, MGL declined the proposed contract amendments and, in doing so, set out its concerns about QSLM's conduct and put forward a plan for an amicable separation.

On 23 July 2024, as noted above, QSLM rejected this proposal and informed Magontec that it considered that the agreements have been terminated and offered no further proposal for discussion or negotiation. QSLM gave no undertakings or confirmation that it would comply with the contractual requirements set out in the termination provisions, which are now triggered in the Agreements. MGL is now taking legal advice on QSLM's purported termination and its rights in response to QSLM.

MGL will publish its Interim Report for the six months to 30 June 2024 at the end of August. Over the coming weeks the Board and management will review the Company's strategic and legal options with a view to presenting shareholders with a new plan for the future of the company, which in one way or another, will soon be unencumbered by MGL's loss-making Qinghai operations.

Nicholas Andrews

CEO and Executive Chairman

**Dean Taylor, Company Secretary of Magontec Limited has authorised the release of this document to the market on 26 July 2024.**