MAGONTEC LIMITED

HALF YEAR REPORT 2017

CORPORATE INFORMATION AND GLOSSARY

1. Corporate information

The consolidated financial statements of Magontec Limited and its controlled subsidiaries as listed in Note 4.1 herein (collectively, the Group) for the 6 months to 30 June 2017 were authorised for issue in accordance with a resolution of the directors on 23 August 2017. Magontec Limited is a company limited by shares incorporated in Australia. The shares are publicly traded on the Australian Securities Exchange under the code "MGL".

2. Glossary of terms 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 Company or MGL**
Advanced Magnesium Technologies Pty Limited	Wholly owned subsidiary of Magontec Limited that acts as the administrative operating entity.	**Advanced Magnesium Technologies Pty Limited**
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 Qinghai Co. Ltd.	The wholly owned entity that owns the Group's operations in Qinghai, PRC.	**MAQ**
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.	**MAS**
Major related shareholders		
Qinghai Salt Lake Magnesium Co. Limited	A subsidiary of Qinghai Salt Lake Industry Co. Limited (a company listed on the Shenzhen Stock Exchange) and a shareholder in MGL to the extent of 28.99% 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 remains a 13.06% substantial shareholder of Magontec at the date of this report.	**SMM**
KWE (HK) Investment Development Co Ltd	Shareholder in Magontec Limited to the extent of 4.93% at the date of this report. Mr Zhong Jun Li, a director of Magontec Limited is also a director of KWE (HK) Investment Development Co Ltd.	**KWE (HK)**
	People's Republic of China	**PRC**

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.

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.

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REPORTING HIGHLIGHTS

- Magontec Qinghai magnesium alloy cast house set to commence production in September 2017
- Net Profit After Tax excluding unrealised Foreign Exchange Losses was $353,000, down 31% on PCP
- In June this year the Company suffered a pre-tax loss of $292,000 due to fraud. In the absence of this event, the Net Profit After Tax excluding unrealised foreign exchange losses would have been $548,000 or 8% above the previous corresponding period (PCP)
- Cash flow from underlying operations was $1.8 million, down 24% on PCP
- Key performance metrics in the period under review:
  - There were no recordable accidents in the six months to 30 June 2017
  - Magnesium alloy sales volumes up 11% and EBIT up 46% on PCP on a constant currency basis
  - Magnesium anode unit prices were slightly weaker in all markets
  - Magnesium anode volumes were up 8% in Europe and down 10% in Asia against PCP (reflecting a single contract loss in China)

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

SUMMARY

In the six months to 30 June 2017 underlying earnings have remained steady. With magnesium alloy production at the new cast house in Qinghai now imminent, Magontec is positioned to move into a new phase of higher growth and profitability

While the first quarter of 2017 saw high volumes and profitability, second quarter profitability has been more subdued. This is principally the result of a 'one-off' trading effect associated with a fraudulent action (currently under investigation by authorities in Hong Kong) that cost the company just over $292,000.

This event, together with a workplace issue in one of our European plants, caused a reversal in bottom line earnings in the second quarter compared with the first quarter.

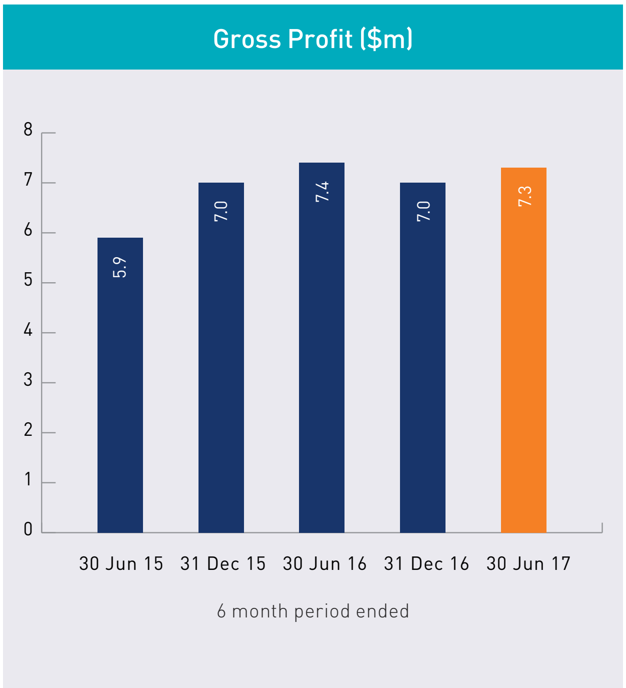
In the period under review production volumes for magnesium alloys have remained robust and the Company expects that to continue to be the case through the second half of 2017. Magnesium and electronic anode volumes and markets have also been solid. This should enable the Company to recover profitability as it cycles these events.

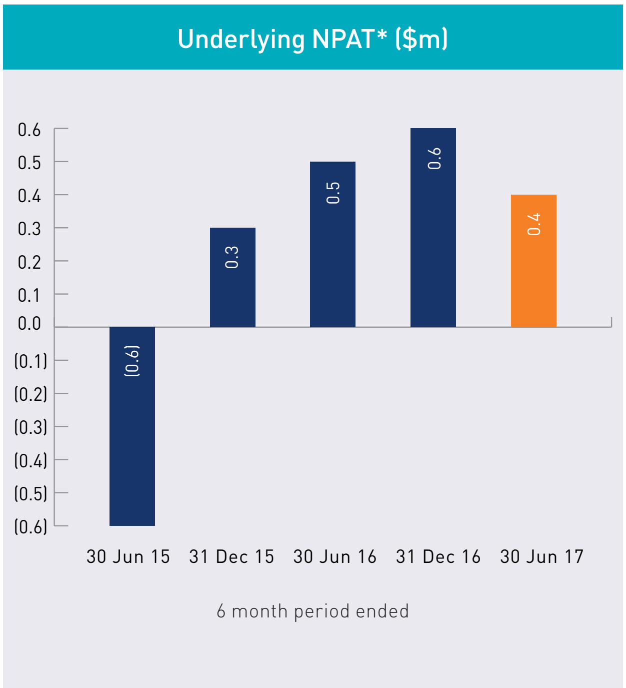
Gross Profit margins dropped from 11.2% in the previous corresponding period to 10.5% in the six months ended 30 June 2017 while EBITDA fell from $1.92 million in the first half of FY2017 to $1.44 million in the period under review.

In the six months to 30 June 2017 movements in foreign exchange have also had a negative impact on the reported Net Profit After Tax, reflecting a sharp rise in the Australian Dollar. As a consequence, the Company recorded an unrealised foreign exchange loss of $737,000 in the first half of 2017.

Excluding the impact of the unrealised foreign exchange loss, the Company recorded Net Profit After Tax of $353,000, inclusive of $292,000 (pre-tax) of fraud losses and a non-cash charge to the accounts of $159,000 relating to equity issued to executives following the Annual General Meeting in May 2017. This compares with a Net Profit After Tax, adjusted for the impact of unrealised foreign exchange losses, of $509,000 in the previous corresponding period.

Reconciliation of significant items in earnings	6 months to 30 June 2017 $'000	6 months to 30 June 2016 $'000
Net Profit Before Tax, unrealised FX and significant items	**1,239**	**1,245**
Significant items Before tax		
Less non-cash equity expense	(159)	(183)
Less extraordinary doubtful debts provision PRC	–	(202)
Less impact of fraudulent inventory loss	(292)	–
Net Profit Before Tax excluding unrealised FX	**788**	**859**
Less tax expense	(435)	(351)
Net Profit After Tax before unrealised FX (underlying NPAT*)	**353**	**509**
Add/(subtract) unrealised FX gains/(losses)	(737)	(428)
Reported Net Profit After Tax	**(384)**	**81**





* Underlying NPAT is defined as Reported Net Profit After Tax excluding Unrealised Foreign Exchange Gains and Losses.

MAGONTEC QINGHAI

Primary magnesium alloy project in Qinghai Province, PRC

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

The new magnesium alloy Cast House at Golmud in Qinghai Province PRC has been completed and ready for some months now. To finally commission the equipment the facility requires supply of liquid pure magnesium from the adjacent electrolytic magnesium plant, built and owned by the Qinghai Salt Lake Magnesium Co Ltd (QSLM).

Earlier this year QSLM announced that the project had reached completion of construction and the commencement of commissioning. It has also announced that the project has been 'proven'; the constituent manufacturing facilities (brine purification, dehydration and electrolytic reduction) have been trialled to the satisfaction of the installation engineers and the operating company.

Both QSLM management and the engineering company in charge of the commissioning phase have provided considerable detail to Magontec in recent weeks. We now expect to start production of magnesium alloys at Golmud and sell that output to our customers from September 2017.

To enable the plant to reach a sustainable and economic level of production as quickly as possible, we will source any raw material deficit from QSLM commissioning volumes manufactured at Golmud over recent months.

It is planned to raise production to an annualised level of around 10,000 metric tonnes by the end of this year and then grow output to the rated 56,000 metric tonnes per annum as liquid magnesium supply comes on stream from the electrolytic smelter.

The next few months will be a very testing time for the team at Magontec Qinghai. However, we have a very experienced leadership team at Golmud and have been training cast house staff for some months in preparation for this event.

The commencement of production this month means that we will be able to start the qualification process for our domestic Chinese and export customers. We anticipate that it will take around 12 months to conduct this process and complete the transfer from our current Shanxi plant. It is anticipated that the bulk of our customers will be able to make that transfer in a much shorter period.

METALS

Primary magnesium alloys and magnesium alloy recycling

Magnesium alloys have performed well in the first six months of 2017 in both Europe and Asia. Overall volumes were up 11% across all metals businesses with new customers in Europe and Asia driving the improvement.

Image: Magnesium scrap, the source material for magnesium recycling

The strongest underlying performances were in China and Germany where consistent improvements in productivity over recent years combined with higher operating volumes generated steady or improved Gross Profit margins.

In Romania, where volumes have been steady, the earnings performance of the magnesium alloy recycling business was undermined by workplace issues. As a result, the operation reported a reduced contribution in the first half of FY2017, down 22% at the Gross Profit level on the previous corresponding period.

In FY2016 Magontec's Romanian business made a strong contribution to group profitability and the slump in earnings in the first half of FY2017 is a key reason for the lower overall result. Romania, and indeed much of Eastern Europe, has enjoyed a strong inflow of new industrial activity in recent years putting upward pressure on wage rates and testing reserves of labour in the region. Finding suitably qualified employees for the recycling operation has become more challenging.

Over the next few months we expect to be able to restore productivity and profitability in this business and sustain a reliable and skilled workforce, although we expect the second half result may also be impacted by temporarily reduced shifts and the need to supply regional customers from other Magontec factories.

A very positive feature of our business has been the growth of export and domestic volumes in China. Overall magnesium alloy sales volumes at Magontec's Chinese plants was up over 13% in the first half of 2017 compared with the previous corresponding period.

METALS

Primary magnesium alloys and magnesium alloy recycling

continued

This augurs well for the start of production at Magontec Qinghai and enquiries from Chinese and international customers for the 'green' magnesium alloys that will be produced at Magontec's newest facility, have been very strong.

Magontec's Shanxi-based primary magnesium alloy plant also faced challenges in the period under review. There were ad hoc and industry-wide environmental inspections across the magnesium manufacturing and coal and dolomite mining industries in the northern spring. Supply shortages and a local environmental inspection caused the Magontec factory to close for a couple of weeks in May and the industry has generally been subject to associated volatility in the global supply chain. Despite these events Magontec volumes of primary and recycled magnesium alloys have been strong and conversion costs have continued at low levels.

Looking forward, as Magontec's primary magnesium alloy operations begin to move to Qinghai in the second half of 2017, we can expect to leave the industry's significant environmental legacy issues behind. Magontec is moving to a new industrial base in Qinghai Province that does not rely on coal or dolomite mining or the supply of electricity from an associated coke making plant. Over the coming 12 months Magontec will increasingly separate itself from the Pidgeon process magnesium industry dynamics and the environmental strictures that have been building in that sector for some years.

The outlook for magnesium alloy demand remains robust with global automotive growth (80% of demand) up by 4.2 million units in 2016, driven entirely by China where unit output grew by 4.6 million units. In China today there are over 48 Chinese (producing 12.5 million units) and 18 non-Chinese (15.5 million units) automotive manufacturing companies offering over 950 different marques. In China there is also a fast-growing segment in New Energy Vehicles (NEV), up 50% per annum over the last two years and now producing over 500,000 units per annum.

The key drivers for the magnesium industry and for Magontec magnesium alloy volumes remain (i) the conversion to magnesium alloys for large automotive applications, (ii) the adoption of magnesium alloys by Chinese automotive manufacturers (where adoption has been slow to date) to the same volume per unit as in Europe and (iii) the adoption of magnesium alloy applications by non-automotive entities, especially in the telecommunications industry and in other industries (such as solar inverters) where thermal conductivity and light weight are important characteristics. A fourth area that is likely to emerge is the NEV market where battery life, a critical metric, can be augmented with lighter vehicles and higher thermal conductivity.

Magontec is a global leader in the field of magnesium alloy application developments and has a number of research projects under way with automotive, power tool and telecommunications companies. The gestation time for these projects is measured in years rather than months. Over the last four years the company has built and maintains a pipeline of research projects that are expected to add to its ability to offer proprietary alloys with advanced characteristics for new magnesium applications in the years ahead.

In the last few weeks Magontec has initiated a new research and development project designed to continue work commenced in 2014 that enjoys financial and "in-kind" support from the Australian Research Council, Australian and European universities and European corporate partners.

In the next few months we also plan to establish a parallel Research and Development entity in Xi'an that will allow Magontec to work more closely with its business partner, the Qinghai Salt Lake Magnesium Co Ltd, together with local universities and companies. This entity expects to be able to source financial support from Chinese regional and national funding organisations.

ANODES

Cathodic Corrosion Protection (CCP)

The anode, or CCP, business remains an important contributor to Magontec profitability although there have been mixed fortunes by region and also by type.

Image: Magnesium anodes

Magontec manufactures magnesium alloys in China and Europe to supply its own magnesium anode casting and extrusion processes. It also manufactures electronic anodes for high-end water heaters.

The magnesium anode business continues to be very competitive with unit prices falling in the first half of 2017 in both China and Europe. The loss of a major contract in China reduced volumes and margins with the former falling 10% versus the previous corresponding period and the latter more precipitously.

In Europe volumes were slightly higher but a decline in unit prices pushed profitability substantially below the previous corresponding period.

The magnesium anode business is highly dependent on volumes and production efficiencies. Both businesses are in the process of capital equipment upgrades to further raise competitiveness. This has been an on-going process over the last three years.

In the second half of FY2017, we expect to see further productivity growth intended to position the company to regain lost market share in Asia and Europe and to begin to make inroads into North America, a market where the company continues to invest in sales and logistics.

FINANCIAL REPORT

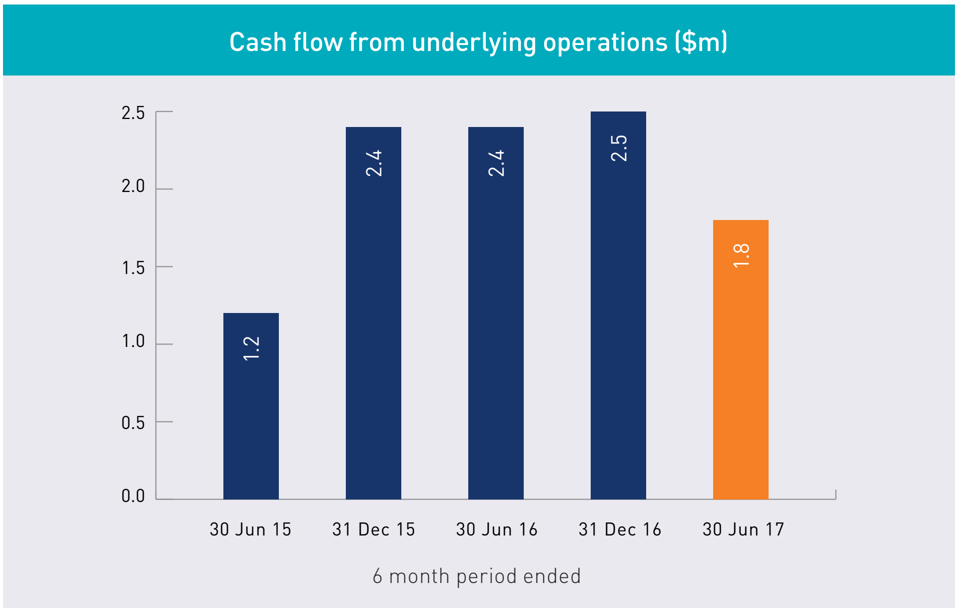
Cashflow, Balance sheet and Banking facilities

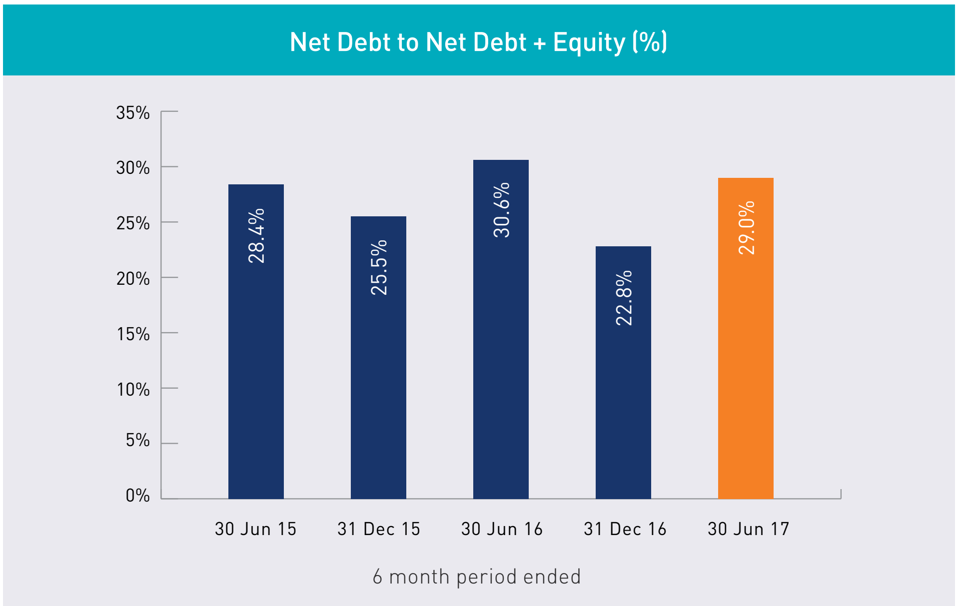
Underlying operating cash flow is one of the key metrics that management monitors internally, and is defined as operating cash flow before interest, tax payments and working capital movements.

For Magontec, working capital movements can have a large impact on overall operating cash flow in 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 the first half of 2017, Magontec generated underlying operating cash flow of $1.8 million, 24% lower than in the prior corresponding period, with the $292,000 fraud alluded to previously having a negative impact. Movements in working capital also meant that headline operating cash flow was negative during the half, however we expect working capital demand to moderate through the remainder of the year.

In the six-months to 30 June 2017 the Company made $2.2 million of net capital expenditure (mostly related to the Qinghai project), with additional bank funding of $3.5 million drawn to support operating and investing activities.





Balance sheet and banking facilities

Net debt stood at $13.9 million as at 30 June 2017, with balance sheet gearing of 29.0% on a net debt to net debt + equity basis (31 December 2016: 22.8%).

As at 30 June 2017, the company's borrowing headroom was $6.9 million across all its existing banking facilities in Germany, Romania and China.

DIRECTORS' REPORT

The Directors of Magontec Limited ('the Company' or 'MGL') submit herewith the financial report for the half-year ended 30 June 2017. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

The names of the Directors of the Company during or since the end of the half-year are:

– Mr Nicholas Andrews (Executive Chairman)	
– Mr Kang Min Xie (Non-Executive Director)	Re-appointed 8 May 2015
– Mr Zhong Jun Li (Non-Executive Director)	Re-appointed 8 May 2015
– Mr Robert Shaw (Independent Director)	Re-appointed 17 May 2017
– Mr Robert Kaye (Independent Director)	Re-appointed 17 May 2017
– Mr Andre Labuschagne (Non-Executive Director)	Re-appointed 11 May 2016
– Mr Yong Li (Alternate Director to Mr Kang Min Xie)	Resigned 12 July 2017

Review of Operations

For the six months ended 30 June 2017 the consolidated (loss) after tax from continuing operations was -	($383,548)
For the six months ended 30 June 2016 the consolidated profit after tax from continuing operations was -	$80,773

Corporate

The 34th annual general meeting of the Company was held on 17 May 2017.
As at the date of this report, the composition of the committees of the Board are as follows.

Remuneration and Appointments Committee

- Chairman: Robert Kaye (Independent Director)
- Robert Shaw (Independent Director)
- Li Zhongjun (Non-Executive Director)

Finance, Audit & Compliance Committee

- Chairman: Robert Shaw (Independent Director)
- Xie Kangmin (Non-Executive Director)
- Andre Labuschagne (Non-Executive Director)

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required by S307C of the Corporations Act 2001 is set out on page 10.
This Report is made in accordance with a resolution of the Directors.

Nicholas Andrews
Executive Chairman

Robert Shaw
Chairman, Finance, Audit & Compliance Committee

Sydney, 23 August 2017

INDEPENDENT AUDITOR'S DECLARATION

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

Member of Russell Bedford International - a global network of independent professional services firms

AUDITOR'S INDEPENDENCE DECLARATION

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

Dear Board Members,

In accordance with the requirements of section 307C of the Corporations Act 2001, we hereby declare, that to the best of our knowledge and belief, during the half-year ended 30 June 2017 there have been:

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

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

Camphin Boston
Chartered Accountants

Justin Woods
Lead Audit Partner

Sydney

Dated this 23 August 2017

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INDEPENDENT AUDITOR'S REVIEW REPORT

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

Russell Bedford
Member of Russell Bedford International - a global network of independent professional services firms

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF MAGONTEC LIMITED

Report on the Half-Year Financial Report

Auditor's Opinion

We have reviewed the accompanying half-year financial report of Magontec Limited and Controlled Entities, which comprises the consolidated balance sheet as at 30 June 2017, consolidated comprehensive income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

In our opinion:

The half-year financial report of Magontec Limited and its controlled entities is in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Directors' Responsibility for the Half-Year Financial Report

The directors of Magontec Limited are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls to enable the preparation of the half-year financial report that provides a true and fair view and 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and its performance for the half-year on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Magontec Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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INDEPENDENT AUDITOR'S REVIEW REPORT

continued

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

Russell Bedford

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Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Camphin Boston
Chartered Accountants

J Woods

Justin Woods
Partner

Level 5, 179 Elizabeth Street, Sydney NSW 2000

Dated: 23 August 2017

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COVER OF EXCELLENCE

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DIRECTORS' DECLARATION

The Directors declare as follows:

a. in the Directors' opinion, there are reasonable grounds to believe that there is no intention or necessity to close the current operations or cease trading within twelve months from the date of this report;
b. in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
c. in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and as of 30 June 2017, give a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the Directors pursuant to s. 303(5) of the Corporations Act 2001.

On behalf of the Directors

Nicholas Andrews
Executive Chairman

Sydney, 23 August 2017

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

for the Half-Year Ended 30 June 2017

	Note	6 months to 30 Jun 2017 $'000	6 months to 30 Jun 2016 $'000
Sale of goods	4.3	69,405	66,392
Cost of sales	4.3	(62,129)	(58,986)
Gross profit		**7,276**	**7,406**
Other income	10	263	190
Interest expense		(577)	(622)
Impairment of inventory, receivables & other financial assets		(18)	(202)
Travel accommodation and meals		(358)	(375)
Research, development, licensing and patent costs		(205)	(134)
Promotional activity		(53)	(29)
Information technology		(150)	(151)
Personnel		(3,170)	(3,270)
Depreciation & amortisation		(181)	(248)
Office expenses		(170)	(210)
Corporate		(1,518)	(1,500)
Foreign exchange gain/(loss)		(796)	(404)
Other operating expenses		(292)	(19)
Profit/(Loss) before income tax expense/benefit from continuing operations		**51**	**432**
Income tax (expense)/benefit		(435)	(351)
Profit/(Loss) after income tax expense/benefit from continuing operations		**(384)**	**81**
Profit/(Loss) after income tax expense from discontinued operations		–	–
Profit/(Loss) after income tax expense/benefit including discontinued operations		**(384)**	**81**
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement			
Exchange differences taken to reserves in equity – translation of overseas entities		(517)	(819)
Other Comprehensive Income - that will not emerge in the Profit and Loss Statement			
Movement in various actuarial assessments		158	(558)
Total Comprehensive Income		**(743)**	**(1,296)**

Notes to the financial statements are included on pages 19 to 27.

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

continued

	Note	6 months to 30 Jun 2017	6 months to 30 Jun 2016
Earnings/(Loss) per share from continued and discontinued operations			
Basic (cents per share)	9	(0.034) cents	0.007 cents
Diluted (cents per share)	9	(0.033) cents	0.007 cents
Earnings/(Loss) per share from continuing operations			
Basic (cents per share)	9	(0.034) cents	0.007 cents
Diluted (cents per share)	9	(0.033) cents	0.007 cents

Notes to the financial statements are included on pages 19 to 27.

CONSOLIDATED BALANCE SHEET

as at 30 June 2017

	Note	30 Jun 2017 $'000	31 Dec 2016 $'000
Current assets			
Cash and cash equivalents	7	4,419	4,593
Trade & other receivables	11.1	25,395	21,956
Inventory		24,618	22,302
Other		307	227
Total current assets		**54,738**	**49,077**
Non-current assets			
Other receivables		981	1,045
Property, plant & equipment		22,232	20,543
Deferred tax asset		1,526	1,542
Intangibles		2,855	2,869
Total non-current assets		**27,594**	**25,999**
TOTAL ASSETS		**82,332**	**75,077**
Current liabilities			
Trade & other payables	11.2	18,144	13,672
Bank borrowings	13	18,270	14,734
Provisions		1,295	1,337
Total current liabilities		**37,709**	**29,742**
Non-current liabilities			
Other payables		–	146
Bank borrowings	13	–	–
Provisions		10,832	10,815
Total non-current liabilities		10,832	10,961
TOTAL LIABILITIES		**48,541**	**40,703**
NET ASSETS		**33,791**	**34,373**
Equity attributable to members of MGL			
Share capital	6	58,907	58,616
Reserves	12	4,675	5,165
Accumulated (losses)/profits		(30,255)	(29,871)
Equity attributable to minority interests			
Share capital	6	463	463
Reserves	12	–	–
Accumulated (losses)/profits		–	–
TOTAL EQUITY		**33,791**	**34,373**

Notes to the financial statements are included on pages 19 to 27.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the Half-Year Ended 30 June 2017

	Share Capital									
	Ordinary	Options Valuation	Retained Earnings	FCTR[1]	Capital Reserve	Actuarial Reserve	Expired Options Reserve	Share Issue Reserve	Minority Interests	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance 1 Jan 17	**58,616**	**–**	**(29,871)**	**3,042**	**2,750**	**(2,405)**	**1,637**	**141**	**463**	**34,373**
Profit/(Loss) attributable to members of parent entity	–	–	(384)	–	–	–	–	–	–	(384)
Profit/(Loss) attributable to minority interests	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–
Comprehensive income	–	–	–	(517)	–	158	–	–	–	(359)
Expired Options	–	–	–	–	–	–	–	–	–	–
Issue of shares	291	–	–	–	–	–	–	(131)	–	160
Minority share capital	–	–	–	–	–	–	–	–	–	–
Balance 30 Jun 17	**58,907**	**–**	**(30,255)**	**2,526**	**2,750**	**(2,247)**	**1,637**	**10**	**463**	**33,791**

for the Half-Year Ended 30 June 2016

	Share Capital									
	Ordinary	Options Valuation	Retained Earnings[2]	FCTR[1] [2]	Capital Reserve	Actuarial Reserve	Expired Options Reserve	Share Issue Reserve	Minority Interests	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance 1 Jan 16	**58,433**	**–**	**(30,491)**	**4,154**	**2,750**	**(1,785)**	**1,637**	**–**	**463**	**35,161**
Profit/(Loss) attributable to members of parent entity	–	–	81	–	–	–	–	–	–	81
Profit/(Loss) attributable to minority interests	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–
Comprehensive income	–	–	–	(819)	–	(558)	–	–	–	(1,377)
Expired options	–	–	–	–	–	–	–	–	–	–
Issue of shares	183	–	–	–	–	–	–	–	–	183
Minority share capital	–	–	–	–	–	–	–	–	–	–
Balance 30 Jun 16	**58,616**	**–**	**(30,410)**	**3,336**	**2,750**	**(2,343)**	**1,637**	**–**	**463**	**34,048**

(1) FCTR = Foreign Currency Translation Reserve

(2) The opening balance of the Foreign Currency Translation Reserve (FCTR) as at 1 Jan 2016 was reclassified into retained losses to the amount of $0.2 million compared with the balances as at 1 Jan 2016 disclosed in the previous half year report to 30 June 2016. As described in the 2016 annual report, this adjustment originally related to the year ended 31 December 2012. There was no impact on the overall equity balance.

Notes to the financial statements are included on pages 19 to 27.

CONSOLIDATED CASH FLOW STATEMENT

for the Half-Year Ended 30 June 2017

	6 months to 30 Jun 17 $'000	6 months to 30 Jun 16 $'000
Cash flows from operating activities		
Profit before taxation	**51**	**432**
Adjustments for:		
– Non-cash equity expense	159	183
– Depreciation & amortisation	807	863
– Foreign currency effects	737	428
– Other non-cash items	26	447
Cash generated from/(utilised in) underlying operating activities	**1,780**	**2,353**
Movement in working capital balance sheet accounts		
– Trade and other receivables	(3,881)	(5,265)
– Inventory	(2,138)	(18)
– Trade and other payables	3,668	1,835
– Other	–	–
Cash generated from/(utilised in) working capital accounts	**(2,351)**	**(3,448)**
Cash generated from/(utilised in) underlying operational cash flow and net working capital assets	**(571)**	**(1,094)**
– Net Interest paid	(549)	(596)
– Income tax paid	(118)	(53)
Cash generated from/(utilised in) other operating activities	**(1,239)**	**(1,744)**
Cash flows from investing activities		
Net cash out on purchase/disposal of property, plant & equipment	(2,238)	(1,394)
Group information technology software	(2)	(6)
Security deposit	(2)	–
Other	–	–
Net cash provided by/(used in) investing activities	**(2,241)**	**(1,399)**
Cash flows from financing activities		
Proceeds from borrowings	20,433	4,684
Repayment of borrowings	(16,966)	(3,674)
Net capital raised from issue of securities	–	–
Net cash provided by financing activities	**3,467**	**1,010**
Net increase/(decrease) in cash and cash equivalents	**(14)**	**(2,133)**
Foreign exchange effects on total cash flow movement	**(161)**	**(165)**
Cash and cash equivalents at the beginning of the reporting period	**4,593**	**8,490**
Cash and cash equivalents at the end of the reporting period	**4,419**	**6,192**

Notes to the financial statements are included on pages 19 to 27.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the Half-Year Ended 30 June 2017

1. SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual report for the year ended 31 December 2016.

Basis of Preparation

This report has been prepared on the basis of historical cost and, except where stated, does not take into account changing money values or current valuations of non-current assets. Costs are based on the fair values of consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the 30 June 2017 half-year financial report are consistent with those adopted and disclosed in the Company's annual financial report for the financial year ended 31 December 2016.

There are no material changes to the Group's accounting policies.

2. SIGNIFICANT TRANSACTIONS AND MATERIAL ITEMS

Aside from those referred to in this report and the relevant comparative period reports, there were no material factors affecting the financial statements of the economic entity for the current and comparative period.

2.1 Call Options for the Issue of the Company's Shares

As at 30 June 2017, there were 64,347,817 unvested performance rights outstanding which were issued to executives of the Company pursuant to the terms and conditions outlined in the 2017 Notice of AGM.

2.2 Income Tax Expense/Benefit

Tax losses previously disclosed in the 31 December 2016 Annual Report encompass Magontec Limited and its Australian controlled entities. The tax benefit corresponding to these losses is not recognised as an asset in the accounts. Income taxes incurred in foreign jurisdictions are not sheltered by these Australian tax losses and are governed by relevant tax legislation in the various foreign jurisdictions in which the Group operates.

3. DIVIDENDS

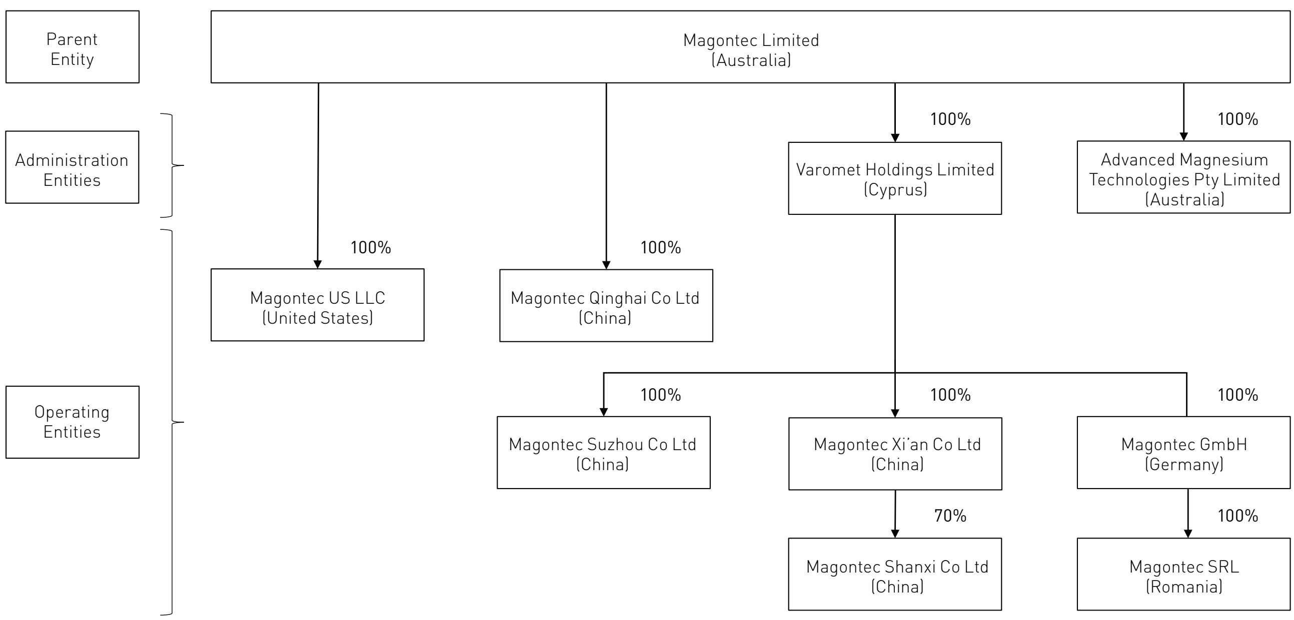
No dividend was declared or recommended during the 6 months ended 30 June 2017 (6 months ended 30 June 2016: no dividend declared or recommended). The balance of the franking account at 30 June 2017 was $nil (30 June 2016: $nil).

NOTES TO THE FINANCIAL STATEMENTS
continued

4. SEGMENT REPORTING

4.1 Corporate Structure as at 30 June 2017

MAGONTEC LIMITED CORPORATE STRUCTURE



4.2 Identification of Reportable Segments

The consolidated entity comprises the entities as described in Note 4.1.

In respect of the period to 30 June 2017, segment information is presented in respect of the three main departments within the company as described in the chart at Note 4.1 above.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

continued

4. SEGMENT REPORTING (CONTINUED)

4.3 Segment Information - Comprehensive Income

	6 months to 30 June 2017				6 months to 30 June 2016			
	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL
Sale of goods	–	45,743	27,250	72,993	–	46,036	25,315	71,352
Less Inter-company sales				(3,588)				(4,960)
Net Sales	**–**	**45,743**	**27,250**	**69,405**	**–**	**46,036**	**25,315**	**66,392**
Cost of sales	–	(40,116)	(25,601)	(65,717)	–	(40,710)	(23,236)	(63,946)
Less Inter-company cost of sales				3,588				4,960
Net Cost of Sales	**–**	**(40,116)**	**(25,601)**	**(62,129)**	**–**	**(40,710)**	**(23,236)**	**(58,986)**
Gross Profit	**–**	**5,627**	**1,649**	**7,276**	**–**	**5,327**	**2,079**	**7,406**
Other income	9	124	130	263	49	108	34	190
Interest expense	–	(374)	(203)	(577)	–	(375)	(247)	(622)
Impairment of inventory, receivables & other financial assets	–	(18)	–	(18)	–	–	(202)	(202)
Travel accommodation and meals	(67)	(242)	(48)	(358)	(87)	(202)	(87)	(375)
Research, development, licensing and patent costs	(78)	(50)	(78)	(205)	(55)	(44)	(35)	(134)
Promotional activity	(2)	(52)	–	(53)	(1)	(29)	–	(29)
Information technology	(24)	(116)	(10)	(150)	(20)	(109)	(23)	(151)
Personnel	(665)	(2,038)	(467)	(3,170)	(695)	(2,013)	(561)	(3,270)
Depreciation & amortisation	–	(161)	(19)	(181)	–	(236)	(12)	(248)
Office expenses	(27)	(110)	(33)	(170)	(32)	(93)	(85)	(210)
Corporate	(380)	(771)	(367)	(1,518)	(259)	(654)	(587)	(1,500)
Foreign exchange gain/(loss)	(544)	(261)	9	(796)	(241)	28	(190)	(404)
Other operating expenses	–	(292)	–	(292)	–	(19)	–	(19)
Profit/(Loss) before income tax expense	**(1,777)**	**1,266**	**562**	**51**	**(1,341)**	**1,688**	**85**	**432**
Income tax expense	–	(355)	(80)	(435)	–	(301)	(49)	(351)
Profit/(Loss) after income tax expense/benefit including discontinued operations	**(1,777)**	**911**	**482**	**(384)**	**(1,341)**	**1,387**	**36**	**81**
Other Comprehensive Income								
Movement in various actuarial assessments	–	158	–	158	–	(558)	–	(558)
Exchange differences taken to reserves in equity – translation of overseas entities	(35)	76	(558)	(517)	(56)	(131)	(632)	(819)
Total Comprehensive Income	**(1,812)**	**1,145**	**(76)**	**(743)**	**(1,397)**	**698**	**(596)**	**(1,296)**

NOTES TO THE FINANCIAL STATEMENTS

continued

4. SEGMENT REPORTING (CONTINUED)

4.4 Segment Information - Balance Sheet

	30 Jun 2017 $'000 Admin	30 Jun 2017 $'000 EUR	30 Jun 2017 $'000 PRC	30 Jun 2017 $'000 TOTAL	31 Dec 2016 $'000 Admin	31 Dec 2016 $'000 EUR	31 Dec 2016 $'000 PRC	31 Dec 2016 $'000 TOTAL
Segment Assets								
Gross Segment assets	56,717	44,588	38,003	139,308	56,998	41,929	35,006	133,933
Adjustments								
Eliminations								
– Inter-Coy Loans	(40,532)	(757)	(2,827)	(44,116)	(40,135)	(1,743)	(4,082)	(45,959)
– Investment in subsidiaries	(15,392)	–	–	(15,392)	(15,392)	–	–	(15,392)
– Other	2,781	(83)	(165)	2,533	2,715	6	(227)	2,494
As per Consolidated Balance Sheet	**3,573**	**43,748**	**35,011**	**82,332**	**4,187**	**40,192**	**30,698**	**75,077**
Segment Liabilities								
Gross Segment liabilities	30,559	38,495	23,985	93,039	29,065	37,057	20,855	86,976
Adjustments								
Eliminations								
– Inter-Coy Loans	(30,364)	(4,059)	(9,621)	(44,044)	(28,894)	(7,268)	(9,756)	(45,918)
– Other	–	–	(453)	(453)	102	–	(458)	(355)
As per Consolidated Balance Sheet	**195**	**34,436**	**13,911**	**48,541**	**274**	**29,788**	**10,641**	**40,703**
Net assets	**3,378**	**9,312**	**21,100**	**33,791**	**3,913**	**10,404**	**20,057**	**34,373**

5. CONTINGENT ASSETS & LIABILITIES

With respect to contingent assets and liabilities, in addition to those disclosed in the Annual Report at 31 December 2016 one item is listed below with respect to the current reporting period.

The company is undergoing a tax audit at its German operations with respect to the period from 2011 to 2014. Following communication from the relevant authority, there exists a possibility of a tax liability being raised in addition to the tax expense accrued in the financial statements as at 30 June 2017.

However, the company is unable to accrue any amount at the date of this report as it is not able to reliably estimate the amount in the absence of a formal notice of assessment. Indeed, the company intends to engage with the tax office regarding various aspects of the communications received to date and is working with its tax advisers to achieve an optimal outcome.

NOTES TO THE FINANCIAL STATEMENTS

continued

6. SHARE CAPITAL

	30 Jun 2017 $'000	31 Dec 2016 $'000
Opening balance of share capital attributable to members of MGL	**58,616**	**58,433**
Issue of shares to Executives of Magontec Limited [1] [2]	291	183
Various costs associated with above issues	–	–
Share capital on issued ordinary shares 1,140,073,483 (2016: 1,132,209,291)	**58,907**	**58,616**
Share capital attributable to members of MGL	58,907	58,616
Share capital attributable to minority interests	463	463
Total share capital	**59,370**	**59,079**

(1) Shares in 2016 issued pursuant to Resolution 5 of the Company's 2015 AGM held 8 May 2015.
(2) Shares in 2017 issued pursuant to Resolutions 5, 6 and 7 of the Company's 2017 AGM held 17 May 2017.

7. RECONCILIATION OF CASH

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	6 months to 30 Jun 2017 $'000	6 months to 30 Jun 2016 $'000
Cash and cash equivalents at the beginning of the reporting period	**4,593**	**8,490**
Net cash (used)/generated in operating activities	(1,239)	(1,744)
Net cash provided by/(used in) investing activities	(2,241)	(1,399)
Net cash provided by/(used in) financing activities	3,467	1,010
Foreign exchange effects on total cash flow movement	(161)	(165)
Cash and cash equivalents at the end of the reporting period	**4,419**	**6,192**
Cash on hand and at bank	**4,419**	**6,192**

8. EVENTS SUBSEQUENT TO BALANCE DATE

There are no matters subsequent to the end of the financial half year that have, or may, significantly affect the Group's operations, the results of those operations, or the state of the Group's affairs.

NOTES TO THE FINANCIAL STATEMENTS

continued

9. CALCULATION OF EARNINGS/(LOSS) PER SHARE INCLUDING DISCONTINUED OPERATIONS

		6 months to 30 Jun 2017	6 months to 30 Jun 2016
Earning/(Loss) per share:			
Profit/(Loss) attributable to members of the parent entity including discontinued operations	1	($383,548)	$80,773
Average shares on issue for the period	2	1,134,034,131	1,127,338,810
Total average options outstanding (Refer NOTE 2.1)	3	20,970,890	–
Basic Earnings/(Loss) per share (cents per share)	1 ÷ 2 × 100	(0.034)	0.007
Diluted Earnings/(Loss) per share (cents per share)	1 ÷ (2 + 3) × 100	(0.033)	0.007

10. OTHER INCOME IN COMPREHENSIVE INCOME STATEMENT

	6 months to 30 Jun 2017 $'000	6 months to 30 Jun 2016 $'000
Interest revenue	29	21
Government grants	83	10
Receipt for insurance claims	48	32
Derivative market re-valuation	37	37
Gain/(Loss) on disposal of fixed assets	16	9
Subsidies for R&D and other reimbursements	–	–
Write back of provisions and other adjustments	41	78
Other	9	4
	263	**190**

NOTES TO THE FINANCIAL STATEMENTS
continued

11. TRADE RECEIVABLES AND PAYABLES

11.1 Current Trade and Other Receivables

	30 Jun 2017 $'000	31 Dec 2016 $'000
Trade receivables [1]	20,228	14,898
Allowance for doubtful debts	(623)	(975)
	19,605	**13,923**
Net GST/VAT recoverable	1,982	1,513
Security deposits	37	37
Derivatives fair value adjustment	–	66
Other receivables due to operating entities	3,669	6,367
Other	101	50
	5,789	**8,034**
Total receivables	**25,395**	**21,956**

(1) Trade receivables represented 52.75 days sales at 30 Jun 17 (62.59 days sales at 30 Jun 16).

11.2 Current Trade and Other Payables

	30 Jun 2017 $'000	31 Dec 2016 $'000
Trade creditors [1]	13,784	11,219
Other creditors and accruals	4,360	2,453
Total trade and other payables	**18,144**	**13,672**

(1) Trade creditors represented 40.08 days cost of goods sold at 30 Jun 17 (40.58 days cost of goods sold at 30 Jun 16).

NOTES TO THE FINANCIAL STATEMENTS
continued

12. RESERVES

	30 Jun 2017 $'000	31 Dec 2016 $'000
Capital reserve		
Balance at beginning of financial year [1]	2,750	2,750
Balance at end of period	**2,750**	**2,750**
Foreign currency translation reserve		
Balance at beginning of financial year	3,042	4,154
Movement in VHL Consolidated accounts	(517)	(1,112)
Balance at end of period	**2,526**	**3,042**
Actuarial Reserves		
Balance at beginning of financial year	(2,405)	(1,785)
Derivatives	–	–
Deferred tax assets	(78)	306
Employee pensions	236	(928)
Other	–	1
Balance at end of period	**(2,247)**	**(2,405)**
Expired Options Reserve		
Balance at beginning of financial year	1,637	1,637
ESOP options expiry	–	–
Balance at end of period	**1,637**	**1,637**
Share Issue Reserve		
Balance at beginning of financial year	141	–
Issue of LTI shares subject to shareholder approval	(131)	141
Balance at end of period	**10**	**141**
Total reserves	**4,675**	**5,165**
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement		
Exchange differences taken to reserves in equity – translation of overseas entities	(517)	(1,112)
Movement in various actuarial assessments	158	(620)
Total Other Comprehensive Income	**(359)**	**(1,732)**
Represented By-		
Movement in foreign currency translation reserve	(517)	(1,112)
Movement in actuarial reserves	158	(620)
	(359)	**(1,732)**

Notes

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

The **foreign currency translation reserve** is 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 as well as movements in deferred tax assets and financial instruments that need to be recognised in "Other comprehensive income" (OCI).

NOTES TO THE FINANCIAL STATEMENTS

continued

13. BORROWINGS

	30 Jun 2017 $'000	30 Jun 2017 Maturity Date	30 Jun 2017 Interest pa [1]	31 Dec 2016 $'000	31 Dec 2016 Maturity Date	31 Dec 2016 Interest pa [1]
Bank & Institutional Borrowings						
Magontec GmbH (Bank Loan) [2] [5]	5,947	30-Sep-17	2.15%	2,922	30-Jun-17	2.15%
Magontec GmbH (Bank Loan) [2] [5]	2,534	30-Sep-17	2.15%	3,521	30-Jun-17	2.15%
Magontec GmbH (Hire Purchase Facility) [5]	372	31-Dec-18	2.50%	472	31-Dec-18	2.50%
Magontec GmbH (Factoring Facility) [4]	1,326	30-Nov-17	1.34%	796	30-Nov-16	1.34%
Magontec SRL (Working Capital Facility) [3]	3,640	31-Dec-18	3.15%	3,583	31-Dec-18	3.15%
Magontec SRL (Bank Loan) [3]	–	–	–	231	30-Nov-16	2.70%
Magontec Xi'an Limited (Bank Loan) [5]	1,935	14-Feb-18	5.78%	–	–	–
Magontec Xi'an Limited (Bank Loan)	3,843	3-May-18	4.70%	4,005	25-Apr-17	4.52%
Total Bank Borrowings	**19,595**			**15,530**		
Current Borrowings						
Bank borrowings as above (excluding factoring facility)	18,270	Various	Various	14,734	Various	Various
Other Current Borrowings	–			–		
Total Current Borrowings	**18,270**			**14,734**		
Non-Current Borrowings						
Bank borrowings as above	–	–	–	–	–	–
Total Non-Current borrowings	**–**			**–**		

(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 were secured by a charge over MAB's trade debtors to the extent of €3,213,000 ($4,777,000) and inventory of €5,071,000 ($7,539,000).

(3) These borrowings were secured by a charge over MAR's trade debtors and inventory to the extent of RON 13,188,000 ($4,302,000).

(4) This facility is set off against trade debtors, and thus is not shown in 'Borrowings' on the balance sheet.

(5) As previously reported in prior periods, at 30 June 2017 the company remained 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.

Subsequent to the expiration of the Commerzbank facility on 30 June 2017, the company remains in discussion with Commerzbank regarding the terms of the refinancing. Management has received a letter to the effect that the current banking arrangements will be extended to 30 September 2017, or until such time as such discussions are completed.

Beyond that point, the company remains confident of the ongoing support of Commerzbank for the following reasons -

- the covenant breach, although a documentary breach, would not cause the Company to be viewed as an unacceptable credit risk;
- the Company will likely 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.

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