ACN 010 441 666

Magontec Limited

Half Year Report 2023

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 2023 were authorised for issue in accordance with a resolution of the directors on 29 August 2023. 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 28.96% 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
KWE (HK) Investment Development Co. Ltd.	Shareholder in Magontec Limited. Mr Zhong Jun Li, a director of Magontec Limited is also a director and shareholder of KWE(HK) Investment Development Co Ltd.	KWE (HK)
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 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.

Financial Highlights

	1H23	1H22
Gross Profit	$14.1m	$26.8m
Gross Margin (%)	23.3%	28.5%
Reported Net Profit After Tax	$2.4m	$13.8m
Underlying NPAT*	$3.3m	$13.1m
Underlying Operating Cashflow**	$6.0m	$21.3m
Reported Operating Cashflow	$11.5m	$8.9m
Net Debt to Net Debt + Equity	(25.3%)	(2.3%)
Net Tangible Assets per Share	71.6c	62.8c
Earnings Per Share	3.1c	18.0c
Dividend Per Share (unfranked)	0.6c	0.6c

* Underlying NPAT is defined as Reported Net Profit After Tax excluding unrealised foreign exchange gains and losses

** Underlying Operating Cash Flow is defined as Cashflow From Operations excluding working capital movements, interest and tax payments

Contents

Reporting Highlights

FINANCIAL

- Revenue $60.6 million, down from $93.8 million in the PCP reflecting a 41% decline in average Mg prices over PCP
- Gross Profit margin of 23.3%, down from 28.5% in the PCP
- Zero net debt. $12 million net cash as at 30 June 2023, up from $2.0 million net cash on 31 December 2022
- EBITDA of $5.9 million, down from $21.3 million in the PCP
- Underlying NPAT* of $3.3 million, down from $13.1 million in the PCP
- Dividend steady at 0.6 cents per share, unfranked. (30 June 2022: 0.6 cents per share, unfranked)

* Underlying NPAT is defined as Net Profit After Tax excluding unrealised FX gains and losses

OPERATIONAL

- Sales volumes slightly lower for both Mg alloys and Mg anodes compared with PCP
- Demand slowing and inventory congestion through the second quarter
- Powered anode revenues +35% on PCP as global heat pump sales soar
- Specialist metals sales revenues to aerospace and defence sector up 88%
- Magontec Qinghai production of primary Mg alloys EBITDA profitable in 1H23.
- QSLM expect production of pure Mg supply to Magontec in 2024

Summary

In the six months to 30 June 2023 Magontec recorded strong cash flow and earnings.

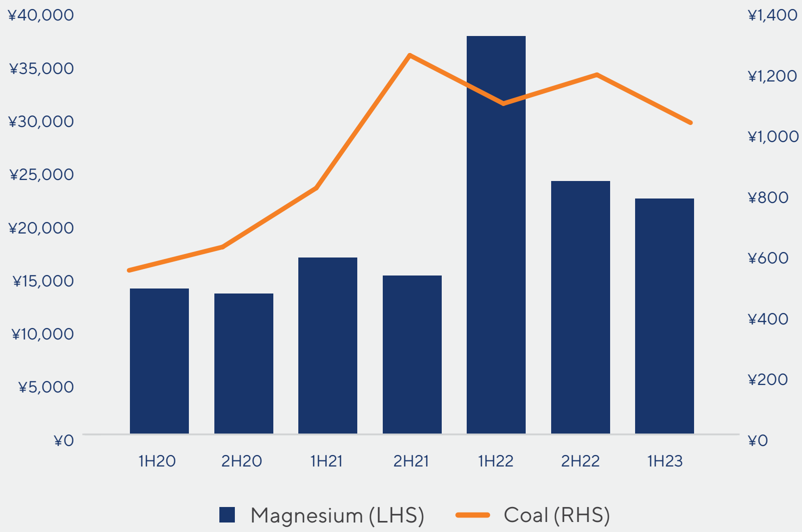
At the end of the period under review the group has $12 million of net cash, up from $2.0 million at 31 December 2022, and no net debt. Based on these strong fundamentals the Board has determined to pay another Interim dividend of 0.6 cents per share (unfranked).

In the first half of 2023 the group recorded a Gross Profit margin of 23.3% (1H22 28.5%) and EBITDA (excluding unrealised changes in foreign exchange) of $6.8 million (1H22 $20.5m). While the group's first half results are below the corresponding period in 2022, this former period reflected exceptional trading conditions.

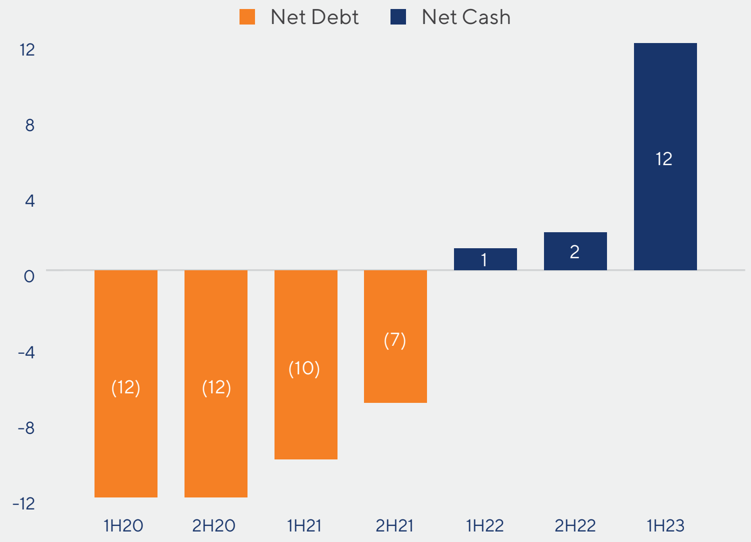
Magontec's net tangible assets per share (NTA/share) has risen by 14% over the last 12 months. At the end of the first half of 2023 NTA/share was 71.6 cents, up from 67.9 cents at 31 December 2022 and 62.8 cents at 30 June 2022.

A sharp decline in pure magnesium prices is the principal cause of lower Magontec revenues for the period under review. The magnesium price peaked at ¥63,000 per tonne in August 2021 and fell over 200% to ¥20,600 per tonne as of 30 June 2023. In the 6-month period under review, the average pure magnesium price was 41% below the average price for the previous corresponding period, reducing Magontec revenues to $60.6 million in the 6 months to 30 June 2023 from $93.8 million in the period to 30 June 2022.

AVERAGE HALF-YEARLY PRC Mg AND COAL PRICES (¥/TONNE)



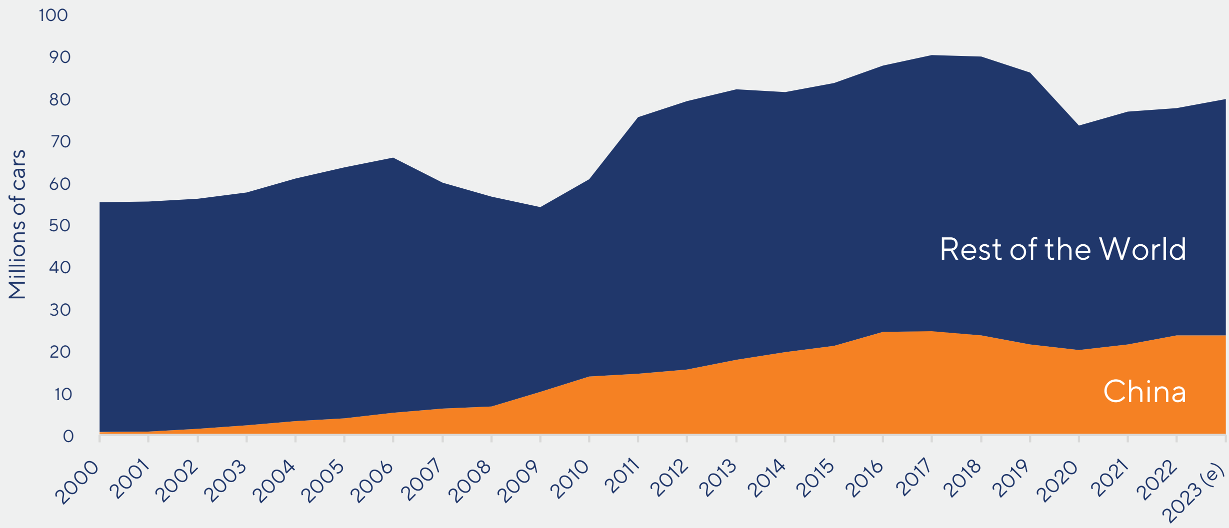
NET DEBT/NET CASH (A$ MILLION)



Summary

continued

GLOBAL LIGHT VEHICLE SALES (2014 TO 2023E)
CHINESE AUTOMOTIVE SALES DICTATE GLOBAL INDUSTRY GROWTH RATES



Nicholas Andrews

In the period under review the overall business generated $11.5 million of cash from operating activities and $6.0 million of cash from underlying operations[1]. The reduction in working capital deployed released a significant amount of cash in the half, driving Net Cash[2] on the balance sheet up to $12 million as at 30 June 2023.

The first six months of 2023 has been very much a half of two quarters; in the three months to the end of March the business enjoyed strong revenues and high margins in most product lines with powered anodes and specialist metals recording some very profitable months. In the second quarter, the impact of higher interest rates on consumer demand and slower moving inventories caused momentum to slow.

Profitability through the second quarter (and for the half) was also reduced by a full shut-down through April at the company's Xi'an magnesium anode factory to enable the installation of new equipment and the re-orientation of the casting and extrusion processes. The Xi'an factory is now one of the largest Mg anode manufacturing facilities in the world and as it returns to higher volumes is set to achieve higher levels of efficiency.

MAGNESIUM MARKETS

Magnesium markets and prices have been extremely difficult to predict over recent years. We know that a higher magnesium price presents opportunities for margin expansion in the Mg alloy recycling businesses as well as in Mg anodes. At this time it seems unlikely, given the demand profile in the automotive sector, that we will be experiencing an increasing magnesium price through the second half. Adding to downward pressure on magnesium prices are falling coal prices (the energy source for both Pidgeon process magnesium and the production of FerroSilicon, the Pidgeon process reagent).

1 Cash from underlying operations = Operating cashflow excluding working capital movements, interest and tax paid

2 Net Cash is defined as Bank Borrowings on the Balance Sheet less Cash

Summary

continued

While input prices are abating, the Chinese pure magnesium manufacturing industry is subject to counter-vailing effects through growing calls for emissions reduction. Around 50% of Fugu region producers (China's largest magnesium manufacturing province) are currently undergoing mandatory equipment upgrades to meet newly imposed PRC emission standards. This has caused widespread production shutdowns that will likely continue into the second half of 2023. So far this has had little impact on prices because of a large inventory overhang. We have little insight into how this will resolve itself through the second half of the year except to say that a coalition of Chinese producers, mostly based in the Fugu region, have pursued a more stable price environment for pure magnesium that may support prices around current levels.

DIVERSIFYING THE BUSINESS

In 2023 the Magontec portfolio of activities is considerably broader than it was some years ago. In addition to the historical industrial base of primary Mg alloy production, Mg alloy recycling and Mg anode manufacturing, the company now includes a much-increased exposure to the growing powered anode sector, a small but growing focus on speciality metals and a developing exposure to non-class one recycled magnesium products. Our customer base is still heavily focussed on the automotive and hot water appliance industries and now includes exposures to the aluminium alloying industry and the aerospace sector.

This change in our product and customer mix has provided some greater earnings resilience in addition to greater diversification. In past commentaries we have discussed our corporate efforts to further expand activities in the magnesium sector and in other industries where we have some demonstrated competence. We have continued to approach this project with caution and the Board has considered several opportunities over the last 12 months.

OUTLOOK

Over the six months to 31 December 2023, we do not expect markets to stage a recovery. While inflation may appear to have peaked, expectations are that it will be 12 -18 months before interest rates begin to decline. From our interactions with customers in the die casting and hot water appliance industries we know that inventories are high and demand levels are at a low ebb. In China we are also seeing the effects of a deflating housing market that will likely reduce nationwide demand for water heater appliances. In China we are also seeing lower unit prices for Mg anodes reflecting both an element of general deflation but also a rise in competitive tension as available volumes shrink.

In the automotive sector sales volumes will likely remain at levels below those of the period prior to the pandemic, albeit at slightly higher levels than in 2021 and 2022. The effect of the shift to electric vehicles has been quite pronounced in China and is gathering pace in other major regions, but the overall volume of vehicles is not forecast to recover to prior highs within the next two to three years. This means that the volumes of steering wheels manufactured – the key Mg alloy automotive product – will also remain at lower volumes and Magontec's European scrap recycling activities will continue to operate at production levels below installed capacity in the second half of 2023.

In CCP markets there are three drivers that will help Magontec sustain or grow margins and sales in the longer term. We expect heat pump sales to continue to increase, driven by consumer demand for devices that meet higher environmental standards and by governments who are increasingly coming to the epiphany that they will have to subsidise the household switch to more costly appliances. The second driver comes from the renewed Xi'an factory. This gives Magontec's Chinese anodes businesses a strong platform from which to grow our product offering in PRC and international markets.

These new efficiencies allow us to offer a very competitive product into markets where we already have strong relationships and an excellent reputation. Finally, as a combined Mg alloy recycler and Mg anode manufacturer, we are well placed to access raw material for magnesium anodes at competitive prices. Most of our competitors in China and Europe are stand-alone Mg anode manufacturers and do not enjoy the benefits of co-location.

In the metals commentary I have written at greater length about the Qinghai project. We hope to be able to deliver positive news in the second half on a restart date for the QSLM electrolytic facility. I know that our partners at QSLM are working hard to make this a reality and continue to anticipate production of liquid magnesium metal in 2024.

Across the cycles our management and production teams in Europe and Asia work exceptionally hard to deliver the best outcomes for Magontec shareholders. There are avenues for growth in all our businesses and we work towards realising those opportunities, either through the development of new markets for existing products or by adding new products to our portfolios. The commencement of production from the Qinghai cast house currently offers the greatest potential to boost profitability, not just for the Chinese business, but also through the Mg alloy chain to primary alloy sales in regions outside of China and through Magontec's established Mg alloy recycling assets.

With a much stronger balance sheet we are also able to consider other avenues to accelerate earnings growth and will discuss those with shareholders as the opportunities arise.

Nicholas Andrews
Executive Chairman

Financial Summary

KEY FINANCIAL HIGHLIGHTS			
$'000	6 months to 30-Jun-23	6 months to 30-Jun-22	% chg
Equity and Earnings			
Gross Profit	**14,103**	**26,753**	**(47.3%)**
Gross Margin (%)	23.3%	28.5%	
Reported EBITDA	**5,949**	**21,269**	**(72.0%)**
Reported Net Profit After Tax	**2,397**	**13,799**	(82.6%)
Net Profit After Tax excluding unrealised FX	**3,250**	**13,051**	**(75.1%)**
Return on Equity (%)	4.1%	31.3%	
Return on Invested Capital (%)	5.3%	30.2%	
Net tangible assets per share (cents)[1]	71.6	62.8	14.0%
Earnings per share (cents)	3.1	18.0	
Dividend per share (cents, unfranked)	0.6	0.6	
Borrowings			
Net debt/(net cash)	(12,025)	(1,161)	
Net debt to net debt + equity (%)	(25.3%)	(2.3%)	
Cashflow			
Reported Operating Cashflow	11,472	8,914	28.7%
Underlying Operating Cashflow[2]	5,984	21,251	(71.8%)
Free Cashflow (excluding working capital movements)	1,715	18,700	(90.8%)

1 Net tangible assets = Net assets less intangibles less right of use lease assets

2 Cash from underlying operations = Operating cashflow excluding working capital movements, interest and tax paid

HIGHLIGHTS

Earnings and cashflow

- Reported Profit after tax excluding unrealised FX of $3.3 million for the half to 30 June 2023 (30 June 2022 half: $13.1 million).
- Operating cashflow for the half to 30 June 2023 was $11.5 million. (30 June 2022: $8.9 million). A significant portion of this was driven by cash released from working capital following the lower pure Mg price in 2023.
- Lower return on capital and return on equity in line with lower earnings profile.

Balance sheet and capital management

- Balance sheet remains robust. Net cash position improved to $12 million as at 30 June 2023 (31 December 2022: net cash $2.0 million)
- Net tangible assets per share of 71.6 cents as at 30 June 2023 (31 December 2022: 67.9 cents per share)
- Dividend for the June 2023 half declared of 0.6 cents per share (unfranked).

FINANCIAL RESULTS

Net profit after tax excluding unrealised FX for the half to 30 June 2023 of $3.3 million was down on the prior corresponding period following a decline in pure Mg prices from record high levels in 2022.

Through the second quarter of 2023 the PRC anodes factory in Xi'an was closed for April and most of May to allow for the installation of new equipment and utilities. This has now been completed.

Gross Profit in 1H23 of $14.1 million was below the prior corresponding period ($26.7 million), but above the $11.8 million recorded in the December 2022 half (albeit the second half of the calendar year is seasonally lower).

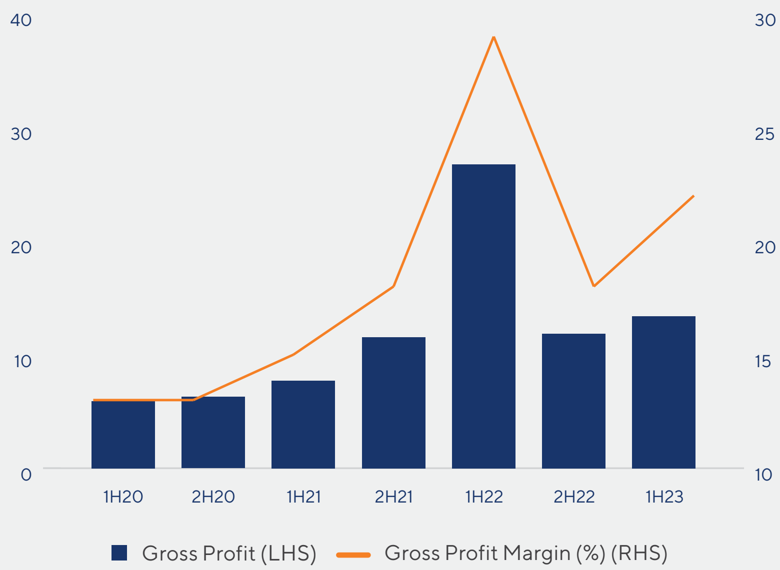
Gross margin of 23.3% was higher than 2H22, but as can be seen on the gross profit by segment chart a key driver was the shift in product mix to higher margin anodes (69%) compared with metals (31%).

Balance Sheet and Working Capital

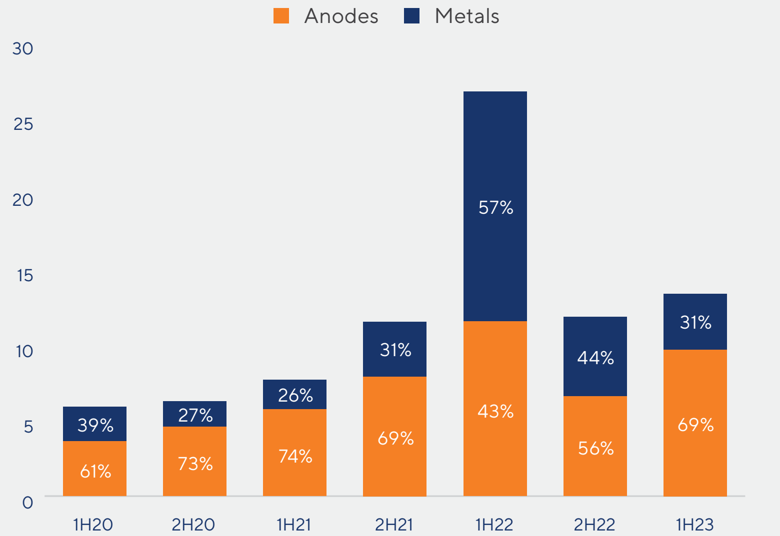
During the 6 months to 30 June 2023, net assets increased to $59.5 million (31 December 2022: $56.1 million). The bridge on page 8 shows the main movement was a $10.1 million increase to the net cash position. Most of this increase came from the release of cash tied up in working capital in addition to cash generated from underlying operations*.

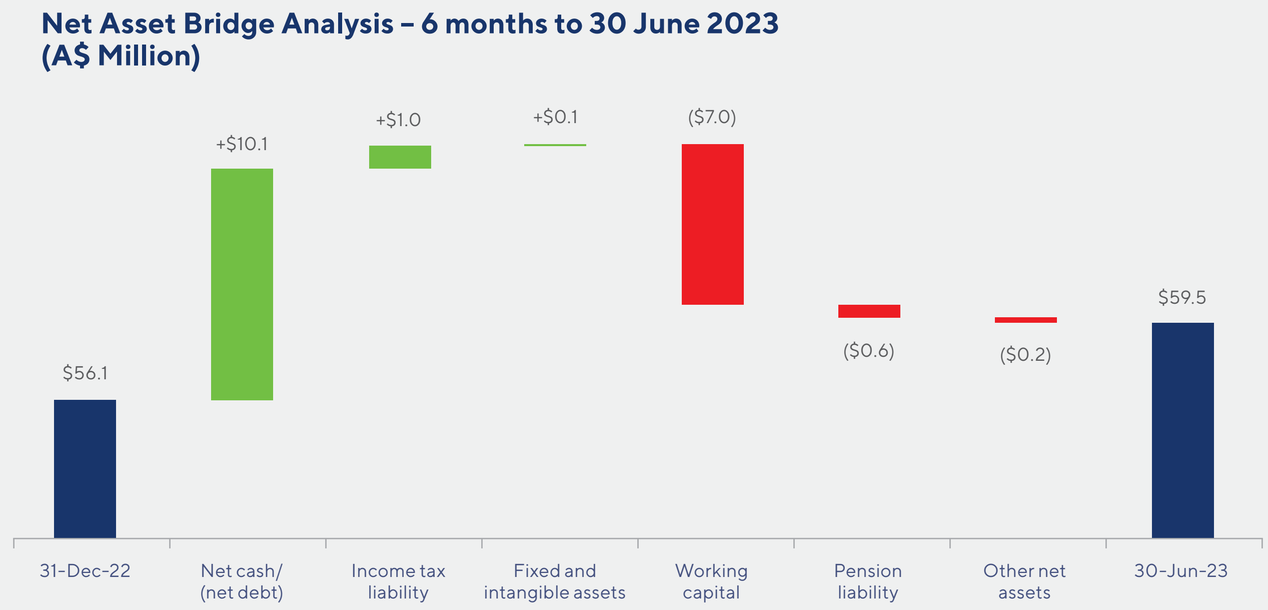
* Cash from underlying operations = Operating cashflow excluding working capital movements, interest and tax paid

Gross Profit (A$ million) and Gross Margin (%)



Gross Profit split by segment by half (A$ million)





In this chart, working capital only includes key working capital accounts - trade and other receivables, inventory, prepayments less trade and other payables

BALANCE SHEET SUMMARY			
A$'000	30-Jun-23	31-Dec-22	% chg
Net cash/(net debt)	12,025	1,964	512.2%
Working capital	43,707	50,715	(13.8%)
Pension liability	(9,581)	(9,024)	6.2%
Fixed and intangible assets	20,256	20,158	0.5%
Income tax liability	(6,960)	(7,963)	(12.6%)
Other net assets	47	279	(83.3%)
Net assets	**59,494**	**56,129**	**6.0%**

Working capital

WORKING CAPITAL SUMMARY - KEY ACCOUNTS			
A$'000	30-Jun-23	31-Dec-22	% chg
Trade and other receivables	16,770	24,797	(32.4%)
Prepayments and other current assets	2,105	2,017	4.4%
Inventory	34,382	35,928	(4.3%)
Trade and other payables	(9,550)	(12,026)	(20.6%)
Total	**43,707**	**50,715**	**(13.8%)**

Note: This table includes only key working capital accounts

Financial Summary

continued

Working capital requirement (as defined in the table above) has decreased in line with the falling pure Mg price and stands at $43.7 million as of 30 June 2023, around $7.0 million lower than 31 December 2022.

Despite reduced sales, the inventory balance is similar to prior period levels at the half year due to higher than normal stock levels in our European business. The Group's two European Mg alloy recycling businesses built inventory ahead of a period of downtime for factory roof repair in Romania and carried higher than normal scrap balances for a particular customer. Over the remainder of the year these inventories are likely to decline, although timing is hard to pinpoint due to the lumpy nature of working capital movements across the Magontec business portfolio.

Dividend and DRP Participation

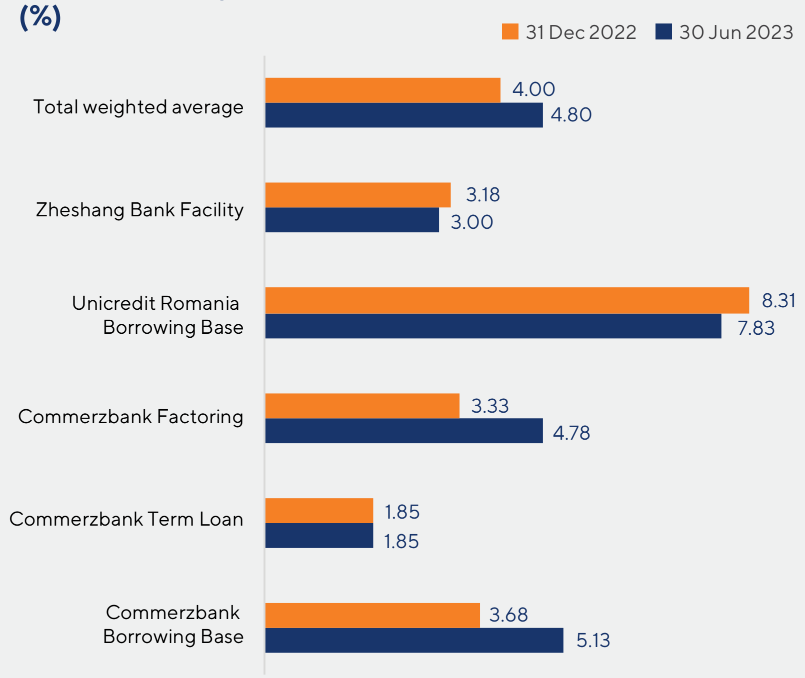
Given the strength of Magontec's balance sheet, the Board has determined to continue paying a dividend to shareholders. This was declared to the extent of 0.6 cents per share (unfranked). Dividend Reinvestment Plan participation rates remained strong in the most recent December 2022 half, with 67.8% of shares on issue electing to receive shares instead of cash.

Banking

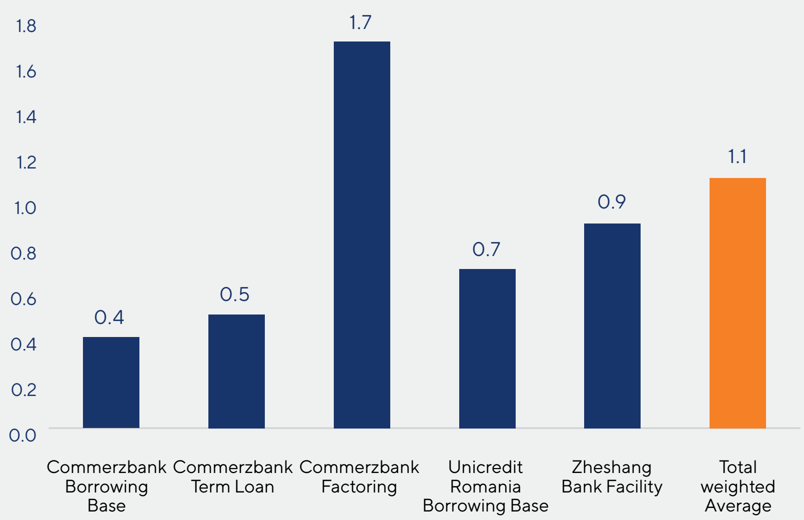
In line with global interest rate rises, the weighted average estimated interest rate as at 30 June 2023 for the group increased to 4.8% (31 December 2022: 4.0%). However, Magontec's relatively low borrowings have served to insulate the group against these impacts.

In Germany, we have received preliminary positive indications regarding the renewal of the facility from Commerzbank. Magontec has had a steady and positive relationship with Commerzbank over more than 10 years and presents a robust financial profile following a period of strong financial performance over the last 24 months.

Bank Borrowing Interest Rate Profile (%)



Bank Borrowings Maturity Profile



We expect this facility to be renewed for a further 3-year term and for there to be no significant change in the Unicredit facility in Romania.

In China, the Magontec Xi'an business has rolled over its RMB 31 million facility for another year on slightly more favourable interest rate terms.

Cathodic Corrosion Protection (CCP – anodes)

1. MAGNESIUM ANODES

Magontec's magnesium anode businesses in Europe and China continue to perform well in a challenging market.

Magnesium prices have retraced in the 6 months to the end of June 2023 compared with the previous corresponding period, hence a decline in overall CCP revenues.

These price declines also reduced magnesium anode margins in the six months under review compared with higher levels achieved in the previous corresponding period. Margins are nonetheless holding up well, a reflection of improved raw material sourcing stemming from a revised material processing and flow dynamic between Mg recycling and Mg anode manufacturing activities.

Chart CCP1. Global Magontec CCP Revenues (A$ Million)

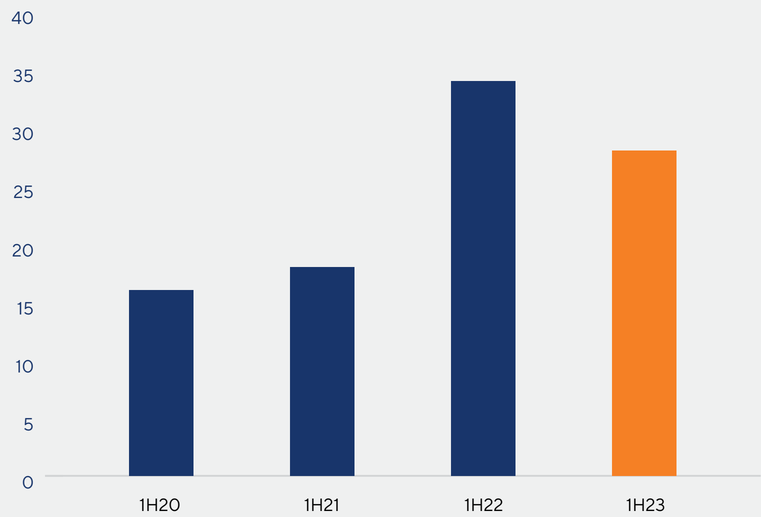
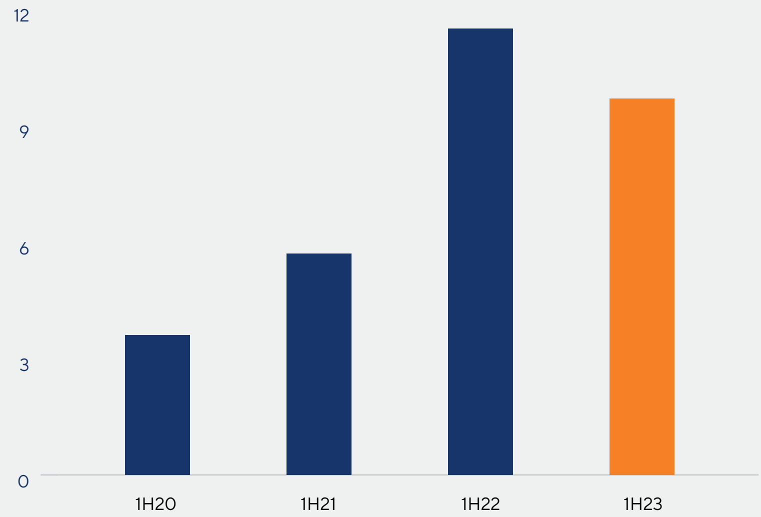


Chart CCP2. Global Magontec CCP Gross Profit (A$ Million)



Cathodic Corrosion Protection (CCP – anodes)

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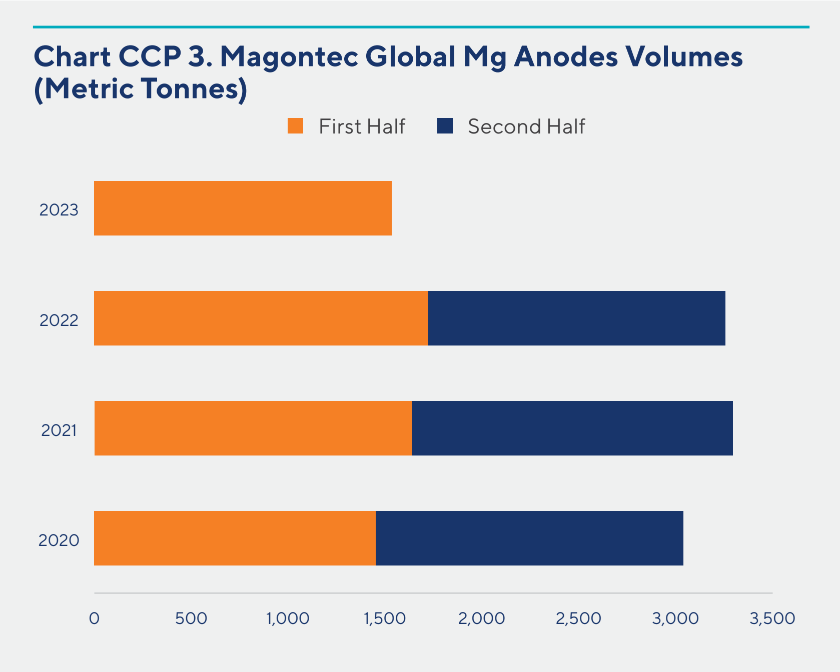


Our businesses have remained competitive in the European, US and Asian markets and maintained shares in all key regions. We remain confident that Magontec's Romanian and Chinese Mg anode manufacturing facilities are among the most efficient in the world and continue to account for a global market share of more than 25%.

Magontec's global Mg anode sales volumes were slightly lower in the first half of 2023, partly because of customer inventory overhang, but also due to slower apartment construction in China and the timing of order flow from the US.

As we have discussed in previous commentaries, the CCP industry is relatively immune to major cyclical events with around 80% of new hot water appliance sales made to households replacing old appliances. While some households may delay replacing an appliance in the summer, every autumn the industry operates at higher volumes to manage demand prior to the northern winter.

Total production volumes were also lower in the first half compared with the previous corresponding period as the Xi'an plant was closed for most of April. In this period our Chinese team substantially upgraded the factory, re-designed the factory layout and installed new equipment. Magontec's Xi'an Mg anode factory now has production capacity of around 4,000 tonnes per annum making it one of the largest single site production units in the world. While this had no impact on first half sales volumes, it negatively impacted production costs and profitability in the period.

The production of magnesium anodes remains very much a volume business - the higher the volume the lower the unit cost of production. Our objectives at Xi'an and Santana are to lower costs, raise margins and continue to provide customers with a competitively priced product.

Cathodic Corrosion Protection (CCP – anodes)

continued

2. POWERED ANODES

Powered anodes had a strong first half driven by rising demand for heat pump products, particularly in western markets.

This product has experienced steady growth over several years and seems well positioned for further growth in the period ahead.

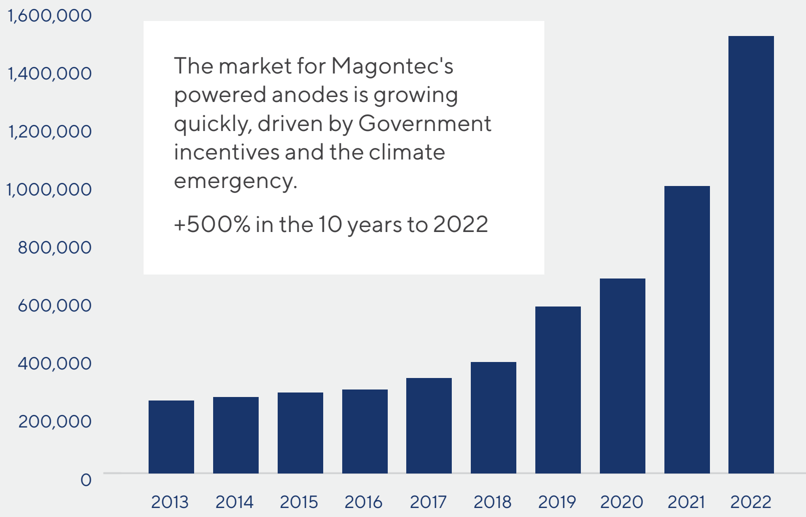
There are two key drivers for this product. One is the technology that goes into the powered anode and the other is a global shift to energy efficient heating systems.

Magontec invests heavily in developing new features for its powered anodes that enhance the utility of the product. There are many powered anodes available, but few have the same features as those built into Magontec's products.

The shift to energy efficient heating systems that is happening worldwide is an important driver for this product. In each country the approach is different and within countries, subsidies and other promotion efforts are highly variable. It remains the case that the shift to heat pump appliances is increasingly being promoted by regional authorities and climate change agencies. It is an energy efficient process for household water and heating requirements and generates lower emissions than other water heater types. Heat pump appliances are generally more expensive and complex than traditional gas and electric heating systems and require a longer lasting and more efficient cathodic corrosion device, thus the preference for powered anodes.

Magontec is a leader in this field and a supplier to both original engineering manufacturers and the wholesale plumbing trade. Our powered anode products are finding a growing application as a replacement for Mg anodes in installed household appliances.

Chart CCP 4. European Hydronic Heat Pump Installations up to 400kW (total market)



Metals

1. Mg ALLOY RECYCLING

In the first half of 2023 Magontec's metal sales volumes fell in line with a decline in activity levels across the magnesium alloy industry.

Chart Mg1 shows a 28% fall in Mg alloy exports from China in the six months to 30 June 2023 compared to the previous corresponding period.

Falls in automotive sales in all markets is the key driver of this decline that commenced as interest rates began to climb in the third quarter of 2022.

In Europe in the first 6 months of 2023, the big four German manufacturers were still up to 30% below their first half 2019 sales figures.

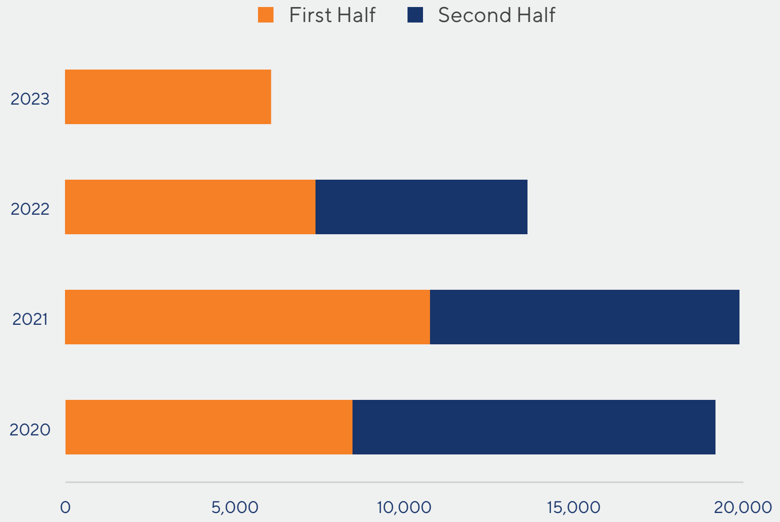
Around 80% of Magontec's Mg alloy recycling business relies on the automotive sector. The decline in output in Europe and in other markets has caused a reduction in available volumes for Magontec's German and Romanian recycling factories. Both facilities operated at lower than nameplate capacity in the period, reducing Gross Profit.

The Mg alloy industry has been through an exceptional period. In the first half of 2022 our recycling businesses enjoyed very positive conditions. A higher magnesium price provided an opportunity to access lower grade scrap material that in ordinary times would have been too expensive to process.

While our factories continue to process non-class one material, the margins for the European recycling business have declined by comparison with the first half of 2022.

Chart Mg1. Ave Mg alloy PRC export volumes & Mg prices (1Q '20- 2Q '23)

Chart Mg2. Global Magontec Metal Volumes (Metric Tonnes)



Metals

continued

In the second quarter of CY2023 Magontec's recycling businesses have experienced the twin impacts of lower margins driven by lower selling prices and lower sales volumes driven by reduced levels of activity in the automotive sector.

Our German and Romanian factories have continued to evolve over the last few years, and the scope of activity at each site has broadened to include reprocessing of material, that in prior years was disposed of in landfill sites, and the manufacture of high specification grain refining alloys.

The ability to reprocess our own cast house waste material has opened new opportunities to acquire and process grades of magnesium material for customers other than the automotive and power tool manufacturers. The shuttering of a key magnesium manufacturer in the USA in 2021 has raised demand for new sources of various grades of magnesium material in the US aluminium alloying sector.

The in-house development of specialist alloys for applications in the aerospace and defence industries has generated an uplift in overall metals profitability and a higher sustainable margin in Europe. We are at the beginning of that journey and there are opportunities in these global specialist markets that we will continue to develop.

The outlook for the traditional recycling activity remains more modest than in previous periods. Higher interest rates have constrained consumer demand and reduced unit sales among our customer companies.

There are, however, signs of life. In the European automotive markets, June numbers have shown sharply higher year-on-year sales while in the US the most recent month-on-month consumer confidence statistics have rebounded as the end of the interest rate tightening cycle is perceived to be in sight. These are the two important regional markets for Magontec's European Mg alloy production businesses.

Chart Mg3. Global Magontec Metals Revenues (A$ Million)

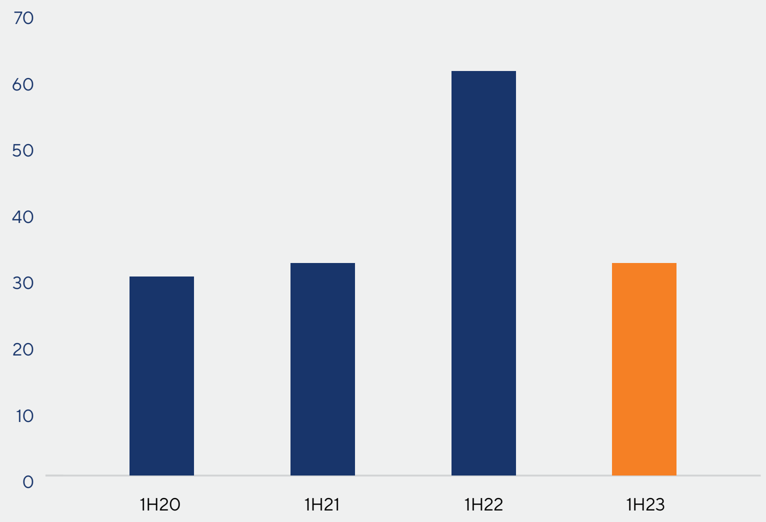
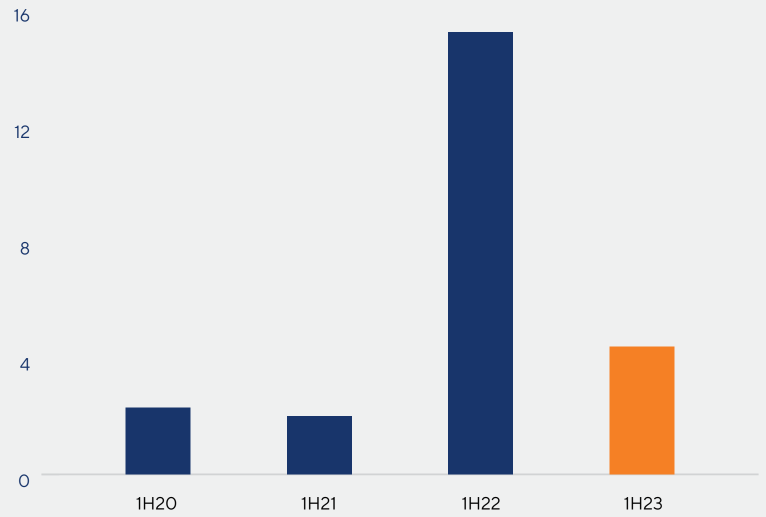


Chart Mg4. Global Magontec Metals Gross Profit (A$ Million)



2. PRIMARY MG ALLOYS (QINGHAI)

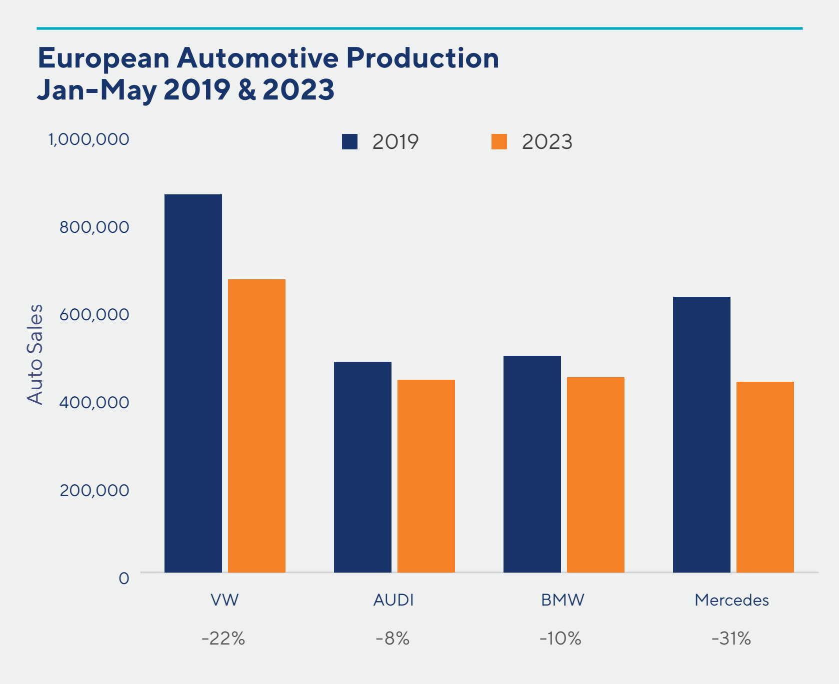
Magontec's Chinese primary Mg alloy metals business was again EBITDA positive in the period under review.

This business sells production from Magontec's Qinghai primary Mg alloy plant and conducts other Mg metals trading activities.

In the first quarter of FY2023 the Chinese economy experienced a sharp bounce on the exit from COVID restrictions, although in the second quarter this effect began to wane and volumes returned to prior period levels. Over the coming six-month period there seems little reason to expect volumes to rise back to the levels of the last 18 months.

Our Qinghai factory is designed to receive liquid pure magnesium metal from the adjacent QSLM facility. Under current operating conditions, where QSLM does not yet supply this raw material, Magontec's Qinghai cast house acquires raw material from pure magnesium manufacturers located in other provinces of China. The logistics costs associated with this business model are challenging but we continue to operate at Golmud so that, inter alia, we can maintain the assembled management and operations teams and remain ready to move to higher volumes as QSLM material begins to flow.

Our partners at QSLM continue to work towards the re-start of the various components of the electrolytic facility. In the second quarter there were a series of tests undertaken at the dehydration plant, which has been a technological challenge. While progress has been made in the wider magnesium project in identifying and resolving other issues, the dehydration process has yet to achieve consistent operation at a satisfactory level. QSLM remain confident that they will achieve their targets in the near term.



Magontec Qinghai's magnesium alloy cast house

Metals

continued

In May, at the International Magnesium Association annual world conference, QSLM gave a detailed presentation. The company gave the conference a granular understanding of the challenges they have encountered and how they have addressed each issue. In their conclusion they announced that the magnesium project at Qinghai would be looking to build production to 400,000 tonnes per annum (current capacity 100,000 tonnes pa) in the future. For our Chinese partners there is no question of whether the current facility will be fully commissioned. Their expectations were clearly articulated and provide Magontec shareholders, for whom this is a keystone project, with a high level of confidence.

In this period of operation, prior to the re-start of QSLM's electrolytic magnesium facility, our objective has been to run this business on a break-even basis. From the second half of 2019 (QSLM suspended supply of pure Mg to the Magontec Qinghai cast house on 31 March 2019), the PRC Metals business has generated a positive cumulative EBITDA result.

It is worth reiterating in this report the underlying reasons for Magontec's patience with a business that has been long delayed. The Chinese magnesium industry produces around 90% of the World's 1 million tonnes of annual magnesium consumption. Other magnesium production centres are currently tariff protected, in sanctioned regions or uncompetitive against Chinese producers.

All Chinese magnesium is produced using the Pidgeon process that generates high CO2 emissions (around 20-25 tonnes of CO2 per tonne of Mg production). While steps are being taken to address these emissions, extracting magnesium from dolomite at high temperatures using a ferro silicon reagent is itself a high CO2 emission process. There is no escape from high emissions in the Pidgeon process and there are no alternative high-volume low emission cost competitive magnesium production facilities in China or elsewhere. When QSLM's electrolytic magnesium plant comes on stream and re-commences supply under the existing agreements, it will place Magontec in a very strong position to compete against Pidgeon magnesium producers based on Qinghai's assessed emissions of 7 tonnes of CO2 per tonne of magnesium produced.

Maintaining the Magontec Qinghai primary magnesium alloy operation at low levels of production and at a cash break-even level – or better – is a holding strategy. The Board and management continually review this strategy and conduct a regular dialogue with our partners in Qinghai, who are actively represented on the Board of Magontec through Non-Executive Director Xing Cai Li, the General Manager of QSLM's parent company.

It is the view of the Board and management that Magontec's investment in its Qinghai primary magnesium alloy cast house, which has now been written down through annual depreciation charges to just $4.8 million, has the capacity to generate high levels of profitability for the company in the future. There are no alternative sources of high volume, low emission magnesium alloys in production or under construction elsewhere in China or in another country. QSLM's Qinghai facility, which is fully constructed and in preparation for production, remains the best opportunity to produce magnesium alloys that will meet the high and rising standards required by Magontec's key customers, the die cast magnesium alloy industry that supplies the automotive and other industries.

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 2023. 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 25 May 2021

Review of Operations

For the six months ended 30 June 2023 the consolidated profit after tax from continuing operations was $2,397,453

For the six months ended 30 June 2022 the consolidated profit after tax from continuing operations was $13,798,841

Corporate

The 40th annual general meeting of the Company was held on 11 May 2023.

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

Remuneration and Nominations Committee

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

Finance, Audit & Compliance Committee

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

Business Risk Committee

- Chairman: Nicholas Andrews (Executive Director)
- Atul Malhotra (Independent Director)
- Andre Labuschagne (Independent 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 19.

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

Nicholas Andrews
Executive Chairman
29 August 2023

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

AUDITOR'S INDEPENDENCE DECLARATION

The Board of Directors
Magontec Limited
Suite 1.03, 46A Macleay St
Potts Point NSW 2011

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 2023 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 29th day of August 2023

Camphin Boston
ABN 69 688 697 499
Level 5, 179 Elizabeth Street
Sydney, NSW 2000
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 2023, 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 2023 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*. 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 2023 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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E cambos@cambos.com.au
W camphinboston.com.au

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.

Justin Woods
Partner

Camphin Boston
Chartered Accountants

Dated this 29th day of August 2023

Sydney NSW 2000

Consolidated Comprehensive Income Statement

for the half-year ended 30 June 2023

	Note	6 months to 30 Jun 2023 $'000	6 months to 30 Jun 2022 $'000
Sale of goods	3	60,550	93,807
Cost of sales	3	(46,447)	(67,053)
Gross profit		**14,103**	**26,753**
Other income	10	290	230
Interest expense		(288)	(385)
Impairment of assets	3	(941)	–
Travel accommodation and meals		(415)	(225)
Research, development, licensing and patent costs		(546)	(290)
Promotional activity		(53)	(77)
Information technology		(209)	(221)
Personnel		(4,557)	(4,569)
Depreciation & amortisation		(356)	(307)
Office expenses		(341)	(291)
Corporate		(2,014)	(1,623)
Foreign exchange gain/(loss)		(491)	491
Profit before income tax expense from continuing operations		**4,181**	**19,487**
Income tax (expense)/benefit		(1,784)	(5,688)
Profit after income tax expense from continuing operations		**2,397**	**13,799**
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement			
FX differences taken to reserves in equity – translation of overseas entities		990	(211)
Other Comprehensive Income - that will not emerge in the Profit and Loss Statement			
Movement in actuarial assessments		(110)	1,712
Total Comprehensive Income		**3,277**	**15,300**

	Note	6 months to 30 Jun 2023	6 months to 30 Jun 2022
Earnings/(Loss) per share from continuing operations			
Basic (cents per share)	9	3.1 cents	18.0 cents
Diluted (cents per share)	9	2.8 cents	16.6 cents

Notes to the financial statements are included on pages 26 to 33.

Consolidated Balance Sheet

as at 30 June 2023

	Note	30 Jun 2023 $'000	31 Dec 2022 $'000
Current assets			
Cash and cash equivalents	7	15,419	11,259
Trade & other receivables	11.1	16,770	24,797
Inventory	3	34,382	35,928
Other		2,105	2,017
Total current assets		**68,676**	**74,001**
Non-current assets			
Other receivables		288	334
Property, plant & equipment	11.5	17,230	17,099
Deferred Tax Asset		1,440	1,830
Intangibles		3,026	3,059
Total non-current assets		**21,984**	**22,322**
TOTAL ASSETS		**90,660**	**96,323**
Current liabilities			
Trade & other payables	11.2	9,550	12,026
Bank Borrowings	12	3,394	9,295
Provisions		8,082	9,259
Total current liabilities		**21,026**	**30,580**
Non-current liabilities			
Other payables		191	254
Provisions		9,949	9,360
Total non-current liabilities		**10,140**	**9,614**
TOTAL LIABILITIES		**31,166**	**40,195**
NET ASSETS		**59,494**	**56,129**
Equity attributable to members of MGL			
Share capital	6	59,449	59,174
Reserves	13	16,246	15,554
Accumulated (losses)		(16,201)	(18,599)
Total equity		**59,494**	**56,129**

Notes to the financial statements are included on pages 26 to 33.

Consolidated Statement of Changes in Equity

for the half-year ended 30 June 2023

	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-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**
for the Half-Year Ended 30 June 2022									
Balance 1-Jan-22	**58,918**	**(27,796)**	**–**	**3,766**	**2,750**	**(3,373)**	**1,637**	**373**	**36,275**
Profit/(Loss) attributable to members of parent entity	–	13,799	–	–	–	–	–	–	13,799
Comprehensive income	–	–	–	(211)	–	1,712	–	–	1,502
Share issue reserve	–	–	–	–	–	–	–	266	266
Balance 30-Jun-22	**58,918**	**(13,998)**	**–**	**3,556**	**2,750**	**(1,661)**	**1,637**	**639**	**51,841**

(1) FCTR = Foreign Currency Translation Reserve

Notes to the financial statements are included on pages 26 to 33.

Consolidated Cash Flow Statement

for the half-year ended 30 June 2023

	6 months to 30 Jun 23 $'000	6 months to 30 Jun 22 $'000
Cash flows from operating activities		
Profit before taxation	**4,181**	**19,487**
Adjustments for:		
– Non-cash equity expense	278	266
– Depreciation & amortisation	1,479	1,397
– Foreign currency effects	853	(748)
– Other non-cash items	(807)	849
Cash generated from/(utilised in) underlying operating activities	**5,984**	**21,251**
Movement in working capital balance sheet accounts		
– Trade Receivables and Other Current Assets	7,840	3,448
– Inventory	3,059	(14,691)
– Trade Payables and Other Current Liabilities	(2,638)	737
Cash generated from/(utilised in) working capital accounts	**8,261**	**(10,506)**
Cash generated from/(utilised in) underlying operational cash flow and net working capital assets	**14,245**	**10,745**
– Net Interest paid	(200)	(294)
– Income tax paid	(2,573)	(1,537)
Cash generated from/(utilised in) operating activities	**11,472**	**8,914**
Cash flows from investing activities		
Net cash out on purchase/disposal of property, plant & equipment	(1,421)	(720)
Group Information Technology software	(75)	–
Security Deposit	(26)	(195)
Other	59	–
Net cash provided by / (used in) investing activities	**(1,463)**	**(915)**
Cash flows from financing activities		
Dividends paid	(180)	–
Proceeds from borrowings	12,619	3,711
Repayment of borrowings	(18,299)	(11,425)
Cashflow from leasing activities	(95)	(189)
Net cash provided by financing activities	**(5,955)**	**(7,903)**
Net increase / (decrease) in cash and cash equivalents	**4,055**	**96**
Foreign exchange effects on total cash flow movement	**105**	**23**
Cash and cash equivalents at the beginning of the reporting period	**11,259**	**4,636**
Cash and cash equivalents at the end of the reporting period	**15,419**	**4,755**

Notes to the financial statements are included on pages 26 to 33.

Notes to the Condensed Financial Statements

for the half-year ended 30 June 2023

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 2022.

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 2023 half-year financial report are consistent with those adopted and disclosed in the Company's annual report for the financial year ended 31 December 2022.

2. SIGNIFICANT TRANSACTIONS AND MATERIAL ITEMS

Aside from those referred to in the Executive Chairman's report and the relevant comparative period reports, there were no 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 2022 Annual Report encompass 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

An unfranked dividend of 0.6 cents per ordinary share was declared with respect to the 6 months ended 30 June 2023 (6 months ended 30 June 2022: 0.6 cents per share). The balance of the franking account at 30 June 2023 was $nil (30 June 2022: $nil).

3. RESULTS FROM OPERATIONS

	6 months to 30 Jun 23 $'000	6 months to 30 Jun 22 $'000
Metal	32,382	60,111
Anodes - Cathodic Corrosion Protection	28,168	33,696
Sales revenue	**60,550**	**93,807**
Metal	(27,954)	(44,903)
Anodes - Cathodic Corrosion Protection	(18,493)	(22,151)
Cost of sales	**(46,447)**	**(67,053)**
Metal	4,428	15,208
Anodes - Cathodic Corrosion Protection	9,675	11,545
Gross Profit	**14,103**	**26,753**
Impairment of assets		
Inventory write down to net realisable value - EUR segment*	(729)	–
Write down of fixed assets	(191)	–
Other	(21)	–
Total	**(941)**	**–**

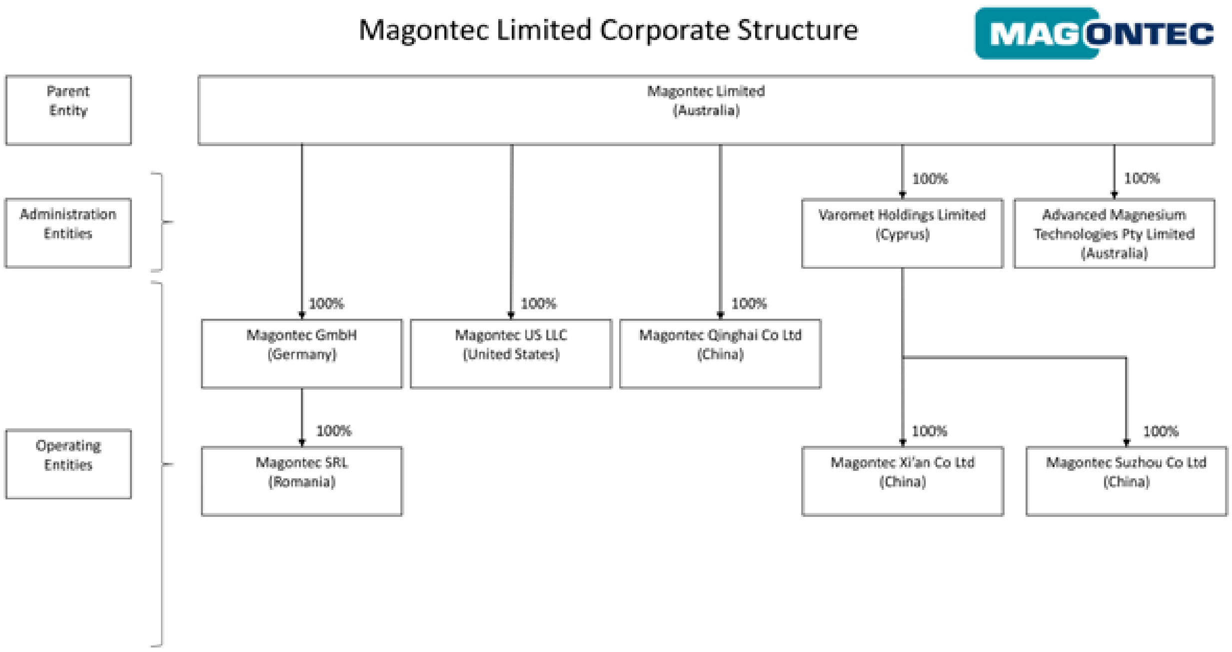
* Following a decline in sales prices during the latter part of the period, inventory in MAB and MAU was written down in accordance with net realisable value at 30 June 2023.

Notes to the Condensed Financial Statements

continued

4. SEGMENT REPORTING

4.1 Corporate Structure as at 30 June 2023



4.2 Identification of Reportable Segments

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

In respect of the period to 30 June 2023, segment information is presented for the three main departments within the company as described in the chart at Note 4.1 above.

- '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 2023.

Notes to the Condensed Financial Statements

continued

4. SEGMENT REPORTING (CONTINUED)

4.3 Segment Information – Comprehensive Income

	6 months to 30 June 2023				6 months to 30 June 2022			
	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL
Sale of goods	–	37,786	22,791	60,577	–	55,724	38,880	94,603
Less Inter-company sales				(27)				(796)
Net Sales	**–**	**37,786**	**22,791**	**60,550**	**–**	**55,724**	**38,880**	**93,807**
Cost of sales	–	(25,851)	(20,623)	(46,474)	–	(31,581)	(36,269)	(67,850)
Less Inter-company sales				27				796
Net Cost of Sales	**–**	**(25,851)**	**(20,623)**	**(46,447)**	**–**	**(31,581)**	**(36,269)**	**(67,053)**
Gross Profit	**–**	**11,935**	**2,168**	**14,103**	**–**	**24,143**	**2,610**	**26,753**
Other income	2	127	162	290	–	125	104	230
Interest expense	–	(164)	(125)	(288)	–	(126)	(259)	(385)
Impairment	–	(750)	(191)	(941)	–	–	–	–
Travel accommodation and meals	(82)	(201)	(132)	(415)	(73)	(85)	(67)	(225)
Research & development	–	(231)	(315)	(546)	(5)	(73)	(213)	(290)
Promotional activity	–	(53)	–	(53)	–	(77)	–	(77)
Information technology	(6)	(146)	(58)	(209)	(6)	(173)	(42)	(221)
Personnel	(754)	(2,998)	(805)	(4,557)	(977)	(2,845)	(747)	(4,569)
Depreciation & amortisation	–	(328)	(28)	(356)	(23)	(252)	(31)	(307)
Office expenses	(50)	(153)	(138)	(341)	(37)	(124)	(129)	(291)
Corporate	(379)	(1,334)	(301)	(2,014)	(288)	(1,143)	(191)	(1,623)
Foreign exchange gain/(loss)	(100)	(186)	(204)	(491)	148	734	(392)	491
Profit/(Loss) before income tax expense	**(1,369)**	**5,518**	**32**	**4,181**	**(1,262)**	**20,105**	**644**	**19,487**
Income tax expense	–	(1,703)	(80)	(1,784)	–	(5,509)	(179)	(5,688)
Profit/(Loss) after income tax expense	**(1,369)**	**3,815**	**(48)**	**2,397**	**(1,262)**	**14,596**	**465**	**13,799**
Other Comprehensive Income								
Movement in actuarial assessments	–	(110)	–	(110)	–	1,712	–	1,712
FX differences taken to Reserves – translation of overseas entities	35	1,432	(477)	990	163	(352)	(22)	(211)
Total Comprehensive Income	**(1,334)**	**5,137**	**(525)**	**3,277**	**(1,099)**	**15,956**	**443**	**15,300**

4.4 Segment Information – Balance Sheet

	30 June 2023				31 December 2022			
	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL
Segment assets	3,361	54,254	33,045	90,660	3,562	54,152	38,609	96,323
Segment liabilities	686	24,588	5,892	31,166	987	27,962	11,245	40,195
Segment net assets	**2,675**	**29,666**	**27,153**	**59,494**	**2,575**	**26,190**	**27,364**	**56,129**

Notes to the Condensed Financial Statements

continued

5. CONTINGENT ASSETS AND LIABILITIES

With respect to contingent assets and liabilities, these are unchanged compared with those disclosed in the Annual Report at 31 December 2022 as at the date of this report.

6. SHARE CAPITAL

	30 Jun 2023 $'000	31 Dec 2022 $'000
Opening balance of share capital attributable to members of MGL	59,174	58,918
Dividend Reinvestment Plan	285	269
Small parcel share buyback	–	–
Various costs associated with issue of shares	(10)	(13)
Share capital on issued ordinary shares 78,310,543 (2022: 77,521,835)	**59,449**	**59,174**

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 23 $'000	6 months to 30 Jun 22 $'000
Cash and cash equivalents at the beginning of the reporting period	**11,259**	**4,636**
Net cash (used)/generated in operating activities	11,472	8,914
Net cash provided by / (used in) investing activities	(1,463)	(915)
Net cash provided by / (used in) financing activities	(5,955)	(7,903)
Foreign exchange effects on total cash flow movement	105	23
Cash and cash equivalents at the end of the reporting period	**15,419**	**4,755**

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.

9. CALCULATION OF EARNINGS/(LOSS) PER SHARE

		6 months to 30 Jun 23	6 months to 30 Jun 22
Earning/(Loss) per share:			
Profit/(Loss) attributable to members of the parent entity	1	$2,397,453	$13,798,841
Average shares on issue for the period	2	77,796,358	76,729,210
Average performance rights on issue for the period	3	7,905,679	6,608,186
Basic Earnings/(Loss) per share (cents per share)	1 ÷ 2 × 100	3.1	18.0
Diluted Earnings/(Loss) per share (cents per share)	1 ÷ (2 +3) × 100	2.8	16.6

Notes to the Condensed Financial Statements

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10. OTHER INCOME IN COMPREHENSIVE INCOME STATEMENT

	6 months to 30 Jun 23 $'000	6 months to 30 Jun 22 $'000
Interest revenue	49	9
Government grants	–	93
Derivative market revaluation	(10)	34
Gain on disposal of fixed assets	124	–
Compensation received	116	–
Write back of provisions	3	52
Other adjustments	8	41
	290	**230**

11. TRADE RECEIVABLES, PAYABLES AND OTHER BALANCE SHEET ITEMS

11.1 Current Trade and Other Receivables

	30 Jun 2023 $'000	31 Dec 2022 $'000
Trade receivables (1)	10,391	18,324
Allowance for doubtful debts	(545)	(658)
	9,846	**17,666**
Net GST/VAT recoverable	620	224
Security deposits	34	–
Derivatives fair value adjustment	55	60
Notes and other receivables due to operating entities	6,215	6,847
	6,924	**7,131**
Total receivables	**16,770**	**24,797**

(1) Trade receivables represent 31.1 days sales at 30 Jun 23 (43.9 days sales at 30 Jun 22)

11.2 Current Trade and Other Payables

	30 Jun 2023 $'000	31 Dec 2022 $'000
Trade creditors (1)	6,639	7,841
Other creditors and accruals	2,911	4,185
	9,550	**12,026**

(1) Trade creditors represent 25.9 days cost of goods sold at 30 Jun 23 (33.2 days cost of goods sold at 30 Jun 22)

11.3 Related Party Disclosures

During the 6 months ended 30 June 2023, the Group made no payments for purchases of raw material from its substantial shareholder Qinghai Salt Lake Magnesium Co Limited. (30 June 2022: $nil). There are no balances outstanding as at 30 June 2023.

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.

Notes to the Condensed Financial Statements

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11. TRADE RECEIVABLES AND PAYABLES (CONTINUED)

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 2023 is presented below.

RIGHT OF USE ASSETS SUMMARY	6 months to 30 Jun 2023 $'000	12 months to 31 Dec 2022 $'000
Opening balance	**449**	**502**
Add new leased assets	53	232
Depreciation charge	(114)	(288)
FX movements	18	3
Closing balance	**406**	**449**

b. Lease liabilities

The movement in total lease liabilities during the 6 months to 30 June 2023 is presented below.

LEASE LIABILITY SUMMARY	6 months to 30 Jun 2023 $'000	12 months to 31 Dec 2022 $'000
Opening balance	**444**	**496**
Add new lease liabilities	53	232
Less unwind of lease liabilities	(113)	(287)
FX movements	18	3
Closing balance	**402**	**444**

LEASE LIABILITY SPLIT - CURRENT AND NON CURRENT	30 Jun 2023 $'000	31 Dec 2022 $'000
Lease liabilities recognised in the balance sheet		
Current	211	190
Non Current	191	254
Total lease liabilities recognised in the balance sheet	**402**	**444**

Notes to the Condensed Financial Statements

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Note 11.5 Impairment Consideration

During the period to 30 June 2023, indicators of impairment were present at the Magontec China Metals cash generating unit (CGU) including the lack of pure magnesium supply from QSLM. Therefore the value of the property, plant and equipment (carrying value $4.8 million) contained in the China Metals CGU was tested for impairment at balance date.

The recoverable amount of the Magontec China Metals CGU was determined with reference to its value in use.

In calculating the estimated value in use, the Group first assumed a discount rate of 7.9% based on external country risk data for China. Cashflow forecasts were estimated over a 20 year period to reflect the length of the co-operation agreements with QSLM, and the Group's extensive experience with operating similar assets. Beyond the forecast period, the terminal growth rate assumed was -5.6% (decline).

In order to reflect the risks associated with the underlying forecast cash flows, the Group reduced the two key operating assumptions - long term Mg Alloy sales volume and long term profitability per tonne - relative to the plant's capacity and profitability potential. The Group also utilised its past operating experience with the Magontec Qinghai Mg Alloy plant (and other similar assets) as well as the conditions set out in the co-operation agreements with QSLM to form its estimates.

As the value in use was higher than the carrying value, no impairment loss was deemed necessary as at 30 June 2023 in the China Metals CGU.

12. BORROWINGS

	30 Jun 2023	30 Jun 2023	30 Jun 2023	31 Dec 2022	31 Dec 2022	31 Dec 2022
	$'000	Maturity Date	Interest pa	$'000	Maturity Date	Interest pa
Bank & Institutional Borrowings						
Magontec GmbH (Bank Loan) (1)	–	30-Nov-23	5.13%	–	30-Nov-23	3.68%
Magontec GmbH (Bank Loan) (1)	410	31-Dec-23	1.85%	788	31-Dec-23	1.85%
Magontec GmbH (Factoring Facility) (3)	1,951	28-Feb-25	4.78%	1,203	28-Feb-25	3.33%
Magontec SRL (Working Capital Facility) (2)	1,328	28-Feb-24	7.83%	1,923	28-Feb-23	8.31%
Magontec Xi'an Limited (Bank Loan) (5)	1,656	06-Jun-24	3.00%	6,584	12-Jun-23	3.18%
Total Bank Borrowings	**5,345**			**10,498**		
Bank Borrowings Maturity Profile						
Current	3,394			9,295		
Non Current	–			–		
Total Borrowings on Balance Sheet	**3,394**			**9,295**		
Factoring facility (offset against trade receivables)	1,951			1,203		
Total Borrowings	**5,345**			**10,498**		

(1) These borrowings are secured by a charge over MAB's trade debtors to the extent of €533,000 ($873,000) and inventory of €5,431,000 ($8,901,000) plus land & buildings.

(2) These borrowings are secured by a charge over MAR's trade debtors and inventory to the extent of RON 26,767,000 ($8,849,000) plus land & buildings.

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

Notes to the Condensed Financial Statements

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13. RESERVES

	6 months to 30 Jun 2023 $'000	12 months to 31 Dec 2022 $'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	4,250	3,766
Movement in VHL Consolidated accounts	990	484
Balance at end of financial year	**5,240**	**4,250**
Actuarial Reserves		
Balance at beginning of financial year	(567)	(3,373)
Deferred tax assets	54	(1,382)
Employee pensions	(164)	4,188
Balance at end of financial year	**(677)**	**(567)**
Expired Options Reserve		
Balance at beginning of financial year	1,637	1,637
Balance at end of financial year	**1,637**	**1,637**
Share Issue Reserve		
Balance at beginning of financial year	627	373
Fair value of performance rights issued for future periods	278	253
Balance at end of financial year	**904**	**627**
Profit Reserve		
Balance at beginning of financial year	6,857	–
Transferred to reserve	–	7,317
Dividends paid	(465)	(460)
Balance at end of financial year	**6,392**	**6,857**
Total reserves	**16,246**	**15,554**
Other Comprehensive Income		
FX differences taken to reserves in equity – translation of overseas entities	990	484
Movement in actuarial assessments	(110)	2,806
Total Other Comprehensive Income	**880**	**3,290**

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,
29 August 2023

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