MAGONTEC

ACN 010 441 666

MAGONTEC LIMITED

Half Year Report

2024

Corporate Information and Glossary

1. Corporate information

The consolidated financial statements of Magontec Limited and its controlled subsidiaries as listed in Note 4.1 herein (collectively, the Group) for the 6 months to 30 June 2024 were authorised for issue in accordance with a resolution of the directors on 28 August 2024. Magontec Limited is a company limited by shares incorporated in Australia. The shares are publicly traded on the Australian Securities Exchange under the code "MGL".

2. Glossary of terms referred to in this report

Formal Name of Entity	Description of Entity	Referred to as
Head office entities		
Magontec Limited	The ultimate parent/holding company of the Group.	Parent Company or MGL
Advanced Magnesium Technologies Pty Limited	Wholly owned subsidiary of Magontec Limited that acts as the administrative operating entity.	AMT
Varomet Holdings Limited	The holding company that owns the Group's operating businesses at Xi'an (PRC) and Suzhou (PRC). In turn, Magontec Limited owns all of the ordinary shares issued by Varomet Holdings Limited.	VHL
Operating entities		
Magontec GmbH	The wholly owned entity that owns the Group's operations in Bottrop, Germany	MAB
Magontec SRL	The wholly owned entity that owns the Group's operations in Santana, Romania	MAR
Magontec Xi'an Co. Ltd.	The wholly owned entity that owns the Group's operations in Xi'an, PRC	MAX
Magontec Qinghai Co. Ltd.	The wholly owned entity that owns the Group's operations in Qinghai, PRC	MAQ
Magontec US LLC	The wholly owned entity that acts as the Group's distributor located in the United States	MAU
Magontec Suzhou Co. Ltd.	The wholly owned entity that owns the Group's operations in Suzhou, PRC. Production ceased at this facility in 2016	MAS
Major related shareholders and other terms		
Qinghai Salt Lake Magnesium Co. Limited	QSLM is a 28.5% shareholder in MGL at the date of this report. QSLM is a subsidiary of Qinghai Huixin Asset Management (QHAM). QHAM is in turn owned by 3 Chinese state-owned enterprises. Its shareholders include the state of Haixi (a region of Qinghai province that includes Golmud) and two other Qinghai based investment entities	QSLM
People's Republic of China		PRC

3. 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 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.

Contents

Chairman's Letter

The first half of this financial year has offered several challenges to Magontec, foremost among them the cessation of production at the Qinghai cast house in late July.

Progress at this project has been the source of great frustration to management and shareholders for many years. While management continue to discuss a settlement with QSLM, there appears to be no prospect of a resumption of activity in Qinghai and we are now focussed on developing a new path ahead. The expectation of volume production at Qinghai has influenced a variety of decisions and actions over the last 5 years from the allocation of working capital to continued support of marginal and loss-making downstream activities.

It is now the objective of management to consolidate the current portfolio of businesses and grow Magontec's activities in new directions, unencumbered by the shadow of Qinghai and focussed on other opportunities. The Group has a wealth of talent and energy to drive this process and over the coming weeks management will develop and articulate a new strategy to restore profitability in its CCP and magnesium activities.

Magontec has a strong platform that it can develop. The balance sheet is in a positive net cash position, and the Group has strong global market shares in its main industrial activities. While trading conditions are at a tough point in the economic cycle, particularly in China, the Group has the resources and abilities to seek new growth opportunities in the period ahead.

The regions and industries that Magontec services are cycling a period of uncertainty. Primary magnesium alloy volumes and associated recycling activities selling into the automotive industry in Europe experienced regional economic headwinds and growing volumes of Chinese imports. In the hot water industry a sharp decline in home building activity in Europe and China, reflecting higher interest rates and corporate failures, has also dampened demand.

In both industries, technological advances add another layer of complexity. Automotive manufacturers must rapidly introduce high-cost capital expenditure to meet the EV challenge while hot water appliance manufacturers struggle to shift production towards more expensive low emission heating systems. In both industries, government subsidies and incentives are key factors that occasionally confuse but are ultimately essential for a speedy transition.

Managing technological uncertainty through a low point in the economic cycle is proving challenging for all industrial activities. Magontec, despite carrying a heavy burden through the first half in the form of a major non-performing asset at Qinghai, has managed to thread a path through these hurdles to produce cash flow break-even at the underlying operating level[1], albeit at a lower level of profitability than in previous periods.

1 Underlying operating cashflow = Operating cashflow less working capital movements, interest and tax paid

Excluding the effects of the Qinghai cast house business, the associated write-down as well as unrealised FX losses in the period under review, group EBITDA rose to $1 million for the six-months to 30 June 2024. There are other cost savings and expenses that are likely to be accessible as we review the portfolio of businesses through the period to 31 December 2024.

The sharp reversal in economic activity in our key sectors has reduced demand and selling prices across Magontec's major products reducing revenues and profits. While some smaller and higher margin activities have held up well through the first half, the overall comparison with the previous corresponding period is disappointing.

As we announced in detail in a recent ASX release, Magontec's Qinghai project has been halted. This has been a flagship project for the Group since the inception of QSLM's electrolytic plant in Golmud some years ago. The project has failed to make sufficient progress towards production and has many unresolved issues. Magontec has made an offer to exit the relationship on an amicable basis following a request by QSLM to fundamentally diminish the agreements between our two companies. We understand that this offer is currently under consideration by QSLM. MGL has commenced legal proceedings in Australia to defend the rights and interests of its shareholders and will continue to progress these until a satisfactory outcome has been achieved. QSLM is a 28.5% shareholder of Magontec Limited.

The Qinghai project was a heavy burden on Magontec's profitability. It has been marginally EBITDA negative but depreciation heavy. In the first half of FY2024 the remaining book value of the fixed assets associated with the project has been written off. Over the coming weeks, management will undertake a review of the structure and focus of its other magnesium alloy assets. The Group's European recycling plants have operated at low volumes in anticipation of returns from future primary magnesium alloy sales of Qinghai origin. These will no longer be forthcoming, and the Group must look to other strategies to restore the fortunes of these businesses. It is worth noting that Magontec closed its Shanxi primary magnesium alloy facility in 2018, where the Group was making around 15,000 metric tonnes per annum, in accordance with its QSLM agreements. We are now able to look at new supply relationships in China and elsewhere.

As we develop a legal strategy and put that in place, the Group will update shareholders through further ASX announcements as and when appropriate.

In addition to reviewing our magnesium alloy strategy we are also in the process of reviewing our CCP (cathodic corrosion protection – anode) strategy. In this business we have world leading products, strong shares in major markets and competitive manufacturing facilities that are most efficient and profitable when volumes are slightly higher than over the past 6 months.

Our global CCP sales team sell a range of products, from simple Mg anodes to complex electrical current management devices into hot water appliance manufacturers and plumbing wholesale networks. We see an opportunity to move further into this OEM supply chain with related products using the same sales team and business structure. We have reviewed a number of opportunities and continue to examine the sector.

A summary of Magontec actions following Letter of Notification from QSLM

Magontec has engaged legal advice and has begun to develop a strategy to protect the interests and rights of shareholders.

At the same time we have continued to seek engagement with QSLM in an effort to negotiate a settlement and avoid a legal process.

The Cooperation Agreement, the 2012 foundation document that established the relationship between Magontec and QSLM, is an agreement governed by the law of New South Wales.

Nicholas Andrews
Executive Chairman

Chief Financial Officer's Report

Financial Results

The half to 30 June 2024 saw difficult trading conditions and weak demand across both the Metal and Anodes segments. Lower recycling volumes from a major European customer have also had an impact.

Per the reconciliation of significant items below, the result included significant non-cash charges associated with the closure of the MAQ facility including a $3.7m impairment expense in addition to $0.45m of regular depreciation expense.

1H24 Gross Profit was $6.1 million. Although this was down on the prior corresponding period, metals gross profit was higher than in 2H23 as was the gross margin of 14.7%. Anodes gross profit was broadly in line with 2H23.

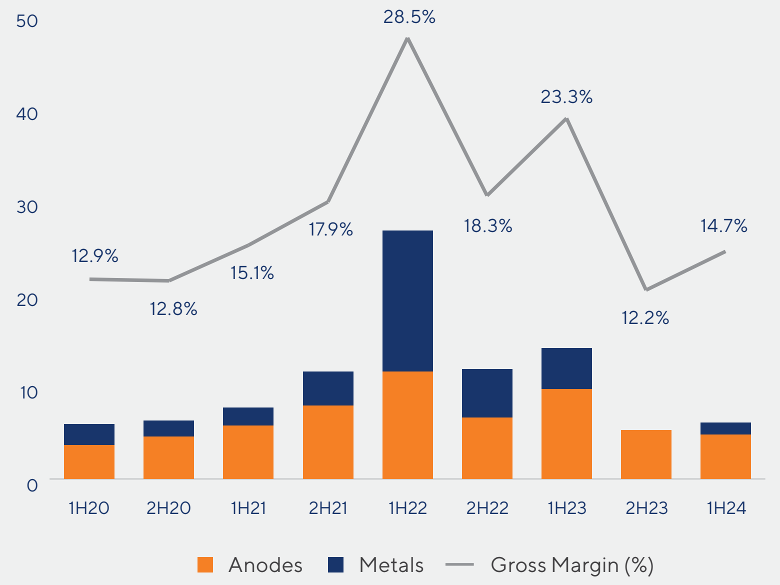
General & administration expenses* were $7.4m in the half to June 2024, which was down on both the prior corresponding period ($8.1m) and the second half of 2023 ($8.3m) as regional management teams seek to rein in costs.

Balance Sheet and Working Capital

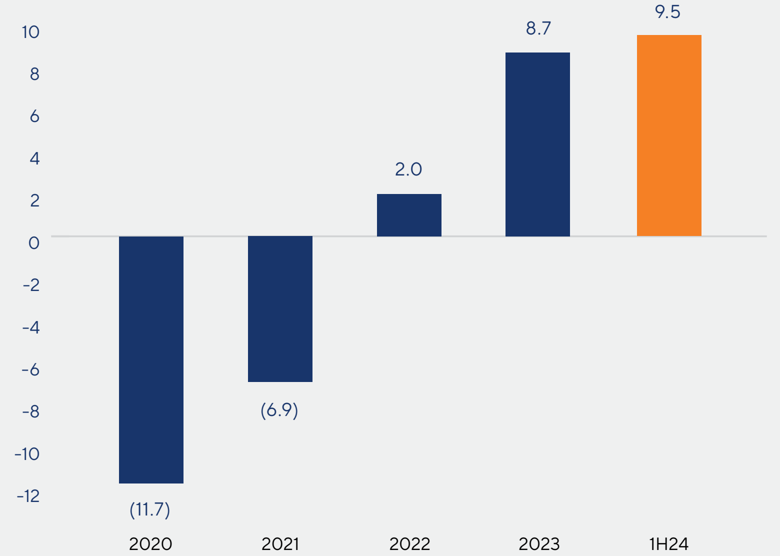
Over the last few years (see chart opposite), the Group has reduced borrowings significantly and built a solid net cash position that has carried through into the current half to 30 June 2024.

Whilst this will be reduced by a German tax payment of EUR 3.7m (~A$6.0 m) in the second half of 2024 (relating to prior period profits and current year instalments), the Group's balance sheet will still be conservatively geared.

Gross Profit by Segment and GP Margin (A$ Million)



Net cash (A$ million) = Cash less Gross Borrowings



* General & Administration Expenses = Operational Expenses below the Gross Profit line to EBITDA, excluding FX, other income, impairment expense and the add back for depreciation expense captured in COGS

Highlights

Earnings and Cashflow Overview

- Operating cashflow for the half year to 30 June 2024 was $2.5 million, mainly driven by cash released from working capital
- Underlying operating cashflow** was $251,000 for the half to 30 June 2024
- Net Loss After Tax was ($1.1m) after excluding the non-cash MAQ impairment expense ($3.65m), non-cash MAQ deferred tax asset write down ($0.2m) and unrealised FX for the half year to 30 June 2024.

Balance sheet and capital management

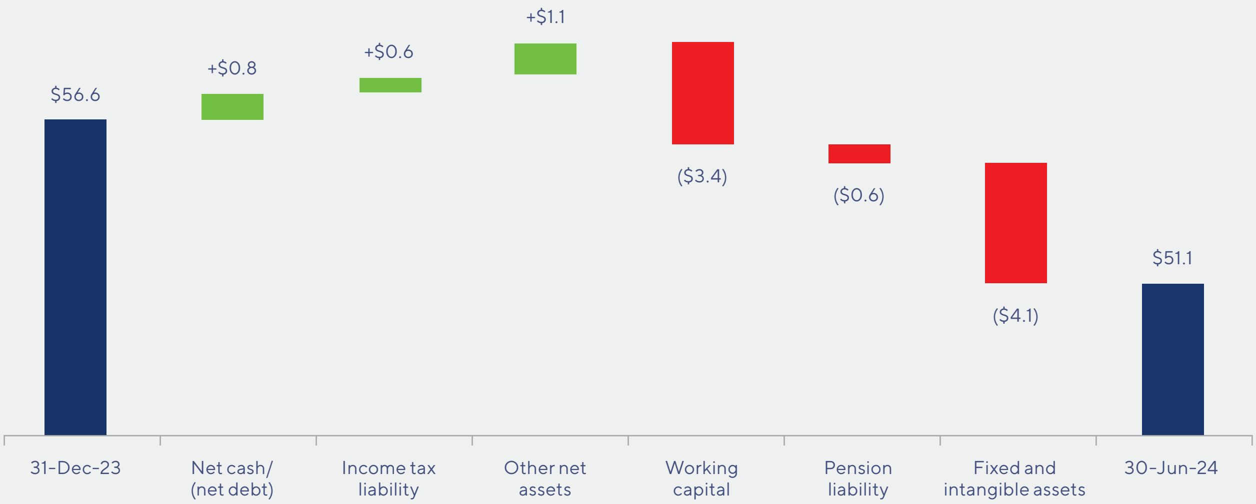
- The balance sheet remained in a net cash position of $9.5 million as at 30 June 2024 (comprising $10.8 million of cash on the balance sheet less $1.3 million of gross borrowings)
- Dividend suspended for the June 2024 half
- Net tangible assets 60 cents per share as at 30 June 2024 following the MAQ write down.

Reconciliation of significant items in earnings

$'000	6 months to 30-Jun-24	6 months to 30-Jun-23
Reported Net Profit After Tax	**(5,250)**	**2,397**
Add/(subtract) unrealised FX losses/(gains)	313	853
Net Profit After Tax excluding unrealised FX (underlying NPAT)	**(4,937)**	**3,250**
Add back tax expense	434	1,784
Net Profit Before Tax excluding unrealised FX	**(4,503)**	**5,034**
Significant items Before Tax		
Add MAQ impairment loss	3,652	–
Add MAQ Metals EBITDA loss/(less gains)	174	(205)
Add MAQ depreciation (non cash)	451	463
Add non-cash equity expense	337	278
Net Profit Before Tax, unrealised FX and significant items	**110**	**5,570**

** Underlying Operating Cashflow = Operating Cashflow excluding working capital movements, interest and tax paid

Net Asset Bridge Analysis – 6 months to 30 June 2024 ($ Million)



Balance Sheet Summary

$'000	30-Jun-24	31-Dec-23	% chg
Net cash/(net debt)	9,544	8,717	9.5%
Working capital	39,243	42,630	(7.9%)
Pension liability	(10,695)	(10,048)	6.4%
Fixed and intangible assets	16,654	20,763	(19.8%)
Income tax liability	(4,853)	(5,448)	(10.9%)
Other net assets	1,167	34	nmf
Net assets	**51,060**	**56,647**	**(9.9%)**

Working Capital Summary

$'000	30-Jun-24	31-Dec-23	% chg
Trade and other receivables	14,126	16,043	(11.9%)
Prepayments and other current assets	1,375	532	158.4%
Inventory	31,378	32,805	(4.3%)
Trade and other payables	(7,637)	(6,751)	13.1%
Net assets	**39,243**	**42,630**	**(7.9%)**

Total net assets were $51 million as at 30 June 2024 (31 December 2023: $56.6 million), with the decrease being driven mostly by the non-cash MAQ impairment charge. Net tangible assets came in at 60 cents per share at the end of the period.

As at 30 June 2024, the working capital requirement (as shown in the table above) has again decreased as a consequence of the falling pure Mg price and lower sales revenues. This was $39.2 million as at 30 June 2024, down from $42.6 million as at 31 December 2023 and a peak of over $50 million towards the end of 2022 when Mg prices were much higher.

The majority of the inventory balance is contained in the European business and has trended down during the period in line with lower sales. There is some scope for this to reduce further, although the timing of working capital movements is difficult to predict.

Dividend

The Board has determined to suspend the dividend for the 6 months ended 30 June 2024.

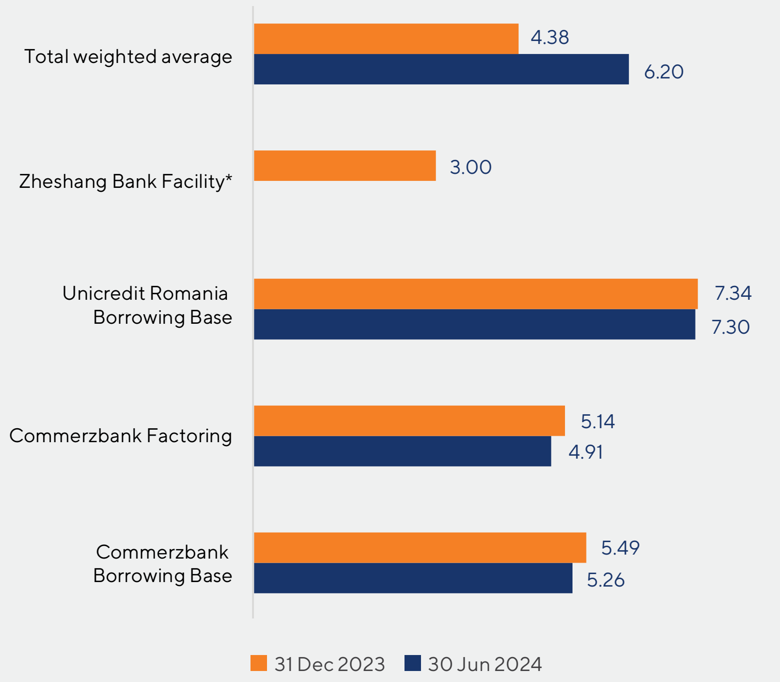
Banking

The Group's weighted average interest rate for borrowings rose to 6.2% as at 30 June 2024 (31 December 2023: 4.38%).

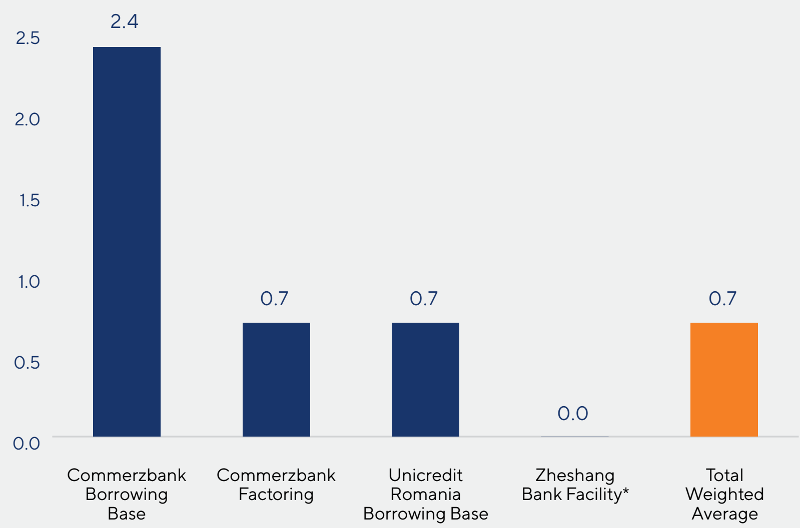
However, this was mainly due to the fact that the entire amount owing of RMB 15 million on the relatively lower cost Zheshang Bank loan in China had been repaid as at 30 June 2024. This loan was formally renewed post balance date in August 2024 for a further 12-month period on similar terms.

Other than that, there were no major changes in either the German Commerzbank facilities (Borrowing Base and Factoring) or the Romanian Unicredit facility. Magontec's low level of borrowings continued to be beneficial to the Group during this recent period of high interest rates, particularly in the European region.

Bank Borrowing Interest Rate Profile (%)



Bank Borrowings Maturity Profile



* The Zheshang Bank Facility was fully repaid at 30 June 2024, and subsequently renewed post balance date on similar terms for a further 12 month period.

Chief Financial Officer's Report
continued

Key financial overview		
$'000	**6 months to 30-Jun-24**	**6 months to 30-Jun-23**
Equity and Earnings		
Gross Profit	**6,067**	**14,103**
Gross Margin (%)	14.7%	23.3%
Reported EBITDA excluding MAQ impairment loss	**473**	**5,949**
Underlying NPAT* excluding MAQ impairment loss and DTA write down	**(1,093)**	**3,250**
Reported EBITDA	**(3,179)**	**5,949**
Reported Net Profit After Tax	**(5,250)**	**2,397**
Net Profit After Tax excluding unrealised FX (underlying NPAT*)	**(4,937)**	**3,250**
Return on Equity (%)	(9.7%)	4.1%
Return on Invested Capital (%)	(11.3%)	5.3%
Net tangible assets per share (cents)	60	72
Dividend per share (cents, unfranked)	–	0.6
Borrowings		
Net debt/(net cash)	(9,544)	(12,025)
Net debt to net debt + equity (%)	(23.0%)	(25.3%)
Cashflow		
Reported Operating Cashflow	2,528	11,472
Underlying Operating Cashflow**	251	5,984
Free Cashflow (excluding working capital movements)***	(1,729)	1,715

* Underlying NPAT = Reported NPAT excluding unrealised FX

** Underlying Operating Cashflow = Operating Cashflow excluding working capital movements, interest and tax paid

*** Free cashflow excluding working capital movements = Operating Cashflow excluding working capital movements less net cash out on PP&E and intangible assets

Magontec Metals Division

Activity Summary

Magontec's metals businesses rebounded from a tough 2H23 in the six-month period to 30 June 2024. Activity levels in the automotive industry remain at a low ebb and an important major contract commencement date has been delayed. However profitability in Magontec's European metals business has recovered in the first half of 2024.

In addition to recycling of magnesium alloys, the metals business in Europe now includes a portfolio of activities including the supply of specialist metals for the aerospace and other industries, and rising volumes of lower grade magnesium materials for diverse end users. In these product groups there has been positive momentum and a rise in margin and profitability in the period under review.

Both the Romanian and German metals plants are now approved for the production and sale of magnesium material to desulphurisation agent manufacturers. This product has been under development for the last two years and a significant inventory has been built to support future sales. We expect sales volumes will rise from the 4th quarter, that working capital requirements will fall and revenues and profitability will respond positively.

Available recycling volumes were lower for both plants in Europe. At our Santana facility we expect to be able to restore volumes to prior levels at some time through the second half of the year and for that facility to return to a more profitable level of activity.

For some years Magontec's European magnesium alloy recycling facilities have been maintained in a state of readiness for the commencement of primary Mg alloy sales into regional markets from our now lapsed Chinese project.

Chart 1: MGL Global Metals Business Gross Profit and Gross Profit Margin

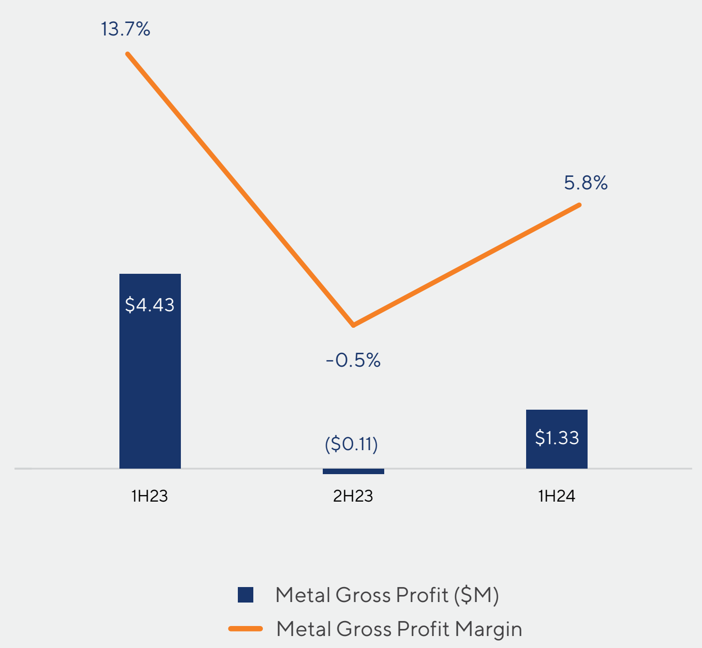
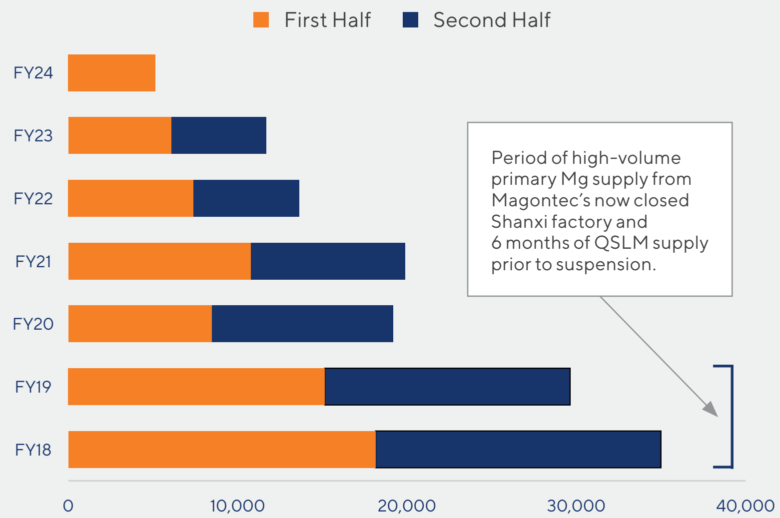


Chart 2: MGL Global Mg alloy Volumes (2018 to 1H24) (Metric Tonnes)



Magontec Metals Division
continued

Through this period the German facility has operated at low volumes, often below breakeven, while Romania has been profitable, although still at lower than optimal levels.

In the absence of volume primary Mg alloy sales under the Magontec banner, the configuration of our European scrap recycling activity is under review.

Magnesium Alloy Markets

European demand for Mg alloy scrap recycling from steering wheel manufacturers and other Mg alloy die casters, has dropped over recent months (Chart 3) and some longstanding production runs have moved away from magnesium, at least for the time being. At the same time high inventories of pure and alloy Mg in China (still over 50,000 metric tonnes or ~5% of annual production) have encouraged magnesium manufacturers to export material at low prices to maintain PRC Pidgeon plant production levels. The response of European die casters has been to use higher quantities of cheaper primary Mg alloy from China and offload unprocessed scrap to the US where aluminium alloy manufacturers continue to suffer from the absence of local supply and high import taxes against Chinese material, raising the price of Mg materials in America.

In contrast to 2021 and 2022, these material flows that by-pass regional recycling, work against Magontec's European Mg alloy recycling activities. This is compounded by the absence of primary supply from China to Magontec's European customers further reducing our ability to participate in regional material flows.

The outlook for the European automotive sector, the key Mg alloy customer group for our European scrap recycling businesses, remains challenging with demand levels low and supply of imported vehicles from China crowding out domestic production.

Chart 3: Monthly PRC Mg Alloy Exports and Monthly Average Pure Mg Price

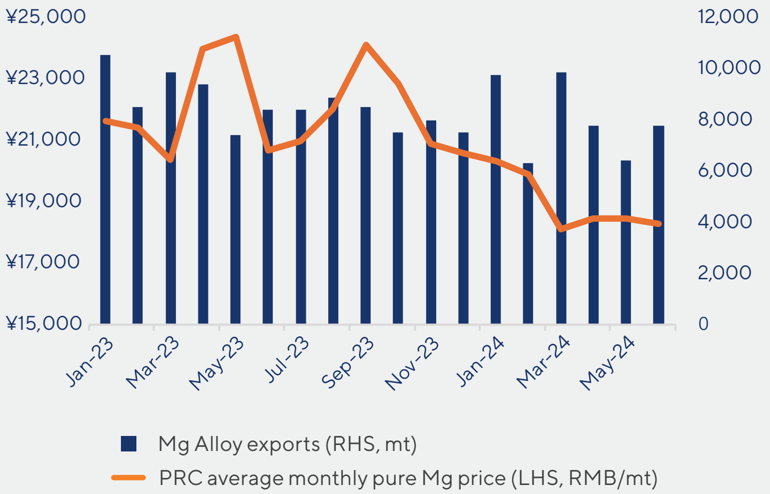
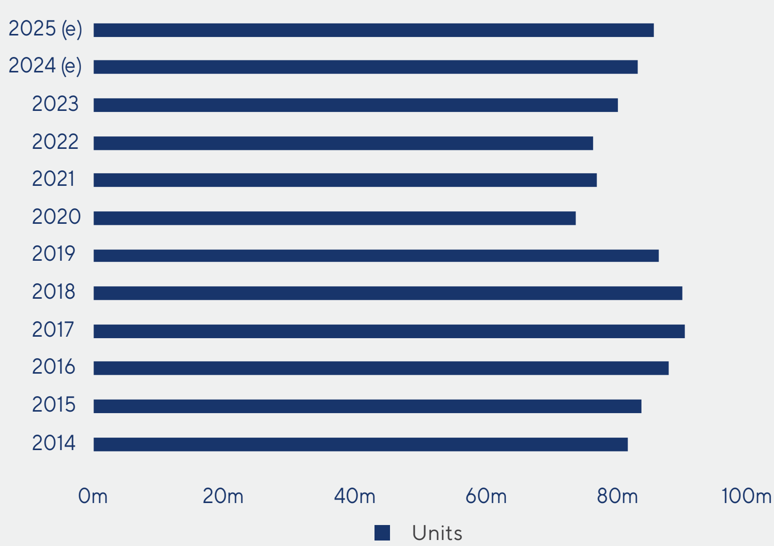


Chart 4: Global Automotive Sales since 2014



Magontec Metals Division
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Global and European 2024 automotive sales are expected to continue a slow rise from the depths of the COVID era (Chart 4), although the global market in 2023 was still 10 million units or 11% below the peak of 2017 and 3.4 million units or 16% lower in Europe.

In the very recent past Magontec has enjoyed higher levels of demand from US die casters. While the US economy has rebounded over the last two years, certainly more quickly than European markets, the market for Mg alloy customers remains difficult, particularly as the US Mag primary Mg facility has still not re-opened. US Mag has been an important participant in the US market supplying aluminium alloying facilities as well as Mg alloy die casters. The absence of local supply and uncertain pricing has caused many parts made in the US to switch to aluminium, including some very large automotive applications.

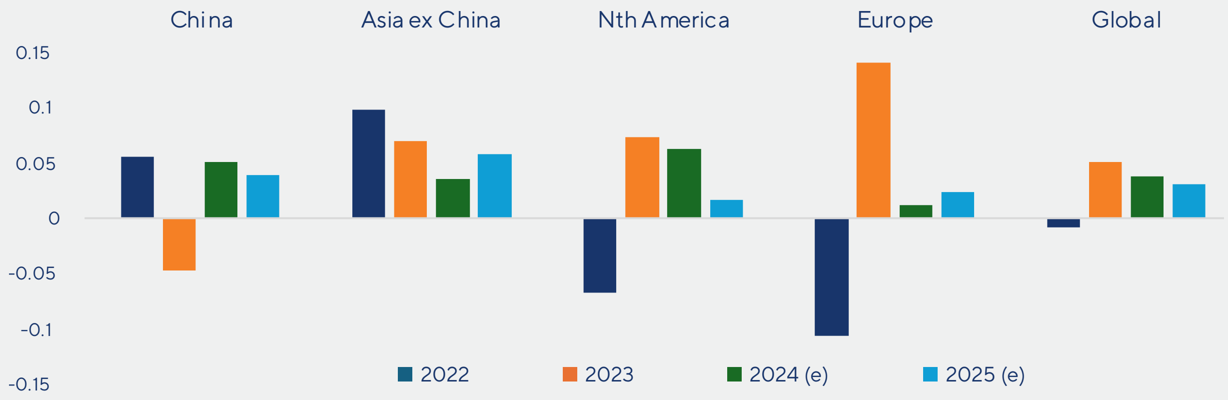
Now released from our obligations to the Qinghai complex, Magontec can look at the opportunity to develop new relationships in the magnesium industry to raise import volumes of primary Mg alloy to European and other regional customers with the objective of raising scrap volumes for our regional recycling facilities and improving profitability. We will discuss these strategic initiatives as they emerge through the second half of 2024.

Magontec Mg Alloy Footprint

Magontec retains the largest Mg alloy scrap recycling footprint in Europe with two strategically located plants, over 24,000 metric tonnes per annum of capacity and the lowest magnesium processing facility emission metrics in Europe. These assets represent a valuable estate that cannot be easily replicated. No new Mg alloy scrap recycling activity has been established in Europe since the opening of Magontec's Romania facility in 2011. Finding a site where the local authorities are willing to grant environmental and operating certificates and accessing experienced staff able to operate a magnesium cast house, is a challenging proposition. Magnesium scrap melting assets are not found within general scrap metal recycling businesses and present unique handling characteristics.

In China our primary Mg alloy manufacturing activities in Qinghai, which will likely be wound down in the second half of 2024, was marginally loss making at the EBITDA level, down about ($0.17) million. It was also the largest single contributor to depreciation at $0.45 million (out of a group total of $1.456 million) in the first half of the year. In the period to 30 June 2024, the Group will write down the remaining value of this asset (including deferred tax assets) to the extent of $3.8 million.

Chart 5. % Change in Global Automotive Sales By Region



Cathodic Corrosion Protection (CCP) – Magnesium and electronic anodes

Activity Summary

In Magontec's magnesium anode businesses in China and Europe we have continued to experience lower volumes than have been achieved in the recent past. In Europe this has been driven by high customer inventories and low levels of call-offs while in China competitive pricing for recent contract renewals have driven down both margins and volumes.

Europe is experiencing a relatively deep recession, and the ECB has already moved to cut benchmark interest rates by 25 basis points, now closely followed by the Bank of England. We are seeing the effects of this recession in the European housing sector (Chart 10) where building activity and consumer confidence are low. Demand for heating appliances in all European economies, but particularly the largest countries, is at a low ebb.

European Mg anode volumes peaked in the first half of 2022 and have declined over subsequent quarters to a level now 35% lower. European markets are also impacted by policy indecision and confusion. Hitherto the shift to lower emission heat pump hot water systems has been largely driven by policy decisions by individual European countries. A removal of subsidies for converting to heat pump devices has made that switch considerably less attractive. This has delayed decision making among consumers in the larger replacement market, further reducing overall market activity.

It is likely that markets for both Mg anodes and electronic anodes will rebound in Europe towards the end of the second half, although these economies are expected to be at least as slow as other regions to emerge from this recession. The continued reluctance of central bankers to more rapidly reduce rates and the absence of decisive government action on transparent subsidies to aid the switch to heat pump appliances, will not help to improve this trend.

Chart 6: MGL Global CCP Gross Profit and Gross Profit Margin

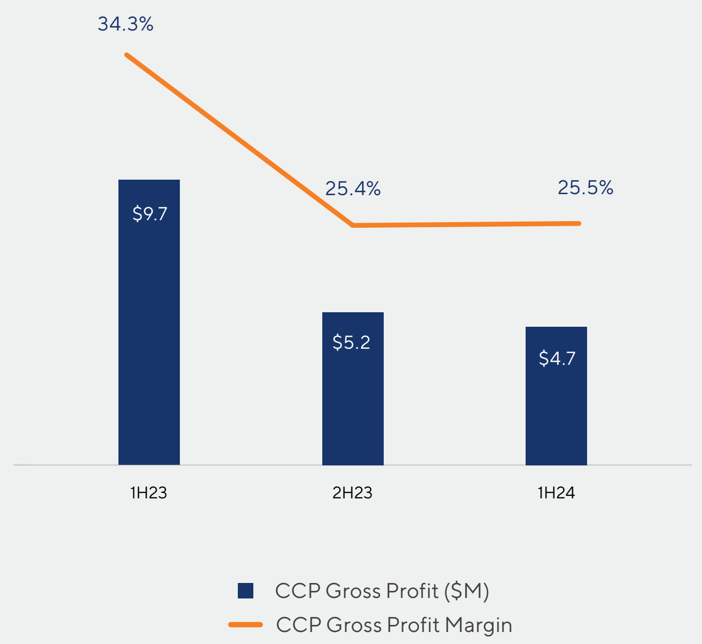
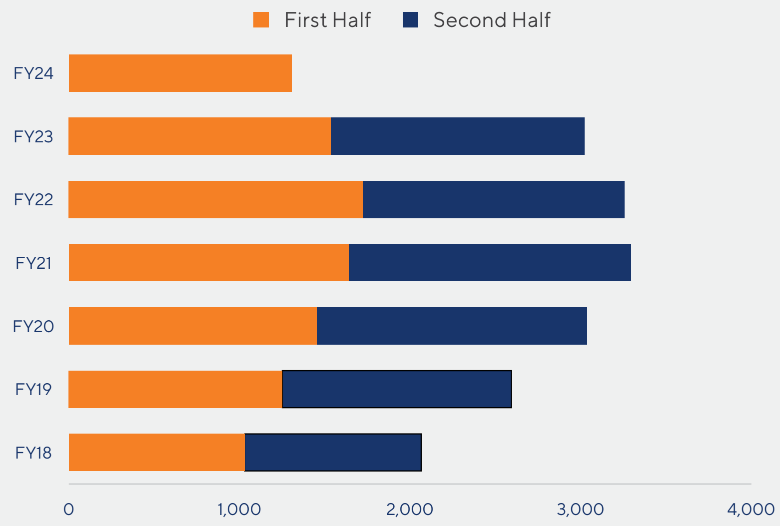


Chart 7: Magontec Global Mg anode Volumes (2018 to 1H24) Tonnes



Cathodic Corrosion Protection (CCP) – Magnesium and electronic anodes
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Chart 8: PRC Residential Construction Starts

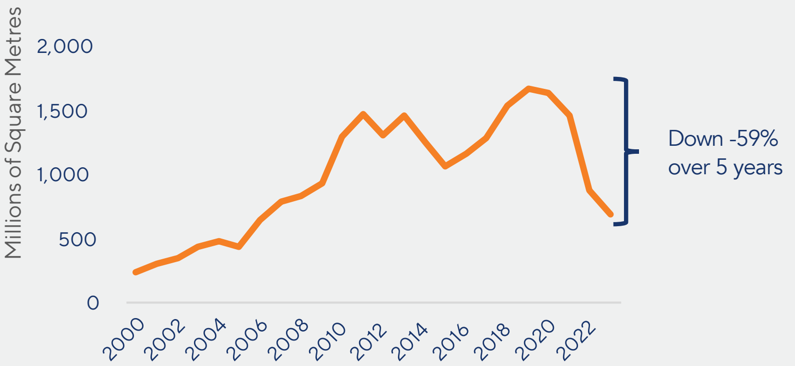
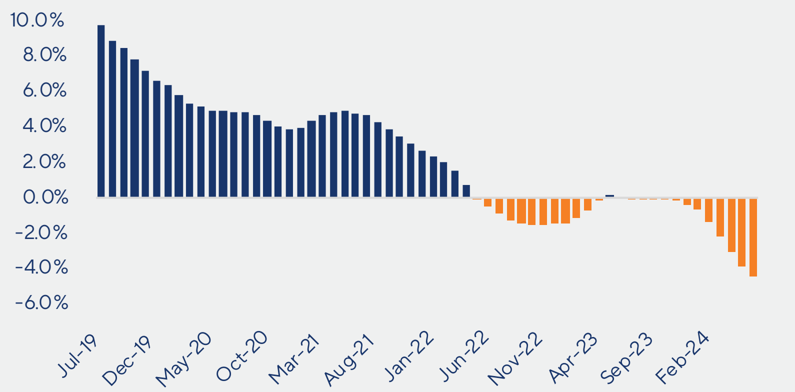


Chart 9: Chinese Newly Built House Prices YOY Change



Magontec's Romania plant is a highly efficient manufacturer of Mg anodes and offers a high-quality product. It is poised for a return to higher volumes and potentially a surge in production as delayed hot water appliance replacement activity – typically around 80% of installations – reaches a critical point.

Chinese markets have also presented challenges with a shrinking market in new home developments as the domestic housing sector deals with excess stock and high levels of financial leverage that has caused many Chinese developers to exit the market or to wind back activity. Chinese residential construction commencement (Chart 8) is down 59% over the last 5 years while year on year home price declines (Chart 9) are still accelerating.

As the market for PRC hot water appliance installations in new homes has deflated, competition among local manufacturers has become intense. While Magontec has large capacity and an efficient factory, we have chosen not to compete for business where we would lose money. We expect this to be a temporary trough in pricing and that market conditions will recover in the coming months. We have seen this type of market volatility in past periods and, uncomfortable as it is, reducing output and weathering the storm is the most sensible short-term strategy. Despite these reverses our Chinese Mg anode business remains profitable at the EBIT level but below the levels achieved in periods of stronger housing growth.

Cathodic Corrosion Protection (CCP) – Magnesium and electronic anodes

continued

While Magontec's global Mg anode volumes have been lower than in the immediately prior periods and this has reduced margins and profitability, the most impactful effect on the overall CCP business has been a slow period for electronic anodes in both Europe and the USA.

As we have referenced above, this is in part the result of policy inaction. Many producers, particularly in Europe, built large inventories of heat pump hot water appliances anticipating a strong sales outlook supported by government subsidies. Through the first half of this year and into the current quarter our customers have struggled to move that inventory and demand for new shipments of electronic anodes has been well below previous periods.

We expect volumes to pick up again towards the end of this calendar year and it is certainly the case that Magontec has one of the best products on the market in a sector that will likely recommence a longer-run expansion trend that continued for nearly 10 years until mid 2023.

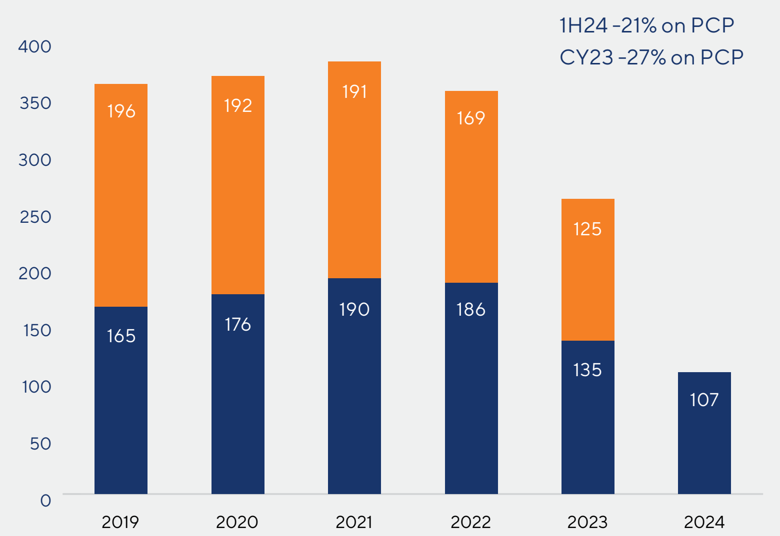
Magontec CCP footprint

Magontec manufactures its CCP products at three different locations producing Mg anodes at Xi'an in China and at Santana in Romania and electronic anodes at its Bottrop facility in Germany.

These businesses sell products into all global markets including the US, Europe, China, Australia and other regions, and have the capacity to grow volumes quickly as markets respond. Market shares for its key products have remained constant, except in China where competitive pricing has been extreme in recent months.

Magontec has a unique, global manufacturing, marketing and distribution footprint, that comprises a sophisticated and broad-based suite of products selling into an industrial sector that is undergoing a transition to low emission appliances.

Chart 10: German New Home Building



For traditional domestic gas and electric water heater appliances the magnesium anode plays a critical role, protecting the steel water tank from corrosion. These markets are highly competitive, often focussed on lower-priced appliances, and somewhat dependent on housing starts and economic buoyancy. In all developed and middle-income countries water heater appliances of varying sizes and qualities are a non-discretionary household appliance. The life span of these products depends to some extent on water quality but is generally less than 10 years and up to 80% of new installations are, over the cycle, replacements for older systems that have failed.

Overlaid on this broad industry trend is the emergence of new technologies and climate issues. The installation of heat pump appliances has developed quickly in developed countries where governments are keen to meet climate commitments and where subsidies have been a key feature promoting their take-up.

While government subsidies have been volatile in recent months and in many jurisdictions and have interrupted a previously strong growth trajectory for heat pump appliances, we think that the positive trend of recent years will also resume for this product in the coming months and that Magontec, with a broad product offering, will be a beneficiary.

Financial Report

Contents

Directors' Report

The Directors of Magontec Limited ('the Company' or 'MGL') submit herewith the financial report for the half-year ended 30 June 2024. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

The names of the Directors of the Company during or since the end of the half-year are:

– Mr Nicholas Andrews (Executive Chairman)	
– Mr Robert Kaye (Lead Independent Director)	Re-appointed 11 May 2023
– Mr Atul Malhotra (Independent Director)	Re-appointed 25 May 2022
– Mr Andre Labuschagne (Independent Director)	Re-appointed 25 May 2022
– Mr Xing Cai Li (Non-Executive Director)	Re-appointed 11 May 2023
– Mr Zhong Jun Li (Non-Executive Director)	Re-appointed 15 May 2024

Review of Operations

For the six months ended 30 June 2024 the consolidated (loss) after tax from continuing operations was ($5,250,000)

For the six months ended 30 June 2023 the consolidated profit after tax from continuing operations was $2,397,000

Corporate

The 41st annual general meeting of the Company was held on 15 May 2024.

As at the date of this report, the composition of the Committees of the Board are as follows.

Remuneration and Nominations Committee

- Chair: Robert Kaye (Lead Independent Director)
- Atul Malhotra (Independent Director)
- Li Zhongjun (Non-Executive Director)

Finance, Audit & Compliance Committee

- Chair: Atul Malhotra (Independent Director)
- Andre Labuschagne (Independent Director)
- Robert Kaye (Lead Independent Director)

Business Risk Committee

- Chair: Andre Labuschagne (Independent Director)
- Atul Malhotra (Independent Director)
- Nicholas Andrews (Executive Director)

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required by S307C of the *Corporations Act 2001* is set out on page 17.

This Report is made in accordance with a resolution of the Directors.

Nicholas Andrews

Executive Chairman

28 August 2024

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

AUDITOR'S INDEPENDENCE DECLARATION

The Board of Directors
Magontec Limited
Suite 2.01
139 Macquarie Street
Sydney, NSW, 2000

Dear Board Members,

In accordance with the requirements of section 307C of the Corporations Act 2001, we hereby declare, that to the best of our knowledge and belief, during the half-year ended 30 June 2024 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

Camphin Boston
Chartered Accountants

Justin Woods
Lead Audit Partner
Sydney

Dated this 28th day of August 2024

Camphin Boston
ABN 69 688 697 499
Level 5, 179 Elizabeth Street
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GPO Box 3403, Sydney, NSW 2001

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CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF MAGONTEC LIMITED

Report on the Half-Year Financial Report

Auditor's Conclusion
We have reviewed the accompanying half-year financial report of Magontec Limited and Controlled Entities, which compromises the consolidated balance sheet as at 30 June 2024, consolidated comprehensive income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Magontec Limited and Controlled Entities does not comply with the *Corporations Act 2001* including:

(a) giving a true and fair view of Magontec Limited and Controlled Entities' financial position as at 30 June 2024 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the half-year financial report in accordance with the Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that causes us to believe that the financial report has not been prepared, in all material respects, in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 30 June 2024 and its performance for the half-year ended on that date, and complying with Accounting Standard *AASB134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

J Woods

Justin Woods
Partner

Camphin Boston

Camphin Boston
Chartered Accountants

Dated this 28th day of August 2024

Sydney NSW 2000

Consolidated Comprehensive Income Statement

for the half-year ended 30 June 2024

	Note	6 months to 30 Jun 2024 $'000	6 months to 30 Jun 2023 $'000
Sale of goods	3	41,411	60,550
Cost of sales	3	(35,344)	(46,447)
Gross profit		**6,067**	**14,103**
Other income	10	734	290
Interest expense		(182)	(288)
Impairment expense - fixed assets, inventory, doubtful debts	3, 11.5	(3,687)	(941)
Travel accommodation and meals		(362)	(415)
Research, development, licensing and patent costs		(399)	(546)
Promotional activity		(87)	(53)
Information technology		(186)	(209)
Personnel		(4,376)	(4,557)
Depreciation & amortisation		(324)	(356)
Office expenses		(252)	(341)
Corporate		(1,786)	(2,014)
Foreign exchange gain/(loss)		24	(491)
Profit/(Loss) before income tax expense from continuing operations		**(4,816)**	**4,181**
Income tax expense		(434)	(1,784)
Profit/(Loss) after income tax expense from continuing operations		**(5,250)**	**2,397**
Other Comprehensive Income			
FX differences taken to reserves in equity – translation of overseas entities		(394)	990
Other Comprehensive Income			
Movement in actuarial assessments		116	(110)
Total Comprehensive Income		**(5,528)**	**3,277**

	Note	6 months to 30 Jun 2024	6 months to 30 Jun 2023
Earnings/(Loss) per share from continuing operations			
Basic (cents per share)	9	(6.6) cents	3.1 cents
Diluted (cents per share)	9	(6.0) cents	2.8 cents

Notes to the financial statements are included on page 24 to 32.

Consolidated Balance Sheet

as at 30 June 2024

	Note	30 Jun 2024 $'000	31 Dec 2023 $'000
Current assets			
Cash and cash equivalents	7	10,842	13,136
Trade & other receivables	11.1	14,126	16,043
Inventory	3	31,378	32,805
Other		1,375	532
Total current assets		**57,721**	**62,516**
Non-current assets			
Other receivables		265	307
Property, plant & equipment	11.5	13,604	17,786
Deferred Tax Asset		1,351	1,582
Intangibles		3,051	2,977
Total non-current assets		**18,271**	**22,652**
TOTAL ASSETS		**75,992**	**85,168**
Current liabilities			
Trade & other payables	11.2	7,637	6,751
Bank Borrowings	12	1,298	4,418
Provisions		5,682	6,691
Total current liabilities		**14,617**	**17,860**
Non-current liabilities			
Other payables		141	221
Bank Borrowings	12	–	–
Provisions		10,174	10,440
Total non-current liabilities		**10,315**	**10,661**
TOTAL LIABILITIES		**24,932**	**28,521**
NET ASSETS		**51,060**	**56,647**
Equity attributable to members of MGL			
Share capital	6	59,718	59,524
Reserves	13	14,725	15,255
Accumulated (losses)/profits		(23,383)	(18,133)
Total equity		**51,060**	**56,647**

Notes to the financial statements are included on page 24 to 32.

Consolidated Statement of Changes in Equity

for the half-year ended 30 June 2024

	Share Capital								
	Ordinary $'000	Retained Earnings $'000	Profits Reserve $'000	FCTR[1] $'000	Capital Reserve $'000	Actuarial Reserve $'000	Expired Options Reserve $'000	Share Issue Reserve $'000	Total Equity $'000
Balance 1-Jan-24	**59,524**	**(18,133)**	**5,922**	**4,793**	**2,750**	**(1,028)**	**2,127**	**691**	**56,647**
Profit/(Loss) attributable to members of parent entity	–	(5,250)	–	–	–	–	–	–	(5,250)
Dividends	–	–	(476)	–	–	–	–	–	(476)
Comprehensive income	–	–	–	(394)	–	116	–	–	(278)
Issue of shares (net)	194	–	–	–	–	–	–	(114)	80
Share issue reserve	–	–	–	–	–	–	–	337	337
Transfer between reserves	–	–	–	–	–	–	(114)	114	–
Balance 30-Jun-24	**59,718**	**(23,383)**	**5,446**	**4,399**	**2,750**	**(912)**	**2,014**	**1,028**	**51,060**
for the half-year ended 30 June 2023									
Balance 1-Jan-23	**59,174**	**(18,599)**	**6,857**	**4,250**	**2,750**	**(567)**	**1,637**	**627**	**56,129**
Profit/(Loss) attributable to members of parent entity	–	2,397	–	–	–	–	–	–	2,397
Dividends	–	–	(465)	–	–	–	–	–	(465)
Comprehensive income	–	–	–	990	–	(110)	–	–	880
Issue of shares (net)	276	–	–	–	–	–	–	–	276
Share issue reserve	–	–	–	–	–	–	–	278	278
Balance 30-Jun-23	**59,449**	**(16,201)**	**6,392**	**5,240**	**2,750**	**(677)**	**1,637**	**904**	**59,494**

(1) FCTR = Foreign Currency Translation Reserve

Notes to the financial statements are included on page 24 to 32.

Consolidated Cash Flow Statement

for the half-year ended 30 June 2024

	Note	6 months to 30 Jun 24 $'000	6 months to 30 Jun 23 $'000
Cash flows from operating activities			
Profit before taxation		**(4,816)**	**4,181**
Adjustments for:			
– Non-cash equity expense		337	278
– Depreciation & amortisation		1,456	1,479
– Impairment loss on property plant & equipment	3, 11.5	3,652	–
– Foreign currency effects		313	853
– Other non-cash items		(691)	(807)
Cash generated from/(utilised in) underlying operating activities		**251**	**5,984**
Movement in working capital balance sheet accounts			
– Trade Receivables and Other Current Assets		667	7,840
– Inventory		1,395	3,059
– Trade Payables and Other Current Liabilities		1,028	(2,638)
Cash generated from/(utilised in) working capital accounts		**3,090**	**8,261**
Cash generated from/(utilised in) underlying operational cash flow and net working capital assets		**3,341**	**14,245**
– Net Interest paid		(3)	(200)
– Income tax paid		(810)	(2,573)
Cash generated from/(utilised in) operating activities		**2,528**	**11,472**
Cash flows from investing activities			
Net cash out on purchase/disposal of property, plant & equipment		(1,058)	(1,421)
Group Information Technology software		(109)	(75)
Security Deposit		23	(26)
Other		38	59
Net cash provided by/(used in) investing activities		**(1,106)**	**(1,463)**
Cash flows from financing activities			
Dividends paid		(385)	(180)
Proceeds from borrowings		5,711	12,619
Repayment of borrowings		(8,908)	(18,299)
Cashflow from leasing activities		(129)	(95)
Other		(11)	–
Net cash provided by financing activities		**(3,722)**	**(5,955)**
Net increase/(decrease) in cash and cash equivalents		**(2,300)**	**4,055**
Foreign exchange effects on total cash flow movement		**6**	**105**
Cash and cash equivalents at the beginning of the reporting period		**13,136**	**11,259**
Cash and cash equivalents at the end of the reporting period		**10,842**	**15,419**

Notes to the financial statements are included on page 24 to 32.

Notes to the Condensed Financial Statements

for the half-year ended 30 June 2024

1. SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual report for the year ended 31 December 2023.

Basis of Preparation

This report has been prepared on the basis of historical cost and, except where stated, does not take into account changing money values or current valuations of non-current assets. Costs are based on the fair values of consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. The accounting policies and methods of computation adopted in the preparation of the 30 June 2024 half-year financial report are consistent with those adopted and disclosed in the Group's annual report for the financial year ended 31 December 2023.

2. SIGNIFICANT TRANSACTIONS AND MATERIAL ITEMS

During the period, the Group recognised a non-cash impairment charge of $3.7 million against the value of PRC fixed assets as a result of developments with QSLM as discussed elsewhere in this report, as well as a write down of all deferred tax asset balances of Magontec Qinghai to zero as at 30 June 2024 (31 December 2023: $193,000). Aside from those referred to in the paragraph above and in the Operating and Financial review commentary preceding these Financial Statements and the relevant comparative period reports, there were no other material factors affecting the financial statements of the economic entity for the current and comparative period.

2.1 Call Options for the Issue of the Company's Shares

There are no options on issue as at the reporting date.

2.2 Income Tax Expense/Benefit

Tax losses previously disclosed in the 31 December 2023 Annual Report included those attributable to Magontec Limited and its Australian controlled entities. The tax benefit corresponding to these losses is not recognised as an asset in the accounts. Income taxes incurred in foreign jurisdictions are not sheltered by these Australian tax losses and are governed by relevant tax legislation in the various foreign jurisdictions in which the Group operates.

2.3 Dividends

No dividend was declared or recommended with respect to the 6 months ended 30 June 2024 (6 months ended 30 June 2023: 0.6 cents per share, unfranked). The balance of the franking account at 30 June 2024 was $nil (30 June 2023: $nil).

3. RESULTS FROM OPERATIONS

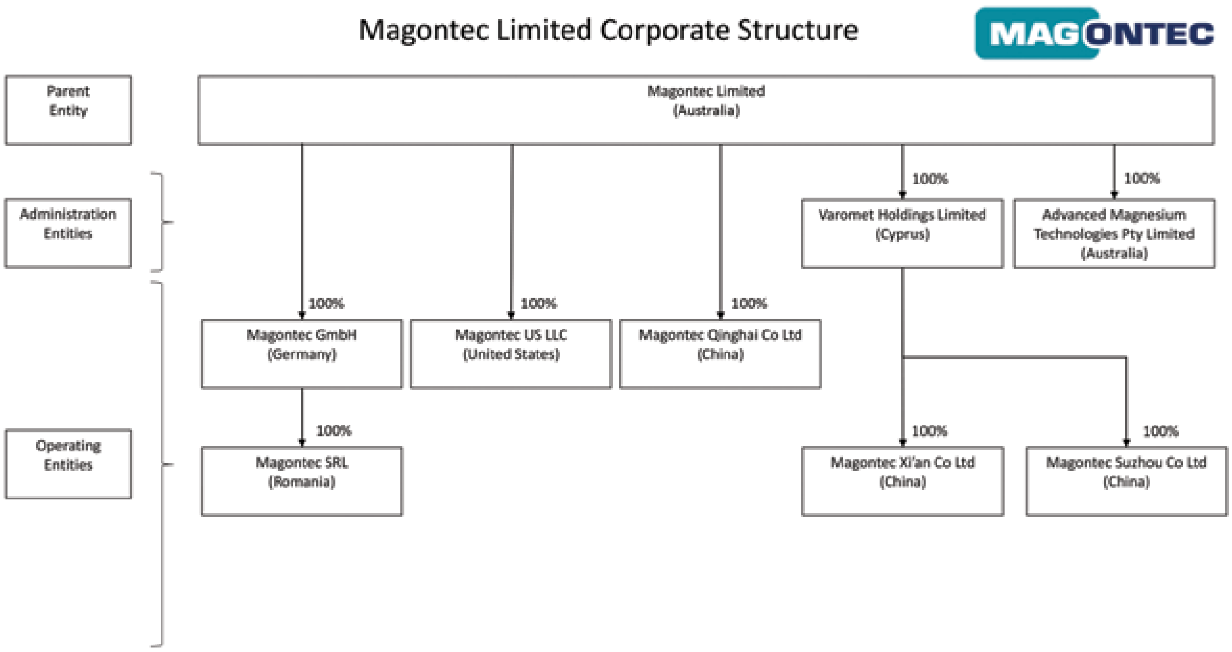
	6 months to 30 Jun 24 $'000	6 months to 30 Jun 23 $'000
Metal	22,843	32,382
Anodes - Cathodic Corrosion Protection	18,568	28,168
Sales revenue	**41,411**	**60,550**
Metal	(21,513)	(27,954)
Anodes - Cathodic Corrosion Protection	(13,831)	(18,493)
Cost of sales	**(35,344)**	**(46,447)**
Metal	1,330	4,428
Anodes - Cathodic Corrosion Protection	4,737	9,675
Gross Profit	**6,067**	**14,103**
Impariment of assets		
Inventory write down to net realisable value - EUR segment	(35)	(729)
Write down of fixed assets - non cash, PRC segment	(3,652)	(191)
Other	–	(21)
Total	**(3,687)**	**(941)**

Notes to the Condensed Financial Statements

continued

4. SEGMENT REPORTING

4.1 Corporate Structure as at 30 June 2024



4.2 Identification of Reportable Segments

The consolidated entity comprises the entities as described in NOTE 4.1.

With respect to the period to 30 June 2024, information is presented for the three main segments within the Group as described below.

- 'Admin Units' = Magontec administrative entities performing a Head Office function comprising -
  - Magontec Limited (Australia);
  - Advanced Magnesium Technologies Pty Limited (Australia); and
  - Varomet Holdings Limited (Cyprus).
- 'EUR' = Magontec operating entities in Europe and North America comprising -
  - Magontec GmbH (Germany);
  - Magontec SRL (Romania); and
  - Magontec LLC (United States).
- 'PRC' = Magontec operating entities in the People's Republic of China comprising -
  - Magontec Xi'an Co. Ltd. (China);
  - Magontec Qinghai Co. Ltd. (China); and
  - Magontec Suzhou Co. Ltd. (China) - non operational

Closure procedures with respect to Magontec Suzhou Co. Ltd. (China) are yet to be finalised as at 30 June 2024.

Notes to the Condensed Financial Statements

continued

4. SEGMENT REPORTING (CONTINUED)

4.3 Segment Information – Comprehensive Income

	6 months to 30 June 2024				6 months to 30 June 2023			
	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL
Sale of goods	–	23,581	17,853	41,434	–	37,786	22,791	60,577
Less Inter-company sales		(23)		(23)		(27)		(27)
Net Sales	**–**	**23,558**	**17,853**	**41,411**	**–**	**37,759**	**22,791**	**60,550**
Cost of sales	–	(18,322)	(17,045)	(35,367)	–	(25,851)	(20,623)	(46,474)
Less Inter-company sales		23		23		27		27
Net Cost of Sales	**–**	**(18,299)**	**(17,045)**	**(35,344)**	**–**	**(25,824)**	**(20,623)**	**(46,447)**
Gross Profit	**–**	**5,259**	**808**	**6,067**	**–**	**11,935**	**2,168**	**14,103**
Other income	–	181	553	734	2	127	162	290
Interest expense	–	(146)	(36)	(182)	–	(164)	(125)	(288)
Impairment	–	(35)	(3,652)	(3,687)	–	(750)	(191)	(941)
Travel accommodation and meals	(70)	(198)	(94)	(362)	(82)	(201)	(132)	(415)
Research, development, licensing and patent costs	–	(50)	(349)	(399)	–	(231)	(315)	(546)
Promotional activity	(3)	(84)	–	(87)	–	(53)	–	(53)
Information technology	(5)	(148)	(33)	(186)	(6)	(146)	(58)	(209)
Personnel	(737)	(3,076)	(563)	(4,376)	(754)	(2,998)	(805)	(4,557)
Depreciation & amortisation	–	(299)	(25)	(324)	–	(328)	(28)	(356)
Office expenses	(54)	(129)	(69)	(252)	(50)	(153)	(138)	(341)
Corporate	(400)	(1,006)	(380)	(1,786)	(379)	(1,334)	(301)	(2,014)
Foreign exchange gain/(loss)	36	319	(331)	24	(100)	(186)	(204)	(491)
Profit/(Loss) before income tax expense	**(1,233)**	**588**	**(4,171)**	**(4,816)**	**(1,369)**	**5,518**	**32**	**4,181**
Income tax expense	–	(239)	(195)	(434)	–	(1,703)	(80)	(1,784)
Profit/(Loss) after income tax expense	**(1,233)**	**349**	**(4,366)**	**(5,250)**	**(1,369)**	**3,815**	**(48)**	**2,397**
Other Comprehensive Income								
FX differences taken to Reserves – translation of overseas entities	(24)	(321)	(49)	(394)	35	1,432	(477)	990
Movement in actuarial assessments	–	116	–	116	–	(110)	–	(110)
Total Comprehensive Income	**(1,257)**	**144**	**(4,415)**	**(5,528)**	**(1,334)**	**5,137**	**(525)**	**3,277**

4.4 Segment Information – Balance Sheet

	30 June 2024				31 December 2023			
	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL
Segment Disclosures								
Segment assets	3,258	46,074	26,660	75,992	3,229	48,020	33,919	85,168
Segment liabilities	773	20,534	3,625	24,932	814	20,937	6,770	28,521
Segment net assets	**2,485**	**25,540**	**23,035**	**51,060**	**2,415**	**27,083**	**27,149**	**56,647**

Notes to the Condensed Financial Statements

continued

5. CONTINGENT ASSETS AND LIABILITIES

Contingent assets and liabilities are unchanged compared with those disclosed in the Annual Report at 31 December 2023 as at the date of this report except as discussed below.

Claim against MAB by Germany Tax Authority

During the year to 31 December 2021, the shares in the Group's German subsidiary Magontec GmbH were transferred from the Group's fully owned Cyprus subsidiary Varomet Holdings Limited to the Parent Company, Magontec Limited. The Group received tax advice that this transaction would not be subject to German Real Estate Transfer Tax. Subsequently the amount of EUR 91,000 ($148,000) was levied by the German Tax Authority. This amount is tax deductible in Germany.

As at 31 December 2023, the Group's advisers had lodged an appeal on the Group's behalf. Although this was subsequently rejected by the Tax Authority during the current period to 30 June 2024, a further objection has been lodged and the Group will continue to actively contest this levy.

QSLM Purported Termination

Per the ASX Announcement dated 26 July 2024, QSLM has puportedly terminated the Agreements with Magontec with respect to the Magnesium Project. Whilst existing contractual commitments may give rise to further liabilities as a result of this, these are unable to determined at the date of this report. No claims have been received in this respect at the date of this report.

6. SHARE CAPITAL

	6 months to 30 Jun 2024 $'000	12 months to 31 Dec 2023 $'000
Opening balance of share capital attributable to members of MGL	**59,524**	**59,174**
Dividend Reinvestment Plan	91	372
Vesting of Performance Rights	114	–
Various costs associated with issue of shares	(11)	(21)
Share capital on issued ordinary shares 79,643,766 (2023: 78,515,474)	**59,718**	**59,524**

7. RECONCILIATION OF CASH

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows:

	6 months to 30 Jun 24 $'000	6 months to 30 Jun 23 $'000
Cash and cash equivalents at the beginning of the reporting period	**13,136**	**11,259**
Net cash (used)/generated in operating activities	2,528	11,472
Net cash provided by / (used in) investing activities	(1,106)	(1,463)
Net cash provided by / (used in) financing activities	(3,722)	(5,955)
Foreign exchange effects on total cash flow movement	6	105
Cash and cash equivalents at the end of the reporting period	**10,842**	**15,419**

8. EVENTS SUBSEQUENT TO BALANCE DATE

There are no matters subsequent to the end of the financial half year that have, or may, significantly affect the Group's operations, the results of those operations, or the state of the Group's affairs that have not been otherwise disclosed in the Operations Reports or elsewhere in these financial statements.

Notes to the Condensed Financial Statements

continued

9. CALCULATION OF EARNINGS/(LOSS) PER SHARE

		6 months to 30 Jun 24	6 months to 30 Jun 23
Earning/(Loss) per share:			
Profit/(Loss) attributable to members of the parent entity	1	($5,250,000)	$2,397,000
Average shares on issue for the period	2	79,176,134	77,796,358
Average performance rights on issue for the period	3	8,786,304	7,905,679
Basic Earnings/(Loss) per share (cents per share)	1 ÷ 2 × 100	(6.6)	3.1
Diluted Earnings/(Loss) per share (cents per share)	1 ÷ (2 +3) × 100	(6.0)	2.8

10. OTHER INCOME IN COMPREHENSIVE INCOME STATEMENT

	6 months to 30 Jun 24 $'000	6 months to 30 Jun 23 $'000
Interest revenue	144	49
Government grants	517	–
Derivative market revaluation	(10)	(10)
Gain on disposal of fixed assets	–	124
Compensation received including insurance	54	116
Write back of provisions	5	3
Other adjustments	24	8
Total Other Income	**734**	**290**

11. TRADE RECEIVABLES AND PAYABLES

11.1 Current Trade and Other Receivables

	30 Jun 2024 $'000	31 Dec 2023 $'000
Trade receivables(1)	8,404	10,381
Allowance for doubtful debts	(341)	(342)
	8,063	**10,039**
Net GST/VAT recoverable	291	314
Security deposits	46	72
Derivatives fair value adjustment	18	27
Notes and other receivables due to operating entities(2)	5,708	5,591
	6,063	**6,004**
Total receivables	**14,126**	**16,043**

(1) Trade receivables represent 36.9 days sales at 30 Jun 24 (31.1 days sales at 30 Jun 23)

(2) Notes receivable are issued by customers and/or their banks as consideration for services provided and can be redeemed prior to maturity for cash at a discount. These notes are limited to a 6-month term.

Notes to the Condensed Financial Statements

continued

11. TRADE RECEIVABLES AND PAYABLES (CONTINUED)

11.2 Current Trade and Other Payables

	30 Jun 2024 $'000	31 Dec 2023 $'000
Trade creditors[1]	5,923	5,131
Other creditors and accruals	1,714	1,620
Total	**7,637**	**6,751**

(1) Trade creditors represent 30.5 days cost of goods sold at 30 Jun 24 (25.9 days cost of goods sold at 30 Jun 23)

11.3 Related Party Disclosures

During the 6 months ended 30 June 2024, the Group made no payments for purchases of raw material from its substantial shareholder Qinghai Salt Lake Magnesium Co Limited (30 June 2023: $nil). There are no balances outstanding as at 30 June 2024.

Outstanding balances are on an interest free basis, unsecured and settlement will occur in cash. No guarantees have been provided or received with respect to related party balances.

11.4 Leases

Pursuant to AASB 116 Leases, the Group recognises a right of use lease asset at inception in the Property, Plant & Equipment caption on the balance sheet, which includes equipment and vehicles as well as a corresponding lease liability in the Current and Non Current Provisions on the balance sheet. This is calculated as being the future value of lease payments discounted at the relevant incremental borrowing rate. The right of use asset is depreciated on a straight-line basis per the term of the lease. The lease liability is unwound over the term of the lease, with interest expense recorded in the income statement.

a. Right of use assets

The movement in the right of use assets balance during the 6 months to 30 June 2024 is presented below.

RIGHT OF USE ASSETS SUMMARY	6 months to 30 Jun 2024 $'000	12 months to 31 Dec 2023 $'000
Opening balance	**448**	**449**
Add new leased assets	28	218
Depreciation charge	(125)	(232)
FX movements	(5)	13
Closing balance	**346**	**448**

Notes to the Condensed Financial Statements

continued

11. TRADE RECEIVABLES AND PAYABLES (CONTINUED)

b. Lease liabilities

The movement in total lease liabilities during the 6 months to 30 June 2024 is presented below.

LEASE LIABILITY SUMMARY	6 months to 30 Jun 2024 $'000	12 months to 31 Dec 2023 $'000
Opening balance	**443**	**444**
Add new lease liabilities	28	218
Less unwind of lease liabilities	(125)	(233)
FX movements	(4)	14
Closing balance	**342**	**443**

LEASE LIABILITY SPLIT - CURRENT AND NON CURRENT	30 Jun 2024 $'000	31 Dec 2023 $'000
Lease liabilities recognised in the balance sheet		
Current	199	222
Non Current	143	221
Total lease liabilities recognised in the balance sheet	**342**	**443**

11.5 Impairment Consideration

Subsequent to 30 June 2024, the Group made a release to the ASX on 26 July 2024 confirming that QSLM has purported to terminate its Agreements with the Group relating to the development of a Magnesium Project in Golmud located in Qinghai Province, China. This was a further indicator of impairment for the Magontec China Metals cash generating unit (CGU) in addition to the prior lack of pure Mg supply. Therefore the value of the property, plant and equipment contained in the China Metals CGU was tested for impairment at balance date resulting in a non-cash write down of the entire carrying amount of $3.7 million to zero as at 30 June 2024.

The Recoverable Amount of the Magontec China Metals CGU was determined with reference to its value in use. The value in use calculation started with a Base Scenario which assumed a pre-tax discount rate of 8.3% (31 December 2023: 8.6%), a zero growth rate beyond year 5 and a terminal decline rate of -3.0% (31 December 2023: -3.0%) upon expiry of the known term of the contractual arrangements with QSLM.

Using this Base Scenario, the Group then applied the Expected Cashflow Approach whereby a probability weighted analysis of possible expected cashflow outcomes ranging from most pessimistic to most optimistic was used to determine the Recoverable Amount. Due to the elevated risk presented by these new circumstances, it was deemed appropriate to ascribe 100% probability to the most pessimistic scenario, resulting in the non-cash write off described above at 30 June 2024.

Notes to the Condensed Financial Statements

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12. BORROWINGS

	30 Jun 2024 $'000	30 Jun 2024 Maturity Date	30 Jun 2024 Interest pa	31 Dec 2023 $'000	31 Dec 2023 Maturity Date	31 Dec 2023 Interest pa
Bank & Institutional Borrowings						
Magontec GmbH (Bank Loan)(1)	–	30-Nov-26	5.26%	–	30-Nov-26	5.49%
Magontec GmbH (Factoring Facility)(3)	1,113	28-Feb-25	4.91%	528	28-Feb-25	5.14%
Magontec SRL (Working Capital Facility)(2)	1,298	28-Feb-25	7.30%	1,312	28-Feb-24	7.34%
Magontec Xi'an Limited (Bank Loan)(4)	–			3,106	06-Jun-24	3.00%
Total Bank Borrowings	**2,411**			**4,946**		
Bank Borrowings Maturity Profile						
Current	1,298			4,418		
Non Current	–			–		
Total Borrowings on Balance Sheet	**1,298**			**4,418**		
Factoring facility (offset against trade receivables)	1,113			528		
Total Borrowings	**2,411**			**4,946**		

(1) These borrowings are secured by a charge over MAB's trade debtors to the extent of €526,000 ($844,000) and inventory of €5,979,000 ($9,602,000) plus land & buildings.

(2) These borrowings are secured by a charge over MAR's trade debtors and inventory to the extent of RON18,338,000 ($5,923,000) plus land & buildings.

(3) This factoring facility is set off against trade debtors, and thus is not shown in 'Borrowings' on the balance sheet.

(4) This facility was fully repaid to the extent of RMB 15 million prior to 30 June 2024. Subsequent to balance date, this loan was renewed to the extent of RMB 31 million for a period of 12 months on similar terms.

Notes to the Condensed Financial Statements

continued

13. RESERVES

	6 months to 30 Jun 2024 $'000	12 months to 31 Dec 2023 $'000
Capital reserve		
Balance at beginning of financial year	2,750	2,750
Balance at end of financial year	**2,750**	**2,750**
Foreign currency translation reserve		
Balance at beginning of financial year	4,793	4,250
Movement in VHL Consolidated accounts	(394)	542
Balance at end of financial year	**4,399**	**4,793**
Actuarial Reserves		
Balance at beginning of financial year	(1,028)	(567)
Deferred tax assets	(57)	227
Employee pensions	173	(689)
Balance at end of financial year	**(912)**	**(1,028)**
Expired Options Reserve		
Balance at beginning of financial year	2,127	1,637
Transfer from/(to) Share Issue Reserve	(114)	490
Balance at end of financial year	**2,014**	**2,127**
Share Issue Reserve		
Balance at beginning of financial year	691	627
Transfer from / (to) Expired Options Reserve	114	(490)
Vesting of performance rights	(114)	–
Fair value of performance rights issued for future periods	337	555
Balance at end of financial year	**1,028**	**691**
Profit Reserve		
Balance at beginning of financial year	5,922	6,857
Dividends paid	(476)	(935)
Balance at end of financial year	**5,446**	**5,922**
Total reserves	**14,725**	**15,255**
Other Comprehensive Income		
FX differences taken to reserves in equity – translation of overseas entities	(394)	542
Movement in actuarial assessments	116	(461)
Total Other Comprehensive Income	**(278)**	**82**

Notes

The **capital reserve** is a historical reserve from 2002 that arose after calculation of the outside equity interest in the (as it then was) Australian Magnesium Investments Pty Ltd consolidated entity.

The **foreign currency translation reserve** is a result of translating overseas subsidiaries from their functional currency to the presentation currency of Australian dollars.

The **expired options reserve** captures the balance of unexercised options on their expiry date from the appropriate share capital account.

The **actuarial reserve** represents the cumulative amount of actuarial gains / (losses) on the Group's unfunded defined benefit pension obligation as well as movements in deferred tax assets and financial instruments that need to be recognised in "Other comprehensive income" (OCI).

The **profit reserve** represents profits from prior periods transferred into this reserve instead of against accumulated retained losses. This is in order to preserve their nature as being available for distribution as dividends in future years.

Directors' Declaration

The Directors declare that:

a) in the Directors' opinion, there are reasonable grounds to believe that there is no intention or necessity to close the current operations or cease trading within twelve months from the date of this report;

b) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001,* including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity

Signed in accordance with a resolution of the Directors pursuant to s. 303(5) of the *Corporations Act 2001*.

On behalf of the Directors

Nicholas Andrews
Executive Chairman
Sydney
28 August 2024

MAGONTEC

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