

20 June 2012

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

Dear Sirs,

Magontec Limited (MGL or the Company) announces:

- **A pure magnesium off take agreement with Qinghai Salt Lake Magnesium Company Limited (QSLM) a 89.4% owned subsidiary of Qinghai Salt Lake Industry Company Limited (QSLI).**
- **Development of a 56,000 mtpa magnesium alloy cast house at Golmud in Qinghai Province, PRC.**
- **A placement of 55,435,784 fully paid ordinary shares to QSLM raising A\$2,083,831.**

Further to its announcement on 13 June 2012 MGL is now pleased to announce that it has successfully concluded a series of agreements with QSLM.

MGL and QSLM have agreed that:

- QSLM will construct an electrolytic pure magnesium smelter at Golmud in Qinghai Province, PRC with a capacity of 150,000 metric tonnes per annum (mtpa).
- MGL will acquire, own and install plant and equipment for a magnesium alloy manufacturing facility adjacent to the QSLM electrolytic magnesium smelter with a capacity of 56,000 mtpa.
- MGL will lease from QSLM the land and buildings in which to house the plant and equipment for its magnesium alloy manufacturing facility.
- MGL will become the exclusive manufacturer of magnesium alloy from pure magnesium manufactured by the QSLM smelters.
- MGL will make a placement of fully paid ordinary shares (immediately following the release of this announcement to the market) to QSLM equivalent to 15% of MGL's current issued capital at a price of A\$0.03759 raising A\$2.084 million.
- To the extent of MGL's investment in plant and equipment for the cast house, QSLM has agreed to partially underwrite a future MGL capital raising.

As a result of these agreements and actions MGL has positioned itself to take a leading role in the future of the global magnesium alloy industry. MGL will be a highly competitive and environmentally sound supplier to the automotive and other die cast based industries. Subject to Listing Rule requirements of the Australian Securities Exchange (refer Attachment) there is no condition precedent to the arrangements immediately proceeding.

Yours sincerely



Nicholas Andrews
Executive Chairman

The Qinghai Magnesium Project

QSLM has acquired the decommissioned Norsk Hydro electrolytic pure magnesium smelter and relocated this facility from Becancour in Canada to Golmud in Qinghai Province, PRC. The Canadian plant is one of the most technologically advanced electrolytic plants in the World and is currently being modified to suit its new environment in Qinghai Province. The Canadian engineering company, Hatch Ltd, has been commissioned to lead the reconstruction of the Norsk smelter and to increase output capacity from 40,000 mtpa of pure magnesium to 100,000 mtpa (stage 1) and then to 150,000 mtpa (stage 2).

It is agreed between the parties that MGL will take up to 56,000 mtpa of the initial production of 100,000 mtpa of pure magnesium from the Golmud smelter. This off take will be dedicated to the manufacture of magnesium alloys for distribution through the MGL global sales and marketing platform. The balance of production is to be sold directly into the pure magnesium market.

The Golmud project is expected to develop two additional 150,000 mtpa electrolytic magnesium smelters (stages 3 and 4) in close proximity to the first smelter. Collectively, the Golmud project will have a production capacity, at completion, of 450,000 mtpa of pure magnesium. The project will be the largest pure magnesium manufacturing facility in the World with an annual output equivalent to 64% of current global pure magnesium production or about 80% of all current pure magnesium production in China.

Under the agreement between the parties MGL will be the exclusive manufacturer of magnesium alloys derived from both the first facility (when capacity at the QSLM plant will be 100,000 mtpa) and from subsequent Golmud pure magnesium production facilities.

Production at the MGL magnesium alloy cast house will be dependent upon the availability of feedstock (which cannot be guaranteed) from QSLM. The cast house, adjacent to the Qinghai smelter, will receive a continuous supply of liquid pure magnesium for its alloy production activities directly from the electrolytic smelter. The manufacture of alloys directly from liquid pure magnesium will avoid significant transport and power costs currently borne at MGL's existing manufacturing plants where alloy is manufactured from pure magnesium ingots.

The development of a major magnesium project at Golmud reflects the aspirations of the Chinese Government's 2011 – 2015 Five-Year plan. The Chinese industry and environmental authorities are seeking to improve the environmental footprint of the industry and have introduced limits on new coal powered, small-scale magnesium production units and high pollution emission plants.

MGL has appointed a team to oversee the construction of the new magnesium cast house, lead by Dr Matthias Gruber (who oversaw the construction of MGL's Romanian magnesium alloy recycling facility), Dr Martin Tauber, Vice-President Business Development and Tong Xunyou, the President of Magontec Asia.

MGL will also work closely with Hatch Ltd and SAMI (Shenyang Aluminium and Magnesium Engineering and Design Institute), the engineering groups appointed

by QSLM for the construction of the pure magnesium smelter and the pure magnesium ingot production facility.

Background on Qinghai Salt Lake Industry Company Limited (QSLI)

QSLI is the parent company (89.4% shareholder) of QSLM. QSLI was founded in 1952 and listed on the Shenzhen stock exchange in 1997 (Code:000792.SZ). In December 2011 QSLI recorded annual revenues of RMB 6.78 billion (A\$1.07bn) and Earnings Before Tax of RMB 3.35 billion (A\$531m). The company employs 9,200 people and has a current market capitalisation of RMB49.6 billion (A\$7.87bn)

QSLI's largest shareholders are the Qinghai State Owned Assets Bureau (31%) and China Chemical Group (15%). Another 8 shareholders, including Chinese SOEs and commercial enterprises, own a further 28.6% of the company.

QSLI is a diverse chemicals manufacturer. It has been mining potash from the Qinghai salt lakes since the 1950's and is today an established, successful and highly respected Chinese corporation. The company has embarked upon a multi-industry development of the regions salt lakes. The strategic plan of QSLI seeks to exploit the immense and unique features of its salt lake asset. QSLI aims to develop China's largest potassium chloride company and the World's largest producer of pure magnesium. In addition to magnesium and potash, QSLI will develop associated facilities to produce carbinol, methyl rhenium tri-oxide (MTO), polypropylene, polyethylene, PVC, sodium hydroxide, coking coal, calcium carbide, calcium chloride and a power station.

Co-locating the MGL alloy cast house in Qinghai provides Magontec with access to the many advantages offered to industries in this region including preferential tax rates, preferential labour costs and access to the region's abundant, low cost, hydro electric and natural gas energy sources.

Positive environmental impact

Through this project, MGL has set an objective to become the World's largest producer of magnesium alloys. The advent of a large scale and environmentally friendly production facility is expected to address two of the magnesium industry's critical consumer concerns – environmental footprint and supply chain consistency.

Magnesium alloys produced by MGL at the QSLM smelter will have a carbon footprint that will be considerably smaller than any other current producer in China.

A recent analysis conducted for the International Magnesium Association by the German Aerospace Centre indicates that the Life Cycle Analysis (LCA) for magnesium produced using a continuous electrolytic process is approximately 12 tonnes of CO₂ per tonne of magnesium produced. This is equivalent to the CO₂ footprint for aluminium and considerably lower than the CO₂ footprint for pure magnesium produced using the conventional Pidgeon process. The analysis estimates that Pidgeon plants generate an average of 26 tonnes of CO₂ per tonne of pure magnesium produced. Some older plants generate up to 40 tonnes of CO₂ per tonne of Mg.

The production of pure magnesium using an electrolytic smelter in China is a significant departure for the Chinese and the global magnesium industries. China currently manufactures over 80% of the World's pure magnesium.

All of this is currently manufactured using the Pidgeon process. At completion (of stages 3 and 4) the QSLM plant will have a capacity equivalent to more than 80% of all current pure magnesium production in China.

While electrolysis is not a new technology, its demise in the early part of this century in the face of Chinese Pidgeon plant production represented an environmental challenge for magnesium alloy consumption within the automotive sector (around 80% of magnesium die cast alloys are used in the auto sector). The Golmud plant will benefit from a number of cost advantages that were not available to electrolytic plants at other locations and the comparative cost advantages of Chinese Pidgeon production have been eroded in recent years as energy, labour and environmental costs have risen. The Golmud facility will benefit from a low cost resource in the form of magnesium chloride waste from the historical potash manufacturing process and access to a source of low cost power.

While the Golmud electrolytic process will have many advantages over similar technologies at other locations, a key variable is the power source and the energy requirements of the process. At Golmud 75% of the energy will be sourced from hydro-electric power which will further improve the CO₂ footprint of the alloy produced at that plant. Additional improvements in the CO₂ footprint will be derived from the process; at Golmud MGL will take hot (liquid) metal and will not be required to re-melt its raw material supply. This provides power input and transport cost advantages that cannot be accessed by alloy plants, which can only access raw material in solid (ingot) form.

Financial projections

Co-locating the MGL alloy cast house in Qinghai provides Magontec with access to the many additional advantages available to industries in this region including preferential tax rates, preferential labour costs and access to the region's abundant low cost energy sources.

MGL will finalise the off-take pricing structure with QSLM over the coming weeks. The company's expectation is that the cost per metric tonne of magnesium alloy produced at the Golmud cast house will be very competitive with the current average cost of alloy produced at Chinese plants which use solid pure magnesium ingots from a supplier using the Pidgeon process.

The marginal cost improvements will primarily come from -

- the avoided power cost of melting solid pure magnesium ingots;
- the avoided cost of transporting solid pure magnesium ingots from the manufacturer to the alloy plant;
- reduced materials handling and storage costs;
- reduced residual power costs;
- reduced labour costs;
- reduced income tax imposts; and
- "spin-off" benefits associated with being part of a major industrial complex.

An increase in annual revenue is expected to arise from -

- part or full utilisation of a net increase (in the range of 10% to 30%) in the Group's overall production capacity compared to the long term capacity available on the current plant configuration; and
- a greater ability to attract buyer demand because of improved cost competitiveness.

As a result of an increase in annual revenue, debtors may also increase depending upon market forces at the time.

It is anticipated that gross profit will increase as a result of

- the higher level of sales; and
- improved margins resulting from the marginal cost improvements identified above.

However, with off take pricing arrangements still to be finalised and the commissioning of stage 1 of the project to occur sometime during the half year ended June 2014 the Company will delay releasing forecasts until time and circumstances offer greater certainty.

Timetable, financing and application of funds

The four stages of development of the Qinghai electrolytic smelter have been described earlier.

Magontec and QSLM expect to commence construction of the 56,000 mtpa cast house in the fourth quarter of calendar 2012 and to complete the project prior to the end of the commissioning phase of stage 1 of the smelter (expected to be during the half year ended June 2014).

MGL expects to raise new capital to fund the acquisition and installation of plant and equipment for its Golmud magnesium alloy cast house. The company estimates the cost of plant and equipment for the alloy cast house will be up to A\$14m.

The company is currently discussing funding strategies with stakeholders and advisers regarding a fully underwritten capital raising proposal to be offered to shareholders. The Board and management of MGL will communicate the outcome of their deliberations to shareholders in the near future.

Initial equity capital raised from the QSLM placement will be applied to partly finance the cost of plant and equipment for the Golmud cast house.

Relevant Australian Securities Exchange Listing Rules Requirements

Please refer to the Attachment.

For more information please contact Nicholas Andrews or John Talbot (CFO) on +61 8231 7085

Attachment

Relevant Australian Securities Exchange Listing Rules Requirements**Listing Rule 3.10.3**

Details of a placement to QSLM have been given in the body of this announcement but are summarised below.

Class of securities to be issued	Fully paid ordinary shares
Date of issue of shares	To be issued immediately following the release of this announcement to the market.
Number of securities to be issued	55,435,784
Principal terms of the securities to be issued	Part of the arrangements with the counter party for MGL's investment in a magnesium alloy facility in Golmud China.
Issue price or consideration	\$0.03759 per share
Purpose of the issue	Applied to partly finance the plant and equipment to be installed in the magnesium cast house at Golmud.
Will security holder approval be sought in relation to the proposed issue?	No
Is the issue to a certain class of security holders?	No

Other Disclosures	
Will any related party receive shares?	No
The proposed issue to QSLM is within MGL's placement capacity as permitted under ASX Listing Rule 7.1.	
The security holder proposed under the placement (QSLM) is deemed to be a "sophisticated" investor and a prospectus has not been issued to QSLM.	

Listing Rule 10.1

The transactions revealed in the announcement above do not involve the acquisition or disposal of a substantial asset by the Company or any of its subsidiaries to a restricted party identified in Listing Rule 10.1 and therefore shareholder approval (as required by this rule) is not required.

Listing Rule 11.1

The current strategic initiatives of MGL are primarily aimed at ensuring the group remains competitive in its cost structure and becomes the industry benchmark for production costs. This will be achieved by winding back and/or eliminating higher cost existing production capacity and replacing that with lower cost capacity such as that available in the Golmud project. Additionally, existing liberated capacity can be redeployed to higher margin (non alloy) products currently being manufactured in leased premises. This reworking of production capacity will give rise to an increase in sales (gross revenue) and profit, principally as a result of more efficient deployment of assets. To a lesser extent, some of the sales and profit increase will be attributable to a change in the scale of productive capacity – expected to be in the range of 10% to 30% over the current long term capacity. The Board and management of MGL have concluded that, based on this strategy, the transaction described above does not give rise to a **significant** change of scale as contemplated by Listing Rule 11.1 and therefore shareholder approval (as required by this rule) is not required.

However, the Australian Securities Exchange (ASX) may require MGL shareholders to approve the transaction if the ASX does not accept the Company's arguments in relation to Listing Rule 11.1. MGL shareholders will be advised if approval becomes necessary.

In the circumstances, the following information in relation to this transaction is required to be supplied under Listing Rule 11.1.

The assets to be acquired	Up to \$14m of plant and equipment to be installed in a cast house located in Qinghai (China).
The assets to be disposed	Nil

	Monetary Effect	When	What
Total consolidated non current assets	+\$14m	Gradually to 1 July 2014	Plant & Equipment
Total equity interests	+\$14m	Gradually to 1 July 2014	Plant & Equipment to be fully equity funded

In relation to the likely effect on sales revenue, current assets and gross profit see comments under heading "Financial projections".

Effect of Transaction on Ordinary Shares on Issue	
Ordinary shares on issue prior to placement to QSLM	369,571,890
Ordinary shares to be issued to QSLM under placement	55,435,784
Ordinary shares on issue after placement to QSLM	425,007,674

The shares to be issued to QSLM will be at a price of \$0.03759 per share raising \$2,083,831. The amount will be applied to partly finance the plant and equipment to be installed in the magnesium cast house at Golmud.

The transaction is now under implementation.