MAGONTEC

Annual Report 2018

A summary of the Company's corporate governance practices including the Corporate Governance Statement discussing adherence to the Australian Securities Exchange's Third Edition "Corporate Governance Principles and Recommendations" can be located at www.magontec.com under the Investor Centre section.

2018 Highlights

Magontec's global anodes business experienced a strong uplift in volumes and a 23% increase in Gross Profit contribution.

In 2018 Magontec successfully transitioned its primary magnesium alloy manufacturing operations to the new Magontec Qinghai Magnesium Alloy Cast House in Qinghai Province PRC and has ceased all operations at the Shanxi Province facility.

Global Locations and Activities

Executive Chairman's Letter

Nicholas Andrews

Over the last 12 months Magontec has achieved a much improved Full Year result. Strong performances from the Chinese business units were particular standouts with both Cathodic Corrosion Protection (CCP/anodes) products and primary magnesium alloys achieving record revenue and EBIT contributions. In Europe there was also a particularly strong contribution from the CCP business.

Dear Shareholders

This is my tenth Annual Report as Executive Chairman of Magontec; an opportunity to reflect on both 2018 and some of the events of the past decade.

Many shareholders who began this journey at the same time will recall that in 2008 the business was a legacy that emerged following abandonment of the primary magnesium production facilities at Stanwell in Queensland. The legacy assets comprised intangible assets in the form of patents and technologies, commercialisation of which was capital and time intensive and high risk. With that in mind the Board took decisions to re-invent the Company firstly, in 2011 with acquisition of the Magontec group of companies and secondly, in 2012 with investment in the 56,000 tonne alloy manufacturing plant at Qinghai Province in China. The latter has taken a lot longer than anticipated. Perhaps that is both the nature of large industrial projects and a reflection of the size of the challenge that the company undertook when it embarked on its new project in Qinghai.

The Magontec Qinghai Magnesium Alloy Cast House was presented as a company changing project that would allow our business to grow volumes and profits in a high growth industry and position itself in a leadership role in the manufacture of primary magnesium alloys. That vision remains intact in 2019. The Qinghai project is now coming on stream and offers Magontec the opportunity to sharply raise primary magnesium alloy volumes and profitability.

In 2018 Magontec achieved a much-improved profit result with strong contributions from both the Cathodic Corrosion Protection products business and from primary magnesium alloy manufacturing. This result was achieved notwithstanding the Qinghai project is still in the early stages of its production ramp up with full efficiencies yet to emerge but, at the same time, bearing the full burden of a depreciation expense on its plant cost. Our Chinese metals business was particularly strong in 2018 while the European operations produced a steady result. Overall the Group recorded a Net Profit After Tax in 2018, excluding the impact of unrealised foreign exchange movements, of $0.48 million, up from a loss of $1.18 million in 2017. As our finance report shows in more detail, this result is inclusive of $0.95 million of additional depreciation. With the Qinghai plant now having entered the operational phase, the next challenge facing management and the Board is to identify future strategic opportunities.

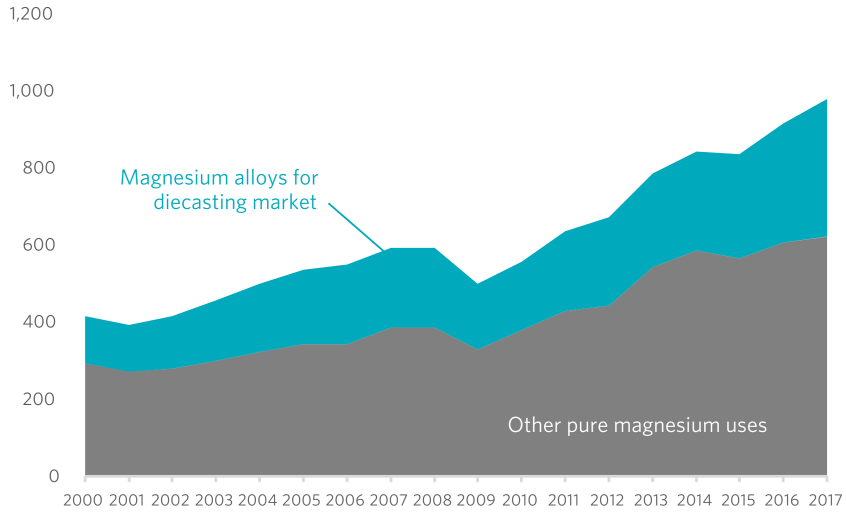
Cash flow has rebounded in 2018 with underlying cash from operations up from $2.3 million in 2017 to $5.0m in 2018. Overall cash reserves are also robust standing at $12.9 million, up from $2.3 million in 2017. The change in cash position reflects an inventory build-up for our Japanese customers, financed by our Japanese agency, to tide them through the qualification period from the Shanxi factory to the new Qinghai facility, and the change in payment terms under the agreements with QSLM. As production builds at Qinghai this cash reserve is likely to be fully utilised as trade debtors increase.

In 2018 Magontec closed its old primary magnesium alloy facility in Shanxi Province with minimal cost or disruption and transferred all primary metal production activities to the new facility in Qinghai Province.

The cost of the transition that the Company has undertaken, in 2018 and over the longer period, has impacted returns. In the year under review there were exceptional costs associated with the commencement of production at Qinghai and low productivity outcomes as a result of low volumes of raw material supply. Each of these factors weighed on profitability in 2018 and are expected to abate in 2019 as Qinghai volumes rise.

The underlying fundamentals of the magnesium industry remain as attractive today as they were at the turn of the century. Global magnesium industry volumes have risen 136% since the year 2000 while magnesium alloy production has risen 195% over the same period with demand from die casting companies, Magontec's principal customer base, the fastest growing segment in the magnesium industry.

MAGNESIUM & MAGNESIUM ALLOY GROWTH RATES ('000MT)



The long term outlook for magnesium alloys, even as the key automotive market transitions away from internal combustion engines, remains bright. The lightest of all structural metals, magnesium alloys play a growing role in the automotive sector because they offer manufacturers the opportunity to deliver higher energy efficiency though lighter weight applications. Increasingly the automotive industry is struggling to meet its mandated CO2 emission reductions, in large part due to a trend to heavier vehicles as new on-board features proliferate. Having successfully reduced weight in the past through engine downsizing, manufacturers are now having to look elsewhere for weight savings with steel and aluminium applications prime targets for magnesium alloy replacement.

The issue of vehicle weight is as important for electric automobiles as it is for traditional internal combustion engine vehicles. On average electric cars are 20–30% heavier than internal combustion engined vehicles and have a considerably smaller range. To date electric automotive design has been focussed on bringing a new technology to market, but as that market becomes more competitive the issue of energy efficiency will become more prevalent, and that is a discussion about weight as much as any other factor.

While the internal structural dynamics of automotive manufacturing are undergoing significant changes that are likely to benefit magnesium manufacturers, slowing economies, particularly in the USA, are likely to cause overall unit sales to slow.

In the early part of 2019 Ford and Jaguar Land Rover, among others, have announced major labour reductions. This suggests that the growth of the last 9 years may ease in the immediate future.

Current forecasts show annual global automotive sales rising just 0.8% in 2019 with the key automotive sales driver since the beginning of the century, Chinese domestic demand, rising 2.4%. Over the last 18 years Chinese sales have risen from just 700,000 units in 2000 to 25.3 million in 2018. The rest of the world, over the same period, has seen sales grow by 10m units or 21%.

While these macro issues may see automotive volumes stall over the next couple of years, Magontec sales teams in Europe and Asia have worked hard to lock in recycling and primary supply contracts for 2019. Magontec's European recycling business has a multi-year agreement with its major customer in Romania and has won new contracts in Western Europe to bolster volumes at our German plant. In China the effects of new and more strictly imposed environmental regulations has reduced the number of pure magnesium and magnesium alloy manufacturers, leading to a shortage of supply and a rise in the underlying price of magnesium. This 2018 price rise appears to be in the process of unwinding as the market finds a new balance and Chinese producers are reduced to fewer companies with larger market shares.

Executive Chairman's Letter

The senior management team at Magontec, who remain largely unchanged since the establishment of the new company structure in 2011, have been focussed on rebuilding and renewing the existing assets in China and Europe and bringing on-stream the new cast house at Golmud in Qinghai. The adjacent Golmud electrolytic magnesium facility, built by our partner company, Qinghai Salt Lake Magnesium Co Ltd (QSLM), and now supplying the Magontec cast house, was started from scratch in 2013 and is slowly increasing output. At the end of 2018 the facility was running at about 30% of capacity and that is expected to continue to rise through 2019.

As QSLM's output rises so will the output from the Magontec cast house. Magontec is contracted to take 56% of the rated 100,000 metric tonnes per annum output from QSLM, which will place the company in the leading ranks of primary magnesium alloy manufacturers with a product that boasts high quality and high environmental credentials in an industry that has a poor record of pollution and often low workplace standards in China.

While Qinghai has been the focus of much management activity in 2018, we have also seen improvements in other parts of the Magontec business. In China the Mg anodes business raised revenues and volumes by 17% & 16% respectively, while the European anodes business increased revenues by 11% and delivered a strong contribution to group profitability.

These improvements are the result of the hard work and diligence of production, sales and management teams as well as the result of investment in new production equipment and innovative new products. In 2019 we have another major investment program for both the Chinese and European anode businesses that is expected to deliver further earnings growth in the coming year and in 2020.

In the magnesium alloy recycling businesses, in Germany and Romania, 2018 has been a period of steady performance despite a competitive environment and, in particular, labour market issues in Romania. The Western part of Romania enjoys unemployment levels of around 1.5% as a result of large-scale workforce migration to other parts of the EU and the arrival in recent years of many large Western European manufacturing industries.

It is taking some time for the labour market in Romania to find a new equilibrium, but our factory is now the leading magnesium alloy recycling business in Eastern Europe where nearly 25% of European magnesium alloy die casting takes place.

Our commitment to magnesium alloy recycling in Europe remains undiminished. We expect our production lines to benefit from growing volumes of material delivered to European customers from our Qinghai facility under increasingly long-term contracts that combine primary supply and processing of magnesium alloy scrap, nearly 50% of original material supplied, through our recycling factories.

In the meantime, we have continued to invest in magnesium alloy casting technologies with the aim of improving primary and recycling conversion costs and competitiveness. In Europe, Magontec is the largest and among the most innovative magnesium alloy recycling companies and, while it is not a high margin business, it is an essential part of a global magnesium alloy service that Magontec will continue to offer to local and global customers.

In the coming 12 months and beyond Magontec will continue to focus on magnesium alloys as its principal business. We believe that there are new growth opportunities for Magontec in recycling in China and in the development of new products in the die casting and extrusion sectors.

Elsewhere we have continued to invest in systems and people. The European business installed a new ERP system in 2018 that will enhance our ability to manage the increasingly complex logistics of material acquisition and product distribution. In China a similar process is now underway and should be operational in 2020. In the year past we have also made some very important new hires bringing experience and new skills to our businesses. Across our business we have built a more competent, stable and capable platform.

In the anodes business there is some sensitivity to overall economic activity levels reflecting demand for hot water systems from new build homes. With a slowing economy in Europe and slower growth in apartment construction in China overall demand levels can be expected to be softer. Nonetheless, Magontec anode production in both locations will be more cost competitive in 2019 than it was in 2018 and this has already been reflected in significant new contracts, particularly in China where volumes have risen sharply over the last 12 months.

A signal event in 2018 was a visit by the Australian Ambassador to PR China, Her Excellency Jan Adams, together with members of the Australian Embassy Staff, to Magontec's Xi'an factory in August 2018.

Her Excellency Jan Adams, Australian Ambassador to PR China, visiting the Magontec Xi'an facility.

In closing I would like to thank the Board for its guidance and advice through the year. In 2018 we farewelled Robert Shaw who joined the Magontec Board in 2010, just prior to the acquisition of the German and Chinese magnesium alloy and anode manufacturing assets and I thank him for his advice and encouragement over the years. On 1 January 2019 we welcomed Atul Malhotra as a new Independent Non-Executive Director. Atul brings 40 years of experience as a senior executive in European manufacturing, the last 10 of which were spent at Georg Fischer, a Tier 1 magnesium alloy die casting and automotive supply chain company with extensive operations in Europe, North America and China.

Nicholas Andrews
Executive Chairman

28 February 2019

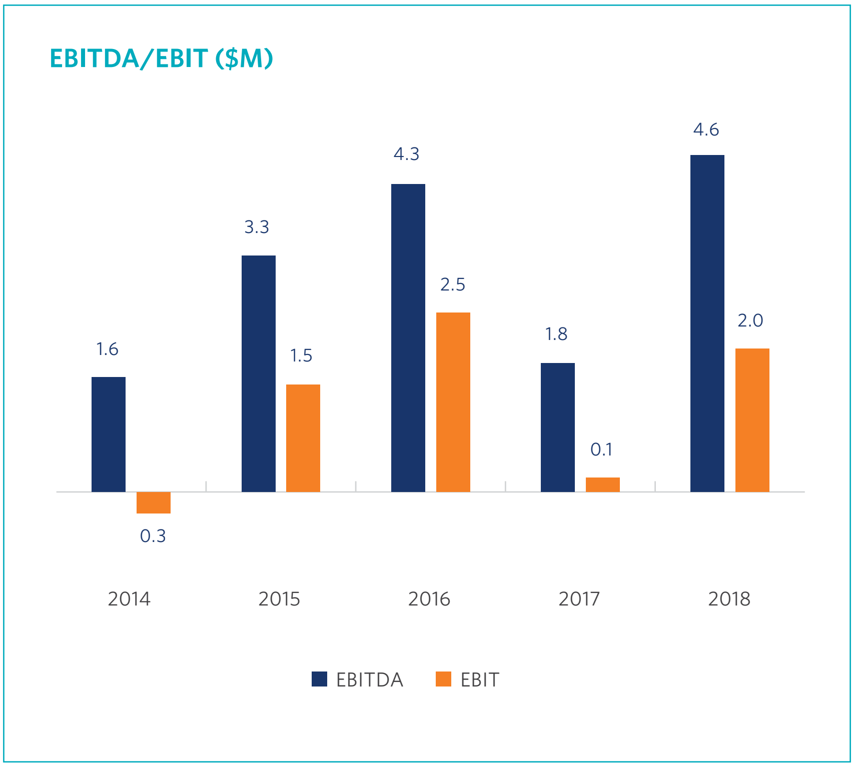
Financial Summary

The Reported Net Profit After Tax for the year was $0.8 million for the 12 months to 31 December 2018. This was ahead of the prior year loss of $1.6 million and the result of significantly better operational performance in 2018.

The 2018 result included almost $1 million of additional depreciation (non-cash) arising from the commencement of operations at the new Magontec Qinghai facility.

Other significant items included in the prior year result are outlined in the table below. These are highlighted in order to aid shareholder understanding of the composition of the result.

As shareholders will recall, significant items in 2017 included initial start-up costs at the Magontec Qinghai plant and the new Magontec US operating entity, an electronic fraud suffered in our European business and a one off historical real estate transfer tax related to the initial acquisition of Magontec in 2011.

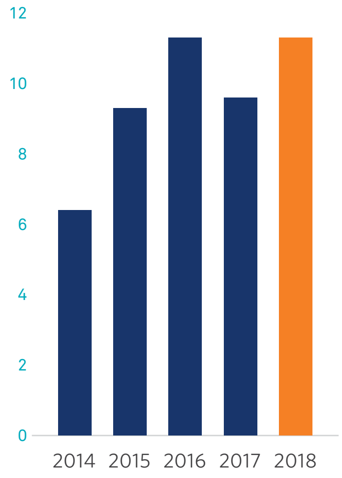


RECONCILIATION OF SIGNIFICANT ITEMS IN EARNINGS

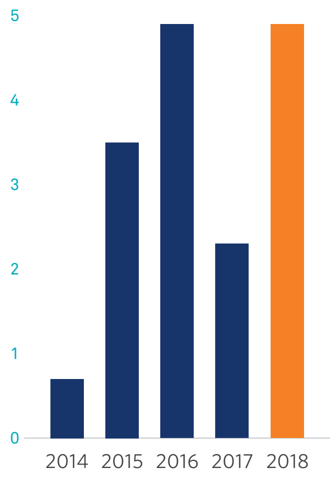
	12 months to 31 Dec 2018 $'000	12 months to 31 Dec 2017 $'000
Net Profit Before Tax, unrealised FX and significant items	**2,266**	**685**
Significant items before tax		
Less non-cash equity expense	(78)	(191)
Less impact of fraudulent inventory loss	–	(292)
Less MAQ pre-tax losses start-up costs (excluding depreciation)	(101)	(194)
Less MAQ depreciation (non-cash)	(951)	–
Less doubtful debts expense PRC	(32)	(63)
Less one off historical real estate transfer tax	–	(102)
Less Magontec US costs start-up	–	(211)
Net Profit Before Tax excluding unrealised FX	**1,104**	**(368)**
Less tax expense	(623)	(809)
Net Profit After Tax before unrealised FX (underlying NPAT*)	**480**	**(1,177)**
Add/(subtract) unrealised FX gains/(losses)	296	(437)
Reported Net Profit After Tax	**776**	**(1,614)**

Financial Summary

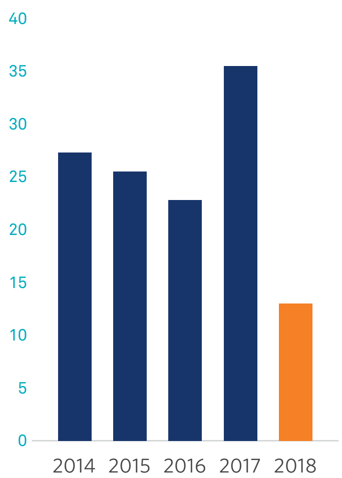
GROSS MARGIN ($M)



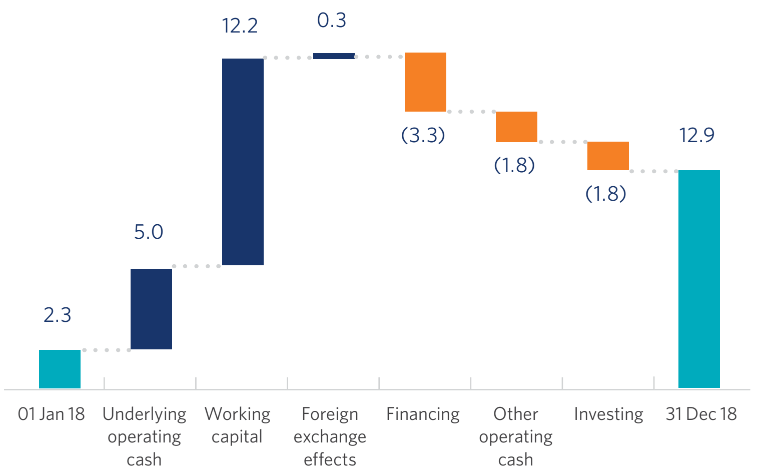
CASH FLOW FROM UNDERLYING OPERATIONS ($M)



NET DEBT TO NET DEBT + EQUITY (%)



2018 CASHFLOW ANALYSIS ($M)



ANALYSIS

During 2018, gross margin for the consolidated entity increased to 11.3% (2017: 9.6%) with stronger results across both the metals and anodes businesses. Key drivers included favourable material pricing trends in pure Mg and key customer wins in the US market for the anodes business.

CASHFLOW, BALANCE SHEET AND BANKING FACILITIES

Underlying operating cash flow is one of the key metrics that management monitors internally and is defined as operating cash flow before interest, tax payments and working capital movements. For Magontec, working capital movements can have a large impact on overall operating cash flow for any given period, but are generally only a reflection of timing differences in cash receipts and payments in the metals business, which are working capital intensive.

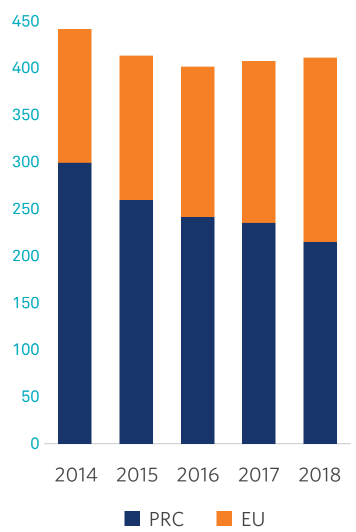
During 2018, Magontec generated underlying operating cash flow of $5.0 million which was significantly above the prior corresponding period (2017: $2.3 million) as a result of improved operating performance.

BALANCE SHEET AND BANKING FACILITIES

Net debt fell to $5.2 million as at 31 December 2018, resulting in balance sheet gearing of 13.0% on a net debt to net debt + equity basis (31 December 2017: 35.5%).

This was driven in part by favourable working capital timing during 2018 which is not expected to be recurring in 2019. We expect gearing will return to levels more consistent with historical trends.

EMPLOYEE NUMBERS BY REGION



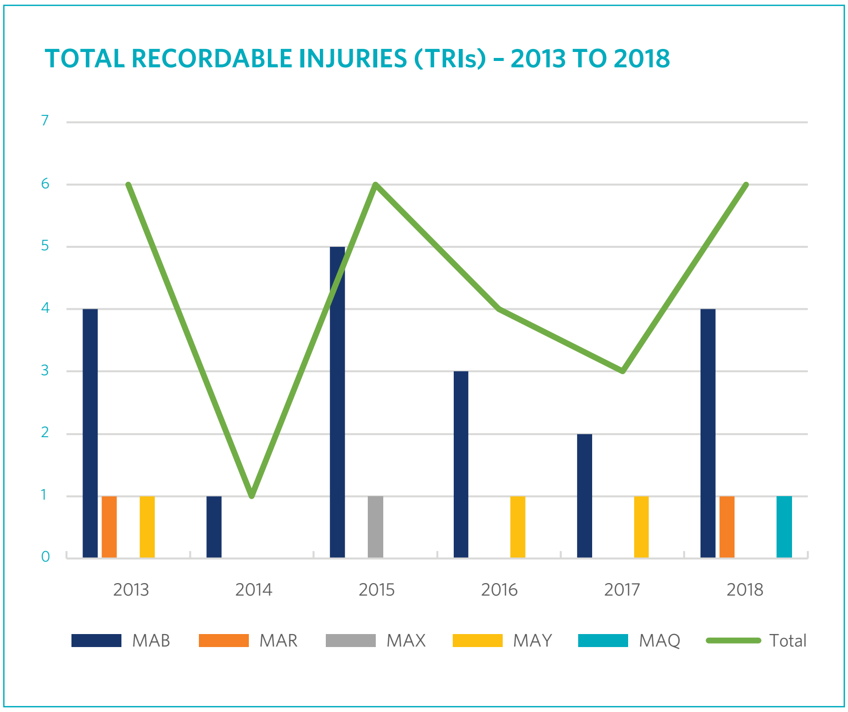
Health, Safety & Environment (HSE)

Magontec targets zero accidents for each plant each year and recognises that magnesium alloy and anode manufacturing is a potentially dangerous process.

At each manufacturing location there is a dedicated Health & Safety officer responsible for ensuring that staff are properly managed and wear the appropriate clothing at all times. Plant management and other senior management pay close attention to employee activities and workplace compliance on a daily basis.

In 2018 there were 6 recorded work injuries across Magontec's five workplaces. No injuries were recorded at the now closed Shanxi Province primary magnesium alloy plant.

Among the 6 accidents there were no serious or long-term injuries to Magontec production staff.



Magontec Qinghai

Qinghai Province

In 2018 Magontec's new Magnesium Alloy Cast House at Golmud in Qinghai Province operated throughout the year having been commissioned in October 2017.

The new plant acquires pure magnesium from Magontec's Chinese partner company (and 29% shareholder) Qinghai Salt Lake Magnesium Co Ltd (QSLM) which operates an electrolytic magnesium smelter adjacent to the Magontec cast house.

Magontec operates at its Qinghai plant under a series of agreements with QSLM that cover, among other issues, the price that Magontec pays for its raw material supply, the lease of the buildings and some equipment (10 + 10 years) and the supply of utilities. For the period of the lease Magontec also has an exclusive right to manufacture magnesium alloys at this site in Golmud.

The Golmud magnesium complex is powered by energy sources that are more than 85% renewable and has the lowest carbon footprint of any magnesium plant in the world.

Production at the Magontec Qinghai plant has grown slowly through the year, in line with the rise in output from QSLM's electrolytic magnesium smelter. The Magnesium Alloy Cast House was fully installed and prepared for operation in early 2017 and remains poised to increase production as supply from QSLM allows.

Through the year Magontec Qinghai has sourced sufficient raw material to raise production volumes to an average of 600mt a month in the fourth quarter of 2018. While it was our intention to be operating this facility at much higher levels throughout 2018, raw material supply volumes have not allowed us to reach those targets.

At full capacity QSLM is expected to supply Magontec with up to 5,000mt a month of liquid pure magnesium.

In addition to lower than target revenues, profits at the Magontec Qinghai operation have been impacted by a deficit in both operational and labour economies of scale. The labour force required to operate the cast house equipment is in excess of that required for the current level of raw material supply while each casting line is operating at less than full capacity.

In the first quarter of 2019 Magontec Qinghai will commence operation of the second of two Continuous Refinery Furnaces (CFRs). Each CRF is dedicated to a particular type of Mg alloy (AM and AZ), and the move to operation of both CRFs will reduce costs associated with switching between alloys, particularly at higher volumes.

While we are now able to supply increasingly large orders for both generic Mg alloy families, the economics of operating at the current scale of production is sub-optimal.

Higher volumes of raw material supply, the receipt of liquid material rather than a mixture of liquid and solid ingots and higher throughput volumes are expected to materially improve the economics of this plant in 2019.

Magontec's partner company, QSLM, has now brought both Dehydration Units on line (each with an output capacity of 50,000 metric tonnes of magnesium per annum) but was operating these at less than full capacity as at the end of 2018, while the Reduction Cell House is operating at about 30% of capacity.

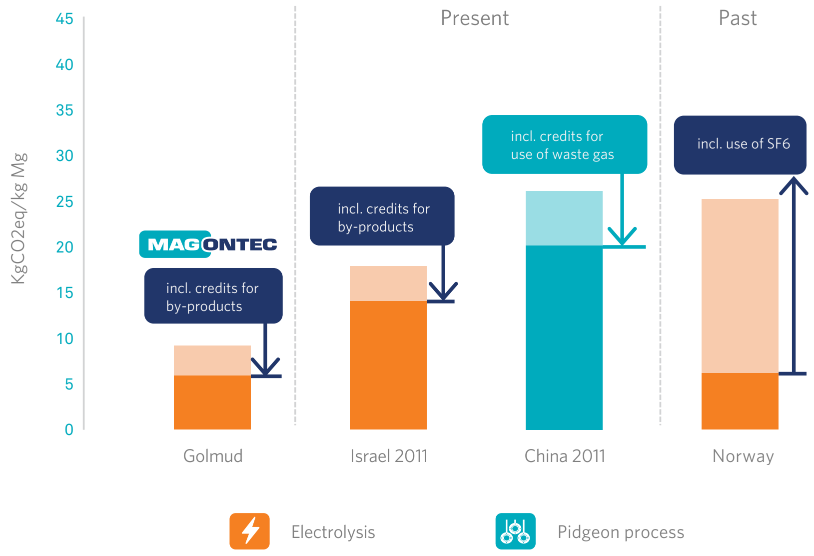
Through the year there has been much activity at the Magontec Qinghai site. We have welcomed customers from major die casting groups in Asia and

Europe who have taken the opportunity to visit the world's newest and most environmentally advanced electrolytic magnesium smelter and Magontec's adjacent Magnesium Alloy Cast House. These visits are an essential part of the qualification process for all new suppliers to the global magnesium industry and we are very pleased to inform our shareholders that Magontec Qinghai is now officially qualified to supply the majority of magnesium alloy die casting companies around the world.

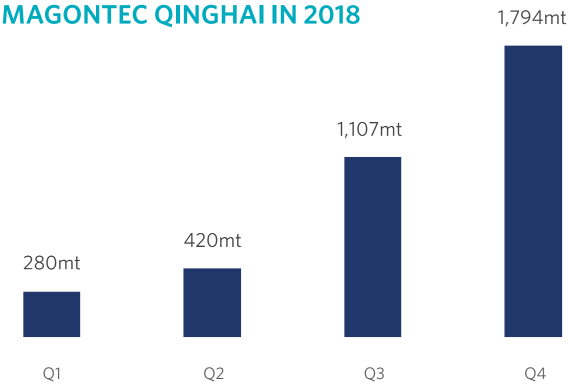
Many of our customers took the opportunity to visit us in April 2018 when the plant was officially opened. We were very privileged to have in attendance magnesium industry professionals, Chinese Government officials, the senior management of Qinghai Salt Lake Industries Co Ltd (the parent company of QSLM) as well as local economic zone executives, academics involved in magnesium research from China and Europe and representatives of Magontec's Board of Directors.

We were particularly pleased to welcome Gerald Thomson, the Deputy Head of Mission from the Australian Embassy in Beijing along with a number of other Australian Trade and Diplomatic representatives.

MAGONTEC QINGHAI WILL PRODUCE THE LOWEST CO2 MAGNESIUM IN THE WORLD



QUATERTERLY MG ALLOY PRODUCTION AT MAGONTEC QINGHAI IN 2018



Magontec Qinghai Opening Ceremony, 18th April 2018.

Metals Division

Magnesium alloy production and recycling

Magontec is a manufacturer of generic and specialist magnesium alloys. The company acquires its raw material from pure magnesium manufacturers and converts this product, together with other alloying elements, into magnesium alloys.

The Company also recycles magnesium alloy scrap. The Company's principal customer base, automotive and power tool magnesium alloy die cast product manufacturers, generate high levels of scrap, typically more than 40% of the material processed.

Magontec currently operates three magnesium alloy plants; a primary magnesium alloy facility at Golmud in Qinghai Province and two plants in Europe at Bottrop in Germany and Santana in Romania, which are principally magnesium alloy recycling facilities.

2018 REVIEW

Overall the global metals business experienced slightly lower revenues on lower net volumes while Gross Profit rose by more than 10%.

In China volumes and profitability rose sharply through the period. The closure of the leased facility in Shanxi Province in October and the transfer of all production to the new facility at Golmud in Qinghai Province was professionally executed by Magontec's Chinese management. Many of the senior production executives from the Shanxi facility have now moved to Qinghai allowing the company to continue to benefit from the skills and experience of an established team.

The European business, which is largely a magnesium alloy recycling operation, struggled in 2018 as margins were compressed at both the Romanian and German operations. In Romania we have continued to experience production problems stemming from a highly competitive labour market. Unemployment in western Romania stands at about 1.5%, the result of large-scale emigration and the relocation of large industrial activities from western European locations. Recycling volumes at the Romanian plant were slightly higher in 2018, reflecting a stable material supply environment, but labour turnover, leading to inferior production metrics, was a principal cause of reduced profitability.

Global magnesium markets were stronger again in 2018. Rising demand and heightened environmental standards for factories in China drove international prices up throughout the year. China remains the largest manufacturer of pure magnesium and magnesium alloys and it is particularly dominant in global trade. Other pure magnesium manufacturers operate in protected markets (US and Brazil) or do not suffer the same embargoes inflicted on Chinese product (Israel and Russia).

The trade disputes between China and the US have had little direct impact on trade in magnesium alloys for Chinese producers; a 2005 US anti-dumping tax of 141% had already reduced direct Chinese magnesium exports to the US to zero. On a wider level the disruption caused by the recent US trade initiatives, together with the automotive industry's ability to inflict significant damage on itself and various environmental issues, all contribute to a more uncertain outlook.

The net effect for Magontec will likely be mixed as environmental issues caused by automotive tailpipe emissions are expected to encourage magnesium demand (particularly green low CO2 material from Magontec's Qinghai facility) while overall automotive sales growth seems likely to stagnate.

With over 80% of magnesium alloys destined for the automotive industry this relationship remains a critical one for primary magnesium alloy and magnesium alloy recycling demand. Over the last 18 years automotive demand has been largely driven by the rapid development of China. Chinese automotive sales rose from 700,000 units in 2000 to 25.3 million units in 2018. In 2019 global sales are expected to be steady overall. Sales in western countries have been more modest over the last 18 years with North America up 4.7% and Western European sales unchanged over the same period.

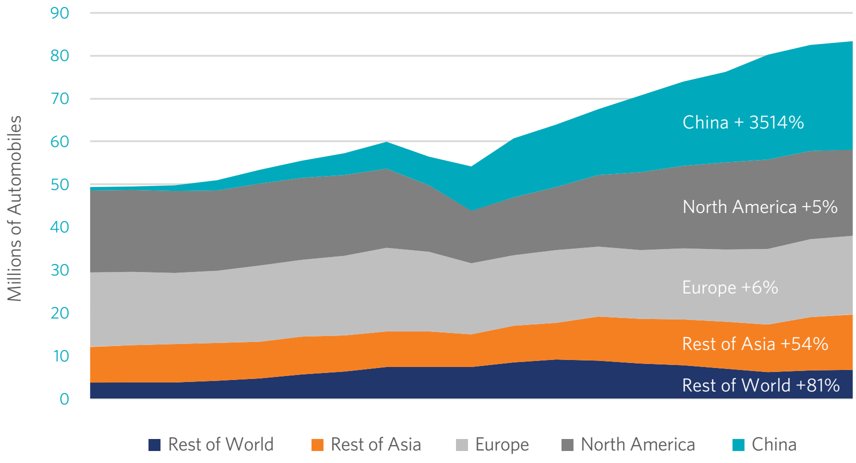
In 2018 the automotive industry has also been impacted by a collapse in sales of diesel engine vehicles and ad hoc new vehicle tailpipe emissions regulations, mostly targeted at diesel, introduced by local authorities in Europe and elsewhere. On top of this new European emission regulations (WLTP) were introduced in 2018, requiring manufacturers to re-certify all models. The net effect of these events has been a reduced volume of higher margin Magontec proprietary AE family Mg alloy sales, generally used in higher performance marques, for which re-certification has been most delayed.

New emissions controls on production processes have also impacted the volume of output and price of pure magnesium in 2018. Chinese authorities have long sought to reduce harmful industrial emissions and have targeted the most polluting industrial producers in recent years. This includes coal and coke making as well as the manufacture of ferro silicon, a critical and high cost raw material for Pidgeon process magnesium production. Chinese magnesium manufacturers, with the exception of the QSLM's new Qinghai plant, rely on coal and coke making to power Pidgeon process pure magnesium plants.

AUTOMOTIVE SALES BY REGION

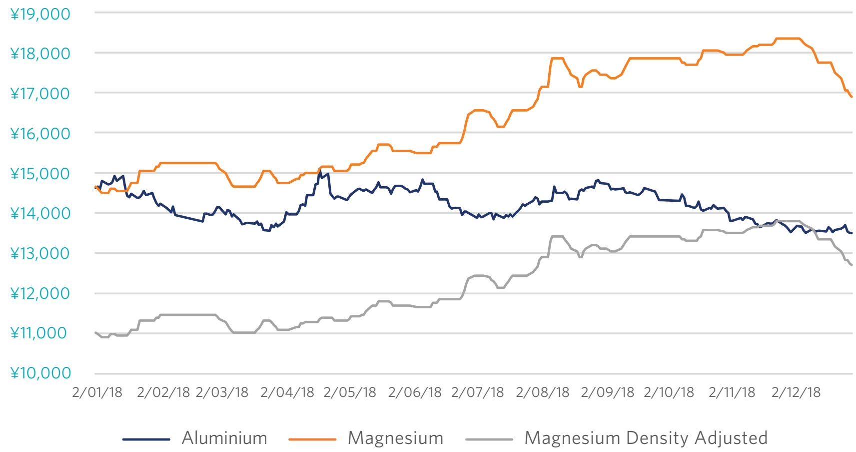
All the growth has been in China in the 21st Century

Global automotive sales 2000 – 2018



PURE MG PRICE, WITH AL AND ADJUSTED FOR DENSITY

Magnesium and Aluminium prices (ex China) 2018

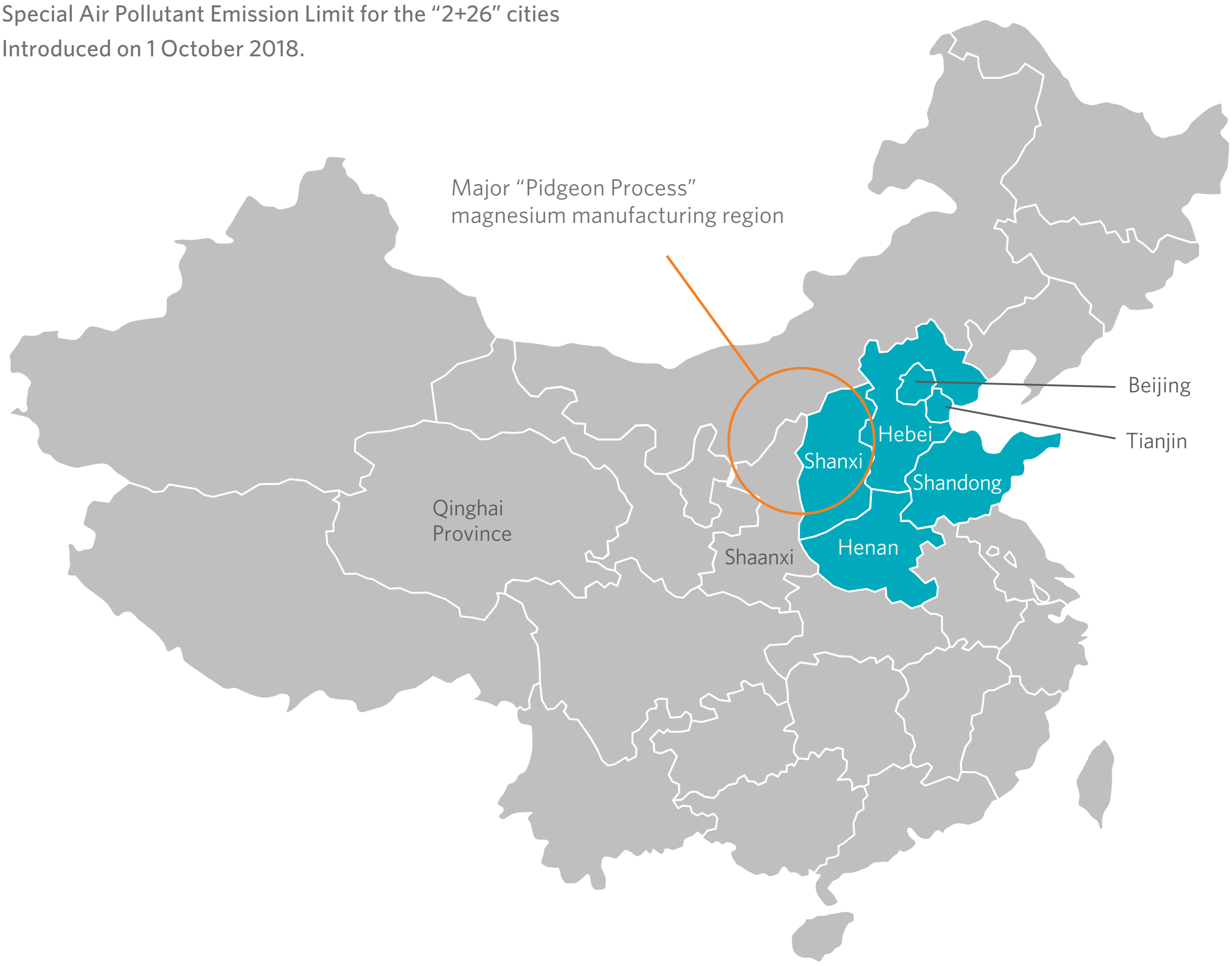


This resulted in the closure of factories across the magnesium supply chain, including major magnesium alloy manufacturing facilities, and a sharp rise in the traded price of magnesium up from ¥14,650 per metric tonne in January 2018 to ¥16,900 at the end of December and peaking at ¥18,350 in early December 2018. At the end of January 2019, the price had risen again to ¥17,150. On a density adjusted basis however, magnesium remains competitive with aluminium.

In 2019 we can expect further magnesium price volatility as authorities in China continue to expand the imposition of restrictions on industrial emissions (in October 2018 the government introduced its 2+26 cities emissions reduction policy, covering six regions including Beijing, Tianjin and Shanxi Province) and force manufacturers to either close capacity or significantly modify production processes. At Magontec Qinghai our raw material supplier is 85% powered by renewable energy and the wider agreement with Qinghai Salt Lake Co Ltd is designed to largely insulate Magontec against longer term raw material price fluctuations.

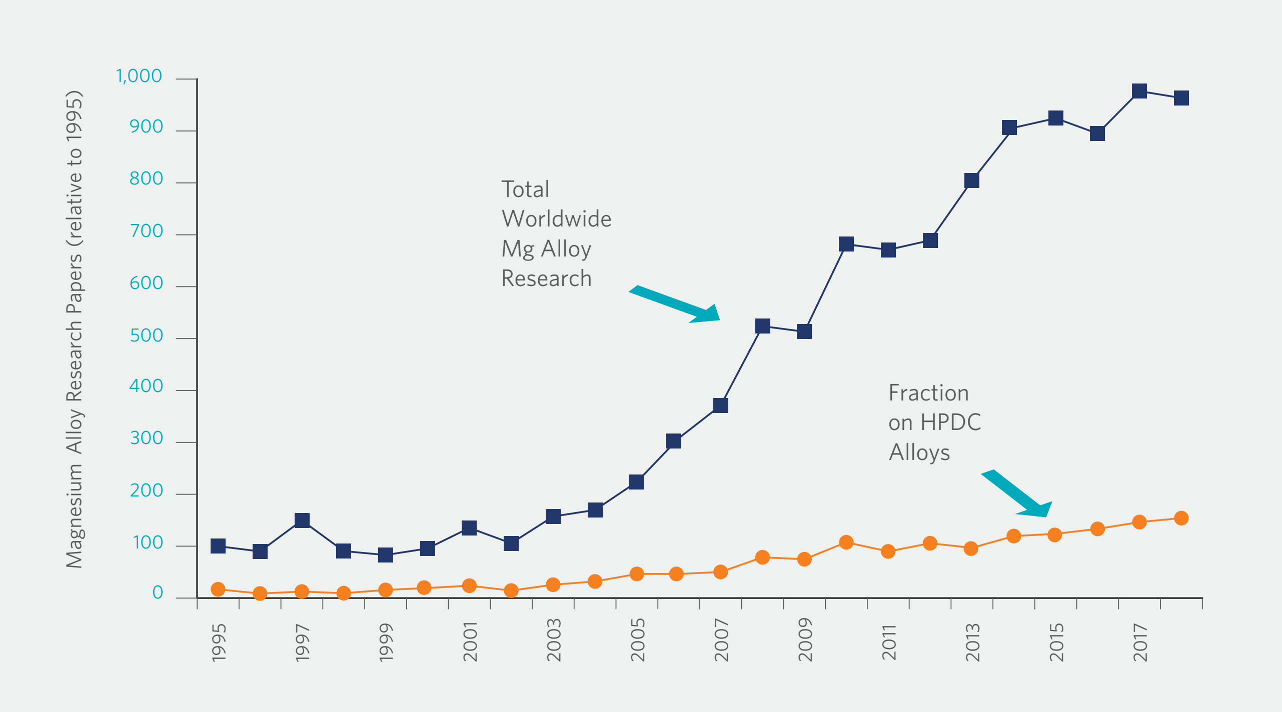
CHINESE EMISSIONS REGIONS CHART

Special Air Pollutant Emission Limit for the “2+26” cities
Introduced on 1 October 2018.



Production process and equipment		Concentration limit (mg/m3)								
		Current standard (GB 25468-2010)				New regulation standard (GB 25468-2010 Amendment)				
		particulate matter	SO2	Cl2	HCl	particulate matter	SO2	Cl2	HCl	nitrogen oxides (cal. as NO2)
Mining	crushing, sieving, transporting	50	-	-	-	10	-	-	-	-
Mg smelting	raw material preparation	50	-	-	-	10	-	-	-	-
	calcination kiln	150	400	-	-	10	100	-	-	100
	reduction furnace	50	400	-	-	10	100	-	-	100
	refining furnace	50	400	-	-	10	100	-	-	100
	others	50	400	-	-	10	100	-	-	100

Research and Development



Magnesium alloy research is an active area throughout the world. In the period from 2002-2014 the rate of publications increased by an order of magnitude.

Much of this work is carried out by universities and research institutes. Magontec is actively involved in magnesium alloy research and maintains links to research organisations through a number of means including the Australian Research Council Linkage Grants Program.

Magontec's alloy research activities are highly focussed on industrially relevant topics. Due to unique property advantages, well over 90% of all magnesium alloy usage is for high pressure die cast components, yet only 10% of worldwide magnesium alloy research is targeted at these applications.

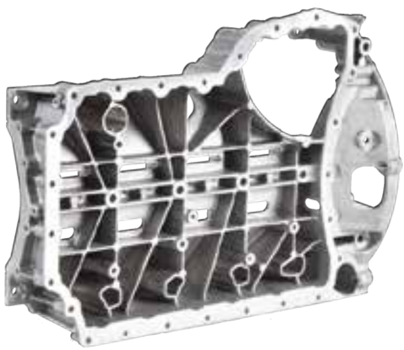
Our research focusses strongly on high pressure diecast alloys and in particular our AE alloy series. The drivers for alloy development have shifted over the years and gone through a number of different phases:

2000's: Internal combustion engine powertrain related applications – active research into improving high temperature creep properties

2010's: Structural applications, electric vehicles and heat dissipation – Alloys with good combinations of strength and ductility for crash resistance and joining. Alloys with higher heat dissipation characteristics than die cast aluminium alloys at reduced weight.

Much of the other 90% of alloy research is devoted to wrought products: extrusions and sheet. Although the present market size is small, the strong international research focus has led to an increased market interest, particularly in public transport applications such as trains and buses.

Magnesium is also finding uses in unexpected areas such as concrete moulding materials for building construction. Magnesium is uniquely suited due to the combination of light weight and resistance to the highly alkaline nature of concrete mix. During 2018 Magontec participated in a successful ARC Linkage Grant application which will see an increased focus on wrought alloy work in the coming years.



Magnesium Powertrain component – Audi TFSI Quattro

Magnesium Structural component – Meridian / Ford Liftgate

Cathodic Corrosion Protection

(Anodes) Division

Magontec is a manufacturer of a wide variety of Cathodic Corrosion Protection (CCP) products, the vast majority of which are supplied to water heater manufacturers. CCP products are found in domestic and commercial water heater devices including heat pumps and solar systems.

Magontec is one of the world's largest and most diversified manufacturers of CCP products. The Company has magnesium anode manufacturing facilities in Romania, serving European and Middle Eastern customers, and in China, serving customers across Asia and the Americas. Magontec also manufactures electronic or powered anodes that are widely used in higher specification applications.

2018 REVIEW

The global anodes business enjoyed a very strong year. Higher volumes, particularly in Chinese Mg anodes and European electronic anodes, resulted in a 23% rise in Gross Profit.

The main drivers of this very positive result came from new markets in the USA, the recovery of volumes lost in China in 2017 and new Chinese volumes won in 2018. In addition to volume gains there were also considerable productivity gains, derived from both volume and automation initiatives.

In Xi'an the Mg anodes business is halfway through a comprehensive equipment upgrade that saw improved casting efficiencies in 2017 followed by strong processing efficiency improvements in 2018.

In the coming 12 months the Magontec Xi'an plant will continue to invest in robotics and other automated processing equipment as well as new extrusion capacity. While unit prices for Mg anodes in China have remained highly competitive, the rise in raw material costs presented a particular challenge through the year.

In Europe the manufacture of Mg anodes, which takes place in the same Romanian facility as the recycling business, has suffered from similar labour issues. Other European CCP products enjoyed a much stronger year, opening new markets in the USA and developing new products. In 2019 Magontec's German plant will construct a new laboratory for the CCP business with the objective of broadening the offering from its existing base of water heater customers to other water container manufacturers in commercial as well as domestic appliances. The CCP product development team will also seek to develop analogous appliances for the industries that it currently serves.

Board of Directors

NICHOLAS ANDREWS

Executive Chairman

B Ec.(Syd)

—

Mr Andrews has been the Executive Chairman of Magontec Limited since November 2009. From 2007 to 2009 Mr Andrews served as a Non-Executive Director of Advanced Magnesium Limited prior to the acquisition of Magontec GmbH and the company name change to Magontec Limited.

Mr Andrews has a financial services background in the funds management industry and in investment banking. From 1996 to 2005 he was a Managing Director at UBS Investment Bank and responsible for global distribution of Australian and New Zealand Equity products. From 1989 to 1996 Mr Andrews was the Chief Investment Officer at LGT Investment Management in charge of the group's investment portfolios for the Australasian region.

Mr Andrews is also a Member of the Board and Treasurer of the International Magnesium Association.

XIE KANGMIN

Non-Executive Director
(re-appointed 10 May 2018)

Member of the Finance, Audit and Compliance Committee (FAC)

Graduate of Chongqing University

—

Mr Xie is the President of Qinghai Salt Lake Industry Co., Ltd. Mr Xie has been an employee of the Qinghai Salt Lake Industry Co Ltd (QSLI) since 1984 and through this period has held a number of roles within the organisation and its subsidiary companies. Mr Xie is a Senior Engineer and holds a Bachelor of Engineering (Mining) degree from Chongqing University. QLSI is the parent company of Qinghai Salt Lake Magnesium Limited (QSLM).

QSLM is a 28.99% substantial shareholder in Magontec Limited and the company with whom Magontec Limited has entered into a number of agreements in relation to the Magontec Qinghai alloy production facility at Golmud in Qinghai Province PRC.

ANDRE LABUSCHAGNE

Non-Executive Director
(re-appointed 11 May 2016)

Member of the Finance, Audit and Compliance Committee (FAC)

B. Comm (Potchefstroom University)

—

Mr Labuschagne is the Executive Chairman of Aeris Resources Limited (formerly Straits Resources Limited) which is a substantial shareholder of Magontec Limited to the extent of 13.06% at the date of this report.

Mr Labuschagne is an experienced mining executive with a career spanning more than 25 years, primarily in the gold industry, and has held various executive roles in South Africa, PNG, Fiji and Australia for a number of leading gold companies, including Emperor Gold Mines, DRD Gold and AngloGold Ashanti. Mr Labuschagne was previously Managing Director of ASX-listed gold company, Norton Gold Fields Limited.

LI ZHONGJUN

Non-Executive Director
(re-appointed 10 May 2018)

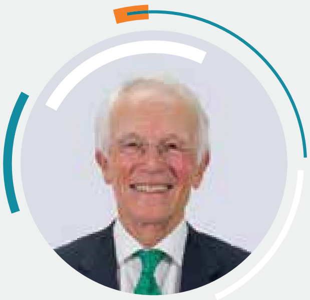
Member of the Remuneration and Appointments Committee (REM)

Graduate of Wuhan University of Technology

—

Mr Li is the owner of Tianjin Keweier Metal Material Co Ltd (KWE (TJ)) in China. He is a graduate of Wuhan University of Technology and spent 10 years at Tianjin Auto Industry Company Ltd. For more than 10 years, Mr Li has built a trading and manufacturing business that specialises in magnesium products. KWE (TJ) has facilities located in Hong Kong and Tianjin and a broad experience of the global magnesium industry. Mr Li is a major beneficial shareholder in Magontec Limited.

Board of Directors



ROBERT SHAW

Independent Director
(resigned 31 December 2018)

Chairman of the Finance, Audit and Compliance Committee (FAC)

Member of the Remuneration and Appointments Committee (REM)

BE, MBA, MPA, FAICD, JP

—

Mr Shaw has extensive experience in business management in both an Executive and Non-Executive capacity. He has specialist skills in finance and financial analysis, audit committees and corporate governance.

He is currently a Non-Executive Director of Credit Corp (CCP) where he is Chairman of the Audit and Risk Committee. Mr Shaw holds Bachelor of Industrial Engineering, Master of Business Administration and Master of Professional Accounting degrees.

ATUL MALHOTRA

Independent Director
(appointed 1 January 2019)

Chairman of the Finance, Audit and Compliance Committee (FAC)

Member of the Remuneration and Appointments Committee (REM)

MBA (Dehli University)

—

Atul Malhotra has an extensive professional background in Procurement, Supply Management, Strategy, Business Development and other functions. During his career spanning over 40 years, he has held executive roles at ABB, Bombardier Transportation, Adtranz and Continental with responsibility for projects and operations in Europe, Asia and Australia.

For over 10 years till October 2013, Mr Malhotra was the Head of Purchasing and a Member of the Group Management at Georg Fischer Automotive Group, Schaffhausen, Switzerland, a leading global supplier of cast metal (including magnesium) parts with an annual turnover of approximately 1,200m Euro and 11 production units located in Europe and China.

As Head of Purchasing, his main responsibilities included establishing procurement strategy and managing the procurement function. As part of the Group's senior management team he also held co-responsibility for providing strategic direction to, and oversight of, the business units with reporting responsibilities to the Corporate division.

Since January 2014 he has been acting as an independent adviser to various corporate clients and businesses.

ROBERT KAYE SC

Independent Director
(re-appointed 17 May 2017)

Chairman of the Remuneration and Appointments Committee (REM)

LLB (Syd), LLM (Cambridge) (Hons)

—

Mr Kaye was admitted to legal practice in 1978 and employed as a solicitor at Allen, Allen & Hemsley Solicitors. Thereafter he pursued his legal career at the NSW Bar and was appointed Senior Counsel in 2003, practising in commercial law. He has been involved in an array of commercial matters both advisory and litigious in nature and served on a number of NSW Bar Association committees including the Professional Conduct Committee. He has also served as a director for various private companies. In the conduct of his practice as a barrister, he has acted for many financial institutions and commercial enterprises, both public and private and given both legal and strategic advice. He has had significant mediation experience and been involved in the successful resolution of complex commercial disputes. Mr Kaye is currently Chairman of Collins Foods Limited.

LI SHUN

Alternate Non-Executive Director
(appointed 25 October 2017)

Mr Li Shun graduated from Qinghai University with a degree in Accounting and is a qualified intermediate accountant. Within Qinghai Salt Lake Industry Co Ltd (QSLI), he is currently the Section Head of Securities Affairs (Board Secretary Department of QSLI) and the Securities Affairs Representative. His previous experience within QSLI also includes serving in the capacity of the deputy section chief of equity management (Investment Department) as well as experience in the QSLI audit department.

He serves as the alternate director to Mr Xie Kangmin.

Executive Management

CHRISTOPH KLEIN-SCHMEINK

President Magontec Europe, North America and Middle East

MBA (Münster University)

—

Mr Klein-Schmeink joined Magontec Limited (then Hydro Magnesium) in 2000 as Sales and Marketing Manager responsible for global sales of the company's anode products.

He was appointed Head of Sales and Marketing in 2007 and Vice-President of Global Sales and Marketing in 2011. In 2012 Mr Klein-Schmeink was appointed President of Magontec GmbH and has responsibility for the Group's activities in Europe, North America and the Middle East. Prior to joining Magontec Mr Klein-Schmeink held the position of Sales Director Asia Pacific with the global mining services company Terex Mining Corp.

Mr Klein-Schmeink holds a Masters of Business Administration degree from Münster University.

TONG XUNYOU

President, Magontec Asia

B Chem (Dalian University), MBA (Hong Kong Polytechnic University)

—

Mr Tong joined Magontec Limited (then Hydro Magnesium) in 2003 in the role of Production Manager, Finance Manager and Deputy General Manager. In 2006 Mr Tong was appointed General Manager and assumed responsibility for all of Magontec's Chinese recycling and anode manufacturing activities.

Prior to joining Magontec Limited Mr Tong spent eight years with the Henkel Adhesive Company Limited where he was Production and Branch Manager.

Mr Tong holds a Bachelors degree in Chemistry from Dalian University of Science and Engineering and an MBA from Hong Kong Polytechnic University.

DERRYN CHIN

Chief Financial Officer

B Com (UNSW), CA, CFA

—

Mr Chin joined Magontec Limited in 2014 and was appointed as the Chief Financial Officer in 2016.

Prior to joining Magontec, Mr Chin was an equity research analyst at Macquarie Group in Australia and prior to that held roles in both the audit and financial advisory divisions of KPMG.

He is a member of Chartered Accountants Australia and New Zealand, a CFA charterholder and speaks Mandarin. He graduated with a Bachelor of Commerce from the University of New South Wales with a double major in Accounting and Finance.

PATRICK LOOK

Vice President, Finance & HR

Business Economist VWA

—

Mr Look is the Vice-President of Finance & HR, with primary finance and operating oversight responsibilities for the company's divisions in Europe, North America and the Middle East. Mr Look started his career at Magontec GmbH (then Hydro Magnesium) in 1998 as part of the industrial business management trainee program.

Over the last 20 years, after assuming various finance roles in the company including accounting, purchasing and logistics and graduating as a Business Economist (VWA) he was appointed Finance Manager in 2009 and Vice-President Finance & HR in 2012.

Executive Management

JOHN TALBOT

Company Secretary

B Bus, Accounting (UTS)

Mr Talbot has been the Company Secretary for Magontec since February 2008, a role he has previously combined with that of Chief Financial Officer. Mr Talbot relinquished his responsibilities as CFO in 2016.

From 1988 to Sept 2000 Mr Talbot was a senior executive at a leading Australian bank, where he headed the Bank's Project and Infrastructure Finance Division.

Prior to 1988 his other responsibilities within the bank included capital markets activity and income tax compliance. From 2000 to his appointment in February 2008 with Magontec, he undertook various corporate advisory roles in Australia and overseas.

DR ZISHENG ZHEN

Technical Director (R&D and Quality Management), Magontec Asia

PhD, Materials Processing Engineering (The University of Science and Technology Beijing)

Dr Zhen joined Magontec Limited in 2009 as the R&D manager of Magontec Xi'an Co. Ltd., and was appointed as the technical director of Magontec Asia in 2011, responsible for R&D activities as well as quality management for all facilities in China.

Dr Zhen has almost 20 years of research and technical development experience in magnesium. He gained his PhD in materials processing engineering from The University of Science and Technology Beijing, China in 2003. He then conducted further research works on magnesium alloys and processing technologies at Oxford University and Brunel University in England, and at the Magnesium Innovation Center in GKSS (now HZG) in Germany. Prior to joining Magontec he was a senior research fellow at the Magnesium Innovation Center in Germany.

PROF TREVOR ABBOTT

Director – Research and Development

B App Sc Metallurgy (UniSA)
PhD (Monash)
Adjunct Professor, RMIT University

Prof Abbott completed his PhD in 1987 and has extensive experience in the metals industry including aluminium alloys (PhD topic), steel (working for BHP in Melbourne and Wollongong throughout the 1990's) and magnesium alloys. During the period 2000-2004 he held an academic position at Monash University where he led the magnesium applications development sector of the CAST Cooperative Research Centre. He has worked for Magontec and its predecessor organisations since 2005. His career spans both industrial and academic roles and he is experienced in applying university based research capabilities towards industrially relevant problems. He has been successful in obtaining three Linkage Research Grants from the Australian Research Council for collaborations with RMIT University, Monash University and the University of Queensland. These projects have focussed on improved alloys, particularly within the AE alloy family, with targets closely aligned to the needs of Magontec's customers worldwide. Prof Abbott has been instrumental in expanding Magontec's alloy portfolio including the recent entry into zirconium containing magnesium alloys. He also maintains an active presence in the scientific research community with over 80 scientific publications.

Financial Report

for the year ended 31 December 2018

1. Corporate information

The consolidated financial statements of Magontec Limited and its controlled subsidiaries as listed in Note 22 herein (collectively, the Group) for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 28 February 2019. Magontec Limited is a company limited by shares incorporated in Australia. The shares are publicly traded on the Australian Securities Exchange (ASX) under the code "MGL".

2. Glossary of entities referred to in this report

Formal Name of Entity	Description of Entity	Referred to as
Head office entities		
Magontec Limited	The ultimate parent/holding company of the Group.	Parent Entity, the Company or MGL
Advanced Magnesium Technologies Pty Limited	Wholly owned subsidiary of Magontec Limited that acts as the administrative operating entity.	AMT
Varomet Holdings Limited	The wholly owned holding company that owns the Group's operating businesses at Bottrop (Germany) and Xi'an (PRC).	VHL
Operating entities		
Magontec GmbH	The wholly owned entity that owns the Group's operations in Bottrop, Germany.	MAB
Magontec SRL	The wholly owned entity that owns the Group's operations in Santana, Romania.	MAR
Magontec Xi'an Co Ltd.	The wholly owned entity that owns the Group's operations in Xi'an, PRC.	MAX
Magontec Qinghai Co. Ltd.	The wholly owned entity that owns the Group's operations in Qinghai, PRC.	MAQ
Magontec US LLC	The wholly owned entity that acts as the Group's distributor located in the United States of America.	MAU
Magontec Shanxi Company Limited	The joint venture operations in Jishan, Shanxi Province PRC. Production ceased at this facility in October 2018.	MAY
Magontec Suzhou Co Ltd	The wholly owned entity that owns the Group's operations in Suzhou, PRC. Production ceased at this facility in 2016.	MAS
Major related shareholders		
Qinghai Salt Lake Magnesium Co. Limited	A subsidiary of Qinghai Salt Lake Industry Co. Limited (a company listed on the Shenzhen Securities Exchange) and a **28.99%** shareholder in MGL at the date of this report.	QSLM
Straits Mine Management Pty Limited	The company from which MGL acquired the Magontec group of companies on 4 July 2011. SMM, a subsidiary of Aeris Resources Limited was a 13.06% substantial shareholder of MGL at the date of this report. Mr Andre Labuschagne, a director of Magontec Limited is the Executive Chairman of Aeris Resources Limited.	SMM
KWE (HK) Investment Development Co Ltd	Shareholder in Magontec Limited. Mr Li Zhongjun, a director of Magontec Limited is also a director and shareholder of KWE (HK) Investment Development Co Ltd.	KWE (HK)

3. Rounding errors

The tables in this report may indicate apparent errors to the extent of one unit (being $1,000) in:

- the addition of items comprising total and sub totals; and
- the comparative balances of items from the financial accounts for the prior period ended 31 December 2017.

Such differences arise from the process of:

- converting foreign currency amounts to two decimal places in AUD; and
- subsequent rounding of the AUD amounts to one thousand dollars.

Directors' Report

The Directors of Magontec Limited submit herewith the Annual Financial Report of the Group for the twelve-month period ended 31 December 2018. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

Directors who held office during and since the end of the financial year were:

- Mr Nicholas Andrews (Executive Chairman)
- Mr Xie Kangmin (Non-Executive Director)
- Mr Li Zhongjun (Non-Executive Director)
- Mr Robert Shaw (Independent Director) – resigned 31 December 2018
- Mr Atul Malhotra (Independent Director) – appointed 1 January 2019
- Mr Robert Kaye (Independent Director)
- Mr Andre Labuschagne (Non-Executive Director)
- Mr Li Shun (Alternate Non-Executive Director to Mr Xie Kangmin)

Directorships of other Listed Companies

Directors who have held a Directorship position in another publicly listed company in the three years immediately before the end of the financial year are as follows:

- Mr Robert Shaw is a Non-Executive Director of Credit Corp Group Limited
- Mr Robert Kaye is Chairman of Collins Foods Limited. He was also formerly a director at UGL Limited, HT&E Limited and Spicers Limited during the relevant 3-year period
- Mr Andre Labuschagne is Executive Chairman of Aeris Resources Limited (formerly Straits Resources Limited)
- Mr Xie Kangmin is a director of Qinghai Salt Lake Industry Co. Limited

Company Secretary

Mr JD Talbot, B Bus (Acctg)

Mr Talbot has been the Company Secretary for Magontec since February 2008, a role he has previously combined with that of Chief Financial Officer. Mr Talbot relinquished his responsibilities as Chief Financial Officer in 2016. Prior to 2008 he was engaged as a financial consultant in the corporate finance field. Prior to 2000 he was a senior executive with a leading Australian bank.

Principal Activities

The principal activities of the consolidated entity during the course of the financial year consisted of:

- Manufacture and sale of generic and specialist alloys (including both primary alloy manufacture and recycling);
- Manufacture and distribution of magnesium and titanium cathodic corrosion protection products (anodes);
- Research and development of new proprietary magnesium alloys and technologies;
- Research and development of cathodic corrosion protection products (CCP); and
- Creating markets for new magnesium alloys and technologies by supporting demonstration trials and programs for developing new applications.

Directors' Meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

	Board Meetings		FAC Meetings (2)		REM Meetings (3)	
Director	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**
Mr Nicholas Andrews	9	9				
Mr Xie Kangmin	–	9	–	2		
Mr Li Zhongjun	7	9			2	2
Mr Robert Shaw	9	9	2	2	2	2
Mr Robert Kaye	8	9			2	2
Mr Andre Labuschagne	6	9	2	2		
Mr Li Shun (1)	8	9	2	2		

(1) Mr Li Shun is the alternate director to Mr Xie Kangmin.
(2) Finance, Audit & Compliance Committee.
(3) Remuneration & Appointments Committee.

Directors' Shareholdings

The following table sets out the relevant interest (direct and indirect) of each serving director in shares, debentures, and rights or options in shares or debentures of the Company or a related body corporate as at the date of this report.

Director	Ordinary Shares	Performance Rights
Mr Nicholas Andrews	20,870,953	15,586,660
Mr Xie Kangmin	–	–
Mr Li Zhongjun	56,197,298	–
Mr Atul Malhotra	–	–
Mr Robert Kaye	–	–
Mr Andre Labuschagne	–	–
Mr Li Shun	–	–

REMUNERATION REPORT

The remuneration report for the year ended 31 December 2018 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* (the Act) and its regulations.

The remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Parent Entity. Directors and executives with a direct reporting responsibility to the Executive Chairman except the Company Secretary are deemed to be such individuals.

The remuneration report is presented under the following sections:

1. Individual key management personnel disclosures
2. Remuneration at a glance
3. Board oversight of remuneration
4. Non-executive director remuneration arrangements
5. Executive remuneration arrangements
6. Group performance and the link to remuneration
7. Executive contractual arrangements

1. INDIVIDUAL KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES

Details of Directors and KMP are set out below. Their remuneration is detailed in the table on page 23.

(i) Directors during the year ended 31 December 2018

- Mr Nicholas Andrews (Executive Chairman)
- Mr Xie Kangmin (Non-Executive Director)
- Mr Li Zhongjun (Non-Executive Director)
- Mr Robert Shaw (Independent Director) – resigned 31 December 2018
- Mr Robert Kaye (Independent Director)
- Mr Andre Labuschagne (Non-Executive Director)
- Mr Li Shun (Alternate Non-Executive Director to Mr Xie Kangmin)

(ii) Key Management Personnel (KMP) during the year ended 31 December 2018

- Mr Nicholas Andrews - Executive Chairman
- Mr Christoph Klein-Schmeink - President Magontec Europe, North America and Middle East
- Mr Tong Xunyou - President Magontec Asia
- Mr Derryn Chin - Chief Financial Officer

2. REMUNERATION AT A GLANCE

Remuneration Strategy

The Group uses a combination of cash and non-cash mechanisms to remunerate key management personnel. At the Company's 2017 Annual General Meeting shareholders approved a plan for the global management group comprising cash based short term incentives and equity based long term incentives in the form of performance rights.

3. BOARD OVERSIGHT OF REMUNERATION

Remuneration & Appointments Committee

The Remuneration & Appointments Committee is responsible for making recommendations to the board on the remuneration arrangements for non-executive directors (NEDs) and executives.

The committee assesses the appropriateness of the nature and amount of remuneration of NEDs and executives on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum benefit from the retention of its directors and executive team.

Remuneration Approval Process

The board approves the remuneration arrangements of the Executive Chairman and executives following recommendations from the remuneration committee.

Remuneration Structure

The structure of Non-Executive Director and Executive Remuneration are separate and distinct processes as outlined in the following sections.

4. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS – BOARD POLICY AND STRUCTURE

The remuneration of Non-Executive Directors consists of directors' fees. The aggregate amount of Non-Executive Directors' fees is approved by Shareholders and is currently limited to $600,000 per annum. Any increase to the aggregate amount must be approved by Shareholders.

The Board decides how the aggregate amount or a lesser amount is divided between the Directors. Within the constraint of the aggregate $600,000 fees approved by Shareholders for Non-Executive Directors, compensation is set at $60,000 per annum for each Non-Executive Director inclusive of any payments for superannuation. There are currently no additional fees being paid to those directors serving on either the Finance, Audit & Compliance Committee or the Remuneration & Appointments Committee.

Equity based compensation including the issue of options is generally avoided for non-executive directors. However, this can be provided to directors as long as any such issue complies with the requirements of the Corporations Act and the ASX Listing Rules.

5. EXECUTIVE REMUNERATION ARRANGEMENTS

Board Policy

The Board of Directors' policy on Executive remuneration is as follows:

- When an executive or an employee is recruited, the Group's aim is to reward its staff at market rates within the manufacturing technology industry as determined and in consultation with a remuneration specialist where appropriate;
- The remuneration policy aims to retain key employees and align employee interests with Group performance and shareholders' interests;
- On 18 December 2013, the Board approved an incentive plan comprising short-term incentive (STI) and long-term incentive (LTI) components for the Magontec global management group. This plan was known as the *2013 Board Approved Plan*.
- Subsequent amendments to the *2013 Board Approved Plan* were approved by the Board on 23 February 2017 and presented at the Group's AGM on 17 May 2017, which was then ratified by shareholders. This plan is now known as the *2017 Shareholder Approved Plan*.
- The implementation of this plan is utilised to:
  a. motivate key management personnel (KMP) to originate and innovate strategies for growth;
  b. reward KMP for the satisfaction of positive strategic and financial outcomes; and
  c. to provide an adjunct to cash remuneration to preserve cash resources.

Each KMP has a set of key performance indicators (KPIs) mutually agreed by the employee with the Executive Chairman/Board (as appropriate) on an annual basis. The KPIs reflect the employee's ability to add value to the entity and increase shareholder wealth by ensuring productive gains such as increasing efficiencies, reduction in costs and increased profitability by maximising sales volumes and margins on sale revenues. Performance against these KPIs forms a component of the assessment of STI amounts as outlined below. The Board retains discretion to adjust final remuneration outcomes for all Executives.

Board Policy is reviewed periodically by the Remuneration and Appointments Committee. Where appropriate, recommendations to the Board for variations will be made.

Eligible executives for the 2017 Shareholder Approved Plan are outlined in the table below.

Participant	Current Position
Nicholas Andrews	Executive Chairman
John Talbot	Company Secretary and Consultant
Derryn Chin	Chief Financial Officer
Christoph Klein-Schmeink	President Europe, North America & Middle East
Xunyou Tong	President Asia
Patrick Look	Vice President Finance & Human Resources

5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

Previous Schemes

As at 31 December 2018, both the Employee Share Option Plan (ESOP) and Executives' Securities Issue Plan (ESIP) are no longer active as there are no outstanding obligations to employees.

Outcomes

During the year ended 31 December 2018:

- regarding the STI scheme, there was no bonus paid to the global management group as financial outcomes for the year ended 31 December 2017 were not achieved.
- with respect to the current year ended 31 December 2018, no STI provision has been made for performance during the current year.
- regarding the LTI scheme, there were no performance rights which converted to shares with respect to the 3-year period from 2015-2017 to members of the global management group.

Remuneration for directors and KMP in the current reporting period prepared according to accounting standards is shown below.

Key Management Personnel Remuneration 12 months ended 31-Dec-18 and 31-Dec-17

		Non-Performance Related					Performance Related			
		Salary & Allowances $	Termination Payment $	Super & Statutory Pension Benefits $	Share Based Payments $	Motor Vehicle & Other Allowances $	STI $	LTI shares $	LTI rights $	Total $
Mr N Andrews	**2018**	**425,000**	**–**	**25,000**	**–**	**–**	**–**	**–**	**20,693**	**470,693**
(Exec Chairman)	2017	403,993	–	30,000	–	–	–	35,675	11,504	481,172
Mr C Klein-Schmeink	**2018**	**326,378**	**–**	**23,804**	**–**	**34,026**	**–**	**–**	**15,999**	**400,207**
(President Magontec Europe)	2017	281,325	–	23,274	–	29,850	–	36,612	8,299	379,360
Mr X Tong	**2018**	**317,075**	**–**	**18,039**	**–**	**–**	**–**	**–**	**14,534**	**349,648**
(President Magontec Asia)	2017	278,371	–	14,820	–	–	–	29,748	7,796	330,736
Mr D Chin	**2018**	**230,002**	**–**	**21,850**	**–**	**–**	**–**	**–**	**10,332**	**262,184**
(Chief Financial Officer)	2017	230,002	–	21,850	–	–	–	–	2,690	254,543
Mr K Xie	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(Non Exec Dr)	2017	–	–	–	–	–	–	–	–	–
Mr Z Li	**2018**	**60,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**60,000**
(Non Exec Dr)	2017	43,333	–	–	–	–	–	–	–	43,333
Mr R Shaw	**2018**	**54,795**	**–**	**5,205**	**–**	**–**	**–**	**–**	**–**	**60,000**
(Independent Dr)	2017	39,574	–	3,760	–	–	–	–	–	43,333
Mr R Kaye	**2018**	**60,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**60,000**
(Independent Dr)	2017	43,333	–	–	–	–	–	–	–	43,333
Mr A Labuschagne	**2018**	**60,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**60,000**
(Non Exec Dr)	2017	43,333	–	–	–	–	–	–	–	43,333
Mr S Li	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(Alternative Dr)	2017	–	–	–	–	–	–	–	–	–
Total year ended 31 December 2018		1,533,250	–	93,898	–	34,026	–	–	61,558	1,722,732
Total year ended 31 December 2017		1,363,265	–	93,704	–	29,850	–	102,036	30,289	1,619,144

5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

Structure

The Group's limited resources mean that its remuneration structures must be simple. The arrangements therefore must balance ease of administration with appropriate reward.

Non-cash mechanisms are confined to shares and options. The issue of shares will be in terms of resolutions put to shareholders pursuant to ASX Listing Rules and other relevant governing regulations.

Technical services tend to be required by the Group on an irregular basis. There is a reliable base of technical consultants on which the Group can call upon when the need arises. This avoids the cost of maintaining permanent resources.

Key Management Personnel are defined as Directors, the Executive Chairman and full time employees with direct reporting responsibility to the Executive Chairman except the Company Secretary.

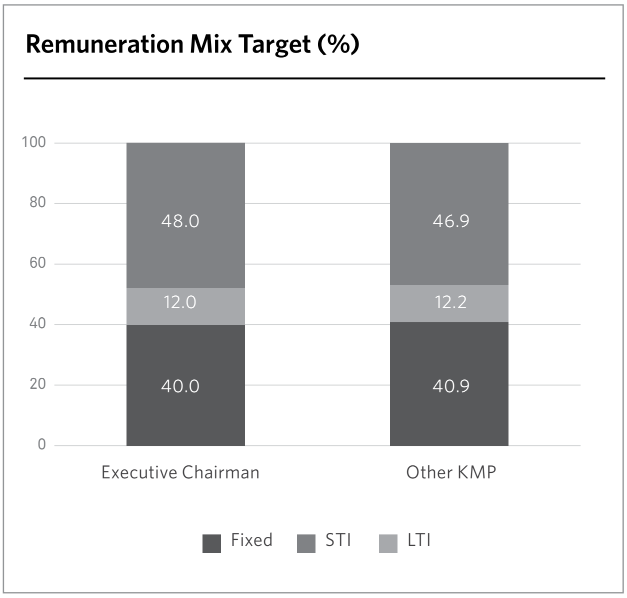
Under the 2017 Shareholder Approved Plan, staff remuneration has three components:

a. Base or fixed remuneration;
b. A short-term incentive (STI) in the form of cash; and
c. A long-term incentive (LTI) in the form of performance rights.

Further detail on each component is provided below.

Potential Remuneration Mix

The chart below outlines the target remuneration mix for the Executive Chairman and other key management personnel based on latest estimates of maximum possible remuneration at the date of this report.



Fixed Cash Remuneration

Executive contracts of employment include post-employment benefits (superannuation and certain social benefits for Chinese personnel) but do not include any guaranteed base pay increases. These are assessed on a periodic basis with the assistance of external consultants where deemed necessary.

Use of Remuneration Consultants

During the current year ended 31 December 2018, the Group did not engage the services of independent remuneration consultants.

5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

Executive STI Plan

The STI plan rewards executives according to a set formula with reference to group profitability. The Board determines the size of the pool based on actual financial metrics achieved relative to budget, and has discretion to adjust these payments depending on the particular circumstances of the Group and other qualitative factors as it sees fit. STI awards are 100% cash-settled.

Details of the STI plan forming part of the *2017 Shareholder Approved Plan* are as follows:

- The commencement date of the STI plan is 1 January 2017 and annually thereafter.
- The STI performance period is the one-year period from the relevant commencement date.
- The STI pool available for distribution is calculated as being equal to 25% of the excess of the actual net operating profit after tax (Actual NOPAT) over budgeted net operating profit after tax (Budgeted NOPAT) – the resultant figure being referred to as "The Pool";
- Net operating profit after tax (NOPAT) is defined as reported net profit after tax adjusted for specific items as deemed appropriate by the board.
- The amount of The Pool is modified as follows:

  a. The Pool would not be created where Actual NOPAT is negative; and
  b. In order to limit the amount of The Pool when profitability is low, the 25% ratio of excess Actual NOPAT over Budgeted NOPAT on which the Pool is calculated would be reduced according to the principles in the following table

1. If POOL as a % of ACTUAL NOPAT is equal to:	2. The Pool is MODIFIED to this % of excess ACTUAL NOPAT over BUDGET NOPAT
From 0.0% to 12%	25.0%
Over 12.0% to 20%	15.0%
Over 20.0%	8.0%

This constraint will be reviewed for appropriateness periodically by the Remuneration and Appointments Committee.

- Executives in the global management group participate in The Pool on a pro rata basis according to the percentage that their salary represents of the aggregate of salaries of eligible executives, the resultant figure being referred to as "The Provisional Payment";
- Eligible executives will receive –

  a. 45% of the Provisional Payment by way of a fixed component as determined by the formula described above; and
  b. Up to 55% of the Provisional Payment by way of a residual discretionary component determined according to an assessment of the eligible executive's contribution to regional and Group performance, satisfaction of KPIs laid down by management; and other subjective factors identified by the Remuneration and Appointments Committee.

- The resultant payments are subject to approval by the Board upon the recommendation of the Remuneration and Appointments Committee and may only be taken in cash.

Executive LTI Plan

Market Based Conditions

Long term incentives are issued in the form of performance rights to the global management group and provide for vesting into Magontec ordinary shares subject to the achievement of pre-determined share price targets in the first instance.

The plan uses absolute total shareholder return (TSR) as the basis for performance measurement targets based on the 30 day VWAP for each year ended 31 December.

TSR comprises the percentage change in the Company's share price, plus the value of any future dividends during the period and is measured over a 3-year period.

The performance condition of TSR is deemed as being the most appropriate by the Board due to the following reasons:

1. There are no comparable companies either on the ASX or globally that would provide a reliable relative performance benchmark
2. It is simpler to administer given limited human resources
3. It aligns the interests of employees in the management group with those of shareholders

Non-Market Based Conditions

Commencing from the 2018-2020 Plan, the 2017 Shareholder Approved Plan was modified. Subject to obtaining appropriate shareholder approvals, if the share price market based conditions referred to above are not achieved, eligible executives will also be able to receive 10% of their total salary in the form of LTI shares provided certain operational targets (i.e. non-market based vesting conditions) are met as detailed further overleaf.

5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

The vesting according to non-market based conditions can be summarised as follows for the 2018-2020 Plan and for those plans following. If (and only if) the:

- share price targets at or above the threshold range in the scale are not achieved;
- share price at 31 December 2020 is not less than the share price adopted at 1 January 2018 (allowing for the effect of any dilution);
- supply of liquid pure Mg from Qinghai Salt Lake Magnesium Co. Ltd. (QSLM) to Magontec Qinghai over the quarter ended 31 December 2020 is occurring at a rate greater than 38,000 tonnes per annum (after allowing for scheduled maintenance and short-term temporary interruptions to supply caused by unusual circumstances); and
- the four outputs in the table immediately below are performed to the standard of the measure and/or to the satisfaction of the Board,

then, at the discretion of the Board, an LTI payment will be made at 31 December 2020 up to 10% of total salary at 1 January 2018 via conversion of the relevant portion of the Performance Rights.

	Output Factor	Measure
1	Supply of liquid pure Mg by QSLM	Conversion to saleable Mg product of 100% of liquid pure so supplied
2	Mg product manufactured from QSLM supplied liquid pure	Sale of 100% of product at 1.
3	Conversion cost of liquid pure Mg supplied by QSLM to Mg product	Steady appreciable improvement over 2019 and 2020
4	Contribution to development of strategic initiatives	Subjective Board assessment of individual's input

During the year ended 31 December 2018, a total of 17,181,612 performance rights were issued with respect to the three-year period to 31 December 2020 pursuant to the 2017 Shareholder Approved Plan and the subsequent amendments approved by shareholders at the 2018 AGM. No other options were issued to KMP during the current financial period.

Further details of the LTI plan forming part of the 2017 Shareholder Approved Plan are as follows:

- The commencement date of the LTI plan is 1 January 2017 and annually thereafter up to and including 1 January 2020.
- The LTI performance period is the 3-year period from the relevant commencement date.
- A Performance Right is a conditional right granted by the Company to an eligible executive whereby that conditional right may, subject to the relevant terms and conditions, vest as Magontec ordinary shares in respect of participation in the LTI.
- Performance Rights will automatically lapse in the event of the death, dismissal, retrenchment, retirement or resignation of the eligible executive prior to the end date of the 3-year LTI performance period.
- Performance Rights will vest immediately in the event of a takeover (being the acquisition of control over the voting shares) of the Company.
- Performance Rights may not be transferred, assigned or novated except with the approval of the Remuneration and Appointments Committee.
- Eligible executives will not grant any security interest in or over or otherwise dispose of or deal with any Performance Rights or any interest in them until the relevant Magontec ordinary shares are issued to that eligible executive, and any such security interest or disposal or dealing will not be recognised in any manner by the Company.
- Performance Rights do not confer on a participant the right to participate in new issues of shares by the Company, including by way of bonus issue, rights issue or otherwise.

Grant of Performance Rights

At the commencement date of the relevant 3-year LTI performance period an eligible executive will receive Performance Rights –

i. equal in value to 30% of the eligible executive's gross salary at that date;
ii. equal in number to the value in i. divided by 75% of the greater of the market value of Magontec ordinary shares on the same date and the market value adopted under this provision at the commencement date of the immediately prior 3-year LTI performance period; and
iii. at nil consideration.

The number of Performance Rights is rounded down to the next whole number if it is not a whole number. Performance rights issued to executives do not have escrow periods.

No entitlement to Performance Rights accrues to the eligible executive until an appropriate confirmation from the Company has been received by the eligible executive.

5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

The calculation of these Performance Rights was included in the notice to the 2017 AGM, and subsequently at the 2018 AGM with the number of performance rights by employee provided in the table below.

Calculation of Performance Rights Issued to Global Management Group			
3 Year LTI Performance Period	**1 Jan 16 to 31 Dec 18**	**1 Jan 17 to 31 Dec 19**	**1 Jan 18 to 31 Dec 20**
1. Aggregate salaries of eligible participants at commencement of 3 year LTI period	$1,580,264	$1,527,227	$1,718,161
2. Multiplied by 30%	$474,079	$458,168	$515,448
3. Share price at commencement of 3 year LTI period assumed	$0.025	$0.040	$0.040
4. Performance Rights issued at commencement = Amount in step 2 / 75% * share price in step 3	25,284,226	15,272,266	17,181,612
5. Gross up for possible dilution in the period to the end of the 3 year LTI period	25,749,882	15,621,146	17,573,448
Start date of Performance Rights period	1-Jan-16	1-Jan-17	1-Jan-18
Date for potential conversion to ordinary shares	31-Dec-18	31-Dec-19	31-Dec-20

Performance Rights Issued to Global Management Group			
3 Year LTI Performance Period	**1 Jan 16 to 31 Dec 18**	**1 Jan 17 to 31 Dec 19**	**1 Jan 18 to 31 Dec 20**
Nicholas Andrews	6,811,172	4,275,488	4,500,000
Derryn Chin	2,607,152	2,576,033	2,518,500
Christoph Klein-Schmeink	5,085,769	2,973,577	3,618,256
Xunyou Tong	4,769,268	2,674,317	3,225,906
John Talbot	3,992,195	1,227,413	1,250,000
Patrick Look	2,484,327	1,894,318	2,068,950
Total Performance Rights	**25,749,882**	**15,621,146**	**17,181,612**

Vesting of Performance Rights as Magontec Ordinary Shares

- If, at the end date of the 3-year LTI performance period, the Performance Rights have not lapsed or vested then, at that date, an individual eligible executive's entitlement to –
  i. the number of Performance Rights will be adjusted for any dilution caused by capital restructures during the relevant 3-year LTI performance period; and
  ii. the adjusted number of Performance Rights will vest as Magontec ordinary shares according to the relevant paragraphs above.
- Performance Right share prices targets are assessed according to the 30-day VWAP to 31 December in the year of vesting.
- The percentage of Performance Rights that will vest as Magontec ordinary shares according to share price target Market Based Conditions are determined according to the following vesting % tables for the 2016-2018 Plan, the 2017-2019 Plan and the 2018-2020 Plan.

5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

2016-18 LTI Plan Vesting Schedule			
Performance Level		**Share Price**	**% of Performance Rights vesting**
Below threshold	Share price <	5.1	0%
Threshold range	Share price =	5.1	25%
Target range	Share price =	7.3	50%
Stretch	Share price >=	9.7	100%

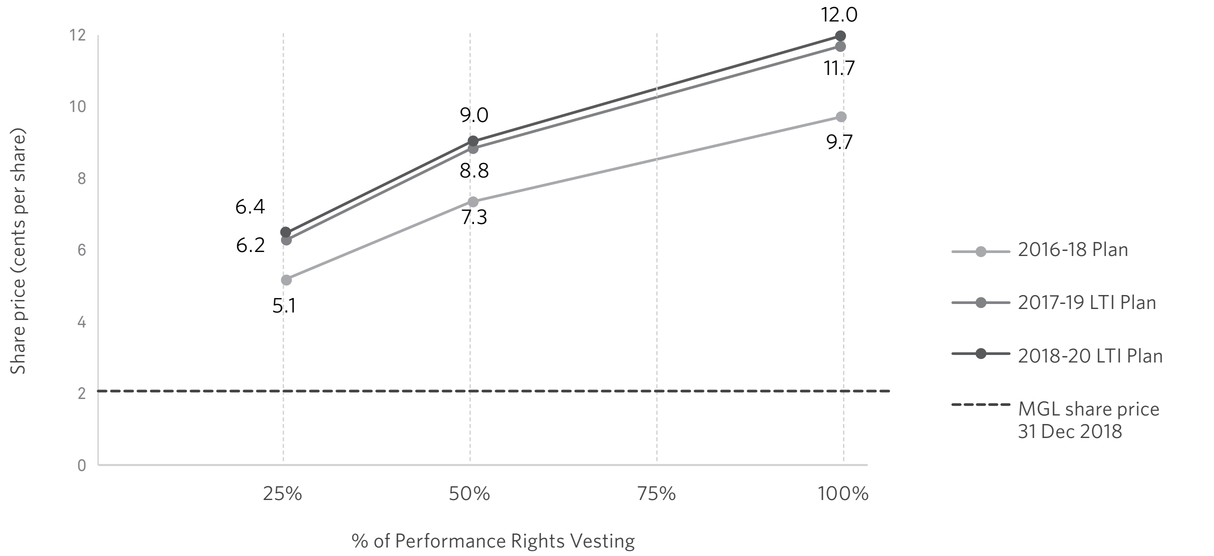
2017-2019 LTI Plan Vesting Schedule			
Performance Level		**Share Price**	**% of Performance Rights vesting**
Below threshold	Share price <	6.2	0%
Threshold range	Share price =	6.2	25%
Target range	Share price =	8.8	50%
Stretch	Share price >=	11.7	100%

2018-2020 LTI Plan Vesting Schedule			
Performance Level		**Share Price**	**% of Performance Rights vesting**
Below threshold	Share price <	6.4	0%
Threshold range	Share price =	6.4	25%
Target range	Share price =	9.0	50%
Stretch	Share price >=	12.0	100%

- For example, in the 2016-2018 plan, if the share price had reached 5.1 cents per share (the Threshold Range), this would have given rise to 25% of the Performance Rights vesting into Magontec ordinary shares.
- Under the 2016-18 Plan, if the share price had increased above 5.1 cents per share, the percentage of Performance Rights vesting would have increased on a pro-rata basis through to 100% vesting on achievement of the maximum Stretch target (being 9.7 cents per share).
- No entitlement to Magontec ordinary shares accrues to the eligible executive until an appropriate confirmation from the Company has been received by the eligible executive.
- The Magontec ordinary shares to be issued with respect to the Plan are issued at the 10- day VWAP on the date of issue of the ordinary shares.
- The LTI Amount is equal to the number of Magontec ordinary shares multiplied by the 10-day VWAP on the date of issue of the ordinary shares.

5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

LTI Plan Vesting Share Price Targets



Valuation of Performance Rights

The fair value of goods and services received as consideration by the Group has been estimated by reference to the fair value of the equity instruments granted.

Market Based Conditions

In 2017, an external consultant (KPMG Australia) provided limited assistance to the Group with respect to compiling a binomial options pricing model which was used to determine the fair value of performance rights issued to executives for market based conditions. In particular, KPMG Australia did not specifically express any opinions regarding assumptions or inputs to the model.

Assumptions regarding dividend yield and volatility have been estimated based on historical dividend payouts (nil) and volatility on an appropriate period deemed to have excluded instances of non-normal trading.

The fair value of the equity instruments granted for market based conditions is calculated assuming a 0% probability of forfeiture before grant date (i.e. it is assumed all participants remain employed by Magontec during the period), and is expensed on a straight-line basis over the vesting period.

Non market based conditions assumptions

The structure of the new LTI plan provides that if the market-based conditions above (i.e. share price targets) are not satisfied, the satisfaction of the non-market based conditions means that 10% of the total salary can be paid out in the form of an LTI.

As any LTI payout can only be with respect to the satisfaction of either the market based conditions or the non-market based condition (but not for both simultaneously), the Group has therefore modified the valuation to be equal to the higher of:

a. the existing market-based binomial valuation model; OR
b. the payout that would be owing by satisfaction of the non-market based conditions

Non-market based vesting conditions are subject to adjustment according to the number of instruments likely to vest.

In valuing the payout that would be owing by the satisfaction of the non-market based conditions, the Group has assumed:

a. 100% probability of attaining operational targets at the end of the 3-year period
b. 100% of eligible members will be still eligible at the end of the 3-year period

5. EXECUTIVE REMUNERATION ARRANGEMENTS (continued)

The table below outlines the assumptions used to determine the value of performance rights granted during the year ended 31 December 2018.

Table of assumptions

Plan	Share price (cents)	Grant date	Contractual Life (years)	Dividend yield	Volatility	Risk free rate	TSR share price 100% vest (cents)	Performance Right Fair Value (cents)
2016-18 Plan	3.6	19-May-17	1.62	0.0%	21.3%	1.63%	9.7	0.186
2017-19 Plan	3.6	19-May-17	2.62	0.0%	21.3%	1.74%	11.7	0.119
2018-20 Plan	3.1	10-May-18	2.65	0.0%	23.7%	2.16%	12.0	1.000

Loans to Members of Key Management Personnel

As at 31 December 2018, there was one employee loan outstanding to Mr Christoph Klein-Schmeink for a total of A$53,814 (2017: A$59,312).

The loan has a maturity date of 16 July 2021, which can be extended by 10 years at the option of the Company. Interest of 1.81% is attached to the loan. There were no other employee loans to key management personnel outstanding as at 31 December 2018.

Key Management Personnel Equity Holdings

Fully paid ordinary shares of Magontec Limited - 31 Dec 2018

	Total balance (held directly and indirectly) 1-Jan-18 No.	Granted as remuneration No.	Received on exercise of options No.	Acquired On Market or Under Share Purchase Plan No.	Total balance (held directly and indirectly) 31-Dec-18 No.	Balance held nominally (indirectly) No.
Mr Z Li (1)	56,197,298	–	–	–	56,197,298	55,797,298
Mr N Andrews (2)	20,870,953	–	–	–	20,870,953	15,409,401
Mr R Shaw	800,000	–	–	–	800,000	800,000
Mr C Klein-Schmeink	6,142,212	–	–	–	6,142,212	–
Mr X Tong	9,882,973	–	–	–	9,882,973	–
Mr D Chin	1,000,000	–	–	–	1,000,000	–
	94,893,436	**–**	**–**	**–**	**94,893,436**	**72,006,699**

(1) 55,797,298 shares held via KWE (HK) Investment Development Co Limited and 400,000 shares are held directly.
(2) 15,409,401 shares are held via DEWBERRI PTY LIMITED as trustee for Andrews Superannuation Fund and 5,461,552 are held directly.

Fully paid ordinary shares of Magontec Limited - 31 Dec 2017

	Total balance (held directly and indirectly) 1-Jan-17 No.	Granted as remuneration No.	Received on exercise of options No.	Acquired On Market or Under Share Purchase Plan No.	Total balance (held directly and indirectly) 31-Dec-17 No.	Balance held nominally (indirectly) No.
Mr Z Li (1)	56,197,298	–	–	–	56,197,298	55,797,298
Mr N Andrews (2)	18,993,502	1,877,451	–	–	20,870,953	15,409,401
Mr R Shaw	800,000	–	–	–	800,000	800,000
Mr C Klein-Schmeink	4,215,436	1,926,776	–	–	6,142,212	–
Mr X Tong	8,317,435	1,565,538	–	–	9,882,973	–
Mr D Chin	1,000,000	–	–	–	1,000,000	–
Total	**89,523,671**	**5,369,765**	**–**	**–**	**94,893,436**	**72,006,699**

(1) 55,797,298 shares held via KWE (HK) Investment Development Co Limited and 400,000 shares are held directly.
(2) 15,409,401 shares are held via DEWBERRI PTY LIMITED as trustee for Andrews Superannuation Fund and 5,461,552 are held directly.
(3) Mr John Talbot ceased to be a member of Key Management Personnel as at 1 March 2016, and thus his holdings are no longer disclosed in this table.

6. GROUP PERFORMANCE AND THE LINK TO REMUNERATION

In summary, resources have been directed to the following high-level tasks;

- restructure and redirect manufacturing resources to improve production efficiencies;
- rationalise inventories;
- planning for the installation of manufacturing plant and equipment at Golmud;
- initial marketing of production output from the new Golmud plant;
- monitoring manufacturing operations at all centres with a view to efficiency improvements; and
- negotiating the group debt position and working capital requirements among other financial imperatives.

Rewards are directed to those personnel who can directly or indirectly further the Group's objectives of:

- developing and executing strategic initiatives;
- cost efficiency; and
- market development.

During the reporting period ended 31 December 2018, the focus of the Group's management resources is described in the Executive Chairman's address. Outcomes with respect to financial performance over the last 5 years and details with respect to STI remuneration is summarised below.

Summary of financial performance	12 months to 31 Dec 14 $	12 months to 31 Dec 15 $	12 months to 31 Dec 16 $	12 months to 31 Dec 17 $	12 months to 31 Dec 18 $
Profit attributable to shareholders	**(1,663,983)**	**44,807**	**619,800**	**(1,614,255)**	**776,068**
Less unrealised FX gains/ add unrealised FX losses	(333,030)	(292,610)	498,282	436,901	(295,573)
Add back non cash equity expense	15,822	174,371	183,456	190,585	78,412
Add back provision for STI	–	–	145,078	–	–
Add back provision for LTI	–	–	141,478	–	–
Profit excluding unrealised FX, STI and non cash share based payments	**(1,981,191)**	**(73,432)**	**1,588,094**	**(986,768)**	**558,907**
STI pool ($)	**–**	**–**	**145,078**	**–**	–
%	0.0%	0.0%	9.1%	0.0%	0.0%

With respect to the LTI scheme, the share price targets approved by shareholders at the 2017 AGM for the 3-year assessment period ended 31 December 2018 were not achieved.

During the 3-year period ended 31 December 2018, the share price of the Company decreased from 2.2 cents per share as at 1 January 2016 to 2.0 cents per share as at 31 December 2018 giving rise to a decrease in the market capitalisation of Magontec Limited from $24.8 million to $22.8 million. After adjusting for new capital raised, dividends paid and return of capital (nil) during the 3-year assessment period, total shareholder wealth decreased to an adjusted total of $22.5 million, representing a decrease of $2.3 million during the LTI assessment period. As this fell short of the targets as outlined in the 2016-18 plan, no performance rights with respect to this period were eligible for vesting and thus have lapsed.

The table below summarises the STI and LTI awards for key management personnel at their face value, which differs from the remuneration report table above that is prepared according to accounting standards.

6. GROUP PERFORMANCE AND THE LINK TO REMUNERATION (continued)

Summary of STI and LTI awarded to key management personnel

	2018 STI awarded $	2018 LTI face value awarded (1) $	2018 STI & LTI awarded $	2017 STI awarded $	2017 LTI face value awarded (2) $	2017 STI & LTI awarded $
Current KMP executives						
Nicholas Andrews	–	45,000	45,000	–	22,863	22,863
Christoph Klein-Schmeink	–	36,183	36,183	–	16,584	16,584
Xunyou Tong	–	32,259	32,259	–	15,464	15,464
Derryn Chin	–	25,185	25,185	–	7,880	7,880
Total	**–**	**138,627**	**138,627**	**–**	**62,790**	**62,790**

(1) The 2018 LTI face value awarded amount relates to the face value of the 2018-20 plan granted to each executive listed above.
(2) The 2017 LTI face value awarded amount relates to the face value of the 2015-17, 2016-18 and 2017-19 plans granted to each executive listed above.

The following table details the number of LTI performance rights granted, lapsed or exercised during the year ended 31 December 2018, by plan participant and in aggregate.

Performance Rights Issued to Global Management Group

Name	Grant date	Performance Condition	Fair value/ right (cents per share)	Holding at 01 Jan 18	Granted in 2018	Lapsed in 2018	Holding at 31 Dec 18	Vested at 31 Dec 18
Nicholas Andrews								
2016-18 Plan	19-May-17	TSR	0.19	6,811,172	–	(6,811,172)	–	–
2017-19 Plan	19-May-17	TSR	0.12	4,275,488	–	–	4,275,488	–
2018-20 Plan	10-May-18	TSR or Operational	1.00	–	4,500,000	–	4,500,000	–
Subtotal				**11,086,660**	**4,500,000**	**(6,811,172)**	**8,775,488**	**–**
Derryn Chin								
2016-18 Plan	19-May-17	TSR	0.19	2,607,152	–	(2,607,152)	–	–
2017-19 Plan	19-May-17	TSR	0.12	2,576,033	–	–	2,576,033	–
2018-20 Plan	10-May-18	TSR or Operational	1.00	–	2,518,500	–	2,518,500	–
Subtotal				**5,183,185**	**2,518,500**	**(2,607,152)**	**5,094,533**	**–**
Christoph Klein-Schmeink								
2016-18 Plan	19-May-17	TSR	0.19	5,085,769	–	(5,085,769)	–	–
2017-19 Plan	19-May-17	TSR	0.12	2,973,577	–	–	2,973,577	–
2018-20 Plan	10-May-18	TSR or Operational	1.00	–	3,618,256	–	3,618,256	–
Subtotal				**8,059,346**	**3,618,256**	**(5,085,769)**	**6,591,833**	**–**
Xunyou Tong								
2016-18 Plan	19-May-17	TSR	0.19	4,769,268	–	(4,769,268)	–	–
2017-19 Plan	19-May-17	TSR	0.12	2,674,317	–	–	2,674,317	–
2018-20 Plan	10-May-18	TSR or Operational	1.00	-	3,225,906	–	3,225,906	–
Subtotal				**7,443,585**	**3,225,906**	**(4,769,268)**	**5,900,223**	**–**

6. GROUP PERFORMANCE AND THE LINK TO REMUNERATION (continued)

Performance Rights Issued to Global Management Group

Name	Grant date	Performance Condition	Fair value/ right (cents per share)	Holding at 01 Jan 18	Granted in 2018	Lapsed in 2018	Holding at 31 Dec 18	Vested at 31 Dec 18
John Talbot								
2016-18 Plan	19-May-17	TSR	0.19	3,992,195	–	(3,992,195)	–	–
2017-19 Plan	19-May-17	TSR	0.12	1,227,413	–	–	1,227,413	–
2018-20 Plan	10-May-18	TSR or Operational	1.00	–	1,250,000	–	1,250,000	–
Subtotal				**5,219,608**	**1,250,000**	**(3,992,195)**	**2,477,413**	**–**
Patrick Look								
2016-18 Plan	19-May-17	TSR	0.19	2,484,327	–	(2,484,327)	–	–
2017-19 Plan	19-May-17	TSR	0.12	1,894,318	–	–	1,894,318	–
2018-20 Plan	10-May-18	TSR or Operational	1.00	–	2,068,950	–	2,068,950	–
Subtotal				**4,378,644**	**2,068,950**	**(2,484,327)**	**3,963,268**	**–**
Aggregate								
2016-18 Plan	19-May-17	TSR	0.19	25,749,882	–	(25,749,882)	–	–
2017-19 Plan	19-May-17	TSR	0.12	15,621,146	–	–	15,621,146	–
2018-20 Plan	10-May-18	TSR or Operational	1.00	–	17,181,612	–	17,181,612	–
Total				**41,371,028**	**17,181,612**	**(25,749,882)**	**32,802,758**	**–**

7. EXECUTIVE CONTRACTUAL ARRANGEMENTS

Executive Contractual Arrangements

Name	Position	2018 Remuneration (1)	Contract Term	Contract Expiry	Notice Period for Termination	Payment in Lieu of Notice
Mr N Andrews	Executive Chairman	$470,693	3 years	30-Jun-20	Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay
Mr C Klein-Schmeink	President Magontec Europe & North America	$400,207	5 years	14-Aug-22	Employer initiated - 12 mths Employee initiated - 12 mths	12 months' pay
Mr X Tong	President Magontec Asia	$349,648	No fixed term or expiry		Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay
Mr D Chin	Chief Financial Officer	$262,184	No fixed term or expiry		Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay

Total 2018 Remuneration for the reporting period ended 31 December 2018 differs from current contractual arrangements mainly due to impacts associated with the equity expense arising from the LTI schemes.

Current contractual arrangements are as follows for each member of key management personnel:

- Mr Andrews' fixed contractual cash remuneration at 31 December 2018 is $450,000.
- Mr Klein-Schmeink's fixed contractual cash remuneration at 31 December 2018 is $384,208.
- Mr Tong's fixed contractual cash remuneration at 31 December 2018 is $341,681.
- Mr Chin's fixed contractual cash remuneration at 31 December 2018 is $251,850.

FINANCIAL REPORT

Refer to 'Financial Report' section.

OPERATIONS REPORT

Refer to Operations Report.

Dividends
The Directors have not recommended payment of a dividend and no dividends have been paid or declared since the end of the previous financial year.

Subsequent Events
Subsequent events are detailed in Note 27.

Future Developments
Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations are likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Non-Audit Services
Camphin Boston (the Group's auditors) provided tax and other services during the financial year. Aggregate fees for non audit services paid in the financial year were $7,380.

Auditor's Independence Declaration
The Auditor's independence declaration is included on page 35 of this Annual Report.

Indemnification of Officers and Auditors
The Group paid premia to insure certain officers of the Company and related bodies corporate in relation to performance of their duties as officers of the Company. The officers of the Group covered by this insurance include directors or secretaries of controlled entities.

The Company has not otherwise, during or since the financial year except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

On behalf of the Board of Directors

Mr N Andrews
Executive Chairman

Signed on the 28 February 2019 in accordance with a resolution of the Directors made pursuant to Section 298(2) of the *Corporations Act 2001.*

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

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

Dear Board Members,

Lead Auditor's Independence Declaration
Under Section 307C of the Corporations Act 2001

We hereby declare, that to the best of our knowledge and belief, during the financial year ended 31 December 2018 there have been:

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

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

Camphin Boston
Chartered Accountants

Greg Boston
Lead Audit Partner

Sydney

Dated this 28 February 2019.

Camphin Boston
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Level 5, 179 Elizabeth Street
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Consolidated Statement of Profit & Loss and Other Comprehensive Income

for the year ended 31 December 2018

	Note	12 months to 31 Dec 2018 $'000	12 months to 31 Dec 2017 $'000
Sale of goods	2(a)	130,793	130,323
Cost of sales	2(b)	(115,991)	(117,775)
Gross profit		**14,803**	**12,548**
Other income	2(c)	712	811
Interest expense		(573)	(918)
Impairment of inventory, receivables & other financial assets	2(d)	(217)	(92)
Travel accommodation and meals		(994)	(721)
Research, development, licensing and patent costs		(357)	(422)
Promotional activity		(99)	(116)
Information technology		(271)	(319)
Personnel	2(d)	(7,502)	(6,607)
Depreciation & amortisation		(536)	(369)
Office expenses		(381)	(350)
Corporate		(3,519)	(3,370)
Foreign exchange gain/(loss)		483	(825)
Other operating expenses		(150)	(56)
Profit/(Loss) before income tax expense/benefit from continuing operations		**1,399**	**(805)**
Income tax (expense)/benefit	3(a)	(623)	(809)
Profit/(Loss) after income tax expense/benefit from continuing operations		**776**	**(1,614)**
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement			
Exchange differences taken to reserves in equity – translation of overseas entities	17	1,155	(228)
Other Comprehensive Income - that will not emerge in the Profit and Loss Statement			
Movement in various actuarial assessments	17	(38)	60
Total Comprehensive Income		**1,894**	**(1,782)**
Profit/(Loss) after income tax expense for the year (incl discontinued operations) attributable to			
Minority interests		–	-
Members of the parent entity		776	(1,614)
Total		**776**	**(1,614)**
Comprehensive Income for the year attributable to			
Minority interests		–	-
Members of the parent entity		1,894	(1,782)
Total Comprehensive Income for the year		**1,894**	**(1,782)**

	Note	12 months to 31 Dec 2018 cents per share	12 months to 31 Dec 2017 cents per share
Profit/(Loss) after income tax expense for the year			
Members of the parent entity - Basic (cents per share)	19	0.068	(0.142)
Members of the parent entity - Diluted (cents per share)	19	0.064	(0.136)

Consolidated Balance Sheet

as 31 December 2018

	Note	31 Dec 2018 $'000	31 Dec 2017 $'000
Current assets			
Cash and cash equivalents	25(d)	12,889	2,309
Trade & other receivables	6	23,525	26,704
Inventory	7	24,404	24,372
Other	8	373	191
Total current assets		**61,191**	**53,576**
Non-current assets			
Other receivables	9	952	1,037
Property, plant & equipment	10	22,488	22,831
Deferred tax asset	3(c)	1,675	1,521
Intangibles	11	3,657	3,109
Total non-current assets		**28,771**	**28,499**
TOTAL ASSETS		**89,962**	**82,074**
Current liabilities			
Trade & other payables	12	21,544	15,873
Bank borrowings	13	7,462	9,200
Provisions	14	3,277	1,677
Total current liabilities		**32,283**	**26,750**
Non-current liabilities			
Other payables		–	–
Bank borrowings	13	10,633	11,135
Provisions	15	12,293	11,408
Total non-current liabilities		**22,926**	**22,543**
TOTAL LIABILITIES		**55,209**	**49,293**
NET ASSETS		**34,754**	**32,782**
Equity attributable to members of MGL			
Share capital	16	58,907	58,907
Reserves	17	6,093	4,897
Accumulated (losses)/profits	18	(30,709)	(31,485)
Equity attributable to minority interests			
Share capital	16	463	463
Reserves	17	–	–
Accumulated (losses)/profits	18	–	–
Total equity		**34,754**	**32,782**

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Share Capital									
	Ordinary	Options Valuation	Retained Earnings	Foreign Currency Translation Reserve	Capital Reserve	Actuarial Reserve	Expired Options Reserve	Employee Share Issue Reserve	Minority Interests	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance 1 Jan 2017	58,616	–	(29,871)	3,042	2,750	(2,405)	1,637	141	463	34,373
Profit/(Loss) attributable to members of parent entity	–	–	(1,614)	–	–	–	–	–	–	(1,614)
Other	–	–	–	–	–	–	–	–	–	–
Comprehensive income	–	–	–	(228)	–	60	–	–	–	(168)
Issue of shares	291	–	–	–	–	–	–	(100)	–	191
Balance 31 Dec 2017	58,907	–	(31,485)	2,814	2,750	(2,346)	1,637	41	463	32,782
Balance 1 Jan 2018	58,907	–	(31,485)	2,814	2,750	(2,346)	1,637	41	463	32,782
Profit/(Loss) attributable to members of parent entity	–	–	776	–	–	–	–	–	–	776
Other	–	–	–	–	–	–	–	–	–	–
Comprehensive income	–	–	–	1,155	–	(38)	–	–	–	1,117
Issue of shares	–	–	–	–	–	–	–	78	–	78
Balance 31 Dec 2018	58,907	–	(30,709)	3,969	2,750	(2,383)	1,637	120	463	34,754

Consolidated Cash Flow Statement

for the year ended 31 December 2018

	Note	12 months to 31 Dec 2018 $'000	12 months to 31 Dec 2017 $'000
Cash flows from operating activities			
Profit before taxation		**1,399**	**(805)**
Adjustments for:			
– Non-cash equity expense		78	191
– Depreciation & amortisation		2,630	1,653
– Foreign currency effects		(296)	437
– Other non-cash items		1,193	874
Cash generated from/(utilised in) underlying operating activities		**5,005**	**2,349**
Movement in working capital balance sheet accounts			
– Trade and other receivables		5,712	(4,358)
– Inventory		1,117	(1,260)
– Trade and other payables		5,341	618
– Other		18	–
Cash generated from/(utilised in) underlying operational cash flow and net working capital assets		**17,193**	**(2,650)**
– Net interest paid		(528)	(841)
– Income tax paid		(1,301)	(129)
Cash generated from/(utilised in) other operating activities		**15,364**	**(3,620)**
Cash flows from investing activities			
Net cash out on purchase/disposal of property, plant & equipment		(1,166)	(3,112)
Group information technology software		(575)	(269)
Security deposits		8	1
Other		(32)	–
Net cash provided by / (used in) investing activities		**(1,765)**	**(3,381)**
Cash flows from financing activities			
Proceeds from borrowings		11,374	28,867
Repayment of borrowings		(14,697)	(23,850)
Net capital raised from issue of securities		–	–
Other		–	(152)
Net cash provided by financing activities	2(e)	**(3,323)**	**4,864**
Net increase/(decrease) in cash and cash equivalents		**10,276**	**(2,137)**
Foreign exchange effects on total cash flow movement		**304**	**(147)**
Cash and cash equivalents at the beginning of the reporting period	25(d)	**2,309**	**4,593**
Cash and cash equivalents at the end of the reporting period	25(d)	**12,889**	**2,309**

Notes to the Financial Statements

for the year ended 31 December 2018

1. SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The audited accounts were authorised for issue by the Directors on 28 February 2019. The Group has adopted all new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2018.

Basis of Preparation

The financial report has been prepared on an accruals basis and is based on historical cost, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Changes in Significant Accounting Polices

The current period saw the initial adoption of IFRS 15 Revenue and IFRS 9 Financial Instruments from 1 January 2018 to the extent they were considered material.

In accordance with the transition methods chosen by the Group, comparative information has not been restated to reflect the requirements of these new standards unless otherwise stated.

The impact of applying these standards can be mainly attributed to:

- Updates to the classification and measurement (where deemed applicable) to financial assets and financial liabilities
- An increase in impairment losses recognised on financial assets in accordance with the Expected Credit Loss method as required by IFRS 9 Financial Instruments.

Further information is provided in the notes below.

Significant Accounting Polices

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

a. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash in banks, at call and on deposit.

b. Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Contributions by the Group to superannuation plans on behalf of Australian employees and other defined contribution payments on behalf of employees are expensed when incurred. Provision is made for any long term defined benefit pension obligations the Group has to employees in foreign jurisdictions. The required amount of the provision is actuarially assessed having regard to such matters as future interest rates, the date at which pension payments might commence and the likely period over which pensions may be paid.

c. Financial Assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost less any allowance for impairment. Other financial assets are classified into the following categories in accordance with IFRS 9 Financial Instruments being 'amortised cost', 'fair value through profit or loss' and ' fair value through other comprehensive income'. The classification depends on the nature and purpose of the financial asset.

Receivables

Trade receivables and other receivables are recognised initially at their fair value and subsequently at amortised cost less impairment in accordance with the Expected Credit Loss method.

d. Financial Instruments Issued by the Company

Debt and Equity Instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

Transaction Costs on the Issue of Equity Instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

e. Foreign Currency

Foreign Currency Transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items are translated at the exchange rate prevailing at the end of the reporting period. Non-monetary items measured at fair value are reported at the exchange rate prevailing at the date when the fair value was determined.

Foreign Operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly.

Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

f. Goods and Services Tax and Value Added Tax

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST) or value added tax (VAT) for certain foreign jurisdictions, except where the GST or VAT is not recoverable from the relevant tax authority. In these circumstances the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are included in the cash flow statement on a gross basis. The GST or VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

g. Impairment of Assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If any such indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash generating unit to which the asset belongs.

h. Income Tax

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability to the extent that it is unpaid.

Deferred Tax

Deferred tax assets and liabilities are ascertained based on temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and Deferred Tax for the Period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax Consolidation

The Parent Entity and all its wholly-owned Australian subsidiaries are part of a tax-consolidated group under Australian tax consolidation legislation. Magontec Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'stand-alone taxpayer' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in Note 3 to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

i. Intangible Assets

Patents, Trademarks and Licences

Patents, trademarks and licences are recorded at cost of acquisition. Patents and trademarks have an indefinite useful life and are carried at cost. Carrying values are subject to impairment testing as outlined above.

Research and Development Costs

Expenditure on the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably.

j. Inventories

Inventory is measured at the lower of cost and net realisable value. Costs are assigned to inventory using a weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

k. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease Incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis over the life of the lease term.

l. Non-current Assets Held for Sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition and the sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

m. Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

n. Presentation Currency

The presentation currency of the Group is Australian dollars.

o. Principles of Consolidation and Investments in Subsidiaries

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements.'

A list of subsidiaries appears in Note 22 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Similarly, any excess of the fair market value over the cost of acquisition is recognised as a discount upon acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

p. Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on plant and equipment and is calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Useful life is determined having regard to the nature of the plant and equipment, the environment in which it operates (including geographical and climatic conditions) and an expectation that maintenance is conducted on a scheduled basis.

Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The assets' estimated useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each annual reporting period. The estimated useful lives of significant items of property, plant and equipment are as follows:

Land & Buildings	4 - 60 years
Plant & Equipment	3 - 20 years

q. Provisions

Provisions are recognised when the consolidated entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

r. Revenue Recognition

Sale of Goods

Revenue from the sale of goods is recognised when the consolidated entity has satisfied performance obligations in transferring to the buyer the significant risks and rewards of ownership of the goods. The Group's activities involve the sale and delivery of a variety of products including primary and recycled magnesium ingots, as well as both magnesium and titanium anodes.

As it relates to Magontec specifically, the timing of revenue recognition and satisfaction of performance obligations is determined with reference to the INCO shipping terms (e.g. FOB, CIF, DDP, DAP) that apply to each delivery. Invoices are issued and revenue is recognised at the point where the transfer of the significant risks and rewards of ownership of the goods are determined to have passed to the customer in line with this framework. For example, under FOB shipping terms, the Group recognises revenue at the point when goods have arrived at the port of departure and has received the bill of lading.

Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Interest Revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Government Grants

Government grants are recognised in the profit and loss statement as the conditions attached to amounts received are fulfilled.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

s. Share-based Payments

Senior executives of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled Transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using a binomial options pricing valuation model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's estimate of the number of equity instruments that will ultimately vest.

Market performance conditions are reflected within the grant date fair value.

Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. Any additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Cash-settled Transactions

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability.

t. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in this note, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

Material examples of management applying critical accounting judgements and key sources of estimation uncertainty include:

- actuarial assessment of future pension liabilities;
- value of trade debtors; and
- valuation of intellectual property acquired

u. New Accounting Standards for Application in Future Periods

The AASB has issued new and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has not early adopted any of these standards. New standards and disclosures that will be significant to the Group in future years include:

- IFRS 16 Leases. Effective from 1 January 2019, this standard will require all operating leases to be recognised as finance leases including the recognition of a right of use asset and a lease liability captured on the balance sheet. The potential impact of this is included in Note 21 Capital and Leasing Commitments.

2. RESULTS FROM OPERATIONS

	12 months to 31 Dec 2018 $'000	12 months to 31 Dec 2017 $'000
(a) Sales Revenue		
Alloys	103,745	107,647
Anodes	27,049	22,676
	130,793	130,323

	12 months to 31 Dec 2018 $'000	12 months to 31 Dec 2017 $'000
(b) Cost of Sales		
Alloys	(97,776)	(102,291)
Anodes	(18,214)	(15,484)
	(115,991)	(117,775)

During the period, the Group adopted IFRS 15 Revenue commencing 1 January 2018. In accordance with the transition methods selected by the Group, comparative information has not been restated except with respect to impairment losses on trade receivables where considered applicable. The adoption of IFRS 15 Revenue did not result in any material adjustments.

Note with respect to closure of Magontec Shanxi Co Ltd.
During the period, production ceased at the Magontec Shanxi Co Ltd factory. This was not deemed to be a discontinued operation, as the plant did not generate largely independent cash inflows, and as such did not qualify as a cash generating unit.

	12 months to 31 Dec 2018 $'000	12 months to 31 Dec 2017 $'000
(c) Other Income in Comprehensive Income Statement		
Interest revenue	49	81
Government Grants	259	404
Receipt for insurance claims	–	51
Derivative market re-valuation	–	38
Gain/(Loss) on disposal of fixed assets	3	19
Write back of provisions and other adjustments	337	129
Other	64	89
	712	811

2. RESULTS FROM OPERATIONS (continued)

	12 months to 31 Dec 2018 $'000	12 months to 31 Dec 2017 $'000
(d) Significant expenses in Comprehensive Income Statement (not detailed elsewhere)		
Personnel Costs		
Consultancies	(337)	(435)
Share based payments (ESIP and LTI)	(78)	(191)
Defined contribution payments recognised as an expense - Note 1	(823)	(876)
Other staff payments - Note 1	(6,264)	(5,106)
Total personnel costs	(7,502)	(6,607)
Director fees	(240)	(173)
Asset impairment expense		
Write down of trade debtors	(217)	(92)
Other asset impairment expense	–	–
Total asset impairment expense	(217)	(92)

Note 1 - In 2017, defined contribution expense was updated from the prior period report, with an increase of $295,000 with other staff payments reduced by the same amount. No overall change to total personnel costs.

	31 Dec 2017 $'000	Cash flows $'000	Non-cash FX $'000	31 Dec 2018 $'000
(e) Financing cash flows reconciliation				
Bank Borrowings	20,335	(3,323)	1,083	18,094
Total liabilities from financing activities	20,335	(3,323)	1,083	18,094

(f) Share-Based Payments

Executive STI plan

The STI plan is designed to award executives for achieving group financial performance targets. The Board determines the size of the pool based on actual financial metrics achieved relative to budget, and has discretion to adjust these payments depending on the particular circumstances of the consolidated entity and other qualitative factors as it sees fit. STI awards are 100% cash-settled.

Executive LTI plan

Under the executive LTI plan, awards are made to executives and other key talent who have an impact on the consolidated entity's performance. LTI awards are delivered in the form of share grants which vest upon achievement of share price targets (market based) or operational outcomes (non-market based).

For market based targets, the Board uses absolute total shareholder return (TSR) as the key performance measure. TSR comprises the percentage change in the company's share price, plus the value of any future dividends received during the period and is measured over a 3 year period.

If market based targets are not achieved, the Board uses non-market based targets (from the 2018-2020 Plan onwards) to assess whether an LTI up to the value of 10% of the salary of the Global Management Group should be issued in the form of vested performance rights.

The fair value of this scheme is recorded as an expense in the profit and loss statement. Refer to the Remuneration Report for further detail.

	31 Dec 2018 $'000	31 Dec 2017 $'000
Expense recognised from equity-settled share-based payments	(78)	(191)
Total expense - share-based payments	(78)	(191)

3. INCOME TAXES

	12 months to 31 Dec 2018 $'000	12 months to 31 Dec 2017 $'000
(a) Income tax recognised in profit and loss		
Tax expense comprises:		
Current tax expense	(671)	(708)
Deferred tax expense		
Utilisation of tax losses	(92)	–
Change in recognised deductible temporary differences	140	(101)
Subtotal deferred tax expense	48	(101)
Total tax expense	(623)	(809)
The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:		
Profit/(Loss) from total operations	1,399	(805)
Nominal Income tax benefit/(expense) calculated at 30%	(420)	241
Nominal tax benefit (expense) effected by:		
Adjusted for effect of tax rates in foreign jurisdictions	144	122
Tax effect - P & L items not assessable or deductible for tax purposes.	(458)	(1,061)
Adjustments - changes in deductible temporary differences, tax losses	111	(111)
Actual tax benefit/(expense)	(623)	(809)

	12 months to 31 Dec 2018 $	12 months to 31 Dec 2017 $
(b) Income tax amounts recognised in OCI		
Revaluation of defined benefit pension plan	(50)	80
Tax effect (expense)/benefit through OCI	12	(20)

1 *DTA = Deferred Tax Asset, ITP = Income Tax Payable*

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable income under Australian tax law. There has been no change in the corporate tax rate when compared with the previous report.

	31 Dec 2018 $'000	31 Dec 2017 $'000
(c) Future Income tax benefit		
Current	–	–
Non-Current		
Timing differences	1,586	1,346
Carryforward tax losses	89	175
Total	1,675	1,521

Tax Consolidation

Relevance of tax consolidation to the consolidated entity

The parent Company and its wholly-owned Australian subsidiary have formed a tax-consolidated group with effect from 1 February 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Magontec Limited. The members of the tax-consolidated group are identified at Note 22.

3. INCOME TAXES (continued)

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group ensure that inter-company transactions are conducted at fair market value and at arm's length.

	Consolidated Parent Entity	
	31 Dec 2018 $'000	**31 Dec 2017 $'000**
(d) Unrecognised deferred tax balances		
The following deferred tax assets have not been brought to account as assets:		
Australian Tax Consolidated Group		
Deferred Tax Asset (DTA) on pre-tax consolidation revenue losses	81,581	81,581
DTA on post-tax consolidation revenue losses	37,321	37,428
DTA on capital losses	29,019	29,019
Sub Total Australian Tax Consolidated Group	**147,921**	**148,028**
Foreign Subsidiaries		
DTA on revenue losses - Note 1	89	175
Sub Total Foreign Subsidiaries	**89**	**175**
Consolidated Group Total	**148,010**	**148,203**
These are based on the following tax losses:		
Aust consolidated group Tax losses – revenue pre-tax consolidation	271,935	271,935
Aust consolidated group Tax losses – revenue post-tax consolidation	124,402	124,759
Foreign subsidiaries Tax losses – revenue - Note 1	357	699
Aust consolidated group Tax losses – capital	96,732	96,732
Consolidated Group Total	**493,427**	**494,125**

Note 1 - The DTA on revenue losses of $19,000 reported on 31 Dec 2017 has been updated to $175,000. No impact on P&L

The benefit from the Australian deferred tax asset in respect of unused tax losses will only be obtained if:

a. the tax consolidated group derives future Australian assessable income of a nature and amount sufficient to enable the benefits to be realised;
b. the consolidated group continues to comply with the conditions for deductibility imposed by the tax law; and
c. no changes in tax legislation adversely affect the consolidated group in realising the benefit of the losses.

No deferred tax asset has been brought to account as an asset because it is not probable that taxable profit will be available against which such an asset could be utilised.

Unused tax losses incurred after the formation of the former Advanced Magnesium Limited (the former name of Magontec Limited) consolidated group are $124.4 million. These losses will be fully available to offset future taxable income to the extent MGL continues to satisfy the loss integrity rules (i.e. Continuity of Ownership Test and Same Business Test).

Based on testing performed by MGL and its advisors, these losses should satisfy the loss integrity rules as at 31 December 2018.

Unused tax losses incurred prior to the formation of the former Advanced Magnesium Limited (the former name of Magontec Limited) consolidated group were $272.0 million. These losses will be subject to restricted use (Available Fraction rules).

These restrictions on use are in addition to the loss integrity rules. Broadly, the Available Fraction rules limit the amount of losses that can be used each year by applying the following formula:

Available Fraction x Taxable income for year = Pre consolidation losses available for use for year.

3. INCOME TAXES (continued)

Based on testing performed by MGL and its advisors, MGL's pre consolidation losses should satisfy the loss integrity rules at 31 December 2018 subject to further testing and continued compliance with loss integrity rules. No detailed Available Fraction calculations have been performed as at 31 December 2018, however it is unlikely that the Available Fraction applying to pre-consolidation tax losses will be greater than 0.2.

The Australian tax consolidated entity has not paid income tax up to 31 December 2018 and neither is any assessment expected to be received which will result in a tax liability for the period to 31 December 2018. Accordingly, there are no franking credits available for distribution in the year ended 31 December 2018.

Tax outside of Australian tax consolidation regime

The Group has overseas entities which are not subject to Australian tax consolidation and are therefore not sheltered by Australian tax losses. Those entities may incur income tax based on local corporate tax law and are subject to the local jurisdiction.

DTA on Revenue Losses - Foreign Subsidiaries

The Group has revenue losses in its PRC entity which have given rise to a deferred tax asset as at 31 December 2018. The utilisation of these losses in the PRC is subject to a 5 year time limit.

4. KEY MANAGEMENT PERSONNEL REMUNERATION

The aggregate compensation of the key management personnel of the Group is set out below:

	12 months to 31 Dec 2018 $'000	12 months to 31 Dec 2017 $'000
Short term employee benefits	1,533	1,363
Termination benefits	–	-
Post-employment benefits	94	94
Motor vehicle	34	30
Equity based payment - Note 1	62	132
Total Remuneration KMP	1,723	1,619

Note 1 - Shares issued under employee Retentions Rights Scheme approved by shareholders at 2011 AGM

Individual directors and executives compensation disclosures

Information regarding individual directors' and executives' compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the directors' report.

5. REMUNERATION OF AUDITORS

	12 months to 31 Dec 2018 $'000	12 months to 31 Dec 2017 $'000
Group auditor		
– Audit or review of the financial report	104	112
– Accounting/taxation services	7	14
Auditors of subsidiaries		
– Audit or review of the financial reports	128	125
– Accounting/taxation services	51	68
	290	319

The auditor of Magontec Limited is Camphin Boston Chartered Accountants. Magontec GmbH, Magontec Xi'an Co Limited and Magontec Romania are all audited by local auditors who supply information as requested by the Group Auditor Camphin Boston.

6. CURRENT TRADE AND OTHER RECEIVABLES

	31 Dec 2018 $'000	31 Dec 2017 $'000
Trade receivables [1]	16,882	19,999
Allowance for doubtful debts	(512)	(335)
	16,370	19,664
Net GST/VAT recoverable	1,188	2,127
Security deposits	41	73
Other receivables due to operating entities	5,927	4,840
Other	–	–
	7,155	7,040
Total receivables	23,525	26,704

(1) Trade receivables represent 47.1 days sales at 31 Dec 18 (56.0 days sales at 31 Dec 17)

7. CURRENT INVENTORIES

	31 Dec 2018 $'000	31 Dec 2017 $'000
Inventory of finished alloy at cost [1]	15,246	9,612
Provision for Inventory loss	(135)	(30)
Net value of finished goods inventory	15,111	9,583
Raw materials	8,954	14,482
Work in progress	338	307
Current inventories at net realisable value	24,404	24,372

(1) Finished goods inventory increased as at 31 December 2018 compared with the prior comparative period due to a build up of inventory following the closure of the MAY facility as well as slower call off of inventory for some larger customers

8. OTHER CURRENT ASSETS

	31 Dec 2018 $'000	31 Dec 2017 $'000
Other prepayments	373	191
	373	191

9. NON CURRENT TRADE AND OTHER RECEIVABLES

	31 Dec 2018 $'000	31 Dec 2017 $'000
Pension asset	330	444
Security deposits and prepayments	621	592
	952	1,037

10. PROPERTY PLANT & EQUIPMENT

	Capital WIP $'000	Land & Buildings $'000	Plant & Equipment $'000	Total $'000
Gross carrying amount				
Balance at 1 January 2017	**6,190**	**17,882**	**24,379**	**48,450**
Additions	2,629	91	968	3,688
Adjustments and reclassifications	(28)	28	–	(1)
Disposals and write offs	–	(87)	(772)	(858)
Net foreign currency exchange differences	(98)	469	575	946
Balance at 31 December 2017	**8,694**	**18,383**	**25,150**	**52,226**
Additions	174	60	715	950
Adjustments and reclassifications	(6,724)	(29)	6,730	(22)
Disposals	–	–	(124)	(124)
Net foreign currency exchange differences	426	1,097	1,475	2,998
Balance at 31 December 2018	**2,571**	**19,511**	**33,947**	**56,028**
Accumulated depreciation/ amortisation and impairment				
Balance at 1 January 2017	**–**	**8,480**	**19,427**	**27,907**
Disposals and write offs	–	(87)	(750)	(836)
Depreciation expense	–	573	1,048	1,621
Net foreign currency exchange differences	–	288	415	702
Balance at 31 December 2017	**–**	**9,254**	**20,141**	**29,394**
Disposals	–	–	(127)	(127)
Depreciation expense	–	605	1,989	2,593
Net foreign currency exchange differences	–	537	1,143	1,679
Balance at 31 December 2018	**–**	**10,395**	**23,145**	**33,540**
Net Book Value As at 31 Dec 17	**8,694**	**9,129**	**5,009**	**22,831**
Net Book Value As at 31 Dec 18	**2,571**	**9,117**	**10,801**	**22,488**

11. INTANGIBLES

	Indefinite Life (1) $'000	Finite Life $'000	Total $'000
Gross carrying amount			
Balance at 31 December 2017	**2,800**	**1,613**	**4,413**
Net foreign currency exchange differences	–	87	87
Additions	–	575	575
Balance at 31 December 2018	**2,800**	**2,275**	**5,075**
Accumulated depreciation/ amortisation and impairment			
Balance at 31 December 2017	**–**	**1,304**	**1,304**
Depreciation/amortisation expense	–	36	36
Net foreign currency exchange differences	–	78	78
Balance at 31 December 2018	**–**	**1,418**	**1,418**
Net Book Value As at 31 December 2017	**2,800**	**309**	**3,109**
Net Book Value As at 31 December 2018	**2,800**	**857**	**3,657**

(1) Indefinite Life Intangible Assets - Patents in relation to "AE44" and "Correx".

The indefinite life intangible assets comprise the patents over the "AE" alloys and the "Correx" anode system. Both products enjoy technical superiority over possible alternatives and continue to earn high margins. In testing this asset for impairment, an average discount rate of 6.4% to management cash flow forecasts was applied. A zero growth rate has been assumed over the initial 5 year period, with an average terminal decline rate of 12.8% per annum thereafter. The value in use was found to be in excess of the carrying amount and thus no impairment loss was recorded.

12. CURRENT TRADE AND OTHER PAYABLES

	31 Dec 2018 $'000	31 Dec 2017 $'000
Trade creditors (1)	13,463	12,278
Other creditors and accruals	8,081	3,595
	21,544	**15,873**

(1) Trade creditors represent 42.4 days cost of goods sold at 31 Dec 18 (38.1 days cost of goods sold at 31 Dec 17).

13. BORROWINGS

	Notes	31 Dec 2018 $'000	31 Dec 2018 Maturity Date	31 Dec 2018 Interest pa (1)	31 Dec 2017 $'000	31 Dec 2017 Maturity Date	31 Dec 2017 Interest pa (1)
Bank & Institutional Borrowings							
Magontec GmbH (Bank Loan) (2) (5)	25(g)	10,633	30-Sep-20	1.55%	11,135	30-Sep-20	1.55%
Magontec GmbH (Bank Loan) (2) (5)	25(g)	–	30-Sep-20	1.55%	–	30-Sep-20	1.55%
Magontec GmbH (Hire Purchase Facility) (5)	25(g)	41	31-Dec-18	2.50%	270	31-Dec-18	2.50%
Magontec GmbH (Factoring Facility) (4)		1,466	30-Nov-18	1.34%	781	30-Nov-18	1.34%
Magontec SRL (Working Capital Facility) (3)		3,294	Open	4.84%	3,015	Open	3.15%
Magontec Xi'an Limited (Bank Loan) (5)	25(g)	–	–	–	1,981	14-Feb-18	5.78%
Magontec Xi'an Limited (Bank Loan)		4,127	1-Apr-19	5.22%	3,934	12-May-18	4.70%
Total Bank Borrowings		**19,561**			**21,116**		
Current Borrowings							
Bank borrowings as above (excluding factoring facility)		7,462	Various		9,200	Various	
Total Current Borrowings		**7,462**			**9,200**		
Non-Current Borrowings							
Bank borrowings as above		10,633		–	11,135	–	
Total Non-Current borrowings		**10,633**			**11,135**		

(1) Interest rate is the rate that applied at the end of the relevant reporting period and is expressed as compounding annually in arrears.
(2) These borrowings are secured by a charge over MAB's trade debtors to the extent of €1,765,000 ($2,869,650) and inventory of €3,110,000 ($5,056,437).
(3) These borrowings are secured by a charge over MAR's trade debtors and inventory to the extent of RON 9,958,898 ($3,479,798).
(4) This facility is set off against trade debtors, and thus is not shown in 'Borrowings' on the balance sheet.
(5) Refer to the 'Financial Instruments' note for details of interest rate swaps which the group uses to hedge against adverse movements in variable rates.

14. CURRENT PROVISIONS

	Note	31 Dec 2018 $'000	31 Dec 2017 $'000
Provision for Annual & Long Service Leave and Employee Costs		616	463
Provision for Income Tax Payable		547	1,088
Provision for Loss on FX hedges and interest rate swaps	25(f)	25	6
Other Current Provisions		2,090	120
Totals		**3,277**	**1,677**

Other current provisions as at 31 December 2018 include $1.4m of deferred income due to prepayments for material.

15. NON-CURRENT PROVISIONS

	31 Dec 2018 $'000	31 Dec 2017 $'000
Provision for defined benefit pension obligation	12,027	11,189
Other provisions	267	219
Totals	**12,293**	**11,408**

Reconciliation of the defined benefit pension obligation

	Year Ended 31 Dec 2018 $'000	Year Ended 31 Dec 2017 $'000
Defined benefit obligation beginning of year	**11,189**	**10,624**
Current service cost	252	235
Interest cost	216	198
Total benefits paid - actual	(344)	(318)
Foreign currency exchange rate changes	658	540
Experience adjustments (gains)/losses	–	–
Actuarial (gains)/losses due to change of assumptions	56	(90)
Defined benefit obligation end of year	**12,027**	**11,189**

The extent of the Provision for the Defined Benefit Obligation is assessed annually based on actuarial calculations which take into account such matters as:

- number of participants in the plan;
- likely retirement salaries of participants in the pension plan;
- their life expectancy beyond retirement; and
- implied interest earnings on the extent of the fund.

The defined benefit plan is an unfunded plan which has been provided to certain employees in the European business. Increasing interest rates will act to decrease the Provision. The converse is also true. In the context of falling interest rates in Europe (where the beneficiaries of this pension plan are domiciled) there has been upward pressure on the Provision over the last few years. A summary of the key assumptions underpinning the actuarial calculation and a sensitivity analysis is provided below.

Key actuarial assumptions used in calculation of the defined benefit obligation

	Year Ended 31 Dec 2018 $'000	Year Ended 31 Dec 2017 $'000
Discount rate	1.90%	1.85%
Expected salary increase per annum	2.75%	2.75%
Expected pension increase per annum	1.75%	1.75%

Key sensitivities of actuarial assumptions used in calculation of defined benefit obligation

	% chg	Year Ended 31 Dec 2018 $'000	Year Ended 31 Dec 2017 $'000
Discount rate (%)	+0.5%	(1,041)	(933)
	(0.5)%	1,202	1,079
Salary increase (%)	+0.5%	68	63
	(0.5)%	(64)	(60)
Pension increase (%)	+0.5%	856	763
	(0.5)%	(776)	(692)
Life expectancy (years)	+ 1 year	571	491

16. SHARE CAPITAL

	31 Dec 2018 $'000	31 Dec 2017 $'000
Opening balance of share capital attributable to members of MGL	**58,907**	**58,616**
Issue of shares to Executives of Magontec Limited [(1)]	–	291
Various costs associated with above issues	–	–
Share capital on issued ordinary shares 1,140,073,483 (2017: 1,140,073,483)	**58,907**	**58,907**
Summary of share capital		
Share capital attributable to members of MGL	58,907	58,907
Share capital attributable to minority interest	463	463
Total share capital	**59,370**	**59,370**

(1) Shares in 2017 issued pursuant to Resolutions 5, 6 and 7 of the Company's 2017 AGM held 17 May 2017.

A reconciliation of the movement in fully paid ordinary shares at the line in Note 16 'Share capital on issued ordinary shares 1,140,073,483 (31 Dec 2017: 1,140,073,483) is set out below:

	Consolidated Parent Entity			
	31 Dec 2018		31 Dec 2017	
	No.	$'000	No.	$'000
Fully paid ordinary shares				
Balance at beginning of financial year	1,140,073,483	58,907	1,132,209,291	58,616
Expenses of various issues	–	–	–	–
Issue of shares to Executives of Magontec Limited	–	–	7,864,192	291
	1,140,073,483	58,907	1,140,073,483	58,907

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share Options

All share options carry no rights to dividends and no voting rights until paid for by conversion into ordinary shares. Further details of the share-based payment schemes are contained in the Remuneration Report.

17. RESERVES

	31 Dec 2018 $'000	31 Dec 2017 $'000
Capital reserve		
Balance at beginning of financial year [(1)]	2,750	2,750
Balance at end of financial year	**2,750**	**2,750**
Foreign currency translation reserve		
Balance at beginning of financial year	2,814	3,042
Movement in VHL Consolidated accounts	1,155	(228)
Balance at end of financial year	**3,969**	**2,814**
Actuarial Reserves		
Balance at beginning of financial year	(2,346)	(2,405)
Derivatives	–	–
Deferred tax assets	12	(20)
Employee pensions	(50)	80
Other	–	–
Balance at end of financial year	**(2,383)**	**(2.346)**
Expired Options Reserve		
Balance at beginning of financial year	1,637	1,637
ESOP options expiry	–	–
Balance at end of financial year	**1,637**	**1,637**
Share Issue Reserve		
Balance at beginning of financial year	41	141
Fair value of performance rights 2014-16 Plan	–	149
Issue of ordinary shares on conversion of rights	–	(291)
Fair value of performance rights issued for future periods	78	41
Balance at end of financial year	**120**	**41**
Total reserves	**6,093**	**4,897**
Reserves attributable to minority interests	–	–
Reserves attributable to members of MGL	6,093	4,897
Total reserves	**6,093**	**4,897**
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement		
Exchange differences taken to reserves in equity – translation of overseas entities	1,155	(228)
Movement in various actuarial assessments	(38)	60
Total Other Comprehensive Income	**1,117**	**(168)**

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

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

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

The actuarial reserve represents the cumulative amount of actuarial gains / (losses) on the Group's unfunded defined benefit pension obligation that needs to be recognised in "Other comprehensive income" (OCI) as well as movements attributable to the market value of derivatives and deferred tax assets where relevant.

18. ACCUMULATED LOSSES

	31 Dec 2018 $'000	31 Dec 2017 $'000
Balance at beginning of financial year	(31,485)	(29,871)
Profit/(Loss) attributable to members of Magontec Limited	776	(1,614)
Profit/(Loss) attributable to minority interests	–	–
	(30,709)	(31,485)
Accumulated losses attributable to members of Magontec Limited	(30,709)	(31,485)
Accumulated losses attributable to minority interests	–	–
Total accumulated losses	**(30,709)**	**(31,485)**

19. EARNINGS/(LOSS) PER SHARE

	12 months to 31 Dec 2018 cents per share	12 months to 31 Dec 2017 cents per share
Basic earnings/(loss) per share	0.068	(0.142)
Diluted earnings/(loss) per share	0.064	(0.136)

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share are as follows:

	12 months to 31 Dec 2018 $'000	12 months to 31 Dec 2017 $'000
Profit/(Loss) after income tax expense/benefit from continuing operations		
Members of the parent entity	776	(1,614)
Weighted average number of ordinary securities on issue (for basic earnings calculation)	**1,140,073,483**	**1,137,078,626**
Performance rights	64,014,977	47,706,950
Weighted average number of ordinary securities on issue (for diluted earnings calculation)	**1,204,088,460**	**1,184,785,576**

20. CONTINGENT LIABILITIES AND ASSETS

At 31 December 2018 a contingent asset exists in relation to the items below.

1. Romanian Tax Office Audit of MAR

Note 5 in the half year report at 30 June 2015 referred to an audit by the Romanian tax office of VAT matters at MAR. The audit was expanded to a full tax audit.

The audit was completed in October 2015 and resulted in two primary adjustments in the 2015 financial statemments.

(i) a reduction of $181,169 in the Deferred Tax Asset at 31 December 2014; and
(ii) imposition of penalties and interest amounting to $124,844 associated with denial of a VAT input credit.

Item (ii) may be recovered in 3 ways -

- under a formal objection;
- under a professional indemnity claim; and
- under Romanian amnesty legislation recently enacted.

Legal action continued during the 2018 year and a preliminary judgement found in favour of the company. However, the fiscal authorities have the right of appeal. The matter remains unresolved.

2. Claim Against MAS

A claim was made against the Magontec Suzhou company with respect to restoration costs on the property formerly occupied by this plant. The company does not believe there is a reasonable basis for this claim. Although a judgement against the company was passed during the year, the company has lodged an appeal and continues to contest this matter vigorously.

21. CAPITAL AND LEASING COMMITMENTS

a. Operating Lease Arrangements (contractual lease payments to lease expiry the Group is obligated to make)

Nature of Lease	Date of First Lease Payment	Date of Last Lease Payment	Frequency of Lease Payments	Lease Payment Per Frequency (AUD)	Current Year (2018) Lease Payments	Lease Payments Due Within 12 Months (ie year ended 31 Dec 2019)	Lease Payments Due Beyond 12 Months (ie beyond 31 Dec 2019)	Unexpired Lease Obligation
MAB company car	25-May-18	24-May-21	Monthly	$1,138	$7,967	$13,657	$19,347	$33,004
MAB company car	1-Jul-16	30-Jun-20	Monthly	$718	$8,610	$8,610	$4,305	$12,915
MAB company car	18-May-17	18-May-21	Monthly	$548	$6,575	$6,575	$9,315	$15,890
MAB company car	28-Jan-15	27-Jan-19	Monthly	$512	$6,140	$512	–	$512
MAB wheel loader	1-Apr-17	1-Mar-21	Monthly	$2,778	$33,341	$33,341	$41,677	$75,018
MAB wheel loader	1-Mar-18	1-Sep-21	Monthly	$2,320	$23,197	$27,836	$48,713	$76,550
MAB forklift trucks	1-Jun-15	31-May-20	Monthly	$2,276	$27,315	$27,315	$11,381	$38,696
MAB forklift trucks	2-Jul-09	30-Jun-19	Monthly	$463	$5,555	$2,778	–	$2,778
MAB forklift trucks	1-Nov-14	31-Oct-19	Monthly	$1,244	$14,923	$12,435	–	$12,435
MAB forklift trucks	1-Nov-14	31-Oct-19	Monthly	$1,244	$14,923	$12,435	–	$12,435
MAB forklift trucks	1-Jul-14	30-Jun-19	Monthly	$1,499	$17,988	$8,994	–	$8,994
MAB external storage facility (1)	1-Jun-06	Open	Monthly	$5,691	$68,286	$17,072	–	$17,072
MAB Canon copy/scan systems	29-Jan-16	31-Jan-20	Monthly	$4,526	$54,317	$54,317	$4,526	$58,843
MAR car operating lease	1-Dec-17	1-Jun-21	Monthly	$1,711	$20,531	$20,531	$8,555	$29,086
MAR forklift	1-Jun-15	1-Jun-19	Monthly	$1,138	$13,657	$6,829	–	$6,829
MAR forklift	1-Jun-15	1-Jun-19	Monthly	$1,382	$16,584	$8,292	–	$8,292
MGL head office lease	15-Jul-14	15-Jul-20	Monthly	$3,864	$46,368	$46,368	$27,048	$73,416
Total					**$386,276**	**$307,897**	**$174,867**	**$482,764**

(1) Able to be cancelled at any time with 3 months notice.

MAB = Magontec GmbH (Bottrop Germany)
MAY = Magontec Shanxi Company Limited
MAS = Magontec SuZhou Co Ltd
MAR = Magontec SRL (Romania)
MGL = Magontec Limited (Sydney head office)

	31 Dec 2018 $'000	31 Dec 2017 $'000
Non-cancellable operating lease payments		
Not longer than 1 year	308	265
Longer than 1 year and not longer than 5 years	175	271
Longer than 5 years	–	–
Total	483	536

Potential impact of adoption of IFRS 16 Leases

The new IFRS 16 Leases standard will be adopted by the Company during the period commencing 1 January 2019.

Based on analysis performed and information available, if the Company had adopted this standard during the current period commencing 1 January 2018, this would have resulted in the additional recognition of a lease liability as at 31 December 2018 of $476,754.

The actual impacts may differ and are subject to the finalisation of the financial statements from the initial period of adoption.

21. CAPITAL AND LEASING COMMITMENTS (continued)

b. Capital Expenditure Commitments

On 10 June 2012, the Company entered into an agreement with Qinghai Salt Lake Magnesium Company Limited (QSLM) to construct plant and equipment for an alloy manufacturing operation at Golmud in Qinghai province in China. Magontec will own and operate the magnesium alloy production plant and equipment to be installed in a building owned by QSLM adjacent to the Qinghai electrolytic magnesium smelter.

At the inception of the project, the plant and equipment was expected to cost approximately $12.5 million.

Depending on requirements, up to $3 million of the project cost is expected to be incurred during 2019 and will be funded from a combination of:

- cash resources of $12.9 million as at 31 Dec 2018;
- cash generated from operations;
- the undrawn component of existing debt facilities; and
- potential new debt facilities to be negotiated

22. CONTROLLED ENTITIES

a. Consolidated Controlled Entities

Name of Entity	Ownership Entity	Country of Incorporation	Ownership Interest 31 Dec 2018	Ownership Interest 31 Dec 2017
Parent entity				
Magontec Limited [a]		Australia	100%	100%
Directly Controlled Subsidiaries Of Parent				
Advanced Magnesium Technologies Pty Ltd [a]	Magontec Limited	Australia	100%	100%
AML China Ltd [b]	Magontec Limited	China	100%	100%
Varomet Holdings Limited	Magontec Limited	Cyprus	100%	100%
Magontec Qinghai Co. Ltd.	Magontec Limited	China	100%	100%
Magontec US LLC	Magontec Limited	United States	100%	100%
Indirectly Controlled Subsidiaries of Parent – Level 1				
Magontec Xi'an Co Ltd.	Varomet Holdings Ltd	China	100%	100%
Magontec GmbH	Varomet Holdings Ltd	Germany	100%	100%
Magontec SuZhou Co Ltd	Varomet Holdings Ltd	China	100%	100%
Indirectly Controlled Subsidiaries of Parent – Level 2				
Magontec Shanxi Company Limited [c]	Magontec Xi'an Co Ltd	China	70%	70%
Magontec SRL	Magontec GmbH	Romania	100%	100%

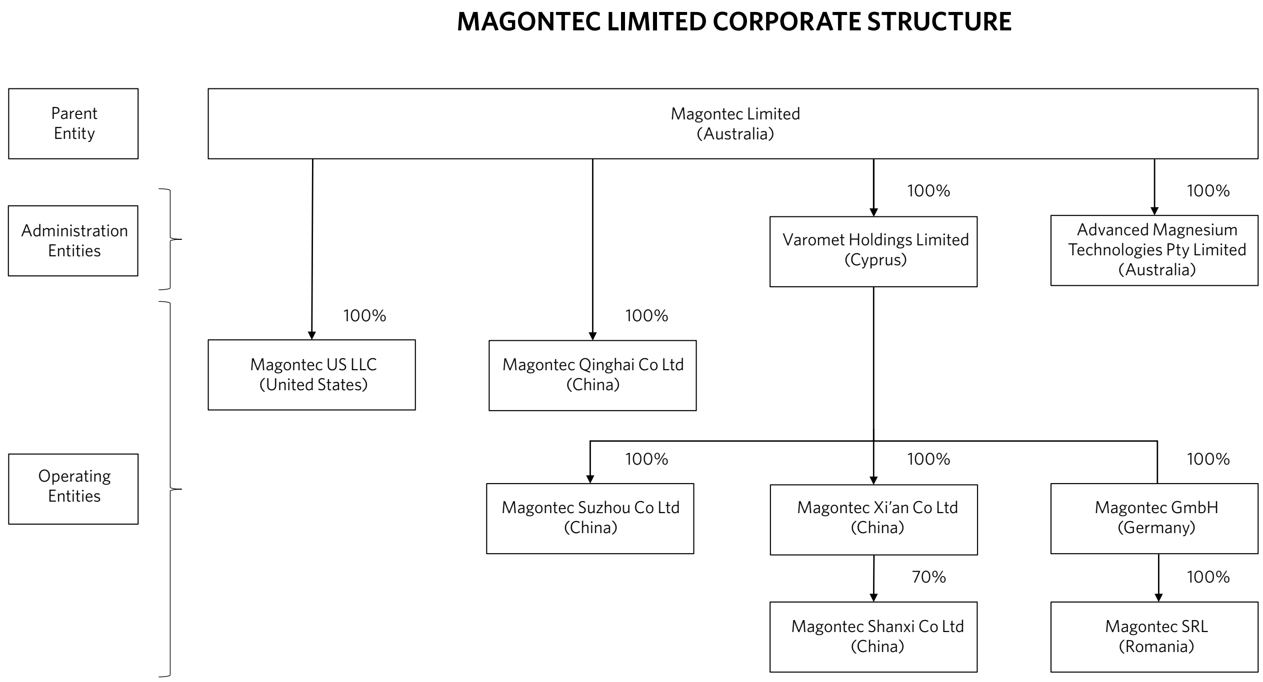
(a) Entities included in the Australian tax consolidated Group.

(b) Dormant from 30 June 2012

(c) Joint venture entity through which alloying operations were conducted at Shanxi before the closure of this facility in October 2018. This entity had not been closed as at the date of this report. The joint venture arrangements provided that from 1 January 2013, 100% of the benefits and responsibilities of transactions on revenue account accrue to Magontec Xi'an Co Ltd. The Group's joint venture partner maintains an entitlement to a return of its original capital contribution.

22. CONTROLLED ENTITIES (continued)

b. Corporate Structure as at 31 December 2018



c. Acquisition of Controlled Entities

There were no acquisitions of controlled entities made during the relevant period.

d. Disposal of Controlled Entities

There were no disposals of controlled entities made during the relevant period.

23. SEGMENT INFORMATION

Identification of Reportable Segments

The consolidated entity comprises the entities as described in Note 22.

In respect of the period to 31 December 2018, segment information is presented in respect of the three main departments within the company.

- 'Admin Units' = Magontec administrative entities performing a Head Office function comprising -
  Magontec Limited (Australia)
  Advanced Magnesium Technologies Pty Limited (Australia)
  Varomet Holdings Limited (Cyprus)

- 'EUR' = Magontec operating entities in Europe comprising –
  Magontec GmbH (Germany)
  Magontec SRL (Romania)
  Magontec LLC (United States)

- 'PRC' = Magontec operating entities in the People's Republic of China comprising –
  Magontec Xi'an Co. Ltd. (China)
  Magontec Shanxi Co. Ltd. (China)
  Magontec Suzhou Co. Ltd. (China)
  Magontec Qinghai Co. Ltd. (China)

Types of Products and Services

The principal operating activities comprise:

- Magnesium alloy production
- Magnesium alloy recycling
- Manufacture of cathodic corrosion protection products

Accounting Policies and Inter-segment Transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 1 to the accounts. Magontec GmbH (Bottrop, Germany) is the entity through which alloy production at Magontec Xi'an Co Limited (Xi'an, PRC) and Magontec Shanxi Company Limited (Shanxi, PRC) destined for Europe is sold.

The segment data below on page 61 is presented net of intergroup transactions (other than sales).

Notes to the Financial Statements

continued

23. SEGMENT INFORMATION (continued)

Statement of Comprehensive Income

	12 months to 31 December 2018				12 months to 31 December 2017			
	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL
Sale of goods	–	77,034	55,160	132,194	–	80,628	53,416	134,044
Less Inter-company sales				(1,401)				(3,721)
Net Sales	**–**	**77,034**	**55,160**	**130,793**	**–**	**80,628**	**53,416**	**130,323**
Cost of sales	–	(67,779)	(49,612)	(117,391)	–	(71,130)	(50,366)	(121,496)
Less Inter-company sales				1,401				3,721
Net Cost of Sales	**–**	**(67,779)**	**(49,612)**	**(115,991)**	**–**	**(71,130)**	**(50,366)**	**(117,775)**
Gross Profit	–	**9,256**	**5,547**	**14,803**	**–**	**9,499**	**3,049**	**12,548**
Other income	24	380	309	712	10	311	490	811
Interest expense	–	(282)	(291)	(573)	–	(566)	(351)	(918)
Impairment of inventory, receivables & other financial assets	(10)	(175)	(32)	(217)	–	(29)	(63)	(92)
Travel accommodation and meals	(167)	(440)	(387)	(994)	(155)	(445)	(120)	(721)
Research, development, licensing and patent costs	(20)	(137)	(200)	(357)	(88)	(165)	(170)	(422)
Promotional activity	(2)	(97)	–	(99)	(2)	(115)	–	(116)
Information technology	(23)	(181)	(67)	(271)	(44)	(226)	(49)	(319)
Personnel	(1,050)	(4,556)	(1,896)	(7,502)	(1,209)	(4,345)	(1,053)	(6,607)
Depreciation & Amortisation	–	(343)	(193)	(536)	(1)	(327)	(41)	(369)
Office expenses	(87)	(173)	(121)	(381)	(52)	(211)	(87)	(350)
Corporate and other	(675)	(1,775)	(1,220)	(3,669)	(732)	(1,857)	(837)	(3,426)
Foreign exchange gain/(loss)	894	(62)	(349)	483	(643)	(412)	229	(825)
Profit/(Loss) before income tax expense	**(1,116)**	**1,414**	**1,101**	**1,399**	**(2,915)**	**1,113**	**996**	**(805)**
Income tax expense	–	(435)	(188)	(623)	–	(582)	(227)	(809)
Profit/(Loss) after income tax expense/benefit including discontinued operations	**(1,116)**	**980**	**912**	**776**	**(2,915)**	**531**	**769**	**(1,614)**
Other Comprehensive Income								
Movement in various actuarial assessments	–	(38)	–	(38)	–	60	–	60
Exchange differences taken to reserves in equity – translation of overseas entities	(18)	395	778	1,155	(18)	1	(211)	(228)
Total Comprehensive Income	**(1,134)**	**1,337**	**1,690**	**1,894**	**(2,932)**	**592**	**558**	**(1,782)**

23. SEGMENT INFORMATION (continued)

	31 Dec 2018 $'000 Admin	31 Dec 2018 $'000 EUR	31 Dec 2018 $'000 PRC	31 Dec 2018 $'000 TOTAL	31 Dec 2017 $'000 Admin	31 Dec 2017 $'000 EUR	31 Dec 2017 $'000 PRC	31 Dec 2017 $'000 TOTAL
Segment Assets								
Gross Segment assets	55,016	44,127	45,976	145,120	54,907	43,263	38,252	136,422
Eliminations								
– Inter-Coy Loans	(41,173)	(2,554)	(1,538)	(45,264)	(40,078)	(1,588)	(418)	(42,084)
– Investment in subsidiaries	(15,392)	–	–	(15,392)	(15,392)	–	–	(15,392)
– Other	4,401	(14)	1,112	5,499	3,511	(45)	(339)	3,128
As per Consolidated Balance Sheet	**2,852**	**41,559**	**45,551**	**89,962**	**2,949**	**41,631**	**37,495**	**82,074**
Segment Liabilities								
Gross Segment liabilities	32,630	37,327	28,428	98,385	30,586	37,762	22,971	91,318
Eliminations								
– Inter-Coy Loans	(32,346)	(2,180)	(10,662)	(45,188)	(30,422)	(1,950)	(9,654)	(42,026)
– Other	–	–	2,011	2,011	–	–	–	–
As per Consolidated Balance Sheet	**285**	**35,147**	**19,777**	**55,209**	**164**	**35,811**	**13,317**	**49,293**
Net assets	**2,567**	**6,412**	**25,774**	**34,754**	**2,785**	**5,820**	**24,178**	**32,781**
Segment Disclosures								
– Acquisition of segment fixed assets	–	289	661	950	–	850	2,838	3,688
– Non-cash share based payments expense	78	–	–	78	191	–	–	191
Provisioning								
– Inventory Increase/(Decrease)	–	105	–	105	–	(33)	–	(33)
– Doubtful debts Increase/(Decrease)	–	123	54	177	–	(42)	(598)	(640)

24.RELATED PARTY DISCLOSURES

a. Equity Interests in Related Parties

Equity interest in subsidiaries
Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 22 to the financial statements.

b. Transactions with Key Management Personnel including Loans

Details of key management personnel compensation are disclosed in Note 4 to the financial statements and in the Remuneration Report.

c. Group Entity

The parent entity is Magontec Limited. Members of the group are set out in Note 22. Transactions during the financial year between group entities included:

- Repayment of interest free funds from controlled entities to the parent entity; and
- Incurring expenditure on behalf of other entities for office rental and related costs, travel costs, seconded employees and other sundry costs.

The entity is fully reimbursed for these costs on an actual cost basis.

d. Transactions with Related Parties apart from Directors and Key Management Personnel

		Sales to Related Parties $'000	Purchases from Related Parties $'000	Amounts owed by Related Parties $'000	Amounts owed to Related Parties $'000
Entity with significant influence					
Qinghai Salt Lake Magnesium Co. Ltd	2018	–	10,701	–	4,295
	2017	–	–	–	–

Nature of Related Party transactions with Qinghai Salt Lake Magnesium Co. Ltd
During the year, the Group purchased pure Magnesium from the Qinghai Salt Lake Magnesium Co. Ltd (QSLM), the largest shareholder in Magontec Limited as at the balance date. These purchases were made in accordance with the Off Take Pricing Agreement with QSLM.

Outstanding balances owing to QSLM are unsecured and are on an interest free basis. Settlement occurs in cash, with no guarantees provided for any related party receivable or related party payable balance outstanding between the parties.

25. FINANCIAL INSTRUMENTS

Transition to IFRS 9 - Overview

During the period, the Group adopted IFRS 9 Financial Instruments commencing 1 January 2018. In accordance with the transition methods selected by the Group, comparative information has not been restated unless otherwise indicated. When compared with the previous standard IAS 39 Financial Instruments Recognition and Measurement, this primarily resulted in the following changes:

- Update to the classification and measurement of certain financial assets and liabilities
- An increase in impairment losses recognised on financial assets (being trade receivables).

The group does not apply hedge accounting to derivate financial instruments. The impact on opening retained earnings due to the transition to IFRS 9 Financial Instruments was not deemed material and as such the opening balance sheet as at 1 Jaunary 2018 was not restated.

Transition to IFRS 9 - Classification and Measurement of Financial Assets and Financial Liabilities

IFRS 9 provides three categories for classification of financial assets, being amortised cost, fair value through other comprehensive income and fair value through profit and loss. This is assessed in accordance with the contractual cash flows and nature of the underlying asset. IFRS 9 mostly retains the existing requirements of IAS 39 for classification of financial liabilities.

The table below summarises the classifications under IFRS 9 as well those under the previous IAS 39. The main financial impact of adopting IFRS 9 related to the application of the impairment of trade receivables arising from Lifetime Expected Credit Losses as can be seen below. Hedge accounting was not adopted by the Group during the reporting period.

			Carrying amount		
	New category IFRS 9	**Original category IAS 39**	**IFRS 9 1 Jan 18**	**IAS 39 1 Jan 18**	**Fair value hierarchy where applicable***
Financial assets:					
Cash and cash equivalents	Amortised cost	Loans & Receivables	2,309	2,309	Not applicable
Trade & other receivables	Amortised cost	Loans & Receivables	26,704	26,704	Not applicable
Other	Amortised cost	Loans & Receivables	191	191	Not applicable
			29,204	29,204	
Financial liabilities:					
Trade & other payables	Other financial liabilities	Other financial liabilities	15,873	15,873	Not applicable
Current Bank Borrowings	Other financial liabilities	Other financial liabilities	9,981	9,981	Level 2
Non-Current Bank Borrowings	Other financial liabilities	Other financial liabilities	11,135	11,135	Level 2
			36,989	36,989	

* Fair value information is not provided where carrying amounts are assumed to be a reasonable approximation of fair value

Transition to IFRS 9 - Impairment of Financial Assets

As a result of the introduction of IFRS 9, the Group adopted an “Expected Credit Loss” model, in place of the previous “Incurred Loss” model required by IAS 39, which has the impact of bringing forward credit losses earlier than previously required. The Group has elected to apply the practical expedient with respect to impairment losses on trade receivables with the use of a provision matrix which takes into account historical bad debt losses as well as estimates of future losses where considered material. More detail is provided in the credit risk section below.

25. FINANCIAL INSTRUMENTS (continued)

a. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the potential future return to stakeholders through the development and marketing of the Group's technologies and its production facilities.

The capital structure of the Group consists of cash and cash equivalents, equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in Note 16, Note 17 and Note 18 respectively and debt funding provided by Chinese and European banks (Note 13).

The Group's main financial risk management issues are:

- ensuring the integrity of debtors;
- planning for production capacity expansion in China; and
- continued availability of debt funding.

The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. None of the Group's entities are subject to externally imposed capital requirements.

b. Financial Risk Management Objectives

The magnesium alloy industry operates with a disparity of trade terms on the purchase of production inputs and the sale of output. The Group's senior management effort is aimed at firstly, arranging funding for working capital and secondly, negotiating with purchasers and buyers the best available terms.

The Group's senior management team co-ordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the Group in line with the Group's policies. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

c. Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

d. Categories and Maturity Profile of Financial Instruments and Interest Rate Risk

The following table details the consolidated entity's exposure to interest rate risk as at 31 December 2018.

31 December 2018	Notes	Weighted average effective interest rate %	Variable interest rate $'000	Fixed interest rate $'000	Non-interest bearing $'000	Total $'000
Financial assets:						
Cash and cash equivalents		0.30%	12,889	–	–	12,889
Trade & other receivables (net of provision for loss)		–	–	–	23,525	23,525
Other		–	–	–	373	373
			12,889	–	23,898	36,787
Financial liabilities:						
Trade & other payables		–	–	–	21,544	21,544
Current Bank Borrowings – Note 1	13	4.43%	8,928	–	–	8,928
Non-Current Bank Borrowings	13	1.55%	10,633	–	–	10,633
			19,561	–	21,544	41,104

Note 1 - Current Bank Borrowings includes borrowings secured against factored debtors.

25. FINANCIAL INSTRUMENTS (continued)

The following table details the consolidated entity's exposure to interest rate risk as at 31 December 2017.

31 December 2017	Notes	Weighted average effective interest rate %	Variable interest rate $'000	Fixed interest rate $'000	Non-interest bearing $'000	Total $'000
Financial assets:						
Cash and cash equivalents		0.32%	2,309	–	–	2,309
Trade & other receivables (net of provision for loss)		–	–	–	26,704	26,704
Other		–	–	–	191	191
			2,309	**–**	**26,895**	**29,204**
Financial liabilities:						
Trade & other payables		–	–	–	15,873	15,873
Current Borrowings	13	4.36%	9,981	–	–	9,981
Non-Current Borrowings	13	1.55%	11,135	–	–	11,135
			21,116	**–**	**15,873**	**36,989**

e. Market Risk

Refer comments under headings a and b of Note 25.

f. Foreign Currency Risk Management

The Group has exposure to four main currencies – the United States Dollar (USD), the Euro (EUR), the Chinese Yuan (RMB) and the Romanian Leu (RON).The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows.

	Foreign Currency Monetary Assets & Liabilities Table			
	Assets		Liabilities	
	31 Dec 2018 $'000	31 Dec 2017 $'000	31 Dec 2018 $'000	31 Dec 2017 $'000
Foreign currency monetary assets and liabilities				
Cash and cash equivalents	12,844	2,196		
Trade and other receivables	21,903	26,885		
Other non-current receivables	949	1,034		
Trade and other payables			21,865	16,072
Provisions			15,333	12,956
Borrowings			18,094	20,335
Other				
Other net assets and liabilities	54,266	51,959	(84)	(70)
Total	**89,962**	**82,074**	**55,209**	**49,293**

The Group undertakes sales transactions denominated in RMB, USD and EUR and incurs manufacturing input costs denominated in EUR, RMB and RON. Additionally certain Head Office overheads are incurred in AUD and the Group reports in AUD. The objective is to centralise treasury risk and cash management so that foreign exchange risk washes through to a single point.

25. FINANCIAL INSTRUMENTS (continued)

Foreign Currency Sensitivity Analysis

The following table details the Group's sensitivity to a 10% increase and 10% decrease in relevant foreign currency monetary items against the Australian Dollar. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates over the medium term. The sensitivity analysis includes foreign currency monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

A positive number in the table below indicates an increase in profit or a decrease in loss and other equity where the foreign currency strengthens against the Australian dollar. A negative number in the table below indicates a decrease in profit or an increase in loss and other equity where the foreign currency weakens against the Australian dollar.

		USD impact	
	Notes	**31 Dec 2018 $'000**	**31 Dec 2017 $'000**
Effect on Profit/Loss of a 10% increase in USD rate	(i)	915	318
Effect on Profit/Loss of a 10% decrease in USD rate		(915)	(318)

		EUR impact	
	Notes	**31 Dec 2018 $'000**	**31 Dec 2017 $'000**
Effect on Profit/Loss of a 10% increase in EUR rate	(ii)	(2,465)	(2,141)
Effect on Profit/Loss of a 10% decrease in EUR rate		2,465	2,141

		RMB impact	
	Notes	**31 Dec 2018 $'000**	**31 Dec 2017 $'000**
Effect on Profit/Loss of a 10% increase in RMB rate	(iii)	117	224
Effect on Profit/Loss of a 10% decrease in RMB rate		(117)	(224)

		RON impact	
	Notes	**31 Dec 2018 $'000**	**31 Dec 2017 $'000**
Effect on Profit/Loss of a 10% increase in RON rate	(iv)	(292)	(326)
Effect on Profit/Loss of a 10% decrease in RON rate		292	326

A positive number in the above table represents a reduction in the operating profit/loss and or other equity

(i) Exposure to USD is represented by net monetary assets of USD 6.4 million as at 31-Dec-18 (Net monetary assets of USD 2.5 million as at 31-Dec-17)

(ii) Exposure to EUR is represented by net monetary liabilities of EUR 15.2 million as at 31-Dec-18 (Net monetary liabilities of EUR 13.9 million as at 31-Dec-17)

(iii) Exposure to RMB is represented by net monetary assets of RMB 5.7 million as at 31-Dec-18 (Net monetary assets of RMB 11.4 million as at 31-Dec-17)

(iv) Exposure to RON is represented by net monetary liabilities of RON 8.4 million as at 31-Dec-18 (Net monetary liabilities of RON 10.0 million as at 31-Dec-17)

25. FINANCIAL INSTRUMENTS (continued)

Derivatives and Hedging

During the period, the Company engaged in foreign exchange hedges primarily to manage risks associated with securing the EUR:USD rate on real metal purchases of pure magnesium in USD. The gains and losses on the market value of these hedges are recognised directly in the profit and loss statement.

	Notes	Carrying value $'000	Market value $'000	Cash flow due within 1 year $'000	Cash flow due after 1 year $'000
31 December 2018					
FX hedges	6	(25)	(25)	(21)	(4)
31 December 2017					
FX hedges	6	(6)	(6)	(6)	–

The sensitivity of FX hedges to a 10% movement in the relevant exchange rate is outlined below:

	AUD impact of change	
	31 Dec 2018 $'000	31 Dec 2017 $'000
FX hedges		
Sensitivity to +10% change in USD EUR rate	62	–
Sensitivity to -10% change in USD EUR rate	(62)	–

g. Capital Management and Interest Rate Risk Management

The Group has bank loans outstanding of $10,673,904 (refer Note 13) owing to Commerzbank globally. Management remains confident that Commerzbank will continue offering its facilities to the amount of EUR 15.0 million (A$ 24.4 million) as the Company's relationship with the bank is strong and significant headroom exists compared with facilities drawn.

25. FINANCIAL INSTRUMENTS (continued)

h. Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of as far as possible dealing with creditworthy counterparties – an ideal not always possible in a product development environment. The use of collateral or other contributions can act as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by limits that are continually reviewed.

The Group's alloy sales to European customers are, for the most part, centralised through Magontec GmbH in Bottrop Germany. Magontec GmbH has insurance cover in place to cover its exposure to debtors secured under the Commerzbank facility. The insured percentage cover for 'named' debtors is 90% and for 'unnamed' debtors is 80% but with individual claims in respect of 'unnamed' debtors limited to EUR 10,000.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Provision Matrix

The Group applies a provision matrix in order to determine Expected Credit Losses in accordance with IFRS 9 Financial Instruments. This provision matrix is based on:

- Historical experiences of bad debts in the last 5 years (which have been low as a percentage of sales)
- Where deemed material, estimates to incorporate the Group's forward looking expectations on future operating and economic conditions

Provision Matrix	EU & NA	PRC
Due Date	0.02%	0.05%
1-30 days overdue	0.04%	0.09%
31-60 days overdue	0.05%	0.14%
61-90 days overdue	0.07%	0.19%
90 days + overdue	0.09%	0.23%

i. Liquidity Risk Management

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

j. Fair Value of Financial Instruments

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

26. PARENT ENTITY INFORMATION MAGONTEC LIMITED

Statement of Comprehensive Income

	Magontec Limited	
	12 months to 31 Dec 2018 $'000	**12 months to 31 Dec 2017 $'000**
Sale of goods	–	–
Cost of sales	–	–
Gross profit	**–**	**–**
Other income	16	13
Interest expense	–	–
Impairment of inventory, receivables & other financial assets	417	(852)
Travel accommodation and meals	(121)	(4)
Research, development, licensing and patent costs	–	(30)
Promotional activity	–	–
Information technology	(11)	(14)
Personnel	–	(14)
Depreciation & amortisation	–	–
Office expenses	(3)	(4)
Corporate	(546)	(607)
Foreign exchange gain/(loss)	274	(48)
Other operating expenses	–	–
Profit/(Loss) before income tax expense/benefit from continuing operations	**26**	**(1,560)**
Income tax (expense)/benefit	–	–
Profit/(Loss) after income tax expense/benefit from continuing operations	**26**	**(1,560)**
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement		
Exchange differences taken to reserves in equity – translation of overseas entities	–	–
Other Comprehensive Income - that will not emerge in the Profit and Loss Statement	–	–
Movement in various actuarial assessments	–	–
Total Comprehensive Income	**26**	**(1,560)**
Profit/(Loss) after income tax expense for the year (incl discontinued operations) attributable to		
Minority interests	–	–
Members of the parent entity	26	(1,560)
Total	**26**	**(1,560)**
Comprehensive Income for the year attributable to		
Minority interests	–	–
Members of the parent entity	26	(1,560)
Total Comprehensive Income for the year	**26**	**(1,560)**

26. PARENT ENTITY INFORMATION MAGONTEC LIMITED (continued)

Balance Sheet

	Magontec Limited	
	31 Dec 2018 $'000	**31 Dec 2017 $'000**
Cash and cash equivalents	36	26
Trade & other receivables	(2)	3
Other	53	38
Total current assets	**86**	**67**
Non-current assets		
Inter Company Loan Receivables (net of provisioning)	17,743	17,124
Investment in shares of subsidiaries (net of provisioning)	11,718	11,718
Total non-current assets	**29,461**	**28,842**
Total assets	**29,547**	**28,909**
Current liabilities		
Trade & other payables	58	7
Provisions	–	–
Total current liabilities	**58**	**7**
Non-current liabilities		
Other	5,556	4,995
Total non-current liabilities	**5,556**	**4,995**
Total liabilities	**5,614**	**5,002**
Net assets	**23,933**	**23,907**
Equity attributable to members of MGL		
Share capital	58,616	58,616
Reserves	1,637	1,637
Accumulated losses	(36,320)	(36,346)
Equity attributable to minority interests		
Share capital	–	–
Reserves	–	–
Accumulated losses	–	–
Total equity	**23,933**	**23,907**

Notes to the Financial Statements

continued

26. PARENT ENTITY INFORMATION MAGONTEC LIMITED (continued)

Contingent Liabilities

The parent entity had no contingent liabilities as at 31 December 2018.

Capital Commitments – Property, Plant and Equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2018.

Significant Accounting Policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in Note 1.

27. SUBSEQUENT EVENTS

To the best of the company's knowledge there have been no other material subsequent events that require disclosure.

28. ADDITIONAL COMPANY INFORMATION

Magontec Limited (MGL) is a listed public company and is incorporated in Australia. The MGL Group operates globally including subsidiaries in Australia, Europe and China.

Registered Office and Principal Place of Business

Suite 1.03
46A Macleay St
Potts Point, NSW 2011
Tel: 61 2 8005 4109
Fax: 61 2 9252 8960

Directors' Declaration

The Directors declare as follows -

a. in the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;
b. in the Directors' opinion, the financial statements and notes thereto set out on pages 36 to 72 of this Annual Report, are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and give a true and fair view of the financial position and performance of the Group; and
c. the Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors made pursuant to s.295A of the *Corporations Act 2001*.

On behalf of the Board of Directors

Mr N Andrews
Executive Chairman

Mr A Malhotra
Non-executive Director

28 February 2019

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAGONTEC LIMITED

Report on the Financial Report

Auditor's Opinion
We have audited the accompanying financial report of Magontec Limited and Controlled Entities, which comprises the consolidated balance sheet as at 31 December 2018, and the consolidated statement of profit & loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a statement of accounting policies, other explanatory notes and the directors' declaration.
In our opinion:
(a) the financial report of Magontec Limited is in accordance with the *Corporations Act 2001*, including:
(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the year ended on that date; and
(ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Basis for Opinion
We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation & Existence of Inventories	
We focused on this area as a key audit matter due to the: • Quantum of amounts involved; • Sensitivity of the Company's margins to changes in the underlying price of Magnesium; and • Multiple geographical areas.	Our procedures included, amongst others, • Attendance at stock takes for all significant locations to conduct test counts and assess internal controls; • Testing of carrying value to subsequent sales and cost; • Review of costing methodology applied by entities within the group for compliance with the Group accounting policy; • Challenging management's view of the recoverable value of aged inventory.
Existence & Valuation of Property, Plant & Equipment	
The Company continues to invest in significant plant & equipment in both China and Europe. We focused on this area due to the: • Significant level of additions occurring during the year • Extent of management judgment involved in assessing impairment indicators and determining the assumptions used in evaluating these indicators	Our procedures included, amongst others, • Assessing management's determination of any impairment charge, and analysis of internal reporting to assess how operating performance is monitored and reported; • Assessment of key forward looking assumptions used to estimate any possible impairment, including projected future growth rates of CGU, costs, and the discount rate applied; • Substantive testing of asset additions. • Assessment of the classification of capitalised costs as Construction in Progress

Camphin Boston
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Directors' Responsibility for the Financial Report
The directors of Magontec Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the Group financial statements and notes comply with International Financial Reporting Standards.

Auditor's Responsibility
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on the Remuneration Report

Auditor's Opinion
We have audited the Remuneration Report included in pages 21 to 33 of the directors' report for the year ended 31 December 2018.
In our opinion the Remuneration Report of Magontec Limited for the year ended 31 December 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities
The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Camphin Boston
Chartered Accountants

G S Boston

Greg Boston
Partner

Level 5, 179 Elizabeth Street, Sydney NSW 2000
Dated: 28 February 2019

Shareholder Information

Class: Ordinary shares fully paid

ASX Code: MGL

Voting Rights: Voting rights of members are governed by the Company's constitution. In summary, every member present in person or by proxy, attorney or representative has one vote on a show of hands and one vote for each share on a poll.

Twenty Largest Holders of Ordinary Shares as at End Date of Current Reporting Period

Name of Holder	No. Of Shares	%
Substantial Shareholders		
1 QINGHAI SALT LAKE MAGNESIUM CO LTD	330,535,784	28.99
2 STRAITS MINE MANAGEMENT PTY LTD	148,874,507	13.06
3 J P MORGAN NOMINEES AUSTRALIA	100,983,817	8.90
4 CITICORP NOMINEES PTY LIMITED	70,032,215	6.80
Other Shareholders		
5 KEWEIER METAL CO LTD & LI ZHONG JUN	56,197,298	4.93
6 NATIONAL NOMINEES LIMITED	21,429,012	2.06
7 MR NICHOLAS WILLIAM ANDREWS	20,870,953	1.83
8 HSBC CUSTODY NOMINEES	18,765,247	1.61
9 MR SCOTT PARHAM	18,555,796	1.51
10 MRS DAWN PATRICIA DAVIS	13,600,000	1.19
11 MR XUNYOU TONG	9,882,973	0.87
12 YELLOWZONE PTY LTD	9,456,860	0.70
13 MIENGROVE PTY LTD	8,200,000	0.70
14 DALSIZ PTY LTD	8,000,000	0.63
15 ESCOR EQUITIES CONSOLIDATED	8,000,000	0.61
16 HSBC CUSTODY NOMINEES	7,750,000	0.54
17 DR ANDREW DUNCAN	7,075,000	0.53
18 BRIAN GORMAN SELF MANAGED	7,000,000	0.53
19 MR CHRISTOPH KLEIN-SCHMEINK	6,142,212	0.50
20 DADIASO HOLDINGS PTY LTD	6,000,000	0.50
TOTAL	877,351,674	76.99

Distribution of Shareholders as at End Date of Current Reporting Period

Number Held	Holders	No. of Securities	Percentage
1-1000	9,648	3,224,762	0.28
1001-5000	1,799	3,931,220	0.34
5001-10000	380	3,059,704	0.27
10001-100000	1,245	40,451,225	3.55
100001 and over	418	1,089,406,572	95.56
TOTAL	13,490	1,140,073,483	100.00

Shareholder Information

continued

Substantial Shareholders

Magontec Limited has been notified of the following substantial shareholdings:

Holder	Number of ordinary shares	% of issued ordinary share capital
Qinghai Salt Lake Magnesium Co. Ltd (QSLM)	330,535,784	28.99%
Allan Gray Australia Pty Limited	176,858,972	15.51%
Straits Mine Management Pty Ltd	148,874,507	13.06%

As at 31-Dec-2018 a marketable parcel of securities ($500) is a holding of at least 25,000 securities [(1)].

1. Based on a closing share price of $0.020

Issued Capital and Securities	On Issue at 31 Dec 2018
Ordinary Shares fully paid	1,140,073,483

Share Registry: Boardroom Pty Limited	Postal:	Local:	International
Address: Level 12, Grosvenor Place	GPO Box 3993,	Tel: 1300 737 760	Tel: +61 2 9290 9600
225 George Street	SYDNEY 2001	Fax: 1300 653 459	Fax: +61 2 9279 0664
SYDNEY, NSW 2000			Website: www.boardroomlimited.com.au

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