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29 April 2016

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

Dear Sirs,

**Appendix 4C – Quarter Ended 31 March 2016**

In this letter are –

- Attachment 1 – Executive Chairman's Commentary
- Attachment 2 – Unaudited Comprehensive Income Statement for the 3 months to 31 March 2016
- Attachment 3 – Unaudited Balance Sheet at 31 March 2016
- Attachment 4 – Unaudited Cash Flow Statement for the 3 months to 31 March 2016.
- Attachment 5 – Appendix 4C unaudited cash flow report for the quarter ended 31 March 2016

Attachments 1 to 4 are presented in the format that appears in the Company's half year and annual reports and prepared on a basis consistent with the requirements of accounting standards.

Attachment 5 is presented in the format required by Paragraph 4.7B of Chapter 4 of the ASX listing rules.

## Rounding Errors

The tables in this report may indicate apparent errors to the extent of one unit (being \$1,000) in:

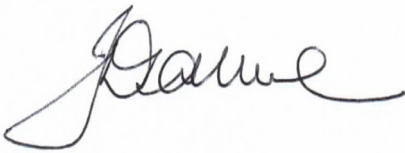
- the addition of items comprising total and sub totals; and
- the comparative balances of items from the financial accounts.

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.

It is re-iterated, all data presented in this report is unaudited.

Yours Sincerely

A handwritten signature in dark ink, appearing to read 'John Talbot', written in a cursive style.

John Talbot  
Company Secretary

**Attachment 1**

**Executive Chairman's Commentary**  
**Magontec Limited (ASX: MGL)**  
**Quarterly Update for 3 months to 31 March 2016 (Unaudited)**

**ABOUT MAGONTEC**

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

- Magontec buys pure magnesium and converts it into magnesium alloy ingots for sale into global markets
- Magontec recovers scrap magnesium from its customers and recycles this material into magnesium alloy ingots for re-sale
- Magontec converts magnesium alloys into anodes that provide cathodic corrosion protection for water heater applications

Magontec is the only western magnesium alloy producer with

- Its own Chinese primary magnesium alloy manufacturing base
- Its own magnesium recycling facilities in Europe and Asia
- A global sales and logistics capability
- A comprehensive portfolio of proprietary magnesium alloys
- An active commitment to Research & Development

Magontec is a pioneer in the field of magnesium alloys and anode products with vast experience in production and development of new alloy and anode applications.

Magontec is building an operating base for the future with investment in new plant and equipment in China and Europe.

In 2015 Magontec commenced the installation of casting lines and equipment in the Magontec Qinghai cast house in preparation for first commercial supply from Qinghai Salt Lake Magnesium Co Ltd

- NPAT +132% on the previous corresponding period to \$0.264m for the quarter (adjusted for unrealised foreign exchange gains).
- EBITDA + 33% on the previous corresponding period to \$1.4m.
- Cash generated by underlying operations + \$1.194m.
- The first stage of the Magontec Qinghai Cast House is now in the final commissioning phase.

In the first three months of 2016 all Magontec businesses have made strong contributions, continuing the trend towards higher margins and improved profitability established in 2015.

NPAT in the 3 months to 31 March 2016 was \$0.571m including unrealised FX gains of \$0.307m. This compares with NPAT of \$0.252m in 1Q 2015 including unrealised FX gains of \$0.138m, a 132% improvement in underlying NPAT adjusted for the impact of unrealised FX effects.

The rise in EBITDA was principally driven by further reductions in production costs across Magontec's anode and magnesium alloy production units. There has been one lost time injury in the period and that was not of a serious nature.

Other expense items were comparable with the same period last year demonstrating a continuing strong focus on costs in the Group and largely unchanged interest rate and debt levels.

A feature of the first quarter has been a decline in revenues and volumes, particularly in the metals businesses, due in part to falling prices for raw materials, but also because we have temporarily withdrawn from markets where our products have become uncompetitive.

## Qinghai Cast House Project

The Magontec Qinghai cast house project has now entered the commissioning phase. So far the team now based in Qinghai has installed three casting belts and associated cooling devices for production of magnesium alloy ingots. One of the two automatic stacking, strapping and wrapping lines is now installed and partially commissioned with the second (and final) line due to arrive on site in three months.

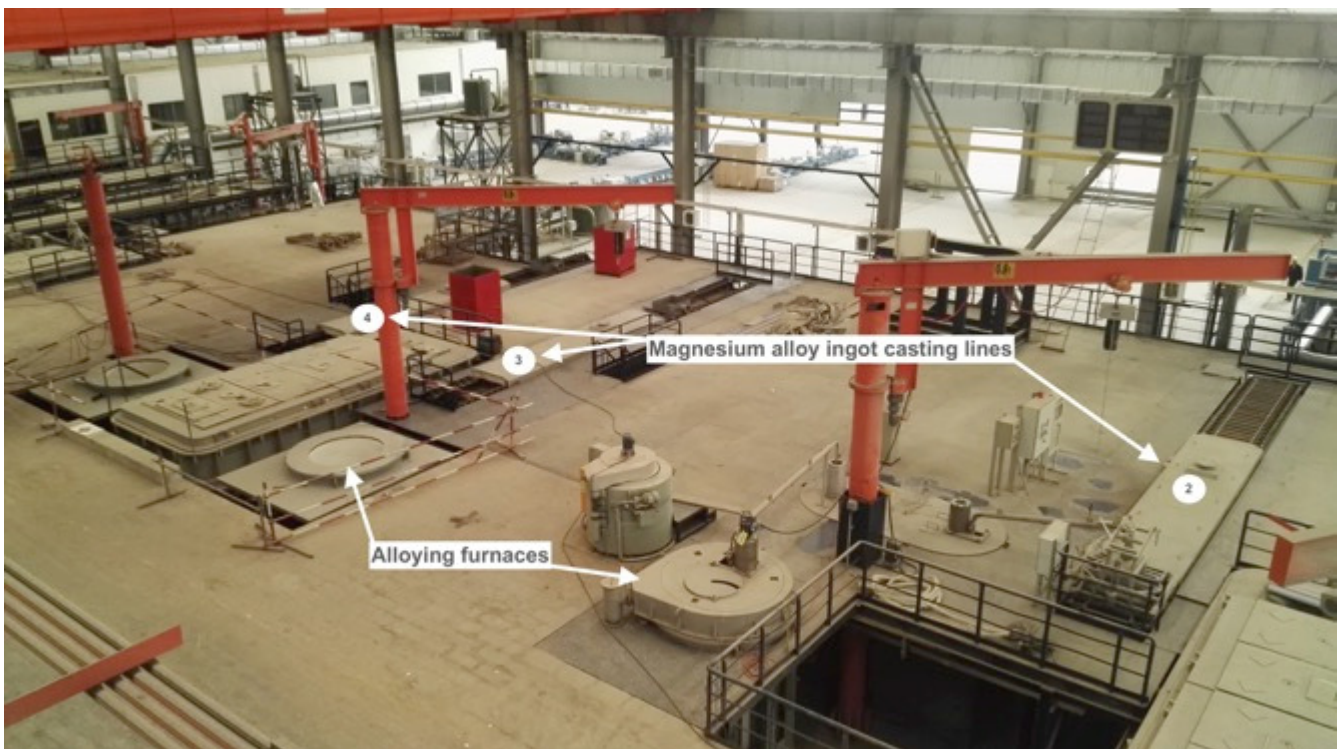
Subject to final supply of utilities Magontec now expects to have 14,000 mtpa of magnesium alloy production capacity hot commissioned in the next month or two and a total of 44,000 mtpa fully commissioned by October this year. The final installation of production capacity will be completed later this year. This will take the cast house to its maximum input capacity of 56,000 mtpa.

Commissioning of the dehydration units and reduction cell house is the responsibility of our partners in Qinghai, the Qinghai Salt Lake Magnesium Co. Ltd (QSLM). This massive project, representing an investment of over US\$4 billion by QSLM, is now reaching the commissioning stage and the contractors have been appointed to manage the various cold and hot commissioning processes that will lead to commercial production. The commissioning process is very difficult to properly estimate and is expected to take several months.

Magontec eagerly looks forward to this event. Our cast house equipment will be installed and fully commissioned some months in advance of commercial production and our newly appointed Qinghai-based production and administration team is already settling in to their new offices in Golmud. The economics of production at the Qinghai electrolytic plant will offer Magontec a considerable production cost advantage over magnesium alloy manufacturers that use the Pidgeon Process. We expect this to largely offset the impact of VAT avoidance by some competitors that currently makes it difficult for Magontec to compete in a number of key international markets.

### Magontec Qinghai Cast House:

Upper deck showing alloying and continuous refining furnaces, pumps and 3 casting lines installed as part of Phase A and Phase B in the Magontec Qinghai Cast House



**Magontec Qinghai Cast House:**

Automated processing equipment for casting lines 1 & 2

**Magnesium alloys**

While metal sales volumes are below previous periods in both primary magnesium alloys and some magnesium alloy recycling activities, profitability is much improved in all magnesium alloy production activities. As noted earlier this is due in part to a continued reduction in conversion costs, largely the result of the hard work and ingenuity on the part of our production teams in China and Europe. We have also enjoyed increased demand for specialist alloys including Magontec's proprietary AE family alloys. These magnesium metals, alloyed with rare earth and aluminium, are finding growing markets in automotive, power tool and telecommunications applications.

In Romania we have seen a much-improved performance in both volumes and production efficiencies. The Romanian magnesium alloy recycling business struggled to properly leverage its new operating capacity in 2015. These issues have been largely overcome and the recycling business is now making a profit contribution in line with our earlier expectations.

Looking forward, at least in the shorter term, we expect competitive pressures to continue to restrict our ability to re-enter export markets where VAT appears to be most easily avoided by producers in the PRC.

**Anodes (cathodic corrosion protection)**

In the CCP business we have seen continued improvement in all aspects of our business. The magnesium anode industry is highly sensitive to volumes and our Asian and European teams have successfully won new contacts, enhancing a continued downward trend in unit production costs in both regions as well as a continued strong focus on customer service.

We have made a considerable investment in our anode distribution and sales abilities. In Europe our sales team has grown to cover new territories in the Iberian Peninsula, Eastern Europe and the Middle East. In the period ahead we will again invest in production efficiencies that should further improve prices offered to customers and returns for shareholders.

Magontec is the largest magnesium anode manufacturer in the World with strong market shares across Asia and Europe and production facilities in Romania and China. The company has a small but growing share of the US market and will seek to further develop this opportunity in the months ahead with an increasingly competitive product.

Magnesium anode profitability has improved considerably in the first quarter of 2016. While much of this improvement has come from the Asian business we see considerable opportunity for continued profit growth across our magnesium anode businesses over the coming years as we continue to invest in automation and offer high levels of service to a customer base that is still recovering from fairly depressed consumer markets, particularly in Europe.

Magontec is also a market leader in the production of electronic anodes, a product that is charged by a direct electric current. The electronic anode is a more complex and higher priced product and is most often applied in more expensive and complex water heater appliances. Over the last 12 months we have developed new markets for this product in other water management application. These initiatives have begun to make progress and the EBIT contribution from this product has markedly increased.

## **Summary**

The first quarter of 2016 has been Magontec's strongest trading period for a considerable time. It demonstrates that the Company has made excellent progress towards one of its key short-term goals; the establishment of a profitable and enduring operations platform. Looking forward we expect to build on this platform as the Magontec Qinghai cast house finally comes on stream and our magnesium and electronic anode businesses, now comprehensively returned to profitability, begin to build stronger and more defensive positions in global corrosion protection markets.

Another key aspect of our business plan has been to continue to invest in research and development so that in the future the company can launch a consistent stream of magnesium alloy technologies that have immediate commercial applications. These efforts are on-going and many of them show considerable potential. Our most exciting product in 2016 is the likely launch, for a large telecommunications company, of a new addition to the AE family of magnesium alloys. The success of this project, which may result in high volumes of material, relies on both the mechanical properties of the alloy and new application coating technologies. Both these are the subject of on-going research by Magontec, led by our Chinese technical team.

Finally, it is important to strike some notes of caution.

- The first quarter has seen some pleasing results, particularly from units that were disappointing in 2015, but also from new developments that will lead Magontec towards higher volume and higher margin businesses in the future. Nonetheless, it remains the case that the majority of our businesses operate in highly competitive markets.
- Our raw material prices are volatile. In 2015 our metals business benefitted from a fairly consistent decline in raw material prices through the year, which had a net positive effect on margins. In the last few weeks we have seen a sharp rise in these prices, which, if sustained, may have a more negative effect through the second quarter.
- We have seen some metal pricing into export markets heavily distorted by VAT avoidance in China. While we have a strategy to address this market distortion, it may be more difficult to sustain volumes and margins in the short-term.

## Attachment 2 – Unaudited Comprehensive Income Statement

Unaudited Consolidated Income Statement of Profit & Loss		
Source: Magontec Limited Management Accounts		
\$000	3 months to 31-Mar-16	3 months to 31-Mar-15
Sale of goods	31,375	34,147
Cost of sales	(27,611)	(31,079)
<b>Gross profit</b>	<b>3,764</b>	<b>3,068</b>
Other income	127	43
Interest expense	(298)	(295)
Impairment of inventory, receivables & other financial assets	-	-
Travel accommodation and meals	(171)	(161)
Research, development, licensing and patent costs	(85)	(109)
Promotional activity	(12)	(10)
Information technology	(89)	(79)
Personnel	(1,610)	(1,486)
Depreciation & Amortisation	(125)	(101)
Office expenses	(62)	(71)
Corporate	(815)	(658)
Foreign exchange gain/(loss)	281	196
Other Operating Expenses	(256)	-
<b>Profit/(Loss) before tax</b>	<b>649</b>	<b>337</b>
Income tax (expense)/benefit	(78)	(86)
<b>Profit/(Loss) after tax</b>	<b>571</b>	<b>252</b>

### Attachment 3 – Unaudited Balance Sheet

Unaudited Consolidated Balance Sheet		
Source: Magontec Limited Management Accounts		
\$000	As at 31-Mar-16	As at 31-Dec-15
Cash & cash equivalents	5,494	8,490
Trade & other receivables	23,781	22,163
Inventory	26,630	26,316
Other	552	220
<b>Total Current Assets</b>	<b>56,456</b>	<b>57,188</b>
Property, plant & equipment	19,679	19,567
Intangible assets	2,987	3,028
Deferred tax assets	1,569	1,653
Other	1,063	1,092
<b>Total Non Current Assets</b>	<b>25,297</b>	<b>25,339</b>
<b>Total Assets</b>	<b>81,753</b>	<b>82,528</b>
Trade & other payables	14,835	16,276
Bank borrowings	21,209	20,272
Provisions	730	497
<b>Total Current Liabilities</b>	<b>36,775</b>	<b>37,045</b>
Other payables	151	149
Bank borrowings	-	235
Provisions	9,925	9,937
<b>Total Non Current Liabilities</b>	<b>10,075</b>	<b>10,322</b>
<b>Total Liabilities</b>	<b>46,850</b>	<b>47,367</b>
<b>Net Assets</b>	<b>34,904</b>	<b>35,161</b>
<b>Equity attributable to members of MGL</b>		
Share capital	58,433	58,433
Reserves	4,790	5,618
Accumulated (losses)/profits	(28,782)	(29,353)
Share capital	463	463
Reserves	-	-
Accumulated (losses)/profits	-	-
<b>Total equity</b>	<b>34,904</b>	<b>35,161</b>

## Attachment 4 – Unaudited Statement of Cash Flows

<b>Unaudited Consolidated Cash Flow Statement</b>		
<b>Source: Magontec Limited Management Accounts</b>		
<b>\$000</b>	<b>Quarter Ended 31-Mar-16</b>	<b>3 Months to 31-Mar-16</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Underlying operational cash flow</b>		
Profit before taxation	649	649
Adjustments for:		-
- Non-cash Equity expense	-	-
- Depreciation & amortisation	458	458
- Foreign currency effects	307	307
- Other Non-cash items	(220)	(220)
<b>Cash generated from/(utilised in) underlying operating activities</b>	<b>1,194</b>	<b>1,194</b>
<b>Net working capital assets</b>		
- Trade and Other Receivables	(3,164)	(3,164)
- Inventory	(766)	(766)
- Trade and Other Payables	210	210
- Other	-	-
<b>Cash generated from/(utilised in) net working capital asset</b>	<b>(3,720)</b>	<b>(3,720)</b>
<b>Other operating activities</b>		
- Net Interest paid	(263)	(263)
- Income tax paid	1	1
<b>Cash generated from/(utilised in) other operating activities</b>	<b>(263)</b>	<b>(263)</b>
<b>Net Cash generated from/(utilised in) all operating activities</b>	<b>(2,789)</b>	<b>(2,789)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net cash out on purchase/disposal of property, plant & equipment	(849)	(849)
Group Information Technology	(193)	(193)
Security deposit	(2)	(2)
Other	-	-
<b>Net cash provided by / (used in) investing activities</b>	<b>(1,043)</b>	<b>(1,043)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Bank Debt	1,022	1,022
Net capital raised from issue of securities	-	-
Other	30	30
<b>Net cash provided by / (used in) financing activities</b>	<b>1,052</b>	<b>1,052</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(2,781)</b>	<b>(2,781)</b>
<b>Foreign exchange effects on total cash flow movement</b>	<b>(215)</b>	<b>(215)</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>8,490</b>	<b>8,490</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>5,494</b>	<b>5,494</b>

**Attachment 5 – Appendix 4C**



# QUARTERLY UNAUDITED CASHFLOW - APPENDIX 4C

for the Period Ended 31 March 2016

## Magontec Limited

ABN: 51 010 441 666  
Registered & Principal Office:  
Suite 1.03, Level 1  
46 Macleay St,  
Potts Point, NSW 2011  
Australia

**Tel:** +61 2 8005 4109  
**Fax:** +61 2 9252 8960  
**Website:** [www.magontec.com](http://www.magontec.com)  
**Email:** [Corporate@magontec.com](mailto:Corporate@magontec.com)

**Non-Executive Directors** (as at 31 March 2016)

Zhongjun Li  
Kangmin Xie  
Andre Labuschagne

**Independent Directors**(as at 31 March 2016)

Robert Shaw  
Robert Kaye

## Management Team

Nicholas Andrews  
*Executive Chairman*

John Talbot  
*Company Secretary*

Derryn Chin  
*Chief Financial Officer*

## Issued Capital (as at 31 March 2016)

**Ordinary Shares** (ASX Code MGL)  
1,127,311,901 fully paid Ordinary shares on issue

**Options:** Nil

Substantial Shareholders	No. of shares	Percent
Qinghai Salt Lake Magnesium Industry Limited	330,535,784	29.32
Straits Mine Management Pty Limited	148,874,507	13.21
J P Morgan Nominees Australia Limited	101,441,586	9.00
Citicorp Nominees Pty Limited	89,181,422	7.91

## Share Registry Services

Boardroom Pty Limited  
Level 7, 207 Kent St  
Sydney NSW 2000

**Postal:**  
GPO Box 3993  
Sydney NSW 2001

**Tel:** 1300 737 760 or  
**International:** +61 2 9290 9600  
**Fax:** 1300 653 459  
**Website:** <http://www.boardroomlimited.com.au>

The current share price can be obtained from the ASX Website

# Appendix 4C

## Quarterly Report

Name of entity

Magontec Limited

ABN

51 010 441 666

Quarter ended ("current quarter")

31 March 2016

Cash flows related to operating activities	Quarter Ended 31 Mar 16 \$A'000	3 Months to 31 Mar16 \$A'000
1.1 Receipts from customers	28,213	28,213
1.2 Payments for -		
(a) staff costs	(1,610)	(1,610)
(b) advertising and marketing	(12)	(12)
(c) research and development	(85)	(85)
(d) leased assets	-	-
(e) other working capital	(29,032)	(29,032)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	12	12
1.5 Interest and other costs of finance paid	(276)	(276)
1.6 Income taxes paid	1	1
1.7 Other (provide details if material)		
<b>Net operating cash flows</b>	<b>(2,789)</b>	<b>(2,789)</b>

	<b>Quarter Ended 31 Mar 16 \$A'000</b>	<b>3 Months to 31 Mar 16 \$A'000</b>
1.8 Net operating cash flows (carried forward)	(2,789)	(2,789)
<b>Cash flows related to investing activities</b>		
Payment for acquisition of:		
1.9 (a) businesses		
(b) equity investments		
(c) intellectual property	(193)	(193)
(d) physical non-current assets	(849)	(849)
(e) other non-current assets		
Proceeds from disposal of:		
1.1 (a) businesses		
(b) equity investments		
(c) intellectual property		
(d) physical non-current assets		
(e) other non-current assets		
1.11 Loans to other entities		
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	(2)	(2)
<b>Net investing cash flows</b>	<b>(1,043)</b>	<b>(1,043)</b>
<b>1.14 Total operating and investing cash flows</b>	<b>(3,832)</b>	<b>(3,832)</b>
<b>Cash flows related to financing activities</b>		
1.15 Proceeds from issues of shares, options, etc.	-	-
1.16 Proceeds from sale of forfeited shares		
1.17 Proceeds from borrowings	1,022	1,022
1.18 Repayment of borrowings		
1.19 Dividends paid		
1.2 Other (provide details if material)	30	30
<b>Net financing cash flows</b>	<b>1,052</b>	<b>1,052</b>
<b>Net increase (decrease) in cash held</b>	<b>(2,781)</b>	<b>(2,781)</b>
1.21 Cash at beginning of quarter/year to date	8,490	8,490
1.22 Exchange rate adjustments to item 1.21	(215)	(215)
1.23 <b>Cash at end of quarter</b>	<b>5,494</b>	<b>5,494</b>

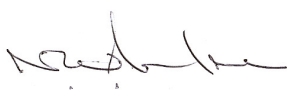
**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Quarter Ended 31 March 2016
		\$A
1.6 (a)	Aggregate amount of payments to the relevant parties (aggregate fees paid to directors)	\$35,000
(b)		
1.7	Aggregate amount of loans to the relevant parties	Nil
1.8	Explanation necessary for an understanding of the transactions	
	Refer commentary by Executive Chairman in Appendix 1	

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act 2001 (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign  
here:



Date: 29 April 2016  
Executive Chairman  
Magontec Limited

Print  
name: Mr Nicholas Andrews

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The definitions in, and provisions of, *AASB 107: Cash Flow Statements* apply to this report except for the paragraphs of the Standard set out below.
  - Aus20.1 - reconciliation of cash flows arising from operating activities to operating profit or loss
  - 39 - 42 - itemised disclosure relating to acquisitions and disposals
  - 48 - 52 - disclosure of restrictions on use of cash
- 3 Accounting Standards. ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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