MAGONTEC

MAGONTEC LIMITED

ANNUAL REPORT 2016

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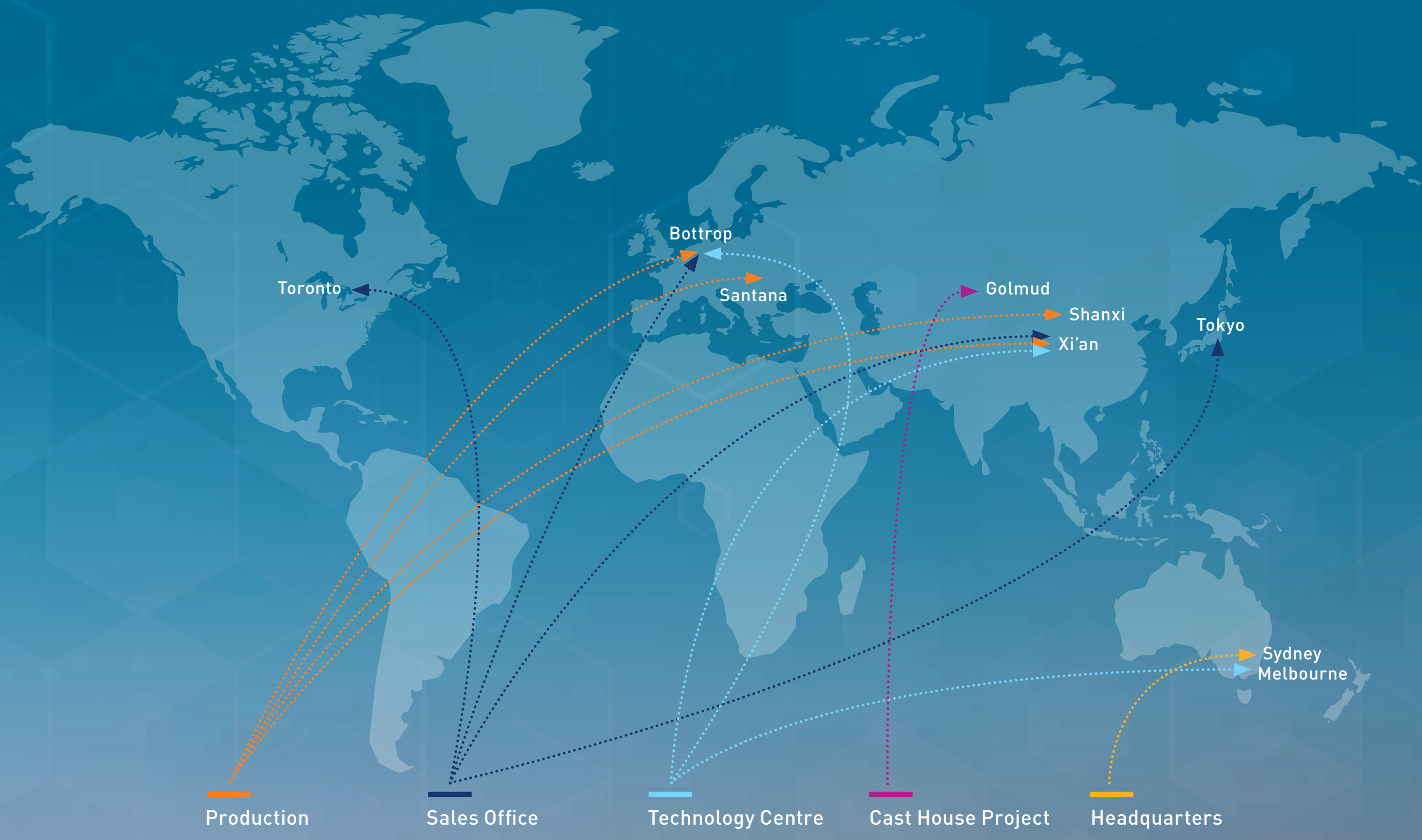
A summary of the Company's corporate governance practices including the Corporate Governance Statement discussing adherence to the Australian Securities Exchange's Third Edition "Corporate Governance Principles and Recommendations" can be located at www.magontec.com under the Investor Relations or Investor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

Magontec is a leading manufacturer of magnesium alloys and Cathodic Corrosion Protection (anode) products made from magnesium and titanium.

Magontec is a pioneer in the field of magnesium alloys and anode products with vast experience in production and development of new alloy and anode applications.

Image: Qinghai Electrolytic Magnesium Smelter complex including Magontec Cast House Project

GLOBAL LOCATIONS AND ACTIVITIES



2016 HIGHLIGHTS

MAGONTEC QINGHAI PROJECT

- Magontec Qinghai Cast House now fully commissioned and prepared for mass production
- Qinghai Salt Lake Magnesium (QSLM) electrolytic plant completed and in commissioning stage
- Customer qualification of Magontec Qinghai to commence on supply of liquid magnesium metal from QSLM
- Cast House production, administration and management staff engaged at Golmud

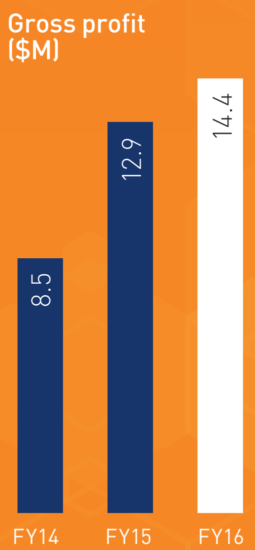
METALS DIVISION Magnesium Alloys

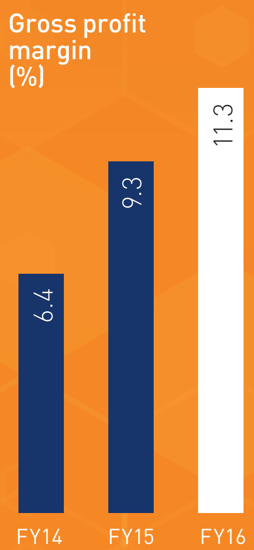
- A strong year for Primary and Recycled Magnesium Alloys with overall volumes steady on improved conversion costs
- European Recycling operating at full capacity utilisation as cost controls offer more competitive product
- Rising volumes of specialty alloys supplied to automotive and aerospace sectors generating higher margins
- Continued strong growth in global automotive output driving magnesium alloy sector demand

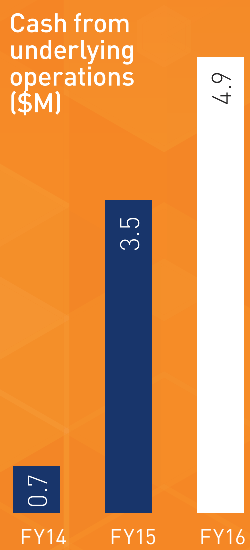
CATHODIC CORROSION PROTECTION DIVISION Magnesium and Electronic Anodes

- Volumes up 7% in 2016 and now up 40% in the last 2 years
- Investment in automation driving down conversion costs and driving up market share and volumes
- Operating cost improvements remain a key target for the CCP businesses in China and Europe
- Market and application expansion in electronic anodes delivers another strong year

FINANCIAL HIGHLIGHTS







EXECUTIVE CHAIRMAN'S COMMENTARY

Nicholas Andrews
Executive Chairman

2016 has been a year of solid growth and some considerable progress for Magontec. The Company has achieved higher levels of efficiency in all its operating divisions as the effects of investment in plant and people over the last 4 years have positively impacted sales and profits.

Shareholders can also look forward to further growth in sales and profitability as we approach the commencement of our new production facility at Golmud in Qinghai Province, China. Magontec's new Cast House in Qinghai represents the largest investment and most exciting prospect since Magontec became an independent company in 2011. It is expected to be a company-transforming project.

Over the last four years we have sought to build a world-leading magnesium alloy business sustained by a supply of primary magnesium alloy that is competitively priced and environmentally unrivalled. From the new Magontec Qinghai Cast House we will continue to pursue both of those objectives with greater vigour.

In the near future the Qinghai Salt Lake Magnesium smelter is expected to commence production and begin supply of liquid pure magnesium to the Magontec Qinghai Cast House facility.

2017 will be an exciting and challenging year for our magnesium alloy manufacturing operations as we return to markets in Asia, Europe and North America with a newly competitive product in greater volume. Many of these markets have been hitherto beyond the reach of our existing production facilities. As production at Qinghai commences it may become possible for the company to examine other opportunities in business areas where Magontec already has skills and expertise.

In 2016 Magontec generated $4.9 million of cash from underlying operating activities. This was largely directed to reducing net debt, which fell nearly $2 million from $12 million to just over $10 million over the period as well as capital expenditure on the Qinghai project. While there remain some capital commitments at the Qinghai project the majority of committed capital expenditure is now behind us. The improvement in cash generation at the operating level comes at an opportune time for Magontec as the larger volumes occasioned by the commencement of the Qinghai project will require higher overall levels of working capital.

Magnesium industry trends in 2016 have continued to be challenging. The price of pure magnesium, our principal raw material for both magnesium alloy and magnesium anode manufacturing, has been particularly volatile. Prices for alloying elements have also seen sharp rises in recent months and passing on these price adjustments in a competitive market environment has been difficult.

Turning to our manufacturing businesses I am pleased to report that there was another decline in the company's Total Reportable Injury (TRI) rate. This is a key metric for our business as our employees work in a potentially hazardous environment. Our new Qinghai Cast House will be a highly automated facility and will also use a new cover gas system offering one of the healthiest and safest work environments in the magnesium industry.

EXECUTIVE CHAIRMAN'S COMMENTARY

continued

In all regions of the world magnesium alloy recycling is highly competitive. Magontec has won its current market position in Europe and North-Western China by achieving lower conversion costs than its competitors.

Magnesium alloy recycling operations in Germany and Romania have performed well. Both factories operated at close to full capacity reflecting the newly competitive economics of Magontec's European recycling processes. In China recycling operations were reduced in 2016 by the closure of our facility at Suzhou. Our current Chinese recycling business forms part of the Shanxi factory operations. It also enjoyed a strong year.

In all regions of the world magnesium alloy recycling is highly competitive. Magontec has won its current market position in Europe and North-Western China by achieving lower conversion costs than its competitors. However these facilities require constant process improvements to stay ahead of the cost curve.

The arrival of primary magnesium alloy product from our new Qinghai plant should strengthen Magontec's position in European markets and provide the company the opportunity to offer a comprehensive primary alloy and scrap recycling contract to our regional customer base.

The magnesium anode (cathodic corrosion protection) businesses in Europe and China both enjoyed a positive year in 2016. The European business has recovered strongly over the last two years but remains a work in progress. The relocation of this manufacturing operation to Romania in 2013 restored a base level of competitiveness for Magontec in the Europe and Middle East region. Over the next 12 months further process changes will be introduced that are expected to increase productivity in a business that is highly sensitive to volume.

In Magontec's Chinese magnesium anode business higher volumes and lower conversion costs were the critical factors driving profit improvement. Both locations face a tough 2017 as raw material prices have risen by around 10% on 2016. This has been particularly acute in China where competitive forces are often augmented by regional grants and other hidden subsidies.

The primary magnesium alloy manufacturing operations in Shanxi Province have performed well in 2016. Our management team in Shanxi is particularly strong and have achieved further improvements in conversion costs. Nonetheless the market environment for magnesium alloys in China and around the world remains very competitive. Our principal competitors are integrated magnesium manufacturers producing pure magnesium, magnesium alloy and occasionally downstream die cast applications offering a more flexible and occasionally lower cost production process. Commencement of operations at Qinghai is expected to address this competitive issue for Magontec in 2017 and beyond.

In the period since the acquisition of the Magontec assets in 2011 the company has been focussed on developing its existing assets and a platform for future growth. As we move into the next phase for the company with the commencement of production at Qinghai, the Board and management will be considering strategy for 2018 and beyond.

Currently the company has its major original material (primary magnesium alloy) production base in China, soon to be at Qinghai, and two downstream manufacturing activities in magnesium recycling and magnesium anodes in Europe and China. Running concurrently with the upgrade programs for each of these businesses have been a series of research and development programs to improve existing products and services and to improve productivity and profitability. Over the coming year new machines and processes will be introduced in recycling and anode manufacturing developed in-house by Magontec engineers.

In the metals area there have also been exciting developments as we come to the end of a three-year magnesium alloy research program. Our partners in this research have included RMIT in Melbourne, who have conducted some original research into magnesium micro-structures, as well as leading magnesium alloy application manufacturers in Europe. The fruits of these labours are harvested over the longer term but we can already see opportunities for a wider application of Magontec's proprietary AE family of alloys in the automotive, power tool and electronics industries and we are actively marketing these to prospective customers all over the World.

Magontec is a company with nearly 65 years of history in the magnesium industry, a period through which it has gathered considerable knowledge. This is delivered through long serving personnel who form our anode technical services teams in Germany and China and the engineers who oversee and refine production processes in our factories. With access to enhanced cash flows and new production opportunities Magontec expects to be able to leverage these abilities more adroitly in the period ahead.

2017 is going to be a year of some complexity for Magontec. The timing of the commencement of production at Qinghai is highly dependent on the speed of commissioning of the dehydration and reduction units that are owned and operated by Qinghai Salt Lake Magnesium (QSLM). This is very difficult to assess at the time of writing. We know that access to the Qinghai product will improve our competitiveness by reducing our costs of production. We expect to regain market share lost in the last few years and to win new customers in both primary and recycled magnesium alloy markets. We expect this will also have flow on effects to our magnesium anodes business.

While we look forward to these events with great anticipation we know that there are heightened risks and costs in a period of change. Over the last 12 months we have incurred growing cash costs at Magontec Qinghai as we engage staff at every level to prepare the business for start of production. At the same time in all three of our businesses we see robust competition, volatile pricing and occasionally uncertain markets as change and disruption challenge our customers, particularly in the automotive industry, every much as they challenge Magontec.

In these uncertain times our company is fortunate to have a stable and experienced Board and management team. I would like to thank Board members for their strong contributions through the last 12 months. I would also like to thank the staff and management who have achieved a result that, whilst modest in the greater scheme of things, is a strong statement of our intent in the years ahead.

Nicholas Andrews
Executive Chairman

Image: Magontec GmbH magnesium alloy recycling facility at Bottrop in North-Rhine Westphalia, Germany

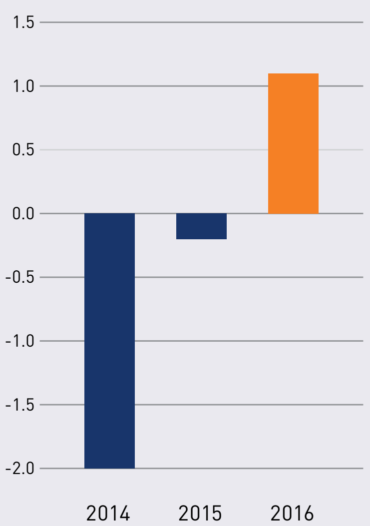
FINANCIAL REPORT

Underlying Net Profit After Tax* for the 12 months to 31 December 2016 was $1.1 million compared with a loss of $0.2 million in 2015 while the Gross Profit margin rose to 11.3% from 9.3% in the prior corresponding period.

Reported net profit after tax was $620,000 for the 12 months to 31 December 2016, significantly ahead of the prior year (2015: $45,000).

The consolidated entity saw gross profit increases in both the metals and anodes segments, with gains in the Romanian metals business a particular highlight – an outstanding result, after much hard work by the local management team in Europe.

Underlying NPAT* ($m)



The result was also boosted by disciplined cost control and the absence of significant non-recurring adjustments seen in the prior year such as the Suzhou impairment and VAT levies.

The table below has been provided to allow shareholders to better understand the significant items comprised in the results of both the current and prior year.

Reconciliation of significant items in earnings

	12 months to 31 Dec 2016 $'000	12 months to 31 Dec 2015 $'000
Net Profit Before Tax, unrealised FX and significant items	**2,409**	**1,310**
Significant items		
Less non-cash equity expense	(183)	(174)
Less STI provision	(145)	–
Less LTI provision	(141)	–
Less extraordinary doubtful debts provision PRC	–	(470)
Less impairment associated with Suzhou plant closure	–	(371)
Less Redundancies at Suzhou plant	–	(149)
VAT levies in Romania and adjustments to retained earnings	–	(243)
Net Profit Before Tax excluding unrealised FX	**1,939**	**(98)**
Less tax expense	(821)	(150)
Net Profit After Tax before unrealised FX	**1,118**	**(248)**
Add/(subtract) unrealised FX gains/(losses)	(498)	293
Reported Net Profit Before Tax	**620**	**45**

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

Analysis

At the gross margin level, production efficiencies and greater economies of scale achieved as a result of increased volumes across both the metal and anode businesses, saw a continuation of the margin expansion trend of recent years. Gross margin for 2016 was 11.3%, a significant improvement over the prior year (2015: 9.3%).

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 2016, Magontec generated $4.3m of EBITDA, underpinning underlying operating cash flow of $4.9 million for 2016. This represented a large increase over the prior corresponding period (2015: $3.5 million). This excess cash generated was applied to capital expenditure at Qinghai and debt reduction during the year. As we transition to our new facility in Qinghai on superior economics a continuation of this positive cashflow trend may provide capital management opportunities in the future.

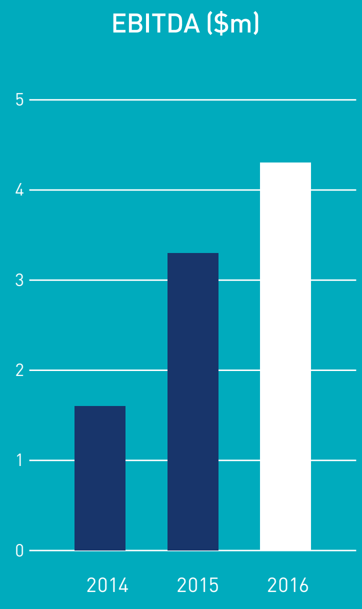
Balance sheet and banking facilities

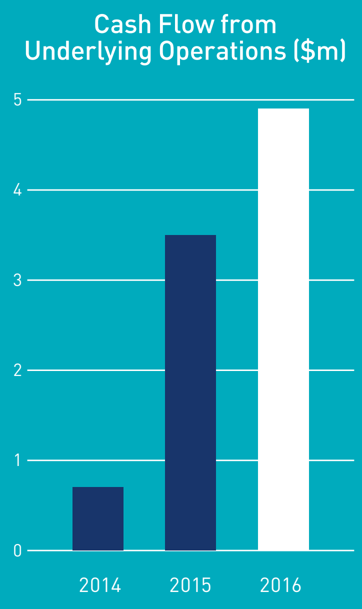
Net debt now stands at $10.1 million at the end of the year, with balance sheet gearing of 22.8% as at 31 December 2016 on a net debt to net debt + equity basis (31 December 2015: 25.5%).

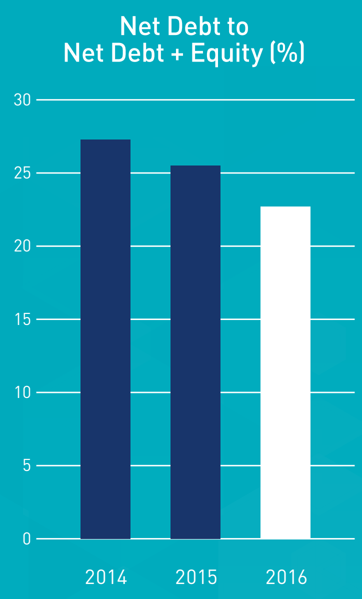
The company's borrowing headroom was $9.8 million across all its existing banking facilities in Germany, Romania and China as at 31 December 2016.

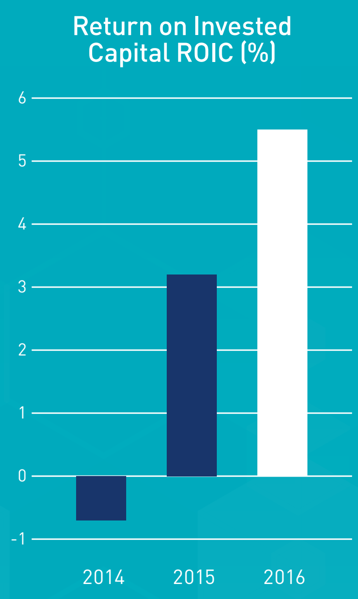
Return on capital

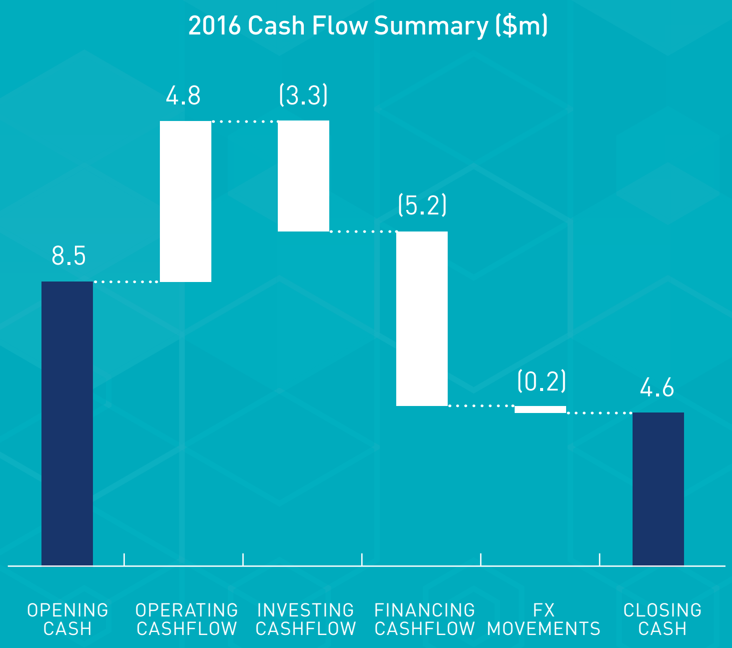
The return on invested capital continues to rise as Magontec makes operational progress, with ROIC for 2016 being 5.4% (2015: 3.2%) although much work remains to be done to increase this to more acceptable levels. If the Qinghai project performs in line with expectations, management anticipates this will go a long way towards boosting returns well beyond the current trajectory.









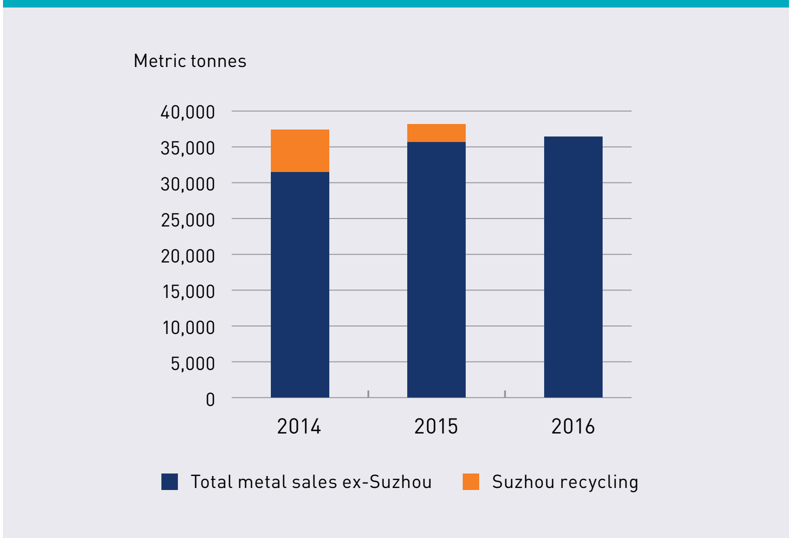


METALS DIVISION – MAGNESIUM ALLOYS

In 2016 Magontec saw a sharp improvement in profitability in its magnesium alloy manufacturing business driven by a more competitive offering; the result of investment in new plant and processes in Europe and higher levels of production efficiency in China.

In 2017 the metals business looks forward to the commencement of production at the new primary magnesium alloy plant at Golmud in Qinghai Province PRC. The Qinghai project is expected to significantly improve the economics of Magontec's Chinese unit and that of the overall business.

Total worldwide Magontec magnesium alloy metal sales (Suzhou recycling plant closed in 2015)



Magontec is a leading magnesium alloy manufacturer supplying generic and patented alloys to companies who manufacture die cast and extruded magnesium products all over the World.

Globally traded magnesium alloys are mainly sourced from China where Magontec buys pure magnesium and other alloying elements and manufactures primary magnesium alloys at its facility in Shanxi Province, PRC.

Magontec is also a recycler of magnesium alloys in Germany, Romania and China. Over 40% of magnesium alloy material sold to customers is returned in the form of scrap that Magontec recycles and returns to the die-casting and extrusion industries in the form of ingots.

The company's principal customers are in the automotive and power tool manufacturing sectors. There is also a growing volume of alloy material going into the telecommunications sector where improving thermal conductivity properties are making magnesium alloys increasingly attractive.

Magontec's primary magnesium alloy production facility in China produced just over 16,300mt in 2016 while at our facilities in Germany and Romania we produced another 20,000mt from scrap material. In 2017 we anticipate a stable volume of output in Europe and a rising volume from China as the Magontec Qinghai facility ramps up production.

As we have discussed in previous commentaries Magontec's primary magnesium alloy and recycling facilities have been focused on cost reduction and an improving competitive position in all the markets in which we operate. In the 12 months to the end of 2016 Magontec maintained its high share of the European recycling market and a strongly competitive product in recycling and primary alloy sales in Asian markets, albeit at lower volumes.

Global demand for magnesium alloys continues to grow, in particular in Europe. The number of automotive companies using applications cast in magnesium alloys has risen again in 2016. In particular we have seen a continued rise in the number of powertrain applications such as gearbox cases, driving demand for Magontec's AE 44-2 proprietary alloy. This continues a positive trend of adopting magnesium alloys in place of aluminium and steel for a wide range of automotive applications.

European magnesium alloy imports from China rose 6% in 2016 following on from a 20% rise in 2015, while sales to Asia ex-China and North America were marginally lower. Overall the total volume of magnesium alloy exports from all Chinese manufacturers was unchanged at a little over 108,000 metric tonnes in 2016.

Demand in China, which accounts for over 50% of all magnesium alloy demand, is less transparent but there is strong anecdotal evidence of rising die casting production capacity as European firms establish local production facilities to supply export markets and the Chinese automotive industry, now the largest in the World producing over 24 million cars in 2016. This is up from under 7 million just 10 years ago.

Image top left: Magnesium Alloy Cast House team at Bottrop, Germany

Image top right: Magontec Xi'an Co Ltd magnesium anode manufacturing site in Xi'an, Shaanxi Province PRC

METALS DIVISION – MAGNESIUM ALLOYS

continued

By combining leadership in magnesium R&D with new recycling production processes and production of low CO2 material from the new Qinghai plant, Magontec offers an increasingly competitive and attractive range of products, skills and services to its existing customer base.

Magontec continues to play a leading role in encouraging magnesium alloy usage in the automotive, power tool and telecommunications industry by developing and promoting its proprietary alloys and by funding research projects in Australia, Asia and Europe.

By combining leadership in magnesium R&D with new recycling production processes and production of low CO2 material from the new Qinghai plant, Magontec offers an increasingly competitive and attractive range of products, skills and services to its existing customer base. This has been particularly evident over the last 12 months, as the metals division has continued to attract new business through improved pricing and service offerings.

In the coming months our company and industry face a number of challenges in both primary magnesium alloy and recycling activities. These include the logistics and regulatory requirements associated with commencement of production at Qinghai, potential ownership changes among our principal customers and the largely unpredictable effects of US politics on Chinese access to international markets. It is, however, fair to say that magnesium is likely to be less affected than most markets by changes in existing international trade patterns; in 2005 the US imposed a 141% import tax on Chinese magnesium products which resulted in a much smaller domestic US die casting industry.

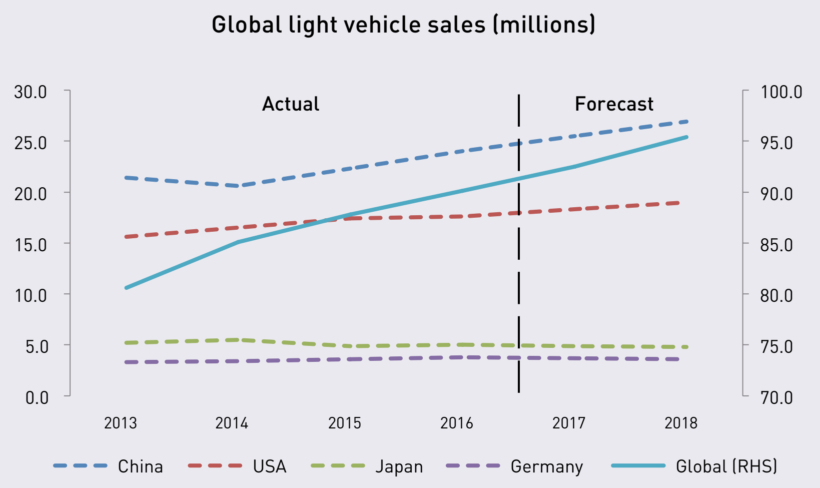
Other challenges for Magontec in 2016 reflect the nature of the magnesium industry in China and in particular the volatility of pure magnesium pricing. Through the past year the price of pure magnesium rose 32% to ¥15,050 and reached a high of ¥16,750, up over 47% year on year. Since the end of 2016 the price has fallen as low as ¥13,000 in mid-January 2017, a decline of 14% in just 2 weeks. As a spot purchaser for contracts for delivery in Europe, Japan and North America that require significant lead times, Magontec is heavily reliant on the skills and business talents of purchasing and sales executives at our Xi'an offices and in Europe. Over the last 12 months they have managed this price volatility extremely well which has meant Magontec has not suffered any significant losses on inventory or longer-term contracts.

The magnesium industry has seen some consolidation in the last 2 years with a major Chinese company acquiring a leading magnesium alloy die-caster as well as a large pure magnesium plant. Furthermore the key competitors for Magontec in China are now similarly vertically integrated. Magontec is addressing this challenge through its initiatives in Qinghai where our close relationship with the Qinghal Salt Lake Magnesium Co. Ltd (QSLM), soon to be the world's largest pure magnesium producer, will provide Magontec with access to many of the benefits of an integrated structure.

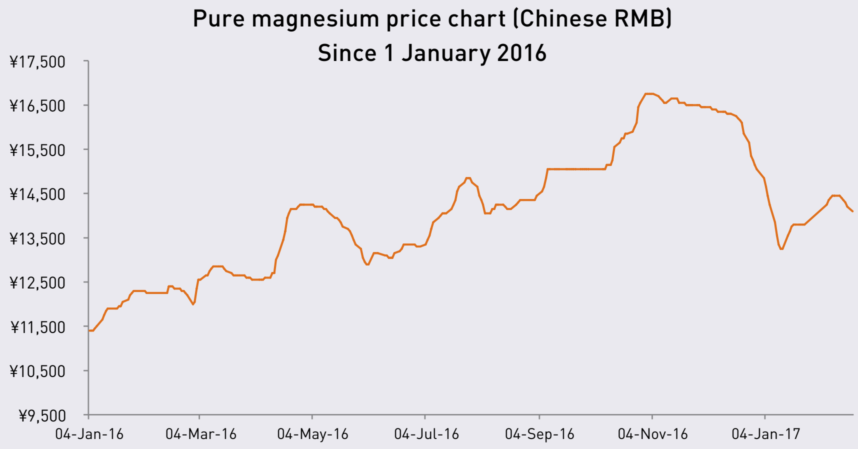
Over the last 12 months there have also been many positive trends for the magnesium industry including rising automotive sales in the key European, North American and Chinese markets. While there is a trend away from diesel engines back to petrol, which will be neutral for magnesium, the trend to hybrid and especially electric cars will likely be positive. Magontec's newly developed high thermal conductivity alloys, initially developed for the telecommunications industry, are expected to have applications in electric cars where light weight and heat dissipation will also be highly prized attributes that extend battery life and mileage.

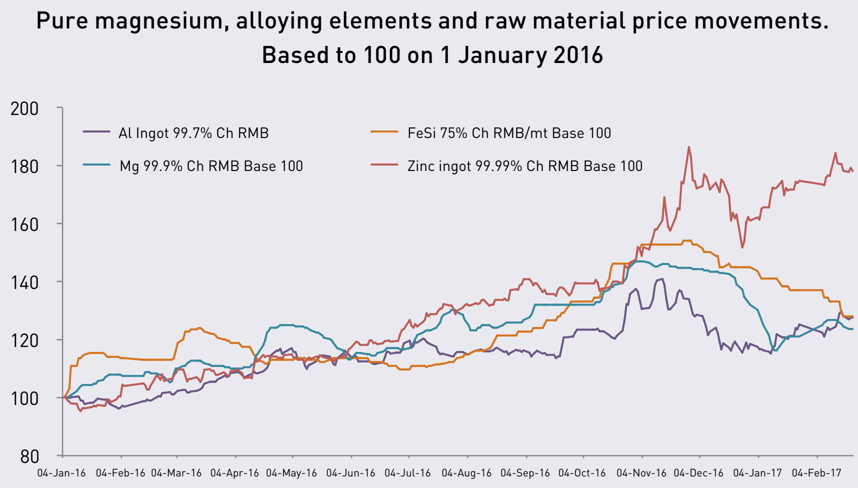
The Magontec metals division is also pursuing a number of specialty metal product categories. These are high specification alloys largely focussed on the aerospace industry. In 2016 good progress has been made with the first of these products in Europe and North America and in 2017 Magontec expects to follow up with other specialty magnesium alloy products. In general these are high margin/low volume products and target a new customer base. This will increasingly diversify the company's profile and address some of the risks associated with a high reliance on volume magnesium alloys in the metals business.

Global MV sales trend



Magnesium and other material price charts





CATHODIC CORROSION PROTECTION – MAGNESIUM AND ELECTRONIC ANODES

In the 12 months to 31 December 2016 the CCP division saw revenues rise 2.5% and are now up 32% over the last 24 months to $23.4 million. Gross Profit for the same period has also risen by 10% to $7.1 million restoring this division to profitability after a period of lower returns.

Image top: Magnesium anodes.

In China and Europe Magontec is building a stronger and more competitive platform. Both businesses now enjoy considerable momentum, the result of a strong focus on production process improvements and enhanced service levels.

Magontec manufactures a wide variety of magnesium anodes in China and Romania and supplies those products to the global water heater industry. This is a 'downstream' value adding business that has strong synergies with our magnesium alloy manufacturing and recycling activities. The Romanian anode business is located on the same site as the Romanian recycling operation minimising handling and melting costs in this very competitive sector.

Magontec is a global leader in magnesium anode production by both volume and quality, supplying leading hot water heater manufacturers in Europe, Asia and the Americas with a competitive and quality magnesium anode that provides effective cathodic corrosion protection for conventional and renewable energy water tanks.

Magontec is also a manufacturer of electronic anodes that provide a higher level of corrosion protection and are targeted at higher value and more sophisticated water heater products such as heat pump devices. This product is also finding new markets in other corrosion critical products such as heat transfer devices.

In 2016 the CCP division's overall business performed well with magnesium anode volumes up over 7% to 2,000 metric tonnes following a 31% rise in 2015. The Asian business in particular enjoyed a robust year leveraging improving economies of scale despite continuing unit price declines. Overall the company's global magnesium anodes business has consistently reduced unit costs of manufacturing more rapidly than the decline in sales prices, notwithstanding the sharp rise in raw material costs, particularly evident in the last quarter of 2016.

As the anode business has experienced a consistent price reduction environment in the last few years we have sought to leverage both the efficiencies of an integrated magnesium alloy manufacturer and recycler with a rapid increase in automation. We have introduced new machinery in China and Romania to improve manufacturing process efficiency and reduce wastage. In 2016 the company embarked on a further round of capital investment designed to increase automation and further improve unit costs of production at both magnesium anode factories.

Another strategic initiative commenced in 2014 was to enhance the sales network, particularly in Europe, North America and the Middle East. While this has had some short-term impact on costs we can now address our regional markets more comprehensively and pursue a broader base of customers and markets. In 2017 we have already engaged additional sales and marketing resources in North America to assist us in building a stronger position in both magnesium and electronic anodes in that market.

Our overall strategy in the CCP business has been to drive down our costs and offer a high level of service to a customer base that includes large and small companies all over the world. The magnesium anode industry is characterised by a large number of smaller manufacturers who are very cost competitive at low volumes. Our challenge has been to match those prices through developing new manufacturing techniques and processes. Over the last three years we have successfully risen to that challenge and in 2017 and beyond we expect to build further on our progress to date.

Magontec global magnesium anode volumes and revenues

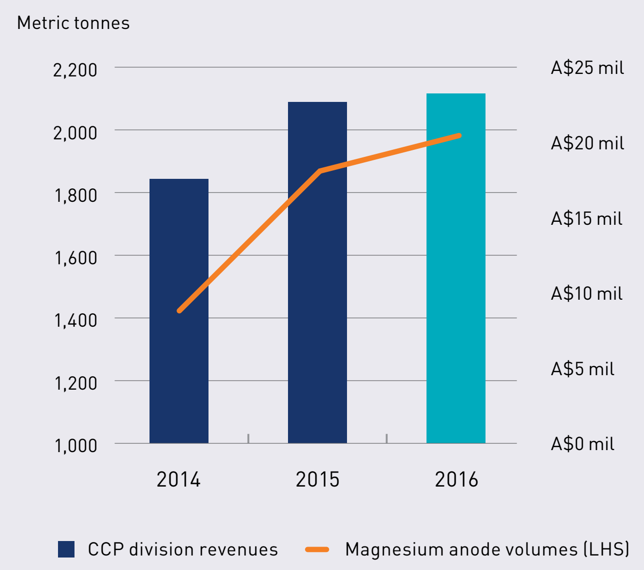


Image top right: Magontec Romania SRL - production and administration staff.

MAGONTEC QINGHAI CAST HOUSE PROJECT

Image: Magontec Qinghai Magnesium Alloy Cast House at Golmud in Qinghai Province PRC

As at the time of reporting the Magontec Qinghai magnesium alloy cast house equipment is now commissioned.

There remain a small number of tasks to be completed that are dependent on the supply of pure magnesium from the Qinghai electrolytic smelter, however the substantive part of the equipment and installation work that has been in train for nearly two years has now been completed within the original budget.

Over the last 12 months we have added three new magnesium alloy ingot casting lines (there are four lines altogether), two automatic stacking and packing lines, installed PLC control units to run the entire factory and engaged 30 production and administration staff, some of whom are new to Magontec and others drawn from Magontec operations in Xi'an and Shanxi.

Our new Magontec Qinghai team is now well prepared for the commencement of production at the Cast House facility.

Qinghai Salt Lake Magnesium Co Ltd (QSLM), our partner company, is responsible for the construction, commissioning and operation of the brine purification, dehydration and reduction facilities. Construction was completed in late 2016 and commissioning is well under way. The brine purification plant has been in production for some time and the reduction cell house has already commissioned a number of units. At this time the first dehydration unit (50,000 metric tonnes out of installed capacity of 100,000 metric tonnes) is in the late stages of commissioning and is expected to commence supply to the reduction cell house in the next few months. The ramp up of production from the QSLM cell house is expected to deliver a steadily increasing level of supply to Magontec through 2017. However, supply sufficient for Magontec to run at full capacity is unlikely to be achieved in 2017.

RESEARCH AND DEVELOPMENT

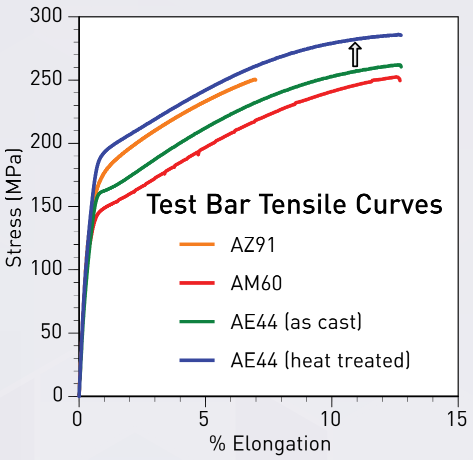
Magontec has a long history of alloy research and development stretching back to predecessor organisations, namely, Hydro Magnesium's magnesium competence centre in Porsgrunn, Norway and the CAST Co-operative Research Centres in Melbourne and Brisbane, Australia.

Magontec continues to be active in new alloy development through a collaborative model. In conjunction with funding from the Australian Research Council through their linkage grant program, Magontec supports R&D activities at Australian research organisations and elsewhere. Collaboration in R&D for Magontec means two things; collaboration with Research Providers, and, perhaps more importantly, collaboration with OEMs who will ultimately utilise the alloys. Magontec currently has a number of development projects underway with automotive and non-automotive OEM's in Germany, China and elsewhere.

The path from research discovery to revenue from products takes several years and in each year there are items covering the entire spectrum of development. Arguably the most significant area of recent alloy R&D contributing to alloy sales are the AE alloys, notably AE44 and associated variations on that alloy including new formulations and treatment processes.

AE44's development stretches back approximately 15 years and the first components were introduced a decade ago. In the last year, AE44's applications have expanded to include non-automotive components and also new casting processes (now used for hot chamber as well as cold chamber die casting).

AE type alloys are also a core part of ongoing developments. In the near term, components employing the exceptionally high thermal conductivity of AE alloys are anticipated. In the longer term, alloys with considerably enhanced mechanical performance are being developed for demanding high temperature applications. Other developments in AE alloys are focussed on high ductility alloys to meet the requirements of structural applications.



BOARD OF DIRECTORS

Nicholas Andrews

Xie Kangmin

Andre Labuschagne

Li Zhongjun

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 Vice President of the International Magnesium Association.

Xie Kangmin

Non-Executive Director (re-appointed 8 May 2015)

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 29.19% substantial shareholder in Magontec Limited and the company with whom Magontec Limited has entered into a Cooperation Agreement in relation to the 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 13.15% 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 8 May 2015)

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.

Robert Shaw

Robert Kaye SC

Li Yong

Robert Shaw

Independent Director (re-appointed 29 May 2014)

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.

Robert Kaye SC

Independent Director (re-appointed 29 May 2014)

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 Spicers Limited (formerly Paperlinx Limited) and Chairman of Collins Foods Limited.

Li Yong

Alternate Non-Executive Director (appointed 29 May 2014)

In 2014, Mr Li was appointed as the Secretary of the Board of Qinghai Salt Lake Industry Co Ltd (QSLI), the parent company of QSLM. After graduating from the Sichuan School of Statistics in 1992, Mr Li joined the Qinghai Salt Lake group of companies. In 2009, he qualified as a member of The Chinese Institute of Chartered Accountants (CPA).

Within QSLI, he maintains responsibility for and is involved in a number of functions including investor relations, external reporting, economics, finance and accounting. He is the alternate director to Mr Xie Kangmin.

EXECUTIVE MANAGEMENT

Tong Xunyou

Christoph Klein-Schmeink

Derryn Chin

Tong Xunyou

President, Magontec Asia

Graduate of Dalian 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 activities, including recycling and joint ventures.

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.

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 and has responsibility for magnesium alloy and anode sales group-wide.

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.

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 commencing 1 March 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 the Institute of Chartered Accountants Australia and New Zealand, a CFA charterholder and speaks conversational Mandarin. He holds a Bachelor of Commerce (Accounting and Finance) degree from the University of New South Wales.

Patrick Look

John Talbot

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 18 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.

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 February 2016.

From 1988 to Sept 2000 Mr Talbot was a senior executive at the Commonwealth Bank of Australia 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.

FINANCIAL REPORT

FINANCIAL REPORT

for the year ended 31 December 2016

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 2016 were authorised for issue in accordance with a resolution of the directors on 23 February 2017. 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 holding company that owns the Group's operating businesses at Bottrop (Germany), Xi'an (PRC) and Suzhou (PRC). In turn, Magontec Limited owns all of the ordinary shares issued by Varomet Holdings Limited.	**VHL**
Operating entities		
Magontec GmbH	The wholly owned entity that owns the Group's operations in Bottrop, Germany.	**MAB**
Magontec SRL	The wholly owned entity that owns the Group's operations in Santana, Romania.	**MAR**
Magontec Xi'an Co Ltd.	The wholly owned entity that owns the Group's operations in Xi'an, PRC.	**MAX**
Magontec Shanxi Company Limited	The joint venture operations in Jishan, Shanxi province PRC.	**MAY**
Magontec Suzhou Co Ltd	The wholly owned entity that owns the Group's operations in Suzhou, PRC. Production ceased at this facility in 2015.	**MAS**
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 located in the United States of America.	**MAU**
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 29.19% 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 remains a 13.15% substantial shareholder of MGL at the date of this report.	**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 period ended 31 December 2015.

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 2016. 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 Yong (Alternate Director to Mr Xie Kangmin)
- Mr Li Zhongjun (Non-Executive Director)
- Mr Robert Shaw (Independent Director)
- Mr Robert Kaye (Independent Director)
- Mr Andre Labuschagne (Non-Executive Director)

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 Spicers Limited (formerly Paperlinx Limited) and Chairman of Collins Foods Limited. He was also previously a director of UGL Limited
- 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 CFO in February 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 the Commonwealth Bank of Australia.

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	6	6				
Mr Xie Kangmin	–	6	–	2		
Mr Li Yong [1]	5	6	2	2		
Mr Li Zhongjun	6	6			–	–
Mr Robert Shaw	6	6	2	2	–	–
Mr Robert Kaye	6	6			–	–
Mr Andre Labuschagne	6	6	2	2		

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

DIRECTORS' REPORT
continued

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	Security type	Number of shares as at Date of this Report
Mr Nicholas Andrews	Ordinary shares	18,993,502
Mr Xie Kangmin		–
Mr Li Yong (Alternate)		–
Mr Li Zhongjun	Ordinary shares	56,197,298
Mr Robert Shaw	Ordinary shares	800,000
Mr Robert Kaye		–
Mr Andre Labuschagne		–

REMUNERATION REPORT
The remuneration report for the year ended 31 December 2016 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 who have a direct reporting responsibility to the Executive Chairman 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 (including equity instrument disclosures)
6. Group performance and the link to remuneration
7. Executive contractual arrangements

1. INDIVIDUAL KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES
Details of KMP are set out below and their remuneration is detailed in the table on page 25.

Key Management Personnel
(i) Directors during the year ended 31 December 2016
- Mr Nicholas Andrews (Executive Chairman)
- Mr Xie Kangmin (Non-Executive Director)
- Mr Li Yong (Alternate Non-Executive Director to Mr Xie Kangmin)
- Mr Li Zhongjun (Non-Executive Director)
- Mr Robert Shaw (Independent Director)
- Mr Robert Kaye (Independent Director)
- Mr Andre Labuschagne (Non-Executive Director)

(ii) Key Management Personnel (KMP) (Being the Executive Chairman and his Direct Reports except the Company Secretary) during the year ended 31 December 2016
- 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 (commenced as KMP 1 March 2016)
- Mr John Talbot - Former Chief Financial Officer and Company Secretary (ceased to be KMP as at 1 March 2016)

DIRECTORS' REPORT
continued

2. REMUNERATION AT A GLANCE

Remuneration Strategy

The Group uses a combination of cash and non-cash mechanisms to remunerate KMP. At the Company's 2011 Annual General Meeting shareholders approved a plan for the issue of shares to the executives of the Group.

3. BOARD OVERSIGHT OF REMUNERATION

Remuneration Committee

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

The remuneration 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 and all issue of options under the Employee Share Option Plan (ESOP) following recommendations from the remuneration committee.

Remuneration Structure

The structure of NED and executive remuneration is a separate and distinct process.

4. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS

Remuneration Policy and Structure

The remuneration of NEDs consists of directors' fees. Options may only be issued to a Director pursuant to the Employee Share Option Plan if the issue complies with the requirements (if any) of the Corporations Act and the ASX Listing Rules.

The aggregate amount of Non-Executive Directors' fees is approved by Shareholders and is currently limited to $600,000 per annum. Any increase must be approved by Shareholders. The Board decides how that aggregate 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 (NEDs), the Board has set compensation at $35,000 per annum for each Non-Executive Director (inclusive of any payments for superannuation).

5. EXECUTIVE REMUNERATION ARRANGEMENTS

The Board of Directors' policy on 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 individual's package is flexible and can incorporate salary sacrifice components making the individual's package tax effective;
- The remuneration policy aims to retain key employees and align employee interests with Group performance and Shareholders' interests;
- An Employee Share Option Plan (ESOP) was established in October 2005 and modified at the 2010 AGM;
- An Executive Securities Issue Plan (ESIP) was approved by shareholders at the 2011 AGM.

The ESOP & ESIP are 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. provide an adjunct to cash remuneration to preserve cash resources.

Staff remuneration has three components:

a. Base or fixed remuneration;
b. Variable (at risk) performance; and
c. A long-term incentive in the form of options and/or share issues approved by shareholders.

Each KMP has a set of key performance indicators (KPIs) mutually agreed by the employee and 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. Variable and long term incentives will only be paid if set objectives are achieved.

During the year ended 31 December 2016 shares were issued to one KMP Mr Christoph Klein-Schmeink as well as another non KMP executive Mr Patrick Look under the terms of the approval given by shareholders under resolution 8 of the 2011 Annual General Meeting.

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

DIRECTORS' REPORT
continued

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. Any non-cash mechanisms are confined to shares and options. Complex remuneration packages involving after tax benefits are generally avoided. The issue of shares will be in terms of resolutions put to shareholders. Only a limited number of employees are eligible for the issue of options under the ESOP. 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.

The executive remuneration framework consisted of the following components:

– fixed cash component;
– non cash component; and
– post-employment benefits (superannuation and certain social benefits for Chinese personnel).

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

Director and Key Management Personnel Remuneration for the 12 months ended 31-Dec-16 and 31-Dec-15

		Non-Performance Related					Performance Related		
		Salary & Allowances $	Termination Payment $	Super & Other Statutory Benefits $	Shares Based Payments $	Motor Vehicle & Other Allowances $	STI $	LTI Subject to Approval $	Total $
Directors									
Mr N Andrews	**2016**	**382,988**	**–**	**35,000**	**–**	**–**	**46,362**	**33,776**	**498,125**
	2015	387,988	–	30,000	–	–	–	–	417,988
Mr K Xie	**2016**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2015	–	–		–	–	–	–	–
Mr Z Li	**2016**	**35,000**	**–**	**–**	**–**	**–**	**–**	**–**	**35,000**
	2015	35,000	–		–	–	–	–	35,000
Mr R Shaw	**2016**	**31,670**	**–**	**3,330**	**–**	**–**	**–**	**–**	**35,000**
	2015	32,110	–	2,890	–	–	–	–	35,000
Mr R Kaye	**2016**	**35,000**	**–**	**–**	**–**	**–**	**–**	**–**	**35,000**
	2015	35,000	–		–	–	–	–	35,000
Mr A Labuschagne	**2016**	**35,000**	**–**	**–**	**–**	**–**	**–**	**–**	**35,000**
	2015	35,000	–		–	–	–	–	35,000
Mr Y Li (Alternative Dr)	**2016**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2015	–	–		–	–	–	–	–
Key Management Personnel									
Mr C Klein-Schmeink	**2016**	**249,591**	**–**	**20,350**	**115,148**	**28,405**	**33,091**	**34,663**	**481,248**
	2015	253,881	–	18,433	–	26,925	–	–	299,239
Mr X Tong [1]	**2016**	**260,588**	**–**	**14,786**	**–**	**–**	**29,663**	**28,164**	**333,202**
	2015	275,719	–	13,492	95,261	–	30,477	–	414,949
Mr D Chin [2]	**2016**	**191,668**	**–**	**18,208**	**–**	**–**	**5,000**	**–**	**214,877**
	2015	–	–	–	–	–	–	–	–
Mr J Talbot [3]	**2016**	**35,000**	**–**	**5,833**	**–**	**–**	**–**	**–**	**40,834**
	2015	224,997	–	35,000	–	–	–	–	259,997
Total year ended 31 December 2016		**1,256,506**	**–**	**97,507**	**115,148**	**28,405**	**114,116**	**96,603**	**1,708,285**
Total year ended 31 December 2015		1,279,695	–	99,815	95,261	26,925	30,477	–	1,532,173

(1) Mr Xunyou Tong was paid a cash bonus of A$30,477 that was accrued in the 2015 accounts, but not disclosed in the remuneration report. This has subsequently been adjusted in the table above.
(2) Mr Derryn Chin was KMP from 1 March 2016 to 31 December 2016.
(3) Mr John Talbot ceased to be KMP on 1 March 2016.

DIRECTORS' REPORT

continued

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

Key management personnel are defined as Directors, the Executive Chairman and those with direct reporting responsibility to the Executive Chairman except the Company Secretary.

The remuneration structure of key management personnel can be summarised as follows:

Fixed Cash Remuneration

Executive contracts of employment do not include any guaranteed base pay increases.

Value of Options Issued to Key Management Personnel

No options were issued to KMP during the current financial period.

Value of Options – Basis of Calculation (Employee Share Option Plan - ESOP)

Under the Employee Share Option Plan approved on 4 October 2005, options allowing subscription of up to 5% of the issued share capital of MGL are available for issue to employees, with options over a further 5% of the issued share capital in the future based on performance. As there are no options remaining unexercised at 31 December 2016 no valuation has been performed.

Security-based Payment Schemes

a. Employee Share Option Plan (ESOP) – Summary of Options Grants

As at 31 December 2016 and 31 December 2015 no unexercised options were held by KMP.

b. Executives' Securities Issue Plan (ESIP)

At the 2011 Annual General meeting of the Company held on 22 November 2011, in accordance with the terms of Resolution 8(a) shareholders approved a plan – referred to as the Executives Securities Issue Plan (ESIP) – for the issue of shares to Executives of the Company and its wholly owned subsidiaries.

The ESIP provided for three components.

1. Short term rewards – Mixture of cash and share rewards, based on group operating profitability in excess of budget and agreed upon KPIs assessed on an annual basis.

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 Group and other qualitative factors as it sees fit. STI awards are 100% cash-settled.

2. Retention rights scheme – a scheme designed to ensure the retention of five key executives within the Magontec group of companies upon its acquisition by the former Advanced Magnesium Limited. Retention Rights entitlements are equivalent to one-year's salary (prevailing as at the date of the 2011 AGM) for each of these executives. Shares issued under this scheme at the time were linked to the profitability of MGL over the next four years and priced at the 10-day VWAP of the Company's shares in the period prior to the date of grant of each award as follows:

- a minimum award of 10% was made on the day following the 2011 AGM;
- dependent on profitability of the Company, additional awards will be made on each of 1 July 2012, 1 July 2013, and 1 July 2014, but in any event a minimum award of 10% of the total award will be made on each of these dates; and
- any residual Retention Rights outstanding on 1 July 2015 will be awarded on that date.

As per Resolution 5 of the 2015 AGM, the conditions of issue of Retention Rights shares to Mr C Klein-Schmeink and Mr P Look were varied. The variation allowed these employees at their option to elect that the shares be issued at the earlier of either 30 June 2016 or 30 June 2017 or within 5 business days of the date a takeover offer is made on the Company in compliance with the terms of the Corporations Act 2001.

At the date of this report, all shares with respect to the Retention Rights Scheme have been issued in full.

3. Long term incentive scheme

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 completion of an escrow period following grant date. The Board has considered a plan which will be put forward for shareholder approval which 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. Under this proposed plan, the fair value of the equity instruments granted is calculated assuming a 0% probability of forfeiture before the expiry of the escrow period, and is expensed on a straight-line basis over the vesting period.

In the 2016 LTI scheme being proposed for shareholder approval at the 2017 AGM, the escrow period has been set at 12 months from issue date to encourage employee retention. If the employee were to resign or be dismissed for cause before the expiration of this escrow period, the relevant shares would be forfeited at the discretion of the Board of Directors. No other performance conditions are attached to the issue of shares under the LTI scheme being contemplated.

DIRECTORS' REPORT
continued

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)
Eligible Participants in Executives' Securities Issue Plan (ESIP)

Potential Participants	Position In Company	Eligibility 2012 - 2014	Eligibility 2015	Eligibility 2016
Nicholas William Andrews	Executive Chairman	Eligible	Eligible	Eligible
John David Talbot	Company Secretary and former Chief Financial Officer	Eligible	Eligible	Eligible
Christoph Klein-Schmeink	President Magontec Europe, North America and Middle East	Eligible	Eligible	Eligible
Patrick Look	Vice President, Finance and HR, Europe, North America and Middle East	Eligible	Eligible	Eligible
Tong Xunyou	President Magontec Asia	Eligible	Eligible	Eligible
Derryn Chin	Chief Financial Officer	Not Eligible	Not Eligible	Not Eligible

c. Loans to Members of Key Management Personnel
As at 31 December 2016, there were 2 employee loans outstanding to Mr Christoph Klein-Schmeink for a total of A$63,642 (2015: A$21,399). The first loan of A$13,962 is due for repayment by 30 November 2018, with the remaining $49,680 loan having a maturity date of 16 July 2021, which can be extended by 10 years at the option of the Company. There were no other employee loans to key management personnel outstanding as at 31 December 2016.

Key Management Personnel Equity Holdings
Fully paid ordinary shares of Magontec Limited - 31 Dec 2016

	Balance @ 1/01/16 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) 31/12/16 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	–	–	–	18,993,502	15,409,401
Mr R Shaw	800,000	–	–	–	800,000	800,000
Mr C Klein-Schmeink	1,141,542	3,073,894	–	–	4,215,436	–
Mr X Tong	8,317,435	–	–	–	8,317,435	–
Mr D Chin	266,883	–	–	733,117	1,000,000	–
Mr J Talbot	4,078,280	–	–	34,988	4,113,268	–
	89,794,940	3,073,894	–	768,105	93,636,939	72,006,699

(1) 55,797,298 shares are 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 3,584,101 are held directly.

Fully paid ordinary shares of Magontec Limited - 31 Dec 2015

	Balance @ 1/01/15 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) @ 31/12/15 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	–	–	–	18,993,502	15,409,401
Mr R Shaw	800,000	–	–	–	800,000	800,000
Mr C Klein-Schmeink	1,141,542	–	–	–	1,141,542	–
Mr X Tong	1,987,815	6,329,620	–	–	8,317,435	–
Mr J Talbot	4,000,768	–	–	77,512	4,078,280	–
Total	**83,120,925**	**6,329,620**	**–**	**77,512**	**89,528,057**	**72,006,699**

(1) 55,797,298 shares are 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 3,584,101 are held directly.

DIRECTORS' REPORT

continued

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 potential 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 2016, 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 and LTI remuneration granted/proposed are summarised below.

With respect to the proposed LTI scheme, during the 3 year assessment period ended 31 December 2016 the share price of the Company increased from 2.5 cents per share as at 1 January 2014 to 4.3 cents per share (30 day VWAP as at 31 December 2016) giving rise to an increase in the market capitalisation of Magontec Limited from $20.3 million to $48.2 million. After adjusting for new capital raised ($7.0 million) and dividends paid or return of capital (nil) during the 3 year assessment period, total shareholder wealth increased by a total of $20.8 million during the LTI assessment period.

Summary of financial performance	6 months to 31 Dec 12 $	12 months to 31 Dec 13 $	12 months to 31 Dec 14 $	12 months to 31 Dec 15 $	12 months to 31 Dec 16 $
Profit attributable to shareholders	**940,437**	**292,121**	**(1,663,983)**	**44,807**	**619,800**
Less unrealised FX gains/ add unrealised FX losses	38,042	(2,527,737)	(333,030)	(292,610)	498,282
Add back non cash equity expense	358,768	79,612	15,822	174,371	183,456
Add back provision for STI	–	–	–	–	145,078
Add back provision for LTI	–	–	–	–	141,478
Less gain on debt foregiveness (Straits)	(5,115,152)	–	–	–	–
Profit before unrealised FX, STI and share based payments	**(3,777,905)**	**(2,156,004)**	**(1,981,191)**	**(73,432)**	**1,588,094**
STI pool ($)	**–**	**–**	**–**	**–**	**145,078**
%	0.0%	0.0%	0.0%	0.0%	9.1%

Note: Due to a change in balance date, audited accounts for the 31 December 2012 are only available for the six month period to that date.

DIRECTORS' REPORT
continued

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

Summary of 2016 STIs and LTIs awarded/proposed to key management personnel	2016 STI awarded $	2016 LTI proposed $	2016 STI & LTI $
Current key management personnel			
Nicholas Andrews	46,362	79,917	126,279
Christoph Klein-Schmienk	33,091	82,017	115,108
Xunyou Tong	29,663	66,640	96,303
Derryn Chin	5,000	–	5,000
Former key management personnel			
John Talbot	12,339	66,663	79,002
Total	**126,455**	**295,236**	**421,691**

Note: The table above shows the total face value of the LTI proposed with respect to the year ended 31 December 2016 for each employee which differs to the expense amount recognised according to Australian Accounting Standards. Refer to the Remuneration Report, for details of the portion of LTI expense recognised in accordance with Australian Accounting Standards.

7. EXECUTIVE CONTRACTUAL ARRANGEMENTS

Remuneration arrangements for KMP whose employment is current as at 31 December 2016 are provided below.

Personnel	Position	2016 Remuneration [1]	Contract Term	Contract Expiry	Notice Period for Termination	Payment in Lieu of Notice	Other Provisions
Mr N Andrews	Executive Chairman	$498,125	3 years	1-Apr-17	6 months	6 months' pay	Eligible for participation in ESIP & ESOP [2]
Mr C Klein-Schmeink	President Magontec Europe & North America	$481,248	5 years	14-Aug-17	12 months	12 months' pay	Eligible for participation in ESIP & ESOP [2]
Mr X Tong	President Magontec Asia	$333,202	No fixed term or expiry		6 months	6 months' pay	Eligible for participation in ESIP & ESOP [2]
Mr D Chin	Chief Financial Officer	$214,877	3 years	1-Mar-18	6 months	6 months' pay	Eligible for participation in ESIP from 2017 [2]

Notes

(1) Total cost to the Group for the reporting period ended 31 December 2016.
Differences between "total cost to the Group" and current contractual arrangements are as follows:
– Mr Chin's fixed contractual cash remuneration at 31 December 2016 is $251,851 including super & other statutory benefits.
– Total 2016 remuneration includes LTI awards which are subject to shareholder approval at the Company's 2017 AGM.

(2) ESIP = Executive Securities Issue Plan; ESOP = Employee Share Option Plan.

Financial Report

Refer to 'Financial Report' section on page 6.

Operations Report

Refer to Operations Report.

DIRECTORS' REPORT
continued

Summary Statement of Profit and Loss and Other Comprehensive Income

	12 months to 31 Dec 2016 $'000	12 months to 31 Dec 2015 $'000
Sales revenue	128,096	139,758
Cost of sales	(113,670)	(126,824)
Gross profit	**14,426**	**12,934**
Other income	844	908
Impairment of inventory, receivables & other financial assets	(303)	(881)
Interest expense	(1,100)	(1,291)
Foreign exchange gain/(loss)	(143)	771
Expenses	(12,283)	(12,246)
Profit/(Loss) before income tax expense from continuing operations	**1,440**	**195**
Income tax (expense)/benefit	(821)	(150)
Profit/(Loss) from continuing operations after income tax	**620**	**45**
Loss after income tax expense from discontinued operations	–	–
Profit/(Loss) after income tax expense	**620**	**45**
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement		
Other comprehensive income reflected through Reserve accounts	(1,732)	740
Total Comprehensive Income	**(1,112)**	**785**
Total Comprehensive Income for the year is attributable to		
Minority interests	–	–
Members of the parent entity	(1,112)	785

DIRECTORS' REPORT
continued

Summary of Balance Sheet

	31 Dec 2016 $'000	31 Dec 2015 $'000
Assets		
Cash and cash equivalents	4,593	8,490
Receivables	21,956	22,163
Inventory	22,302	26,316
Property, plant & equipment	20,543	19,567
Prepayments and other	5,683	5,992
Total Assets	**75,077**	**82,528**
Liabilities		
Trade and other payables	13,818	16,157
Bank loans	14,734	20,507
Provisions	12,152	10,703
Total Liabilities	**40,703**	**47,367**
Net Assets	**34,373**	**35,161**

Summary of Cash Flow

	12 months to 31 Dec 2016 $'000	12 months to 31 Dec 2015 $'000
Opening cash balance	**8,490**	**6,435**
Cash flows from operating activities		
Net interest (paid)/received	(1,045)	(1,223)
Taxation (paid)/received	(85)	(50)
Net working capital assets (outflow)/inflow	1,068	1,837
Adjustments for non-cash items and unrealised foreign exchange gains/(losses)	4,865	3,506
Net cash (used)/generated in operating activities	**4,804**	**4,070**
Cash flows from investing and financing activities		
Net cash (outflow)/inflow on purchase/disposal of PP&E	(3,326)	(4,092)
Net cash (outflow)/inflow on group information technology software	(12)	(117)
Security deposit	(1)	894
Other investing	–	140
Bank debt inflow/(outflow)	(5,209)	677
Net capital raised from issue of securities	–	(4)
Net cash (used)/generated in investing and financing activities	**(8,548)**	**(2,503)**
Foreign exchange movements	(153)	488
Net cash inflows/(outflows)	(3,897)	2,055
Closing cash balance	**4,593**	**8,490**

DIRECTORS' REPORT
continued

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 $21,372.

Auditor's Independence Declaration
The Auditor's independence declaration is included on page 33 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	**Mr R Shaw** Non-Executive Director

Signed on the 23 February 2017 in accordance with a resolution of the Directors made pursuant to Section 298(2) of the Corporations Act 2001.

INDEPENDENT AUDITOR'S DECLARATION

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 2016 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

Justin Woods
Lead Audit Partner

Sydney

Dated this 23 February 2017.

Camphin Boston
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Level 5, 179 Elizabeth Street
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GPO Box 3403, Sydney, NSW 2001

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CONSOLIDATED STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016

	Note	12 months to 31 Dec 2016 $'000	12 months to 31 Dec 2015 $'000
Sale of goods	2(a)	128,096	139,758
Cost of sales	2(b)	(113,670)	(126,824)
Gross profit		**14,426**	**12,934**
Other income	2(c)	844	908
Interest expense		(1,100)	(1,291)
Impairment of inventory, receivables & other financial assets	2(d)	(303)	(881)
Travel accommodation and meals		(682)	(697)
Research, development, licensing and patent costs		(418)	(301)
Promotional activity		(67)	(45)
Information technology		(332)	(340)
Personnel	2(d)	(6,750)	(6,589)
Depreciation & amortisation		(475)	(499)
Office expenses		(333)	(282)
Corporate		(3,162)	(3,339)
Foreign exchange gain/(loss)		(143)	771
Other operating expenses		(64)	(155)
Profit/(Loss) before income tax expense/benefit from continuing operations		**1,440**	**195**
Income tax (expense)/benefit	3(a)	(821)	(150)
Profit/(Loss) after income tax expense/benefit from continuing operations		**620**	**45**
Profit/(Loss) after income tax expense from discontinued operations		-	–
Profit/(Loss) after income tax expense/benefit including discontinued operations		**620**	**45**
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	(1,112)	608
Other Comprehensive Income - that will not emerge in the Profit and Loss Statement			
Movement in various actuarial assessments	17	(620)	132
Total Comprehensive Income		**(1,112)**	**785**
Profit/(Loss) after income tax expense for the year (incl discontinued operations) attributable to			
Minority interests		–	–
Members of the parent entity		620	45
Total		**620**	**45**
Comprehensive Income for the year attributable to			
Minority interests		–	–
Members of the parent entity		(1,112)	785
Total Comprehensive Income for the year		**(1,112)**	**785**

CONSOLIDATED STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME

continued

	Note	12 months to 31 Dec 2016 cents per share	12 months to 31 Dec 2015 cents per share
Profit/(Loss) after income tax expense for the year (including discontinued operations)			
Members of the parent entity - Basic (cents per share)	19	0.055	0.004
Members of the parent entity - Diluted (cents per share)	19	0.055	0.004
Profit/(Loss) after income tax expense for the year (excluding discontinued operations)			
Members of the parent entity - Basic (cents per share)	19	0.055	0.004
Members of the parent entity - Diluted (cents per share)	19	0.055	0.004

CONSOLIDATED BALANCE SHEET

as as 31 December 2016

	Note	31 Dec 2016 $'000	31 Dec 2015 $'000
Current assets			
Cash and cash equivalents	25(d)	4,593	8,490
Trade & other receivables	6	21,956	22,163
Inventory	7	22,302	26,316
Other	8	227	220
Total current assets		**49,077**	**57,188**
Non-current assets			
Other receivables	9	1,045	1,092
Property, plant & equipment	10	20,543	19,567
Deferred tax assets	3(c)	1,542	1,653
Intangibles	11	2,869	3,028
Total non-current assets		**25,999**	**25,339**
TOTAL ASSETS		**75,077**	**82,528**
Current liabilities			
Trade & other payables	12	13,672	16,008
Bank borrowings	13	14,734	20,272
Provisions	14	1,337	765
Total current liabilities		**29,742**	**37,045**
Non-current liabilities			
Other payables		146	149
Bank borrowings	13	–	235
Provisions	15	10,815	9,937
Total non-current liabilities		**10,961**	**10,322**
TOTAL LIABILITIES		**40,703**	**47,367**
NET ASSETS		**34,373**	**35,161**
Equity attributable to members of MGL			
Share capital	16	58,616	58,433
Reserves	17	5,165	6,755
Accumulated (losses)/profits	18	(29,871)	(30,491)
Equity attributable to minority interests			
Share capital	16	463	463
Reserves	17	–	–
Accumulated (losses)/profits	18	–	–
Total equity		**34,373**	**35,161**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Share Capital									
	Ordinary $'000	Options Valuation $'000	Retained Earnings [1] $'000	Foreign Currency Translation Reserve (FCTR) [1] $'000	Capital Reserve $'000	Actuarial Reserve $'000	Expired Options Reserve $'000	Share Issue Reserve $'000	Minority Interests $'000	Total Equity $'000
Balance 1 Jan 2015	**58,262**	**–**	**(30,536)**	**3,546**	**2,750**	**(1,917)**	**1,637**	**–**	**463**	**34,205**
Profit/(Loss) attributable to members of parent entity	–	–	45	–	–	–	–	–	–	45
Other	–	–	–	–	–	–	–	–	–	–
Comprehensive income	–	–	–	608	–	132	–	–	–	740
Issue of shares	171	–	–	–	–	–	–	–	–	171
Minority share capital	–	–	–	–	–	–	–	–	–	–
Balance 31 Dec 2015	**58,433**	**–**	**(30,491)**	**4,154**	**2,750**	**(1,785)**	**1,637**	**–**	**463**	**35,161**
Balance 1 Jan 2016	**58,433**	**–**	**(30,491)**	**4,154**	**2,750**	**(1,785)**	**1,637**	**–**	**463**	**35,161**
Profit/(Loss) attributable to members of parent entity	–	–	620	–	–	–	–	–	–	620
Other	–	–	–	–	–	–	–	141	–	141
Comprehensive income	–	–	–	(1,112)	–	(620)	–	–	–	(1,732)
Issue of shares	183	–	–	–	–	–	–	–	–	183
Minority share capital	–	–	–	–	–	–	–	–	–	–
Balance 31 Dec 2016	**58,616**	**–**	**(29,871)**	**3,042**	**2,750**	**(2,405)**	**1,637**	**141**	**463**	**34,373**

(1) During the period, A$1.1m of the Foreign Currency Translation Reserve (FCTR) was reclassified into retained losses. As this adjustment originally related to the year ended 31 December 2012, opening balances of the FCTR and retained earnings have been updated in both the current period and prior comparative period accordingly. No impact on overall equity balance as at 31 December 2016.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2016

	Note	12 months to 31 Dec 2016 $'000	12 months to 31 Dec 2015 $'000
Cash flows from operating activities			
Profit before taxation		**1,440**	**195**
Adjustments for:			
– Non-cash equity expense for shares issued during the period		325	174
– Depreciation & amortisation		1,713	1,811
– Foreign currency effects		498	(333)
– Other non-cash items		888	1,659
Cash generated from/(utilised in) underlying operating activities		**4,865**	**3,506**
Movement in working capital balance sheet accounts			
– Trade and other receivables		(1,158)	1,017
– Inventory		3,163	5,922
– Trade and other payables		(937)	(5,013)
– Other		–	(88)
Cash generated from/(utilised in) underlying operational cash flow and net working capital assets		**5,933**	**5,343**
– Net interest paid		(1,045)	(1,223)
– Income tax paid		(85)	(50)
Cash generated from/(utilised in) other operating activities		**4,804**	**4,070**
Cash flows from investing activities			
Net cash out on purchase/disposal of property, plant & equipment		(3,326)	(4,092)
Group information technology software		(12)	(117)
Security deposit		(1)	894
Other		–	140
Net cash provided by/(used in) investing activities		**(3,339)**	**(3,176)**
Cash flows from financing activities			
Proceeds from borrowings		11,757	(14,312)
Repayment of borrowings		(16,966)	14,989
Net capital raised from issue of securities		–	(4)
Net cash provided by financing activities	**2(e)**	**(5,209)**	**673**
Net increase/(decrease) in cash and cash equivalents		**(3,744)**	**1,567**
Foreign exchange effects on total cash flow movement		**(153)**	**488**
Cash and cash equivalents at the beginning of the reporting period	**25(d)**	**8,490**	**6,435**
Cash and cash equivalents at the end of the reporting period	**25(d)**	**4,593**	**8,490**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

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 23 February 2017.

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 2016. There were no significant changes from the prior year deemed relevant to the Company.

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.

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 specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Receivables

Trade receivables and other receivables are recognised initially at their fair value and subsequently at amortised cost less impairment.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

continued

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period(s) 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/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

continued

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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 the impairment tests as outlined in (g) 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

Inventories are measured at the lower of cost and net realisable value. Costs are assigned to inventory using a weighted average cost method most appropriate to each particular class of inventory, being valued on a first in first out basis. 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 and the asset (or disposal group) is available for immediate sale in its present condition. The sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

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.

NOTES TO THE FINANCIAL STATEMENTS

continued

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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 are 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, as appropriate, 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 is 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 transferred 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 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.

NOTES TO THE FINANCIAL STATEMENTS

continued

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 an appropriate 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 best 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. An 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. The fair value is determined using a binomial model.

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 with the Magontec group of companies in July 2011.

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:

AASB 9 Financial Instruments, Effective from 1 January 2018

Caused by a re-write of the financial instruments standard by the International Accounting Standards Board this new standard will effect classification and measurement of financial assets (AASB 2009), classification, measurement and derecognition of financial liabilities (AASB 9 2010) and Hedge Accounting (AASB 9 2013).

NOTES TO THE FINANCIAL STATEMENTS

continued

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

IFRS 9 (2014) Financial Instruments - Impairment

Not yet approved by the AASB this standard will introduce a new model for testing impairment of financial instruments on an 'expected loss' basis.

IFRS 15 Revenue from Contracts with Customers

Effective from 1 January 2017 this standard will change the recognition of revenue to when a change of control of goods occurs from the current model of recognising revenue when risks and rewards are transferred.

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.

v. Recognition of Cash Government Grant

A cash Government grant is recognised as revenue when irrevocably received.

2. RESULTS FROM OPERATIONS

	12 months to 31 Dec 2016 $'000	12 months to 31 Dec 2015 $'000
(a) Sales Revenue – continuing operations:		
Alloys	104,743	116,970
Anodes	23,353	22,788
	128,096	**139,758**
(b) Cost of Sales – continuing operations:		
Alloys	(97,397)	(110,500)
Anodes	(16,272)	(16,323)
	(113,670)	**(126,824)**
(c) Other Income in Comprehensive Income Statement		
Interest revenue	54	67
Government Grants [1]	145	165
Receipt/(Repayment) for insurance claims	25	94
Derivative market re-valuation	27	(40)
Gain on Disposal: Fixed Assets	9	–
Write back of provisions and other adjustments	411	303
Subsidies for R&D and other reimbursements	95	–
Other	76	319
	844	**908**

(1) The government grants received have no unfulfilled conditions attached to them.

NOTES TO THE FINANCIAL STATEMENTS

continued

2. RESULTS FROM OPERATIONS (CONTINUED)

	12 months to 31 Dec 2016 $'000	12 months to 31 Dec 2015 $'000
(d) Significant expenses in Comprehensive Income Statement (not detailed elsewhere)		
Personnel Costs		
Consultancies	(339)	(283)
Share based payments (ESIP and LTI)	(325)	(174)
Other staff termination payments	(9)	(149)
Defined contribution payments recognised as an expense	(823)	(896)
Other staff payments	(5,255)	(5,087)
Total personnel costs	**(6,750)**	**(6,589)**
Director fees	(140)	(140)
Asset impairment expense		
Write down of trade debtors	(303)	(506)
Write down of various assets at MAS	–	(371)
Other asset impairment expense	–	(4)
Total asset impairment expense	**(303)**	**(881)**

	31 Dec 2015 $'000	Cash flows $'000	Non-cash FX $'000	31 Dec 2016 $'000
(e) Financing Cash Flows Reconciliation				
	20,507	(5,209)	(565)	14,734
	20,507	**(5,209)**	**(565)**	**14,734**

NOTES TO THE FINANCIAL STATEMENTS
continued

3. INCOME TAXES

	12 months to 31 Dec 2016 $'000	12 months to 31 Dec 2015 $'000
(a) Income tax recognised in profit and loss		
Tax expense comprises:		
Current tax expense	(446)	(64)
Deferred tax expense		
Utilisation of tax losses	(280)	–
Change in recognised deductible temporary differences	(94)	(86)
Subtotal deferred tax expense	(374)	(86)
Total tax expense	**(821)**	**(150)**
Attributable to:		
Continuing operations	(821)	(150)
Discontinued operations	–	–
	(821)	**(150)**
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) before tax from continuing operations	1,440	195
Profit/(Loss) from discontinued operations	–	–
Profit/(Loss) from total operations	**1,440**	**195**
Nominal Income tax benefit/(expense) calculated at 30%	(432)	(58)
Nominal tax benefit (expense) effected by:		
Adjusted for effect of tax rates in foreign jurisdictions	286	68
Tax effect - P & L items not assessable or deductible for tax purposes	(630)	(250)
Adjustments - changes in deductible temporary differences and other	(44)	91
Actual tax benefit/(expense)	**(821)**	**(150)**

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.

NOTES TO THE FINANCIAL STATEMENTS
continued

3. INCOME TAXES (CONTINUED)

	12 months to 31 Dec 2016 $	12 months to 31 Dec 2015 $
(b) Income tax amounts recognised in OCI		
Tax effect of revaluation for defined benefit pension plan through OCI	306	(62)
Tax effect (expense)/benefit through OCI	**306**	**(62)**

	31 Dec 2016 $'000	31 Dec 2015 $'000
(c) Deferred tax assets		
Current	–	–
Non-Current		
Timing differences	1,523	1,348
Carryforward tax losses	19	305
Total	**1,542**	**1,653**

Tax Consolidation

Relevance of Tax Consolidation to the Consolidated Entity

The Parent Entity 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.

NOTES TO THE FINANCIAL STATEMENTS

continued

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 2016 $'000	31 Dec 2015 $'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	36,643	35,081
DTA on capital losses	29,019	29,019
Sub Total Australian Tax Consolidated Group	**147,242**	**145,681**
Foreign Subsidiaries		
DTA on revenue losses	93	93
Sub Total Foreign Subsidiaries	**93**	**93**
Consolidated Group Total	**147,335**	**145,774**
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	122,142	116,936
Foreign subsidiaries Tax losses – revenue	371	371
Aust consolidated group Tax losses – capital	96,731	96,731
Consolidated Group Total	**491,180**	**485,974**

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 $122.1 million. These losses will be fully available to offset future taxable income to the extent the tax-consolidated group continues to satisfy the loss integrity rules (i.e. Continuity of Ownership Test and Same Business Test).

NOTES TO THE FINANCIAL STATEMENTS

continued

3. INCOME TAXES (CONTINUED)

Based on testing performed by MGL and its advisors, these losses should satisfy the loss integrity rules as at 31 December 2016.

Unused tax losses incurred prior to the formation of the former Advanced Magnesium Limited (the former name of Magontec Limited) consolidated group were $271.9 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.

Based on testing performed by MGL and its advisors, MGL's pre consolidation losses should satisfy the loss integrity rules at 31 December 2016 subject to further testing and continued compliance with loss integrity rules. No detailed Available Fraction calculations have been performed as at 31 December 2016, 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 2016 and neither is any assessment expected to be received which will result in a tax liability for the period to 31 December 2016. Accordingly, there are no franking credits available for distribution in the year ending 31 December 2016.

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.

4. KEY MANAGEMENT PERSONNEL REMUNERATION

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

	12 months to 31 Dec 2016 $'000	12 months to 31 Dec 2015 $'000
Short term employee benefits [1]	1,371	1,310
Termination benefits	–	–
Post-employment benefits	98	100
Motor vehicle	28	27
Equity based payment [2]	212	95
Total Remuneration Directors and Key Management Personnel	**1,708**	**1,532**

(1) Mr Xunyou Tong was paid a cash bonus of A$30,477 that was accrued in the 2015 accounts, but not disclosed in the remuneration report. This has subsequently been adjusted.

(2) Shares issued under employee Retentions Rights Scheme approved by shareholders at 2011 AGM and expenses related to the LTI plan to be approved by shareholders.

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.

NOTES TO THE FINANCIAL STATEMENTS

continued

5. REMUNERATION OF AUDITORS

	12 months to 31 Dec 2016 $'000	12 months to 31 Dec 2015 $'000
Group auditor		
- Audit or review of the financial report	92	85
- Accounting/taxation services	21	14
Auditors of subsidiaries		
- Audit or review of the financial reports	111	88
- Accounting/taxation services	41	82
	265	**269**

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 2016 $'000	31 Dec 2015 $'000
Trade receivables [1]		14,898	19,101
Allowance for doubtful debts		(975)	(705)
		13,923	**18,396**
Net GST/VAT recoverable		1,513	822
Security deposits		37	29
Derivatives fair value adjustment	**25(f)**	66	–
Other receivables due to operating entities		6,367	2,866
Other		50	51
		8,034	**3,767**
Total receivables		**21,956**	**22,163**

(1) Trade receivables represent 42.57 days sales at 31 Dec 16 (49.89 days sales at 31 Dec 15).

NOTES TO THE FINANCIAL STATEMENTS

continued

7. CURRENT INVENTORIES

	31 Dec 2016 $'000	31 Dec 2015 $'000
Inventory of finished alloy at cost	9,525	13,230
Provision for Inventory loss	(63)	(82)
Net value of finished goods inventory	**9,461**	**13,148**
Raw materials	11,802	12,538
Work in progress	1,038	630
Current inventories at net realisable value	**22,302**	**26,316**

8. OTHER CURRENT ASSETS

	31 Dec 2016 $'000	31 Dec 2015 $'000
Other Prepayments	227	220
	227	**220**

9. NON CURRENT TRADE AND OTHER RECEIVABLES

	31 Dec 2016 $'000	31 Dec 2015 $'000
Pension asset	443	456
Security deposits and prepayments	602	635
	1,045	**1,092**

NOTES TO THE FINANCIAL STATEMENTS
continued

10. PROPERTY PLANT AND EQUIPMENT

	Capital WIP $'000	Land & Buildings $'000	Plant & Equipment $'000	Total $'000
Gross carrying amount				
Balance at 1 January 2015	**1,707**	**16,805**	**24,160**	**42,672**
Additions	2,696	491	906	4,092
Adjustments and reclassifications	(630)	694	(258)	(194)
Impairment at MAS [1]	–	–	(579)	(579)
Disposals and write offs	(1)	–	(80)	(80)
Net foreign currency exchange differences	82	256	696	1,034
Balance at 31 December 2015	**3,854**	**18,246**	**24,845**	**46,945**
Additions	2,539	110	662	3,311
Write Offs	–	–	–	–
Adjustments and reclassifications [2]	–	(15)	(301)	(316)
Impairment	–	–	85	85
Disposals	–	–	(89)	(89)
Net foreign currency exchange differences	(204)	(459)	(823)	(1,485)
Balance at 31 December 2016	**6,190**	**17,882**	**24,379**	**48,450**
Accumulated depreciation/amortisation and impairment				
Balance at 1 January 2015	**–**	**7,324**	**18,108**	**25,432**
Disposals and write offs	–	–	(78)	(78)
Adjustments and reclassifications [2]	–	146	(173)	(27)
Impairment at MAS [1]	–	–	(328)	(328)
Depreciation expense	–	540	1,076	1,616
Net foreign currency exchange differences	–	139	623	762
Balance at 31 December 2015	**–**	**8,148**	**19,230**	**27,377**
Disposals	–	–	(58)	(58)
Write Offs	–	–	–	–
Adjustments and reclassifications [2]	–	–	(176)	(176)
Impairment	–	–	121	121
Depreciation expense	–	548	998	1,545
Net foreign currency exchange differences	–	(216)	(687)	(903)
Balance at 31 December 2016	**–**	**8,480**	**19,427**	**27,907**
Net Book Value As at 31 Dec 15	**3,854**	**10,099**	**5,616**	**19,567**
Net Book Value As at 31 Dec 16	**6,190**	**9,403**	**4,952**	**20,543**

Note 1. Impairment of assets at Suzhou recycling facility (MAS)
The prior year ended 31 December 2015 saw the Group recognise an impairment loss at our recycling facility at MAS of -

- $250,612 related to the write down of the net value of property, plant and equipment, being the carrying value of gross assets $578,857 less accumulated depreciation of $328,244 and;
- $120,529 related to the write down of the net value of assets other than property, plant and equipment

NOTES TO THE FINANCIAL STATEMENTS
continued

10. PROPERTY PLANT & EQUIPMENT (CONTINUED)

Following the decrease in recycling volumes in 2015, the MAS cash generating unit was assessed for impairment by adopting a value in use model which assumed a discount rate of 12.1% and a terminal decline rate of 3%. The write down of $250,612 in the net value of property, plant and equipment was determined after offsetting the terminal realisable value of selected property, plant and equipment that will be redeployed in other facilities within China which remain profitable.

Note 2. Adjustments and reclassifications

Adjustments and reclassifications reflects the effects of the rebuild of the accounts in Romania to the opening balance sheet as at 31 December 2014 in the prior year as well as subsequent asset transfers.

11. INTANGIBLES

	Indefinite Life [1] $'000	Finite Life $'000	Total $'000
Gross carrying amount			
Balance at 31-Dec-15	**2,800**	**1,391**	**4,191**
Disposals	–	(2)	(2)
Adjustments and reclassifications	–	–	–
Net foreign currency exchange differences	–	(31)	(31)
Additions	–	15	15
Balance at 31-Dec-16	**2,800**	**1,373**	**4,173**
Accumulated depreciation/amortisation and impairment			
Balance at 31-Dec-15	**–**	**1,163**	**1,163**
Disposals	–	–	–
Adjustments and reclassifications	–	–	–
Depreciation/amortisation expense	–	168	168
Net foreign currency exchange differences	–	(26)	(26)
Balance at 31-Dec-16	**–**	**1,305**	**1,305**
Net Book Value As at 31 Dec 15	**2,800**	**228**	**3,028**
Net Book Value As at 31 Dec 16	**2,800**	**69**	**2,869**

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

The indefinite life intangible assets comprise the patents held over the range of "AE" alloys and the "Correx" anode system. The Board believes both products enjoy a margin of technical superiority over possible alternatives and as such both continue to provide high gross margins.

In testing the value of this asset for impairment, the Group has applied a discount rate of 6.9% to management cash flow forecasts, reflecting a reduction from the 15% rate used last year as this has been ascribed to our European operations which has a lower cost of capital. A zero growth rate has been assumed over the initial 5 year period, with a declining terminal rate of decline of 12.4% per annum assumed thereafter. The final result found the value in use to be in excess of its carrying amount and thus no impairment loss was recorded.

NOTES TO THE FINANCIAL STATEMENTS

continued

12. CURRENT TRADE AND OTHER PAYABLES

	31 Dec 2016 $'000	31 Dec 2015 $'000
Trade creditors [1]	11,219	12,609
Other creditors and accruals [2]	2,453	3,399
	13,672	**16,008**

(1) Trade creditors represent 36.12 days cost of goods sold (36.29 days cost of goods sold at 31 Dec 15).
(2) A reclass of $268,000 was made from other creditors and accruals into the provision for annual and long service leave caption as at 31 December 2015. This adjustment was balance sheet only and did not have an impact on profit and loss.

13. BORROWINGS

	Notes	31 Dec 2016 $'000	31 Dec 2016 Maturity Date	31 Dec 2016 Interest pa [1]	31 Dec 2015 $'000	31 Dec 2015 Maturity Date	31 Dec 2015 Interest pa [1]
Bank & Institutional Borrowings							
Magontec GmbH (Bank Loan) [2] [5] [6]	**25(g)**	2,922	30-Jun-17	2.15%	8,939	30-Jun-17	2.00%
Magontec GmbH (Bank Loan) [2] [5] [6]	**25(g)**	3,521	30-Jun-17	2.15%	1,436	30-Jun-17	2.27%
Magontec GmbH (Hire Purchase Facility) [5] [6]	**25(g)**	472	31-Dec-18	2.50%	696	31-Dec-18	1.20%
Magontec GmbH (Factoring Facility) [4]		796	30-Nov-16	1.34%	863	30-Nov-16	1.30%
Magontec SRL (Working Capital Facility) [3]		3,583	31-Dec-18	3.15%	1,693	Open	3.15%
Magontec SRL (Bank Loan) [3]		231	30-Nov-16	2.70%	942	28-Apr-17	2.70%
Magontec Xi'an Limited (Bank Loan) [5] [6]	**25(g)**	–	–	–	685	19-Aug-16	5.38%
Magontec Xi'an Limited (Bank Loan) [5] [6]	**25(g)**	–	–	–	646	23-Sep-16	5.33%
Magontec Xi'an Limited (Bank Loan) [5] [6]	**25(g)**	–	–	–	602	14-Oct-16	5.28%
Magontec Xi'an Limited (Bank Loan) [5] [6]	**25(g)**	–	–	–	647	21-Oct-16	5.19%
Magontec Xi'an Limited (Bank Loan)		4,005	25-Apr-17	4.52%	4,222	28-Apr-16	5.62%
Total Bank Borrowings		**15,530**			**21,370**		
Current Borrowings							
Bank borrowings as above (excluding factoring facility)		14,734	Various	–	20,272	Various	
Total Current Borrowings		**14,734**			**20,272**		
Non-Current Borrowings							
Bank borrowings as above		–		–	235	28-Apr-17	
Total Non-Current borrowings		**–**			**235**		

(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 EUR 1.7m ($2.5m) and inventory of EUR 4.6m ($6.7m).

NOTES TO THE FINANCIAL STATEMENTS
continued

13. BORROWINGS (CONTINUED)

(3) These borrowings are secured by a charge over MAR's trade debtors and inventory to the extent of RON 14.2m ($4.6m) and buildings of EUR 1.1m ($1.6m).
(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 used to hedge against adverse movements in variable rates.
(6) As at 31 December 2016, the Company was in breach of its minimum net tangible worth ratio covenant with Commerzbank.

As such, all amounts owing to Commerzbank are deemed repayable on demand and classified as current liabilities in accordance with IFRS. Notwithstanding this breach, management remains confident of the ongoing support of Commerzbank for the following reasons:
– such a breach, although a documentary breach, would not cause the Company to be viewed as an unacceptable credit risk;
– the Company will enjoy the continued support of its lenders as evidenced by such support in historical circumstances where the same breach has occurred;
– the Company has a sound working relationship with the Bank; and
– apart from the covenant breach in question, the Company conducts its facilities according to arrangements.

14. CURRENT PROVISIONS

		31 Dec 2016 $'000	31 Dec 2015 $'000
Provision for annual and long service leave [1]		638	623
Provision for income tax payable		458	80
Provision for loss on FX hedges and interest rate swaps	**25(f)**	38	66
Other		203	(3)
Totals		**1,337**	**765**

(1) A reclass of $268,000 was made from creditors and accruals into the provision for annual and long service leave caption as at 31 December 2015. This adjustment was balance sheet only and did not have an impact on profit and loss.

15. NON-CURRENT PROVISIONS

	31 Dec 2016 $'000	31 Dec 2015 $'000
Provision for defined benefit pension obligation	10,624	9,761
Other provisions	192	177
Totals	**10,815**	**9,937**

NOTES TO THE FINANCIAL STATEMENTS
continued

15. NON-CURRENT PROVISIONS (CONTINUED)

Reconciliation of the Defined Benefit Pension Obligation

	Year Ended 31 Dec 2016 $'000	Year Ended 31 Dec 2015 $'000
Defined benefit obligation beginning of year	**9,761**	**9,753**
Current service cost	195	214
Interest cost	217	208
Total benefits paid - actual	(290)	(291)
Foreign currency exchange rate changes	(188)	64
Experience adjustments (gains)/ losses	–	–
Actuarial (gains)/ losses due to change of assumptions	928	(187)
Defined benefit obligation end of year	**10,624**	**9,761**

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 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 2016 $'000	Year Ended 31 Dec 2015 $'000
Discount rate	1.80%	2.30%
Expected salary increase per annum	2.75%	2.75%
Expected pension increase per annum	1.75%	1.75%

NOTES TO THE FINANCIAL STATEMENTS
continued

15. NON-CURRENT PROVISIONS (CONTINUED)

Key Sensitivities of Actuarial Assumptions used in Calculation of Defined Benefit Obligation

	% chg	Year Ended 31 Dec 2016 $'000	Year Ended 31 Dec 2015 $'000
Discount rate (%)	+0.5%	(941)	(826)
	(0.5)%	1,089	951
Salary increase (%)	+0.5%	64	52
	(0.5)%	(60)	(49)
Pension increase (%)	+0.5%	772	688
	(0.5)%	(699)	(624)
Life expectancy (years)	+ 1 year	486	416

16. SHARE CAPITAL

	31 Dec 2016 $'000	31 Dec 2015 $'000
Opening balance of share capital attributable to members of MGL	**58,433**	**58,262**
Issue of shares to Executives of Magontec Limited [1]	183	174
Various costs associated with above issues	–	(4)
Share capital on issued ordinary shares 1,132,209,291 (2015: 1,127,311,901)	**58,616**	**58,433**
Summary of share capital		
Share capital attributable to members of MGL	58,616	58,433
Share capital attributable to minority interest	463	463
Total share capital	**59,079**	**58,896**

(1) Shares issued in terms of entitlement under Resolution 5 of the Company's 2015 AGM held 8 May 2015.

NOTES TO THE FINANCIAL STATEMENTS
continued

16. SHARE CAPITAL (CONTINUED)
A reconciliation of the movement in fully paid ordinary shares at the line in Note 16 'Share capital on issued ordinary shares 1,132,209,291 (31 Dec 2015: 1,127,311,901) is set out below:

	Consolidated Parent Entity			
	31 Dec 2016		31 Dec 2015	
	No.	$'000	No.	$'000
Fully paid ordinary shares				
Balance at beginning of financial year	1,127,311,901	58,433	1,115,725,813	58,262
Expenses of various issues	–	–	–	(4)
Issue of shares to Executives of Magontec Limited	4,897,390	183	11,586,088	174
	1,132,209,291	**58,616**	**1,127,311,901**	**58,433**

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.

NOTES TO THE FINANCIAL STATEMENTS

continued

17. RESERVES

	Note	31 Dec 2016 $'000	31 Dec 2015 $'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]		4,154	3,546
Movement in VHL Consolidated accounts		(1,112)	608
Balance at end of financial year		**3,042**	**4,154**
Actuarial Reserves			
Balance at beginning of financial year		(1,785)	(1,917)
Derivatives		–	–
Deferred tax assets		306	(62)
Employee pensions		(928)	187
Other		1	7
Balance at end of financial year		**(2,405)**	**(1,785)**
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		–	–
Issue of LTI shares subject to shareholder approval		141	–
Balance at end of financial year		**141**	**–**
Total reserves		**5,165**	**6,755**
Reserves attributable to minority interests		–	–
Reserves attributable to members of MGL		5,165	6,755
Total reserves		**5,165**	**6,755**
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement			
Exchange differences taken to reserves in equity – translation of overseas entities		(1,112)	608
Movement in various actuarial assessments		(620)	131
Total Other Comprehensive Income		**(1,732)**	**740**

Notes

(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.

(2) The opening balance of the foreign currency translation reserve was increased by $1.1m from the numbers previously reported at 31 December 2015 due to a reclassification from retained earnings. This adjustment related to the period to 31 December 2012 and had no impact on the overall equity balance.

NOTES TO THE FINANCIAL STATEMENTS
continued

18. ACCUMULATED LOSSES

	31 Dec 2016 $'000	31 Dec 2015 $'000
Balance at beginning of financial year	(30,491)	(29,398)
Reclass to FCTR [1]	–	(1,138)
Profit/(Loss) attributable to members of Magontec Limited	620	45
Profit/(Loss) attributable to minority interests	–	–
	(29,871)	(30,491)
Accumulated losses attributable to members of Magontec Limited	(29,871)	(30,491)
Accumulated losses attributable to minority interests	–	–
Total accumulated losses	**(29,871)**	**(30,491)**

(1) The opening balance of retained earnings was decreased by $1.1m from the numbers previously reported at 31 December 2015 due to a reclassification from the foreign currency translation reserve. This adjustment related to the period to 31 December 2012 and had no impact on the overall equity balance.

19. EARNINGS/(LOSS) PER SHARE

	12 months to 31 Dec 2016 cents per share	12 months to 31 Dec 2015 cents per share
Basic earnings/(loss) per share (including Discontinued Operations):	0.055	0.004
Diluted earnings/(loss) per share (including Discontinued Operations):	0.055	0.004
Basic earnings/(loss) per share (excluding Discontinued Operations):	0.055	0.004
Diluted earnings/(loss) per share (excluding Discontinued Operations):	0.055	0.004

NOTES TO THE FINANCIAL STATEMENTS
continued

19. EARNINGS/(LOSS) PER SHARE (CONTINUED)

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 2016 $'000	12 months to 31 Dec 2015 $'000
Profit/(Loss) after income tax expense/benefit including discontinued operations		
Members of the parent entity	620	45
Profit/(Loss) after income tax expense/benefit from continuing operations		
Members of the parent entity	620	45
Weighted average number of ordinary securities on issue (for basic earnings calculation)	**1,129,787,358**	**1,123,121,864**
Employee shares LTI subject to shareholder approval	7,864,192	–
Weighted average number of ordinary securities on issue (for diluted earnings calculation)	**1,129,808,845**	**1,123,121,864**

20. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

At 31 December 2016 a contingent asset exists in relation to the item describe at point 1(ii) in this Note.

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 -

(i) a reduction of $181,169 in the Deferred Tax Asset at 31 December 2014; and

(ii) imposition of penalties and interest amounting to $115,012 associated with denial of a VAT input credit.

The effect of both items now reflect in the accounts as at 31 December 2015.

Item (ii) may be recovered in 3 ways -

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

NOTES TO THE FINANCIAL STATEMENTS

continued

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 (2016) Lease Payments	Lease Payments Due Within 12 Months (ie year ended 31 Dec 2017)	Lease Payments Due Beyond 12 Months (ie beyond 31 Dec 2017)	Unexpired Lease Obligation
MAB company car	5-Jun-15	4-Jun-18	Monthly	$1,010	$12,116	$12,116	$6,058	$18,174
MAB company car	1-Jul-16	30-Jun-20	Monthly	$647	$3,884	$7,768	$19,419	$27,186
MAB company car	19-Mar-14	18-Mar-17	Monthly	$497	$5,959	$5,959	–	$5,959
MAB company car	28-Jan-15	27-Jan-19	Monthly	$457	$5,488	$5,488	$5,945	$11,434
MAB wheel loader	20-Jun-13	31-Jan-17	Monthly	$2,831	$33,966	$2,831	–	$2,831
MAB wheel loader	1-May-16	30-Nov-19	Monthly	$1,544	$12,350	$18,525	$35,507	$54,033
MAB forklift trucks	1-Jun-15	31-May-20	Monthly	$2,046	$24,548	$24,548	$59,323	$83,871
MAB forklift trucks	2-Jul-09	30-Jun-19	Monthly	$416	$4,992	$4,992	$7,489	$12,481
MAB forklift trucks	1-Nov-14	31-Oct-19	Monthly	$1,118	$13,411	$13,411	$24,587	$37,997
MAB forklift trucks	1-Nov-14	31-Oct-19	Monthly	$1,118	$13,411	$13,411	$24,587	$37,997
MAB forklift trucks	1-Jul-14	30-Jun-19	Monthly	$1,347	$16,166	$16,166	$24,249	$40,415
MAB external storage facility [1]	1-Jun-06	Open	Monthly	$5,114	$61,369	$15,342	–	$15,342
MAB Canon copy/scan systems	29-Jan-16	31-Jan-20	Monthly	$403	$4,841	$4,841	$10,085	$14,926
MAR car operating lease	14-May-15	2-Jan-17	Monthly	$617	$7,399	$617	–	$617
MAR car operating leases	1-Dec-16	1-May-20	Monthly	$1,534	$1,534	$18,411	$44,492	$62,903
MAY plant and equipment lease	1-Jul-12	1-Jun-17	Monthly	$24,747	$296,961	$148,481	–	$148,481
MGL head office lease	15-Jul-14	15-Jul-18	Monthly	$3,431	$40,904	$41,168	$24,015	$65,183
Total					$559,299	$354,073	$285,755	$639,828

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

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

	31 Dec 2016 $'000	31 Dec 2015 $'000
Non-cancellable operating lease payments		
Not longer than 1 year	354	605
Longer than 1 year and not longer than 5 years	286	479
Longer than 5 years	–	–
Total	**639**	**1,084**

NOTES TO THE FINANCIAL STATEMENTS
continued

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.

Approximately $3 million of the project cost is expected to be incurred during 2017 and will be funded from a combination of:

- cash resources of $4.6 million as at 31 Dec 2016;
- cash generated from operations;
- the undrawn component of existing debt facilities ($9.8 million as at 31 Dec 2016); 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 2016	Ownership Interest 31 Dec 2015
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 [d]	Magontec Limited	United States	100%	0%
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%

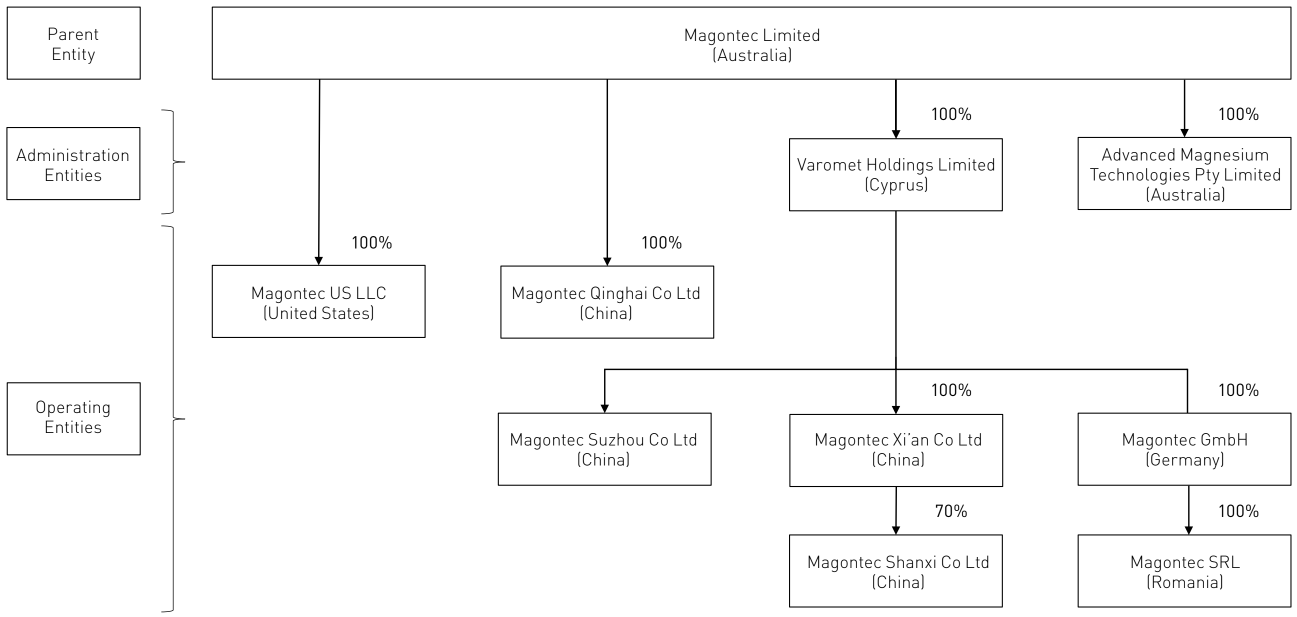
(a) Entities included in the Australian tax consolidated Group.
(b) Dormant from 30 June 2012.
(c) Joint venture entity through which alloying operations are conducted at Shanxi. The joint venture arrangements provide that from 1 January 2013, 100% of the benefits and responsibilities of transactions 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.
(d) Established during the year ended 31 December 2016. No operating activities as at balance date.

NOTES TO THE FINANCIAL STATEMENTS
continued

22. CONTROLLED ENTITIES (CONTINUED)

b. Corporate Structure as at 31 December 2016

MAGONTEC CORPORATE STRUCTURE



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.

NOTES TO THE FINANCIAL STATEMENTS
continued

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 2016, segment information is presented in respect of the three main departments within the group.

- '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 66 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 2016				12 months to 31 December 2015			
	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL
Sale of goods	–	83,252	52,148	135,401	–	81,182	66,501	147,683
Less Inter-company sales				(7,305)				(7,925)
Net Sales	**–**	**83,252**	**52,148**	**128,096**	**–**	**81,182**	**66,501**	**139,758**
Cost of sales	–	(73,111)	(47,864)	(120,974)	–	(73,219)	(61,530)	(134,749)
Less Inter-company sales				7,305				7,925
Net Cost of Sales	**–**	**(73,111)**	**(47,864)**	**(113,670)**	**–**	**(73,219)**	**(61,530)**	**(126,824)**
Gross Profit	**–**	**10,141**	**4,285**	**14,426**	**–**	**7,963**	**4,971**	**12,934**
Other income	89	474	281	844	162	295	451	908
Interest expense	–	(725)	(376)	(1,100)	–	(717)	(574)	(1,291)
Impairment of inventory, receivables & other financial assets	–	(209)	(94)	(303)	–	(40)	(841)	(881)
Travel accommodation and meals	(172)	(367)	(143)	(682)	(174)	(313)	(210)	(697)
Research, development, licensing and patent costs	(94)	(137)	(187)	(418)	(113)	(160)	(28)	(301)
Promotional activity	(1)	(66)	–	(67)	–	(39)	(6)	(45)
Information technology	(36)	(244)	(52)	(332)	(68)	(218)	(54)	(340)
Personnel	(1,368)	(4,154)	(1,228)	(6,750)	(1,217)	(3,673)	(1,700)	(6,589)
Depreciation & amortisation	(1)	(453)	(22)	(475)	-	(444)	(55)	(499)
Office expenses	(57)	(152)	(125)	(333)	(48)	(101)	(132)	(282)
Corporate and other	(533)	(1,594)	(1,100)	(3,226)	(439)	(1,983)	(1,071)	(3,493)
Foreign exchange gain/(loss)	(84)	106	(165)	(143)	1,123	(143)	(209)	771
Profit/(Loss) before income tax expense	**(2,257)**	**2,621**	**1,076**	**1,440**	**(774)**	**426**	**543**	**195**
Income tax expense	–	(620)	(201)	(821)	–	(216)	66	(150)
Profit/(Loss) after income tax expense/benefit including discontinued operations	**(2,257)**	**2,001**	**876**	**620**	**(774)**	**210**	**609**	**45**
Other Comprehensive Income								
Movement in various actuarial assessments	–	(620)	–	(620)	–	132	–	132
Exchange differences taken to reserves in equity – translation of overseas entities	(89)	(240)	(783)	(1,112)	(37)	27	618	608
Total Comprehensive Income	**(2,345)**	**1,141**	**92**	**(1,112)**	**(811)**	**369**	**1,228**	**785**

NOTES TO THE FINANCIAL STATEMENTS

continued

23. SEGMENT INFORMATION (CONTINUED)

	31 Dec 2016 $'000 Admin	31 Dec 2016 $'000 EUR	31 Dec 2016 $'000 PRC	31 Dec 2016 $'000 TOTAL	31 Dec 2015 $'000 Admin	31 Dec 2015 $'000 EUR	31 Dec 2015 $'000 PRC	31 Dec 2015 $'000 TOTAL
Segment Assets								
Gross Segment assets	56,998	41,929	35,006	133,933	58,174	42,594	40,216	140,984
Eliminations								
– Inter-Coy Loans	(40,135)	(1,743)	(4,082)	(45,959)	(39,934)	(1,371)	(3,202)	(44,506)
– Investment in subsidiaries	(15,392)	–	–	(15,392)	(15,392)	–	–	(15,392)
– Other	2,715	6	(227)	2,494	1,461	198	(216)	1,442
As per Consolidated Balance Sheet	**4,187**	**40,192**	**30,698**	**75,077**	**4,309**	**41,421**	**36,798**	**82,528**
Segment Liabilities								
Gross Segment liabilities	29,065	37,057	20,855	86,976	27,480	38,990	25,368	91,838
Eliminations	–	–	–	–	–	–	–	–
– Inter-Coy Loans	(28,894)	(7,268)	(9,756)	(45,918)	(27,258)	(7,762)	(9,528)	(44,548)
– Other	102	–	(458)	(355)	–	–	78	78
As per Consolidated Balance Sheet	**274**	**29,788**	**10,641**	**40,703**	**222**	**31,228**	**15,917**	**47,367**
Segment Disclosures								
– Acquisition of segment fixed assets	–	508	2,802	3,311	–	1,206	2,886	4,092
– Non-cash share based payments expense	325	–	–	325	174	–	–	174
Provisioning								
– Inventory Increase/(Decrease)	–	(19)	–	(19)	–	(14)	–	(14)
– Doubtful debts Increase/(Decrease)	–	(252)	522	270	–	(3)	(80)	(83)

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

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:

- Investment in controlled entities;
- 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.

NOTES TO THE FINANCIAL STATEMENTS
continued

25. FINANCIAL INSTRUMENTS

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 (generally not better than 15 days) and the sale of output (up to 120 days). 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 2016.

31 December 2016	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		0.26%	4,593	–	–	4,593
Trade & other receivables (net of provision for loss)		–	–	–	21,956	21,956
Other		–	–	–	227	227
			4,593	**–**	**22,183**	**26,776**
Financial liabilities:						
Trade & other payables		–	–	–	13,672	13,672
Current Bank Borrowings	13	3.05%	15,530	–	–	15,530
Bank accepted bills issued to suppliers	13	–	–	–	–	–
Current Owing to Straits Mine Management Pty Ltd	13	–	–	–	–	–
Non-current Bank Borrowings	13	–	–	–	–	–
			15,530	**–**	**13,672**	**29,202**

NOTES TO THE FINANCIAL STATEMENTS
continued

25. FINANCIAL INSTRUMENTS (CONTINUED)
The following table details the consolidated entity's exposure to interest rate risk as at 31 December 2015.

31 December 2015	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		0.25%	7,366	–	1,124	8,490
Trade & other receivables (net of provision for loss)		–	–	–	22,163	22,163
Other		–	–	–	220	220
			7,366	**–**	**23,506**	**30,872**
Financial liabilities:						
Trade & other payables		–	–	–	16,008	16,008
Current Borrowings	13	3.20%	21,135	–	–	21,135
Non-Current Borrowings	13	2.70%	235	–	–	235
			21,370	**–**	**16,008**	**37,378**

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 2016 $'000	31 Dec 2015 $'000	31 Dec 2016 $'000	31 Dec 2015 $'000
Foreign currency monetary assets and liabilities				
Cash and cash equivalents	4,525	8,424		
Trade and other receivables	21,970	22,020		
Other non-current receivables	1,043	1,089		
Trade and other payables			13,909	15,855
Provisions			11,702	10,322
Borrowings			14,734	20,507
Other				
Other net assets and liabilities	47,539	50,994	359	682
Total	**75,077**	**82,528**	**40,703**	**47,366**

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.

NOTES TO THE FINANCIAL STATEMENTS
continued

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 2016 $'000	31 Dec 2015 $'000
Effect on Profit/Loss and other equity of a 10% increase in USD rate	(i)	271	936
Effect on Profit/Loss and other equity of a 10% decrease in USD rate		(271)	(936)

		EUR impact	
	Notes	31 Dec 2016 $'000	31 Dec 2015 $'000
Effect on Profit/Loss and other equity of a 10% increase in EUR rate	(ii)	(1,792)	(2,057)
Effect on Profit/Loss and other equity of a 10% decrease in EUR rate		1,792	2,057

		RMB impact	
	Notes	31 Dec 2016 $'000	31 Dec 2015 $'000
Effect on Profit/Loss and other equity of a 10% increase in RMB rate	(iii)	430	(274)
Effect on Profit/Loss and other equity of a 10% decrease in RMB rate		(430)	274

		RON impact	
	Notes	31 Dec 2016 $'000	31 Dec 2015 $'000
Effect on Profit/Loss and other equity of a 10% increase in RON rate	(iv)	(190)	(120)
Effect on Profit/Loss and other equity of a 10% decrease in RON rate		190	120

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

(i) Exposure to USD is represented by net monetary assets of USD 2.0 million in respect of the period ended 31-Dec-16 (exposure on net monetary assets of USD 6.8 million in the period ended 31-Dec-15)

(ii) Exposure to EUR is represented by net monetary liabilities of EUR 12.3 million in respect of the period ended 31-Dec-16 (exposure on net monetary liabilities of EUR 13.9 million in the period ended 31-Dec-15)

(iii) Exposure to RMB is represented by net monetary assets of RMB 21.5 million in respect of the period ended 31-Dec-16 (exposure on net monetary liabilities of RMB 13.0 million in the period ended 31-Dec-15)

(iv) Exposure to RON is represented by net monetary liabilities of RON 5.9 million in respect of the period ended 31-Dec-16 (exposure on net monetary liabilities of RON 3.6 million in the period ended 31-Dec-15)

NOTES TO THE FINANCIAL STATEMENTS

continued

25. FINANCIAL INSTRUMENTS (CONTINUED)

Derivatives and Hedge Accounting

During the period, the Company engaged in both foreign exchange hedges and interest rate swaps in order to manage risks associated with:

1. securing the EUR:USD rate on real metal purchases of pure magnesium in USD; and
2. to protect against adverse movements in interest rates associated with the group's borrowing facilities.

The group designates these derivative financial instruments as cash flow hedges and records transactions in accordance with hedge accounting requirements. Specifically, gains and losses on positions are recognised through Other Comprehensive Income in equity, until such time that the position is liquidated for cash settlement (usually at maturity) at which point the gain or loss is recognised in the profit and loss statement.

The gains and losses associated with the ineffective portion of hedges (where applicable) 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 2016					
FX hedges	6	66	66	66	–
Interest rate swaps	14	(38)	(585)	(585)	–
31 December 2015					
FX hedges	6	–	80	80	–
Interest rate swaps	14	(66)	(597)	(398)	(199)

The sensitivity of FX hedges and interest rate swaps to a 10% movement in the relevant exchange rate and a 0.5% movement in interest rates respectively is outlined below:

	AUD impact of change	
	31 Dec 2016 $'000	31 Dec 2015 $'000
FX hedges		
Sensitivity to +10% change in USD EUR rate	167	361
Sensitivity to -10% change in USD EUR rate	(167)	(361)
Interest rate swaps		
Sensitivity to +0.5% change in interest rates	31	52
Sensitivity to -0.5% change in interest rates	(31)	(52)

NOTES TO THE FINANCIAL STATEMENTS

continued

25. FINANCIAL INSTRUMENTS (CONTINUED)

g. Capital Management and Interest Rate Risk Management

The Group has bank loans outstanding of $6.9 million (refer Note 13) owing to Commerzbank globally. As at 31 December 2016 the Group was in breach of its minimum net tangible worth ratio covenant. Management remains confident that Commerzbank will continue offering its facilities to the amount of EUR12.0 million (A$17.8 million) for the reasons outlined in Note 13. However, the breach means all Commerzbank debt is required to be classified as current and may also result in an increase in the interest rate applying to the debt.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
continued

26. PARENT ENTITY INFORMATION MAGONTEC LIMITED

Statement of Comprehensive Income

	Magontec Limited	
	12 months to 31 Dec 16 $'000	12 months to 31 Dec 15 $'000
Sale of goods	–	–
Cost of sales	–	–
Gross profit	**–**	**–**
Other income	323	752
Interest expense	–	–
Impairment of inventory, receivables & other financial assets	(1,255)	1,299
Travel accommodation and meals	(12)	(18)
Research, development, licensing and patent costs	(76)	(81)
Promotional activity	–	–
Information technology	(10)	(62)
Personnel	(187)	(174)
Depreciation & amortisation	–	–
Office expenses	(8)	(2)
Corporate	(472)	(410)
Foreign exchange gain/(loss)	(179)	262
Other operating expenses	–	–
Profit/(Loss) before income tax expense/benefit from continuing operations	**(1,875)**	**1,566**
Income tax (expense)/benefit	–	–
Profit/(Loss) after income tax expense/benefit from continuing operations	**(1,875)**	**1,566**
Profit/(Loss) after income tax expense from discontinued operations	–	–
Profit/(Loss) after income tax expense/benefit including discontinued operations	**(1,875)**	**1,566**
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	**(1,875)**	**1,566**
Profit/(Loss) after income tax expense for the year (incl discontinued operations) attributable to		
Minority interests	–	–
Members of the parent entity	(1,875)	1,566
Total	**(1,875)**	**1,566**
Comprehensive Income for the year attributable to		
Minority interests	–	–
Members of the parent entity	(1,875)	1,566
Total Comprehensive Income for the year	**(1,875)**	**1,566**

NOTES TO THE FINANCIAL STATEMENTS

continued

26. PARENT ENTITY INFORMATION MAGONTEC LIMITED (CONTINUED)

Balance Sheet

	Magontec Limited	
	31 Dec 16 $'000	31 Dec 15 $'000
Cash and cash equivalents	1,241	1,168
Trade & other receivables	56	91
Other	77	94
Total current assets	**1,374**	**1,353**
Non-current assets		
Intercompany loan receivables (net of provisioning)	17,190	18,430
Investment in shares of subsidiaries (net of provisioning)	11,718	11,718
Total non-current assets	**28,907**	**30,148**
Total assets	**30,282**	**31,501**
Current liabilities		
Trade & other payables	47	95
Provisions	–	(38)
Total current liabilities	**47**	**57**
Non-current liabilities		
Intercompany loan payables	4,768	4,285
Total non-current liabilities	**4,768**	**4,285**
Total liabilities	**4,815**	**4,342**
Net assets	**25,467**	**27,159**
Equity attributable to members of MGL		
Share capital	58,616	58,433
Reserves	1,637	1,637
Accumulated losses	(34,786)	(32,911)
Equity attributable to minority interests		
Share capital	–	–
Reserves	–	–
Accumulated losses	–	–
Total equity	**25,467**	**27,159**

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 2016.

Capital Commitments - Property, Plant and Equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2016.

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 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 34 to 75 of this Annual Report, are in accordance with the Corporations Act 2001, including:
   i. section 296 of the Corporations Act 2001 so that they are in compliance with accounting standards; and
   ii. section 297 of the Corporations Act 2001 so that they give a true and fair view of the financial position of the Company;
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.295 of the Corporations Act 2001.

On behalf of the Board of Directors

Mr N Andrews
Executive Chairman

Mr R Shaw
Non-Executive Director

23 February 2017

INDEPENDENT AUDITOR'S REPORT

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 2016, 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 2016 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
Existence & Valuation of Inventories	
We focused on this area as a key audit matter due to the: • Quantum of amounts involved; and • Sensitivity of the Company's margins to changes in the underlying price of Magnesium. • 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 PRC 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, include the Group's CGUs based on our understanding of the nature of the Group's business, and analysis of internal reporting to assess how operating performance is monitored and reported; • Assessment of key forward looking assumptions used by the Consolidated Entity in their models to estimate any possible impairment, including projected future growth rates, costs, and the discount rate applied; • Substantive testing of asset additions.

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INDEPENDENT AUDITOR'S REPORT

continued

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

Director's 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 control 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 control 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 control. 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 23 to 29 of the directors' report for the year ended 31 December 2016.
In our opinion the Remuneration Report of Magontec Limited for the year ended 31 December 2016 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

Justin Woods
Partner

Level 5, 179 Elizabeth Street, Sydney NSW 2000
Dated: 23 February 2017

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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	29.19
2 STRAITS MINE MANAGEMENT PTY LTD	148,874,507	13.15
3 J P MORGAN NOMINEES AUSTRALIA	101,444,484	8.96
4 CITICORP NOMINEES PTY LIMITED	89,181,423	7.88
OTHER SHAREHOLDERS		
5 KEWEIER METAL CO LTD & LI ZHONG JUN	56,197,298	4.96
6 NATIONAL NOMINEES LIMITED	23,719,625	2.09
7 MR NICHOLAS WILLIAM ANDREWS	18,993,502	1.68
8 HSBC CUSTODY NOMINEES	17,195,818	1.52
9 MR SCOTT PARHAM	15,000,000	1.32
10 MRS DAWN PATRICIA DAVIS	13,600,000	1.20
11 MR XUNYOU TONG	8,317,435	0.73
12 DALSIZ PTY LTD	8,000,000	0.71
13 ESCOR EQUITIES CONSOLIDATED	8,000,000	0.71
14 YELLOWZONE PTY LTD	7,139,831	0.63
15 BRIAN GORMAN SELF MANAGED	7,000,000	0.62
16 DADIASO HOLDINGS PTY LTD	6,000,000	0.53
17 MR PETER FABIAN HELLINGS	5,700,000	0.50
18 DR ANDREW DUNCAN	5,575,000	0.49
19 MRS PAMELA ELIZABETH DRABSCH	4,800,000	0.42
20 MR JOHN MICHAEL PATRICK	4,700,000	0.42
TOTAL	**879,974,707**	**77.72**

Distribution of Shareholders as at End Date of Current Reporting Period

Number Held	Holders	No. of Securities	Percentage
1–1,000	9,903	3,331,819	0.29
1,001–5,000	1,895	4,161,280	0.37
5,001–10,000	419	3,372,519	0.30
10,001–100,000	1,337	44,237,316	3.91
100,001 and over	430	1,077,106,357	95.13
TOTAL	**13,984**	**1,132,209,291**	**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	29.19%
Allan Gray Australia Pty Limited	187,230,248	16.54%
Straits Mine Management Pty Ltd	148,874,507	13.15%

As at 31 Dec 2016 a marketable parcel of securities ($500) is a holding of at least 12,500 securities [1].

1. Based on a closing share price of $0.040

Issued Capital and Securities	On Issue at 31 Dec 2016
Ordinary Shares fully paid	1,132,209,291

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
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