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MAGONTEC LIMITED
ABN 51 010 441 666

PROSPECTUS

For a partially underwritten renounceable pro rata offer to Eligible Shareholders of approximately 236,115,374 New Shares at an issue price of $0.05 per New Share on the basis of five (5) New Shares for every nine (9) Existing Shares held and 472,230,748 free attaching New Options on the basis of two (2) free attaching New Options for every one (1) New Share subscribed for to raise up to approximately $11.8 million before Issue costs

UNDERWRITER AND LEAD MANAGER

Patersons Securities Limited

ACN 008 896 311

Important Notice

This Prospectus is important and should be read in its entirety (including the 'Risk Factors' in **section 5**) before deciding whether to apply for the New Shares and New Options. If after reading this Prospectus you have any questions about the New Shares and New Options being offered under this Prospectus, then you should consult your stockbroker, accountant or other professional adviser.

The New Shares and New Options offered by this Prospectus should be considered speculative.

This document is not for publication or distribution, directly or indirectly, in or into the United States of America (including its territories and possessions, any state of the US and the District of Columbia). This document is not an offer of securities for sale into the United States or to, or for the account or benefit of, US Persons. The securities referred to herein have not been and will not be registered under the US Securities Act of 1933, as amended, and may not be offered or sold in the United States or to, or for the account or benefit of, US Persons. No public offering of securities is being made in the United States.

INVESTMENT HIGHLIGHTS

- Magontec manufactures magnesium alloys and magnesium and titanium anodes.
- An active participant in the industry since 1953, the Company has developed an extensive sales and logistics network, servicing customers globally and capturing approximately an 18% share of the global markets in which Magontec is eligible to operate.
- Magontec manufactures magnesium alloys in China and sells them into Chinese, Japanese, Canadian and European markets, primarily to customers in the automotive, power tool and electronics industries.
- The Company also recycles scrap magnesium material at its 100% owned factories in Bottrop in Germany, Santana in Romania and at rented properties at Suzhou and Jishan County in China.
- Magontec also manufactures magnesium and titanium anodes at its 100% owned factories at Xian in China, at Bottrop in Germany and at Santana in Romania.
- Magontec has restructured its businesses in 2012 to prepare for the introduction of product from Qinghai as a result of a strategic alliance formed with Qinghai Salt Lake Magnesium Industry Limited (**QSLM**), a major magnesium producer based in China.
- Under the agreement with QSLM, Magontec will acquire, own and install plant and equipment for a magnesium alloy manufacturing facility in the Qinghai Province (China), adjacent to QSLM's proposed electrolytic magnesium smelter from which Magontec will receive a significant supply of liquid pure magnesium.
- Magontec anticipates an increase in its market share in the coming years as European auto manufacturers (major customers) are required to target low levels of CO2 emissions, which Magontec believes to be achievable through the substitution of lighter weight magnesium alloys such as those which will be produced by Magontec at Qinghai.
- The Company projects improved volume to generate significant revenue improvement through the latter part of 2014 and 2015 as a result of the Company's new focus in Qinghai.
- QSLM will manufacture its products using an electrolytic process that is expected to generate much lower CO2 emissions than that generated by other magnesium manufacturers, mostly from China, who account for circa 80% of global production.
- The electrolytic process provides a significant competitive advantage and in the view of the Directors, will restore magnesium's competitiveness relative to aluminium.
- As part of the Company's alliance with QSLM, QSLM has already invested approximately $2 million to become a major shareholder of Magontec and has agreed to further support the Company by participating in the Rights Issue and sub-underwriting up to $6,255,000, as described in **section 2.5(c)** of this Prospectus.
- Following completion of the Offer, the Company will also continue to develop its other manufacturing operations in China, Romania and Germany through its 100% owned factories and joint venture arrangements.

MAJOR INVESTMENT RISKS

The Directors have considered and identified in **section 5** of the Prospectus the critical areas of risk associated with investing in the Offer.

You should pay particular attention to the fact that Magontec's principal operations are conducted in overseas jurisdictions including Germany, the Peoples Republic of China (**PRC**) and Romania and are governed by legal and regulatory environments that in some respects differ from that which prevail in Australia.

The major investment risks to be considered by potential investors include:

- Plant construction risk – The Company may experience delays in the construction of the Golmud Plant and total construction costs may exceed the Company's budget as a result of a variety of factors and events outside of the Company's control. If the Company fails to complete the Golmud Plant within the projected schedule and budget or at all, Magontec's business, results of operations, financial condition and prospects may be materially and adversely affected, and may require the Company to raise further funds to complete the project development and commence operations.
- Development and operational risks – The Company will be subject to the risks involved in the establishment of a new manufacturing operation at the Golmud Plant. There is no assurance that can be given to the level of viability that the Company's operations may achieve. No assurance can be given that the intended production schedules will be met or that the estimated operating cash costs and development costs will be accurate. In addition, any delays in the construction and commission of QSLM's magnesium smelter will delay the commencement of the Company's operations at the Golmud Plant as the Company is reliant upon the supply of raw material from QSLM's smelter for its operations at the Golmud Plant.
- Fluctuations in magnesium alloy prices – Magontec derives substantially all of its revenue and operating cash flow from the sale of magnesium alloy and is accordingly, exposed to fluctuations in magnesium alloy prices. Magnesium alloy prices have been and may continue to be subject to fluctuation as a result of a number of factors which are beyond Magontec's control, including demand for magnesium alloy, prices agreed by the world's largest producers of magnesium alloy and other macro-economic factors.
- Future capital requirements – The Company's activities will require substantial expenditures. In the event Full Subscription is not achieved and the Company is unable to place the entire Shortfall under **section 1.7** of this Prospectus, debt funding is not available and the Company generates insufficient cash from trading and inventory management, the Company anticipate that it may need to raise funds additional to that raised under the Offer.
- Operating in the PRC – A substantial portion of Magontec's operations is in the PRC, including the proposed Golmud Plant. Accordingly, the Company' business, results of operations, financial position and prospects are subject to, to a significant degree, economic, political and legal developments in the PRC. Changes in PRC government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation or plant safety may materially and adversely affect the Company's business, results of operations, financial position and prospects.
- PRC legal system – The PRC legal system is based on a statutory law system under which prior legal decisions and judgments do not have a binding precedent effect as in the common law system. Although the PRC Government has made progress in developing a commercial law system and has promulgated new laws and regulations designed to improve operating and investing in the PRC, the implementation and interpretation of these laws, regulations and legal requirements are uncertain in many areas. Accordingly, there is a risk that some of Magontec's existing and future contractual rights may not be fully enforceable under the PRC legal system.

- Exchange rate risks – Magontec is exposed to foreign currency fluctuations with respect to A$, US$, Euro, Chinese RMB and Romanian Leu. Magontec's financial results are reported in A$, Magontec's operating costs are denominated in A$, Euros, US$ and Chinese RMB, its revenue will be denominated mainly in Euros, US$ and RMB and Magontec's indebtedness is denominated in A$, Euros and RMB. Therefore, if the RMB, Euro or $US fluctuates relative to the A$ or the Euro fluctuates relative to the RMB, Magontec's business, results of operations, financial condition and prospects may be materially and adversely affected.
- Market and security investment risks – The market price of New Shares can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities and in particular, resources stocks. There may be relatively few buyers or sellers of securities on ASX at any given time. This may affect the volatility of the market price of the securities and the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less or more than the price paid under the Offer.

An investment in the Company is not risk free and investors should consider the risk factors described above and below in **section 5**, together with information contained elsewhere in this Prospectus, before deciding whether to apply for New Shares and New Options. Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for New Shares and New Options.

IMPORTANT NOTES

This Prospectus is dated 23 November 2012 and a copy of this Prospectus was lodged with the ASIC on that date. The ASIC and ASX take no responsibility for the content of this Prospectus. No New Shares and New Options will be allotted or issued on the basis of this Prospectus later than 13 months after the date of this Prospectus. The Company will apply to ASX for the New Shares and New Options to be granted quotation on ASX.

This Prospectus does not constitute an offer in any place in which or to any person to whom it would not be lawful to make such an offer. Refer to **section 1.10** for treatment of overseas shareholders. Applications for New Shares and New Options offered pursuant to this Prospectus can only be submitted on an original Application Form which accompanies this Prospectus.

No person is authorised to give information or to make any representation in connection with this Prospectus which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with this Prospectus.

In making representations in this Prospectus regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

This Prospectus including each of the documents attached to it and which form part of this Prospectus is important and should be read in its entirety prior to making an investment decision. If you do not fully understand this Prospectus or are in any doubt as to how to deal with it, you should consult your professional adviser.

In particular, it is important that you consider the risk factors (see **section 5** of this Prospectus) that could affect the performance of the Company before making an investment decision.

Investors should note that past Share price performance of the Company provides no guidance to its future Share price performance. Neither the Company nor any other person warrants or guarantees the future performance of the New Shares and New Options or any return on any investment made pursuant to this Prospectus.

The words “anticipate”, “believe”, “expect”, “project”, “forecast”, “estimate”, “likely”, “intend”, “should”, “could”, “may”, “target”, “plan” and other similar expressions are intended to identify forward looking statements. The forward looking statements in this Prospectus are based on the Company’s current expectations about future events. They are, however, subject to known and unknown risks, uncertainties and assumptions, many of which are outside the control of the Company and its Directors, that could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by the forward looking statements in this Prospectus. Investors should specifically refer to the ‘Risk Factors’ in **section 5** of this Prospectus. That section refers to some but not all of the matters that may cause actual results to differ from the position stated in any forward looking statement in this Prospectus.

Cooling-off rights do not apply to a subscription for New Shares and New Options under the Offer. This means that you cannot withdraw your Application once it has been submitted except as required by law. Once the New Shares and New Options are issued and quotation is granted by ASX you may sell your New Shares and New Options on market.

Some words and expressions used in this Prospectus have defined meanings which are explained in **section 8** of this Prospectus.

ELECTRONIC PROSPECTUS

A copy of this Prospectus can be downloaded from the website of the Company at www.magontec.com, or the ASX website. Any person accessing the electronic version of this Prospectus for the purposes of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia.

The Corporations Act prohibits any person passing onto another person the Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of the Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

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SUMMARY OF IMPORTANT DATES

Lodgement Date	23 November 2012
"Ex" date and Rights trading commences	27 November 2012
Record date to determine Entitlement	3 December 2012
Prospectus with Application Form despatched	7 December 2012
Offer opens for receipt of Applications	7 December 2012
Rights trading ends	14 December 2012
Closing date for acceptances	21 December 2012 at 5.00pm (EDST)
Notify ASX of under subscriptions	28 December 2012
Allotment and issue of New Shares and New Options	3 January 2013
Despatch of shareholding statements	3 January 2013
Trading of New Shares and New Options expected to commence	4 January 2013

This timetable is indicative only and subject to change. The Company reserves the right to vary the above dates, subject to the ASX Listing Rules and Corporations Act, without further notice and with the consent of the Underwriter.

LETTTER FROM THE CHAIRMAN

23 November 2012

Dear Shareholder

As Shareholders in Magontec Limited (**Magontec** or **the Company**) your Directors are pleased to invite you to participate in a renounceable Rights Issue to raise up to $11.8 million in funds (before costs) on the basis of 5 New Shares at an issue price of $0.05 per New Share for every 9 Existing Shares held. Each New Share will come with 2 free attaching New Options, convertible into Shares at an exercise price of 2 cents and an expiry date of 12 months from issue.

Two of Magontec's largest Shareholders have agreed to provide significant support to this Rights Issue. Qinghai Salt Lake Magnesium Industry Limited (**QSLM**), currently a 13% Shareholder, will sub-underwrite to the value of $6.225 million. Allan Gray Australia Pty Ltd, currently a 15.7% Shareholder will also support the Rights Issue and has agreed to participate up to the value of $2.385 million. I will also participate in a personal capacity by sub-underwriting up to the value of $197,849 in the Rights Issue. Neither QSLM or I will be paid any sub-underwriting fees or commissions in connection with sub-underwriting the Rights Issue.

The funds raised will be used by the Company primarily to invest in a new magnesium alloy cast house in Qinghai Province, PRC. Proceeds of the Rights Issue will also be applied to debt reduction. The Rights Issue is partially underwritten by Paterson Securities Limited, who is also lead manager to the Rights Issue.

Magontec management and its Board have worked hard over the last 12 months to restructure and revitalise the Company through the creation of new alliances and relationships. The Company is now positioned to benefit from these efforts and finds the magnesium industry and itself on the cusp of a new era as our strategic partner, in QSLM, brings on-line the largest pure magnesium production facility in the world. The investment in the facility that the Company seeks to make over the next 6 months in China will enable Magontec to play a leading role in the future of this exciting project and to fully leverage its skills and technology portfolio to promote the use of magnesium alloys among the major consumer industries for the Company's products.

Magontec is an Australian company with strong links into the European and Chinese magnesium sectors. The Company has been involved in the magnesium industry since its foundation in 1953 and has been manufacturing in and exporting product from China since 2002. QSLM chose to form a strategic alliance with Magontec in this exciting project because the Company represents a bridge between China and the international consumer companies in Europe and the Americas. QSLM also value our wealth of experience, our longstanding relationships with global automotive organisations and breadth of skills possessed by our employees. In addition to a relevant and commercial technology portfolio, we believe our Company has the sales, marketing and logistics skills to fully exploit the opportunity presented by this new venture. In this regard Magontec is unique among magnesium alloy manufacturing companies.

While the Qinghai project is central to our Company's future ambitions, the fortunes of the organisation do not rely entirely on this facility. In the last 12 months Magontec has invested considerable sums in a new magnesium alloy recycling facility in Romania, restructured its anode business in Europe and China and moved aggressively to curb costs and close underperforming operations. Over the coming 18 months we expect our more streamlined organisation to deliver steadily improving results from these assets in addition to strong growth from our new venture with QSLM.

Under this Prospectus there is a provision for existing Shareholders to apply for New Shares and New Options in addition to their rights Entitlement. The Company has a large number of Shareholders who hold parcels of Shares that are deemed unmarketable. The Board of Magontec would like to give those Shareholders the opportunity to increase their shareholding to a marketable parcel. Shareholders who have an unmarketable parcel and seek to increase their shareholding to a marketable size will be given preference in the allocation process.

On behalf of the Board, I invite you to consider the contents of this Prospectus carefully. An investment in Magontec contains specific risks which you should consider before making that decision. If there is any matter on which you require further information, you should consult your stockbroker, accountant or other professional advisor

Your support of this fundraising is important and the Board encourages you to participate in the Rights Issue. We believe the proceeds of the Rights Issue will assist the Company to be successful in the future as it pursues its new and re-focused strategies.

Yours sincerely,

Mr Nicholas Andrews

CHAIRMAN
MAGONTEC LIMITED

1 DETAILS OF THE OFFER

1.1 The Issue

A renounceable pro rata entitlements issue to Eligible Shareholders of approximately 236,115,374 New Shares (assuming no existing Options are exercised before the Record Date) on the basis of five (5) New Shares for every nine (9) Existing Shares held as at the Record Date at an issue price of $0.05 each and 472,230,748 free attaching New Options on the basis of two (2) free attaching New Options for every one (1) New Share subscribed for to raise approximately $11.8 million before Issue costs.

The Company currently has 1,300,000 Options on issue, all of which are currently eligible for conversion (**Eligible Options**). To be entitled to participate in the Rights Issue, the holders of the Eligible Options must first exercise their Options in accordance with the terms of those Options and must do so prior to the Record Date.

In the event that all of the Eligible Options are exercised prior to the Record Date, this Prospectus will also offer to those Shareholders a further 722,222 New Shares and 1,444,444 New Options to raise a further $36,111 (before Issue costs).

1.2 Underwriting

This Issue is partially underwritten to the value of $8,837,849 (176,756,979 New Shares and 353,513,958 free attaching New Options) (**Underwritten Amount**) by Patersons.

Please refer to **section 2.5** of this Prospectus for a description of the potential impact of the Offer on the control of the Company and to **section 6.2** of this Prospectus for a summary of the material terms and conditions of the Underwriting Agreement with Patersons.

1.3 Entitlement to Rights Issue

Eligible Shareholders who are on the Company's Share Register at the close of business on the Record Date are eligible to participate in the Offer.

Fractional Entitlements will be rounded up to the nearest whole number of New Shares and New Options.

An Application Form setting out your Entitlement to New Shares and New Options accompanies this Prospectus.

1.4 Acceptances

This Offer may be accepted in whole or in part prior to 5.00pm (EDST) on 21 December 2012 subject to the rights of the Company to extend the Offer period or close the Offer early.

Instructions for accepting your Entitlement are set out in **section 3** and on the Application Form which accompanies this Prospectus.

1.5 Rights Trading

The Rights to New Shares and New Options are renounceable, which enables Eligible Shareholders who do not wish to take up some or all of their Entitlements to sell or otherwise transfer all or part of their Entitlement. Trading of Rights on the ASX is expected to commence on 27 November 2012 and end on 14 December 2012.

1.6 Applying for Additional New Securities

Eligible Shareholders may, in addition to their Entitlement, apply for Additional New Securities regardless of the size of their present holding.

Any Entitlements not taken up may become available as Additional New Securities which may be placed by the Company (in conjunction with the Underwriter in accordance with the Underwriting Agreement to the extent the Additional New Securities form part of the Underwritten Amount). It is possible that there will be few or no Additional New Securities available for issue, depending on the level of take up of Entitlements by Shareholders.

It is at the Company's discretion (in conjunction with the Underwriter to the extent of the Underwritten Amount) as to whether the Entitlements becoming available as Additional New Securities applied for are issued. There is therefore no guarantee that in the event Additional New Securities are available for issue, they will be allocated to all or any of the Eligible Shareholders who have applied for Additional New Securities. Shareholders who have an unmarketable parcel and seek to increase their shareholding to a marketable size by applying for Additional New Securities will be given preference in the allocation process.

In relation to the offer of Additional New Securities, the Company reserves the right to issue to an applicant a lesser number of Additional New Securities than the number applied for, reject an application for Additional New Securities or not proceed with the issuing of all or part of the Additional New Securities. It is an express term of the Offer that applicants for Additional New Securities will be bound to accept a lesser number of Additional New Securities allocated to them than applied for if so allocated. If a lesser number of Additional New Securities is allocated to them than Additional New Securities applied for, excess application money will be refunded without interest. The Company reserves the right to scale back any applications for Additional New Securities as directed by the Underwriter (to the extent of the Underwritten Amount) in its absolute discretion.

Without limiting the discretion of the Company to scale back or reject applications for Additional New Securities as set out in this **section 1.6**, the Company (in conjunction with the Underwriter) will only issue Additional New Securities to the Sub-underwriters after all applications (if any) for Additional New Securities by Eligible Shareholders (excluding any application for Additional New Securities by the Sub-underwriters) are satisfied.

1.7 Placement of Shortfall Securities in accordance with Listing Rule 7.2 Exception 3

A Shortfall will arise if the Applications received for New Shares and New Options (including applications for Additional New Securities under **section 1.6** of this Prospectus) are less than the number of New Shares and New Options offered.

The Directors reserve the right to place any Shortfall Securities, at their discretion within 3 months after the Closing Date in accordance with Listing Rule 7.2 Exception 3. The Shortfall Securities will be issued at a price not less than the issue price offered to Eligible Shareholders under the Offer and will be a separate offer made pursuant to this Prospectus which will remain open for up to 3 months after the Closing Date.

1.8 Allotment and Application Money

New Shares and New Options will be issued only after all Application Money has been received and ASX has granted permission for the New Shares and New Options to be quoted. It is expected that New Shares and New Options will be issued on 3 January 2013 and trading of the New Shares and New Options on ASX is expected to commence on 4 January 2013.

All Application Money received before New Shares and New Options are issued will be held in a special purpose account. After Application Money is refunded (if required) and New Shares and New Options are issued to Applicants, the balance of funds in the account plus accrued interest will be received by the Company.

Application will be made within seven days of the date of issue of this Prospectus for the New Shares and New Options to be granted Official Quotation by ASX. If such an application is not made within these seven days, or Official Quotation of the New Shares and New Options is not granted by ASX within three months of the date of this Prospectus, then the Company will not allot or issue any New Shares or New Options and all Application Money received pursuant to this Prospectus will be repaid as soon as practicable, without interest.

If the New Shares and New Options are not quoted by ASX within three months after the date of this Prospectus, the Company will refund all Application Money in full.

The fact that ASX may agree to grant Official Quotation of the New Shares and New Options is not to be taken in any way as an indication of the merits of the Company or the New Shares and New Options. ASX takes no responsibility for the contents of this Prospectus.

1.9 Issue Outside Australia, New Zealand, Switzerland and the PRC

This Prospectus does not constitute an offer of securities in any jurisdiction where, or to any person to whom, it would not be lawful to issue this Prospectus or make the Offer. The distribution of this Prospectus and accompanying Application Form may be restricted by law (and any failure to comply with those restrictions may constitute a violation of applicable securities laws) and persons who come into possession of this Prospectus and accompanying Application Form should seek advice and observe those restrictions.

No action has been taken to register or qualify the New Shares and New Options or the Issue or otherwise to permit an offering of the New Shares and New Options in any jurisdiction outside Australia and New Zealand, although Shareholders in Switzerland the PRC may be eligible to participate in the Issue and should refer to **section 1.11** for further information

This document is not for publication or distribution, directly or indirectly, in or into the United States of America (including its territories and possessions, any state of the US and the District of Columbia). This document is not an offer of securities for sale into the United States or to, or for the account or benefit of, US Persons. The securities referred to herein have not been and will not be registered under the US Securities Act of 1933, as amended, and may not be offered or sold in the United States or to, or for the account or benefit of, US Persons. No public offering of securities is being made in the United States.

1.10 Treatment of Overseas Shareholders

The Offer in this Prospectus is not being extended to any Shareholder, as at the Record Date, whose registered address is not situated in Australia, New Zealand, Switzerland or the PRC because of the small number of such Shareholders, and the cost of complying with applicable regulations in jurisdictions outside Australia, New Zealand, Switzerland or the PRC. This Prospectus is sent to those Shareholders for information only.

Recipients may not send or otherwise distribute this Prospectus or the Application Form to any person outside Australia (other than to Eligible Shareholders).

It is the responsibility of any Shareholder who submits an Application Form to obtain all necessary approvals for the allotment and issue of the New Shares and New Options under this Offer. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by the applicant to the Company that there has been no breach of such laws and that all relevant approvals have been obtained.

1.11 Important information for Eligible Shareholders in foreign jurisdictions

New Zealand

The Offer contained in this Prospectus to Eligible Shareholders with registered addresses in New Zealand is made in reliance on the *Securities Act (Overseas Companies) Exemption Notice 2002* (New Zealand). If you are an Eligible Shareholder and have a registered address in New Zealand but are no longer a Shareholder on the Opening Date, you will have no entitlement and may not accept the Offer being made under this Prospectus.

Members of the public in New Zealand who are not existing Shareholders on the Record Date are not entitled to apply for any New Shares and New Options.

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the *Securities Act 1978* (New Zealand). This document is not an investment statement or prospectus under New Zealand law and is not required to, and may not, contain all the information that an investment statement or prospectus under New Zealand law is required to contain.

People's Republic of China

The information in this Prospectus does not constitute a public offer of the New Shares and New Options, whether by way of sale or subscription, in the PRC (excluding, for purposes of this paragraph, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). The New Shares and New Options may not be offered or sold directly or indirectly in the PRC to legal or natural persons other than directly to "qualified domestic institutional investors".

Switzerland

The New Shares and New Options may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (**SIX**) or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the New Shares and New Options may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the New Shares and New Options have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of New Shares and New Options will not be supervised by, the Swiss Financial Market Supervisory Authority.

This document is personal to the recipient only and not for general circulation in Switzerland.

1.12 Nominee to Sell Non-Qualifying Foreign Shareholders' Rights

Subject to ASIC's approval for the purposes of section 615 of the Corporations Act, the Company has appointed Patersons as nominee to sell the Non-qualifying Foreign Shareholders' Rights.

Any such sale will be at a price and be conducted in a manner that Patersons will determine in its absolute discretion. To the maximum extent permitted by law, neither the Company nor Patersons will be liable for selling the Rights at any particular price.

The net proceeds (if any) of sale (in Australian dollars) will be distributed to the Non-qualifying Foreign Shareholders for whose benefits the Rights have been sold in proportion to their Shareholdings as at the Record Date (after deducting the costs of the sale).

1.13 Notice to nominees and custodians

Nominees and custodians that hold Existing Shares should note that the Offer is available only to Eligible Shareholders. The Company is not required to determine whether or not any registered holder is acting as a nominee or the identity or residence of any beneficial owners of securities. If any nominee or custodian is acting on behalf of a foreign person, that holder, in dealing with its beneficiary, will need to assess whether indirect participation by the beneficiary in the Offer is compatible with applicable foreign laws.

1.14 Market Prices of Existing Shares on ASX

The highest and lowest market sale price of the Existing Shares, which are on the same terms and conditions as the New Shares being offered under this Prospectus, during the three months immediately preceding the lodgement of this Prospectus with the ASIC, and the last market sale price on the date before the lodgement date of this Prospectus, are set out below.

	3 months high	3 month low	Last market sale price
Existing Shares	$0.041 on 8 November 2012	$0.02 on 29 October 2012	$0.041 on 8 November 2012

1.15 Opening and Closing Dates

The Issue will open for receipt of acceptances on 7 December 2012 and will close at 5.00pm EDST on 21 December 2012, subject to the right of the Company to vary these dates.

1.16 CHESS

The Company participates in the Clearing House Electronic Sub-register System (**CHESS**). ASX Settlement, a wholly owned subsidiary of ASX, operates CHESS in accordance with the ASX Listing Rules and the ASX Settlement Operating Rules.

Under CHESS, applicants will not receive a certificate but will receive a statement of their holding of New Shares and New Options.

If you are broker sponsored, ASX Settlement will send you a CHESS statement.

The CHESS statement will set out the number of New Shares and New Options issued under this Prospectus, provide details of your holder identification number and give the participation identification number of the sponsor.

If you are registered on the issuer sponsored sub register, your statement will be dispatched by the Company's share registrar and will contain the number of New Shares and New Options issued to you under this Prospectus and your security holder reference number.

A CHESS statement or issuer sponsored statement will routinely be sent to Shareholders at the end of any calendar month during which the balance of their shareholding changes. Shareholders may request a statement at any other time, however, a charge may be made for additional statements.

1.17 Rights and Liabilities attaching to the New Shares and New Options

The New Shares will rank equally in respect of dividends and in all other respects (e.g. voting, bonus issues) as Existing Shares.

A summary of the rights and liabilities attaching to the New Shares and New Options is set out in **section 4**.

1.18 Taxation Implications

The Directors do not consider that it is appropriate to give Shareholders advice regarding the taxation consequences of the Company conducting the Issue or Shareholders applying for New Shares and New Options under this Prospectus, as it is not possible to provide a comprehensive summary of the possible taxation positions of Shareholders. The Company, its advisers and officers, do not accept any responsibility or liability for any taxation consequences to Shareholders in the Issue. Shareholders should, therefore, consult their own professional tax adviser in connection with the taxation implications of the Issue.

1.19 Enquiries

Any queries regarding the Offer should be directed to Mr John Talbot, Company Secretary, on + 61 2 8231 7085.

Any queries regarding the Application Form should be directed to the Company's Share Registry on + 61 2 9290 9600.

You can also contact your stockbroker or professional adviser with any queries in relation to the Offer.

2 PURPOSE AND EFFECT OF THE ISSUE

2.1 Purpose of the Issue

The purpose of the Issue is to raise up to approximately $11.8 million before Issue costs.

The proceeds from the Issue are planned to be used for the following purposes in accordance with the table set out below:

- Acquiring and installing plant and equipment for the Magontec magnesium alloy manufacturing facility at Golmud, Qinghai Province.
- Repayment of current debt to Straits (refer to ASX Announcement of 29 October 2012).
- Expenses of the Offer – including legal costs, underwriting and lead manager fees, marketing and other administrative expenses (including ASX, ASIC and Share Registry fees).

Proceeds of the Issue	Offer Fully Subscribed $ Million	Offer Subscribed to Extent of Underwriting Only $ Million
Magnesium alloy manufacturing facility	**9.4**	**6.4**
• Acquisition of furnace and associated equipment	3.5	2.4
• Acquisition of casting equipment	3.3	2.2
• Acquisition of other equipment	0.9	0.6
• Utilities	0.3	0.2
• Installation, consulting and planning costs	1.4	1.0
Repayment of debt to Straits	**2.0**	**2.0**
Expenses of the Offer	**0.4**	**0.4**
ESTIMATED TOTAL	**11.8**	**8.8**

In the event that circumstances change or other opportunities arise the Directors reserve the right to vary the proposed use of funds to maximise benefits to Shareholders.

The Issue is partially underwritten, for the value of the Underwritten Amount, which will result in at least $8,837,849 being raised:

- irrespective of any subscription by Eligible Shareholders; and
- prior to the Shortfall under the Offer being dealt with by the Directors in accordance with **section 1.7** of this Prospectus.

In the event the Company does not achieve Full Subscription and only raises funds for the Underwritten Amount, the funds raised will be applied in the manner set out in the third column of the table above.

2.2 Effect of the Offer

In the event that the Offer is only partially subscribed to the Underwritten Amount, the principal effect of the Offer will be (assuming no Options are exercised prior to the Record Date) that:

(a) cash reserves will initially increase by approximately $8,489,000 (after payment of costs of the Issue); and

(b) the number of Shares on issue will increase from 425,007,674 to 601,764,653; and

(c) the number of Options on issue will increase from 1,300,000 to 354,813,958.

In the event that Full Subscription is achieved, the principal effect of the Offer will be (assuming no Options are exercised prior to the Record Date) that:

(a) cash reserves will initially increase by approximately $11,428,000 (after payment of costs of the Issue); and

(b) the number of Shares on issue will increase from 425,007,674 to 661,123,048; and

(c) the number of Options on issue will increase from 1,300,000 to 473,530,748.

2.3 Statement of Financial Position

Set out on the following pages is the Statement of Financial Position of the Company as at 30 September 2012 (unaudited), and the Pro-Forma Statement of Financial Position as at 30 September 2012 (unaudited) on the basis of the assumptions detailed below. The significant accounting policies upon which the Statement of Financial Position and the Pro-Forma Statement of Financial Position are based are contained in the auditor reviewed financial report for twelve months ended 30 June 2012.

Other than to the extent set out in the Notes to the Pro-forma Statement of Financial Position set out below, the Pro-forma Statement of Financial Position has been prepared on the basis that there have been no material movements in the assets and liabilities of the Company between 30 September 2012 and the close of the Issue.

The Pro-forma Statement of Financial Position (unaudited) presented illustrates two scenarios:

(a) where the Offer is partially subscribed to the Underwritten Amount; and

(b) where the Offer is fully subscribed to an amount of $11,805,769.

MAGONTEC LIMITED
Pro-Forma Consolidated Statement of Financial Position

	Unaudited Statement of Financial Position as at 30 September 2012	UNDERWRITTEN AMOUNT		FULL SUBSCRIPTION	
		Pro-forma adjustments	Unaudited Pro-forma Statement of Financial Position as at 30 September 2012	Pro-forma adjustments	Unaudited Pro-forma Statement of Financial Position as at 30 September 2012
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Current assets					
Cash and cash equivalents	4,788	6,489[(1)]	11,277	9,428[(2)]	14,216
Trade & Other Receivables	19,675		19,675		19,675
Owing by KWE(HK)	1,713		1,713		1,713
Future Income Tax Benefit	4		4		4
Inventory of Finished Goods	16,925		16,925		16,925
Stock of raw materials	9,570		9,570		9,570
Other	515		515		515
Total current assets	**53,190**	**6,489**	**59,679**	**9,428**	**62,618**
Non-current assets					
Other Receivables	465		465		465
Other Financial Assets	585		585		585
Property, Plant & Equip	12,934		12,934		12,934
Future Income Tax Benefit	1,171		1,171		1,171
Intangibles	3,303		3,303		3,303
Other	0		0		0
Total non-current assets	**18,457**		**18,457**		**18,457**
Total assets	**71,647**	**6,489**	**78,136**	**9,428**	**81,075**
Current liabilities					
Trade & Other Payables	20,607		20,607		20,607
Borrowings	19,437		19,437		19,437
Provisions	2,444		2,444		2,444
Borrowings from/payables to related parties	3,417		3,417		3,417

Total current liabilities	**45,905**		**45,905**		**45,905**
Non-current liabilities					
Provisions	5,731		5,731		5,731
Owing to Straits	12,215	(6,615)[(3)]	5,600	(6,615)[(3)]	5,600
Other	(61)		(61)		(61)
Total non-current liabilities	**17,885**	**(6,615)**	**11,270**	**(6,615)**	**11,270**
Total liabilities	**63,791**	**(6,615)**	**57,176**	**(6,615)**	**57,176**
Net assets	**7,856**	**13,105**	**20,961**	**16,043**	**23,899**
Equity attributable to members of MGL					
Share capital	33,842	8,489 [(4)]	42,332	11,428 [(5)]	45,270
Reserves	3,508		3,508		3,508
Accumulated losses	(29,959)	4,615 [(6)]	(25,344)	4,615 [(6)]	(25,344)
Equity attributable to minority interests					
Share capital	465		465		465
Reserves	0		0		0
Accumulated losses	0		0		0
Total equity	**7,856**	**13,105**	**20,961**	**16,043**	**23,899**

Notes

(1)	Anticipated net proceeds of Issue	$8,489,000
	Debt reduction to Straits	($2,000,000)
	Net cash increase	**$6,489,000**
(2)	Anticipated net proceeds of Issue	$11,428,000
	Debt reduction to Straits	($2,000,000)
	Net cash increase	**$9,428,000**
(3)	Debt reduction to Straits	$2,000,000
	Debt forgiveness by Straits	$5,115,000
	Gross up of Tranche Two Convertible Notes by way of interest	($500,000)
	Net debt reduction to Straits	**$6,615,000**
(4)	**Anticipated net proceeds of Issue**	**$8,489,000**
(5)	**Anticipated net proceeds of Issue**	**$11,428,000**
(6)	Debt forgiveness by Straits	$5,115,000
	Gross up of Tranche Two Convertible Notes by way of interest	($500,000)
	Net effect on profit and loss for rearrangement of debt owing to Straits	**$4,615,000**

2.4 Effect on Capital Structure

A comparative table of changes in the capital structure of the Company as a consequence of the Offer is set out below, in the following two scenarios:

(a) where the Offer is partially subscribed to the Underwritten Amount; and

(b) where the Offer is fully subscribed to an amount of $11,805,769.

Capital Structure after Completion of Issue

Shares	Underwritten Amount	Full Subscription
Shares quoted on ASX as at the date of this Prospectus	425,007,674	425,007,674
New Shares issued pursuant to this Prospectus	176,756,979	236,115,374
Total issued Shares	**601,764,653**	**661,123,048**

Options	Underwritten Amount	Full Subscription
Unlisted Options exercisable at $0.10 on or before 16 August 2013	1,300,000	1,300,000
Listed New Options issued pursuant to this Prospectus	353,513,958	472,230,748
Total issued Options	**354,813,958**	**473,530,748**

The Company has also issued the Tranche One Convertible Notes to Straits. Accordingly, the Company may issue up to an additional 61,237,218 Shares to Straits upon conversion of the Tranche One Convertible Notes (subject to shareholder approval). Furthermore, and as announced to the ASX on 29 October 2012, the Company has entered into a Heads of Agreement with Straits pursuant to which the Company has agreed to issue the Tranche Two Convertible Notes to Straits (subject to Shareholder approval at the Company's 2012 Annual General Meeting). Accordingly, the Company may issue up to approximately 70,000,000 additional Shares to Straits upon conversion of the Tranche Two Convertible Notes.

The capital structure above does not take into account any of the Shares which may be issued to Straits upon conversion of the Straits Convertible Notes.

2.5 Potential impact of the Offer on the Control of the Company

(a) General

Assuming no existing Options are exercised, and Straits does not convert the Straits Convertible Notes into Shares, prior to the Record Date, the maximum number of New Shares which will be issued pursuant to the Offer is 236,115,374. This equates to approximately 35.7% of all the issued Shares in the Company following completion of the Offer. In addition, the Company may issue up to a maximum of 472,230,748 New Options which are convertible into an additional 472,230,748 Shares.

The potential effect the Offer will have on the control of the Company's undiluted share capital will depend on the extent to which Shareholders take up their Entitlements under the Offer and subsequently exercise their New Options. This section sets out the potential control effects the Offer may have on the Company in relation to the

Underwriter and Sub-underwriters of the Offer, and the Company's substantial Shareholders.

The voting power of any person (including the Underwriter, Sub-underwriters and other substantial Shareholders) following the issue of Shares under this Offer may significantly reduce upon the issue of Shares to Straits upon any conversion of the Straits Convertible Notes as set out in **section 2.4** of this Prospectus.

If all Shareholders take up their Entitlements in full, the Offer will have no effect on the control of the Company.

Shareholders should also be aware that if they do not participate in the Offer and Full Subscription is achieved, their holdings are likely to be diluted by approximately 35.7% (as compared to their holdings and number of Shares on issue as at the date of the Prospectus).

(b) Underwriter and control of the Company

The Offer is partially underwritten by Patersons. As at the date of this Prospectus, Patersons does not have a relevant interest in any Shares in the Company. Patersons is not a related party of the Company for the purposes of the Corporations Act.

If Shareholders do not take up some or all of their Entitlements under the Offer, then a Shortfall will result (to the extent the Shortfall is not taken up by Shareholders applying for Additional New Securities) and the Sub-underwriters will be entitled to subscribe for that Shortfall in accordance with the provisions of the Underwriting Agreement, sub-underwriting agreements and this Prospectus (including **section 1.6**).

The extent to which Patersons will be required to subscribe for the Shortfall will be reduced to the extent of the sub-underwriting arrangements and any applications for New Shares and New Options from Allan Gray (or any other party).

(c) QSLM and control of the Company

QSLM, a major Shareholder of Magontec, has agreed to sub-underwrite up to $6,255,000 (comprising 125,100,000 New Shares and 250,200,000 free attaching New Options) of the Offer. QSLM has informed the Company that it intends to provide funding of up to $6,255,000 to the Company pursuant to the offers in this Prospectus, which may be achieved by QSLM satisfying its sub-underwriting obligations, exercising its Entitlement under the Offer, applying for Additional New Securities in accordance with **section 1.6**, or as a result of a placement of Shortfall Securities under **section 1.7**, or a combination of these options.

QSLM is not a related party of the Company for the purposes of the Corporations Act, however given QSLM's existing substantial shareholding in the Company, the Directors (in conjunction with Patersons) have attempted to secure alternative means of sub-underwriting the Offer. Due to the difficult market conditions, the Directors have determined that enabling QSLM to sub-underwrite is reasonable in the current circumstances. The Directors acknowledge that the support of this Offer by QSLM is particularly important in these volatile times in capital markets. QSLM's support of the Offer demonstrates its continued support of the Company, its management and its assets, particularly its project in Qinghai.

QSLM has been advised by the Foreign Investment Review Board that there are no objections under the Australian Government's Foreign Investment Policy to QSLM acquiring a relevant interest in Shares representing 30% of the total undiluted capital of the Company.

It is possible that QSLM may acquire a relevant interest in the Company greater than 20% of the Shares on completion of the Offer. Therefore, the Offer may have an impact on the control of the Company.

It is a general rule under section 606 of the Corporations Act that a person cannot acquire a relevant interest in issued voting shares in a company if because of the transaction in relation to securities, a person's voting power in the company increases from 20% or below to more than 20% (or from a starting point that is above 20% and below 90%).

There are exceptions to that prohibition, including an acquisition pursuant to a rights issue (if the conditions of item 10 of section 611 of the Corporations Act are satisfied) or an acquisition that results from the issue of securities under a disclosure document to an underwriter or sub-underwriter (provided the disclosure document discloses the effect that the acquisition would have on the person's voting power in the company). In light of this, the Company is providing the additional disclosure below.

QSLM's present relevant interest and voting power, and changes under several scenarios, are set out in the table below:

Event	Number of Shares in which Sub-underwriter has a relevant interest	Voting power of Sub-underwriter (%)
Date of Prospectus	55,435,784	13.04%
Full Subscription raised; QSLM participates for Entitlement only (No Shortfall under Offer)	86,233,442	13.04%
Full Subscription raised; QSLM satisfies full sub-underwriting obligation	180,535,784[1]	27.31%
Underwritten Amount raised only; QSLM satisfies full sub-underwriting obligation (100% Shortfall under Offer)	180,535,784[1]	30%

Notes:

1. This figure represents the maximum number of New Shares that QSLM will acquire (by virtue of its sub-underwriting, taking up its Entitlement, applying for Additional New Securities, or as a result of a placement of Shortfall Securities, or a combination of these options) pursuant to the Offer in all circumstances.

The number of Shares held by QSLM and its voting power in the table above show the potential effect of its sub-underwriting of and participation in the Offer. The sub-underwriting obligation and therefore voting power of QSLM will reduce by a corresponding amount for the amount of Entitlements taken up by other Eligible Shareholders.

QSLM has informed the Company that if it were to gain effective control of the Company by virtue of its Shareholding, including New Shares acquired under the Offer pursuant to its Entitlement, allocation of Additional New Securities, the placement of Shortfall Securities and/or sub-underwriting of the Offer, the current intentions of QSLM are that, to the extent that it is able to do so having regard to its ownership interest, it would seek to ensure that the Company implements its publicly stated intentions set out in the Investment Highlights of this Prospectus and the Company's ASX Announcements, but otherwise:

(i) generally continue the business of the Company;

(ii) raise the funds necessary to meet the Company's cash requirements;

(iii) subject to any legal requirements, not make any major changes to the business of the Company or redeploy any of the fixed assets of the Company; and

(iv) subject to detailed internal review of the operations and budgetary constraints of the Company, continue the employment of the Company's remaining employees.

The intentions and statements of future conduct set out above must also be read as being subject to the legal obligation of the Directors at the time to act in good faith in the best interests of the Company and for proper purposes and to have regard to the interests of the Shareholders.

The implementation of QSLM's current intentions in relation to its ownership interest in the Company will be subject to the law (including the Corporations Act), the Listing Rules and the Company's Constitution.

QSLM (and any other party) will be unable to exercise any free attaching New Options acquired in connection with the subscription of New Shares pursuant to the Offer to the extent that such exercise would result in QSLM (or any other party) acquiring voting power in the Company other than as permitted by the Corporations Act (including Chapter 6).

(d) Allan Gray and control of the Company

Allan Gray, a major Shareholder of Magontec, has agreed to participate in the Offer up to the value of $2,385,000 (comprising 47,700,000 New Shares and 95,400,000 free attaching New Options). Allan Gray has informed the Company that it intends to provide funding of up to $2,385,000 to the Company pursuant to the offers in this Prospectus, which may be achieved by Allan Gray exercising its Entitlement under the Offer, applying for Additional New Securities in accordance with **section 1.6**, or as a result of a placement of Shortfall Securities under **section 1.7**, or a combination of these options.

The subscription for New Shares and New Options under the Offer by Allan Gray will apply in relief of the Underwriter's obligation to underwrite the Underwritten Amount to the extent of Allan Gray's participation.

The maximum voting power which Allan Gray may achieve as a result of the Offer (by virtue of taking up its Entitlement, applying for Additional New Securities, or as a result of a placement of Shortfall Securities, or a combination of these options) is approximately 19% (currently 15.67%).

The participation and therefore voting power of Allan Gray following the Offer will be adjusted depending on the extent of Entitlements taken up by other Eligible Shareholders.

Allan Gray (and any other party) will be unable to exercise any free attaching New Options acquired in connection with the subscription of New Shares pursuant to the Offer to the extent that such exercise would result in Allan Gray (or any other party) acquiring voting power in the Company other than as permitted by the Corporations Act (including Chapter 6).

(e) Substantial Shareholders and control of the Company

The table below sets out the Company's current substantial shareholders (collectively, the **Substantial Shareholders**) as at the date of this Prospectus:

Substantial Shareholder	Number of Shares in which Substantial Shareholder has a relevant interest	Voting power of Substantial Shareholder
Allan Gray	66,632,151	15.68%
KWE (HK) Investment Development Co Limited	55,797,298	13.13%
QSLM	55,435,784	13.04%
Straits	40,499,167	9.53%

The voting power of the respective Substantial Shareholders on completion of the Offer will depend upon the take up of their Entitlements and the extent of subscriptions by all other Eligible Shareholders.

Subject to the disclosures in this **section 2.5** above regarding the participation in and sub-underwriting of the Offer by QSLM, in the event that a Substantial Shareholder (or any other person, excluding a Sub-underwriter), applies for Additional New Securities, the Company (in conjunction with the Underwriter) will not allocate Additional New Securities to a Substantial Shareholder or any other person (other than a Sub-underwriter), such that their voting power in the Company would exceed 20%, unless the person is permitted under section 611 of the Corporations Act to acquire a relevant interest in issued voting shares of the Company such that their voting power in the Company would exceed 20%.

As announced to ASX on 29 October 2012, the Company has entered into a Heads of Agreement with Straits pursuant to which the Company will issue the Tranche Two Convertible Notes to Straits with a face value of $3,500,000, convertible into up to 70,000,000 Shares in the Company (subject to adjustment events). Straits also currently holds the Tranche One Convertible Notes with a face value of $3,368,000 convertible into 61,237,218 Shares in the Company. Any increase in Straits' voting power in the Company over 20% as a result of the conversion of the Straits Convertible Notes will be subject to the restrictions in the Corporations Act (including Chapter 6).

3 ACTIONS REQUIRED BY ELIGIBLE SHAREHOLDERS

3.1 What you may do

As an Eligible Shareholder, you may:

- subscribe for all of your Entitlement (refer **section 3.2**);
- apply for Additional New Securities (refer **section 3.3**);
- sell all of your Entitlement on ASX (refer **section 3.4**);
- take up part of your Entitlement and sell the balance on ASX (refer **section 3.5**);
- deal with part or all of your Entitlement other than on ASX (refer **section 3.6**); or
- allow all or part of your Entitlement to lapse (refer **section 3.7**).

3.2 To subscribe for all of your Entitlement

If you wish to subscribe for all of your Entitlement, complete the accompanying Application Form in accordance with the instructions set out in that form. The Application Form sets out the number of New Shares and New Options you are entitled to subscribe for. The completed Application Form must be accompanied by a cheque or bank draft made payable to "**Magontec Limited – Rights Issue**" and crossed "**Not Negotiable**" for the appropriate Application Money in Australian dollars calculated at $0.05 per New Share (and two free attaching New Options) accepted, and received by the Company at either of the following addresses by no later than 5.00pm (EDST) on 21 December 2012. The Company will present the cheque or bank draft on or around the day of receipt of the Application Form. If a cheque is not honoured upon its first presentation, the Directors reserve the right to reject the relevant Application Form.

If the amount of your cheque(s) or bank draft(s) for Application Money (or the amount for which those cheque(s) or bank draft(s) clear in time for allocation) is insufficient to pay for the number of New Shares and New Options you have applied for in your Application Form, you may be taken to have applied for such lower number of New Shares and New Options as your cleared Application Money will pay for (and to have specified that number of New Shares and New Options in your Application Form) or your Application may be rejected.

Street Address:	Postal Address:
Magontec Limited c/o Boardroom Pty Ltd Level 7, 207 Kent Street Sydney NSW 2000	Magontec Limited c/o Boardroom Pty Ltd GPO Box 3993 Sydney NSW 2001

Alternatively, if you are paying by BPAY® payment, you do not need to mail the Application Form. Please refer to your personalised instructions on your Application Form.

It is your responsibility to ensure that your BPAY® payment is received by the Company by no later than 5.00pm (EDST) on 21 December 2012. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment, and you should therefore take this into consideration.

3.3 To apply for Additional New Securities

Eligible Shareholders may, in addition to their Entitlement, apply for Additional New Securities regardless of the size of their present holding. Refer to **section 1.6** if you wish to apply for Additional New Securities.

A single cheque should be used for the Application Money for your Entitlement and the number of Additional New Securities you wish to apply for as marked where indicated on the Application Form.

Alternatively, if you are paying by BPAY®, refer to your personalised instructions on your Application Form. Shareholders who wish to pay by BPAY® must ensure that payment is received by no later than 5.00pm (EDST) on 21 December 2012.

3.4 If you wish to sell all of your Entitlement

Complete the section marked "**Instructions to Stockbroker**" on the back of the Application Form, which accompanies this Prospectus, in accordance with the instructions contained on the form and lodge it with your stockbroker as soon as possible.

Rights trading will commence on ASX on 27 November 2012. Sale of your Rights must be completed by 14 December 2012 when Rights trading is expected to cease.

3.5 If you wish to take up part of your Entitlement and sell the balance

Please complete the Application Form, which accompanies this Prospectus, by inserting the number of New Shares and New Options for which you wish to accept (being less than as specified on the Application Form) and complete the section marked "**Instructions to Stockbroker**" on the back of the form in respect of that part of your Entitlement you wish to sell.

Forward the form to your stockbroker together with your cheque for the total amount payable in respect of the New Shares and New Options accepted. Your stockbroker will need to ensure that the completed Application Form reaches the Company's share registry, by 5.00pm (EDST) on 21 December 2012.

Cash will not be accepted and no receipts will be issued.

Alternatively, if you are paying by BPAY®, refer to your personalised instructions on your Application Form. Shareholders who wish to pay by BPAY® must ensure that payment is received by no later than 5.00pm (EDST) on 21 December 2012.

Rights trading will commence on ASX on 27 November 2012. Sale of your Rights must be completed by 14 December 2012 when Rights trading is expected to cease.

3.6 If you wish to transfer your Entitlement other than on ASX

If you are a Shareholder and hold Existing Shares on the issuer sponsored sub-register, forward a completed Renunciation Form (obtainable through your stockbroker or the Company's share registrar) together with your Application Form completed by the transferee together with a cheque for the appropriate Application Monies to reach the Company's share registry (at the address shown above), by 5.00pm (EDST) on 21 December 2012.

If you are a Shareholder and hold Existing Shares registered on CHESS, you should contact your sponsoring broker.

Cash will not be accepted and no receipts will be issued.

3.7 Entitlements not taken up

If you are a Shareholder and do not wish to accept all (or part) of your Entitlement, you are not obliged to do anything. You will receive no benefit, New Shares or New Options and your Entitlement will be dealt with by the Company (in conjunction with the Underwriter) in accordance with **section 1.6** and/or **section 1.7**.

If you wish to receive a benefit, you must take action to accept your Entitlement in accordance with the instructions above and on the back of the accompanying Application Form.

The number of Existing Shares you hold as at the Record Date and the rights attached to those Existing Shares will not be affected if you choose not to accept any of your Entitlement.

Your Entitlement may have value and accordingly you should consider renouncing (selling) your Rights, rather than allowing them to lapse.

3.8 Application Form is binding

A completed and lodged Application Form constitutes a binding offer to acquire New Shares and New Options on the terms and conditions set out in this Prospectus and, once lodged, cannot be withdrawn. If the Application Form is not completed correctly, it may still be treated as a valid application for New Shares and New Options. The Directors' decision whether to treat an acceptance as valid and how to construe, amend or complete the Application Form is final.

By completing and returning your Application Form with the requisite Application Monies, you will be deemed to have represented that you are an Eligible Shareholder. In addition, you will also be deemed to have represented and warranted on behalf of yourself or each person on whose account you are acting that the law in your place of residence and/or where you have been given the Prospectus, does not prohibit you from being given the Prospectus and that you:

- agree to be bound by the terms of the Offer;
- declare that all details and statements in the Application Form are complete and accurate;
- declare that you are over 18 years of age and have full legal capacity and power to perform all your rights and obligations under the Application Form;
- authorise the Company and its respective officers or agents, to do anything on your behalf necessary for the New Shares and New Options to be issued to you, including to act on instructions of the Company's Share Registry upon using the contact details set out in the Application Form;
- declare that you are the current registered holder of Shares and are an Australian, New Zealand, Switzerland or PRC resident, and you are not in the United States or a US Person, or acting for the account or benefit of a US Person;
- acknowledge that the information contained in, or accompanying, the Prospectus is not investment or financial product advice or a recommendation that New Shares and New Options are suitable for you given your investment objectives, financial situation or particular needs; and
- acknowledge that the New Shares and New Options have not, and will not be, registered under the securities laws in any other jurisdictions outside Australia, New Zealand, Switzerland and the PRC and accordingly, the New Shares and New Options may not be offered, sold or otherwise transferred except in accordance with an available exemption from, or in a transaction not subject to, the registration requirements of applicable securities laws in particular the US Securities Act.

If you have any queries concerning your entitlement or allocation, please contact:

Mr John Talbot, the Company Secretary

Tel: + 61 2 8231 7085 Fax: + 61 2 9252 8960

or contact your stockbroker or professional adviser.

4 RIGHTS AND LIABILITIES ATTACHING TO NEW SHARES AND NEW OPTIONS

The following is a summary of the more significant rights and liabilities attaching to New Shares and New Options to be issued pursuant to this Prospectus. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice.

The rights attaching to the New Shares and New Options arise from a combination of the Company's Constitution, the Corporations Act, the ASX Listing Rules and general law. A copy of the Company's Constitution is available for inspection free of charge during business hours at its registered office.

4.1 Rights Attaching to New Shares

The New Shares to be issued pursuant to this Prospectus are ordinary shares and will as from their allotment rank equally in all respects with all Existing Shares.

A summary of the rights attaching to the New Shares is set out below.

(a) Voting Rights

Subject to the Constitution of the Company, the ASX Listing Rules and any rights or restrictions at the time being attached to a class of shares, at a general meeting of the Company every Shareholder present in person, or by proxy, attorney or representative has one vote on a show of hands, and upon a poll, one vote for each fully paid Share held by the Shareholder. In the case of an equality of votes, the chairperson has a casting vote.

(b) Dividends

Subject to the Corporations Act, the ASX Listing Rules and any rights or restrictions attached to a class of Shares, the Company may from time to time pay dividends as the Directors resolve but only out of the profits of the Company.

(c) Winding up

Subject to the Corporations Act, the ASX Listing Rules and any rights or restrictions attached to a class of shares, on a winding up of the Company any surplus may be divided among the shareholders of the Company.

(d) Transfer of Shares

Generally, shares are freely transferable, subject to satisfying the requirements of the ASX Listing Rules, ASX Settlement Operating Rules and the Corporations Act. The Directors may decline to register any transfer of Shares but only where permitted to do so by the ASX Listing Rules, the ASX Settlement Operating Rules, or under the Company's Constitution.

(e) Further Increases in Capital

Subject to the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and any rights attached to a class of shares, the Company (under the control of the Directors) may allot and issue shares and grant options over shares, on any terms, at any time and for any consideration, as the Directors resolve.

(f) Variation of Rights

Subject to the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the terms of issue of shares in a particular class, if at any time the share capital of the Company is divided into different classes of Shares, the rights attached to any class may be varied with the written consent of the holders of at least 75% of the issued shares in that class or if authorised by a special resolution passed at a separate meeting of the holders of the Shares of that class.

(g) Meetings and Notices

Each Shareholder will be entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive notices, accounts and other documents required to be furnished to Shareholders under the Company's Constitution, the Corporations Act and the ASX Listing Rules.

4.2 Rights Attaching to New Options

The New Options issued pursuant to this Prospectus will be issued on the following terms and conditions:

(a) Each New Option will entitle the holder to subscribe for one Share in the Company.

(b) The New Options are exercisable at a price of $0.02 (**Exercise Price**).

(c) The New Options may be exercised at any time prior to 3 January 2014 (**Expiry Date**) in whole or in part, by completing and delivering a duly completed form of notice of exercise to the registered office of the Company together with the payment of the Exercise Price in immediately available funds for the number of Shares in respect of which the New Options are exercised. A New Option not exercised on or before the Expiry Date will lapse.

(d) All Shares issued upon the exercise of the New Options will rank equally in all respects with the Company's then existing Shares.

(e) The New Options are freely transferable.

(f) Application will be made to the ASX for official quotation of the New Options within seven days of the date of issue of the Prospectus under which the New Options are issued.

(g) Application will be made to ASX for official quotation by ASX of all Shares allotted pursuant to the exercise of New Options not later than 10 business days after the date of allotment.

(h) Holders of New Options may only participate in new issues of securities to holders of Shares if the New Option has been exercised and Shares allotted in respect of the New Option before the record date for determining entitlements to the issue. The Company must give notice to the holders of New Options of any new issue before the record date for determining entitlements to the issue in accordance with the ASX Listing Rules.

(i) If there is a pro rata issue of securities to holders of Shares for which no consideration is payable by them (**Bonus Issue**), the number of Shares over which the New Option is exercisable will be increased by the number of Shares which the holder of the New Option would have received if the New Option had been exercised before the record date for the Bonus Issue (**Bonus Shares**). The Bonus Shares must be paid up by the Company out of the profits or reserves (as the case may be) in the same manner as was applied in the Bonus Issue and upon issue rank pari passu in all respects with the other Shares of that class on issue at the date of issue of the Bonus Shares.

(j) There will be no change to the Exercise Price of the New Option or the number of Shares over which the New Option is exercisable in the event of the Company making a pro rata issue of Shares or other securities to the holders of Shares in the Company (other than Bonus Issue).

(k) If, prior to the Expiry Date, there is a reorganisation of the issued capital of the Company, New Options are to be treated in the manner set out in the ASX Listing Rules.

(l) Shares allotted and issued pursuant to the exercise of the New Options will be allotted and issued, and a holding statement provided to the holders of New Options in respect of those Shares, on the above terms and conditions not more than 15 business days after the receipt of a duly executed form of notice of exercise and the Exercise Price in immediately available funds in respect of the New Options exercised.

5 RISK FACTORS

5.1 Overview

An investment in the Company is not risk free and investors should consider the risk factors described below, together with information contained elsewhere in this Prospectus, before deciding whether to apply for New Shares and New Options. You should pay particular attention to the fact that Magontec's principal operations are conducted in overseas jurisdictions including Germany, the Peoples Republic of China (**PRC**) and Romania and are governed by legal and regulatory environments that in some respects differ from that which prevail in other countries. Potential investors should consider that an investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for New Shares and New Options.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

5.2 Future capital requirements

The Company's activities will require substantial expenditures. In the event Full Subscription is not achieved and the Company is unable to place the entire Shortfall under **section 1.7** of this Prospectus, debt funding is not available and the Company generates insufficient cash from trading and inventory management, the Company anticipates that it may need to raise funds additional to that raised under the Offer.

If the Company is unable to use debt or equity to fund expansion after the substantial exhaustion of the net proceeds of the Offer there can be no assurances that the Company will have sufficient capital resources for that purpose, or other purposes, or that it will be able to obtain additional resources on terms acceptable to the Company or at all. Any additional equity financing may be dilutive to Shareholders and any debt financing if available may involve restrictive covenants, which may limit the Company's operations and business strategy. The Company's failure to raise capital if and when needed could delay or suspend the Company's business strategy and could have a material adverse effect on the Company's activities.

5.3 Potential for significant dilution

Upon completion of the Offer, assuming all Entitlements are accepted and no Options are exercised prior to the Record Date, the number of Shares in the Company will increase from 425,007,674 to 661,123,048. In addition, the Company may issue up to a maximum of 472,230,748 New Options which are convertible into an additional 472,230,748 Shares.

This means that each Share will represent a significantly lower proportion of the ownership of the Company. It is not possible to predict what the value of the Company or a Share will be following the completion of the Offer and the Directors do not make any representation as to such matters.

The last trading price of Shares on ASX prior to the Prospectus being lodged of $0.041 is not a reliable indicator as to the potential trading price of Shares following completion of the Offer.

5.4 Plant construction risk

The Company and QSLM expect to commence construction of the Golmud Plant in the first half of the 2013 calendar year and to complete the construction prior to the end of the commissioning phase of stage 1 of QSLM's smelter, expected to be during the first half of the 2014 calendar year.

The Company may experience delays in the construction of the Golmud Plant and total construction costs may exceed the Company's budget as a result of a variety of factors, including failure to receive critical components and equipment from third parties on schedule and according to design specifications, failure to receive quality and timely performance of third-party services, failure to secure and maintain required regulatory and environmental permits or approvals, inclement weather conditions, adverse environmental conditions and force majeure or other events out of the Company's control.

There is also a risk that there will be delays in the construction of QSLM's electrolytic pure magnesium smelter at Golmud. Any such delay will have a direct material adverse effect on the Company's operations as production at the Golmud Plant is dependent upon the supply of pure magnesium from QSLM's smelter.

If the Company fails to complete the Golmud Plant within the projected schedule and budget or at all, Magontec's business, results of operations, financial condition and prospects may be materially and adversely affected, and may require the Company to raise further funds to complete the project development and commence operations.

5.5 Early stage project

The commercial feasibility of the Golmud Plant has not been fully established and the Company is yet to demonstrate whether it is capable of operating at the targeted level of economic production.

The Golmud Plant has been designed by Magontec in conjunction with its engineering advisers Shenyang Aluminium and Magnesium Institute (SAMI) with the intention of producing up to 56,000 mtpa of magnesium alloy. However, given it is undergoing commissioning, it is yet to demonstrate such capability and therefore there is a risk that the Plant's designed production rate may not be achieved, or achieved only with further capital expenditure which could have a material and adverse effect on Magontec's business, results of operations, financial condition and prospects.

In addition, the development of the Golmud Plant includes various risks, including, among others, regulatory risks, construction risks, financing risks and the risk that the operations at the Plant may prove less profitable. The Company cannot give any assurance that it will be able manage the challenges in developing and operating this Plant effectively.

5.6 Development and operational risks

The Company will be subject to the risks involved in the establishment of a new manufacturing operation at the Golmud Plant. There is no assurance that can be given to the level of viability that the Company's operations may achieve. Lower than expected productivity and technical difficulties and late delivery of materials and equipment could have an adverse impact on any future construction and commissioning schedules. No assurance can be given that the intended production schedules will be met or that the estimated operating cash costs and development costs will be accurate.

As indicated above in **section 5.4**, the supply of raw material will come from the pure magnesium electrolytic smelter under construction adjacent to the Golmud Plant. The construction and commissioning of this manufacturing facility is the responsibility of QSLM and not under the control of Magontec. If there are delays to the construction or commissioning of the pure magnesium facility this will delay the commencement of Magontec's operations at the Golmud Plant.

Further the operations of the Company may have to be shut down or may otherwise be disrupted by a variety of risks and hazards which are beyond the control of the Company, including environmental hazards, industrial accidents, technical failures, labour disputes, weather conditions, fire, explosions and other accidents at the plant or related facilities beyond the control of the Company. The occurrence of any of the risks and hazards could also result in damage to, or destruction of, amongst other things, production facilities, personal injury, environmental damage, business interruption, monetary losses and possible legal liability. While the Company currently maintains insurance within ranges of coverage consistent with industry practice, no assurance can be given that the Company will be able to obtain such insurance coverage at reasonable rates (or at all, or that any coverage it obtains will be adequate and available to cover any such claims).

Each of the foregoing events could also result in temporary or, in severe cases, permanent disruption to its operations, reduced sales, increased costs, significant damage to property or the environment, or the need for Magontec to incur larger than expected capital expenditure to remedy the situation, any of which may materially and adversely affect its business, results of operations, financial condition and prospects.

5.7 Supply agreements

The Company is yet to finalise the off-take pricing structure for the supply of pure magnesium from QSLM's smelter at Golmud. The Company's expectation is that the cost per metric tonne of magnesium alloy produced at the Golmud Plant 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. However, with off-take pricing arrangements still to be finalised and the commissioning of stage 1 of QSLM's project to occur during the half year ended 30 June 2014, the Company is unable to provide reliable forecasts until the time and circumstances offer greater certainty.

5.8 Fluctuations in magnesium alloy prices

Magontec derives substantially all of its revenue and operating cash flow from the sale of magnesium alloy. The Company does not have any long term supply agreements and is therefore exposed to price fluctuations associated with the spot market for magnesium alloy.

Magnesium alloy prices have been and will continue to be subject to fluctuation as a result of a number of factors which are beyond Magontec's control, including demand for magnesium alloy, prices agreed by the world's largest producers of magnesium alloy with their customers, production costs and capacities of other producers of magnesium alloy, utilization rates at existing magnesium alloy production facilities worldwide, the level of competition between magnesium alloy producers, technological advancements in the production of magnesium alloy and end-uses of magnesium alloy or the emergence of new technology which reduces demand for magnesium alloy. Other macro-economic factors, such as inflation, interest rates, foreign exchange rates, as well as general global economic conditions and political trends, may also impact magnesium alloy prices.

In the event realized magnesium alloy prices fall, Magontec's business, results of operations, financial condition and prospects could be materially and adversely affected.

5.9 Competition

Magontec operates in a competitive environment. Competition in the magnesium-based alloy manufacturing industry is based on many factors, including, among others, price, production capacity, quality and brand name. Magontec mainly competes with PRC-based producers that manufacture magnesium into magnesium-based alloys. Some of these competitors may be able to produce magnesium alloy of higher quality or at lower costs, which could affect the Company's ability to compete effectively. Magontec's future success, results of operations, financial condition and prospects will depend on its ability to respond in an effective and timely manner to competitive pressures.

5.10 Environmental risks

All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards. They also set limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions.

Amendments to current laws, regulations and permits governing operations and activities of magnesium manufacturing companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures, or production costs, or reduction in levels of production, or require abandonment or delays in development of the Company's projects.

5.11 Operating in the PRC

A substantial portion of Magontec's operations is in the PRC, including the proposed Golmud Plant. Accordingly, the Company's business, results of operations, financial position and prospects are subject to, to a significant degree, economic, political and legal developments in the PRC. The economy of the PRC has shifted gradually from a planned economy to a socialist market oriented economy. The Company believes that it has benefited from the economic reforms implemented by the PRC Government and the economic policies and measures.

However, there may be changes in PRC government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation or plant safety.

The Company's business, results of operations, financial position and prospects could also be materially and adversely affected by:

(a) changes in the rate or method of taxation;

(b) imposition of additional restrictions on currency conversion and remittances abroad;

(c) reduction in tariff or quota protection and other import restrictions;

(d) changes in the usage and costs of PRC-controlled transportation services;

(e) PRC policies affecting the magnesium industry; or

(f) industrial disruptions.

5.12 PRC legal system

The PRC legal system is based on a statutory law system. Unlike the common law system, prior legal decisions and judgments are relevant for guidance only but do not have precedent effect. Since 1979, the PRC Government has been developing a commercial law system, and progress has been made in promulgating laws and regulations relating to economic affairs and matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, these regulations are relatively new and the availability of public cases as well as the judicial interpretation of them are limited in number; moreover, as prior court decisions are not binding, both the implementation and interpretation of these laws, regulations and legal requirements are uncertain in many areas. Accordingly, there is a risk that some of Magontec's existing and future contractual rights may not be fully enforceable under the PRC legal system.

5.13 PRC Foreign Exchange Regulation

Foreign exchange transactions under Magontec's capital account, including principal payments in respect of foreign currency-denominated obligations and payments of dividends and interest, continue to be subject to significant foreign exchange controls and require the approval of the State Administration for Foreign Exchange. These limitations could materially and adversely affect its ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

Magontec is currently able to repatriate all RMB funds and make payments of dividends and distributions of profits from RMB funds, although such repatriations and payments are subject to various controls and regulations. While the PRC Government is generally relaxing restrictions on foreign trade and investment, there is no certainty that future RMB can be repatriated or distributed.

In 2005, the PRC revalued the exchange rate of the RMB to the US$ and abolished the RMB to US$ peg applied in the past. There can be no assurance that in the future, the PRC will not revalue the RMB or permit its substantial appreciation. Any appreciation of the RMB could materially and adversely affect Magontec's business and operations results, through higher foreign currency denominated operating costs and lower financial returns in A$ terms.

Any significant restrictions on Magontec's ability to make transactions under its capital account, repatriate or distribute RMB funds or an appreciation of the RMB could materially and adversely affect the Company's business, results of operations, financial condition and prospects.

5.14 Financing risk

Magontec is party to loan facilities and has agreed to issue convertible notes to enable the Company to pursue its strategies. This indebtedness subjects Magontec to a number of risks, including but not limited to the Company's ability to meet its interest and principals payments and other covenants, obtain additional financing in the future on reasonable terms or at all and an increase in the cost of Magontec's borrowing due to fluctuations in market interest rates. If any of these risks materialize, they may have a material and adverse impact on Magontec's business, results of operations, financial condition and prospects.

5.15 Joint venture parties, agents and contractors

The Directors are unable to predict the risk of financial failure or default by a participant in any joint venture to which the Company is or may become a party or the insolvency or managerial failure by any of the contractors used by the Company in any of its activities or the insolvency or other managerial failure by any of the other service providers used by the Company for any activity.

5.16 Potential Acquisitions and Divestments

As part of its business strategy, Magontec may make acquisitions (or divestments) of or significant investments in companies, products, technologies or projects. Any such future transactions would be accompanied by the risks commonly encountered in making acquisitions (or divestments) of companies, products, technologies or projects.

5.17 Reliance on Key Personnel

The Company is reliant on key personnel employed or engaged by the Company. Loss of such personnel may have a material adverse impact on the performance of the Company. In addition, the recruiting of qualified personnel is critical to the Company's success. As the Company's business grows, it will require additional key financial, technical, administrative, marketing and public relations personnel as well as additional staff for operations. While the Company believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

5.18 Insurance and uninsured risks

The business of the Company is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to the Company's production facilities, personal injury or death, environmental damage, delays, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations and insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks because of high premiums or other reasons.

5.19 Exchange rate risks

Magontec is exposed to foreign currency fluctuations with respect to A$, US$, Euro, Chinese RMB and Romanian Leu. Magontec's financial results are reported in A$, Magontec's operating costs are denominated in A$, Euros, US$ and Chinese RMB, its revenue will be denominated mainly in Euros, US$ and RMB and Magontec's indebtedness is denominated in A$, Euros and RMB. Therefore, if the RMB, Euro or $US fluctuates relative to the A$ or the Euro fluctuates relative to the RMB, Magontec's business, results of operations, financial condition and prospects may be materially and adversely affected.

5.20 Economic risks

General economic conditions in Australia, the PRC and internationally, movements in interest, inflation and currency exchange rates, variations in magnesium prices, the global security situation and the possibility of terrorist disturbances, changes to government regulation, policy or legislation, changes which may occur to the taxation of companies as a result of changes in Australian and foreign taxation laws and changes to dividend imputation in Australia may have an adverse effect on the Company's activities, as well as on its ability to fund those activities.

5.21 Market conditions

The market price of New Shares can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

5.22 Stock exchange prices

The market price of a publicly traded stock is affected by many variables not all of which are directly related to the success of the Company. In recent years, the securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies, has experienced wide fluctuations which have not necessarily been related to the operating performance or underlying asset values of such companies. There can be no assurance that such fluctuations will not affect the price of the Company's securities.

5.23 Liquidity risk

There may be relatively few buyers or sellers of securities on ASX at any given time. This may affect the volatility of the market price of the securities and the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less or more than the price paid under the Offer.

5.24 Other risks

Other risk factors include those normally found in conducting business, including litigation through breach of agreements or in relation to employees (through personal injuries, industrial matters or otherwise) or any other cause including strikes, lockouts, fraud due to international operations, IT failure, compliance (regulatory), HR risk, OH&S and other matters that may interfere with the Company's business or trade.

6 ADDITIONAL INFORMATION

6.1 Continuous Disclosure Obligations

The Company is a "disclosing entity" (as defined in section 111 AC of the Corporations Act) for the purposes of section 713 of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company is required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company's securities. The New Shares and New Options which will be issued pursuant to this Prospectus are in the same class as, or are options to acquire, Shares that have been quoted on the official list of the ASX during the 12 months prior to the issue of this Prospectus.

This Prospectus is a "transaction specific prospectus" to which the special content rules under section 713 of the Corporations Act apply. That provision allows the issue of a more concise prospectus in relation to an offer of securities, or options to acquire securities, in a class which has been continuously quoted by ASX in the three months prior to the date of the prospectus. In general terms "transaction specific prospectuses" are only required to contain information in relation to the effect of the issue of New Shares and New Options on the Company and the rights attaching to the New Shares and New Options. It is not necessary to include general information in relation to all of the assets and liabilities, financial position, profits and losses or prospects of the issuing company.

This Prospectus is intended to be read in conjunction with the publicly available information in relation to the Company which has been notified to ASX and does not include all of the information that would be included in a prospectus for an initial public offering of securities in an entity that is not already listed on a stock exchange. Investors should therefore have regard to the other publicly available information in relation to the Company before making a decision whether or not to invest.

Having taken such precautions and having made such enquires as are reasonable, the Company believes that it has complied with the general and specific requirements of ASX as applicable from time to time throughout the 12 months before the issue of this Prospectus which required the Company to notify ASX of information about specified events or matters as they arise for the purpose of ASX making that information available to the stock market conducted by ASX.

Information that is already in the public domain has not been reported in this Prospectus other than that which is considered necessary to make this Prospectus complete.

The Company, as a disclosing entity under the Corporations Act states that:

(a) it is subject to regular reporting and disclosure obligations;

(b) copies of documents lodged with the ASIC in relation to the Company (not being documents referred to in section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, the offices of the ASIC; and

(c) it will provide a copy of each of the following documents, free of charge, to any person on request between the date of issue of this Prospectus and the Closing Date:

    (i) the annual financial report of the Company for the financial year ended 30 June 2012, being the most recent annual financial report of the Company lodged with the ASIC before the issue of this Prospectus; and

    (ii) the half-year financial report of the Company for the half-year ended 31 December 2011, being the half-year financial report of the Company lodged with the ASIC after lodgement of the financial statements referred to in paragraph (i) above and before the issue of this Prospectus; and

(iii) any documents used to notify ASX of information relating to the Company in the period from lodgement of the financial statements referred to in paragraph (i) above until the issue of the Prospectus in accordance with the Listing Rules as referred to in section 674(1) of the Corporations Act.

Copies of all documents lodged with the ASIC in relation to the Company can be inspected at the registered office of the Company during normal office hours.

The Company has lodged the following announcements with ASX since the lodgement of the 2012 Annual Report:

Date	Description of Announcement
20 November 2012	Extension of Suspension
15 November 2012	Extension of Suspension
12 November 2012	Suspension from Official Quotation
8 November 2012	Trading Halt
31 October 2012	Appendix 4C – quarterly
30 October 2012	Notice of 2012 Annual General Meeting
29 October 2012	Debt Reorganisation With Straits Mine Management Pty Ltd
4 October 2012	Investor Update

ASX maintains files containing publicly available information for all listed companies. The Company's file is available for inspection at ASX during normal office hours.

6.2 Underwriting Agreement

By an agreement between the Company and the Underwriter dated 21 November 2012 (**Underwriting Agreement**), the Underwriter has agreed to partially underwrite the Offer to the value of the Underwritten Amount of $8,837,849 (176,756,979 New Shares and 353,513,958 free attaching New Options).

Upon completion of the Offer, the Underwriter will receive a general underwriting fee of 1% of the total Underwritten Amount. The Underwriter will receive up to 5% in additional fees from New Shares and New Options allocated to new investors introduced by the Underwriter. In addition, the Underwriter will receive a corporate fee of $60,000. The Underwriter will also receive payment of reasonable costs and expenses incurred by it in connection with the Offer. The Company will pay any GST applicable to any fee payable to the Underwriter under the Underwriting Agreement.

The Underwriter has entered into sub-underwriting agreements with the Sub-underwriters to the amount of $6,452,849. In addition, Allan Gray, a major Shareholder of Magontec, has agreed to participate in the Offer up to the value of $2,385,000, which may be achieved by Allan Gray exercising its Entitlement under the Offer, applying for Additional New Securities in accordance with **section 1.6**, or as a result of a placement of Shortfall Securities under **section 1.7**, or a combination of these options. The subscription for New Shares and New Options under the Offer by Allan Gray will apply in relief of the Underwriter's obligation to underwrite the Underwritten Amount to the extent of Allan Gray's participation.

The obligation of the Underwriter to underwrite the Underwritten Amount is subject to certain events of termination. The Underwriter may terminate its obligations under the Underwriting Agreement if at any time before completion of the Offer:

(a) (**Indices fall**): the All Ordinaries Index as published by the ASX or the price of gold per ounce in US dollars as published in the Australia Financial Review is at any time after the date of the Underwriting Agreement 8% or more below its respective level as at the close of business on the Business Day (as defined in the Listing Rules) prior to the date of the Underwriting Agreement;

(b) (**Prospectus**): the Company does not lodge this Prospectus on the date specified in the timetable set out in the Underwriting Agreement or this Prospectus or the Offer is withdrawn by the Company;

(c) (**No Official Quotation**): Official Quotation (as defined in the Listing Rules) has not been granted by the "Shortfall Notice Deadline Date" (being the day specified in the timetable set out in the Underwriting Agreement by which the Company must give the Underwriter notice of any Shortfall) or, having been granted, is subsequently withdrawn, withheld or qualified;

(d) (**Supplementary prospectus**):

    (i) the Underwriter, having elected not to exercise its right to terminate its obligations under the Underwriting Agreement as a result of an occurrence as described in paragraph 6.2(t)(iii) below, forms the view on reasonable grounds that a supplementary or replacement prospectus should be lodged with ASIC for any of the reasons referred to in section 719 of the Corporations Act and the Company fails to lodge a supplementary or replacement prospectus in such form and content and within such time as the Underwriter may reasonably require; or

    (ii) the Company lodges a supplementary or replacement prospectus without the prior written agreement of the Underwriter;

(e) (**Non-compliance with disclosure requirements**): it transpires that this Prospectus does not contain all the information that investors and their professional advisers would reasonably require to make an informed assessment of:

    (i) the effect of the Offer on the Company; and

    (ii) the rights and liabilities attaching to the New Shares and New Options;

(f) (**Misleading Prospectus**): it transpires that there is a statement in this Prospectus that is misleading or deceptive or likely to mislead or deceive, or that there is an omission from this Prospectus (having regard to the provisions of sections 711, 713 and 716 of the Corporations Act) or if any statement in the Prospectus becomes or misleading or deceptive or likely to mislead or deceive or if the issue of this Prospectus is or becomes misleading or deceptive or likely to mislead or deceive;

(g) (**Restriction on allotment**): the Company is prevented from allotting the New Shares and New Options within the time required by the Underwriting Agreement, the Corporations Act, the Listing Rules, any statute, regulation or order of a court of competent jurisdiction by ASIC, ASX or any court of competent jurisdiction or any governmental or semi-governmental agency or authority;

(h) (**Withdrawal of consent to Prospectus**): any person who has previously consented to the inclusion of its, his or her name in this Prospectus or to be named in this Prospectus, withdraws that consent;

(i) (**ASIC application**): an application is made by ASIC for an order under section 1324B or any other provision of the Corporations Act in relation to this Prospectus, the Shortfall Notice Deadline Date has arrived, and that application has not been dismissed or withdrawn;

(j) (**ASIC hearing**): ASIC gives notice of its intention to hold a hearing under section 739 or any other provision of the Corporations Act in relation to this Prospectus to determine if it should make a stop order in relation to this Prospectus or the ASIC makes an interim or final stop order in relation to this Prospectus under section 739 or any other provision of the Corporations Act;

(k) (**Takeovers Panel**): the Takeovers Panel makes a declaration that circumstances in relation to the affairs of the Company are unacceptable circumstances under Pt 6.10 of the Corporations Act, or an application for such a declaration is made to the Takeovers Panel;

(l) (**Hostilities**): there is an outbreak of hostilities or a material escalation of hostilities (whether or not war has been declared) after the date of the Underwriting Agreement involving one or more of Australia, New Zealand, Indonesia, Japan, Russia, the United Kingdom, the United States of America, India, Pakistan, or the PRC, or any member of the European Union, or a terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries anywhere in the world;

(m) (**Authorisation**) any authorisation which is material to anything referred to in the Prospectus is repealed, revoked or terminated or expires, or is modified or amended in a manner unacceptable to the Underwriter;

(n) (**Indictable offence**): a director or senior manager of the Company (or a subsidiary) is charged with an indictable offence; or

(o) (**Default**): default or breach by the Company under the Underwriting Agreement of any terms, condition, covenant or undertaking;

(p) (**Incorrect or untrue representation**): any representation, warranty or undertaking given by the Company in the Underwriting Agreement is or becomes untrue or incorrect;

(q) (**Misleading information**): any information supplied at any time by the Company or any person on its behalf to the Underwriter in respect of any aspect of the Offer or the Issue or the affairs of the Company (or a subsidiary) is or becomes misleading or deceptive or likely to mislead or deceive;

(r) (**Suspension of debt payments**): the Company suspends payment of its debts generally;

(s) (**Contravention of constitution or Act**): a contravention by the Company (or a subsidiary) of any provision of its constitution, the Corporations Act, the Listing Rules or any other applicable legislation or any policy or requirement of ASIC or ASX;

(t) (**Termination Events**): subject always to the events below having a material adverse effect or otherwise giving rise to a liability for the Underwriter, any of the following events occurs:

    (i) (**Adverse change**): an event occurs which gives rise to a material adverse effect or any adverse change or any development including a prospective adverse change after the date of the Underwriting Agreement in the assets, liabilities, financial position, trading results, profits, forecasts, losses, prospects, business or operations of the Company (or a subsidiary) including, without limitation, if any forecast in this Prospectus becomes incapable of being met or in the Underwriter's reasonable opinion, unlikely to be met in the projected time;

(ii) (**Error in Due Diligence Results**): it transpires that any of the Company's due diligence results or any part of the Prospectus verification was false, misleading or deceptive or that there was an omission from them;

(iii) (**Significant change**): a "new circumstance" as referred to in section 719(1) of the Corporations Act arises that is materially adverse from the point of view of an investor;

(iv) (**Public statements**): without the prior approval of the Underwriter a public statement is made by the Company in relation to the Offer, the Issue or this Prospectus;

(v) (**Official Quotation qualified**): the Official Quotation (as defined in the Listing Rules) is qualified or conditional other than as set out in the definition of "Official Quotation";

(vi) (**Change in Act or policy**): there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any of its States or Territories any Act or prospective Act or budget or the Reserve Bank of Australia or any Commonwealth or State authority adopts or announces a proposal to adopt any new, or any major change in, existing, monetary, taxation, exchange or fiscal policy;

(vii) (**Prescribed Occurrence**): a "Prescribed Occurrence" (as defined in the Underwriting Agreement to include the entering into of various transactions regarding the Company's capital structure or significant corporate transaction) occurs;

(viii) (**Event of Insolvency**): an insolvency event occurs in respect of the Company (or a subsidiary);

(ix) (**Judgment against a Relevant Company**): a judgment in an amount exceeding $25,000 is obtained against the Company (or a subsidiary) and is not set aside or satisfied within 7 days;

(x) (**Litigation**): litigation, arbitration, administrative or industrial proceedings are after the date of the Underwriting Agreement commenced or threatened against the Company (or a subsidiary), other than any claims foreshadowed in this Prospectus;

(xi) (**Change in shareholdings**): there is a material change in the major or controlling shareholdings of the Company (or a subsidiary) or a takeover offer or scheme of arrangement pursuant to Chapter 5 or 6 of the Corporations Act is publicly announced in relation to the Company (or a subsidiary);

(xii) (**Board and senior management composition**): there is a change in the composition of the Board or a change in the senior management of the Company before completion of the Offer without the prior written consent of the Underwriter except as advised to the Underwriter prior to the execution of the Underwriting Agreement;

(xiii) (**Timetable**): there is a delay in any specified date in the timetable set out in the Underwriting Agreement which is greater than 7 Business Days;

(xiv) (**Force Majeure**): a force majeure event affecting the Company's business or any obligation under the Underwriting Agreement lasting in excess of 7 days occurs;

(xv) (**Certain resolutions passed**): the Company (or a subsidiary) passes or takes any steps to pass a resolution under section 254N, section 257A or section

260B of the Corporations Act or a resolution to amend its constitution without the prior written consent of the Underwriter;

(xvi) (**Capital Structure**): the Company (or a subsidiary) alters its capital structure in any manner not contemplated by this Prospectus except as advised to the Underwriter prior to the execution of the Underwriting Agreement;

(xvii) (**Investigation**): any person is appointed under any legislation in respect of companies to investigate the affairs of the Company (or a subsidiary); or

(xviii) (**Market Conditions**): a suspension or material limitation in trading generally on ASX occurs or any material adverse change or disruption occurs in the existing financial markets, political or economic conditions of Australia, Japan, the United Kingdom, the United States of America or other international financial markets.

The Underwriting Agreement also contains a number of indemnities, representations and warranties from the Company to the Underwriter that are considered customary and usual for an agreement of its type.

6.3 Directors' Interests

Other than as set out below or elsewhere in this Prospectus, no Director nor any firm in which such a Director is a partner, has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

(a) the formation or promotion of the Company;

(b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Issue of securities pursuant to this Prospectus; or

(c) the Issue of securities pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) to any Director or to any firm in which any such Director is a partner, either to induce him to become, or to qualify him as, a Director or otherwise for services rendered by him or by the firm in connection with the formation or promotion of the Company or Issue of securities pursuant to this Prospectus.

As announced to the ASX on 12 July 2012, the Company has agreed to dispose of its 53% joint venture interest in the registered capital of Henan Keweier Alloy Materials Co. Limited (**HNKWE**). Mr Li, a director of the Company, is a Director of and shareholder of HNKWE. Mr Li is also a Director and shareholder of an entity from which HNKWE purchases raw materials. In addition, Mr Li is related to the principal shareholder of the company that has agreed to acquire Magontec's joint venture interest in HNKWE.

Directors' direct and indirect interests in securities of the Company at the date of this Prospectus are:

Name	Security
Mr Zhong Jun Li	56,197,298 Shares
Mr Nicholas Andrews	7,122,562 Shares
Mr Guenter Franke	536,615 Shares
Mr Robert Shaw	100,000 Shares

Mr Nicholas Andrews (or his nominee) has agreed to sub-underwrite up to the value of $197,849 (comprising 3,956,979 New Shares and 7,913,958 free attaching New Options). The sub-underwriting agreement between Mr Andrews (or his nominee) and the Underwriter is on the same terms and conditions as the sub-underwriting agreement between the Company and QSLM , who is not a related party of the Company, and is on customary arms' length terms. Mr Andrews (or his nominee) will receive no underwriting or other fee, commission or payment in connection with its sub-underwriting of the Issue.

The Constitution of the Company provides that the Directors may be paid for their services as Directors. Non-executive Directors may only be paid a sum not exceeding such fixed sum per annum as may be determined by the Company in general meeting, to be divided among the Non-executive Directors and in default of agreement then in equal shares.

In the two years preceding lodgement of this Prospectus, $2,127,533 (excluding GST where applicable) has been paid by the Company by way of remuneration for services provided by all Directors, companies associated with the Directors or their associates in their capacity as Directors, employees, consultants or advisers. Directors, companies associated with the Directors or their associates are also reimbursed for all reasonable expenses properly incurred in the course of conducting their duties which include, but are not in any way limited to, out of pocket expenses, travelling expenses, disbursements made on behalf of the Company and other miscellaneous expenses.

6.4 Interests and Consents of Experts and Advisers

The following parties have given (and not before the date of this document withdrawn) their consent to be named in this document in the form and context in which they are named:

- Patersons, in the capacity of underwriter and lead manager; and
- Allion Legal, in its capacity as solicitors to the Company.

Each of Patersons and Allion Legal:

- has not authorised or caused the issue of this Prospectus;
- has not made, or purported to have made, any statement in this Prospectus or on which a statement in this Prospectus is based except as set out in this section;
- has not assumed the responsibility for any part of this Prospectus except as set out in this section and to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any material in, or omission from, this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this section; and
- makes no express or implied representation or warranty in relation to the Company, this Prospectus or the Offer.

Patersons was not involved in the preparation of any part of this Prospectus.

Other than as set out below or elsewhere in this Prospectus, all persons named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation of or distribution of this Prospectus do not have, and have not had in the two years before the date of this Prospectus, any interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the offer of securities pursuant to this Prospectus; or
- the offer of securities pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) and no other benefit has been given or agreed to be given to any of those persons for services provided by those persons in connection with the formation or promotion of the Company or the offer of securities pursuant to this Prospectus.

Patersons are acting as Underwriter and Lead Manager for the Offer and for this are entitled to be paid the fees set out in **section 6.2**.

The Company has also agreed to pay Patersons' costs incurred in connection with the Issue, including legal costs.

Allion Legal is entitled to be paid $60,000 for advice and assistance in relation to certain aspects of this Prospectus, assisting the Company in relation to its due diligence regime and enquiries and in relation to application for quotation of the New Shares and New Options on ASX.

References to Camphin Boston appear for information purposes only. Camphin Boston has not been involved in, authorised or caused the issue of this Prospectus.

References to Boardroom Pty Ltd appear for information purposes only. Boardroom Pty Ltd has not been involved in, authorised or caused the issue of this Prospectus.

6.5 Estimated Expenses of Issue

The estimated expenses of the Issue are approximately $348,849 (in the event the Offer is partially subscribed only to the Underwritten Amount) or $377,769 (in the event Full Subscription is achieved) including fees payable to the Underwriter, legal, ASIC, ASX and printing costs.

6.6 Litigation

As at the date of this Prospectus, the Company is not involved in any material legal proceedings and the Directors are not aware of any legal proceedings pending or threatened against the Company.

6.7 Privacy Act

If you complete an application for New Shares and New Options, you will be providing personal information to the Company. The Company collects, holds and will use that information to assess your application, service your needs as a Shareholder, facilitate distribution payments and corporate communications to you as a Shareholder and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your New Shares and New Options in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Company share registry.

You can access, correct and update the personal information that we hold about you. Please contact the Company or its registry if you wish to do so at the relevant contact numbers set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the *Privacy Act 1988* (Cth) (as amended), the Corporations Act and certain rules. You should note that if you do not provide the information required on the application for securities, the Company may not be able to accept or process your application.

6.8 Directors' Consent

Each Director has consented to the lodgement of this Prospectus with the ASIC.

Signed on behalf of the Directors pursuant to a resolution of the Board.

Mr Nicholas Andrews
Executive Chairman

7 CORPORATE DIRECTORY

Directors
Mr Nicholas Andrews (Executive Chairman)
Mr Guenter Franke (Non-Executive Director)
Mr Zhong Jun Li (Non-Executive Director)
Mr Robert Shaw (Non-Executive Director)

Company Secretary
Mr John Talbot

Auditors
Camphin Boston*
Level 9, 5 Elizabeth Street
SYDNEY NSW 2000

Registered Office
Office 10, Level 8
139 Macquarie Street
Sydney NSW 2000
Telephone: +61 2 8231 7085
Facsimile: +61 2 9252 8690

Website: www.magontec.com

Share Registry*
Boardroom Pty Limited
Level 7
207 Kent Street
Sydney NSW 2000

Solicitors
Allion Legal
Level 2, 50 Kings Park Road
West Perth WA 6005

Underwriter and Lead Manager
Patersons Securities Limited
Level 23, 2 The Esplanade
Perth WA 6000

ASX Code: MGL
ABN: 51 010 441 666

*This entity has not been involved in the preparation of this Prospectus and has not consented to being named in the Prospectus. Its name is included for information purposes only.

8 GLOSSARY

A$**, **$ and **dollars** means Australian dollars, unless otherwise stated.

Additional New Securities means New Shares and New Options in addition to an Eligible Shareholder's Entitlement for which an applicant makes an Application.

Allan Gray means Allan Gray Australia Pty Ltd (ABN 48 112 316 168).

Application means an application for New Shares and New Options pursuant to the Application Form.

Application Form means the Application form attached to or accompanying this Prospectus.

Application Money means the money received from Eligible Shareholders in respect of their Application.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691) or the market operated by that entity (as the case may be).

ASX Settlement means ASX Settlement Pty Ltd (ABN 49 008 504 532).

ASX Settlement Operating Rules means the settlement rules of ASX Settlement.

Board means the board of Directors.

CHESS means ASX Clearing House Electronic Sub-register System.

Closing Date means 21 December 2012, or such other date as may be determined by the Directors under this Prospectus.

Company means Magontec Limited (ABN 51 010 441 666).

Constitution means the Company's Constitution as at the date of this Prospectus.

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

Director means a director of the Company at the date of this Prospectus and **Directors** has a corresponding meaning.

EDST means Australian Eastern Daylight Savings Time.

Eligible Shareholder means a Shareholder as at the Record Date other than a Non-qualifying Foreign Shareholder.

Entitlement or **Right** means a Shareholder’s entitlement to subscribe for New Shares and New Options offered by this Prospectus.

Existing Share means a fully paid ordinary share in the capital of the Company on issue as at the Record Date.

Full Subscription means the amount of $11,805,769 (comprising 236,115,374 New Shares and 472,230,748 free attaching New Options) to be raised under the Offer.

Issue means the issue of New Shares and New Options under this Prospectus.

Listing Rules or **ASX Listing Rules** means the Listing Rules of the ASX.

New Option means an Option exercisable at $0.02 on or before 3 January 2014, to be issued at the ratio of two (2) free attaching New Options for every one (1) New Share subscribed for, to be listed on ASX.

New Share means a fully paid ordinary share in the capital of the Company to be issued under this Prospectus.

Non-qualifying Foreign Shareholder means a Shareholder whose registered address is not situated in Australia, New Zealand, Switzerland or the PRC.

Offer means the offer to Eligible Shareholders of five (5) New Shares for every nine (9) Existing Shares held at the Record Date at an issue price of $0.05 per New Share and two (2) free attaching New Options for every one (1) New Share subscribed for.

Official Quotation means official quotation on ASX.

Opening Date means 7 December 2012.

Option means an option to subscribe for a Share.

PRC means the People's Republic of China.

Prospectus means the prospectus constituted by this document.

QSLM means Qinghai Salt Lake Magnesium Industry Limited.

Record Date means 5.00pm (EDST) on 3 December 2012.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means the holder of a Share.

Shortfall will occur if the Company does not hold successful valid Applications (including applications for Additional New Securities under **section 1.6** of this Prospectus (if any)) for all the New Shares and New Options offered by the Company under this Prospectus by the Closing Date.

Shortfall Securities means New Shares and New Options for which successful valid Applications (including applications for Additional New Securities under **section 1.6** of this Prospectus (if any)) have not been received by the Closing Date.

Straits means Straits Mine Management Pty Ltd (ABN 66 083 686 033).

Straits Convertible Notes means the Tranche One Convertible Notes and Tranche Two Convertible Notes.

Sub-underwriters means QSLM and Mr Nicholas Andrews (Director) collectively and **Sub-underwriter** has a corresponding meaning.

Tranche One Convertible Notes means convertible notes with a face value of $3,368,047, convertible into Shares on or before 1 July 2014 at a conversion price of 5.5 cents, issued by the Company to Straits pursuant to an unsecured redeemable convertible loan note deed dated 4 July 2011 (as amended).

Tranche Two Convertible Notes means convertible notes with a face value of $3,500,000, convertible into Shares on or before the date which is three years after the date on which Tranche Two Convertible Notes are issued at a conversion price of 5 cents (subject to adjustment events), to be issued by the Company to Straits pursuant to a Heads of Agreement dated 26 October 2012 (as announced to the ASX on 29 October 2012), subject to the approval of the Company's Shareholders at the Company's 2012 Annual General Meeting.

Underwriter or **Patersons** means Patersons Securities Limited (ABN 69 008 896 311).

Underwriting Agreement means the underwriting agreement dated 21 November 2012 between the Underwriter and the Company.

Underwritten Amount means $8,837,849 (176,756,979 New Shares and 353,513,958 free attaching New Options) being the value to which the Offer is underwritten.

US person has the meaning given to that term in Regulation S under the US Securities Act.

US Securities Act means the United States Securities Act of 1933, as amended.