

MAGONTEC LIMITED NOTICE OF EXTRAORDINARY GENERAL MEETING



Message from the Chairman

On behalf of the Board, I am pleased to invite you to an Extraordinary General Meeting (**EGM**) of Magontec Limited. The meeting will be held in person at Level 2, Suite 1, 139-141 Macquarie Street, Sydney NSW 2000 on **Wednesday, 5 February 2025** starting at **11:00am** (AEDT).

On 1 November 2024, the Company announced to the ASX that it had entered into a Memorandum of Settlement (**MoS**) with QSLM that addressed outstanding issues between the two companies. As at the date of this Notice, QSLM is Magontec's largest Shareholder with 28.48% of the Shares on issue.

The substance of the MoS (the **Transaction**) is that Magontec will selectively buy-back the shares held by QSLM for a consideration equivalent to the fair market value of certain Qinghai cast house plant and equipment (showing as nil value in our half year results for 2024) and fair market value of current and future claims against QSLM (net of QSLM counter claims).

The MoS was conditional on a number of approvals including the approval by a meeting of creditors of QSLM and acceptance by a court in Xining, Qinghai province PRC, that has oversight of QSLM's restructuring process. On 6 November 2024, the QSLM Creditors Meeting approved the restructuring proposal, and, on 11 November 2024, the Xining court approved the resolutions of the Creditors Meeting.

In accordance with the conditions of the MoS, Shareholders will be asked to approve two resolutions at this EGM in connection with the MoS:

- **Resolution 1:** an ordinary resolution to approve the MoS between Magontec and QSLM, and the matters/transactions agreed as part of the MoS (including, but not limited to, the transfer of ownership by Magontec of certain fixed assets owned by its Qinghai subsidiary, Magontec Qinghai Co Ltd, to QSLM) (**Proposed Transaction**) for the purposes of ASX Listing Rule 10.1 and the related party provisions of the Corporations Act; and
- **Resolution 2:** the second resolution is a special resolution to approve the terms of a selective buy-back of up to 22,681,940 Shares held by QSLM under section 257D(1)(a) of the Corporations Act and ASX Listing Rule 10.1 (**Buy-back**).

The Resolutions are inter-conditional, meaning that each of them will only take effect if both of them are approved by the requisite majority of Shareholders' votes at the Meeting. If any one of the Resolutions is not approved at the Meeting, none of the Resolutions will take effect and the Proposed Transaction, the Buy-back and other matters contemplated by the Resolutions will not be completed pursuant to this Notice.

The Notice and Explanatory Notes in the following pages provide further details on both Resolutions, including the Board's voting recommendations and the Independent Directors' Report. Shareholders should also refer to the announcements lodged by Magontec with the ASX on 1 November 2024, 4 November 2024 and 12 November 2024 for further information relating to the MoS.

The Board requested Grant Thornton Corporate Finance to prepare an Independent Experts Report ("IER") providing an opinion on whether the substance of the Transaction was fair and reasonable to non-associated shareholders.

The Independent Expert concluded that the Transaction is **FAIR and REASONABLE** to Non-Associated Shareholders (other than QSLM and its Associates). The Shareholders are encouraged to read the full report which is included at Appendix 1 to this Notice and on our website.

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All Directors eligible to make a recommendation to Shareholders (being all the Directors, other than Mr Xing Cai Li, who is a nominee director of QSLM) recommend Shareholders vote in favour of both the Resolutions.

The EGM will be conducted in person and will be held at Magontec's Sydney Office at Level 2, Suite 1, 139-141 Macquarie Street, Sydney NSW 2000. Please note that the location has changed from the 2024 annual general meeting but is within 5 minutes walking distance.

We understand that this is a busy period. As at previous AGMs Shareholders are welcome to attend in person or submit a proxy up to 48 hours prior to the scheduled meeting time (in the manner described in the accompanying Notice of Meeting).

This information is also available on the Company's website www.magontec.com/investor-centre/egm2025. Shareholders are encouraged to check the website for any changes in time or location prior to attending.

I look forward to welcoming you to Magontec's Extraordinary General Meeting.

A handwritten signature in black ink, appearing to read "N. Andrews", with a long horizontal stroke extending to the right.

Nicholas Andrews
Chairman

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How to participate at the Extraordinary General Meeting

An Extraordinary General Meeting (EGM) of Magontec Limited (ACN 010 441 666) will be held on **Wednesday, 5 February 2025** at 11:00am (AEDT).

Venue

Shareholders (and duly appointed proxies, corporate representatives and attorneys of Shareholders) can attend the EGM in person at Magontec's Sydney office at Level 2, Suite 1, 139-141 Macquarie Street, Sydney NSW 2000.

Registration

Shareholders and their duly appointed proxies, corporate representatives and attorneys attending the EGM can register at the venue from 10:30am (AEDT) on the day of the EGM.

Determination of Voting Entitlement

You will be eligible to vote at the EGM (or at any adjourned meeting) if you are registered as a holder of Magontec Shares at 7:00pm (AEDT) on **Monday, 3 February 2025** (subject to the applicable voting exclusions set out in this Notice of Meeting). This means that transfers of Shares registered after that time will be disregarded in determining entitlements to attend the EGM and vote on the Resolutions.

Voting at the Meeting

Each of the Resolutions set out in this Notice of Meeting will be decided by a poll in accordance with the Constitution and section 250JA of the Corporations Act.

Every member present in person or by proxy or attorney or other duly authorised representative shall have one vote for every Share held by that member.

Shareholders entitled to vote at the EGM may vote by either:

- (a) attending the meeting and voting in person; or
- (b) appointing a proxy, attorney or, if you are a body corporate, a duly appointed corporate representative to attend and vote at the meeting on your behalf (in the manner described below).

If Shareholders are unable to attend the EGM in person, they are encouraged to appoint a proxy to attend in person and vote on their behalf in accordance with the instructions contained in this Notice of Meeting. The appointment of one or more duly appointed proxies will not preclude a Shareholder from attending the EGM and voting personally. If the member votes on a Resolution, the proxy must not vote as the member's proxy on that Resolution.

Joint Holders

If a Share is held jointly, and more than one Shareholder votes in respect of that Share, only the vote of the Shareholder whose name appears first in the register of members of the Company counts.

Appointing a Proxy

A Shareholder entitled to attend and vote at the EGM may appoint a proxy to attend the EGM in person and vote at the EGM on behalf of the Shareholder. A proxy may be an individual or a body corporate. If the Shareholder is entitled to cast more than two votes, the Shareholder may appoint two proxies to attend and vote instead of the Shareholder and may specify the proportion or number of votes each proxy is appointed to exercise on a poll. If

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no such specification is given and two proxies are appointed, each may exercise half the votes to which the member is entitled (disregarding fractions) on a poll. A proxy need not be a Shareholder. Proxies must be executed in accordance with the instructions in the notes accompanying the proxy form.

To be valid, the signed proxy form (together with an original or certified copy of the power of attorney or other authority under which it is signed, if applicable) must be:

- lodged with Boardroom Pty Limited by hand at Level 8, 210 George Street, Sydney NSW 2000 during business hours (Monday to Friday (excluding public holidays), between 9:00am and 5:00pm (AEDT));
- lodged electronically by going online at www.votingonline.com.au/mglegm2025;
- delivered by post to Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001; or
- sent by facsimile to Boardroom Pty Limited on +61 2 9290 9655,

and, in each case, must be received by Boardroom Pty Limited (or, in the case of electronic lodgements, lodged online) by no later than 11:00am (AEDT) on **Monday, 3 February 2025**, being not less than 48 hours before the scheduled time for holding the meeting. Any proxy form received after this time will not be valid. Further instructions on appointing proxies are available on the proxy form.

If a body corporate is appointed as proxy, please write the full name of that body corporate (e.g. Company X Pty Ltd). Do not use abbreviations. The body corporate will need to ensure that it:

- appoints an individual as its corporate representative to exercise its powers at meetings, in accordance with section 250D of the Corporations Act; and
- provides satisfactory evidence of the appointment of its corporate representative prior to commencement of the meeting.

If no such evidence is received before the meeting, then the body corporate (through its representative) will not be permitted to act as your proxy.

The appointment of one or more duly appointed proxies will not preclude a Shareholder from attending the EGM and voting personally. If the member votes on a Resolution, the proxy must not vote as the member's proxy on that Resolution.

Enclosed is a proxy form to be completed if you would like to be represented at the EGM by proxy. The proxy form also provides instructions on how to lodge your proxy online.

Chairman's Voting Intentions

If you appoint the Chairman as your proxy (or the Chairman is appointed by default) and you do not specifically direct how your proxy is to vote on a Resolution, then, by completing and submitting your proxy form (or, if the proxy is appointed online, by directing the proxy how to vote on the relevant Resolution in accordance with the instructions on the website), you will be expressly authorising the Chairman to exercise your proxy as the Chairman sees fit in relation to the applicable Resolution.

The Chairman intends to vote all available (including undirected proxies) **IN FAVOUR** of Resolutions 1 and 2, subject to the applicable voting exclusions set out in this Notice of Meeting. In exceptional circumstances, the Chairman's intentions may change. If there is a change to how the Chairman intends to vote available (including undirected) proxies, the Company will make an immediate announcement to the ASX stating that fact and explaining the reasons for the change.

The Chairman's decision on the validity of a vote cast by a proxy or a vote cast by a Shareholder (including by body corporate representative or attorney) is conclusive.

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Board Recommendation on Resolutions

All Directors eligible to make a recommendation to Shareholders (being all the Directors, other than Mr Xing Cai Li, who is a nominee director of QSLM) recommend Shareholders vote in favour of both the Resolutions.

Reasons to vote in favour of the Resolutions or reasons why you may choose to vote against the Resolutions are set out in the Explanatory Notes.

Independent Directors' Report

The Independent Directors of the Company comprise the following Directors:

- Robert Kaye SC;
- Andre Labuschagne;
- Atul Malhotra; and
- Zhong Jun Li.

Your Independent Directors have considered the advantages and disadvantages of the MoS, and unanimously recommend that you vote in favour of the MoS and associated Resolutions, subject to the Independent Expert continuing to conclude that:

- the MoS is fair and reasonable to Shareholders (other than QSLM and its Associates); and
- the Buy-back is fair and reasonable to Shareholders (other than QSLM and its Associates).

Subject to those same qualifications, each of your Independent Directors intends to vote, or cause to be voted, all Shares held or Controlled by them in favour of Resolutions 1 and 2.

Independent Expert's Report

Your Directors appointed Grant Thornton Corporate Finance Pty Limited as the Independent Expert. The Independent Expert has concluded that:

- the MoS and the Proposed Transaction (the subject of Resolution 1) is fair and reasonable to Shareholders (other than QSLM and its Associates); and
- the Buy-back (the subject of Resolution 2) is fair and reasonable to Shareholders (other than QSLM and its Associates).

The Independent Expert has assessed the full underlying value of Magontec assets being transferred and market value of its current and future claims against QSLM at between A\$(0.11) and A\$0.50. A complete copy of the Independent Expert's Report is included at Appendix 1 to this Notice.

Questions / Comments from Shareholders

In accordance with the Corporations Act, a reasonable opportunity will be provided to Shareholders (and the duly appointed proxies, attorneys and corporate representatives of Shareholders) to ask questions about, or to make comments upon, the matters in relation to the Company and the Resolutions being considered at the EGM. The following process will be adopted:

- a) Shareholders physically attending the meeting – pose questions/comments verbally in the customary format.
- b) Shareholders not physically attending the meeting (or who may prefer to register questions or comments in advance of the EGM) – submit any questions/comments in writing to the Company by email to: cosec@magontec.com by 11:00am (AEDT) on **Monday, 3 February 2025**.

During the meeting, the Chairman will seek to address as many Shareholder questions as reasonably practicable, and where appropriate, will give the opportunity to answer both spontaneous and written questions in relation to the resolutions. However, there may not be sufficient time to answer all questions at

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the EGM. Please note that individual responses will not be sent to Shareholders in respect of questions asked.

Definitions

Words that are defined in the Glossary have the same meaning when used in this Notice of Meeting unless the context requires, or the definitions in the Glossary provide, otherwise.

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This document constitutes the Notice of Meeting for an Extraordinary General Meeting (“EGM” or “Meeting”) of shareholders of Magontec Limited (ACN 010 441 666) (the “Company”, “Magontec” or “MGL”) to be held in person at Level 2, Suite 1, 139-141 Macquarie Street, Sydney NSW 2000 on Wednesday, 5 February 2025 starting at 11:00am (AEDT).

This Notice of Meeting is available for viewing on the Company’s website at www.magontec.com and then by following the tab “Investor Centre”, or alternatively by copying this address into your web browser: www.magontec.com/investor-centre/egm2025

Items of Business

(For full details on each Resolution to be considered at the EGM, refer to the Explanatory Notes at the foot of this Notice (which form part of this Notice of Meeting)).

ITEM 1: Approval of Memorandum of Settlement between MGL and QSLM

Resolution 1:

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of ASX Listing Rule 10.1, Chapter 2E of the Corporations Act and for all other purposes, subject to and conditional on the passing of Resolution 2, approval is given for the Memorandum of Settlement (MoS) between Magontec Limited and Qinghai Salt Lake Magnesium Co Limited (QSLM) dated 31 October 2024 (that addresses and resolves outstanding issues between the two companies) and for Magontec to proceed with the matters and transactions agreed as part of the MoS (including, but not limited to, the transfer of ownership by Magontec of certain fixed assets owned by its Qinghai subsidiary, Magontec Qinghai Co Ltd, to QSLM) (**Proposed Transaction**), on the terms and conditions set out in the Explanatory Notes.”*

Note: The Resolutions are inter-conditional, meaning that each of them will only take effect if both of them are approved by the requisite majority of Shareholders’ votes at the Meeting. If any one of the Resolutions is not approved at the Meeting, none of the Resolutions will take effect and the Proposed Transaction, the Buy-back and other matters contemplated by the Resolutions will not be completed pursuant to this Notice.

Note: A voting exclusion statement applies to this item of business. See the section below headed ‘Voting Exclusion Statement – Resolution 1’ in the Explanatory Notes for further details.

Note: Shareholders should carefully consider the report prepared by the Independent Expert. The Independent Expert’s Report considers the fairness and reasonableness of the Proposed Transaction the subject of this Resolution to the Shareholders who are not associated with QSLM. The Independent Expert has determined that the outcome of Resolution 1, if passed, is **fair and reasonable** to the Shareholders who are not associated with QSLM. The Independent Expert’s Report is attached to this Notice of Meeting as Appendix 1.

ITEM 2: Approval of selective buy-back from QSLM

Resolution 2:

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

*“That, for the purposes of section 257D(1)(a) of the Corporations Act, ASX Listing Rule 10.1 and for all other purposes, subject to and conditional on the passing of Resolution 1, approval is given for the Company to selectively buy back and cancel 22,681,940 Shares currently held by QSLM in accordance with the MoS and on the terms and conditions set out in the Explanatory Notes, with effect from as soon as practicable after the meeting or no later than 14 February 2025 (**Buy-back**).”*

Note: The Resolutions are inter-conditional, meaning that each of them will only take effect if both of them are approved by the requisite majority of Shareholders’ votes at the Meeting. If any one of the Resolutions is not approved at the Meeting, none of the Resolutions will take effect and the Proposed Transaction, the Buy-back and other matters contemplated by the Resolutions will not be completed pursuant to this Notice.

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Note: A voting exclusion statement applies to this item of business. See the section below headed 'Voting exclusion statement – Resolution 2' in the Explanatory Notes for further details.

Note: Shareholders should carefully consider the report prepared by the Independent Expert. The Independent Expert's Report considers the fairness and reasonableness of the Buy-back to the Shareholders who are not associated with QSLM. The Independent Expert has determined that the outcome of Resolution 2, if passed, is **fair and reasonable** to the Shareholders who are not associated with QSLM. The Independent Expert's Report is attached to this Notice of Meeting as Appendix 1.

EXPLANATORY NOTES

These Explanatory Notes form part of this Notice of Meeting and should be read in conjunction with it. These Explanatory Notes have been prepared to provide Shareholders with important information regarding the items of business proposed for consideration at the EGM.

ITEM 1 - APPROVAL OF MEMORANDUM OF SETTLEMENT BETWEEN MGL AND QSLM

1.1 BACKGROUND

In 2012 and 2014, Magontec and QSLM entered into several agreements that, inter alia, committed Magontec to the construction and operation of a magnesium alloy cast house at Golmud in Qinghai province, China and committed QSLM to the production and sale to Magontec of low emission pure magnesium from its electrolytic magnesium smelter under construction on the same site.

By July of 2024, QSLM's electrolytic magnesium smelter had been unable to commence production or supply Magontec's cast house facility under the terms of the agreements.

1.2 QSLM Restructuring Plan

On 16 October 2019, the Intermediate People's Court of Xining Municipality, Qinghai province, ruled to accept a restructuring of QSLM and appointed an administrator to manage that process.

The QSLM Summary Restructuring Plan dated 22 October 2024 (**QSLM Summary Restructuring Plan**) proposed by the administrator indicated that creditors will be required to settle at a substantial discount and referred to total assets of ¥8.25 billion based on an 'Asset Appraisal Report' dated 30 March 2024. This compared against total liabilities of ¥43.2 billion with a maximum estimated payout expected to be 6.51% of amounts owed after deducting costs. At the time, QSLM and the administrator indicated to creditors that even this debt repayment rate was uncertain.

Claims made by Magontec under its operating agreements with QSLM fall in the category of 'Ordinary Claims' that are expected to receive the 6.51% repayment rate as contemplated in the QSLM Summary Restructuring Plan. Furthermore, the QSLM Restructuring Plan stated that to the extent claims exceed ¥650,000 (which would include almost all of those paid to MGL if it were successful), this would be paid in the form of shares in QSLM with overall creditor shares being a minority interest in the restructured QSLM unlisted entity.

On 6 November 2024, the QSLM Summary Restructuring Plan put forward by the administrators to QSLM was approved by creditors. This plan included the Memorandum of Settlement between QSLM and Magontec. On 11 November 2024, the restructuring plan was approved by a court in Xining, Qinghai province PRC.

1.3 Memorandum of Settlement

By letter dated 21 July 2024, QSLM purported to terminate all the agreements between itself and Magontec.

In accordance with the termination clauses in the applicable agreements and because of actions taken by both parties over the period since QSLM entered administration, several claims arose between the parties.

Both parties indicated a desire to affect a speedy resolution of these issues without resorting to lengthy and expensive legal processes in Australia and/or China.

Following legal advice received by Magontec, consideration by the Board¹ and discussion with QSLM stakeholders, a MoS was prepared and executed between the parties on 31 October 2024 addressing these claims.

¹ Excluding Mr Xing Cai Li, who is a nominee director of QSLM.

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Due to the conflict of interest of Mr Xing Cai Li had as Director of both Magontec and QHAM (QSLM major shareholder), at all times of Board deliberations, he was excused from the discussions. Mr Xing Cai Li was removed from the circulation of any legal advice, internal communication or financial information pertaining to the transaction, financial performance of our Chinese operations or future plans as a result of the transaction.

The MoS includes the following material terms:

Table 1: Summary of Memorandum of Settlement

Key Terms
<ul style="list-style-type: none">• Magontec agrees to swap all its current and future potential claims against QSLM for all the fully paid ordinary Magontec Shares held by QSLM.• Magontec agrees to transfer ownership of certain fixed assets owned by its Qinghai subsidiary, Magontec Qinghai Co Ltd, to QSLM for zero cash consideration.• Each party agrees to irrevocably waive all rights of action, objection or arbitration and to withdraw all claims.• Mr Xing Cai Li, the representative of QSLM on the Board, will resign and the right to further Board representation for QSLM will expire.

Further details of the MoS are contained in the Company's ASX announcements dated 1 November 2024, 4 November 2024 and 12 November 2024, and the Independent Expert's Report accompanying this Notice at Appendix 1. As noted in the announcement made to the ASX on 4 November 2024, the MoS is subject to Shareholder approval at this EGM pursuant to ASX Listing Rule 10.1.

1.4 Information requirements – Listing Rules 10.1 and 10.5

Resolution 1 seeks Shareholder approval for the purposes of Listing Rule 10.1 and for all other purposes for the MoS and the matters/transactions agreed as part of the MoS (including, but not limited to, the transfer of ownership by Magontec of certain fixed assets owned by its Qinghai subsidiary, Magontec Qinghai Co Ltd, to QSLM).

Listing Rule 10.1 provides that a company must not acquire or agree to acquire a substantial asset from, or dispose of or agree to dispose of a substantial asset to:

- (a) a related party of the entity (Listing Rule 10.1.1);
- (b) a child entity of the entity (Listing Rule 10.1.2);
- (c) a person who is, or who was at any time in the 6 months before the transaction or agreement, a substantial (10%+) holder in the entity (Listing Rule 10.1.3);
- (d) an associate of a person referred to in Listing Rules 10.1.1 to 10.1.3 (Listing Rule 10.1.4); or
- (e) a person whose relationship to the entity or a person referred to in Listing Rules 10.1.1 to 10.1.4 is such that, in ASX's opinion, the transaction should be approved by shareholders (Listing Rule 10.1.5),

unless it obtains the approval of its shareholders.

QSLM is a substantial (10%+) holder in Magontec given it holds 28.48% of the Shares on issue. While the value of the assets being disposed of by Magontec under the MoS (being certain fixed assets owned by its Qinghai subsidiary, Magontec Qinghai Co Ltd) does not exceed 5% of the Company's "equity interests" (as defined in the Listing Rules) by reference to its latest financial accounts lodged with ASX, the value of the disposed assets prior to the impairment that occurred in June 2024 was \$3.652m which represents 6.67% of the Company's "equity interests" (as defined in the Listing Rules) by reference to the 30 June 2024 pre-impairment balance sheet of the Company that was lodged with the ASX. Accordingly, Magontec is seeking Shareholder approval for the purposes of Listing Rule 10.1.

If Resolution 1 is passed, the Company will propose Resolution 2 to the EGM and, if Resolution 2 is passed as a special resolution (that is, with at least 75% of the votes cast by Shareholders entitled to vote on Resolution 2 being in favour of

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Resolution 2), the Company will be able to proceed with the Proposed Transaction and give effect to the matters contemplated in the MoS.

If Resolution 1 is not passed:

- the Company will not be able to give effect to the matters contemplated in the MoS and the Proposed Transaction will not proceed (and Resolution 2 will not be put to the EGM);
- QSLM will remain a Shareholder, which may result in the requirement for Magontec to proceed with legal action in both Australia and/or China for compensation under the contracts; and
- Mr Xing Cai Li will remain on the Board representing the interests of QSLM.

The following further information is provided to Shareholders for the purposes of Listing Rule 10.5.

Name of the person from whom the Company is disposing the substantial asset	The Company is disposing of the substantial asset under the MoS to QSLM.
Which category in Listing Rules 10.1.1 – 10.1.5 the person falls within and why	QSLM is a substantial (10%+) holder given it holds 28.48% of the Shares on issue. Accordingly, QSLM falls into the category of Listing Rule 10.1.3.
Details of the asset being disposed of	<p>Pursuant to the Proposed Transaction, the Company is:</p> <ul style="list-style-type: none"> • disposing of certain operating fixed assets used in the production facility located at QSLM property and owned by its Qinghai subsidiary, Magontec Qinghai Co Ltd, to QSLM. These assets include production equipment, electrical equipment, furniture, vehicles and other machinery. The assets being disposed of have been fully written down in the most recent financial accounts lodged by Magontec with the ASX. Prior to the 30 June 2024 impairment, the written down value of the applicable assets was \$3.652m; and • waiving all rights of action, objection and arbitration and withdrawing all claims against QSLM. Note that no claims have been recognised in the financial accounts of Magontec or its Qinghai subsidiary, Magontec Qinghai Co Ltd.
Consideration for the disposal	<p>The disposal of the assets contemplated by this Resolution (that is, certain fixed assets owned by Magontec’s Qinghai subsidiary, Magontec Qinghai Co Ltd) is for zero cash consideration. However, as part of the MoS:</p> <ul style="list-style-type: none"> • Magontec has agreed to swap all its current and future potential claims against QSLM for all the Shares held by QSLM; • all debts payable to QSLM by Magontec and its subsidiaries are forgiven and cancelled; and • each party has agreed to irrevocably waive all rights of action, objection or arbitration and to withdraw all claims.
Use of proceeds (if any) from the Proposed Transaction	As the Company has agreed to dispose of the relevant fixed assets owned by its Qinghai subsidiary, Magontec Qinghai Co Ltd, to QSLM for zero cash consideration, there will be no proceeds received from the Proposed Transaction.
Timetable for completing the Proposed Transaction	If Resolution 1 is passed, the Company will propose Resolution 2 to the EGM and, if Resolution 2 is passed as a special resolution, the Company will be able to proceed with the Proposed Transaction and give effect to the matters contemplated in the MoS. If both Resolutions are passed at this EGM, the assets to be transferred to QSLM under the MoS will be given effect on

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	completion of the Buy-back (being as soon as practicable after the meeting or no later than 14 February 2025).
Summary of the material terms of the MoS	The material terms of the MoS are set out above (see the section of the Explanatory Notes entitled 'Table 1: Summary of Memorandum of Settlement').
Voting exclusion statement	A voting exclusion statement applies to this Resolution. See the section below headed 'Voting Exclusion Statement – Resolution 1' in the Explanatory Notes for further details.

1.5 Independent Expert's Report

Listing Rule 10.5.10 requires a notice of meeting containing a resolution under Listing Rule 10.1 to include a report on the transaction from an independent expert stating the expert's opinion as to whether the transaction is fair and reasonable to holders of the entity's ordinary securities whose votes are not to be disregarded.

The Independent Expert's Report accompanying this Notice sets out a detailed independent examination of the Proposed Transaction to enable non-associated Shareholders to assess the merits and decide whether to approve Resolution 1. The Independent Expert has concluded that the Proposed Transaction is **fair and reasonable** to the non-associated Shareholders.

Shareholders are urged to carefully read the Independent Expert's Report to understand its scope, methodology of the valuation and the sources of information and assumptions made.

The Independent Expert's Report is also available on the Company's website (<https://www.magontec.com/investor-centre/egm2025>). If requested by a Shareholder, the Company will send to the Shareholder a hard copy of the Independent Expert's Report at no cost.

Chapter 2E of the Corporations Act

The objective of the related party provisions in Chapter 2E of the Corporations Act is to protect the interests of members of public companies by requiring member approval for giving financial benefits that could endanger members' interests.

Section 208 of the Corporations Act provides that the giving of a financial benefit by a public company to a related party requires shareholder approval, unless an exception applies.

A 'related party' is defined widely in section 228 of the Corporations Act and includes, relevantly:

- a) a director (or proposed director) of a public company;
- b) any entity that is controlled by a director of the public company;
- c) spouses of a director of the public company; and
- d) children of a director of the public company.

QSLM is deemed a 'related party' by Magontec for the purposes and objectives of Chapter 2E and section 228 of the Corporations Act when considering the following relevant information:

- Mr Xing Cai Li is a Director of Magontec (a public company) and a director of QSLM's major shareholder, Qinghai Huixin Asset Management Co Ltd (QHAM);
- QSLM is the largest Shareholder of Magontec, holding at the date of this Notice 22,681,940 Shares (representing 28.48% of the issued capital of the Company); and
- QSLM relationship and agreements with Magontec (referred to in Item 1.1 of these Explanatory Notes) were part of the company's future plans for supply of magnesium raw material.

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A 'financial benefit' for the purposes of the Corporations Act has a wide application. By virtue of the MoS, QSLM is receiving a financial benefit in the form of assets and a waiver by Magontec of any current and future claims against it. Accordingly, the matters agreed as part of the MoS constitute the giving of a financial benefit to a related party of Magontec for the purposes of Chapter 2E.

Those matters therefore require the approval of Shareholders under Chapter 2E of the Corporations Act, unless a relevant exception applies. In accordance with section 210 of the Corporations Act, shareholder approval is not needed to give a financial benefit on terms that:

- would be reasonable in the circumstances, if the company and the related party were dealing at arm's length; or
- are less favourable to the related party than the terms referred to above.

While the non-interested Directors have no reason to believe that the MoS was not entered into on arms' length terms, the Board has determined to seek Shareholder approval of the matters agreed as part of the MoS pursuant to Chapter 2E of the Corporations Act given Shareholder approval is already required under Listing Rule 10.1.

Specific information required by Chapter 2E of the Corporations Act

In accordance with section 219 of the Corporations Act, the following information is provided in relation to the Proposed Transaction:

<p>Identity of the related party</p>	<p>QSLM is the related party to whom Resolution 1 would permit a financial benefit to be given.</p> <p>QSLM is deemed a 'related party' by Magontec for the purposes and objectives of Chapter 2E and section 228 of the Corporations Act when considering the following relevant information:</p> <ul style="list-style-type: none"> • Mr Xing Cai Li is a Director of Magontec (a public company) and a director of QSLM's major shareholder, Qinghai Huixin Asset Management Co Ltd (QHAM); • QSLM is the largest Shareholder of Magontec, holding at the date of this Notice 22,681,940 Shares (representing 28.48% of the issued capital of the Company); and • QSLM relationship and agreements with Magontec (referred to in Item 1.1 of these Explanatory Notes) are central to its long-term strategy for production of low emission magnesium.
<p>Nature of the financial benefit</p>	<p>QSLM is receiving a financial benefit by virtue of the Company disposing of certain operating fixed assets used in the production facility located at QSLM property and owned by its Qinghai subsidiary, Magontec Qinghai Co Ltd, to QSLM.</p> <p>These assets include production equipment, electrical equipment, furniture, vehicles and other machinery. The assets being disposed of have been fully written down in the most recent financial accounts lodged by Magontec with the ASX. Prior to the 30 June 2024 impairment, the written down value of the applicable assets was \$3.652m.</p> <p>In addition, as part of the MoS:</p> <ul style="list-style-type: none"> • Magontec has agreed to swap all its current and future potential claims against QSLM for all the Shares held by QSLM; • all debts payable to QSLM by Magontec and its subsidiaries are forgiven and cancelled; and • each party has agreed to irrevocably waive all rights of action, objection or arbitration and to withdraw all claims. <p>As the Company has agreed to purchase the Shares from QSLM under the buy-back for nil consideration, no funds will be expended for the Buy-back. Furthermore, the fixed assets being transferred from Magontec to QSLM had already been written down to zero as at 30</p>

MAGONTEC LIMITED

NOTICE OF EXTRAORDINARY GENERAL MEETING



	<p>June 2024 and will be transferred for zero cash consideration. Accordingly, it is expected that there will be no direct financial effect on the Company.</p> <p>If Resolution 1 is not passed:</p> <ul style="list-style-type: none"> the Company will not be able to give effect to the matters contemplated in the MoS and the Proposed Transaction will not proceed (and Resolution 2 will not be put to the EGM); QSLM will remain a Shareholder, which may result in the requirement for Magontec to proceed with legal action in both Australia and/or China for compensation under the contracts; and Mr Xing Cai Li will remain on the Board representing the interests of QSLM. <p>The reasons for the Company proposing to give the financial benefit to QSLM pursuant to this Resolution 1 are set out in Sections 1.1, 1.2 and 1.3 of these Explanatory Notes.</p>
Valuation of the financial benefit	<p>The operating assets being disposed of had no book value on 30 June 2024 or at the time of the transaction.</p> <p>The value of the consideration was considered by the Independent Expert, and the pricing methodology is set out in the Independent Expert's Report.</p>
Directors' interest in the outcome of the Resolution	<p>Other than Mr Xing Cai Li, who is a nominee director of QSLM, no Directors have any interests in the outcome of the Resolution that is in addition to or inconsistent with non-associated Shareholders (e.g., Directors with Shares will receive the same benefits as all non-associated Shareholders).</p> <p>Mr Xing Cai Li did not participate in discussions or voting on the Proposed Transaction and has been excluded from voting on Resolution 1 at this Meeting on the basis that Magontec considers him to be a related party.</p>
Existing relevant interests	<p>QSLM is Magontec's largest Shareholder with 28.48% of the Shares on issue as at the date of this Notice. However, if the Buy-back the subject of Resolution 2 is implemented, QSLM will not hold any Shares.</p>

Directors' recommendation

The Directors (in the absence Mr Xing Cai Li) recommend that Shareholders vote in favour of Resolution 1.

The Directors have considered the advantages and disadvantages of the Memorandum of Settlement summarised in the section of the Explanatory Notes entitled 'Advantages and disadvantages of Resolution 1 and Resolution 2', including consideration of alternative options, risks associated with each option and the costs associated with both the recommendation and the alternatives.

In assessing alternative options, specifically pursuing legal action in Australia and China, the Directors obtained legal advice which considered the jurisdiction under which each relevant agreement was presided under, potential basis for claims, estimated costs for proceeding in each jurisdiction and likely outcomes.

The Directors deemed that the risks and costs associated with alternative options to the Proposed Transaction far outweighed the advantages relating to proceeding with the Proposed Transaction and the greater certainty that it provided Magontec and its non-associated Shareholders.

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The Directors (in the absence of Mr Xing Cai Li) are not aware of any other information that would reasonably be required by the Shareholders to allow them to make a decision whether or not it is in the best interests of the Company to pass Resolution 1.

Mr Xing Cai Li declines to make a recommendation about Resolution 1 as it relates to matters involving QSLM as a result of being the appointee of QSLM and being General Manager and a director of QSLM's major shareholder Qinghai Huixin Asset Management Co Ltd (QHAM).

VOTING EXCLUSION STATEMENT – RESOLUTION 1

The Company will disregard any votes cast in favour of Resolution 1 by or on behalf of:

- QSLM and any other person who will obtain a material benefit as a result of the Proposed Transaction (except a benefit solely by reason of being a holder of ordinary securities in the entity); or
- an Associate of those persons.

However, the Company need not disregard a vote *cast in favour of Resolution 1* by:

- a person as proxy or attorney for a person who is entitled to vote on Resolution 1, in accordance with directions given to the proxy or attorney to vote on Resolution 1 in that way;
- the Chairman of the meeting as proxy or attorney for a person who is entitled to vote on Resolution 1, in accordance with a direction given to the Chairman to vote on Resolution 1 as the Chairman decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on Resolution 1; and
 - the holder votes on Resolution 1 in accordance with directions given by the beneficiary to the holder to vote in that way.

MAGONTEC LIMITED

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ITEM 2 – APPROVAL OF SELECTIVE BUY-BACK FROM QSLM

Section 257D of the Corporations Act

The Corporations Act provides that the rules relating to share buy-backs are designed to protect the interests of shareholders and creditors by:

- a) addressing the risk of these transactions leading to the company's insolvency;
- b) seeking to ensure fairness between the company's shareholders; and
- c) requiring the company to disclose all material information.

In particular, section 257A of the Corporations Act provides that a company may buy back its own shares if:

- a) the buy-back does not materially prejudice the company's ability to pay its creditors; and
- b) the company follows the procedures laid down in Division 2 of Part 2J.1 of the Corporations Act.

In accordance with section 257D(1) of the Corporations Act, a selective buy-back must be approved by either:

- a) a special resolution passed at a general meeting of the company, with no votes being cast in favour of the resolution by any person whose shares are to be bought back or by their associates; or
- b) a resolution agreed to, at a general meeting, by all ordinary shareholders.

Section 257D(2) of the Corporations Act requires that a company must include in the notice of meeting a statement setting out all information known to the company that is material to the decision on how to vote on the applicable buy-back resolution. However, the company does not have to disclose information if it would be unreasonable to require the company to do so because the company had previously disclosed the information to shareholders.

Section 257H(3) of the Corporations Act provides that immediately after the registration of the transfer to the company of shares bought back, the shares are cancelled.

In accordance with section 257D(2) of the Corporations Act and *ASIC Regulatory Guide 110: Share buy-backs*, the Company provides the following information in relation to the proposed Buy-back.

2.1 Terms of the Buy-back

The Buy-back is a key element of the MoS between Magontec and QSLM. The MoS contains the following material terms and conditions relating to the Buy-back:

(Sale and Buy-back): QSLM has entered into the conditional Buy-back agreement to sell its respective Buy-back Shares (being 22,681,940 Shares) to the Company in consideration of the transfer of certain assets (the effective **Buy-back Price**) owned by Magontec and a waiver of current and all future claims by both Magontec and QSLM, free from all encumbrances and with all rights attaching to them;

(Conditions precedent): Completion of the Buy-back is conditional on satisfaction of the following conditions precedent:

- the terms of the Memorandum of Settlement and the QSLM Summary Restructuring Plan being approved by the QSLM second plenary creditors meeting held in Xining, China;
- the terms of the QSLM Summary Restructuring Plan being approved by the Intermediate People's Court of Xining Municipality, Qinghai province;
- the procedures and requirements relating to the cancellation / transfer of shares being governed by the Corporations Act, which include all relevant approvals by the ASX and ASIC; and
- the terms of the Memorandum of Settlement and Buy-back being approved by Shareholders in accordance with section 257D(1) of the Corporations Act;

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(Completion): Completion of the Buy-back will occur on the business day following the date on which the last of the conditions precedent are satisfied or such other time as the parties agree. At completion:

- QSLM must deliver to the Company a duly executed share transfer form in respect of its Buy-back Shares in favour of the Company, together with a copy of its holding statements in respect of the Buy-back Shares; and
- the Company must transfer the Buy-back assets to QSLM, execute and register the transfer of the Buy-back Shares, cancel the Buy-back Shares and notify the ASX and ASIC.

2.2 Reasons for the Buy-back

The Company and QSLM have entered into the MoS to address and resolve outstanding issues between the two companies. Pursuant to the MoS, if Shareholders approve Resolution 2 as a special resolution, the Company will buy back and cancel all the fully paid ordinary Magontec Shares held by QSLM (being 22,681,940 Shares, representing 28.48% of the issued capital of the Company). Refer to Section 2.1 above for an overview of the material terms of the MoS relating to the Buy-back.

2.3 Impact of Buy-back on the capital structure of the Company

The effect of the proposed Buy-back on the Company will be to reduce the total number of Shares on issue by 22,681,940, amounting to 28.48% of the issued capital of the Company. The overall effect of the Buy-back on the capital structure of the Company is as follows:

Event	Shares
Shares on issue as at the date of this Notice	79,643,766
Less Shares subject to selective Buy-back and cancellation (Resolution 2)	22,681,940
Shares on issue at completion of the Buy-back	56,961,826

2.4 Interests in the Buy-back

Mr Xing Cai Li is a Director representing the interests of QSLM (whose Shares will be bought back pursuant to the Buy-back) and is the general manager and a director of its major shareholder, Qinghai Huixin Asset Management Co Ltd (QHAM).

No other Directors have any interest in the Buy-back that is in addition to or inconsistent with non-associated Shareholders (e.g., Directors with Shares will receive the same benefits as all non-associated Shareholders).

2.5 Effect of the Buy-back on the Company

(a) Effect on control of the Company and identity of selling Shareholder

The selling Shareholder pursuant to the Buy-back is QSLM. No other Shareholders are participating in the Buy-back. If the Buy-back is implemented, QSLM will not hold any Shares.

The Buy-back is not expected to have an effect on the control of the Company with all non-associated Shareholders receiving an increase of **39.8%** in effective holding of the Company on a pro forma basis.

The top 10 Shareholders as at the date of this Notice and their increased interest in the Company if the Buy-back were to proceed is set out in the table below:

MAGONTEC LIMITED

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	Shareholder	Shares Held Pre-Buy back	Shares Held Post-Buy back	Percentage of Shares Pre-Buy back (%)	Percentage of Shares Post-Buy back (%)
1	Qinghai Salt Lake Magnesium Co Ltd	22,681,940	0	28.48%	0.0%
2	Citicorp Nominees Pty Limited	9,782,983	9,782,983	12.28%	17.17%
3	JP Morgan Nominees Australia	3,941,603	3,941,603	4.95%	6.92%
4	Yuan Yuan Li / Zhong Jun Li	3,937,386	3,937,386	4.94%	6.91%
5	Yellow Zone Super Fund	3,332,844	3,332,844	4.18%	5.85%
6	BNP Paribas Nominees	2,596,312	2,596,312	3.26%	4.56%
7	HSBC Custody Nominees	2,036,342	2,036,342	2.56%	3.57%
8	Dewberri Pty Limited	1,800,890	1,800,890	2.26%	3.16%
9	Miengrove Pty Ltd	1,380,000	1,380,000	1.73%	2.42%
10	Mr Scott Parham	1,338,063	1,338,063	1.68%	2.35%
	TOTAL Top 10 Shareholders	52,828,363	30,146,423	66.33%	52.92%
A	Total Shares on issue	79,643,766	56,961,826		
B	Net Tangible assets * as at 30 September 2024 (unaudited)	\$45.8 m	\$45.8 m		
B/A	Net Tangible Assets *Per Share (Cents)	57.0 cents	80.0 cents		

- Net assets reduced for intangible asset value A\$3.0m

The Buy-back and subsequent cancellation of Shares is expected to result in an increase of **39.8%** in each Shareholders effective holding of the Company on a pro forma basis.

(b) Financial effect on the Company

As the Company has agreed to purchase the Shares from QSLM under the Buy-back for nil cash consideration, no funds will be expended for the Buy-back. Furthermore, the fixed assets being transferred from Magontec to QSLM had already been written down to zero as at 30 June 2024 and will be transferred for zero cash consideration. Accordingly, it is expected that there will be no direct financial effect on the Company.

Net assets on the balance sheet as of 30 September 2024 were \$48.8m (unaudited). These are expected to remain unchanged following acceptance of the MoS and completion of the Buy-back and cancellation. It is expected that net assets per Share will increase by 39.8% for remaining Shareholders as a result of this Buy-back on a pro forma basis. There will be no franking credits expended.

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2.6 Advantages and disadvantages of the Buy-back

Shareholder approval is required for the Memorandum of Settlement and the Buy-back to proceed. The Memorandum of Settlement includes the terms of the Buy-back and associated conditions precedent (refer to Section 2.1 of these Explanatory Notes for further details).

The advantages and disadvantages of the Buy-back are set out in the section of the Explanatory Notes titled 'Advantages and disadvantages of Resolution 1 and Resolution 2'.

2.7 The offer price or a simple formula to calculate the price

Under the MoS, the Buy-back consideration is non-cash. The consideration for the Buy-back and cancellation of the 22,681,940 Shares currently held by QSLM comprises:

1. the transfer of certain fixed assets from Magontec Qinghai to QSLM for zero cash consideration (the fixed assets being transferred were fully impaired in the 30 June 2024 half year financial statements which had a prior written down value on that date of \$3.652m); and
2. each party agreeing to irrevocably waive all rights of action, objection or arbitration and to withdraw all claims.

2.8 Source of funds

As the Company has agreed to purchase the Shares from QSLM under the Buy-back for non-cash consideration, no funds will be expended for the Buy-back.

2.9 Trading price of Shares

The trading history of the Company's Shares on ASX in the 6 months prior to 29 November 2024 is set out below:

	(\$)	Date
Highest	0.305	19 July 2024
Lowest	0.175	5 November 2024
Last	0.215	29 November 2024

2.10 Other material information

There is no other information material to the making of a decision by Shareholders whether or not to vote in favour of Resolution 2, being information that is known to the Directors, which has not previously been disclosed to Shareholders, other than as set out in this Notice.

2.11 Independent Expert's Report

The Independent Expert's Report prepared by the Independent Expert (a copy of which is attached as Appendix 1 to this Notice) assesses whether the Buy-back is fair and reasonable to the non-associated Shareholders of the Company. The Independent Expert's Report concludes that the Buy-back contemplated by this Resolution is **fair and reasonable** to the non-associated Shareholders of the Company. Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

Information requirements – Listing Rules 10.1 and 10.5

Resolution 2 also seeks Shareholder approval of the Buy-back for the purposes of Listing Rule 10.1.

Listing Rule 10.1 provides that a company must not acquire or agree to acquire a substantial asset from, or dispose of or agree to dispose of a substantial asset to:

MAGONTEC LIMITED

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- (a) a related party of the entity (Listing Rule 10.1.1);
- (b) a child entity of the entity (Listing Rule 10.1.2);
- (c) a person who is, or who was at any time in the 6 months before the transaction or agreement, a substantial (10%+) holder in the entity (Listing Rule 10.1.3);
- (d) an associate of a person referred to in Listing Rules 10.1.1 to 10.1.3 (Listing Rule 10.1.4); or
- (e) a person whose relationship with the entity or a person referred to in Listing Rules 10.1.1 to 10.1.4 is such that, in ASX's opinion, the transaction should be approved by shareholders (Listing Rule 10.1.5),

unless it obtains the approval of its shareholders.

The value of the Shares subject to the Buy-back exceeds 5% of the Company's "equity interests" (as defined in the Listing Rules) by reference to its last financial accounts lodged with ASX and therefore constitutes a "substantial asset" for the purposes of Listing Rule 10.2. Further, QSLM is a substantial (10%+) holder given it holds 28.48% of the Shares on issue. Accordingly, Shareholder approval is required for the purposes of Listing Rule 10.1.

If Resolution 2 is put to the meeting and passed as a special resolution, Magontec can proceed to implement the Buy-back and cancel the Shares held by QSLM.

If Resolution 2 is not passed:

- the Company cannot implement the Buy-back from QSLM required under the MoS;
- QSLM will remain a Shareholder, which may result in the requirement for Magontec to proceed with legal action in both Australia and China for compensation under the contracts; and
- Mr Xing Cai Li will remain on the Board representing the interests of QSLM.

The following further information is provided to Shareholders for the purposes of Listing Rule 10.5.

Name of the person from whom the Company is acquiring the substantial asset	The Company is acquiring the substantial asset (being 22,681,940 Shares) under the Buy-back from QSLM.
Which category in Listing Rules 10.1.1 – 10.1.5 the person falls within and why	QSLM is a substantial (10%+) holder given it holds 28.48% of the Shares on issue. Accordingly, QSLM falls into the category of Listing Rule 10.1.3.
Details of the asset being acquired	Pursuant to the Buy-back, the Company is acquiring 22,681,940 Shares from QSLM.
Consideration and source of funds	<p>Under the MoS, the Buy-back consideration is non-cash. The consideration for the Buy-back and cancellation of the 22,681,940 Shares currently held by QSLM comprises:</p> <ol style="list-style-type: none"> 1. the transfer of certain fixed assets from Magontec Qinghai to QSLM for zero cash consideration (the fixed assets being transferred were fully impaired in the 30 June 2024 half year financial statements which had a prior written down value on that date of \$3.652m); and 2. each party agreeing to irrevocably waive all rights of action, objection or arbitration and to withdraw all claims. <p>Accordingly, no funding is required for the Buy-back.</p>
Timetable for completing the Buy-back	If Resolution 2 is passed as a special resolution, the Company will be able to proceed with the Buy-back and give effect to the matters contemplated in the MoS (including the Buy-back). If both Resolutions are passed at this EGM, the buy-back, cancellation of the Shares held by QSLM and transfer of assets being

MAGONTEC LIMITED

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	disposed by Magontec, will be given effect as soon as practicable after the meeting or no later than 14 February 2025.
Summary of the material terms of the Buy-back agreement	The material terms of the Buy-back are set out above (see Section 2.1 of the Explanatory Notes entitled 'Terms of the Buy-back').
Voting exclusion statement	A voting exclusion statement applies to this Resolution. See the section below headed 'Voting Exclusion Statement – Resolution 2' in the Explanatory Notes for further details.
Independent Expert's Report	<p>Listing Rule 10.5.10 requires a notice of meeting containing a resolution under Listing Rule 10.1 to include a report on the transaction from an independent expert. The Independent Expert's Report accompanying this Notice sets out a detailed independent examination of the Buy-back to enable non-associated Shareholders to assess the merits and decide whether to approve Resolution 2. The Independent Expert has concluded that the Buy-back is fair and reasonable to the non-associated Shareholders. Shareholders are urged to carefully read the Independent Expert's Report to understand its scope, methodology of the valuation and the sources of information and assumptions made.</p> <p>The Independent Expert's Report is also available on the Company's website (www.magontec.com/investor-centre/egm2025). If requested by a Shareholder, the Company will send to the Shareholder a hard copy of the Independent Expert's Report at no cost.</p>

Recommendation of Directors

The Directors (in the absence Mr Xing Cai Li) recommend that Shareholders vote in favour of Resolution 2. The Directors (in the absence of Mr Xing Cai Li) are not aware of any other information that would reasonably be required by the Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 2.

Mr Xing Cai Li declines to make a recommendation about Resolution 2 as it relates to matters involving QSLM as a result of being the appointee of QSLM and being General Manager and a director of QSLM's major shareholder, Qinghai Huixin Asset Management Co Ltd (QHAM).

VOTING EXCLUSION STATEMENT – RESOLUTION 2

The Company will disregard any votes cast in favour of Resolution 2 by or on behalf of:

- QSLM; or
- an Associate of QSLM.

However, this does not apply to a vote cast in favour of Resolution 2 by:

- a person as proxy or attorney for a person who is entitled to vote on Resolution 2, in accordance with the directions given to the proxy or attorney to vote on Resolution 2 in that way;
- the Chairman of the meeting as proxy or attorney for a person who is entitled to vote on Resolution 2, in accordance with a direction given to the Chairman to vote on Resolution 2 as the Chairman decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on Resolution 2; and
 - the holder votes on Resolution 2 in accordance with directions given by the beneficiary to the holder to vote in that way.

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EXPLANATORY NOTES

Advantages and disadvantages of Resolution 1 and Resolution 2

The Directors² have considered the advantages and disadvantages associated with both the Memorandum of Settlement and the Buy-back and have reviewed the alternative options (including, but not limited to, the pursuit of legal action under the contract terms with QSLM) and consider the MoS and Buy-back to be fair and reasonable to the non-associated Shareholders of the Company.

Accordingly, the advantages of the Memorandum of Settlement and the Buy-back are outlined in the table below.

Table 2: Advantages and disadvantages of Resolution 1 and Resolution 2

	ADVANTAGES OF MEMORANDUM OF SETTLEMENT AND BUY-BACK (and associated reasons)
✓	Removal of 28.48% Shareholder from Magontec register. Non-associated Shareholders will benefit from an increase in net assets per Share.
✓	Avoiding significant costs associated with potential legal action in pursuit of breach of contract under the 2012 Cooperation Agreement in Australian courts.
✓	Avoidance of significant costs associated with potential legal action seeking enforcement of termination clauses in the 2012 and 2014 Agreements through the Chinese legal system.
✓	Avoiding complexity surrounding legal action being taken against an entity in administration (QSLM) and limitation on full realisation of claims currently estimated by the administrator as being a maximum of 6.51% for ordinary creditor claims.
✓	Avoiding complexity and risk associated with a major shareholder who has a China court appointed external administrator and potential uncertainty on orderly disposal of QSLM shareholding in MGL.
✓	In accordance with the QSLM Summary Restructuring Plan, the majority of distributions to QSLM creditors and thus the majority of compensation arising from any successful legal action against QSLM is expected to be in the form of shares in the unlisted QSLM entity. The MoS avoids receiving a minority interest in shares of an unlisted Chinese entity with an unknown market value and unclear path to liquidity.
✓	Resolution of QSLM claim for utility costs supplied by QSLM under the 2012 and 2014 Agreements.

	DISADVANTAGES OF MEMORANDUM OF SETTLEMENT AND BUY-BACK
✗	Shareholders waive the opportunity to pursue QSLM for costs and loss of profit available under the termination clauses in the 2012 and 2014 Agreements between Magontec and QSLM.
✗	MGL gives up operational assets that could be transferred and utilised for magnesium production at an alternative location.

² Excluding Mr Xing Cai Li, who is a nominee director of QSLM.

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GLOSSARY

AEDT means Australian Eastern Daylight Time.

Associate has the meaning given to it in the ASX Listing Rules and/or the Corporations Act (as the context requires).

ASX means ASX Limited (ACN 008 624 691) or, as the context requires, the financial market operated by it.

ASX Listing Rule or **Listing Rule** means the official listing rules of ASX.

Board means the board of Directors.

Buy-back means the selective buy-back of up to 22,681,940 Shares held by QSLM under section 257D(1)(a) of the Corporations Act and ASX Listing Rule 10.1.

Chairman means the person appointed to chair the Company's meeting. The Company intends to appoint Mr Nicholas Andrews, the Company's current executive chairman, to act as chairman at the Meeting.

Company or **Magontec** or **MGL** means Magontec Limited (ACN 010 441 666).

Constitution means the constitution of the Company.

Corporations Act means the *Corporations Act 2001* (Cth).

Control has the meaning given in section 50AA of the Corporations Act, and **Controlled** has the corresponding meaning.

Directors means the directors of the Company and **Director** means any one of them.

EGM or **Extraordinary General Meeting** or **Meeting** means the extraordinary general meeting convened by this Notice.

Explanatory Notes means the explanatory notes which accompany the Notice of Meeting.

Glossary means this glossary.

Independent Directors means:

- Robert Kaye SC;
- Andre Labuschagne;
- Atul Malhotra; and
- Zhong Jun Li.

Independent Directors' Report means the report of the Independent Directors set out on page 5 of this Notice.

Independent Expert means Grant Thornton Corporate Finance Pty Limited (ACN 003 265 987).

Independent Expert's Report means the Independent Expert's Report included at Appendix 1 to this Notice.

Notice or **Notice of Meeting** means this notice of extraordinary general meeting.

MoS or **Memorandum of Settlement** means the Memorandum of Settlement between the Company and QSLM dated 31 October 2024.

PRC/China means The People's Republic of China.

Proposed Transaction means the matters/transactions agreed as part of the MoS.

QSLM means Qinghai Salt Lake Magnesium Co Limited.

QSLM Summary Restructuring Plan means the proposed QSLM Summary Restructuring Plan dated 22 October 2024 distributed by the administrator prior to the 6 November 2024 QSLM Creditors Meeting. This plan was approved at the QSLM Creditors Meeting on 6 November 2024 and subsequently approved on 11 November 2024 by a court in Xining, Qinghai Province, PRC.

Resolution means a resolution set out in this Notice.

Share means a fully paid ordinary share of the Company.

Shareholder means a holder of at least one Share.

Transaction means the Memorandum of Settlement ("MoS").

**MAGONTEC LIMITED
NOTICE OF EXTRAORDINARY GENERAL
MEETING**



APPENDIX 1:

INDEPENDENT EXPERT'S REPORT

Magontec Limited

Independent Expert's Report and Financial Services Guide

04 December 2024

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

**Grant Thornton Corporate
Finance Pty Ltd**
Level 26
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Sydney NSW 2000
Locked Bag Q800
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T +61 2 8297 2400

04 December 2024

Dear Directors

Independent Expert's Report and Financial Services Guide

Introduction

- 1.1 Magontec Limited ("Magontec", "MGL" or the "Company") is a magnesium alloy manufacturer, recycler and a manufacturer of cathodic corrosion products. The Company is headquartered in Sydney with operations in Germany, Romania, and China. Magontec is listed on the Australian Securities Exchange ("ASX") with a market capitalisation of approximately A\$15.13 million¹ as at 03 December 2024.
- 1.2 Qinghai Salt Lake Magnesium Co Limited ("QSLM") is a subsidiary of Qinghai Huixin Asset Management Co Ltd ("QHAM"). QSLM was previously a subsidiary of Qinghai Salt Lake Industry Co Ltd ("QSLI"), a Chinese State-Owned listed Enterprise which was founded in 1958 and based in Golmud, China. It was principally engaged in the manufacture and distribution of chemical fertilisers, primarily potassium chloride among others. In 2019, QSLI confirmed that it no longer consolidated QSLM due to QSLM's restructuring process. Consequently, on 10 January 2020, QHAM was confirmed as the new owner of QSLM. QSLM became a substantial shareholder of Magontec in 2012 when it subscribed for shares representing 15.0% of the then issued capital of the Company. At the date of the memorandum of settlement ("MOS") (refer to 1.7 below), following various further issues of shares, including rights issues, QSLM's interest represented 28.48% making it a substantial shareholder (5.0% or more of the voting shares) under the Act and a substantial shareholder and related party under ASX Listing Rule 10.1 (10.0% or more), but not a related party for the purposes of Part 2E of the Act.² We note the explanatory information accompanying the

¹ Based on a closing trading price of A\$0.19 per share as at 03 December 2024.

² A related party in accordance with section 228 is a controlling shareholder or Director of the Company or a Director of a controlling shareholder.

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notice of meeting states that Magontec has deemed QSLM to be a related party for the purposes of the Selective Buy-back.

- 1.3 Between 2012 and 2014, the Company entered into four agreements with QSLM, relating to the development of a magnesium project in Golmud in Qinghai Province, China (the “Agreements”). Under the Agreements, QSLM would construct a magnesium metal smelter and Magontec would construct an adjacent magnesium alloy cast house. Both companies committed to an offtake agreement under which QSLM will supply Magontec with 56,000 tonnes per year of pure magnesium metal in liquid form from the smelter, and QSLM would subscribe for new shares in Magontec.
- 1.4 Magontec completed the installation and cold commission of the first of 4 magnesium alloy casting lines in the MACH, and commenced the installation process for additional lines in 2015. QSLM completed construction of its magnesium smelter in December 2016. Between the completion of the smelter and 1 July 2024, QSLM failed to deliver any liquid pure magnesium metal as noted in the contracts.
- 1.5 As a result, QSLM and Magontec identified claims against each other arising from asserted breaches of the Agreements and from their mutual operational dealings. Notwithstanding this, Magontec continued the project and QSLM provided undertakings and regular updates that it would be able to overcome its operating and financial challenges to fulfill all of the terms of the Agreements.
- 1.6 From a letter dated 21 July 2024, following various proposals for amending the arrangements between them, the Company announced to the ASX that QSLM had purported to terminate the Agreements on 26 July 2024. The Company's announcement stated that its provisional position at that time was that the purported termination was not valid.
- 1.7 On 1 November 2024, the Company announced that it had entered into a memorandum of settlement with QSLM under which the Company will buy back and cancel the 22,681,940 Buy-back Shares held by QSLM in return for all Magontec's current and future potential claims against QSLM and the transfer to QSLM of certain plant and equipment (“Buy-back Price”) from Magontec Qinghai's magnesium alloy cast house (“MACH”) (“Selective Buy-back” or the “Transaction”).
- 1.8 The substance of the Transaction is that Magontec will selectively buyback the shares held by QSLM for a consideration equivalent to the fair market value of its current and future claims against QSLM (net of QSLM counter claims) and the fair market value of certain cast house plant and equipment.
- 1.9 The Selective Buy-back of the shares in the Company from QSLM is a term of the MOS and requires the shareholders of Magontec that are not associated with QSLM (the “Non-Associated Shareholders”) to vote on whether to approve the proposed Selective Buy-back in the general meeting.
- 1.10 The Directors (other than Mr Xing Cai Li who declines to make a recommendation) recommend that the Non-Associated Shareholders vote in favour of the transfer of certain cast house fixed assets to QSLM and also to the Selective Buy-back resolutions.

Purpose of the report

- 1.11 The Magontec Directors³ have requested Grant Thornton Corporate Finance to prepare an Independent Expert's Report ("IER") stating whether the Selective Buy-back is fair and reasonable to the Non-Associated Shareholders of Company for the purposes of satisfying the requirements under Chapter 2J, Chapter 2E⁴ of the Corporations Act 2001 (Cth) ("Corporations Act"), and Chapter 10 of the ASX Listing Rules.
- 1.12 In preparing this IER, Grant Thornton Corporate Finance has had regard to the Australian Securities and Investments Commission's ("ASIC") Regulatory Guide 110 *Share buy-backs* ("RG 110"), Regulatory Guide 111 *Contents of expert reports* ("RG 111"), and Regulatory Guide 112 *Independence of experts* ("RG 112"). The IER also includes other information and disclosures as required by ASIC.

Summary of opinion

- 1.13 **Grant Thornton Corporate Finance has concluded that the Selective Buy-back is FAIR AND REASONABLE to the Non-Associated Shareholders.**
- 1.14 In forming our opinion, Grant Thornton Corporate Finance has considered whether the Selective Buy-back is fair and reasonable to Non-Associated Shareholders and, as part of that consideration, has had regard to other quantitative and qualitative considerations.

Fairness assessment

- 1.15 The substance of the regulatory framework in relation to selective buy-backs is to ensure that the Non-Associated Shareholders will not be economically and/or financially disadvantaged by not being able to participate in the Selective Buy-back.
- 1.16 In considering whether the Selective Buy-back is fair to the Non-Associated Shareholders, Grant Thornton Corporate Finance has compared:
- The Buy-back Price which is represented by the market value of its current and future claims against QSLM and the market value of the cast house plant and equipment which we have assessed in the range of A\$(0.11) to A\$0.50 per share. This effectively represents the consideration payable by Magontec to the related party and substantial shareholder; and,
 - The fair market value of Magontec Shares before the announcement of the MOS which we have assessed in the range of A\$0.35 to A\$0.54 per share. This effectively represents the assets purchased by Magontec from the related party and substantial shareholder.
- 1.17 We emphasise that our range of values for both the Buy-back Price and the Buy-Back Shares represent the lower and upper bounds of our analysis. A number of components of value for both the Buy-back Price and the value of the shares of the Company are matters that were in dispute between the parties prior to the MOS. The respective positions of the parties as to the merits of their claims materially affects the

³ All the Directors of the Company excluding Mr Xing Cai Li, the nominee of QSLM.

⁴ As deemed by the Company.

values that can be attributed for them in both the Buy-back Price and the value of Magontec Shares. Accordingly, we have made our comparison of the Buy-back Price and the value of the Magontec Shares with consistent assumptions about the disputed components to support our comparison. We express caution about interpreting the extremes of our ranges of assessed values and we specifically disclaim them from being an estimate of the price of the shares available in the public market.

- 1.18 We have concluded that the Selective Buy-back is fair to the Non-Associated Shareholders and no net financial benefit is provided to QSLM due to the following:
- 1.18.1 The Selective Buy-back involves the ceding of asserted claims by the Company and QSLM against each other. Although these claims are derived from legal rights, there are uncertainties as to their enforceability, quantum, and recoverability. Furthermore, it involves the transfer of assets that the Directors of Magontec have already fully impaired. No part of the Buy-back Price involves payment of funds by Magontec.
 - 1.18.2 Total reported net assets are unaffected by the terms of the Selective Buy-back. After adjusting for the effect of the Selective Buy-back on Magontec's net asset and net tangible asset backing per Magontec Share of A\$0.61 and A\$0.57 respectively, inferred from the Company's reported net assets at 30 September 2024, total net assets and tangible net assets remain constant. Conversely, the lower number of issued shares after the Selective Buy-back increase the net asset and net tangible asset backing to A\$0.86 and A\$0.80 respectively per share resulting in a net benefit to the Non-Associated Shareholders.
 - 1.18.3 Our assessed range of fair market value of the Buy-back Price is at a discount of between 132.7% and 7.8% to our range of assessed fair market values per Magontec Share based on our assessment of our low case and high case fair market value per share before the announcement of the Selective Buy-back.
 - 1.18.4 Following the announcement of the Selective Buy-back, the trading prices of Magontec Shares continue to remain below the Buy-back Price.
- 1.19 In undertaking our valuation assessment of the fair market value of Magontec Shares, we assessed the usefulness of the non-controlling trading prices of the shares on the ASX up to and including 31 October 2024. In our opinion, the market for Magontec Shares was illiquid at least for the three months up to 31 October 2024, and as a consequence, the trading prices of Magontec Shares is not a reliable indicator of fair market value.⁵ In forming this view, we also considered the fair market value of Magontec Shares by reference to the discounted cash flow method and an orderly realisation of net assets method of valuation assuming 100.0% control.
- 1.20 In the event that the trading prices of Magontec Shares change materially between the date the IER is dispatched to the Non-Associated Shareholders and the date of the Non-Associated Shareholders' meeting, we will consider the requirement to issue a supplementary IER in accordance with ASIC Regulatory Guide ("RG") Content of Expert Reports ("RG111").

⁵ See the section commencing at paragraph 9.34.

- 1.21 In the table in Figure 1 below we show the comparison of our assessed fair market value of the Buy-Back Price and the fair market value of Buy-Back Shares on a 100.0% control basis.

Figure 1: Magontec Selective Buy-back fairness assessment

Fairness assessment	Section Reference	Low	High
A\$ per share			
Fair market value of Magontec Shares before the Selective Buy-back ¹	9	0.35	0.54
Buy-back Price	8	(0.11)	0.50
Premium/(discount)		(0.46)	(0.04)
Premium/(discount) (%)		(132.7%)	(7.8%)
FAIRNESS ASSESSMENT		FAIR	

Source: GTCF analysis.

Note (1) Fair market value of Magontec Shares calculated as low value derived from the DCF method and the high value derived from the NAV method.

- 1.22 We emphasise our earlier comments, that due to the uncertainty of the disputed claims, and the almost binary outcomes of those uncertainties, we have made our comparison incorporating consistent assumptions of the Buy-back Price and the value of the Magontec Shares. However, Non-Associated Shareholders should exercise great caution when interpreting the extent of our values in our low and high cases and we specifically disclaim them from being an estimate of the price of the shares available in the public market. Individual shareholders have different financial circumstances, and it is neither practicable nor possible to consider the implications of the Selective Buyback on individual shareholders. Non-Associated Shareholders should seek their own financial advice to suit their individual circumstances.
- 1.23 The range of fair market values for the Buy-back Price is at a discount to our range of fair market values of Magontec Shares on a control basis. Accordingly, we conclude that the Selective Buy-back is fair to the Non-Associated Shareholders.

Fair market value of the Buy-back Price

- 1.24 The Buy-back Price is the fair market value of the amount Magontec would have realised from its claims against QSLM and the fair market value of the fixed assets at the cast house to be transferred to QSLM, which will be ceded to QSLM under the MOS in exchange for the Buy-back Shares. The amount of the claims against QSLM is described in the MOS as the amount of the current and any future claims by Magontec against QSLM for its breach of the Agreements and from their mutual operational dealings. QSLM's identified claims against Magontec for amounts due to it but unpaid, which were recognised as a receivable by QSLM, are set off against the claims Magontec has against QSLM.
- 1.25 We note that Magontec's reported 30 September 2024 balance sheet does not contain any carrying values for any of its claims against QSLM, QSLM's claims against it, nor any amount for the plant and equipment in or related to the cast house at the QSLM facility. The table below summarises our assessment of the fair market value of:
- 1.25.1 Magontec's current and future claims against QSLM under the Agreements and from their mutual operational dealings as at 31 October 2024;
- 1.25.2 QSLM's claims against Magontec; and

1.25.3 the amount of the cast house fixed assets to be transferred to QSLM.

1.26 In section 8 of this report, we detail our assessment of the fair market value of the Buy-back Price. We restate our calculation table in Figure 2 below and note that due to the uncertainties associated with the claims made by Magontec against QSLM, our low range value represents the lowest amount for the Buy-back Price, whereas our high range assumes nearly all of the uncertainties affecting the realisation are overcome.

Figure 2: Fair market value of the Buy-back Price

Summary of Buy-back Price In millions	Paragraph reference	In RMB		In AUD	
		Low	High	Low	High
Magontec claims against QSLM					
Maximum Administrator's distribution	1.27	81.05	81.05	17.33	17.33
Possible adjusted claim	1.29	5.83	58.48	1.25	12.50
Less legal fees estimate	1.3	(9.35)	(9.35)	(2.00)	(2.00)
Possible compensation post legal fees		(3.53)	49.13	(0.75)	10.50
Probability of Success (Claim)		0.0%	100.0%	0.0%	100.0%
Total potential fair value of Magontec's claims against QSLM (A)		-	49.13	-	10.50
QSLM claims against Magontec					
QSLM waiving its collection rights (B)	1.31	(12.11)	(12.11)	(2.59)	(2.59)
Net claims (A-B)		(12.11)	37.02	(2.59)	7.92
Value of fixed assets transferred @ book 30 Sep 24 (post impairment)	1.32	-	15.95	-	3.41
Total fair value of claims		(12.11)	52.97	(2.59)	11.33
Number of Magontec Shares to be received from QSLM		22.68	22.68	22.68	22.68
Value per share implied by above (RMB or A\$)		(0.53)	2.34	(0.11)	0.50

Source: GTCF analysis, Management estimates.

1.27 The administrator of QSLM (the "Administrator") is not able to meet the full value of the proven creditor claims made against it from its resources. The Administrator's proposed restructuring plan was approved by the QSLM creditors on 6 November 2024 and by the Xining Court on 11 November 2024. The resources of QSLM available to settle ordinary creditor claims that had been accepted by the Administrator at that time resulted in an estimated settlement rate of 6.51% of claims. The total value of accepted claims from which the 6.51% settlement rate was determined did not fully include Magontec's claim for losses under the Agreements. Accordingly, if Magontec was to pursue the full amount of its claims against QSLM, it would likely have to obtain a favourable ruling of a responsible court for the entitlement to those amounts such that the Administrator would have to include them in the restructure. The inclusion of Magontec's claims in full would reduce the rate of settlement from 6.51% to 6.32%.

1.28 QSLM's approved restructuring plan provides that of the amount of creditors' claims able to be met from resources of QSLM (the 6.32% of the total creditor claims), only a maximum of the first RMB650,000 of each creditor's distribution will be paid in cash. Any excess above RMB650,000 to be settled 93.56% in QSLM shares and 6.44% in rights to future distributions from a restructuring trust.

1.29 In our low case assessment of the fair value of the Buy-Back Price, we fully discount the value of the 93.56% of Magontec's claim to be settled in shares of QSLM to nil for the reasons that the restructured QSLM (which will issue the shares) is unlisted, its equity is most likely to be non-marketable, and the

business has not, over the ten years since Magontec entered the Agreements, been able to successfully produce the amount and quality of pure magnesium metal for which the smelter was designed. This primary issue caused QSLM's inability to pay its debts on time, and creates uncertainties around QSLM's operational capacity in the foreseeable future. In our high case we apply a discount of 30.0% for the relative lack of marketability of the shares in QSLM in which the majority of Magontec's distributions will be settled. As a result, we arrived at a possible adjusted claim of A\$(0.75) million in the low case and A\$10.50 million in the high case.

- 1.30 Further, the degree of success that any action Magontec may have to take to pursue its claims to have the Administrator include the full amount of its claims in the restructure is uncertain and open to the risks associated with legal action and the merits of the arguments made, and the resulting decision of the relevant court or tribunal. In our low case we reflect the possibility that Magontec's claims fail to be included in the Administrator's restructure. In our high case assessment, we assume that the legal impediments are overcome and Magontec's claims are included in the Administrator's restructure in full. To have Magontec's claims against QSLM included in the restructure, Magontec has been advised that the costs of pursuing its claim through legal action would incur a substantial cost estimated to be the equivalent of approximately A\$2.0 million.
- 1.31 The offsetting of QSLM's own claims against Magontec are not subject to the acceptance and inclusion of the Administrator's restructure of QSLM. Indeed, Magontec's Management advise that they understand QSLM has included its claims against Magontec in full in its financial statements and the Company resources from which to settle all claims in the insolvency of QSLM. Accordingly, we reduce the fair market value of Magontec's claims in our low and high cases by the amount of QSLM's claims against Magontec. In the low case, this results in a negative Buy-back Price. That is, while the fair market value of Magontec's claims against QSLM that it must cede to QSLM under the MOS is nil, the MOS requires QSLM to cede its claims against Magontec which would be a net benefit to Magontec, not a cost.
- 1.32 As noted earlier, given the conditional nature of the two components of the MOS, we assess the Buy-back Price inclusive of the fair market value of the cast house related plant and equipment fixed assets that the MOS requires Magontec to cede to QSLM. The carrying value of these assets in Magontec's 30 September 2024 financial statements is nil because the Directors of Magontec determined that the recoverable fair value of the plant and equipment was nil and they fully impaired the previous carrying value of c. A\$3.7 million at 30 June 2024. In our low case, we adopt the fully impaired assessment of the Magontec Directors and their assessment that there is no market for the cast house plant and equipment and its fair value cannot be recovered from its use. Further, if it had a fair value, the costs to disassemble, transport and re-assemble the plant and equipment would exceed it. In our high case, we re-instate the previous carrying value on the basis that its fair market value would not be materially different to the depreciated historical cost given the useful life of those assets.

Fair market value of Magontec Shares

- 1.33 Grant Thornton Corporate Finance considered the trading price of Magontec Shares on and up to the date of the MOS⁶ and concluded that the market for Magontec Shares has been and was illiquid up to and on 1 November 2024. Accordingly, we place no reliance on the trading price of Magontec Shares as a measure

⁶ See paragraph 9.37

of their fair market value but we note that prior to the purported termination of the Agreements by QSLM in July 2024, the traded, illiquid and minority, price of Magontec shares had been A\$0.30 and higher, and fell below that level upon the announcement of the purported termination of the Agreements, eventually falling to A\$0.19 by 31 October 2024, being before the date of the MOS announcement.

- 1.34 Grant Thornton Corporate Finance considered the discounted cash flow method (“DCF”) and the net asset value (“NAV”) under the orderly realisation of assets method to determine the fair market value of the Magontec Shares. The table in Figure 3 below presents the low and high case fair market values per Magontec Share on a controlling basis derived from both the DCF Method and NAV Method. In keeping with our approach to assess a low case and a high case, we have adopted the lower of the low case and the higher of the high case from either method.

Figure 3: Fair market value of Magontec Shares

Magontec Limited Valuation - Fair Market Value of Shares		
A\$ per share	Low	High
Discounted cash flow and surplus net assets	0.35	0.52
Orderly realisation of net assets	0.41	0.54
Equity Value (Control Basis)	0.35	0.54

Source: GTCF analysis.

DCF Method

- 1.35 Grant Thornton Corporate Finance have built a financial model projecting the post-tax, pre-debt free cash flows of the Company (“GT Model”) using management’s internal projections (“Internal Projections”)⁷ as a base and having regard to the historical financial performance, broker and industry consensus estimates.
- 1.36 Magontec operates as a downstream business, leveraging the price of pure magnesium (“Mg”) as a key input. We understand from Management that profitability is primarily determined by the margin between the purchase price of pure Mg, inclusive of conversion costs, and the selling price of the finished Mg alloy rather than solely on the headline price of pure Mg. The key drivers of Magontec’s profitability include: (1) Market Demand – The overall market demand, particularly influenced by macroeconomic factors, significantly impacts the automotive sector, which constitutes a major portion of Magontec’s customer base. (2) Production Scale – Maintaining an optimal production scale is essential for maximising efficiency and reducing per-unit costs, thereby enhancing Magontec’s profitability. We have set out below the key assumptions adopted in the DCF Method:
- Revenue – For the Internal Projections, we have assumed that Magontec will perform in accordance with its budget despite tracking behind its year-to-date budget as at 30 September 2024 (“YTD FY24”). Based on discussions with Management, we understand that the Company is expected to return to profitability by FY27 due to certain key changes in their European facilities. In Germany, the factory recently witnessed an increase in its metal volumes from customers in the US and Western Europe. This may indicate a potential positive shift in the cycle, albeit the short-term outlook is expected to be muted. In Romania, Magontec is currently servicing only one major automotive recycling customer (c.

⁷ For the period between FY24 and FY27

2,000 mtpa) out of a 9,000 mtpa capacity and the Company appears to be in the final stages of negotiating a restart agreement with another major automotive customer which could add another 3,000 mtpa. Additionally, Magontec has also received a request for quotation from a potential customer which could further boost volumes. These developments position the Company for an expected return to profitability by FY27. From FY28, we have tapered off towards the average perpetual growth rate of 2.5% (based on the inflation targets in China (c. 3.0%), Germany and Romania (c.2.0%)) as Magontec consolidates its position.

- EBITDA margin – We have assumed that Magontec’s margin will gradually increase from (8.8)% in YTD FY24 to an assumed long term sustainable EBITDA margin of 6.7%. We consider that as Magontec progresses towards maintaining an optimal production scale, the Company will also be able to reduce certain costs associated with efficiency. The assumed long term EBITDA margin of 6.7% is in line with the historical 5-year performance (FY18-FY23) and the latest broker forecast. We note that the magnesium industry typically experiences cyclical volatility within a c. 5-year period influenced by factors such as raw material prices, demand fluctuations in key sectors (like automotive and aerospace), and global economic conditions. This timeframe aligns with historical market trends, economic forecasts, and investment cycles, allowing for effective planning and adjustments. Furthermore, regulatory changes and global economic factors, such as inflation targets in major economies also support the 5-year assumption for managing industry volatility.
- Capital expenditure (“Capex”) – We have modelled for the Capex as % of revenue to reduce to 1.6% over the forecast period in line with Management’s historical Capex and broker estimates. This is also consistent with a tapering down of the revenue growth rates which will require relatively modest investments in facility improvements and production equipment upgrades.
- Discount rate – We have assessed the discount rate based on the weighted average cost of capital (“WACC”) between 12.6% and 13.9%. Refer to Appendix B for further details on the assessment of the discount rate range.
- Probability weighted value of claim receivable from QSLM – We have assumed for Magontec to receive an amount towards their claim against QSLM net of QSLM collection rights claimed against Magontec in the assessment during FY25. This has been probability weighted across a scenario of receiving A\$nil to receiving 100.0% of the A\$10.5 million claim amount excluding the value of fixed assets transferred and net of the A\$2.6 million present value of claims against QSLM and thereafter present valued to ascertain the overall equity value of the Company.

1.37 The table in Figure 4 below summarises our discounted cash flow valuation assessment of the fair market value of Magontec Shares as at 31 October 2024.

Figure 4: Fair market value of Magontec Shares – DCF Method

Magontec Limited valuation - DCF Method A\$ million	Paragraph Reference	Low	High
Enterprise value on a control basis	9.8	25.55	29.65
Less (net debt) or add net cash as at 30 September 2024	9.9	4.59	4.59
Add present value of claims against QSLM	9.11	-	9.70
Less present value of QSLM claims against Magontec	9.13	(2.37)	(2.39)
Equity Value (Control Basis)		27.77	41.56
Number of Shares Outstanding (Million)	9.15	79.64	79.64
Value per Share (Control Basis) (A\$ per Share)		0.35	0.52

Source: GTCF analysis, Management estimates.

NAV Method – orderly realisation of assets

- 1.38 Grant Thornton Corporate Finance has applied an asset-based method to assess the present value of the surplus amount of retained cash that could be available to the Non-Associated Shareholders on a per share basis at the realisation date. Our detailed discussion of our valuation using this method is set out in section 9.
- 1.39 In our analysis, we had regard to the unaudited management balance sheet of Magontec at 30 September 2024 and Magontec Management's estimates of the fair value of the fixed assets. We included adjustments to the 30 September net assets to reflect our assessments of the fair market values of the Company's claims against QSLM and QSLM's claims against the Company which were not included in the carrying value,⁸ the fair market value of inventory based on the decline in magnesium price since 30 June 2024,⁹ and to account for the deferred tax provisions upon the revaluation of the land and building assets. We have also had regard to the realisation costs, staff reduction and other costs that are expected to arise, assuming the Company would be wound up in an orderly manner.
- 1.40 The table in Figure 5 below summarises the present value of the potential amount available for distribution to the Non-Associated Shareholders upon an orderly realisation of Magontec's net assets as at 31 October 2024. Magontec Directors are not aware of any material change to the financial position of Magontec since 30 September 2024 (being the date of the balance sheet) to 31 October 2024.

⁸ These are assessed in our fair market valuation of the Buy-back Price in section 8.

⁹ Management advises that the financial statements for the half year to 30 June 2024 was the last time the inventory carrying value had been restated to its net realisable amount.

Figure 5: Fair market value of Magontec Shares – NAV Method

Fair market value of Magontec Limited A\$ million	30-Sep-24				
	Book value	Adjustment	FMV (Low)	Adjustment	FMV (High)
Assets					
Cash	6.9		6.9		6.9
Debtors	11.7		11.7		11.7
Claim receivable from QSLM		-	-	9.7	9.7
Inventory	29.3	(0.7)	28.6	(0.7)	28.6
Other	2.0		2.0		2.0
Total current assets	49.9	(0.7)	49.2	9.0	58.9
Fixed assets ¹	11.8	10.1	21.8	13.5	25.3
Intangible assets	3.0	(3.0)	-	(3.0)	-
Capital works in progress	1.1		1.1		1.1
Intercompany	-		-		-
Other	1.8	(1.5)	0.3	(1.5)	0.3
Total non-current assets	17.7	5.5	23.3	9.0	26.7
Total assets (A)	67.6	4.8	72.4	17.9	85.5
Liabilities					
Creditors and accruals	6.3		6.3		6.3
Bank borrowings	2.3		2.3		2.3
Intercompany	-		-		-
QSLM claims for unpaid utilities at Qinghai cast house	-	2.4	2.4	2.4	2.4
Other	(0.2)		(0.2)		(0.2)
Total current liabilities	8.3	2.4	10.7	2.4	10.7
Bank borrowings	-		-		-
Provisions (Pension mostly)	10.3		10.3		10.3
Deferred Tax on revaluation		2.4	2.4	2.4	2.4
Other	0.2		0.2		0.2
Total Non Current Liabilities	10.4	2.4	12.8	2.4	12.8
Total liabilities (B)	18.8	4.7	23.5	4.8	23.5
Net assets (A-B)	48.8	0.1	48.9	13.2	62.0
Less: Realisation costs			(10.8)		(12.7)
Less: Staff reduction costs			(3.8)		(4.5)
Less: Other costs			(1.4)		(1.7)
Net assets post realisation costs	48.8		32.9		43.1
Current Magontec shares on issue 30 Sep 2024 prior to MoS	79.6		79.6		79.6
Fair market value per share prior to MoS	0.61		0.41		0.54

Source: GTCF analysis, Management estimates.

Notes: (1) Fixed assets FMV includes the excess value/uplift in the value of c. A\$10.1 million in property valuation. Excess/shortfall in the fixed assets have been translated to AUD using the AUD/CNY and AUD/EUR exchange rates as at 31 October 2024 (source RBA).

Reasonableness assessment

- 1.41 ASIC RG111 establishes that an offer is reasonable if it is fair. Given that our assessment of the Selective Buy-back is fair, it is also reasonable. However, we have also considered the following advantages, disadvantages and other factors.

Advantages

Net tangible asset backing per share accretion

- 1.42 The Selective Buy-back and cancellation of the Buy-back Shares is expected to be accretive to the net asset backing per share of Magontec, all other things being the same, as set out in the calculation in Figure 6 below.

Figure 6: Net assets per share accretion

NTA per share accretion		
Carrying value of net assets at 30 September 2024	A\$ million	48.80
Less carrying value of intangible assets	A\$ million	(3.03)
Carrying value of net tangible assets	A\$ million	45.77
Before the Selective Buy-back ¹		
Number of shares outstanding	'000	79,644
Net tangible assets per share before the Selective Buy-back	A\$	0.57
After the Selective Buy-back		
Number of shares outstanding	'000	56,962
Net tangible assets per share after the Selective Buy-back	A\$	0.80

Sources: Magontec Q3 Report, ASX announcement, GTCF analysis

Note 1 – We have assumed that the reduction in the interest received as a consequence of the reduced cash balance for the payment of the Selective Buy-back will not affect the NPAT, all other things being the same.

- 1.43 Magontec will fund the Selective Buy-back with the claims under the Agreements, and the fixed assets stranded at the casting house which are generating no return in the current operational environment. The Company's claims against QSLM have only been partially acknowledged by the Administrator, and no amount for that acknowledged portion has been accepted by the Administrator as a debt. Legal action is likely to be necessary to establish any of Magontec's claims and no amount is carried in the Company's net assets at 30 September 2024 in relation to them. Similarly, the carrying value of the depreciable fixed assets related to the cast house have been written down and have a nil carrying amount in the 30 September 2024 net assets recognising their impairment.
- 1.44 As there is no material reduction in the carrying value of reported net assets as a result of the Buy-back Price, the change in NTA is driven completely by the lower number of shares on issue after the cancellation of the Buy-back Shares. The costs of the Selective Buy-back process, while they reduce the amount of cash held by the Company, will be incurred whether the Non-Associated Shareholders vote to approve or not approve the Selective Buy-back.

Utility of stranded assets

- 1.45 The cast house fixed assets have been impaired by the Magontec Directors and their carrying amount written down to nil prior to the 30 September 2024 net assets. The investment in those assets was considered to be not recoverable from their operation or by sale and to the best of Management's knowledge, no potential purchasers approached Magontec regarding the purchase of those assets. We understand that the reduced demand for magnesium alloy in the global market means that there is no effective market for the cast house fixed assets and that even if there were potential purchasers for the fixed assets, the cost to disassemble, transport and re-assemble the cast house would most likely offset their pre-impairment carrying amount.
- 1.46 Giving up the cast house fixed assets to QSLM in return for the Buy-back Shares amounts to un-diluting the Non-Associated Shareholders' interests with no cost. Similarly, the current (and future if any) claims against QSLM under the Agreements and from their mutual operational dealings have significant uncertainties associated with not only their recognition in any proceeding necessary to recover them, but also the value that could be achieved for them, not only as recognised losses, but recoverable from QSLM in its current state of administration. This uncertainty is reflected in the extremes of assessment of the fair market value Buy-back Price in our low and high cases.

Avoidance of costly litigation and resolution of uncertainty

- 1.47 The MOS and the terms of the Selective Buy-back, if approved, would allow Non-Associated Shareholders to avoid significant litigation costs associated with pursuing the breach of contract claims in both the Chinese and Australian courts. Moreover, it also mitigates the uncertainties of dealing with QSLM, an entity in Administration.

Avoidance of holding minority interests in an unlisted entity

- 1.48 The MOS and the terms of the Selective Buy-back, if approved, will enable the Company to resolve all claims, regain the 28.48% stake in Magontec, and avoid the uncertainty and illiquidity associated with holding a minority interest in the unlisted QSLM entity which is proposed to be most of any settlement of the Company's claims against QSLM if they were pursued and participated in the Administrator's restructure.

Disadvantages

Loss of potential benefits from the cast house fixed assets

- 1.49 Voting in favour of the Selective Buy-back will mean that the Non-Associated Shareholders forfeit the potential long-term benefits (beyond the initial costs for disassembly and transport) of utilising the cast house fixed assets for magnesium production at an alternative location. If the long standing technical challenges that the QSLM plant has faced can be eventually resolved, the Non-Associated Shareholders would forfeit any benefits arising from the resolution to the extent that they would participate in the equity of QSLM following the restructure.

Other factors

No detriment to the Creditors

- 1.50 In our opinion, the Selective Buy-back is not detrimental to the creditors of the Company given it results in no change to the reported carrying value of the net assets of the Company compared with the position before the Selective Buy-back and after it.

Directors' recommendation

- 1.51 As set out in the Notice of Meeting and explanatory notes, at the date of this report, the Directors of Magontec¹⁰ have recommended that Non-Associated Shareholders vote in favour of the Selective Buyback.

Implications if the Selective Buy-back is not approved

- 1.52 If the Selective Buy-back is not approved, the MOS will become ineffective and the resolution of the outstanding contractual and operational issues the Company and QSLM will most likely fail. In the event that the MOS becomes ineffective, Magontec would need to consider pursuing its claims against QSLM, the prospects for success, the ability of the Administrator to settle the debt and the nature of the settlement available.

Tax implications

- 1.53 Approval of the Selective Buy-back should not have any consequences for the tax positions of Non-Associated Shareholders.
- 1.54 Non-Associated Shareholders should read the explanatory notes accompanying the notice of meeting and also seek their own independent financial and tax advice.

Reasonableness conclusion

- 1.55 **Based on the qualitative factors identified above, it is our opinion that the Selective Buy-back is reasonable to Non-Associated Shareholders.**

Overall conclusion

- 1.56 **Based on the above, Grant Thornton Corporate Finance has concluded that the Selective Buy-back is FAIR AND REASONABLE to the Non-Associated Shareholders for the purposes of Chapter 2J of the Corporations Act and Chapter 10 of the ASX Listing Rules.**

¹⁰ All the Directors of the Company excluding Mr Xing Cai Li, the nominee of QSLM.

Other matters

- 1.57 Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.
- 1.58 The decision of whether or not to approve the Selective Buy-back is a matter for each Magontec Shareholder based on their own views of the value of Magontec and expectations about future market conditions, Magontec's performance, risk profile and investment strategy. If Magontec Shareholders are in doubt about the action they should take in relation to the Selective Buy-back, they should seek their own professional advice.

Yours faithfully

GRANT THORNTON CORPORATE FINANCE PTY LTD



ANDREA DE CIAN
Director



MARK BUTTERFIELD
Director

2. Financial Services Guide

Grant Thornton Corporate Finance Pty Ltd

- 2.1 Grant Thornton Corporate Finance Pty Ltd (“Grant Thornton Corporate Finance”) carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.
- 2.2 Grant Thornton Corporate Finance has been engaged by Magontec to provide general financial product advice in the form of an IER in relation to the Selective Buy-back. This report accompanies the notice of meeting including the information outlining the Selective Buy-back.

Financial Services Guide

- 2.3 This Financial Services Guide (“FSG”) has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

General financial product advice

- 2.4 In our report we provide general financial product advice. The advice in our report does not take into account your personal objectives, financial situation or needs.
- 2.5 Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

Remuneration

- 2.6 When providing the report, Grant Thornton Corporate Finance’s client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the report, Grant Thornton Corporate Finance will receive from Magontec a fee of around A\$90,000 plus goods and services tax (“GST”), which is based on commercial rates plus reimbursement of out-of-pocket expenses in relation to the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.
- 2.7 Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

Independence

- 2.8 Grant Thornton Corporate Finance is required to be independent of Magontec in order to provide this report. The guidelines for independence in the preparation of an independent expert's report are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission. The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.
- 2.9 "Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Magontec (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Selective Buy-back.
- 2.10 Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Selective Buy-back, other than the preparation of this report.
- 2.11 Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Selective Buy-back. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report. Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of experts" issued by ASIC."

Complaints process

- 2.12 Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Australian Financial Complaints Authority. All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Australian Financial Complaints Authority who can be contacted at:

Australian Financial Complaints Authority Limited
GPO Box 3
Melbourne, VIC 3001
Telephone: 1800 931 678

- 2.13 Grant Thornton Corporate Finance is only responsible for this Report and FSG. Complaints or questions should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

Compensation arrangements

- 2.14 Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of Section 912B of the Corporations Act, 2001.

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3. Outline of the Selective Buy-back

Selective Buy-back

- 3.1 Under the terms of the MOS, Magontec will purchase and QSLM will sell 22,681,940 Magontec Shares and will cede its claims against Magontec for unpaid operating expenses in exchange for Magontec ceding its current and future claims against QSLM in relation to the Agreements and certain cast house fixed assets.
- 3.2 The Selective Buy-back is subject to:
- 3.2.1 The approval of Non-Associated Shareholders by the requisite majorities required under subsection 257D(1) of the Corporations Act and ASX Listing Rule 10.1; and
 - 3.2.2 The Independent Expert concluding that the Selective Buy-back is fair and reasonable to the Non-Associated Shareholders.
- 3.3 If the above conditions are not satisfied, then the Selective Buy-back will not be completed.
- 3.4 If the conditions are satisfied and the Selective Buy-back is completed:
- 3.4.1 The carrying amount of net assets of Magontec will not change to finance the Selective Buy-back, excluding any associated transaction costs; and
 - 3.4.2 The shares bought back from QSLM will be cancelled, reducing the number of outstanding shares in Magontec from 79,643,766 to 56,961,826.

4. Purpose and scope of the report

Purpose

Chapter 2J and 2E of the Corporations Act (“Chapter 2J” and “Chapter 2E”)

- 4.1 Division 2 of Chapter 2J states that a company may buy back its own shares if the buy-back does not materially prejudice the company's ability to pay its creditors and the company follows the procedures laid down in Division 2.
- 4.2 The procedures laid down by Division 2 require that, under Section 257D of the Corporations Act (“Section 257D”), a selective reduction such as the Selective Buy-back be approved by either a special resolution passed at a general meeting of the company, with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction, or by their associates; or alternatively a resolution agreed to, at a general meeting, by all ordinary shareholders.
- 4.3 Section 257D further prescribes that the company must include with the notice of meeting, a statement setting out all information known to the company that is material to the decision on how to vote on the resolution unless it is unreasonable to require the company to do so because the company had previously disclosed the information to its shareholders.
- 4.4 ASIC Regulatory Guide 110 – Share buy-backs (“RG110”) provides that if a company proposes to buy back a significant percentage of shares or the holdings of a major shareholder, it should consider providing an independent expert's report with a valuation of the shares to satisfy the information requirements.
- 4.5 We note the explanatory information accompanying the notice of meeting states that Magontec has deemed QSLM to be a related party for the purposes of the Selective Buy-back.

Chapter 10 of the ASX Listing Rules – Transactions with persons in a position of influence

- 4.6 Chapter 10 of the ASX Listing Rules requires the approval from the non-associated shareholders of a company if the company proposes to acquire or dispose of a substantial asset from a related party or a substantial holder.
- 4.7 ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration, is equal to 5.0% or more of the equity interest of the entity as set out in the latest financial statement provided to the ASX.
- 4.8 Under the ASX Listing Rule 10.1.3, a person is a substantial holder if the person or person's associates have a relevant interest or had a relevant interest at any time in the 6 months before the transaction, in at least 10.0% of the total votes attached to the voting securities.
- 4.9 In regard to the Selective Buy-back, we note that QSLM is a substantial holder and therefore the Selective Buy-back constitutes the acquisition of a substantial asset.

- 4.10 ASX Listing Rule 10.10.2 requires that the Notice of Meeting and Explanatory Memorandum be accompanied by a voting exclusion statement and a report from an independent expert stating whether the transaction is fair and reasonable to the Non-Associated Shareholders.
- 4.11 Accordingly, the Directors of Magontec have requested Grant Thornton Corporate Finance to prepare an independent expert's report stating, whether in its opinion, the Selective Buy-back is fair and reasonable to the Non-Associated Shareholders.

Basis of assessment

- 4.12 In preparing the Report, Grant Thornton Corporate Finance has had regard to the Regulatory Guides issued by ASIC, particularly Regulatory Guide 111 – Content of expert reports (“RG111”) and Regulatory Guide 110 – Share Buy-backs (“RG110”).
- 4.13 In considering our approach to the fairness assessment, we note the following:
- 4.13.1 The shares bought back from QSLM will be cancelled in accordance with the Corporations Act requirements.
 - 4.13.2 As a result of the Selective Buy-back, QSLM will reduce its interest from 28.48% to nil in the issued capital of the Company.
 - 4.13.3 The substance of the regulatory framework in relation to selective buy-backs is to ensure that the Non-Associated Shareholders will not be economically and/or financially disadvantaged by not being able to participate in the buyback.
 - 4.13.4 The buyback and cancellation of the QSLM shares will not trigger any of the registered Non-Associated Shareholders to acquire an interest in 20.0% or more of Magontec's issued shares. The beneficial interests of 18.97%¹¹ held by Allan Gray Australia Pty Limited would translate to an interest of c. 26.52% of Magontec's issued shares post the Selective Buy-back. We note that this increase in interest in excess of 20.0% is not prohibited by virtue of s611(19) of the Corporations Act.
- 4.14 Accordingly, Grant Thornton Corporate Finance has concluded that the Selective Buy-back is not a change of control transaction.
- 4.15 In considering whether the Selective Buy-back is reasonable to the Non-Associated Shareholders, we have considered a number of factors, including:
- 4.15.1 Whether the Selective Buy-back is fair.
 - 4.15.2 The financial impact on Magontec if the Selective Buy-back proceeds.

¹¹ Latest interest per S&P Global since 30 June 2024.

- 4.15.3 The likely impact of the Selective Buy-back on creditors.
- 4.15.4 The impact of the Selective Buy-back on ownership interests and control of Magontec.
- 4.15.5 The implications to Magontec and the Non-Associated Shareholders if the Selective Buy-back is not approved.
- 4.15.6 Other likely advantages and disadvantages associated with the Selective Buy-back as required by RG111.
- 4.15.7 Other costs and risks associated with the Selective Buy-back that could potentially affect the Non-Associated Shareholders of Magontec.

Independence

- 4.16 Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to the Selective Buy-back with reference to the ASIC Regulatory Guide 112 - Independence of Expert's Reports ("RG112").
- 4.17 Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Selective Buy-back other than that of an independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.
- 4.18 Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Selective Buy-back.

Consent and other matters

- 4.19 Our report is to be read in conjunction with the Notice of Meeting and Explanatory Memorandum dated on or around 30 January 2025 in which this report is included and is prepared for the exclusive purpose of assisting the Non-Associated Shareholders in their consideration of the Selective Buyback.
- 4.20 This report should not be used for any other purpose.
- 4.21 Grant Thornton Corporate Finance consents to the issuance of this report in its form and context and consents to its inclusion in the Notice of Meeting and Explanatory Statement.
- 4.22 This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Selective Buy-back to the Non-Associated Shareholders as a whole. We have not considered the potential impact of the Selective Buy-back on individual shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Selective Buy-back on individual shareholders.
- 4.23 The decision of whether or not to approve the Selective Buy-back is a matter for each Magontec Shareholder based on their own views of the value of Magontec and expectations about future market

conditions, Magontec's performance, risk profile and investment strategy. If Magontec Shareholders are in doubt about the action they should take in relation to the Selective Buy-back, they should seek their own professional advice.

Compliance with APES 225 Valuation Services

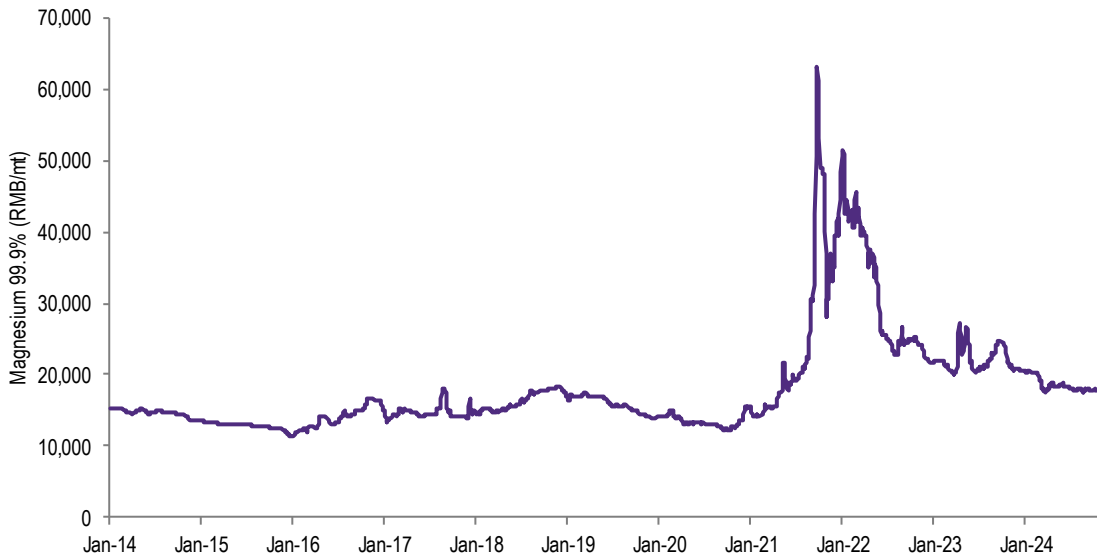
- 4.24 This report has been prepared in accordance with the requirements of the professional standard APES 225 Valuation Services ("APES 225") issued by the Accounting Professional & Ethical Standards Board. In accordance with the requirements of APES 225, we advise that this assignment is a Valuation Engagement as defined by that standard as follows:
- 4.25 "An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time."

5. Industry Overview

Magnesium

- 5.1 Magnesium is the 8th most plentiful mineral found in the earth’s crust. It can be recovered in metal form from the various compounds in which it is found naturally. China is the largest producer of primary magnesium, producing c. 88.9%¹² of the world's total smelter production in 2022 and c. 88.2% in 2023. China primarily produces magnesium through the pyro-metallurgical pidgeon process, an energy and labour-intensive system which is therefore suited to certain conditions within some Chinese jurisdictions. The most common form of magnesium imports are alloys and scrap, which accounted for c. 35.0%¹³ each of total global imports in the second quarter of 2024.
- 5.2 Magnesium prices have been particularly volatile over the past three years as supply chain disruptions relating to the Covid-19 pandemic impacted the production and distribution of Magnesium, in congruence with the closure of US domestic production sites and the introduction of stricter environmental controls in China both of which led to reduced production capacities and increased costs. Magnesium prices and coal prices have a significant relationship as coal is a major energy source used in the production of magnesium, in that, when coal prices rise, the price of magnesium increases as well as the inverse. We have outlined below the price of Magnesium 99.9% since January 2014, of which a particular spike is noted toward the end of 2021, as per our commentary above.

Figure 7: Magnesium prices since January 2014



Source: Asian Metal

¹² U.S. Geological Survey, 'Mineral Commodity Summaries, January 2024'
¹³ U.S. Geological Survey, 'Magnesium Metal in the Second Quarter 2024'

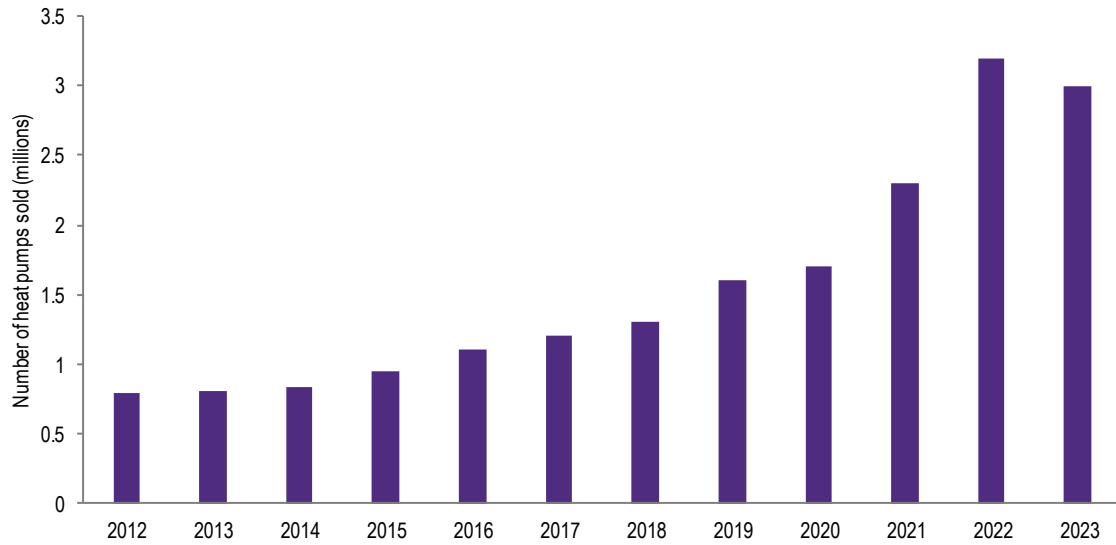
Magnesium alloys

- 5.3 Magnesium alloys are a mixture of magnesium, with other metals, often aluminium, zinc, manganese and several others. Manufacturers use magnesium because it's the lightest structural metal, 36.0% lighter than aluminium and 78.0% lighter than iron. When magnesium is alloyed with other metals such as aluminium and rare earths it acquires new properties such as stress resistance, thermal conductivity and corrosion protection and can be used for a wide variety of applications. These magnesium alloys are used in several industries including automotives, electronics, aerospace, and power tools. As such, demand for magnesium alloys is correlated to the demand for certain products within each of these industries, such as steering wheel armatures, gear box cases and IP beams. Smaller volume auto applications include door frames and engine brackets, supports and covers. The power tool industry uses Mg alloys for engine parts in hand-held mechanical tools.
- 5.4 Primary magnesium alloy refers to the use of pure magnesium as solid ingots, in which these ingots are melted, and additional elements are added, as discussed above. We understand that this is mostly consumed by die cast manufacturers in which c. 80.0% of primary magnesium is used in the automotive industry. Magnesium alloy demand also comes in the form of a secondary market, a recycling market in which scrap is collected from die cast manufacturers and sent to specialist recyclers for conversion to secondary magnesium alloy ingots (over 40.0% of primary magnesium alloy supplied to die cast manufacturers returns as scrap recycling). We understand that major European automotive original equipment manufacturers, and global automotive supply companies are the largest users of Chinese magnesium alloys, in which Germany and other European countries represented c. 55.0% of the export market.

Magnesium anodes

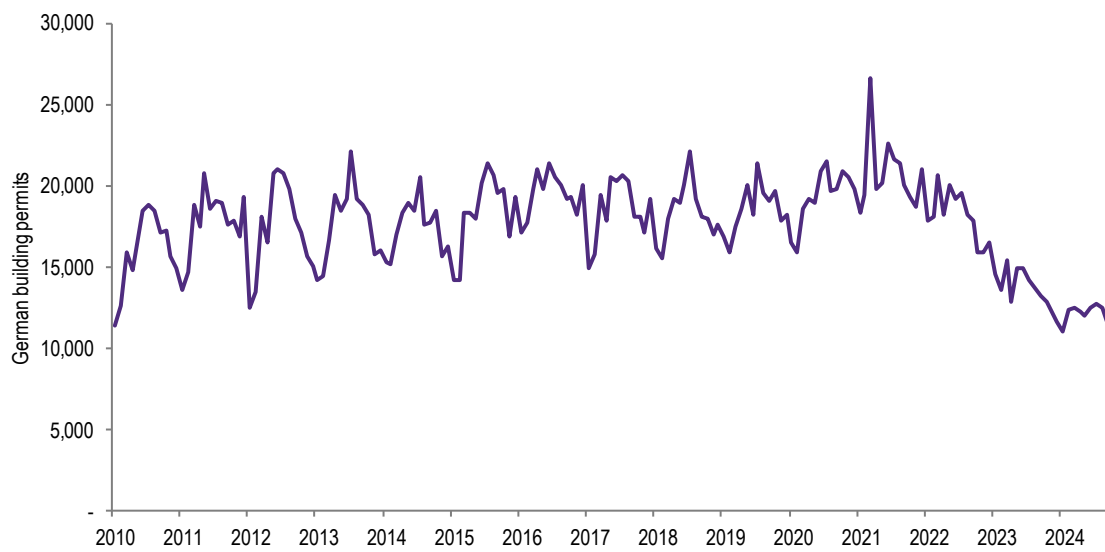
- 5.5 The magnesium anode industry is a downstream industry of the manufacturing of magnesium alloys. Magnesium anodes relate to the production of sacrificial anodes created from magnesium alloys, these sacrificial anodes in essence 'sacrifice' themselves via electrochemical reactions which in turn extend the life of the steel elements, a process in which a magnesium rod acts as an anode whilst a metal tank, typically a water heater is the cathode. This process is known as Cathodic Corrosion Protection ("CCP"). This can be in the form of traditional magnesium anodes whereby magnesium alloy is fashioned into rods, or electronic anodes which use electronic information to extract data obtained from water heaters and provide greater corrosion protection. Demand for magnesium anodes is largely driven by the installation of water heaters, and therefore indirectly the housing market, with home construction, particularly in developing countries being a key driver, in addition to the shift from oil and gas to heat pump technology as well as the replacement of appliances. We note below that the European heat pump market (total sales) has developed substantially since 2012, before declining in 2023, ending more than a decade of consecutive years of growth which we understand to be an impact of regulatory uncertainty regarding subsidies and slowed housing, which can be observed in the subsequent graph which showcases the number of building permits in Germany since 2010.

Figure 8: Europe annual heat pump sales



Source: European Heat Pump Association (EHPA)

Figure 9: Building permits in Germany



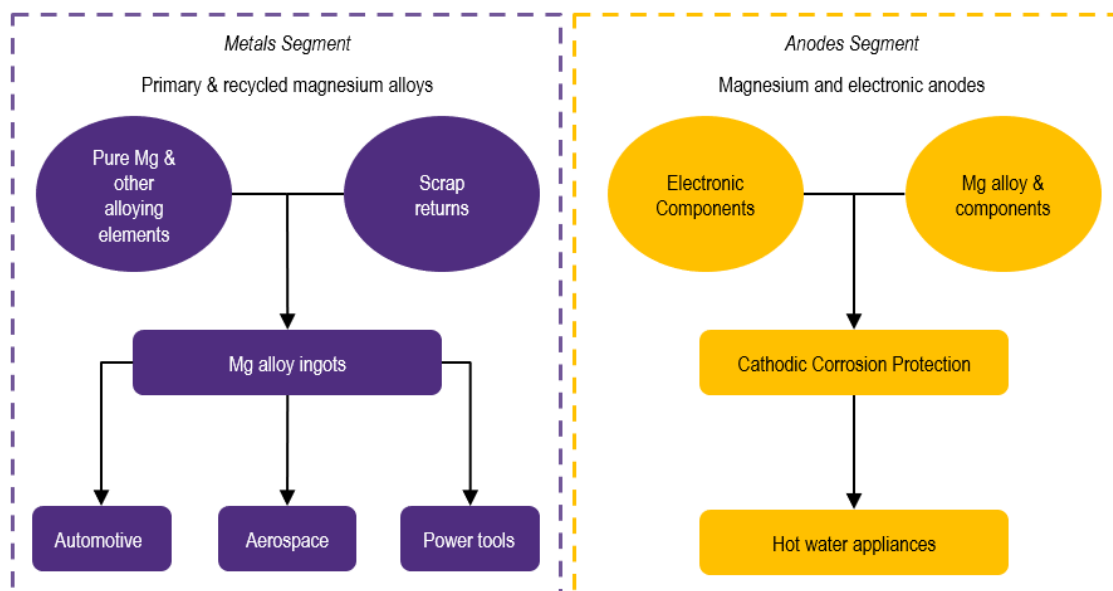
Source: Statistisches Bundesamt (Destatis), 2024

6. Profile of Magontec

Company overview

- 6.1 Magontec is an ASX listed manufacturing business largely focused on magnesium alloy products in which the Company sources pure magnesium metal and other raw materials from third parties and manufactures finished and intermediate products, which are then sold to Magontec's client base, as well as the manufacturing of magnesium anodes for corrosion protection in water heaters.
- 6.2 Magontec operates under the distinct business segments as displayed below:

Figure 10: Magontec business model



Source: Management, GTCF Analysis

- 6.2.1 **Metals Segment:** Magontec purchases pure magnesium and Mg alloy scrap to produce Mg alloy ingots through two sub-segments:
- Alloy recycling – As magnesium alloys are 100.0% recyclable, Magontec is able to recycle the magnesium utilised in servicing its primary magnesium alloy customers.
 - Primary magnesium – Magontec also produces some volume of primary magnesium alloy at its German and Romanian facilities.
- 6.2.2 **Anodes Segment:** Magontec is a leading manufacturer of magnesium and electronic anodes for cathodic corrosion protection, producing magnesium anodes that are included in the manufacture of water heaters.
- 6.3 Magontec operates across several facilities globally, we have set out a summary of this in Figure 11 below.

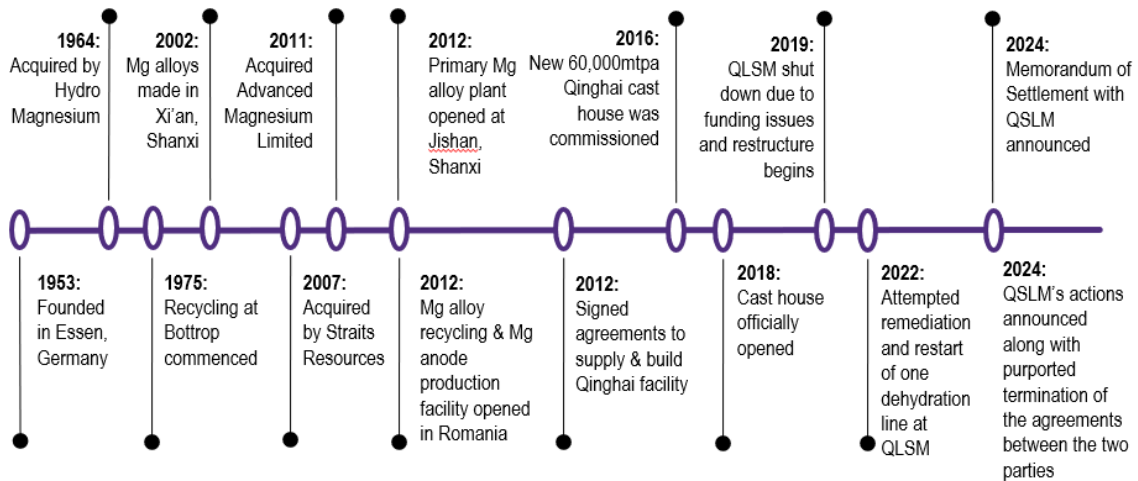
Figure 11: Magontec production by product and facility

Production by product and facility						
Location	Primary Mg alloy	Mg recycling	Specialist alloy	Mg anodes	Electronic anodes	
Germany	x	x	x			x
Romania	x	x			x	
Xi'an, China			x	x		
Shanxi, China ¹	x	x				
Qinghai, China ²	x					

Source: Management, GTCF Analysis
 Notes: (1) Closed in 2018 (2) Closed in 2024.

6.4 As a longstanding manufacturer of magnesium products, Magontec has had several key business events, we provide a brief timeline of key events for the Company in Figure 12 below.

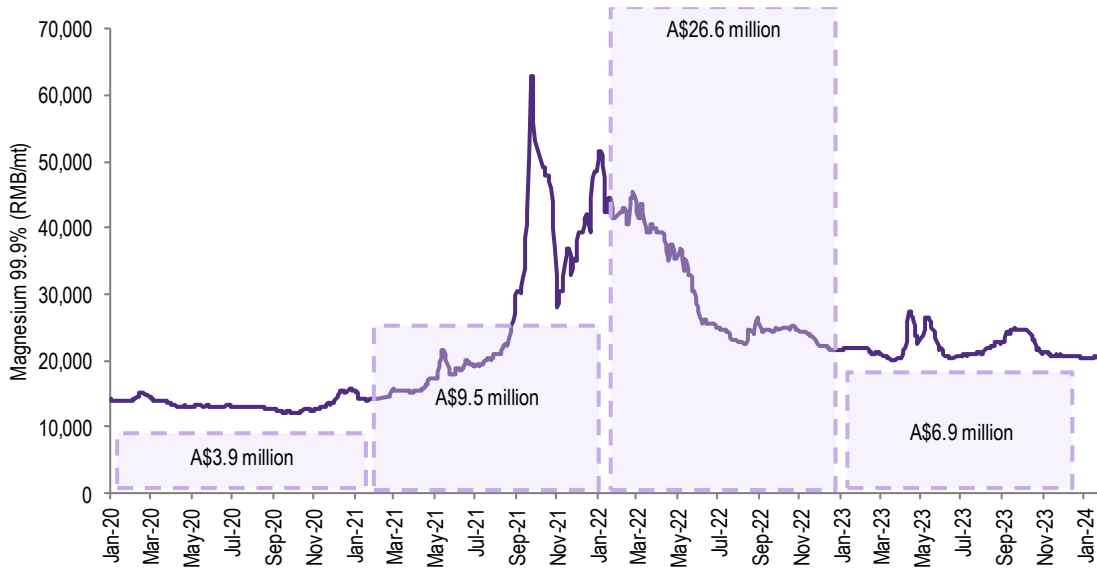
Figure 12: Magontec key events



Source: Management, GTCF Analysis

6.5 Although the Company is directly impacted by several more specific factors relating to each of the business segments, an overarching key driver is the price of magnesium. In Figure 13 below, we present a summary of magnesium pricing compared to EBITDA (excluding unrealised FX gains/losses):

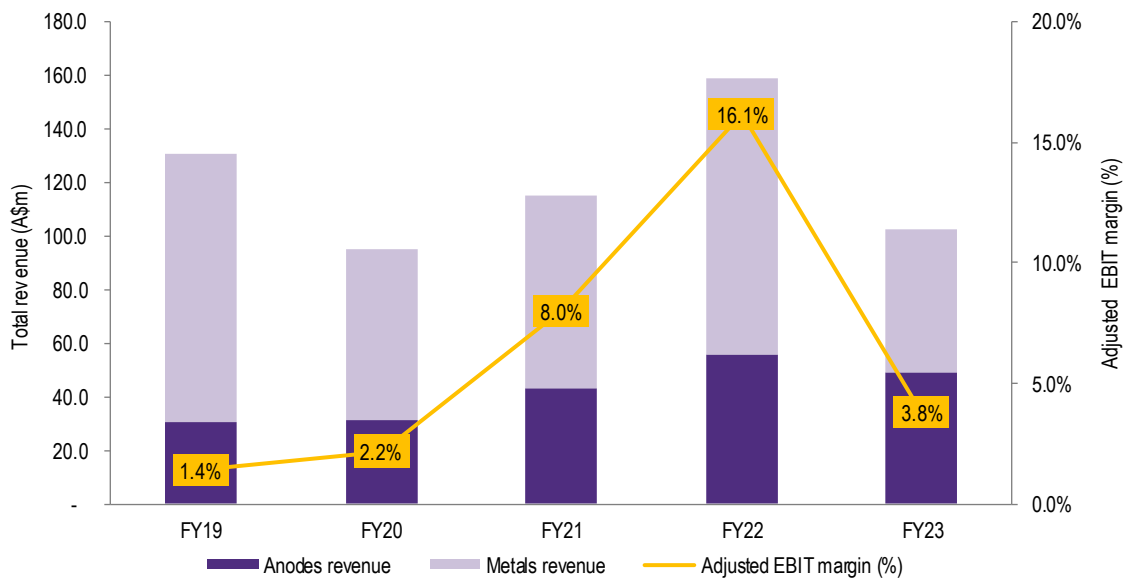
Figure 13: Magnesium prices vs Magontec EBITDA



Source: Management, Asian Metal, GTCF Analysis

6.6 There is a clear correlation between greater than average magnesium pricing, and the EBITDA recognised by the Company. In Figure 14 below we have set out a summary of the historical revenue and EBITDA margin of Magontec.

Figure 14: Magontec revenue and EBITDA margin



Source: Management, GTCF Analysis

6.7 There have been a number of factors impacting revenue volatility, including:

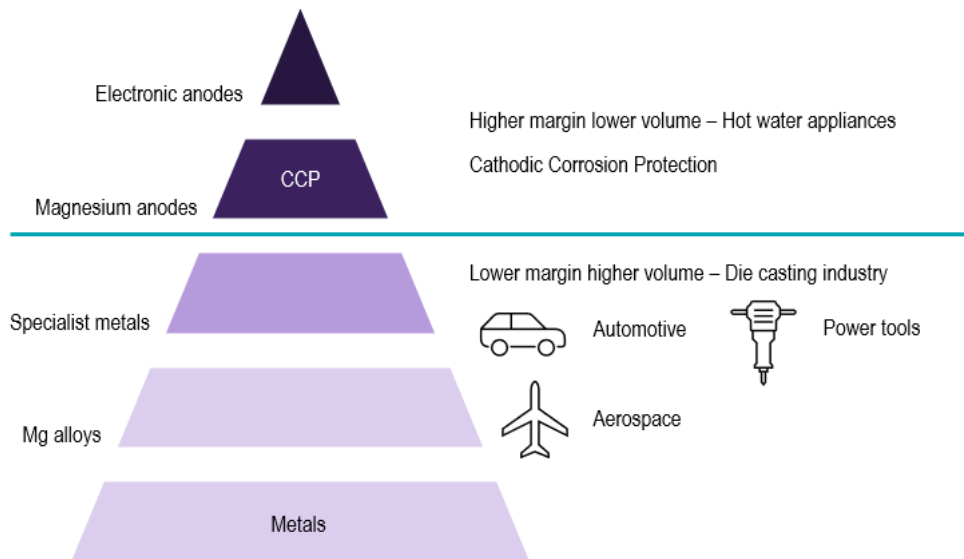
6.7.1 The c. 27.2% drop in revenue in FY20 was largely attributable to a A\$36.2 million decrease in sales revenue from the metal alloys segment. This was the result of issues with MACH at Golmud in Qinghai province, which sold 5,500 metric tonnes in FY20 down from 10,200mt in

FY19 (which included 1,851mt from the previous Shanxi facility). Additionally, we understand that there was no supply of pure magnesium from the adjacent QSLM smelter in any month of FY20 and all raw materials were acquired from pure magnesium producers in neighbouring provinces, hence the drop in volumes from FY19 to FY20.

- 6.7.2 The spike of revenue in FY22 of c. 37.7% was largely driven by the c. A\$30.6 million in the metals segment of the business which reflected a surge in magnesium prices (impacted by a reduction in supply in the US, environmental constraints on Chinese producers, and logistical issues), allowing Magontec to ship a large inventory of recycled scrap material globally at an elevated price level, increasing revenue and margins.
- 6.7.3 In FY23, revenue fell as Magontec’s metals division experienced a reduction of c. 47.8% with magnesium prices falling in line with a drop in demand, particularly from stagnant automotive sales in North America and Western Europe, as well as a decline in Chinese automotive sales in congruence with a power tool industry returning to lower levels following higher than average sales during the Covid-19 pandemic.

6.8 As outlined above, Magontec’s margins fluctuate significantly with both volumes and the revenue product mix. Displayed below is a summary of several of Magontec’s product offerings and their respective margins, in which those at the top of the pyramid are higher margin lower volume products, and vice versa.

Figure 15: Magontec margin by product



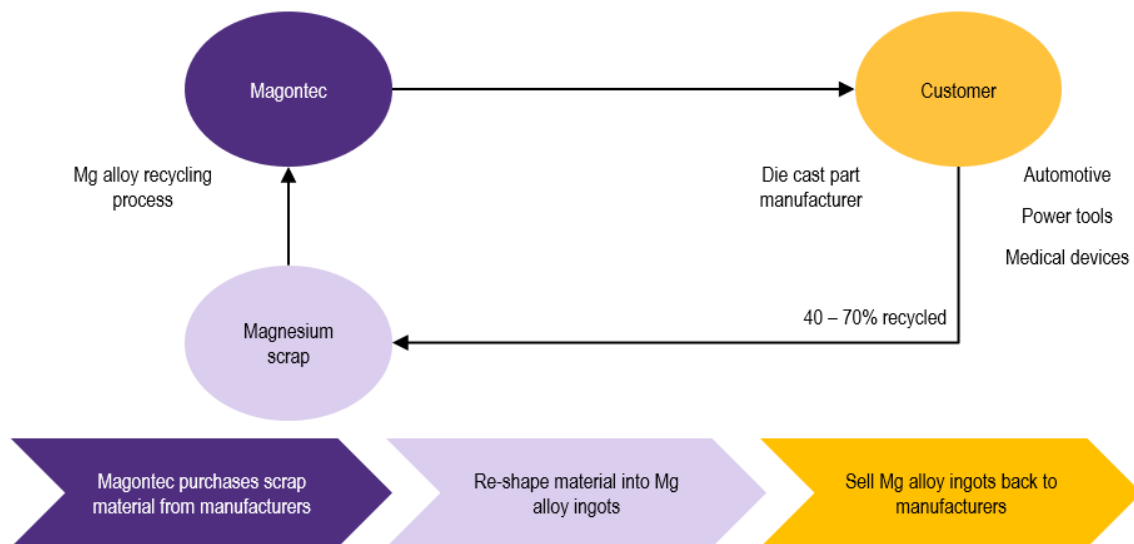
Source: Management, GTCF Analysis

6.9 Magontec’s electronic and magnesium anode products are lower volume higher margin products focused on a small number of large global companies, with the greater technological requirements to produce these products, and propensity to provide value addition to purchases in energy efficiency and maintenance reduction allowing for a higher price and therefore a higher margin. Toward the bottom of the pyramid is the high volume and more cyclical metals business, supplying products to die casters in various industries, with the most ubiquitous application being in the automotive industry and in particular relating to the production of steering wheels.

Metals Segment

- 6.10 Magontec’s metals operation operates in two segments, being alloy recycling and primary magnesium alloy manufacturing across several different facilities, as outlined in Figure 10.
- 6.11 The recycling business purchases scrap magnesium alloy material from manufacturers which it then melts and casts into Mg ingots to be resold back to manufacturers, a process which is repeated multiple times as the die cast products are typically between 40.0% and 70.0% recyclable. As the largest magnesium recycling business in Europe Magontec manages two facilities, Magontec’s Romania is the most recent facility and has a capacity of approximately 9,000 metric tonnes per annum, providing recycling services to customers located in eastern Europe, Magontec Germany is the second facility with a capacity of c. 15,000 metric tonnes per annum. This business model and recycling process has been outlined in Figure 16 below. In addition to scrap repurchasing Magontec also engages in tolling, the process of recycling scrap magnesium on behalf of customers for a processing or ‘tolling’ fee but does not repurchase the scrap.

Figure 16: Magnesium recycling process



Source: Management, GTCF Analysis

- 6.12 The primary magnesium alloy segment purchases pure magnesium as solid ingots, melting the ingots and adding alloying elements such as zinc and aluminium and converting this into solid Mg alloy ingots for sale. The primary magnesium alloy manufacturing business originally began in 2002 based in Xi’an China, moving to the Shanxi Province in 2012 and closing in 2018 when the Qinghai plant was opened, which would later close in 2024.

Anodes Segment

- 6.13 The anodes segment or Cathodic Corrosion Protection segment manufactures anodes that are used in water heaters to reduce corrosion and extend the life of metal products coming into regular contact with water, sacrificially corroding and preventing the electrolysis process. This is done via both magnesium anodes and electronic anodes.

- 6.14 Magnesium anodes is classified as a downstream magnesium business, in which magnesium alloy is processed into rods, known as magnesium anodes which are then inserted into water heaters and provide corrosion protection, the shelf life of these anodes is generally 3 to 5 years. All tank-based water systems contain at least one anode, with the most common in domestic water heaters being magnesium rods, as referred to previously, notably, c. 80.0% of the product supplied by the industry is sold as a replacement for tanks that have passed their use by date, whilst the remaining 20.0% is sold to the new build industry.
- 6.15 As Magontec's highest margin product, electronic anodes use electronic equipment to extract data obtained from water heaters and provide a greater level of corrosion protection than magnesium anodes. These electronic anodes are made in Magontec's Germany plant with sales to high end domestic and industrial water heater manufacturers in the US and Europe.

QSLM Relationship

- 6.16 In 2012 and 2014 Magontec and QSLM entered into several agreements that, inter alia, committed Magontec to the construction and operation of a magnesium alloy cast house in Qinghai, and committed QSLM to the production and sale to Magontec of low emission pure magnesium from its electrolytic magnesium smelter on the same site.
- 6.17 The commissioning of the Magontec cast house was completed in 2017 and began operating in early 2018, though QSLM never succeeded in producing liquid pure magnesium, and was unable to supply qualified pure magnesium to Magontec, failing several of its obligations under the original agreements. In FY20 Magontec produced less than 6,000 tonnes of magnesium alloys at a capacity of c. 60,000 tonnes, due to a lack of supply from QSLM, which would in turn require Magontec to transport magnesium ingots by truck from up to 1,000km away.
- 6.18 In October 2019 QSLM entered a process of restructuring, and on several occasions following this assured Magontec that the agreements remained valid. In June 2024 the management of QSLM proposed amendments to the agreements that Magontec believed would cause a further financial loss at the site, followed by a purported termination of the agreements by QSLM, causing Magontec to seek legal advice. On 1 November 2024 Magontec announced that it had entered the MOS.

Financial Information

Financial performance

- 6.19 The table in Figure 17 below we have tabulated the Company's audited consolidated income statement for the periods FY21 to FY23 and the reviewed half year income statements H1 FY23 and H1 FY24.

Figure 17: Magontec consolidated statements of financial performance

Consolidated statements of financial performance	FY21	FY22	FY23	H1 FY23	H1 FY24
A\$ '000	Audited	Audited	Audited	Reviewed	Reviewed
Sale of goods	115,151	158,600	102,357	60,550	41,411
Cost of sales	(95,919)	(120,005)	(83,133)	(46,447)	(35,344)
Gross profit	19,232	38,595	19,224	14,103	6,067
<i>Gross margin</i>	16.7%	24.3%	18.8%	23.3%	14.7%
Other income	1,747	1,450	2,682	290	734
Interest expense	(525)	(650)	(495)	(288)	(182)
Impairment of inventory, receivables & other financial assets	4	(25)	(1,471)	(941)	(3,687)
Travel accommodation and meals	(209)	(459)	(803)	(415)	(362)
Research, development, licensing and patent costs	(880)	(825)	(1,123)	(546)	(399)
Promotional activity	(65)	(180)	(77)	(53)	(87)
Information technology	(443)	(403)	(402)	(209)	(186)
Personnel	(7,934)	(9,094)	(9,114)	(4,557)	(4,376)
Depreciation & amortisation	(642)	(605)	(730)	(356)	(324)
Office expenses	(640)	(586)	(626)	(341)	(252)
Corporate	(3,114)	(3,314)	(4,307)	(2,014)	(1,786)
Foreign exchange gain/(loss)	198	(66)	(772)	(491)	24
Profit/(Loss) before income tax expense/benefit from continuing operations	6,729	23,838	1,986	4,182	(4,816)
Income tax benefit/ (expense)	(1,722)	(7,322)	(1,519)	(1,784)	(434)
Profit/(Loss) after income tax expense/benefit from continuing operations	5,007	16,516	467	2,397	(5,250)

Source: Management, GTCF Analysis

- 6.20 Revenue: As previously discussed, the FY23 revenue reduction largely relates to the decline of global magnesium prices in 2023, with higher pure magnesium inventories in China and softer demand leading to lower sales volumes. H1 FY24 revenue was impacted in particular by lower volumes in the European automotive industry, impacting primary magnesium alloy sales volumes and the associated recycling business, whilst a decline in home building activity in Europe and China, broadly associated with higher interest rates and corporate failures led to a decline in the hot water industry, further impacting sales volumes.
- 6.21 Gross margin: As previously mentioned, margins peaked in FY22 as Magontec capitalised on greater than usual Magnesium pricing and was able to pass this on to downstream customers, these margins have since eased. We understand that margins in H1 FY24 were impacted by lower Mg anode volumes, in particular electronic anodes, with slowed demand in Europe in the US, in addition to competitive pricing for recent contract renewals in China furthering this decline.
- 6.22 Other income: Other income growth in FY23 primarily relates to government grants and the write back of provisions, in addition to interest revenue and a gain on the disposal of fixed assets, whilst H1 FY24 largely relates to government grants

6.23 Expenses: Expenses grew materially in FY23, and to a smaller extent H1 FY24 (in comparison to the respective prior corresponding period), associated with the following:

6.23.1 Impairment: FY23 was impacted by an inventory write down expense of c. A\$1.3 million in which weak demand in European markets caused a slowed process of inventory unwinding under which Magontec was required to reduce the cost of inventory to its assessed net realisable value. In addition, FY23 contained a fixed asset impairment expense of c. A\$200k. H1 FY24 was impacted by the closure of the Magontec facility leading to an impairment expense of c. A\$3.7 million.

6.23.2 Other: The other largest expenses incurred by Magontec include personnel, corporate, and research, development, licensing and patent costs.

Financial position

6.24 The table in Figure 18 below sets out the Company's consolidated balance sheets as at 31 December 2022, 30 June 2023, 31 December 2023, and 30 June 2024.

Figure 18: Magontec consolidated statements of financial position

Consolidated statements of financial position A\$ '000	31-Dec-22 Audited	30-Jun-23 Reviewed	31-Dec-23 Audited	30-Jun-24 Reviewed
Assets				
Cash and cash equivalents	11,259	15,419	13,136	10,842
Trade and other receivables	24,797	16,770	16,043	14,126
Inventories	35,928	34,382	32,805	31,378
Other	2,017	2,105	532	1,375
Total current assets	74,001	68,676	62,516	57,721
Other receivables	334	288	307	265
Property, plant and equipment	17,099	17,230	17,786	13,604
Deferred tax asset	1,830	1,440	1,582	1,351
Intangibles	3,059	3,026	2,977	3,051
Total non-current assets	22,322	21,984	22,652	18,271
Total assets	96,323	90,660	85,168	75,992
Liabilities				
Trade and other payables	12,026	9,550	6,751	7,637
Bank borrowings	9,295	3,394	4,418	1,298
Provisions	9,259	8,082	6,691	5,682
Total current liabilities	30,580	21,026	17,860	14,617
Other payables	254	191	221	141
Bank borrowings	-	-	-	-
Provisions	9,360	9,949	10,440	10,174
Total non-current liabilities	9,614	10,140	10,661	10,315
Total liabilities	40,194	31,166	28,521	24,932
Net assets	56,129	59,494	56,647	51,060

Source: Management, GTCF Analysis

6.25 Net working capital: Net working capital is a key driver for the Business due to its nature of manufacturing and selling goods, and therefore implication of significant inventory (both raw materials and finished

goods) a high level of receivables and payables, and the requirement to fund working capital with fluctuating magnesium prices. Whilst we have disclosed the working capital at year end, it fluctuates during the year and intra-month due to agreements with suppliers and customers. Though we note, as per Figure 19 below, net working capital has generally decreased resulting from the falling pure magnesium price and lower sales revenues. We note that majority of the inventory balance is held within the European business and has decreased during the period in line with lower sales.

Figure 19: Magontec net working capital

Net working capital A\$ '000	31-Dec-22 Audited	30-Jun-23 Reviewed	31-Dec-23 Audited	30-Jun-24 Reviewed
Add: Debtors	18,018	10,670	11,635	8,530
Add: Notes Receivable	6,779	6,100	4,408	5,596
Add: Inventory	35,928	34,382	32,805	31,378
Add: Prepayments	2,017	2,105	532	1,375
Less: Creditors	(12,026)	(9,550)	(6,751)	(7,637)
Net Working Capital	50,715	43,707	42,630	39,243

Source: Management, GTCF Analysis

- 6.26 Property, plant and equipment: The sharp reduction of property, plant, and equipment as at 30 June 2024, in comparison with 31 December 2023 relates to the previously mentioned factory closure resulting in a non-cash write down of the entire carrying amount of A\$3.7 million to zero as at 30 June 2024.

Cash flow statement

- 6.27 The table in Figure 20 below sets out the Company's audited cash flow statements for the period FY22 and FY23, as well as the half year cash flow statements H1 FY23 and H1 FY24.

Figure 20: Magontec consolidated statements of cash flows

Consolidated statements of cash flows A\$ '000	FY22 Audited	FY23 Audited	H1 FY23 Reviewed	H1 FY24 Reviewed
Cash flows from operating activities				
Profit before taxation	23,837	1,985	4,181	(4,816)
Adjustments for:				
Non-cash equity expense	253	555	278	337
Depreciation & amortisation	2,776	2,990	1,479	1,456
Impairment loss on property plant & equipment	-	-	-	3,652
Foreign currency effects	1,303	1,281	853	313
Other non-cash items	(139)	(666)	(807)	(691)
Cash generated from/(utilised in) underlying operating activities	28,030	6,145	5,984	251
Movement in working capital balance sheet accounts				
Trade receivables and other current assets	2,352	10,727	7,840	667
Inventory	(11,537)	3,790	3,059	1,395
Trade payables and other current liabilities	(5,191)	(5,297)	(2,638)	1,028
Cash generated from/(utilised in) underlying operational cash flow and net working capital assets	13,654	15,365	14,245	3,341
Net interest paid	(632)	(271)	(200)	(3)
Income tax paid	(2,276)	(3,698)	(2,573)	(810)
Cash generated from/(utilised in) operating activities	10,746	11,396	11,472	2,528
Cash flows from investing activities				
Net cash out on purchase/disposal of property, plant & equipment	(1,891)	(3,823)	(1,421)	(1,058)
Group information technology software	(20)	(143)	(75)	(109)
Security deposits	151	(68)	(26)	23
Other	(16)	38	59	38
Net cash provided by/(used in) investing activities	(1,776)	(3,996)	(1,463)	(1,106)
Cash flow from financing activities				
Dividends paid	(191)	(563)	(180)	(385)
Proceeds from borrowings	19,387	5,375	12,619	5,711
Repayment of borrowings	(21,252)	(10,116)	(18,299)	(8,908)
Cashflow from leasing activities	(284)	(219)	(95)	(129)
Other	(13)	(21)	-	(11)
Net cash provided by financing activities	(2,353)	(5,544)	(5,955)	(3,722)
Net increase/(decrease) in cash and cash equivalents	6,617	1,856	4,054	(2,300)
Foreign exchange effects on total cash flow movement	7	21	105	6
Cash and cash equivalents at the beginning of the reporting period	4,636	11,259	11,259	13,136
Cash and cash equivalents at the end of the reporting period	11,259	13,136	15,419	10,842

Source: Management, GTCF Analysis

- 6.28 Operating cash flows: Although Magontec noted a decrease in receivables and payables in FY23, the inventory balance remained high due to elevated stock levels in the European business (which we understand from Management makes up most of the inventory) due to weak demand in the European market.

6.29 Financing cash flows: We understand from discussions with Management that the Magontec Xi'an bank facility from Zheshang Bank was only drawn to the extent of RMB 15 million (c. A\$3.2 million) as at 31 December 2023, compared with RMB 31 million (c. A\$6.5 million) as at 31 December 2022.

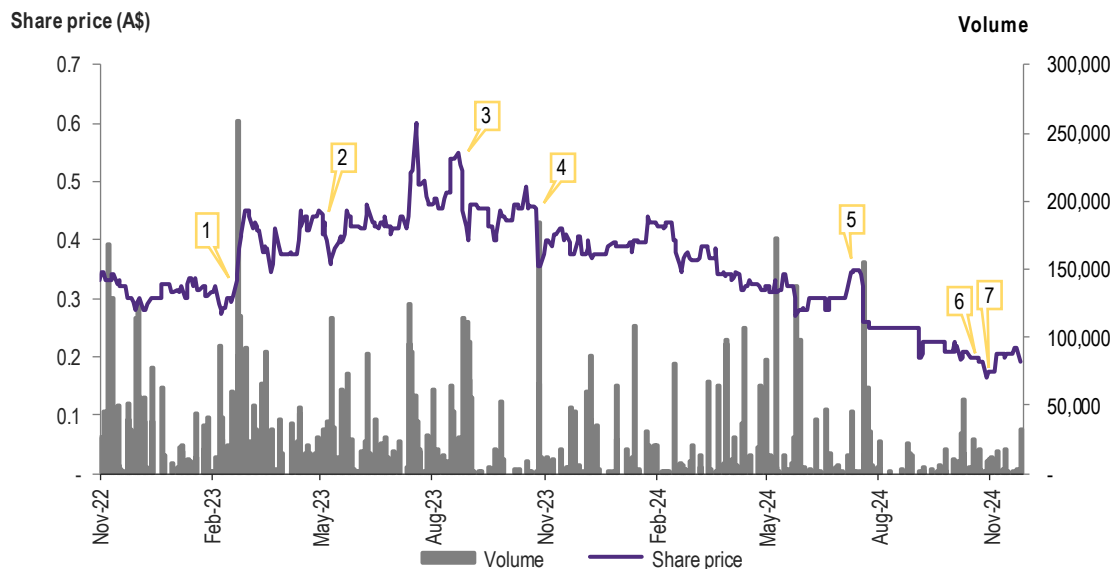
Share capital structure

6.30 As at 1 November 2024, Magontec had 79,643,766 ordinary shares on issue. The explanatory information accompanying the notice of extraordinary general meeting notes the same number of shares on issue as at the date of the notice.

Share price movements

6.31 Our analysis of the daily movements in Magontec's share price and volumes since 31 October 2022 is set out in Figure 21 below.

Figure 21: Magontec share price movements and volumes



Source: S&P Global, GTCF Analysis

6.32 Notwithstanding the illiquidity in Magontec shares, Figure 22 below illustrates the key events which may have impacted the share price and volume movements shown in Figure 21 above.

Figure 22: Magontec key events

Event	Date	Comment
1	27-Feb-2023	FY22 results released announcing a record net profit after tax for the 12 months to 31 December 2022.
2	11-May-2023	2023 AGM Chairman's Address to Shareholders
3	31-Aug-2023	H1 FY23 results released noting a result considerably depressed in comparison to H1 FY22.
4	31-Oct-2023	Quarterly report to 30 September 2023 released furthering depressed results in H1 FY23.

Event	Date	Comment
5	26-Jul-2024	Announcement of purported termination of QSLM Agreements.
6	1-Nov-2024	Announcement of Magontec entering MOS.
7	11-Nov-2024	Announcement of MOS QSLM conditions precedent being met

Source: ASX, GTCF Analysis

6.33 The monthly share price performance of Magontec since October 2023 and the weekly share performance of Magontec over the last 16 weeks, is summarised in Figure 23 below.

Figure 23: Magontec monthly share price performance

Magontec Limited	Share Price			Average weekly volume 000'
	High \$	Low \$	Close \$	
Month ended				
Nov 2023	0.440	0.325	0.375	86
Dec 2023	0.405	0.370	0.390	71
Jan 2024	0.450	0.380	0.440	69
Feb 2024	0.440	0.345	0.370	37
Mar 2024	0.390	0.320	0.340	45
Apr 2024	0.350	0.315	0.325	98
May 2024	0.340	0.270	0.270	116
Jun 2024	0.300	0.275	0.300	52
Jul 2024	0.350	0.240	0.250	72
Aug 2024	0.260	0.250	0.250	15
Sep 2024	0.250	0.200	0.225	10
Oct 2024	0.225	0.190	0.190	43
Nov 2024	0.215	0.165	0.215	18
Week ended				
16 Aug 2024	0.250	0.250	0.250	1
23 Aug 2024	-	-	0.250	-
30 Aug 2024	0.260	0.250	0.250	26
6 Sep 2024	0.250	0.250	0.250	27
13 Sep 2024	0.225	0.200	0.225	6
20 Sep 2024	0.225	0.225	0.225	3
27 Sep 2024	0.225	0.225	0.225	6
4 Oct 2024	0.225	0.210	0.210	18
11 Oct 2024	0.225	0.210	0.220	26
18 Oct 2024	0.220	0.195	0.210	99
25 Oct 2024	0.200	0.200	0.200	33
1 Nov 2024	0.200	0.190	0.190	23
8 Nov 2024	0.190	0.165	0.175	35
15 Nov 2024	0.205	0.200	0.205	18
22 Nov 2024	0.205	0.200	0.205	21
29 Nov 2024	0.215	0.205	0.215	4

Source: S&P Global, GTCF Analysis

Figure 24: Top 20 Shareholders

Top 10 shareholders		
Name	Number held	% of issued shares
Qinghai Salt Lake Magnesium Co Ltd	22,681,940	28.48%
Citicorp Nominees Pty Limited	9,782,983	12.28%
JP Morgan Nominees Australia	3,941,603	4.95%
Yuan Yuan Li / Zhong Jun Li	3,937,386	4.94%
Yellow Zone Super Fund	3,332,844	4.18%
BNP Paribas Nominees	2,596,312	3.26%
HSBC Custody Nominees	2,036,342	2.56%
Dewberri Pty Limited	1,800,890	2.26%
Miengrove Pty Ltd	1,380,000	1.73%
Mr Scott Parham	1,338,063	1.68%
Top 10 shareholders total	52,828,363	66.32%
Total other holders	26,815,403	33.68%
Total ordinary shares outstanding	79,643,766	100.00%

Source: S&P Global, GTCF Analysis

Note: (1) Shareholder data is as at the date of the notice of extraordinary general meeting.

Pro forma effect of the Selective Buy-back

- 6.34 If the Selective Buy-back is completed, Magontec will abandon its potential current and future claims against QSLM under the terms of the Agreements (net of counter-claims by QSLM) and transfer certain cast house plant & equipment to QSLM for no cost to buy back 22.7 million shares in Magontec which will subsequently be cancelled
- 6.35 As a result of the Selective Buy-back the cash balance as at 30 September 2024 and the carrying value of net assets per share are not expected to change other than for the costs of the Selective Buy-back including the holding of the extraordinary general meeting. Estimates of the transaction costs of the Selective Buy-back including fees and the costs of holding the extraordinary general meeting will be incurred whether the Selective Buy-back is approved or not.
- 6.36 As a result of the Selective Buy-back and subsequent cancellation of the Buy-back Shares, the carrying amount of reported net assets per share at 30 September 2024 increases from A\$0.61 per share (at 30 September 2024) to A\$0.86 per share and all Non-Associated Shareholders' interests in the equity of the Company will increase proportionately with the reduction in total issued capital. The buyback and cancellation of the QSLM shares will not trigger any of the registered Non-Associated Shareholders to acquire an interest in 20.0% or more of Magontec's issued shares. The beneficial interests of 18.97%¹⁴ held by Allan Gray Australia Pty Limited would translate to an interest of c. 26.52% of Magontec's issued shares post the Selective Buy-back¹⁵. We note that this increase in interest in excess of 20.0% is not prohibited by virtue of s611(19) of the Corporations Act.

¹⁴ Latest interest per S&P Global since 30 June 2024.

¹⁵ The proportionate interests of all Non-Associated Shareholders immediately after the buy-back and cancellation of QSLM's 28.48% interest increases their proportionate interests by 39.821% (being $1 \div (1 - 28.48\%)$).

7. Valuation methodologies

Introduction

7.1 In accordance with our adopted valuation approach as set out in section 2.1, our fairness assessment involves comparing the Buyback Price to the fair market value of Magontec shares before the Selective Buy-back.

7.2 Fair market value is commonly defined as:

“the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm’s length.”

7.3 Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

Valuation methodologies

7.4 RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

7.4.1 Discounted cash flow and the estimated realisable value of any surplus assets (“DCF Method”).

7.4.2 Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets (“FME Method”).

7.4.3 Amount available for distribution to security holders in an orderly realisation of assets (“NAV Method”).

7.4.4 Quoted price for listed securities, when there is a liquid and active market (“Quoted Security Price Method”).

7.4.5 Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

7.5 Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

7.6 RG 111 does not prescribe any above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert’s skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

Selected valuation methods

- 7.7 Grant Thornton Corporate Finance has relied on the following valuation methodologies to assess the fair value of the Buy-back Shares to the Non-Associated Shareholders:
- 7.7.1 DCF Method - We have undertaken a valuation assessment of Magontec utilising the DCF Method. Grant Thornton Corporate Finance has built the GT Model based on an extrapolation of the data provided by Management and benchmarking exercises with broker reports and publicly available information.
 - 7.7.2 NAV Method - We have estimated the fair market value of Magontec using the NAV method. We note that a land and buildings valuation was last undertaken in 2014, 2022 and 2020 for Germany, Romania and China respectively. We were provided the latest fair market value indications for the purposes of our assessment as at the Valuation Date. For the other assets and liabilities, we have assumed that the reported book values are representative of the fair market values as at the Valuation Date.
 - 7.7.3 Quoted Security Price Method - The Quoted Security Price Method is based on the Efficient Market Hypothesis, which assumes that the share price at any point in time reflects all publicly available information and will change when new information becomes publicly available. We note that in the absence of a takeover or other share offer, the trading share price represents the value at which minority shareholders could realise their portfolio investment. We have considered the share price in our valuation assessment, however we have placed limited reliance on it given the lack of liquidity.
- 7.8 Grant Thornton Corporate Finance has applied the principles of the NAV Method to determine the fair market value of the Buy-back Price. Specifically, we have applied the principle of seeking to determine the amount that Magontec could expect to receive for its claims against QSLM in the absence of the MOS together with the fair value of the cast house plant and equipment it owns, and would continue to own, in the absence of the MOS.

8. Valuation of the Buy-back Price

- 8.1 In this section we consider the fair market value of the Buy-back Price set out in the MOS for the Selective Buy-back.
- 8.2 The MOS describes the consideration but does not specify its fair market value. Grant Thornton Corporate Finance has considered the items that the MOS requires Magontec to cede to QSLM and QSLM to Magontec. We note that the MOS appears to make a distinction between the buy-back of the shares and the consideration in relation thereto as separate from the other component being the ceding of certain fixed assets of Magontec (the cast house plant & equipment) to QSLM for no cost. However, all of the elements of the MOS are conditional upon each other.
- 8.3 For the purposes of our assessment of the selective buy-back of Magontec Shares from QSLM, we consider all of the components of the MOS to be ceded by Magontec to QSLM (net of the value of claims ceded by QSLM) to constitute the purchase price for the Selective Buy-back notwithstanding the apparent distinction drawn between the components in the MOS.

Summary of the components of the MOS

- 8.4 In summary, the MOS provides for the following actions by Magontec and QSLM grouped into debt settlement and share buy-back.

Debt settlement¹⁶

- 8.5 Magontec to cede to QSLM the following:
- 8.5.1 Fixed assets comprising, and related to, the cast house with historical cost of RMB34.1 million in total;
- 8.5.2 Use of all relevant patented technology, special equipment and other intangible assets;

Claims relating to the Agreements and share buy-back¹⁷

- 8.6 Magontec to cede to QSLM
- 8.6.1 Magontec's current and future claims against QSLM under the Agreements; and
- 8.6.2 Magontec's claims against QSLM for losses arising from their operational dealings as at 31 October 2024.

¹⁶ Article 1.1 of the MOS.

¹⁷ Article 1.2 of the MOS.

8.7 QSLM to cede to Magontec:

8.7.1 QSLM's claims against Magontec for unpaid operating expenses; and

8.7.2 QSLM's holding of Magontec shares by way of Selective Buy-back for the 22,681,940 Magontec shares held which, at the last sale price on the ASX on 31 August 2024 of A\$0.25 per share had a combined market value of A\$5,670,485 or c. RMB27,474,067.¹⁸

8.7.3 QSLM's nominated director to resign from the board of Magontec.¹⁹

Assessment of the Buy-back Price

8.8 We have summarised, in Figure 25 below, our fair market valuation of all the components of the MOS. Magontec is required to cede to QSLM to constitute the purchase price for the Selective Buy-back notwithstanding the apparent distinction the MOS draws between the components. We have included the claims for unpaid expenses that QSLM must cede to Magontec as an offsetting element, and we have included the fixed assets at the cast house.

8.9 We have formed our views on each of a low value case and a high value case for each element of the MOS given the uncertainty of the amount that could be obtained from the claims were it necessary they be pursued through legal action, and the uncertainty of the fair market value of the fixed assets.

¹⁸ Articles 1.2.1 and 1.4 of the MOS. The reference to the 31 August 2024 market price appears to be for the purposes of identification.

¹⁹ Article 1.4 of the MOS.

Figure 25: Fair market value of claims and plant & equipment

Summary of Buy-back Price In millions	Paragraph reference	In RMB		In AUD	
		Low	High	Low	High
Magontec claims against QSLM					
MAQ claims losses and penalties (Maximum claim)	8.10.2	1,282.10	1,282.10	274.11	274.11
Total available from restructuring - maximum from ordinary claims	8.10.3	6.32%	6.32%	6.32%	6.32%
Maximum Administrator's distribution		81.05	81.05	17.33	17.33
Distributions up to RMB650,000 paid in cash	8.10.4	(0.65)	(0.65)	(0.14)	(0.14)
Distribution above RMB650,000 paid by debt conversion and trust rights		80.40	80.40	17.19	17.19
Ordinary claims - Equity in the unlisted QSLM entity	8.10.4	93.56%	93.56%	93.56%	93.56%
Discount for settlement in QSLM shares	8.10.4 & 5	100.00%	30.00%	100.00%	30.00%
Ordinary claims - cash	8.10.4	6.44%	6.44%	6.44%	6.44%
Possible adjusted claim		5.83	58.48	1.25	12.50
Less legal fees estimate	8.10.6	(9.35)	(9.35)	(2.00)	(2.00)
Possible compensation post legal fees		(3.53)	49.13	(0.75)	10.50
Probability of Success (Claim)	8.10.7	0.0%	100.0%	0.0%	100.0%
Total potential fair value of Magontec's claims against QSLM (A)		-	49.13	-	10.50
QSLM claims against Magontec					
QSLM waiving its collection rights (B)	8.11.1	(12.11)	(12.11)	(2.59)	(2.59)
Net claims (A-B)		(12.11)	37.02	(2.59)	7.92
Value of fixed assets transferred @ book 30 Sep 24 (post impairment)	8.11.2	-	15.95	-	3.41
Total fair value of claims		(12.11)	52.97	(2.59)	11.33
Number of Magontec Shares to be received from QSLM	8.11.3	22.68	22.68	22.68	22.68
Value per share implied by above (RMB or A\$)		(0.53)	2.34	(0.11)	0.50

Source: Management; Memorandum of Settlement dated 31 October 2024; GTCF analysis

8.10 Magontec are to cede to QSLM the following:

- 8.10.1 The current claim of RMB1,214,502,999 and future potential claims made by Magontec against QSLM under the Agreements,²⁰ and
- 8.10.2 Other claims of RMB67,599,488 for pure magnesium outsourcing losses consequential to those under the agreements.²¹ Combined with the claims under the Agreements, the total claims against QSLM are RMB1,282,102,487.
- 8.10.3 According to the statutory repayment order, the repayment rate for QSLM's ordinary claims in a bankruptcy liquidation scenario is approximately 6.51%, based on ordinary claims of RMB40.8 billion, which equates to a RMB2.7 billion settlement distribution. However, we note that ordinary claims total of RMB40.8 billion excludes the current Magontec claim of RMB1.215 billion under the Agreements which was not accepted by the QSLM Administrator in its restructure. Including this claim, the total ordinary claims amount to RMB 42.015 billion,

²⁰ Article 1.2.2 of the MOS.

²¹ Article 1.2.2 of the MOS.

resulting in a revised repayment rate of 6.32%. Applying this rate of distribution to the total of Magontec's claims for RMB1.28 billion would result in a debt for settlement of RMB81.05 million or A\$17.3 million at the exchange rate prevailing on 31 October 2024.²²

- 8.10.4 For each creditor's debt for settlement, the portion up to RMB650,000 will be repaid in cash. For amounts exceeding RMB650,000, we understand that repayment will be made through a debt-to-equity conversion at a ratio of 93.56% debt with the remaining 6.44% to be settled by the grant of distribution rights to funds in trust that forms part of the restructure. We further understand that the trust will distribute cash for the relevant amounts. In our low case assessment of the fair value of the Buy-Back Price, we fully discount the value of the 93.56% of Magontec's claim to be settled in shares of QSLM to nil for the reasons that the restructured QSLM (which will issue the shares) is unlisted, its equity will most likely be non-marketable, and the business has not, over the ten years since Magontec entered the Agreements been able to successfully produce the amount and quality of pure magnesium metal for which the smelter was designed and the Agreements required. This being the principal reason QSLM became unable to pay its debts as and when they fell due. In our high case we apply a discount of 30.0% for the relative lack of marketability of the shares in QSLM in which the majority of Magontec's distributions will be settled. Our high case assumes that the QSLM shares received by Magontec for some RMB75.22 million²³ of its settlement debt of RMB81.05 million, will have a controlling marketable value equal to that amount. Our low case fair market value of Magontec's claims against QSLM is therefore RMB5.83 million²⁴ before any cost necessarily incurred to have its claims included in the debts of QSLM, or A\$1.25 million.
- 8.10.5 In our high case, we discount the portion of the potential receipt to be received in QSLM shares only for the relative lack of liquidity/marketability at a discount of 30.0%. Restricted stock and pre-IPO studies have shown discounts for lack of liquidity in the range of 20.0% to 56.0% (refer to Appendix F for further details on this Restricted stock and pre-IPO studies). At an equivalent level, our high case is for the fair market value of Magontec's claims against QSLM is RMB58.48 million (or A\$12.5 million).²⁵
- 8.10.6 Magontec was advised to commence an action in court in China for the c. RMB1.2 billion claims which required a legal fee estimate of RMB9.35 million which included large costs such as travel, translation (dual language) and contingency, among others. These costs necessarily incurred to have Magontec's claims included in the Administrator's debt settlement reduce the fair market value of the amount of potential receipts.
- 8.10.7 For our low case, we assume that Magontec is unsuccessful in having its claims included in the administrator's restructure and being able to recover that portion of its claims. For our high case, we assume that Magontec is successful in having all of its claims included in the Administrator's restructure following legal action. We note that a lower probability of success will only further reduce the fair value per share implied by the claim and accordingly, making the Selective Buy-back fairer for the Non-Associated Shareholders.

²² A\$1 = RMB4.6772.

²³ RMB75.22 million = (81.05 million – 0.65 million) x 93.56%

²⁴ RMB5.83 million = 0.65 million cash + (75.22 million x (1-100%)) + (80.40 million x 6.44%)

²⁵ RMB58.48 million = 0.65 million cash + (75.22 million x (1-30%)) + (80.40 million x 6.44%)

8.11 QSLM to cede to Magontec the following:

- 8.11.1 Claims by QSLM against Magontec for unpaid debts in the amount of RMB12,106,462 in relation to the provision of utilities to Magontec's activities at the cast house (accumulated utility fees from October 2018 to June 2024);²⁶ In both our low and high case we recognise the likelihood that QSLM's claims against Magontec exist. We apply no discount for uncertainty to the amounts claimed and we understand that the Administrator has included the recovery of this debt to QSLM in its restructure and the settlement ratio. To the extent that in the low case there are no Magontec claims against which the QSLM claims can be offset, we consider the MOS requirement to cede those claims to Magontec serve to represent benefit to Magontec. Accordingly, we recognise the benefit as a negative cost (a benefit) of the MOS.
- 8.11.2 Notwithstanding that Magontec Parties agree to transfer ownership of all fixed assets held by Magontec relating to the cast house to QSLM for free on the effective date, we have adopted a range for the value of fixed assets transferred at book value post impairment as at 30 September 2024. The absolute maximum value would be the written down value of c. RMB15.9 million (A\$3.4 million). The lowest end of the range account for the following factors:
- a) Dismantling costs, transport and re-commissioning costs associated for any buyer (also taking into account that Qinghai is in a remote location in Western China).
 - b) Magnesium alloying depends on proximity to pure magnesium sources, with China producing c. 90.0% of the global supply. Accordingly, the probability of finding willing buyers for this equipment outside China is largely unlikely.
 - c) We understand from Management that there is likely a limited market for Magontec's Qinghai equipment, which at the time the Directors fully impaired the carrying amount, was over half depreciated and may not fit potential buyers' processes.
 - d) To the best of Management's knowledge, Magontec has not been approached by any other external parties to purchase the Company's equipment beyond the negotiations with QSLM.
- 8.11.3 All of the 22,681,940 Magontec shares held by QSLM to be ceded to Magontec by way of a selective buy-back. The number of Magontec shares to be bought back is the same under both our low and high cases.

²⁶ Article 1.2.2 of the MOS.

9. Valuation assessment of Magontec shares

Discounted cashflow method

Summary – DCF Method

- 9.1 The table in Figure 26 below sets out a summary of our valuation assessment of Magontec before the Selective Buy-back based on the DCF method.

Figure 26: Fair market value of Magontec equity using the DCF Method

Magontec Limited valuation - DCF Method A\$ million	Paragraph Reference	Low	High
Enterprise value on a control basis	9.8	25.55	29.65
Less (net debt) or add net cash as at 30 September 2024	9.9	4.59	4.59
Add present value of claims against QSLM	9.11	-	9.70
Less present value of QSLM claims against Magontec	9.13	(2.37)	(2.39)
Equity Value (Control Basis)		27.77	41.56
Number of Shares Outstanding (Million)	9.15	79.64	79.64
Value per Share (Control Basis) (A\$ per Share)		0.35	0.52

Source: Magontec Management; GTCF analysis.

GT Model

- 9.2 For the purpose of our valuation assessment of Magontec using the DCF Method, Grant Thornton Corporate Finance was provided with the Internal Projections for the Company for the period FY24 to FY27. In our valuation assessment, we have integrated the Internal Projections into our GT Model and we have extended them to allow the business to reach a steady state revenue growth and a normalised EBITDA margin reflecting industry wide expectations. Our valuation assessment is based on the net present value of the nominal post tax, pre-debt free cash flows.
- 9.3 In accordance with the requirement of RG111, we have undertaken a critical analysis of the Internal Projections before using them for the purpose of our valuation assessment. Specifically, we have undertaken the following procedures:
- 9.3.1 Reviewed the historical and YTD financial performance of Magontec, broker estimates and trends, risks and opportunities in the relevant industries.
 - 9.3.2 Conducted high level checks, including limited procedures in relation to the mathematical accuracy of the model
 - 9.3.3 Performed a broad review, critical analysis and benchmarking with the historical performance of Magontec and current industry trends. Tested certain key revenue and margin assumptions underlying the Internal Projections against the historical average given no listed peer was exactly comparable to Magontec.
 - 9.3.4 Held discussions with Management of the Company.

- 9.4 The Internal Projections are relatively high level in nature and some of the key assumptions are inherently subject to considerable uncertainty and there is significant scope for differences of opinion. From our comparison of key performance parameters of the Internal Projection to the broader industry expectations at a global and relevant country specific level, and our consideration of the historical performance of Magontec, we have modelled alternative growth assumptions which have resulted in a range of potential valuation outcomes.
- 9.5 Whilst Grant Thornton Corporate Finance has adjusted the forecasts provided by Management, we have not disclosed them in our IER as they contain sensitive information, and they do not meet the requirements for presentation of prospective financial information as set out in the ASIC Regulatory Guide 170 "Prospective Financial Information".
- 9.6 The assumptions adopted by Grant Thornton Corporate Finance do not represent projections by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of similar businesses. We note that the assumptions are inherently subject to considerable uncertainty and there is significant scope for difference of opinion. It should be noted that the value of Magontec could vary materially based on changes to certain key assumptions.

Key valuation assumptions

- 9.7 Our assessment has been guided by the overall historical performance of Magontec, the current market demand for magnesium alloy and products, and the market expectations for them. We summarise the details of our key assumptions as follows.

Revenue

- 9.7.1 **FY24 - FY27** - Management have provided us with the FY24 revenue to reflect Magontec's actual YTD FY24 performance. Despite tracking behind its YTD budget, we have adopted Management's unadjusted revenue forecast for the period up to FY27 considering the reasonability of assumptions and a gradual recovery of revenue the market improves.
- 9.7.2 We note that Magontec witnessed significant challenges with the closure of the Qinghai cast house in the first half of FY24. This facility was expected to increase sales volumes of primary magnesium alloys and increase throughput at Magontec's European recycling facilities. Notwithstanding this, Magontec maintained stable volumes of primary and recycled magnesium alloys in Q1 FY24, however, witnessed the impact on its revenue owing to a decline in magnesium prices. In addition, the anodes business segment was also impacted by an unexpected downturn in the heat pump hot water system sales during the year, alongside headwinds due to reduced government subsidies for heat pump appliances which further contributed to a decline in sales. Overall, the closure of the Magontec Qinghai cast house has shifted the Company's metal business focus to alternative primary material supplies to support the future scrap flows. Also, the recent trends in the anode segment is also expected to reverse in FY25. The key changes in the European facilities such as the increased metal volumes from the US and Western Europe and restarting an agreement with a major customer, in Romania, along with sales growth from new customers in the pipeline are also expected to support the forecasted growth upto FY27.

- 9.7.3 **FY28 and beyond** - We have assumed that as Magontec moves towards meeting the overall market demand while maintaining an optimal production scale, the Company's growth will gradually trend towards 2.5% (long term growth rate) over a number of years in line with the average inflation target observed across China, Germany and Romania.

EBITDA margin

- 9.7.4 **FY24 - FY27** - We have assumed an EBITDA margin in line with Magontec's historical performance, also factoring in the current events that have impacted the business as discussed previously.
- 9.7.5 **FY28 onwards** - We have assumed that Magontec's margin will gradually increase to an assumed long term sustainable EBITDA margin of 6.7% in line with the 5-year historical average margins. Based on discussions with Management, as Magontec progresses towards maintaining an optimal production scale, the Company will also be able to reduce certain costs associated with efficiency. This optimisation is expected to streamline operations, enhance productivity, and ultimately lower production costs. Accordingly, the assumed long-term EBITDA margin of 6.7% is in line with the historical 5-year performance (FY18-FY23) and the latest broker forecast, reflecting a stable and achievable target based on past performance and current market expectations.
- 9.7.6 We note that the magnesium industry typically experiences cyclical volatility within a roughly 5-year period. This volatility is influenced by several factors, including fluctuations in raw material prices, changes in demand within key sectors such as automotive and aerospace, and broader global economic conditions. These cycles are driven by supply and demand dynamics, technological advancements, and shifts in consumer preferences. Further, given that Magontec is more of a downstream company, forecasts are primarily driven by focusing on the margins between revenue and costs rather than being driven by magnesium prices. Accordingly, this approach is known to help mitigate risks associated with raw material price volatility and supports long-term planning and sustainable growth.
- 9.7.7 While we identified certain trading peers that are largely comparable to Magontec such as Chongqing Fenghua Group Co., Ltd., Gaona Aero Material Co., Ltd., and Shenzhen SunXing Light Alloys Materials Co., Ltd. due to their focus on magnesium and aluminium alloys, and Sims Limited and Radius Recycling, Inc. owing to their involvement in metal recycling, albeit at a broader scope, we have not relied upon them for our analysis due to 1) Differences in scale - These comparable companies are significantly larger in terms of market capitalisation and enterprise value, which drives their financial metrics and operational dynamics 2) Revenue Growth and EBITDA Margins - These companies exhibit different revenue growth rates and EBITDA margins due to their scale, market reach, and operational efficiencies, making direct comparisons less meaningful 3) Strategic Focus - The strategic focus of these companies varies wherein some have a broader or different market engagement as compared to Magontec's more niche operations in downstream magnesium alloys and recycling.

EBIT margin

- 9.7.8 We have estimated that Magontec's EBIT margin will gradually increase to 4.3%. This assumption is internally consistent with our long-term EBITDA assumption of 6.7%

Capex

- 9.7.9 We have assumed capex as a percentage of revenue in line with Magontec's performance. The assumed long-term capital expenditure (as a % of revenue) is in line with the historical 5-year performance (FY18-FY23) and the latest broker forecast.

Other assumptions

- 9.7.10 **Tax rate** - We have assessed Magontec's tax expense at 30.0% in line with the corporate tax rate in Australia for a pool of potential purchasers. In our valuation assessment, while we have attributed value to the existing tax losses, given the difficulty for interested parties to meet the same ownership test or the continuity of business test required by the Australian Taxation Office to utilise them, we would not typically attribute value to them. Notwithstanding this, based on the carry forward tax losses balance, we note the impact on the value is not material.
- 9.7.11 **Working capital** - We have assumed a working capital balance of 30.7% of revenue, in line with Magontec's historical average between FY18 and FY23. We note, Magontec's working capital balance has ranged between 21.8% to 44.8% between FY18 and FY23.
- 9.7.12 **Inflation and terminal growth rate** - The GT Model has been prepared in nominal terms with the inflationary impact factored into the cashflows. At the end of the discrete forecast period, we have adopted an inflation rate and a terminal growth rate of 2.5% (long term growth rate) over a number of years in line with the average inflation target observed across China, Germany and Romania. We have estimated the terminal value of Magontec using the Gordon Growth Model.
- 9.7.13 **Discount rate** - We have assessed a discount rate (WACC) of between 12.6% and 13.9%. Refer to Appendix B for further details on the assessment of this discount rate range.

Enterprise value

- 9.8 The present value of the cash flows to the firm (enterprise value) discounted at the weighted average cost of capital is a low of A\$25.55 million to a high of A\$29.65 million.

Net cash

- 9.9 In order to determine the equity value of Magontec, it is usual to deduct the current net debt balance. In the circumstances, such as those of Magontec, its cash and equivalents holdings out-weigh its borrowings and consequently its net debt balance is actually a net cash balance of A\$4.59 million. The net cash balance is therefore added to the enterprise value in determining the equity value of the Company.

Claims against QSLM

- 9.10 Similarly to the treatment of the net cash balance, assets that are not reflected in the forecast cash flows used for the DCF, whether the cash flows from using the asset in the business or the cash flows from their disposal) must be added to the enterprise value in deriving the equity value. The enterprise value of the Magontec business reflected in the projected cash flows used in the DCF do not include any amount in relation to the receipt of the claims the Company has against QSLM.
- 9.11 Consequently, we have added our fair market value of Magontec's claims against QSLM of nil in our low case and in our high case, we have added our A\$10.5 million fair market value of the claims after legal expenses²⁷ but discounted from an assumed date of receipt of the Administrator's settlement in June of 2025 to A\$9.7 million.

QSLM claims against Magontec

- 9.12 In the same way as Magontec's claims against QSLM are not reflected in the future cashflows used to determine the enterprise value, neither is there any reflection of the claims payable to QSLM by the Company.
- 9.13 Consequently, we have deducted our fair market value of QSLM's claims against Magontec of A\$2.59²⁸ million in both our low and high cases²⁷ but discounted from an assumed date of offset by the Administrator in making its settlement in June of 2025 to A\$2.37 million.

Equity value on a controlling basis

- 9.14 After making the adjustments described above resulting fair market values are A\$27.77 million in our low case and A\$41.56 million in our high case.

Number of shares outstanding

- 9.15 The current Magontec shares on issue as at 30 Sep 2024 prior to the MOS is 79,643,766.²⁹

NAV method – orderly realisation

- 9.16 As discussed in section 1, Grant Thornton Corporate Finance has also applied an asset-based approach to assess the fair market value of Magontec Shares assuming an orderly realisation. Magontec Directors are not aware of any material change to the financial position of Magontec since 30 September 2024 (being the date of the balance sheet) to 31 October 2024.
- 9.17 Due to the illiquidity of Magontec's share price, the NAV method under orderly realisation of assets offers a more reliable floor to its valuation wherein the assets and liabilities are adjusted to reflect current market

²⁷ See Figure 25 in 8.9.

²⁸ Translated based on the FX rate as at 31 October 24 (Source RBA)

²⁹ See paragraph 6.30.

prices. This approach provides a minimum value benchmark, independent of market volatility and investor sentiment, thereby offering stakeholders a reliable basis for decision-making.

- 9.18 In our analysis, we had regard to the unaudited balance sheet of Magontec as at 30 September 2024, which we have adjusted for the latest available estimated fair market value for the fixed assets as provided by Management, inventories, intangible assets, and amounts reflecting the claims against and from QSLM which are not included in the Company's reported 30 September 2024 balance sheet net assets. We also note that the Company impaired the plant and equipment assets at the QSLM cast house at 30 June 2024, the lack of a ready market for such assets in China and the cost associated with disassembling, transporting and rebuilding the cast house at another venue should the opportunity arise.
- 9.19 As noted earlier, the Administrator of QSLM has acknowledged the existence of claims for the consequential losses incurred by Magontec for the asserted failure of QSLM to meet the terms of the Agreements, but not the amount for those claims, and has not acknowledged any claim for the liquidated damages provided for in the Agreements. There is significant uncertainty about:
- 9.19.1 the prospects for the Company being able to assert its claims;
 - 9.19.2 the possible outcomes of a formal proceeding to be awarded the damages;
 - 9.19.3 the ability of the administrator to meet any damages determined; and
 - 9.19.4 the uncertainty of the nature of the settlement of the amounts the Administrator is in a position to address.
- 9.20 In light of these uncertainties, we have approached the assessment of the fair market value of the equity of Magontec using the orderly realisation of net assets method by considering the minimum and maximum outcomes for each of the uncertainties combined. We have adopted this approach for the reason that in assessing the fairness of the Selective Buy-back, should the value of the Shares to be bought back be equal to or exceed the value of the Buy-back Price even in the extreme low and high cases, then the fairness comparison will be fair.
- 9.21 In our view, the fair market value of the Magontec Shares using the orderly realisation of net assets method in the extreme low case is A\$0.41 and in the high case A\$0.54 per share. Below we summarise our analysis and set out the fair market value of Magontec's net assets on a per share basis.

Figure 27: Fair market value of Magontec equity using the NAV Method

Fair market value of Magontec Limited A\$ million	30-Sep-24				
	Book value	Adjustment	FMV (Low)	Adjustment	FMV (High)
Assets					
Cash	6.9		6.9		6.9
Debtors	11.7		11.7		11.7
Claim receivable from QSLM		-	-	9.7	9.7
Inventory	29.3	(0.7)	28.6	(0.7)	28.6
Other	2.0		2.0		2.0
Total current assets	49.9	(0.7)	49.2	9.0	58.9
Fixed assets ¹	11.8	10.1	21.8	13.5	25.3
Intangible assets	3.0	(3.0)	-	(3.0)	-
Capital works in progress	1.1		1.1		1.1
Intercompany	-		-		-
Other	1.8	(1.5)	0.3	(1.5)	0.3
Total non-current assets	17.7	5.5	23.3	9.0	26.7
Total assets (A)	67.6	4.8	72.4	17.9	85.5
Liabilities					
Creditors and accruals	6.3		6.3		6.3
Bank borrowings	2.3		2.3		2.3
Intercompany	-		-		-
QSLM claims for unpaid utilities at Qinghai cast house	-	2.4	2.4	2.4	2.4
Other	(0.2)		(0.2)		(0.2)
Total current liabilities	8.3	2.4	10.7	2.4	10.7
Bank borrowings	-		-		-
Provisions (Pension mostly)	10.3		10.3		10.3
Deferred Tax on revaluation		2.4	2.4	2.4	2.4
Other	0.2		0.2		0.2
Total Non Current Liabilities	10.4	2.4	12.8	2.4	12.8
Total liabilities (B)	18.8	4.7	23.5	4.8	23.5
Net assets (A-B)	48.8	0.1	48.9	13.2	62.0
Less: Realisation costs			(10.8)		(12.7)
Less: Staff reduction costs			(3.8)		(4.5)
Less: Other costs			(1.4)		(1.7)
Net assets post realisation costs	48.8		32.9		43.1
Current Magontec shares on issue 30 Sep 2024 prior to MoS	79.6		79.6		79.6
Fair market value per share prior to MoS	0.61		0.41		0.54

Sources: GTCF analysis, Management estimates.

Notes: (1) Fixed assets FMV includes the excess value/uplift in the value of c. A\$10.1 million in property valuation. Excess/shortfall in the fixed assets have been translated to AUD using the AUD/CNY and AUD/EUR exchange rates as at 31 October 2024 (source RBA).

Assets Realisation

- 9.22 As at 30 September 2024, the carrying value of Magontec's net assets was A\$48.8 million comprised of principally, working capital (including a substantial amount of inventory) and fixed assets. The claims that the Company has against QSLM have not been attributed any carrying value in the net assets of the

company at 30 September 2024. Similarly, the QSLM's claims against the Company have not been attributed any carrying value.

Claims against QSLM

- 9.23 We adjust the reported net assets to include amounts to reflect the fair market value of the claims as at 30 September 2024 for damages under the Agreements at the same amount we include in the assessment of the Buy-back Price in section 8. As noted earlier, our low value case reflects all of the uncertainties surrounding the outcome of Magontec pursuing its claims under the Agreements against QSLM (via its Administrator). Our high case reflects the possibility that all of the impediments to realising value for the claims against QSLM are overcome and the maximum value obtainable is able to be realised by the Company.

Inventory

- 9.24 The reduced market demand for magnesium alloy and anodes does not directly or immediately reflect in reduced production because of the inefficiencies and costs of suspending production. Consequently, the Company has built an inventory of product representing broadly seven months of sales. We note that the majority of the A\$29.3 million of inventory balance is in Europe with inventory carried at the lower of cost and net realisable value. Reflecting the general decline in metal price, the Company wrote down the carrying value of its inventory to its net realisable value in its last audited financial statements at 30 June 2024. We note that the pure magnesium prices have declined by a further c. 2.5% between 30 June 2024 and 31 October 2024 which we consider affects the current market value of inventory. We have therefore made allowance for a further diminution in the carrying value of inventory at 30 September 2024 of A\$0.7 million in both our low and high value cases.

Real estate – Fixed assets

- 9.25 The carrying value of real estate assets in the Company's fixed assets is at their depreciated historical cost notwithstanding formal independent real estate valuations that were undertaken in 2014, 2022 and 2020 of the three properties at Germany, Romania and China respectively. Management provided us with current updates to the earlier assessments of the fair market values of the three properties. We have considered the suitability of these current re-assessments for the purposes of our IER. We note that the current fair market value estimate of the real estate owned in Germany is an update performed by a senior executive of Magontec in that country based on an independent assessment obtained in 2014. We have reviewed the method and the sources of information used to update that fair market revaluation and consider it reasonable for the purposes of this IER. Independent property specialist indicative opinions as to any material change to the more recent formal valuations obtained for the properties in Romania and China was obtained by Magontec. We have reviewed the indicative value advice and consider it useful for the purposes of recognising the fair market value of the real estate assets in our assessment. Comparison of the three current market values of the real estate assets with the carrying values in the 30 September 2024 balance sheet indicates a combined increase in the value of those properties over their carrying values by A\$10.1 million in both our low and high value cases.

Plant and equipment – Fixed assets

- 9.26 The carrying value of the plant and equipment in Magontec's 30 September 2024 financial statements is nil because the Directors of Magontec determined that the recoverable fair value of the plant and equipment was nil. They fully impaired the previous carrying value of c. A\$3.7 million at 30 June 2024. In our low case, we adopt the fully impaired assessment of the Magontec Directors and their assessment that there is no market for the cast house plant and equipment and its fair value cannot be recovered from its use. Further, if it had a fair value, the costs to disassemble, transport and re-assemble the plant and equipment would exceed it. In our high case, we re-instate the previous carrying value on the basis that its fair market value would not be materially different to the depreciated historical cost given the useful life of those assets.

Acquired goodwill

- 9.27 We have excluded the value of intangibles (acquired goodwill) from both our low case and our high case valuations because we consider it may not be as easily realisable or convertible into cash in an orderly manner.

Deferred tax assets

- 9.28 Deferred tax assets and liabilities relate to historical timing differences between financial reporting and the incidence of taxation. Accordingly, as no future cash flow result from the deferred tax balances, it has been excluded from both our low and high value cases. The balance of other non-current assets relates to security deposits which will be released upon orderly realisation and we have therefore retained them in our assessment.

QSLM claims against Magontec

- 9.29 We adjust the liabilities of the Company to include the liability it faces for the unpaid utilities and other amounts owing to QSLM as at the present value which is included in the DCF assessment. The liability for these amounts is not included in the carrying value of net assets at 30 September 2024 on the basis that they would be offset against the larger claim the Company has made against QSLM. For the purposes of our assessment, we have included the gross value of the claims in present value terms against QSLM as an adjustment to assets, and therefore include the gross value of the claims made by QSLM. In our low case, where we attribute no realisable value to the claims made against QSLM, the claims against the Company are still likely to be pursued by the Administrator of QSLM. Our low and high cases assume the position that the QSLM claims against the Company will be payable, irrespective of the success of its own claims against QSLM.

Income tax on revaluations

- 9.30 As noted above, all fixed assets are carried at cost less accumulated depreciation and impairment losses in the balance sheet. Accordingly, given none of the real estate assets have been revalued on the balance sheet, we have made allowance for the crystallisation of taxes on the fair market value increase upon the assumed orderly sale of the property assets across Germany, Romania and China in both our low and high value cases.

Realisation costs

- 9.31 The NAV Method we apply assumes the orderly realisation of the assets of the business and the payment of its liabilities. The realisation of the assets and settlement of some of the debts carry with it costs such as commissions, bulk inventory discounts, debtor collection, legal expenses, debt break frees, redundancy and other costs of discharging personnel, and related items such as administrative costs like travel, accounting, restructuring and miscellaneous expenses. These costs are not readily observable ex-ante but fall into categories based on proportions of asset values which professionals engaged in such realisation use to make allowances for such costs. Based on those proportions we have allowed 15.0% of the fair market value of total assets for asset realisation costs, staff reduction costs of an average over the three principal countries in which most staff are engaged of 5.3% of the fair market value of net asset, and 2.0% of the fair market value of net asset for the administrative and miscellaneous costs. These estimates are conservative and should the actual expenses be lower than those allowed, the comparison of the comparison of the Buy-back Price to the value of Magontec shares would be fairer.

Other assets and liabilities

- 9.32 We have assumed that the reported book values of the other assets and liabilities are representative of their fair market values as at 31 October 2024.

Quoted security price method

- 9.33 In our valuation of the Magontec Shares, we have also considered their trading price on the ASX. The analysis of the trading price is an exercise of professional judgement that takes into consideration the depth of the market for the listed securities, volatility of the market price and whether or not the trading price is likely to represent the underlying value of Magontec.

Liquidity

- 9.34 In accordance with the requirements of RG 111, we have analysed the liquidity of Magontec Shares before considering them in our valuation assessment. In Figure 28 below, we have set out the trading volume from October 2023 to October 2024 as a percentage of the total outstanding shares as well as free float shares outstanding.

Figure 28: Volume and price of trading in Magontec shares

Month end	Volume traded ('000)	Monthly VWAP (\$)	Total value of shares traded (\$'000)	Volume traded as % of total shares	Volume traded as % of free float shares	Cumulative Volume traded as % of total shares	Cumulative Volume traded as % of free float shares
Oct 2023	84	0.4347	36	0.1%	0.2%	0.1%	0.2%
Nov 2023	377	0.3835	145	0.5%	1.0%	0.6%	1.2%
Dec 2023	299	0.3766	113	0.4%	0.8%	1.0%	2.0%
Jan 2024	302	0.3959	119	0.4%	0.8%	1.4%	2.8%
Feb 2024	154	0.4084	63	0.2%	0.4%	1.5%	3.3%
Mar 2024	190	0.3668	70	0.2%	0.5%	1.8%	3.8%
Apr 2024	432	0.3331	144	0.5%	1.1%	2.3%	4.9%
May 2024	534	0.3048	163	0.7%	1.4%	3.0%	6.3%
Jun 2024	206	0.2835	58	0.3%	0.5%	3.3%	6.8%
Jul 2024	333	0.2878	96	0.4%	0.9%	3.7%	7.7%
Aug 2024	66	0.2505	17	0.1%	0.2%	3.8%	7.9%
Sep 2024	44	0.2376	10	0.1%	0.1%	3.8%	8.0%
Oct 2024	198	0.2066	41	0.2%	0.5%	4.1%	8.5%
Min				0.1%	0.1%		
Average				0.3%	0.7%		
Median				0.3%	0.7%		
Max				0.7%	1.4%		

Sources: S&P Global, GTCF analysis.

Note: The analysis is based on the undisturbed trading price being the period prior to 1 November 2024, when the company announced it entered into a MOS with QSLM.

9.35 With regard to the above analysis, we note that:

9.35.1 The level of free float for Magontec is c. 47.6%. From October 2023 to October 2024, only c. 8.5% of the free float shares were traded with an average monthly volume of 0.7% of the total free float shares. This indicates that stock has limited liquidity.

9.35.2 In Figure 29 below we have benchmarked the liquidity of Magontec with the comparable peers we have identified.

Figure 29: Liquidity of trading in Magontec shares

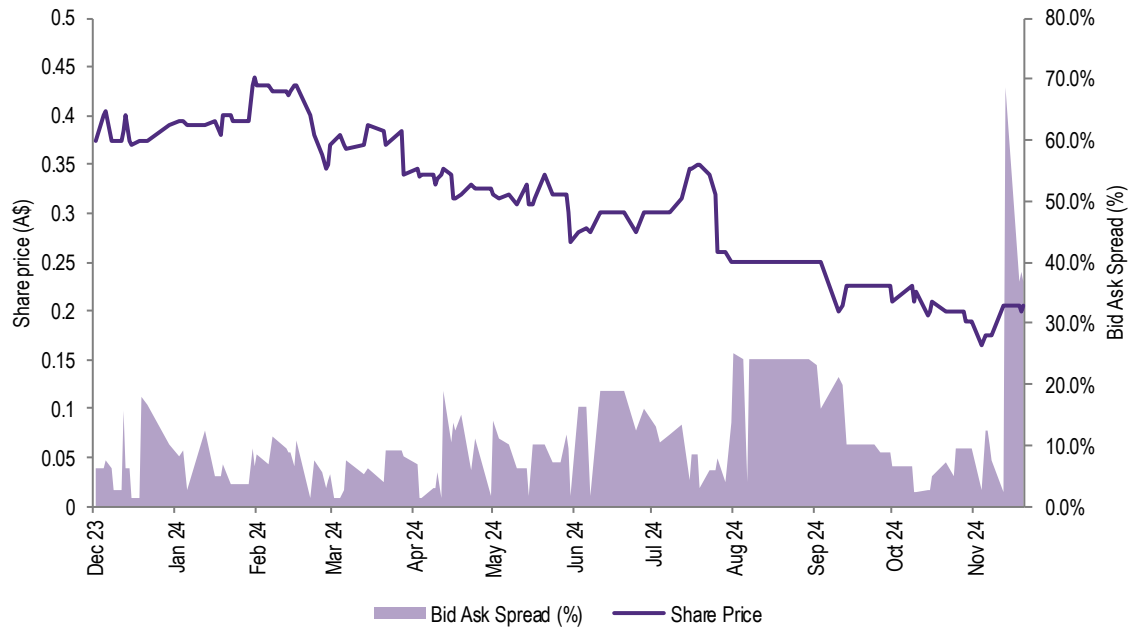
Liquidity analysis		Free float	Average volume traded as a % of total shares	Average volume traded as a % of free float shares	Cumulative volume traded as a % of total shares	Cumulative volume traded as a % of free float shares
Company	Country	(%)				
Magontec Limited	Australia	47.6%	0.3%	0.7%	4.1%	8.5%
AVIC Heavy Machinery Co., Ltd.	China	64.6%	33.7%	52.2%	426.3%	659.7%
Chongqing Fenghua Group Co., Ltd.	China	55.6%	66.2%	119.0%	938.4%	1686.8%
Gaona Aero Material Co., Ltd.	China	53.4%	37.9%	70.9%	462.4%	865.6%
Shenzhen SunXing Light Alloys Material Co., Ltd.	China	45.7%	62.1%	135.9%	754.4%	1651.1%
Sims Limited	Australia	82.4%	4.7%	5.7%	61.5%	74.6%
Umicore SA	Belgium	78.5%	5.7%	7.3%	73.1%	93.1%
Reliance, Inc.	United States	99.2%	11.5%	11.6%	151.3%	152.5%
Radius Recycling, Inc.	United States	93.3%	16.0%	17.2%	204.9%	219.7%
Low		45.7%	4.7%	5.7%	61.5%	74.6%
Average		71.6%	29.7%	52.5%	384.0%	675.4%
Median		71.6%	24.9%	34.7%	315.6%	439.7%
High		99.2%	66.2%	135.9%	938.4%	1686.8%

Source: S&P Global; GTCF analysis

Note: The analysis is based on the undisturbed trading price from November 2023 to October 2024.

- 9.35.3 Per Figure 29 above, the free float of Magontec's shares traded is significantly below the average and median of listed comparable companies.
- 9.35.4 Where a company's stock is not heavily traded or is relatively illiquid, the market typically observes a difference between the 'bid' and 'ask' price for the stock as there may be a difference in opinion between the buyer and seller on the value of the stock. Below we have set out the bid-ask spread of Magontec since December 2023.

Figure 30: Magontec – Bid/Ask Spread over the period 31 December 2023 to 31 October 2024



Sources: S&P Global, GTCF Analysis

- 9.36 The historical average bid-ask spread since December 2024 was c. 10.0% with spikes up to 68.5%. We note high levels of bid-ask spreads throughout the observed period, which indicates greater dissent among investors on the underlying fair market value of the business and potentially a higher level of speculative investments in conjunction with greater volatility.
- 9.37 Based on the limited liquidity and the high bid-ask spread, we have not relied on the Quoted Security Price Method for the purpose of our valuation.

10. Sources of information, disclaimer and consents

Sources of information

10.1 In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Memorandum of Settlement.
- Notice of Extraordinary General Meeting and explanatory notes.
- Annual reports and interim reports of Magontec.
- Magontec management accounts.
- Magontec's internal earnings and cash flow forecasts.
- Releases and announcements by Magontec on the ASX.
- Unaudited financial statements at 30 September 2024.
- Other information provided by Magontec Management.
- Capital IQ.
- Mergermarket.
- Various broker reports.
- Other publicly available information.
- Discussions with Magontec Management.

Qualifications and independence

10.2 Grant Thornton Corporate Finance Pty Ltd holds Australian Financial Service Licence number 247140 under the Corporations Act and its authorised representatives are qualified to provide this report.

10.3 Grant Thornton Corporate Finance provides a full range of corporate finance services and has advised on numerous takeovers, schemes of arrangement, buy-backs, corporate valuations, acquisitions, and restructures. Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to Magontec and QSLM with reference to the ASIC Regulatory Guide 112 "Independence of experts" and APES 110 "Code of Ethics for Professional Accountants" issued by the Accounting Professional and Ethical Standard Board. We have concluded that there are no conflicts of

interest with respect to Magontec, its shareholders, QSLM and all other parties involved in the Selective Buy-back.

- 10.4 Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Magontec or its associated entities that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Selective Buy-back.
- 10.5 Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Selective Buy-back, other than the preparation of this report.
- 10.6 Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Selective Buy-back. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Limitations and reliance on information

- 10.7 This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 10.8 Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by Magontec and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by Magontec through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of Magontec.
- 10.9 This report has been prepared to assist the Directors of Magontec in advising the Non-Associated Shareholders in relation to the Selective Buy-back. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Selective Buy-back is fair and reasonable to the Non-Associated Shareholders.
- 10.10 Magontec has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by Magontec, which Magontec knew or should have known to be false and/or reliance on information, which was material information Magontec had in its possession and which Magontec knew or should have known to be material and which Magontec did not provide to Grant Thornton Corporate Finance. Magontec will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

Consents

- 10.11 Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Information Memorandum to be sent to the Magontec shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.

Appendix A - Valuation methodologies

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses. This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Discounted future cash flows

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital ("WACC"). The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model. Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

Comparable market transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction. Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company. The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that

transaction, and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

Appendix B - Discount rate

Introduction

The cash flow assumptions underlying the DCF approach are on a nominal, ungeared and post-tax basis. Accordingly, we have assessed a range of nominal post-tax discount rates for the purpose of calculating the net present value of the cash flows.

The discount rates were determined using the WACC formula. The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided. However, we note that the selection of an appropriate discount rate is ultimately a matter of professional judgment.

Under a classical tax system, the nominal WACC is calculated as follows:

$$WACC = R_d \times \frac{D}{D + E} \times (1 - t) + R_e \times \frac{E}{D + E}$$

Where:

- R_e = the required rate of return on equity capital;
- E = the market value of equity capital;
- D = the market value of debt capital;
- R_d = the required rate of return on debt capital; and
- t = the statutory corporate tax rate.

Required rate of return on equity capital

We have used the CAPM, which is commonly used by practitioners, to calculate the required return on equity capital.

The CAPM assumes that an investor holds a large portfolio comprising risk-free and risky investments. The total risk of an investment comprises systematic risk and unsystematic risk. Systematic risk is the variability in an investment's expected return that relates to general movements in capital markets (such as the share market) while unsystematic risk is the variability that relates to matters that are unsystematic to the investment being valued.

The CAPM assumes that unsystematic risk can be avoided by holding investments as part of a large and well-diversified portfolio and that the investor will only require a rate of return sufficient to compensate for the additional, non-diversifiable systematic risk that the investment brings to the portfolio. Diversification

cannot eliminate the systematic risk due to economy-wide factors that are assumed to affect all securities in a similar fashion.

Accordingly, whilst investors can eliminate unsystematic risk by diversifying their portfolio, they will seek to be compensated for the non-diversifiable systematic risk by way of a risk premium on the expected return. The extent of this compensation depends on the extent to which the company's returns are correlated with the market as a whole. The greater the systematic risk faced by investors, the larger the required return on capital will be demanded by investors.

The systematic risk is measured by the investment's beta. The beta is a measure of the co-variance of the expected returns of the investment with the expected returns on a hypothetical portfolio comprising all investments in the market - it is a measure of the investment's relative risk.

A risk-free investment has a beta of zero and the market portfolio has a beta of one. The greater the systematic risk of an investment the higher the beta of the investment.

The CAPM assumes that the return required by an investor in respect of an investment will be a combination of the risk-free rate of return and a premium for systematic risk, which is measured by multiplying the beta of the investment by the return earned on the market portfolio in excess of the risk-free rate.

Under the CAPM, the required nominal rate of return on equity (R_e) is estimated as follows:

$$R_e = R_f + \beta_e (R_m - R_f)$$

Where:

- R_f = risk free rate
- β_e = expected equity beta of the investment
- $(R_m - R_f)$ = market risk premium

Risk-free rate – 3.6%

In the absence of an official risk-free rate, the yield on government bonds (in an appropriate jurisdiction) is commonly used as a proxy. Accordingly, we have observed the yield on the 10-year Chinese and German Government bonds over several intervals from a period of 5 trading days to 10 trading years. We have made reference to these risk-free rates of return in the principal jurisdictions in which the Company operates and is exposed to the economic and sovereign risks in China, Germany and Romania.

The table in Figure 31 below sets out the average yield on 10-year Chinese Government Bond over the last 10 years.

Figure 31: Average yields on Chinese Government 10-year bonds

China Government Debt - 10 Year				
as at 31 October 2024	Range			Daily Average
Previous 5 Trading Days	2.15%	-	2.16%	2.16%
Previous 10 Trading Days	2.11%	-	2.17%	2.15%
Previous 20 Trading Days	2.11%	-	2.23%	2.16%
Previous 30 Trading Days	2.02%	-	2.23%	2.15%
Previous 60 Trading Days	2.02%	-	2.26%	2.15%
Previous 1 Year Trading	2.02%	-	2.71%	2.31%
Previous 2 Years Trading	2.02%	-	2.94%	2.47%
Previous 3 Years Trading	2.02%	-	2.99%	2.58%
Previous 5 Years Trading	2.02%	-	3.31%	2.76%
Previous 10 Years Trading	2.02%	-	4.03%	3.07%

Source: S&P Global

- 10.12 The table in Figure 32 below sets out the average yield on 10-year German Government Bond over the last 10 years.

Figure 32: Average yields on German Government 10-year bonds

Germany Government Bond - 10 Year				
as at 31 October 2024	Range			Daily Average
Previous 5 Trading Days	2.28%	-	2.39%	2.33%
Previous 10 Trading Days	2.18%	-	2.39%	2.30%
Previous 20 Trading Days	2.18%	-	2.39%	2.27%
Previous 30 Trading Days	2.04%	-	2.39%	2.23%
Previous 60 Trading Days	2.04%	-	2.39%	2.22%
Previous 1 Year Trading	1.98%	-	2.79%	2.38%
Previous 2 Years Trading	1.78%	-	2.98%	2.39%
Previous 3 Years Trading	-0.53%	-	2.98%	1.83%
Previous 5 Years Trading	-0.88%	-	2.98%	0.92%
Previous 10 Years Trading	-0.88%	-	2.98%	0.60%

Source: S&P Global

We have had consideration for the average risk-free rate observed over various period of time and the prevailing spot rate in the bond market given the past volatility in the market. Further, the spot rates as at 31 October 2024 was 2.1% in China and 2.4% in Germany and 6.9% in Romania³⁰. Accordingly, our adopted weighted average risk-free rate of 3.6% is based on the weighted average yields on the Chinese and German 10-year government bonds.

³⁰ Average yields on Romania Government 10-year bonds history is not readily available.

Market risk premium – 6.3%

The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk-free rate of return is earned. However, given the inherent high volatility of realised rates of return, especially for equities, the market risk premium can only be meaningfully estimated over long periods of time.

For the purpose of the WACC assessment, Grant Thornton Corporate Finance has adopted a market risk premium of 6.3% having consideration for the weighted average equity risk premiums³¹ in China and Europe wherein the revenue is generated.

Equity beta – 1.04 to 1.19

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation.

An equity beta includes the effect of gearing on equity returns and reflects the riskiness of returns to equity holders. However, an asset beta excludes the impact of gearing and reflects the riskiness of returns on the asset, rather than returns to equity holders. Asset betas can be compared across asset classes independent of the impact of the financial structure adopted by the owners of the business. Equity betas are typically calculated from historical data. These are then used as a proxy for the future which assumes that the relative risk of the past will continue into the future. Therefore, there is no right equity beta and it is important not to simply apply historical equity betas when calculating the cost of equity. For the purpose of the report, we have had regard to the observed asset or ungeared betas of listed companies involving manufacturing and recycling of magnesium alloy products. While these companies are engaged in the manufacturing and recycling of magnesium alloy products, they do not perfectly align with Magontec's specific business model and risk profile.

³¹ Based on Professor Damodaran's New York University Stern ERP data updated as of 5 January 2024 with an additional 1.0% to account for region specific risks and additional market volatility which is weighted by the YTD region wise revenue.

Figure 33: Comparable company beta analysis

Beta analysis			5 years monthly betas			
Company	Country	Market cap A\$m	Equity Beta	R squared	Gearing Ratio	Ungeared Beta
Magontec Limited	Australia	15	0.66	0.00	51.2%	0.49
AVIC Heavy Machinery Co., Ltd.	China	7,292	1.26	0.28	9.5%	1.17
Chongqing Fenghwa Group Co., Ltd.	China	464	0.56	0.07	0.7%	0.55
Gaona Aero Material Co., Ltd.	China	2,852	1.61	0.31	2.6%	1.58
Shenzhen SunXing Light Alloys Materials Co.,Ltd.	China	793	1.05	0.09	25.9%	na
Sims Limited	Australia	2,451	1.71	0.22	26.2%	1.45
Umicore SA	Belgium	4,366	0.92	0.27	43.0%	0.70
Radius Recycling, Inc.	United States	692	1.16	0.11	58.1%	0.78
Reliance, Inc.	United States	23,623	0.83	0.12	15.1%	0.74
Low						0.49
Median						0.74
Average						0.93
High						1.58
Narrow - Excluding companies below the R squared threshold						
Median						0.78
Average						0.99

Source: S&P Global and GTCF calculations

Note (1): Ungeared betas are calculated using data provided by S&P Global as at 31 October 2024. The betas are based on a five-year period with monthly observations based on the local index. Betas have been ungeared based on the average gearing ratio (i.e. net debt divided by shareholders' equity based on market values).

It should be noted that the above betas are drawn from the actual and observed historical relationship between risk and returns. From these actual results, the expected relationship is estimated generally on the basis of extrapolating past results. Despite the arbitrary nature of the calculations, it is important to assess their commercial reasonableness. That is to assess how closely the observed relationship is likely to deviate from the expected relationship.

Consequently, while measured equity betas of the listed comparable companies provide useful benchmarks against which the equity beta used in estimating the cost of equity for the predevelopment assets, the selection of an unsystematic equity beta requires a level of judgement.

The asset betas of the selected companies are calculated by adjusting the equity betas for the effect of gearing to obtain an estimate of the business risk of the comparable companies, a process commonly referred as de-gearing. We have then recalculated the equity beta based on an assumed 'optimal' capital structure deemed appropriate for the business (re-gearing). This is a subjective exercise, which carries a significant possibility of estimation error.

The asset betas of the selected companies are calculated by adjusting the equity betas for the effect of gearing to obtain an estimate of the business risk of the comparable companies, a process commonly referred as de-gearing. We have then recalculated the equity beta based on an assumed 'optimal' capital structure deemed appropriate for the business (re-gearing). This is a subjective exercise, which carries a significant possibility of estimation error.

We used the following formula to undertake the de-gearing and regearing exercise:

$$\beta_e = \beta_a \left[1 + \frac{D}{E} \times (1 - t) \right]$$

Where:

- β_e = Equity beta
- β_a = Asset beta
- t = corporate tax rate

The betas are de-gearred using the average historical gearing levels of those respective companies over several years. We note that most comparable companies had net cash positions. We then re-gear based on a gearing ratio of 5.0% to 10.0% debt to capital (see Capital Structure section below for further discussions).

As a result, for the purposes of our valuation, we have selected a beta range of between 1.04 and 1.19 to calculate the required rate of return on equity capital. In our beta assessment we had regards to brokers and the beta of the consumer discretionary segment.

Specific risk premium – 3.0% - 4.0%

The specific risk premium represents the additional return an investor expects to receive to compensate for perceived uncertainties associated with the operating forecast and not meeting budget expectations, size and strategy execution risk not reflected in the beta of observed comparable companies.

We note that the selection of the specific risk premium involves a certain level of professional judgement and as a result, the total specific risk premium is not fully quantifiable with analytical data.

Cost of debt – 5.0% - 6.0%

For the purpose of estimating the cost of debt applicable to Magontec, Grant Thornton Corporate Finance has considered the following:

- The weighted average interest rate on credit outstanding for large businesses over the last one to five years.
- Expectations of the yield curve.

Based on the above, Grant Thornton Corporate Finance has adopted a cost of debt of 5.0% to 6.0% on a pre-tax basis.

Capital Structure – 5.0% to 10.0%

The appropriate level of gearing that is utilised in determining WACC for a particular company should be the “target” gearing ratio, rather than the actual level of gearing, which may fluctuate over the life of a company. The target or optimal gearing level can therefore be derived based on the trade-off theory which stipulates that the target level of gearing for a project is one at which the present value of the tax benefits from the deductibility of interest are offset by present value of costs of financial distress. In practice, the target level of gearing is evaluated based on the quality and variability of cash flows. These are determined by:

- the quality and life cycle of a company;
- the quality and variability of earnings and cash flows;
- working capital;
- level of capital expenditure; and
- the risk profile of the assets.

For the purpose of the valuation, Grant Thornton Corporate Finance has adopted a capital structure based on 5.0% to 10.0% debt to capital. In determining the appropriate capital structure, we have had regard to the current capital structure of Magontec based on its average net debt based on monthly balance outstanding but also having regard to the selected comparable companies in the broader manufacturing and recycling of magnesium alloy products industry.

Tax rate – 30.0%

For the purpose of our valuation assessment, we have assumed the Australian corporate tax rate of 30.0% given Magontec is listed on the ASX and follows the Australian tax regulations.

Figure 34: Discount Rate Summary

Weighted Average Cost of Capital (WACC)	Low	High
Risk-Free Rate	3.6%	3.6%
Relevered Equity Beta	1.04	1.19
Equity Risk Premium	6.3%	6.3%
Specific Risk Premium	3.0%	4.0%
Cost of Equity	13.1%	15.0%
Cost of Debt (pre-tax)	5.0%	6.0%
Tax rate	30.0%	30.0%
Cost of Debt (post-tax)	3.5%	4.2%
Weight of Debt	5.0%	10.0%
Weight of Equity	95.0%	90.0%
Selected WACC	12.6%	13.9%

Source: S&P Global, GTCF analysis

Appendix C - Comparable company descriptions

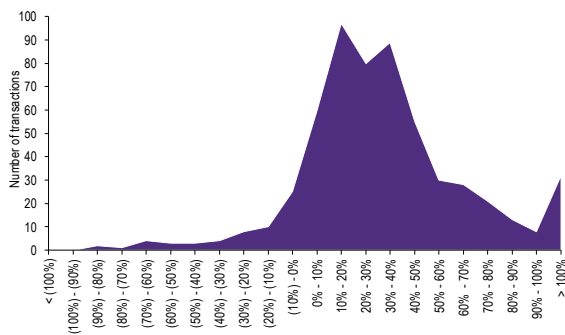
Company	Description
AVIC Heavy Machinery Co., Ltd.	AVIC Heavy Machinery Co., Ltd. engages in forging, casting, hydraulic environmental and other business in China. The company is involved in the production of die, free, isothermal, and rings forging, which consist of aircraft beams; frames; joints; suspensions; landing gear and other structural parts; aircraft engines and gas turbines; rotating parts, such as discs and shafts; and stationary parts, including casings and mounting edges; missile engine and rocket engine forgings; and other civilian forgings for aviation, and other military and civilian uses. Its forging and casting products are primarily used in aviation, aerospace, shipbuilding, weapons, electric power, petrochemical, railway, automobile, mining, engineering machinery, and other fields. It is also involved in the research, development, and production of aerospace castings, investment casting, metal mold casting, centrifugal casting, etc.; and alloy casting, such as high-temperature alloys, aluminium alloys, titanium alloys, magnesium alloys, etc.; and military and civilian high-pressure plunger pumps products. In addition, the company manufactures aviation environmental control accessories and civil heat exchangers, including heat exchangers, high-speed rotating machinery, lubricating oil tanks, cooling devices, and high-temperature insulation components for hydraulic systems and lubrication systems used in engineering machinery, air compressors, wind power, medical treatment, and high-speed rail industries. It also exports its products to Europe, the Americas, Oceania, and the Asia-Pacific region. AVIC Heavy Machinery Co., Ltd. was incorporated in 1996 and is headquartered in Guiyang, China. AVIC Heavy Machinery Co., Ltd. is a subsidiary of Aviation Industry Corporation of China.
Chongqing Fenghwa Group Co., Ltd.	Chongqing Fenghwa Group Co., Ltd. through its subsidiary, manufactures and sells magnesium and aluminium metal auto parts in China. It offers magnesium, aluminium alloy die castings, home and office products, wall panels, new partition screens, home improvement wardrobes, cabinets, and bathroom cabinets, municipal products, etc. The company was formerly known as Shanghai Fenghwa Group Co., Ltd. and changed its name to Chongqing Fenghwa Group Co., Ltd. in September 2022. Chongqing Fenghwa Group Co., Ltd. was incorporated in 1992 and is headquartered in Shanghai, China.
Gaona Aero Material Co., Ltd.	Gaona Aero Material Co., Ltd. engages in the research and development, production, and sale of intermetallic compounds, aluminium-magnesium-titanium, and other materials and products in China. It offers cast alloy products, including high temperature alloy and alloy blades; precision casting high temperature alloy; titanium, aluminium, and magnesium alloys; steel products; and steel centrifugal casting pipe and static casting; corrosion-resistant alloy disk ring forgings; corrosion-resistant alloy rods, plates, wires, strips, pipes; stellite wear-resistant products; superalloys; titanium alloy and steel powder; hot isostatic pressing alloy parts; powder superalloy forgings; oxide dispersion strengthening series products; 3D printing alloy parts; porous foam material products; magnetron sputtering series targets; arc plating; and high temperature wear-resistant welding wire. Its products are used in aviation, aerospace, gas turbines, ships, electric powers, electronics, nuclear power, metallurgy, petrochemical, building materials, and other industries. The company was formerly known as Beijing Cisri-Gaona Materials & Technology Co., Ltd. and changed its name to Gaona Aero Material Co., Ltd. in January 2020. Gaona Aero Material Co., Ltd. was founded in 2002 and is based in Beijing, China.
Shenzhen SunXing Light Alloys Materials Co.,Ltd.	Shenzhen SunXing Light Alloys Materials Co.,Ltd. develops, produces, and sells light alloy materials in China. The company offers aluminium and magnesium alloy materials for use in various fields, such as military, aerospace, navigation, rail transit, construction, machinery manufacturing, and chemical industries. Shenzhen SunXing Light Alloys Materials Co.,Ltd. was founded in 1992 and is based in Shenzhen, China.
Sims Limited	Sims Limited engages in buying, processing, and selling of ferrous and non-ferrous recycled metals in Australia, Bangladesh, China, India, Turkey, the United States, and internationally. The company operates through five segments: North America Metal, Australia/New Zealand Metal, Global Trading, Investment in SA Recycling, and Sims Lifecycle Services. It is involved in the collection, processing, and trading of iron and steel secondary raw materials; and other metal alloys and residues, principally aluminium, lead, copper, zinc, and nickel bearing materials. The company also engages in the provision of environmentally responsible solutions for the recycling and repurposing of post-consumer electronic products and IT assets. In addition, it provides secondary processing and other services comprising stevedoring and other sources of service. The company was founded in 1917 and is headquartered in Mascot, Australia.
Umicore SA	Umicore SA operates as a materials technology and recycling company in Belgium, rest of Europe, the Asia-Pacific, North America, South America, and Africa. It operates through Catalysis, Energy & Surface Technologies, and Recycling segments. The Catalysis segment provides automotive catalysts for gasoline, and diesel light and heavy-duty diesel applications, including on-road and non-road vehicles; stationary catalysis for industrial emissions control; and produces precious metals-based compounds and catalysts for use in the pharmaceutical and fine chemicals industries, as well as fuel cell applications. The

Company	Description
	<p>Energy & Surface Technologies segment offers cobalt and specialty materials, rechargeable battery materials, and electro-optic materials, as well as metal deposition solutions, including precious metal-based electroplating and PVD coating. The Recycling segment treats waste streams containing precious and other specialty metals from a range of industrial residues and end-of-life materials. This segment also produces precious metals-based materials for glass production, electric, and electronic applications. The company was formerly known as Union Minière du Haut Katanga and changed its name to Umicore SA in 2001. Umicore SA was founded in 1805 and is headquartered in Brussels, Belgium.</p>
<p>Radius Recycling, Inc.</p>	<p>Radius Recycling, Inc. recycles ferrous and nonferrous metal, and manufactures finished steel products worldwide. The company acquires, processes, and recycles salvaged vehicles, rail cars, home appliances, industrial machinery, manufacturing scrap, and construction and demolition scrap. It offers recycled ferrous metal, a feedstock used in the production of finished steel products; and nonferrous products, including mixed metal joint products recovered from the shredding process, such as zorba, zurik, aluminium, copper, stainless steel, nickel, brass, titanium, lead, and high temperature alloys. The company also procures salvaged vehicles and sells serviceable used auto parts from these vehicles. In addition, it produces various finished steel products using ferrous recycled metal and other raw materials, as well as semi-finished goods, which include billets; and finished goods consisting of rebar, coiled rebar, wire rods, merchant bars, and other specialty products. Further, the company sells catalytic converters to specialty processors that extract the nonferrous precious metals, including platinum, palladium, and rhodium; and ferrous and nonferrous recycled metal products to steel mills, foundries, refineries, smelters, wholesalers, and recycled metal processors, as well as finished steel customers, such as steel service centers, construction industry subcontractors, steel fabricators, wire drawers, and major farm and wood products suppliers. It also provides recycling and related services, including scrap brokerage, certified destruction, automotive parts recycling, railcar dismantling, and reverse logistics under 3PR brand name. The company was formerly known as Schnitzer Steel Industries, Inc. and changed its name to Radius Recycling, Inc. in January 2024. Radius Recycling, Inc. was founded in 1906 and is headquartered in Portland, Oregon.</p>
<p>Reliance, Inc.</p>	<p>Reliance, Inc. operates as a diversified metal solutions provider and the metals service center company in the United States, Canada, and internationally. The company distributes a line of approximately 100,000 metal products, including alloy, aluminium, brass, copper, carbon steel, stainless steel, titanium, and specialty steel products; and provides metals processing services to general manufacturing, non-residential construction, transportation, aerospace, energy, electronics and semiconductor fabrication, and heavy industries. It sells its products directly to original equipment manufacturers, which primarily include small machine shops and fabricators. The company was formerly known as Reliance Steel & Aluminium Co. and changed its name to Reliance, Inc. in February 2024. Reliance, Inc. was founded in 1939 and is based in Scottsdale, Arizona.</p>

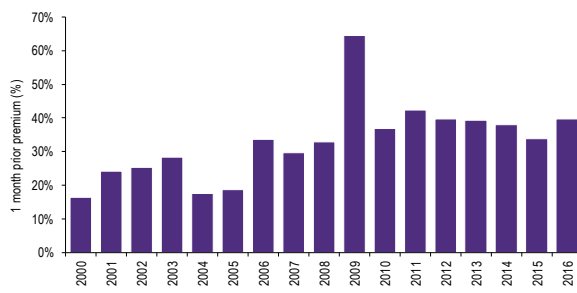
Appendix D - Control premium

Evidence from studies indicates that the premium for control on successful takeovers has frequently been in the range of 20.0% to 40.0% in Australia, and that the premium varies significantly for each transaction.

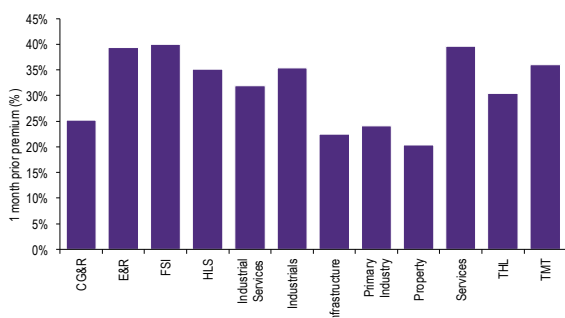
1 Month Prior Control Premium



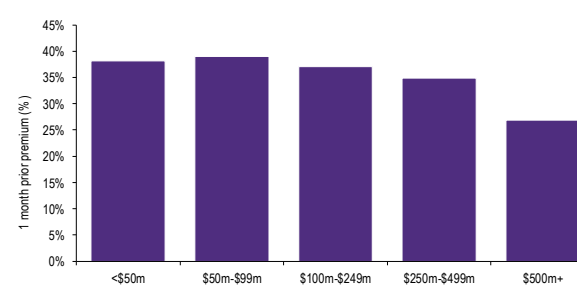
Control premium per completion date



Control premium per industry



Control premium and size



	Control premium
Average	34.33%
Median	29.34%

Source: GTCF Analysis

Appendix E – Discount for Lack of Marketability

The lack of marketability is often the largest dollar discount factor in the valuation of a business, particularly, if the subject of the valuation is a minority interest. The liquidity benchmark is defined by Shannon P. Pratt as the ability to “*sell your stock instantly at, or very close to, a known public price and receive cash within three days*”³². Anything short of that attracts a discount for lack of marketability.

Restricted stock and pre-IPO studies have shown discounts for lack of marketability in the range of 20.0% to 56.0% as set out below:

Discount for lack of marketability			
Study	Source	Years	Discount
Restricted stock studies			
Alex W Howard	Valuation issues in estate planning - stu	2003	21% - 25%
Aswath Damodaran	Illiquidity in the market	2003-2005	25% - 35%
Michael A Paschall	Banister Financial Inc - New s Letter	2004	26% - 36%
Russel T Glazer	The CPA Journal	2000-2005	30% - 35%
Phil Williams & John Linder	FFFECT Winter Journal	1997-2002	25% - 40%
Pre-IPO studies			
Shannon Pratt	Pratt	2000-2003	37.5% - 56.4%
Michael Paschall	Banister Financial Inc - New s Letter	1980-2006	46%
Russel Glazer	The CPA Journal	2000-2005	45%
Phil Williams & John Linder	FFFECT Winter Journal	1997-2002	35%

³² Shannon P. Pratte – Discount and Premiums, Second Edition

Appendix F – Glossary

\$ or A\$	Australian Dollar
Administrator	Administrator of the QSLM
APES 110	Professional standard APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board
APES 225	Professional standard APES 225 Valuation Services issued by the Accounting Professional & Ethical Standards Board
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
CAGR	Compound annual growth rate
Chapter 2E	Chapter 2E of the Corporations Act 2001 (Cth)
Chapter 2J	Chapter 2J of the Corporations Act 2001 (Cth)
Company	Magontec
Corporations Act	Corporations Act 2001 (Cth)
D&O	Directors and Officers
DCF Method	Discounted cash flow method of valuation
Directors	The Directors of Magontec
FME Method	Future maintainable earnings method of valuation
FSG	Financial Services Guide in accordance with the Corporations Act
Grant Thornton Corporate Finance, or Grant Thornton, or we	Grant Thornton Corporate Finance Pty Limited
GST	Goods and services tax
GDP	Gross domestic product
IER	This Independent Expert's Report prepared for the purposes of Part 2J of the Corporations Act
Magontec	Magontec Limited
Magontec Qinghai	Magontec Qinghai Co Ltd, a 100.0% owned subsidiary of Magontec Limited
MACH	Magontec Qinghai's magnesium alloy cast house
MOS	Memorandum of settlement between Magontec and QSLM
NAV Method	Net asset value method of valuation
QHAM	Qinghai Huixin Asset Management Co Ltd
QSLM	Qinghai Salt Lake Magnesium Co Limited
Quoted Security Price Method	Quoted security price method of valuation
RBA	Reserve Bank of Australia
RG 110	ASIC regulatory guide 110 – Share Buy-backs
RG 111	ASIC regulatory guide 111 – Content of expert reports
RG 112	ASIC regulatory guide 112 – Independence of experts
RMB	Renminbi
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
YTD	Year to date