MAGONTEC

Magontec Limited

ACN 010 441 666

Annual Report 2020

Global Locations and Activities

Contents

Authorisation:
Nicholas Andrews, Executive Chairman of Magontec Limited has authorised the release of this document to the ASX on 23 February 2021.

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

While the world was turned upside down by the coronavirus pandemic, Magontec businesses made progress in many areas. Magnesium anode volumes and profitability were up sharply, and the metals business (excluding the Qinghai cast house) also made a stronger contribution to overall profitability.

Over the 12 months to 31 December 2020 the operating EBIT from these units, which comprise all of Magontec's businesses except for the Qinghai primary magnesium cast house, have grown by 117%.

In the year under review we have brought new products to market and grown our share of markets where we have traditional strengths. In the coming 12 months we expect to grow other fledgling business units and build on our successes with existing product lines.

The Qinghai project, which has been such a strong focus for the company for many years now, remains stalled. In this report we go into more detail on the current issues and outlook but in summary the project is at an inflexion point.

Magontec continues to operate the Qinghai cast house facility and the agreements that were the foundation of the project remain in place. While it seems unlikely that the supply of liquid pure magnesium will re-start in 2021, Magontec's commitment to its global primary magnesium alloy customer base and to retaining the skills and personnel required to operate this facility, is undiminished.

We remain of the view that the Qinghai magnesium project is a world class facility and that, on re-commencement, it will find a ready market for the world's greenest magnesium. There is no alternative operating or planned magnesium facility anywhere in the world with a comparable environmental footprint or that can reach the same high-volume output.

In other commentaries I have made this same observation, but it is worth repeating. The Qinghai project, even at low levels of output, can make a greater contribution to Magontec's profitability than all our other activities combined. The patience of Magontec executive management for a project that has had a gestation period far beyond expectations reflects this fact. We have been encouraged by the provincial government in Qinghai and by the current managers of the QSLM business to await the outcome of the corporate re-organisation. We have been consistently assured that Magontec's place as the exclusive producer of magnesium alloys at the Qinghai magnesium site and under the existing agreements, will continue under a new manager. QSLM has not been declared bankrupt and the same corporate entity with the same obligations is expected to be maintained by the new owners.

As we await the outcome of the QSLM re-financing and ownership negotiations other activities continue to grow and increase their contribution to profitability.

The Chinese magnesium anodes business has fully leveraged the investment in new equipment and factory layout that took place in 2019, raising volume and profit contribution. In the coming 12 months we see further opportunity to expand market share and market reach for both our Chinese and European CCP operations.

The metals business is more nuanced; the growth in specialist metals products added significantly to profitability while the COVID driven decline in high volume magnesium recycling products weighed on anticipated 2020 earnings, albeit there was improvement in that business after a difficult 2019.

There are growth opportunities for both of these businesses, metals and CCP. Accessing those opportunities requires the ability to travel, which is currently heavily constrained, and access to new capital. The lifting of travel restrictions and the resolution of the Qinghai magnesium ownership will make the task of growing the business easier.

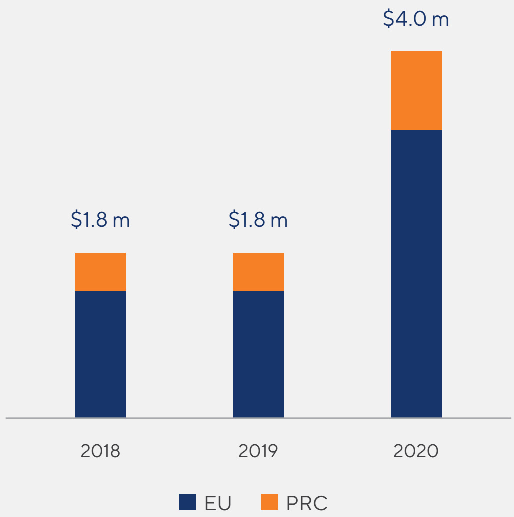
In closing I would like to thank the Board of Magontec for its counsel and advice. Our Board has wide and varied experience in the magnesium industry and in the broader business world. Board members are drawn from different regions of the world, reflect the diversity of our business platform and assist us to communicate with stakeholders and partners in many different regions.

I trust that the limitations on domestic Australian travel will be behind us by May this year and that I can look forward to meeting shareholders again at the 2021 Annual General Meeting.

Nicholas Andrews
Executive Chairman

23 February 2021

MAGONTEC OPERATING EBIT GROWTH EXCLUDING THE CHINA METALS BUSINESS (A$M)



Financial Summary Report

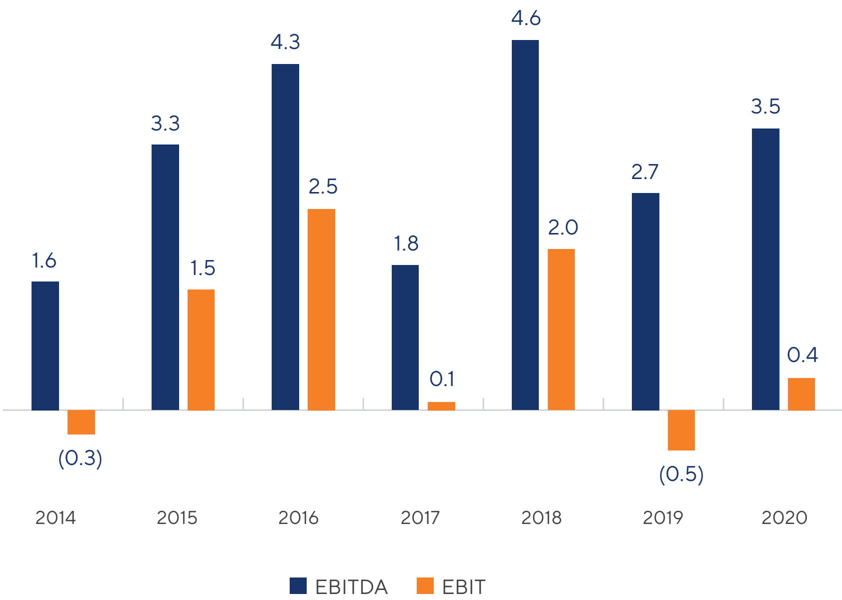
PROFITABILITY

Overall Net Profit After Tax (excluding unrealised FX) for the 12 months to 31 December 2020 came in at a reduced loss of $288,000 (2019: $1.3 million) which includes a non-cash depreciation charge of $1.0 million from the PRC primary magnesium alloy business that continues to weigh on the result.

During the year, a fall in production across Magontec's global metal and anodes businesses saw revenue down 31.6% or over $20 million in the first half of 2020. Through a combination of temporary salary cuts (European staff, head office staff and directors) and government subsidies, Magontec was able to stabilise its financial position until demand recovered through the second half of the year.

During 2020, Magontec continued to exhibit a long-term gross margin expansion trend as more profitable products such as specialist metals continue to grow, particularly into the US market.

EBITDA/EBIT ($M)



RECONCILIATION OF SIGNIFICANT ITEMS IN EARNINGS

	12 months to 31 Dec 2020 $'000	12 months to 31 Dec 2019 $'000
Reported Net Profit Before Tax and Significant Items	**(912)**	**411**
Significant items Before Tax		
Less non-cash equity (expense)/writeback	118	(135)
Less MAQ depreciation (non cash)	(1,013)	(964)
Less MAQ levies	–	(416)
Add COVID related govt subsidies	669	–
Add COVID related salary and director fee reductions (EU & HO)	923	–
Reported Net Profit Before Tax	**(214)**	**(1,103)**
Less tax expense	(502)	(267)
Reported Net Profit After Tax	**(717)**	**(1,370)**
Add back unrealised FX losses	429	28
Net Profit After Tax excluding unrealised FX (underlying NPAT*)	**(288)**	**(1,342)**

CASHFLOW

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 is working capital intensive.

During 2020, Magontec generated underlying operating cash flow of $3.9 million. This was much improved on the 2019 result due to the stabilisation of operations with specialist metals performing particularly strongly. This, in conjunction with the temporary salary adjustments referred to above and some COVID related government subsidies underpinned the result. 2020 also included a $352,000 positive adjustment due to the implementation of IFRS 16 Leases (2019: $395,000).

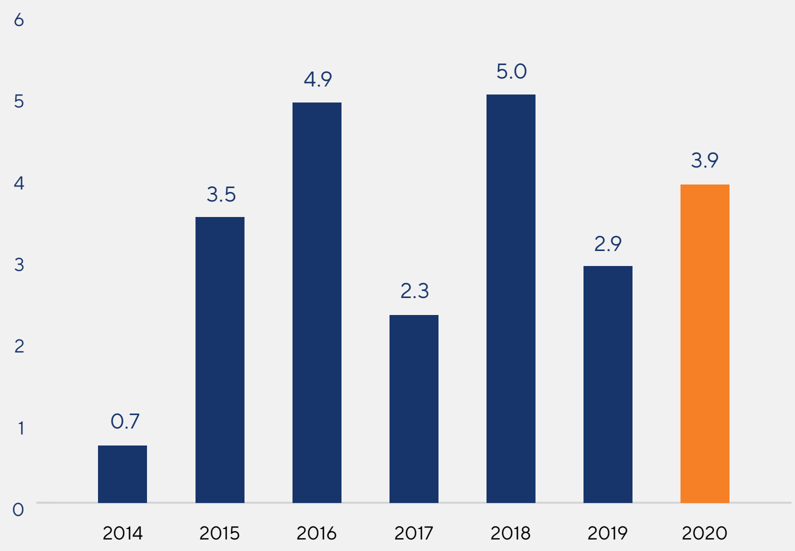
Headline operating cash inflow of $4.5 million included a $1.4 million favourable swing in working capital as debtor and inventory levels have decreased since the half year as foreshadowed in the June 2020 interim report.

FREE CASHFLOW

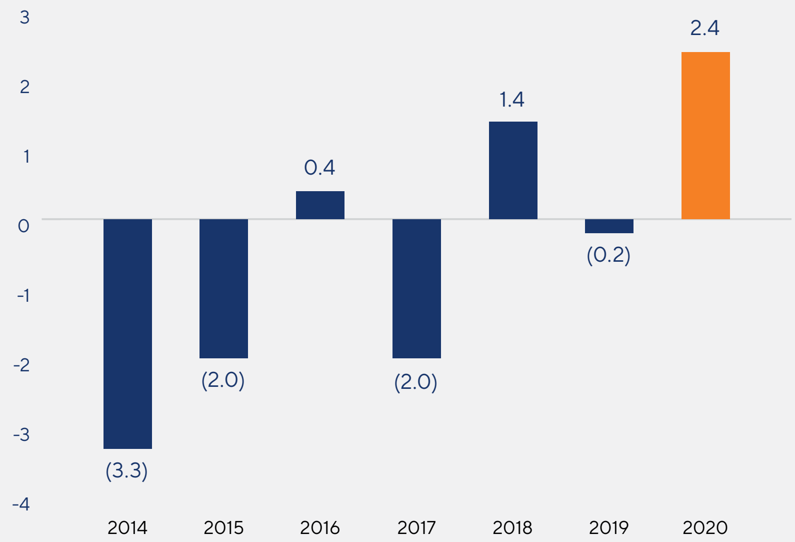
Extending the analysis to free cashflow (defined as operating cash less capital expenditure, and excluding working capital movements) the long-term trend towards a more robust free cash profile is clear.

An improved operating platform and the completion of capital expenditure at the Magontec Qinghai project places the company in a more stable position to await the outcome of the QSLM restructure.

CASH FLOW FROM UNDERLYING OPERATIONS (A$M)



FREE CASHFLOW EXCLUDING WORKING CAPITAL MOVEMENTS (A$M)



Financial Summary Report

BALANCE SHEET AND BANKING FACILITIES

Net debt during the period decreased to $11.7 million as at 31 December 2020 (compared with $15.3 million as at 31 December 2019) as a result of the rebalance in working capital and positive underlying operating cash. Gearing as at 31 December 2020 was 28.8% on a net debt to net debt + equity basis (31 December 2019: 33.0%) in line with historical levels.

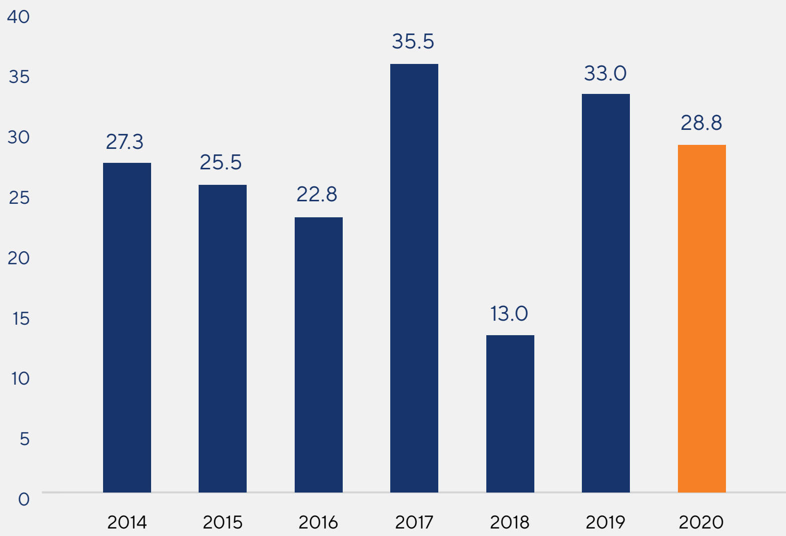
During the year to 31 December 2020, the company undertook a number of critical steps to ensuring the long-term funding stability of the business, including the renewal of the Commerzbank facility and the establishment of a new debt facility with Zheshang Bank in China. This new facility is for a higher amount, RMB 23 million, and provides Magontec Xi'an access to a lower interest rate.

As at 31 December 2020, the company's borrowing headroom was $4.9 million across its existing banking facilities in Germany and Romania as previous excess inventory accumulated during COVID has started to be sold down.

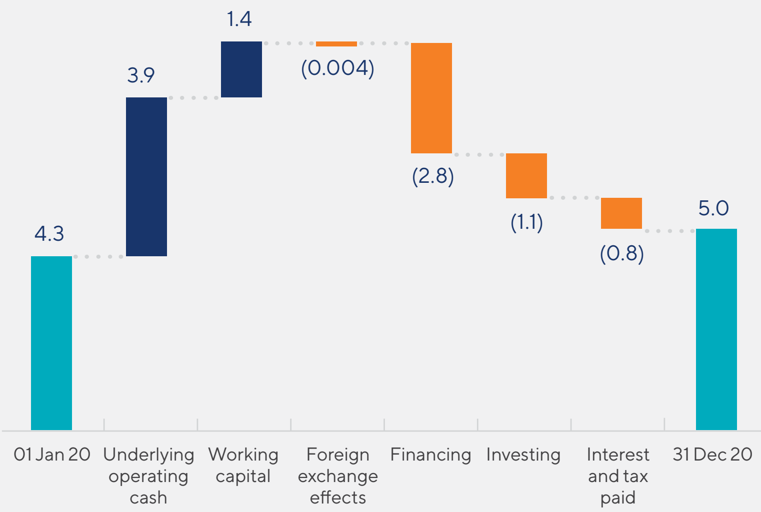
NET TANGIBLE ASSETS

As at 31 December 2020, net tangible assets was 2.2 cents per share, and has been negatively impacted by the strengthening Australian dollar.

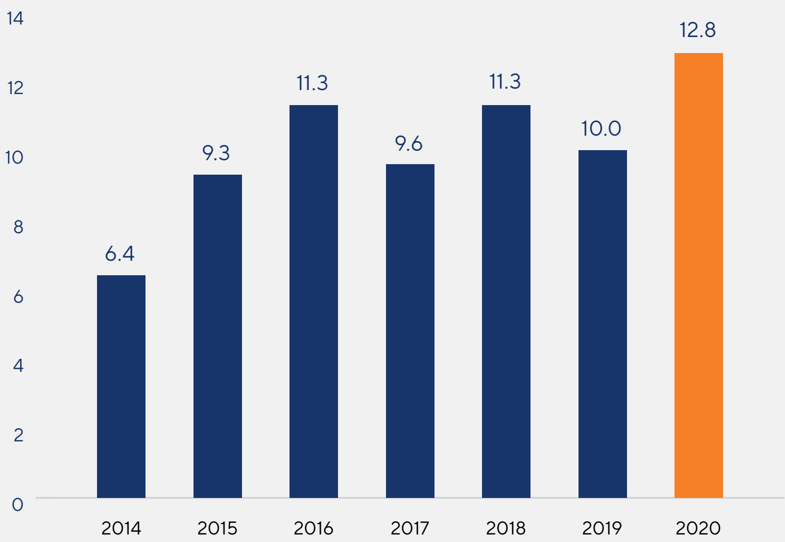
NET DEBT TO NET DEBT + EQUITY (%)



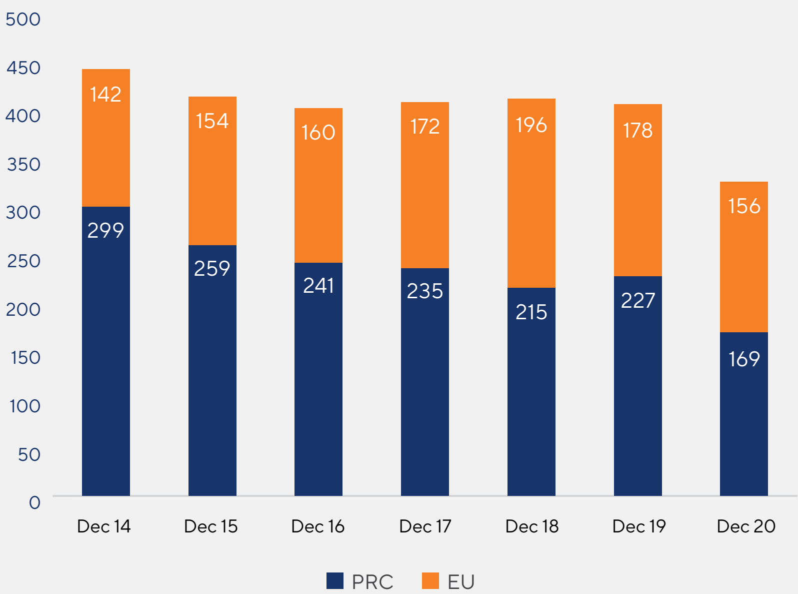
2020 CASHFLOW ANALYSIS ($M)



GROSS MARGIN (%)



EMPLOYEE NUMBERS BY REGION



Health, Safety and Environment

ENVIRONMENT

In the Interim Report, released in August 2020, Magontec commenced publication of energy source data for the company's plants in Europe and Asia.

As at the end of December 2020 there were further declines in carbon-based energy sources, particularly in Germany where renewable energy supply rose from 49% to 56% of total usage.

As we have discussed in prior papers, the melting and alloying of magnesium metal requires high levels of energy.

In China at the Qinghai plant, energy is largely sourced from regional hydro and solar projects. The solar projects continue to grow and are expected to contribute a greater proportion of total energy requirements in the years ahead. Carbon-based energy sources at Qinghai are principally used for baseload and back up for the wider Qinghai industrial complex and supply just 11% of the total energy feed.

In Xi'an where the company manufactures magnesium anodes, there are no substantive renewable energy sources available, and the state grid remains dependant on carbon-based energy generation. However, the Xi'an plant is the lowest energy consumer among all of Magontec factories using just 14% of total group energy requirement while the greenest, the Qinghai factory, is the highest energy consumer at 32% of total group energy inputs.

Overall energy consumption in 2020 was reduced by 18% on the previous year, a stark reflection of the effects of the pandemic and the reduced volumes at Qinghai. As we have noted there were higher renewable inputs in Europe, but the proportion of renewable and nuclear energy across the group remains at just over 63% of the total energy requirement.

MAGNESIUM AND MAGNESIUM SCRAP *LIFE-CYCLE ANALYSIS* (LCA) 2020

In October 2020 the International Magnesium Association (IMA) published a new LCA study produced by Simone Ehrenberger of the DLR, Stuttgart (German Aerospace Center e.V. Institute of Vehicle Concepts). This follows on from a 2013 study by the same group and was expanded to include magnesium alloy recycling as well as primary magnesium manufacturing.

Magontec was the only magnesium alloy recycling company prepared to submit its processes to this LCA analysis and we now have valuable data from the study to show customers and shareholders. The data demonstrates that not only is Magontec able to deliver the lowest CO2 emission primary magnesium alloys (from Qinghai), but it also offers a low environmental footprint as a recycler of magnesium alloy from scrap in Europe.

This is a critical metric in the magnesium alloy metal supply chain and shows that the presence of Magontec recycling in Germany and Romania reduces CO2 emissions that might otherwise be generated by very high emission coal, coke and gas fired Pidgeon process magnesium plants in China.

The average Chinese Pidgeon plant generates around 21.8 kilograms of CO2 for each kilogram of primary magnesium produced. As this new analysis shows, Magontec's recycling plants at Bottrop in Germany and Santana in Romania generate just 0.45 kilograms and 0.38 kilograms of CO2 respectively for each kilogram of magnesium alloy that comes out of our factories.

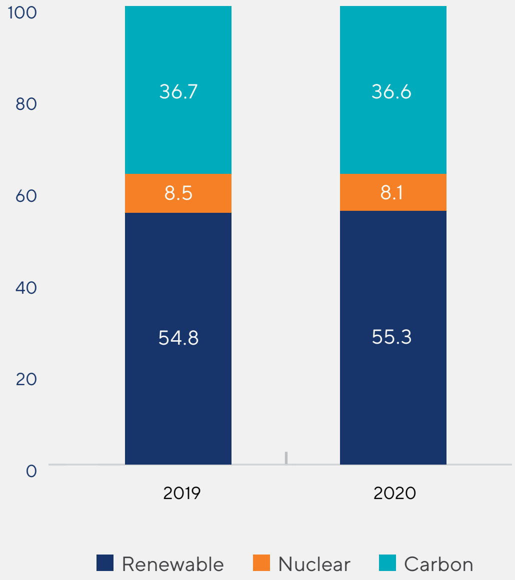
SAFETY

The safety of Magontec employees is the subject of intense and consistent review. The company's business involves the handling of significant volumes of metals at high temperatures in scrap and ingot form as well as heating of metals for alloying and processing purposes to temperatures of up to 800 degrees Celsius. Our employees are provided with and required to wear protective equipment that is regularly inspected, tested and renewed as required.

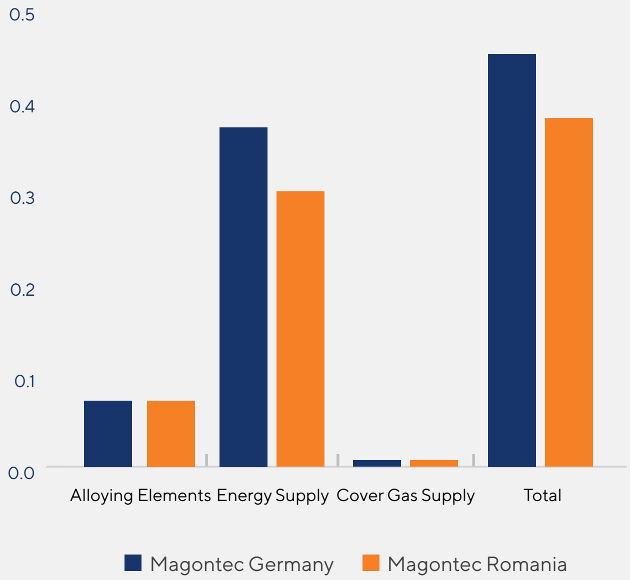
In 2020 there were four accidents that caused a period of time away from work for each of the employees concerned. This is an increase on the three accidents in 2019.

Image (right hand page):
Magontec Xi'an Safety, Quality and Knowledge Conference

MAGONTEC USES 63% RENEWABLE AND NUCLEAR ENERGY IN ITS 4 PLANTS IN EUROPE AND CHINA (%)



GREENHOUSE GAS EMISSIONS FROM RECYCLING OF NEW MAGNESIUM SCRAP AT MAGONTEC'S EUROPEAN PLANTS (KG CO2EQ/KG ALLOY)



Primary Magnesium Alloys

– the Qinghai Project

The status of Magontec's primary magnesium alloy cast house (MACH) at Golmud in Qinghai province remains unchanged from our previous commentaries; the cast house continues to operate at lower levels supplying customers in Asia and Europe.

In the 12 months ended 31 December 2020 the MACH sold 5,500 metric tonnes down from 10,200 tonnes in 2019. The Qinghai plant is profitable at the Gross Profit line but recorded a loss of $441,000 at the EBITDA line for the 12 months to 31 December 2020.

There was no supply of pure magnesium from the adjacent Qinghai Salt Lake Magnesium (QSLM) smelter in any month of the year and all raw materials were acquired from pure magnesium producers in neighbouring provinces, hence the drop in volumes from 2019 to 2020.

Since April 2019 the electrolytic magnesium smelter, contracted to supply liquid pure magnesium to Magontec's MACH, has been idle as QSLM have sought to resolve funding and ownership issues. The advent of the COVID-19 pandemic has delayed that process as potential buyers have been unable to visit the plant in this period.

At the time of publication Magontec has not received formal notification from QSLM on the outcome of the restructuring process. It is our understanding that there are a number of parties bidding to acquire QSLM from its current owner Qinghai Huixin Asset Management (QHAM). This acquisition requires the approval of Chinese government entities, the legal manager of the restructuring process and the creditors of QSLM.

We understand that a decision is imminent and will relay that to shareholders as soon as possible. Magontec looks forward to working with the new owner of the QSLM business, the restart of pure magnesium production at the Qinghai complex and supply of raw material to the Magontec MACH.

Over the last two years the position of Magontec has remained unchanged; the company has a series of agreements with QSLM including the exclusive right to operate a primary magnesium alloy business at the Golmud site, contracted supply of 56% of the output of the 100,000 metric tonnes per annum smelter under an agreed pricing formula and other subsidies to compensate Magontec for its investment in a remote location.

GREENHOUSE GAS EMISSIONS OF MAGNESIUM PRODUCTION SITES (KG CO2EQ/KG OF MG)

* 'credits' refers to other products or processes that contribute to the environmental economics of the facility

In return QSLM has a 29% shareholding in Magontec and the right to appoint a single director to the Board of Magontec Limited.

The agreement between Magontec and QSLM has an initial life of 10 years with the right to extend for a further 10 years at Magontec's option.

The case for the QSLM project remains overwhelming. Qinghai is the only large electrolytic magnesium project that can supply pure magnesium to the global markets. Other electrolytic producers are directly or indirectly reliant on tariff regimes.

The Qinghai project is the most environmentally advanced magnesium smelter ever constructed. Largely powered by hydro, solar and wind, its CO2 footprint is one quarter the size of its domestic Pidgeon plant competitors (currently ~ 90% of global production) and lower than all other operating processes.

In her 2020 study "Carbon Footprint of Magnesium Production and its Use in Transport Applications" Simone Ehrenberger of the German Aerospace Center e.V. Institute of Vehicle Concepts, reviewed the Life Cycle Analysis of magnesium applications and included in that study a review of the global magnesium production base.

In a world that is increasingly focused on environmental issues the Qinghai magnesium project stands head and shoulders above its competitors in terms of its carbon footprint. In other areas it also presents as a premium offering; the project extracts its resource from a vast salt lake rich in magnesium and other minerals. The estimated magnesium content of the lake is hundreds of times the current annual demand for magnesium.

In this third decade of the 21st century it is becoming apparent that the world's largest economies are planning to introduce new barriers to products that fail to comply with environmental standards. There is little doubt that the Pidgeon process plants that supply more than 90% of the global trade in magnesium products would be heavily taxed by an environmental border levy. The European Union, which takes more than 40% of Chinese magnesium production, is currently discussing a carbon border adjustment mechanism, or CBAM. The proposal is that this tax will be introduced in the next couple of years in Europe. Early indications from Washington suggest that the USA, under its new President, may also participate. If implemented this would significantly raise the price on imports of Pidgeon process magnesium and offer a cost advantage for low carbon emission products.

All of these steps underline the pressing need for the re-start of the Qinghai magnesium smelter and the enviable status that this project will enjoy in the global magnesium industry.

Cathodic Corrosion Protection

(Anodes)

2020 was a strong year for Magontec's CCP business in Europe and China. Global magnesium anode sales volumes grew 17% during the year.

In the five years from 2015 to 2020, Magontec's global CCP revenues have grown by 49% and the operating EBIT contribution of this business has increased by over 130%. Magontec is a leading global producer of both magnesium and electronic anodes with strong market shares in Europe and Asia and a growing presence in the USA.

As we have discussed in prior releases, the COVID pandemic has hitherto had a more modest impact on this product. In China in the first quarter of 2020 sales and profits reduced sharply as hot water appliance factories were shuttered across the country. In the second quarter the Chinese industry came back online just as the European hot water appliance manufacturers began to feel the first effects of the pandemic.

Image top:
Magontec GmbH CCP Team
Video Conference

Image (right hand page):
Magontec Xi'an Global Anode
Sales Team

Since the end of May 2020 demand has returned to a more normal seasonal profile across both regions. Hot water appliances are not optional consumer items; if a hot water system breaks down it must be replaced immediately and close to 80% of global production is destined for the replacement market.

Another emerging feature of the European market, especially in Germany, has been the growth in expenditure on home renovations. The German market showed year-on-year growth in 2020 of 8% - a 12-year high - partly boosted by government subsidies. Other major European markets were down between -3% and -11% in the year as activity in the first period of the pandemic reduced annual volumes. Across Europe these markets are likely to rebound as the shut-downs end and households are able to get work done that has been delayed and direct money from rising savings to home improvement.

In the US residential sales stayed strong in 2020 while the commercial sector was patchier with growth in hospitals, retirement homes and medical centres balancing reduced activity among hotels, restaurants and gyms. Overall, the US market was up over 7% on the previous corresponding period.

Underlying the strong improvement in Magontec volumes and 4% growth in Gross Profit, is investment in equipment and processes through 2019. The installation of additional extrusion and automated finishing equipment enabled the Xi'an based anodes business to successfully compete for the largest supply orders in China. In 2021 there are plans to further streamline processes that were not addressed in 2020.

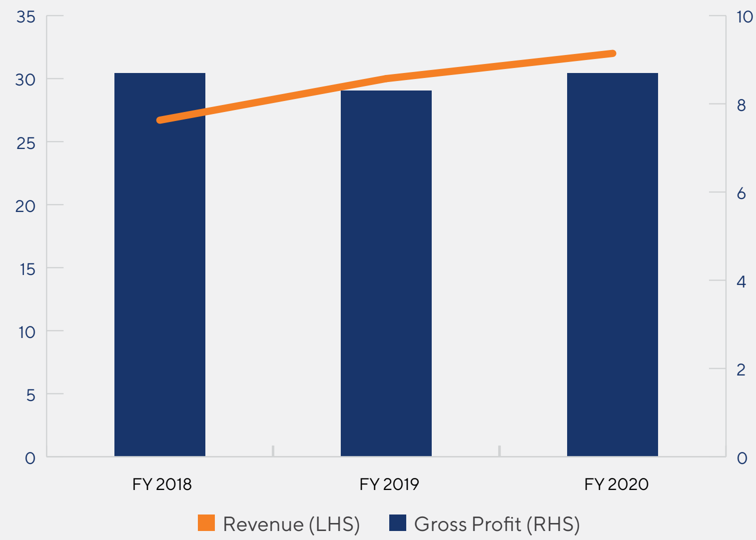
Every year Magontec Xi'an is required to submit its quote for the coming 12 months to the largest Chinese magnesium anode customers. These are highly competitive processes and prices are aggressively bid. In 2020, while demand for product remained at high levels, unit prices fell, and this may dampen Magontec's Chinese magnesium anode profitability in 2021. Unit price decline was also driven by and, to some extent, offset by lower magnesium raw material prices through the middle of 2020.

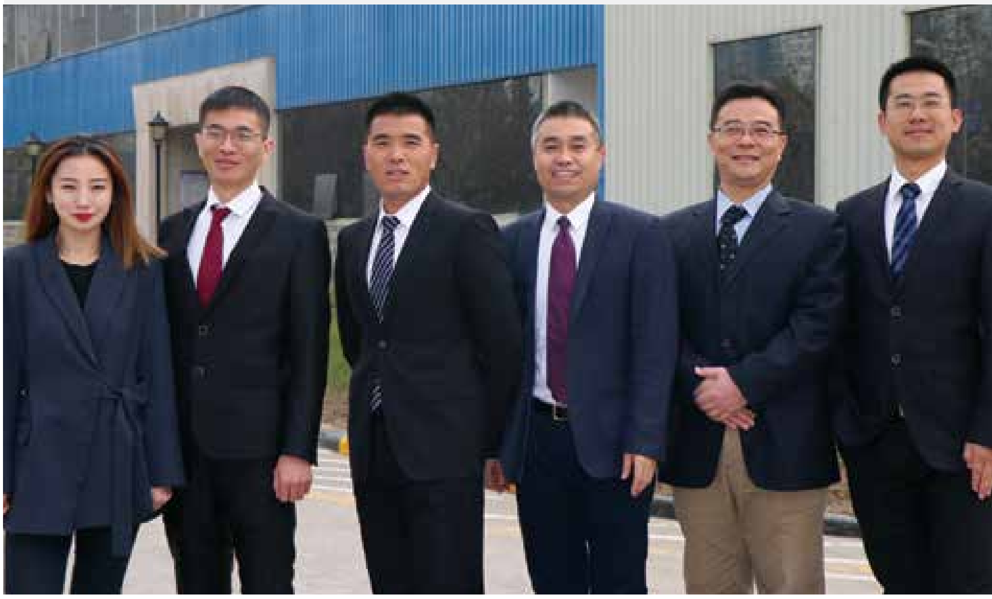
At Magontec's Romanian magnesium anode manufacturing plant production metrics were much improved on the prior year allowing the regional sales team the opportunity to chase higher volume markets with lower unit price items. This drove a slightly lower overall margin on revenues that were up over 7% on the previous corresponding period.

Through 2020 Magontec also made headway in the US supplying limited volumes of magnesium anodes to the local hot water appliance markets. In the third quarter the introduction of a 25% tariff on Chinese magnesium anode imports caused a slowdown in deliveries that will continue into 2021. Tariff changes present a rising challenge to all exporters from China into the USA, however we are looking at new ways to entrench Magontec's presence in a market that offers considerable opportunity for development for both of the Company's magnesium anode manufacturing plants and where Magontec currently has a small market share.

While forecasting into 2021 is a harder task that in most years, Magontec's overall magnesium anode sales volume outlook is trending to higher numbers over the coming months. Lower average unit prices, a highly competitive marketplace and an erratic global tariff environment will all be a drag on short-term profit growth, however volumes are expected to be steady or higher across the group and Magontec production units in Europe and China will be operating at higher levels.

CCP REVENUE AND GROSS PROFIT (A$M)





There are also changing dynamics in each market. In China domestic hot water appliance sales are falling quite sharply while appliance exports, albeit a lower quantity, are rising quickly, up about 20% in 2020 on 2019. Magontec's key Chinese customers are the leaders in this export drive, are now household names in all regions of the world and have been active in acquiring new brands and manufacturing sites in Europe and North America.

In Europe the outlook for Mg anodes is positive as activity delayed from 2020 is expected to increase regional volumes. For Europe-based producers demand has also been enhanced by delays in magnesium anode deliveries from China reflecting the broader issue of reduced container and shipping capacities affecting all industries. For Magontec's electronic anodes there are also opportunities as the shift out of fossil-fuel heat generation and into electric products expands the market for high-end heat pump products. In the USA electronic anodes are becoming standard fitments in the commercial sector, which is expected to grow the current product suite and bring new appliance types to market for US-based manufacturers.

Global Metals
(excluding Qinghai)

In 2020 the European metals business, which includes Mg alloy recycling and specialist metals, experienced a sharp rise in profitability as new projects came on stream, particularly in higher margin products. At the Gross Profit level this more than compensated for reduced volumes and revenues in the recycling business.

Both of Magontec's European Mg alloy recycling plants were hit hard by shut-downs associated with the COVID-19 pandemic. In Romania production ceased entirely in April and only recovered to targeted levels in October. In Germany production was reduced by between 30% and 50% for most of that period. Overall metal volumes fell 29% in the period.

Image top (left to right):
Christoph Klein-Schmeink (President Magontec Europe, North America and Middle East)
Tong Xunyou (President Magontec Asia)
Armin Buschhausen (Metal sales Europe & USA)
Zhen Zisheng (Head of Global R&D)
Bao Huan (Metals and CCP sales PRC)

Despite the tough operating conditions for the volume metals business, at the Gross Profit level the overall metals business, excluding the Qinghai plant, rose by 32% to $4m. In 2020 Magontec's European business has continued to broaden its metals markets and has built a solid base of global customers in addition to its longer-standing customers in Europe.

While operating conditions were difficult throughout 2020 for the recycling business, there were considerable efficiency improvements, particularly in Romania. In a high-volume low margin industry, incremental improvements in operating efficiency have a profound effect. In addition to improved labour productivity, we continue to make capital investments at both plants targeted at cost savings, safety improvements and process efficiency. Particular focus in 2020 has been on streamlining material handling. In 2021 we expect to see these investments further improve broader efficiency metrics.

In addition to material handling and process improvements our European technical staff have also been focussed on other bottlenecks that impact profitability, such as the management of non-class one material and the disposal of unusable furnace waste. It is a tribute to our teams in Europe and China that there is constant process improvement brought about by initiatives developed in-house.

Each year we strive for productivity improvements so that we can present competitive prices to our European and North American customers. From time-to-time price driven campaigns by other players in the European markets impact our volumes and profit. Magontec is focussed on building a business for the long-term based on fair pricing and profitability for our shareholders and our customers.

MAGNESIUM AND THE AUTOMOTIVE INDUSTRY

The volume Mg alloy recycling business is principally focussed on the automotive industry where COVID stoppages were a particular feature of the first half of 2020 in Europe. These flowed through directly to the Magontec factories and intermittency remains a feature of our day-to-day business experience.

As the chart below shows, the European automotive sector was hit much harder than other markets, delivering nearly 23% fewer vehicles while China and the US were both down around 15% in 2020 on the previous year.

The outlook for the automotive sector is for a modest recovery in 2021 and another gain in 2022 but, at this point in time, the prospect of automotive sales in the major markets approaching the levels of 2019, let alone the peak output of 2017, is some years away.

The broader outlook for the volume magnesium alloy recycling business in 2021 is challenging. Aggressive pricing, lower automotive sales and the ongoing effects of the COVID pandemic on our customers and our own operations present a complex scenario that will take skill and experience to navigate.

A CHANGING DYNAMIC FOR MAGNESIUM ALLOYS IN THE AUTOMOTIVE INDUSTRY

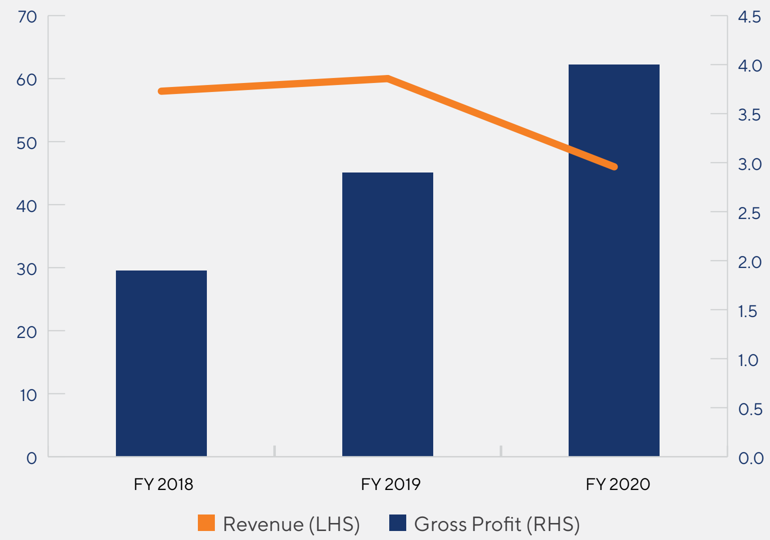
For magnesium companies the future of the automotive industry presents a new challenge as the internal combustion engine (ICE) looks set to go the way of the steam engine. The unique selling proposition (USP) of magnesium hitherto has been its positive impact on ICE tailpipe CO2 emissions. Magnesium is the lightest structural metal - around two thirds the weight of aluminium and one third the weight of steel. As manufacturers were forced to reduce emissions, reducing the weight of the vehicle to reduce fuel consumption and tailpipe emissions was one of a number of strategies that automotive companies engaged in. Magnesium alloys were an obvious substitute for aluminium and steel wherever that was technically feasible.

As ICE vehicles are replaced by electric vehicles (EVs) that particular USP, reducing vehicle CO2 emissions, diminishes; EVs have no tailpipe CO2 emissions (although they may have indirect emissions via electricity energy sources such as coal, gas, renewable, nuclear etc).

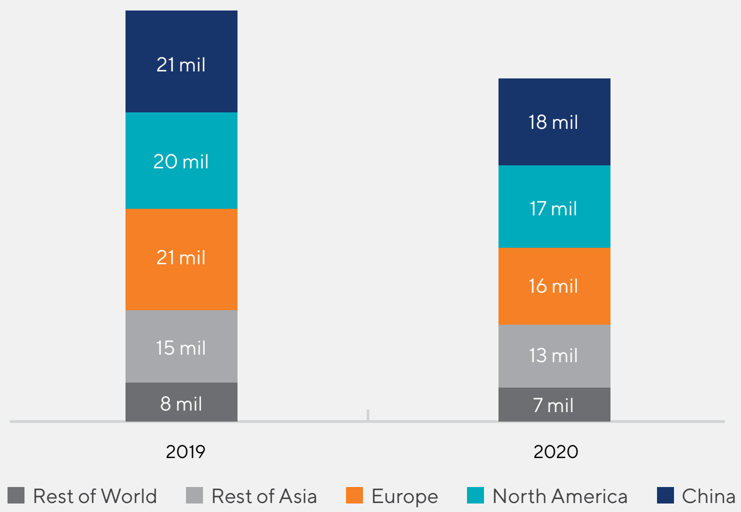
However, as one train leaves the station another one comes into sight. As ICE automobile production is phased out over the next 10 -15 years, powertrain applications (engine and gearbox cases) will disappear with them. For EVs, where motors are relatively light and small, the battery pack becomes a critical weight element and 'range anxiety' – how long the battery will last - the concern of drivers who don't want to spend hours re-charging. A car that weighs 1,500 kilos with an ICE may weigh up to 350 kilos, or 23%, more in an EV model, consuming critical additional energy to carry the battery rather than the passenger.

The future for magnesium and magnesium alloys as a lightweight alternative remains a USP for the EV automotive industry of the future. Steering wheels, steering wheel columns, air bag canisters, cross car beams, seat and door frames and a myriad of other existing applications will continue to be made from magnesium alloy. The challenge for the magnesium alloy industry is to come up with new applications specifically designed for EVs that will replace the volumes lost with the end of the ICE era.

METALS EX QINGHAI REVENUE AND GROSS PROFIT (A$M)



GLOBAL AUTOMOTIVE SALES FELL 16.7% IN 2020 TO 71.7 MILLION UNITS



Board of Directors

Nicholas Andrews
Executive Chairman

Xie Kangmin
Non-Executive Director

Andre Labuschagne
Non-Executive Director

Li Zhongjun
Non-Executive Director

NICHOLAS ANDREWS

Executive Chairman

Chairman of the Business Risk Committee (BRC)

B Ec.(Syd)

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

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

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

XIE KANGMIN

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

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

Graduate of Chongqing University

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

QSLM is a 28.72% substantial shareholder in Magontec Limited and the company with whom Magontec Limited has entered into a number of agreements in relation to the Magontec Qinghai alloy production facility at Golmud in Qinghai Province PRC.

ANDRE LABUSCHAGNE

Non-Executive Director (re-appointed 10 May 2019)

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

Member of the Business Risk Committee (BRC)

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 12.94% at the date of this report.

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

LI ZHONGJUN

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

Member of the Remuneration and Appointments Committee (REM)

Graduate of Wuhan University of Technology

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

ATUL MALHOTRA

Independent Director (appointed 1 January 2019)

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

Member of the Remuneration and Appointments Committee (REM)

Member of the Business Risk Committee (BRC)

MBA (Delhi University)

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

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

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

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

ROBERT KAYE SC

Independent Director (re-appointed 29 July 2020)

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 was previously the Chairman of Spicers Limited, and also previously served as a non-executive director with both UGL Limited and HT&E Limited. Mr Kaye is currently Chairman of Collins Foods Limited and the Chairman of the Macular Disease Foundation Australia.

LI SHUN

Alternate Non-Executive Director (appointed 25 October 2017)

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

He serves as the alternate director to Mr Xie Kangmin.

Atul Malhotra
Independent Director

Robert Kaye SC
Independent Director

Li Shun
Alternate Non-Executive Director

Executive Management

Tong Xunyou
President, Magontec Asia

Christoph Klein-Schmeink
President, Magontec Europe, North America and Middle East

Derryn Chin
Chief Financial Officer

Patrick Look
Vice President, Finance & HR

TONG XUNYOU

President, Magontec Asia

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

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

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

Mr Tong holds a Bachelor's 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.

In 2012 Mr Klein-Schmeink was appointed President of Magontec GmbH and has responsibility for the Group's activities in Europe, North America and the Middle East.

Prior to joining Magontec, Mr Klein-Schmeink held the position of Sales Director Asia Pacific with the global mining services company Terex Mining Corp.

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

DERRYN CHIN

Chief Financial Officer

B Com (UNSW), CA, CFA

Mr Chin joined Magontec Limited in 2014 and was appointed as the Chief Financial Officer in 2016. Prior to joining Magontec, Mr Chin was an equity research analyst at Macquarie Group in Australia and prior to that held roles in both the audit and financial advisory divisions of KPMG.

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

PATRICK LOOK

Vice President, Finance & HR

Business Economist VWA

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

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

JOHN TALBOT

Company Secretary

B Bus, Accounting (UTS)

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

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

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

DR ZISHENG ZHEN

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

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

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

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

PROF TREVOR ABBOTT

Director, Research and Development

B App Sc Metallurgy (UniSA)

PhD (Monash)

Adjunct Professor, University of Queensland

Adjunct Professor, RMIT University

Prof Abbott completed his PhD in 1987 and has extensive experience in the metals industry including aluminium alloys (PhD topic), steel (working for BHP in Melbourne and Wollongong throughout the 1990's) and magnesium alloys.

During the period 2000-2004 he held an academic position at Monash University where he led the magnesium applications development sector of the CAST Cooperative Research Centre. He has worked for Magontec and its predecessor organisations since 2005. His career spans both industrial and academic roles and he is experienced in applying university based research capabilities towards industrially relevant problems.

He has been successful in obtaining three Linkage Research Grants from the Australian Research Council for collaborations with RMIT University, Monash University and the University of Queensland. These projects have focussed on improved alloys, particularly within the AE alloy family, with targets closely aligned to the needs of Magontec's customers worldwide. Prof Abbott has been instrumental in expanding Magontec's alloy portfolio including the recent entry into zirconium containing magnesium alloys. He also maintains an active presence in the scientific research community with over 80 scientific publications.

John Talbot
Company Secretary

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

Prof Trevor Abbott
Director, Research and Development

Financial Report

for the year ended 31 December 2020

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 2020 were authorised for issue in accordance with a resolution of the directors on 23 February 2021. 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.	**MGL, the Company or the Parent Entity**
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 Qinghai Co. Ltd.	The wholly owned entity that owns the Group's operations in Qinghai, PRC.	**MAQ**
Magontec US LLC	The wholly owned entity that acts as the Group's distributor located in the United States of America.	**MAU**
Magontec Suzhou Co. Ltd.	The wholly owned entity that owns the Group's operations in Suzhou, PRC. Production ceased at this facility in 2016.	**MAS**
Major related shareholders		
Qinghai Salt Lake Magnesium Co. Ltd.	A subsidiary of Qinghai Salt Lake Industry Co. Limited (a company listed on the Shenzhen Securities Exchange) and a **28.72%** 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 is a **12.94%** substantial shareholder of MGL at the date of this report. Mr Andre Labuschagne, a director of Magontec Limited is the Executive Chairman of Aeris Resources Limited.	**SMM**
KWE (HK) Investment Development Co Ltd	Shareholder in Magontec Limited. Mr Li Zhongjun, a director of Magontec Limited is also a director and shareholder of KWE (HK) Investment Development Co. Ltd.	**KWE (HK)**

3. Rounding errors

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

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

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 2020. In order to comply with the provisions of the *Corporations Act 2001,* the Directors report as follows:

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

- Mr Nicholas Andrews (Executive Chairman)
- Mr Xie Kangmin (Non-Executive Director)
- Mr Li Zhongjun (Non-Executive Director)
- Mr Atul Malhotra (Independent Director)
- Mr Robert Kaye (Independent Director)
- Mr Andre Labuschagne (Non-Executive Director)
- Mr Li Shun (Alternate Non-Executive Director to Mr Xie Kangmin)

Directorships of other Listed Companies

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

- Mr Robert Kaye is Chairman of Collins Foods Limited. He was also formerly a director at HT&E Limited during the relevant 3-year period
- Mr Andre Labuschagne is Executive Chairman of Aeris Resources Limited
- Mr Xie Kangmin is a director of Qinghai Salt Lake Industry Co. Limited

Company Secretary

Mr JD Talbot, B Bus (Acctg)

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

Principal Activities

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

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

Directors' Meetings

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

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

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

Directors’ Shareholdings

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

Director	Ordinary Shares	Performance Rights
Mr Nicholas Andrews	22,409,414	9,000,000
Mr Xie Kangmin	–	–
Mr Li Zhongjun	56,197,298	–
Mr Atul Malhotra	–	–
Mr Robert Kaye	1,538,461	–
Mr Andre Labuschagne	–	–
Mr Li Shun	–	–

REMUNERATION REPORT

The remuneration report for the year ended 31 December 2020 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, whether directly or indirectly. Directors and executives with 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
6. Group performance and the link to remuneration
7. Executive contractual arrangements

1. INDIVIDUAL KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES

Details of Directors and KMP are set out below. Their remuneration is detailed in the table on page 24.

(i) Directors during the year ended 31 December 2020

- Mr Nicholas Andrews (Executive Chairman)
- Mr Xie Kangmin (Non-Executive Director)
- Mr Li Zhongjun (Non-Executive Director)
- Mr Atul Malhotra (Independent Director)
- Mr Robert Kaye (Independent Director)
- Mr Andre Labuschagne (Non-Executive Director)
- Mr Li Shun (Alternate Non-Executive Director to Mr Xie Kangmin)

(ii) Key Management Personnel (KMP) (Being the Executive Chairman and his Direct Reports excluding the Company Secretary) during the year ended 31 December 2020

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

2. REMUNERATION AT A GLANCE

Remuneration Strategy

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

3. BOARD OVERSIGHT OF REMUNERATION

Remuneration & Appointments Committee

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

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

Remuneration Approval Process

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

Remuneration Structure

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

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

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

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

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

5. EXECUTIVE REMUNERATION ARRANGEMENTS

Board Policy

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

- When an executive or an employee is recruited, the Group's aim is to reward its staff at market rates within the manufacturing technology industry as determined and in consultation with a remuneration specialist where appropriate;
- The remuneration policy aims to retain key employees and align employee interests with Group performance and shareholders' interests;
- The *2017 Shareholder Approved Plan* (as ratified at the 2017 AGM) forms the broad basis for the plans approved in subsequent periods;
- The implementation of these plans is utilised to:
  a. motivate key management personnel (KMP) to originate and innovate strategies for growth;
  b. reward KMP for the satisfaction of positive strategic and financial outcomes; and
  c. to provide an adjunct to cash remuneration to preserve cash resources.

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

Eligible participating executives are outlined in the table below.

Participant	Current Position
Nicholas Andrews	Executive Chairman
John Talbot	Company Secretary and Consultant
Derryn Chin	Chief Financial Officer
Christoph Klein-Schmeink	President Europe, North America & Middle East
Xunyou Tong	President Asia
Patrick Look	VP Finance & HR
Zisheng Zhen	Technical Director, Magontec Asia

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

Outcomes

During the year ended 31 December 2020:

- Regarding the STI scheme, there was no bonus paid to the global management group as financial outcomes for the year ended 31 December 2019 were not achieved.
- With respect to the current year ended 31 December 2020, no STI provision has been made for performance during the current year.
- Regarding the LTI scheme, there were no performance rights which converted to shares in the current year with respect to the 3-year period from 2017-2019 to members of the global management group.

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

Key Management Personnel Remuneration 12 months ended 31-Dec-20 and 31-Dec-19

		Non-Performance Related					Performance Related			
		Salary & Allowances $	Termination Payment $	Super & Statutory Pension Benefits $	Share based payments $	Motor Vehicle & Other Allowances $	STI $	LTI shares * $	Non cash accrual LTI Rights** $	Total $
Mr N Andrews (Exec Chairman)	**2020**	**387,498**	**–**	**25,000**	**–**	**–**	**–**	**–**	**(30,493)**	**382,005**
	2019	425,000	–	25,000	–	–	–	–	33,790	483,790
Mr C Klein-Schmeink (President Magontec Europe)	**2020**	**311,144**	**–**	**31,013**	**–**	**35,994**	**–**	**–**	**(24,521)**	**353,630**
	2019	322,041	–	28,335	–	34,831	–	–	27,368	412,575
Mr X Tong (President Magontec Asia)	**2020**	**327,548**	**–**	**10,486**	**–**	**–**	**–**	**–**	**(22,002)**	**316,032**
	2019	326,028	–	17,037	–	–	–	–	24,485	367,550
Mr D Chin (Chief Financial Officer)	**2020**	**210,832**	**–**	**20,029**	**–**	**–**	**–**	**–**	**(17,066)**	**213,795**
	2019	230,002	–	21,850	–	–	–	–	18,993	270,845
Mr K Xie (Non Exec Dr)	**2020**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2019	–	–	–	–	–	–	–	–	–
Mr Z Li (Non Exec Dr)	**2020**	**47,500**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**47,500**
	2019	60,000	–	–	–	–	–	–	–	60,000
Mr A Malhotra (Independent Dr)	**2020**	**47,500**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**47,500**
	2019	60,000	–	–	–	–	–	–	–	60,000
Mr R Kaye (Independent Dr)	**2020**	**47,500**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**47,500**
	2019	60,000	–	–	–	–	–	–	–	60,000
Mr A Labuschagne (Non Exec Dr)	**2020**	**47,500**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**47,500**
	2019	60,000	–	–	–	–	–	–	–	60,000
Mr S Li (Alternative Dr)	**2020**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–
	2019	–	–	–	–	–	–	–	–	–
Total year ended 31 December 2020		**1,427,022**	**–**	**86,528**	**–**	**35,994**	**–**	**–**	**(94,082)**	**1,455,462**
Total year ended 31 December 2019		**1,543,071**	**–**	**92,222**	**–**	**34,831**	**–**	**–**	**104,636**	**1,774,760**

* **LTI shares**
This reflects the expense related to actual shares vesting to the employee from the scheme. No issues were made during the current or the prior period.

** **LTI Rights - Long Term Incentive rights explanatory note**
The values listed in the table above under the column LTI rights are non-cash. This is the accounting expense representing the estimated fair value that the employee obtains from participation in the LTI scheme as required by Australian accounting standards and does not represent an amount that has been received by the employee.
During the year ended 31 December 2020, these values were negative due to a reduction in the assessed probability of non-market based targets being met for the 3-year LTI periods ended 31 December 2020, 31 December 2021 and 31 December 2022. Accordingly, this gave rise to a decrease in the number of performance rights anticipated to ultimately vest.

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

Structure

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

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

Technical services tend to be required by the Group on an irregular basis, and are called upon when the need arises. This avoids the cost of maintaining permanent resources.

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

Remuneration for Key Management Personnel comprises three components:

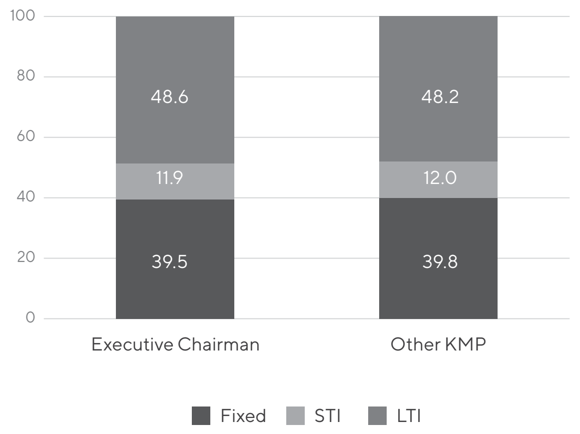
a. Base or fixed remuneration;
b. A short-term incentive (STI) in the form of cash; and
c. A long-term incentive (LTI) in the form of performance rights.

Further detail on each component is provided below.

Potential Remuneration Mix

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

REMUNERATION MIX TARGET (%)



Fixed Cash Remuneration

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

Use of Remuneration Consultants

During the current year ended 31 December 2020, the Group did not engage the services of independent remuneration consultants.

Executive STI Plan

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

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

- The commencement date of the STI plan is 1 January 2017 and annually thereafter.
- The STI performance period is the one-year period from the relevant commencement date.
- The STI pool available for distribution is calculated as being equal to 25% of the excess of the actual net operating profit after tax (Actual NOPAT) over budgeted net operating profit after tax (Budgeted NOPAT) – the resultant figure being referred to as "The Pool";

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

- Net operating profit after tax (NOPAT) is defined as reported net profit after tax adjusted for specific items as deemed appropriate by the board.
- The amount of The Pool is modified as follows:
  a. The Pool would not be created where Actual NOPAT is negative; and
  b. In order to limit the amount of The Pool when profitability is low, the 25% ratio of excess Actual NOPAT over Budgeted NOPAT on which the Pool is calculated would be reduced according to the principles in the following table

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

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

- Executives in the global management group participate in The Pool on a pro rata basis according to the percentage that their salary represents of the aggregate of salaries of eligible executives, the resultant figure being referred to as "The Provisional Payment";
- Eligible executives will receive –
  a. 45% of the Provisional Payment by way of a fixed component as determined by the formula described above; and
  b. Up to 55% of the Provisional Payment by way of a residual discretionary component determined according to an assessment of the eligible executive's contribution to regional and Group performance, satisfaction of KPIs laid down by management; and other subjective factors identified by the Remuneration and Appointments Committee.
- The resultant payments are subject to approval by the Board upon the recommendation of the Remuneration and Appointments Committee and may only be taken in cash.

Executive LTI Plan

Market Based Conditions

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

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

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

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

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

Non-Market Based Conditions

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

The vesting according to non-market based conditions can be summarised as follows. If (and only if) the:

- share price targets at or above the threshold range in the scale are not achieved;
- share price at the end of the relevant 3 year period is not less than the share price adopted at the start of that 3 year period (allowing for the effect of any dilution);
- supply of liquid pure Mg from Qinghai Salt Lake Magnesium Co. Ltd. (QSLM) to Magontec Qinghai over the quarter ended 31 December of the relevant 3 year period is occurring at a rate greater than 38,000 tonnes per annum (after allowing for scheduled maintenance and short-term temporary interruptions to supply caused by unusual circumstances); and
- the four outputs in the table immediately below are performed to the standard of the measure and/or to the satisfaction of the Board,

Directors’ Report

continued

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

then, at the discretion of the Board, an LTI payment will be made at the end of the relevant 3 year period of up to 10% of total salary via conversion of the relevant portion of the Performance Rights.

	Output Factor	Measure
1	Supply of liquid pure Mg by QSLM at a rate greater than 38,000 mt per annum	Conversion to saleable Mg product of 100% of liquid pure so supplied
2	Mg product manufactured from QSLM supplied liquid pure	Sale of 100% of product at 1.
3	Conversion cost of liquid pure Mg supplied by QSLM to Mg product	Steady appreciable improvement over 2019 and 2020
4	Contribution to development of strategic initiatives	Subjective Board assessment of individual’s input

During the year ended 31 December 2020, a total of 19,137,124 performance rights were issued with respect to the three-year period to 31 December 2022. No other options were issued to KMP during the current financial period.

Further details of the LTI plans are as follows:

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

Grant of Performance Rights

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

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

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

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

Directors' Report

continued

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

The calculation of these Performance Rights was included in previously released Notices of AGMs and ASX announcements with the number of performance rights by employee summarised in the table below.

Calculation of Performance Rights Issued to Global Management Group			
3 Year LTI Performance Period	1 Jan 18 to 31 Dec 20	1 Jan 19 to 31 Dec 21	1 Jan 20 to 31 Dec 22
1. Aggregate salaries of eligible participants at commencement of 3 year LTI period	$1,718,161	$1,896,795	$1,913,712
2. Multiplied by 30%	$515,448	$569,039	$574,114
3. Share price at commencement of 3 year LTI period assumed	$0.040	$0.040	$0.040
4. Performance Rights issued at commencement = Amount in step 2 / 75% * share price in step 3	17,181,612	18,967,955	19,137,124
5. Gross up for possible dilution in the period to the end of the 3 year LTI period	17,573,448	18,967,955	19,137,124
Date of issue of Performance Rights	01-Jan-18	01-Jan-19	01-Jan-20
Date for conversion to ordinary shares	31-Dec-20	31-Dec-21	31-Dec-22

Performance Rights Issued to Global Management Group			
3 year LTI Performance Period	1 Jan 18 to 31 Dec 20	1 Jan 19 to 31 Dec 21	1 Jan 20 to 31 Dec 22
Nicholas Andrews	4,500,000	4,500,000	4,500,000
Derryn Chin	2,518,500	2,518,500	2,518,500
Christoph Klein-Schmeink	3,618,256	3,740,129	3,827,921
Xunyou Tong	3,225,906	3,356,953	3,368,210
John Talbot	1,250,000	1,250,000	1,250,000
Patrick Look	2,068,950	2,136,028	2,194,750
Zisheng Zhen	–	1,466,345	1,477,743
Total Performance Rights	**17,181,612**	**18,967,955**	**19,137,124**

Vesting of Performance Rights as Magontec Ordinary Shares

- If, at the end date of the 3-year LTI performance period, the Performance Rights have not lapsed or vested then, at that date, an individual eligible executive's entitlement to –
  i. the number of Performance Rights will be adjusted for any dilution caused by capital restructures during the relevant 3-year LTI performance period; and
  ii. the adjusted number of Performance Rights will vest as Magontec ordinary shares according to the relevant paragraphs above.
- Performance Right share price targets are assessed according to the 30-day VWAP to 31 December in the year of vesting.
- The percentage of Performance Rights that will vest as Magontec ordinary shares according to share price target Market Based Conditions are determined according to the following vesting % tables for the 2018-2020 Plan, the 2019-2021 Plan and the 2020-2022 Plan.

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

2018-2020 LTI Plan Vesting Schedule

Performance Level		Share Price	% of Performance Rights vesting
Below threshold	Share price <	6.4	0%
Threshold range	Share price =	6.4	25%
Target range	Share price =	9.0	50%
Stretch	Share price >=	12.0	100%

2019-2021 LTI Plan Vesting Schedule

Performance Level		Share Price	% of Performance Rights vesting
Below threshold	Share price <	6.6	0%
Threshold range	Share price =	6.6	25%
Target range	Share price =	9.3	50%
Stretch	Share price >=	12.3	100%

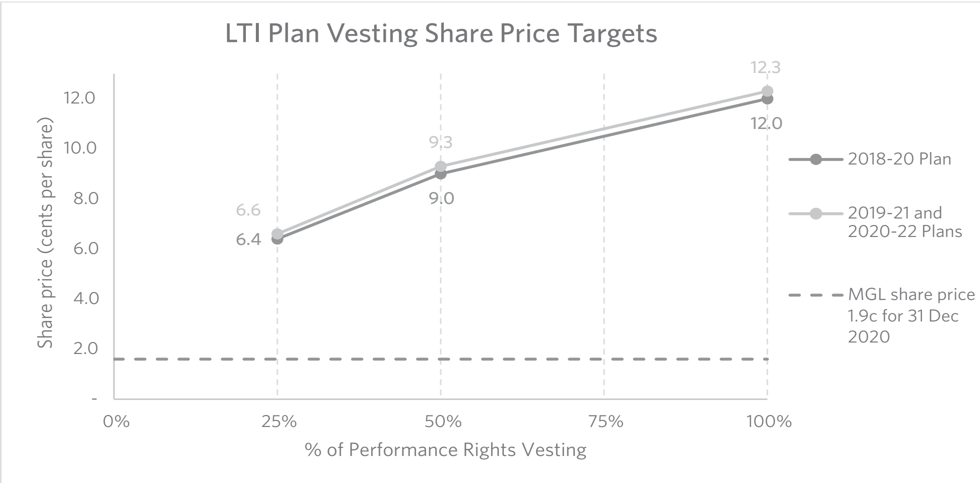
2020-2022 LTI Plan Vesting Schedule

Performance Level		Share Price	% of Performance Rights vesting
Below threshold	Share price <	6.6	0%
Threshold range	Share price =	6.6	25%
Target range	Share price =	9.3	50%
Stretch	Share price >=	12.3	100%

- For example, in the 2018-2020 plan, if the share price had reached 6.4 cents per share (the Threshold Range), this would have given rise to 25% of the Performance Rights vesting into Magontec ordinary shares.
- Under the 2018-20 Plan, if the share price had increased above 6.4 cents per share, the percentage of Performance Rights vesting would have increased on a pro-rata basis through to 100% vesting on achievement of the maximum Stretch target (being 12.0 cents per share). All other LTI plans for later years work in the same manner.
- No entitlement to Magontec ordinary shares accrues to the eligible executive until an appropriate confirmation from the Company has been received by the eligible executive.
- The Magontec ordinary shares to be issued with respect to the Plan are issued at the 10- day VWAP prior to the date of issue of the ordinary shares.
- The LTI amount is equal to the number of Magontec ordinary shares multiplied by the 10-day VWAP prior to the date of issue of the ordinary shares.

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

LTI PLAN VESTING SHARE PRICE TARGETS



Valuation of Performance Rights

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

Market Based Conditions

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

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

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

Non market based conditions assumptions

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

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

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

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

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

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

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

However, during the year to 31 December 2020 these probabilities were reassessed due to the lower likelihood of achieving 38,000mtpa production at Qinghai as follows:

- 2018-20 Plan = 0% (previously 100%)
- 2019-21 Plan = 0% (previously 100%)
- 2020-22 Plan = 50%

The table below outlines the assumptions used to determine the value of performance rights granted during the year ended 31 December 2020.

Table of assumptions								A	B	C = A x B
Plan	Share price (cents)	Grant date	Contractual Life (years)	Dividend yield	Volatility	Risk free rate	Share price target 100% vesting (cents)	Fair Value (cents)	Vesting Probability Non market	Probability weighted Fair Value (cents)
2018-20 Plan	3.1	10-May-18	2.65	0.0%	23.7%	2.16%	12.0	1.0	0.0%	–
2019-21 Plan	2.4	24-Jan-19	2.94	0.0%	32.5%	0.77%	12.3	1.0	0.0%	–
2020-22 Plan	1.6	01-Jan-20	3.00	0.0%	34.7%	0.77%	12.3	1.0	50.0%	0.500

Loans to Members of Key Management Personnel

As at 31 December 2020, there was one employee loan outstanding to Mr Christoph Klein-Schmeink for a total of A$53,939 (2019: A$54,302).

The loan has a maturity date of 16 July 2021, which can be extended by 10 years at the option of the Company. Interest of 1.81% is attached to the loan. There were no other employee loans to key management personnel outstanding as at 31 December 2020.

Key Management Personnel Equity Holdings

Fully paid ordinary shares of Magontec Limited - 31 Dec 2020

	Total balance (held directly and indirectly) 01-Jan-20 No.	Granted as remuneration No.	Received on exercise of options No.	Acquired On Market or Under Share Purchase Plan No.	Total balance (held directly and indirectly) 31-Dec-20 No.	Balance held nominally (indirectly) No.
Mr Z Li (1)	56,197,298	–	–	–	56,197,298	55,797,298
Mr N Andrews (2)	20,870,953	–	–	1,538,461	22,409,414	16,947,862
Mr R Kaye (3)	–	–	–	1,538,461	1,538,461	1,538,461
Mr C Klein-Schmeink	6,142,212	–	–	769,230	6,911,442	–
Mr X Tong	9,882,973	–	–	–	9,882,973	–
Mr D Chin	1,000,000	–	–	384,615	1,384,615	–
Total	**94,093,436**	**–**	**–**	**4,230,767**	**98,324,203**	**74,283,621**

(1) 55,797,298 shares held via KWE (HK) Investment Development Co Limited and 400,000 shares are held directly.
(2) 16,947,862 shares are held via DEWBERRI PTY LIMITED as trustee for Andrews Superannuation Fund and 5,461,552 are held directly.
(3) 1,538,461 shares are held indirectly through Bella Rebecca Kaye.

Fully paid ordinary shares of Magontec Limited - 31 Dec 2019

	Total balance (held directly and indirectly) 01-Jan-19 No.	Granted as remuneration No.	Received on exercise of options No.	Acquired On Market or Under Share Purchase Plan No.	Total balance (held directly and indirectly) 31-Dec-19 No.	Balance held nominally (indirectly) No.
Mr Z Li (1)	56,197,298	–	–	–	56,197,298	55,797,298
Mr N Andrews (2)	20,870,953	–	–	–	20,870,953	15,409,401
Mr C Klein-Schmeink	6,142,212	–	–	–	6,142,212	–
Mr X Tong	9,882,973	–	–	–	9,882,973	–
Mr D Chin	1,000,000	–	–	–	1,000,000	–
	94,093,436	–	–	–	**94,093,436**	**71,206,699**

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

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 Qinghai;
- initial marketing of production output from the new Qinghai 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 2020, the focus of the Group's management resources is described in the Executive Chairman's address. Outcomes with respect to financial performance over the last 5 years and details with respect to STI remuneration is summarised below.

Summary of financial performance	12 months to 31-Dec-16 $	12 months to 31-Dec-17 $	12 months to 31-Dec-18 $	12 months to 31-Dec-19 $	12 months to 31-Dec-20 $
Profit attributable to shareholders	**619,800**	**(1,614,255)**	**776,068**	**(1,370,122)**	**(716,611)**
Less unrealised FX gains/ add unrealised FX losses	498,282	436,901	(295,573)	28,340	428,621
Add back non cash equity expense	183,456	190,585	78,412	134,656	(118,337)
Add back provision for STI payable	145,078	–	–	–	–
Add back provision for LTI payable	141,478	–	–	–	–
Profit excluding unrealised FX, STI and non cash share based payments	**1,588,094**	**(986,768)**	**558,907**	**(1,207,126)**	**(406,326)**
STI pool ($)	**145,078**	**–**	**–**	**–**	–
%	9.1%	0.0%	0.0%	0.0%	0.0%

With respect to the LTI scheme, the share price targets approved by shareholders for the 3-year assessment period ended 31 December 2020 were not achieved.

During the 3-year period ended 31 December 2020, the share price of the Company decreased from 3.6 cents per share as at 1 January 2018 to 1.9 cents per share at 31 December 2020 giving rise to a decrease in the market capitalisation of Magontec Limited from $41.0 million to $21.9 million. After adjusting for new capital raised, dividends paid, return of capital (nil) during the 3-year assessment period, total shareholder wealth decreased to an adjusted total of $21.7 million, representing a decrease of $19.4 million during the LTI assessment period. As this fell short of the targets as outlined in the 2018-20 plan, no performance rights with respect to this period were eligible for vesting and thus have lapsed.

The table below summarises the STI and LTI awards for key management personnel at their face value, which differs from the remuneration report table above that is prepared according to accounting standards. The 2020 LTI face value awarded has been valued assuming 50% probability of vesting (2019: 100% probability).

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

Summary of STI and LTI awarded to key management personnel

	2020 STI awarded $	2020 LTI face value awarded $	2020 STI & LTI awarded $	2019 STI awarded $	2019 LTI face value awarded $	2019 STI & LTI awarded $
Current KMP executives						
Nicholas Andrews	–	22,500	22,500	–	45,000	45,000
Christoph Klein-Schmeink	–	19,140	19,140	–	37,401	37,401
Xunyou Tong	–	16,841	16,841	–	33,570	33,570
Derryn Chin	–	12,593	12,593	–	25,185	25,185
Total	**–**	**71,073**	**71,073**	**–**	**141,156**	**141,156**
Non Market Vesting Probability at grant date (%)		*50%*			*100%*	

The following table details the number of LTI performance rights granted, lapsed or exercised during the year ended 31 December 2020, by plan participant and in aggregate.

Performance Rights Issued to Global Management Group

Name	Grant date	Performance Condition	Probability weighted Fair value/ right (cents/ share) 31-Dec-20	Holding at 01-Jan-20	Granted in 2020	Lapsed in 2020	Holding at 31-Dec-20	Vested at 31-Dec-20
Nicholas Andrews								
2018-20 Plan	10-May-18	TSR or Operational	–	4,500,000	–	(4,500,000)	–	–
2019-21 Plan	24-Jan-19	TSR or Operational	–	4,500,000	–	–	4,500,000	–
2020-22 Plan	01-Jan-20	TSR or Operational	0.50	–	4,500,000	–	4,500,000	–
Subtotal				**9,000,000**	**4,500,000**	**(4,500,000)**	**9,000,000**	**–**
Derryn Chin								
2018-20 Plan	10-May-18	TSR or Operational	–	2,518,500	–	(2,518,500)	–	–
2019-21 Plan	24-Jan-19	TSR or Operational	–	2,518,500	–	–	2,518,500	–
2020-22 Plan	01-Jan-20	TSR or Operational	0.50	–	2,518,500	–	2,518,500	–
Subtotal				**5,037,000**	**2,518,500**	**(2,518,500)**	**5,037,000**	**–**
Christoph Klein–Schmeink								
2018-20 Plan	10-May-18	TSR or Operational	–	3,618,256	–	(3,618,256)	–	–
2019-21 Plan	24-Jan-19	TSR or Operational	–	3,740,129	–	–	3,740,129	–
2020-22 Plan	01-Jan-20	TSR or Operational	0.50	–	3,827,921	–	3,827,921	–
Subtotal				**7,358,385**	**3,827,921**	**(3,618,256)**	**7,568,050**	**–**
Xunyou Tong								
2018-20 Plan	10-May-18	TSR or Operational	–	3,225,906	–	(3,225,906)	–	–
2019-21 Plan	24-Jan-19	TSR or Operational	–	3,356,953	–	–	3,356,953	–
2020-22 Plan	01-Jan-20	TSR or Operational	0.50	–	3,368,210	–	3,368,210	–
Subtotal				**6,582,859**	**3,368,210**	**(3,225,906)**	**6,725,163**	**–**

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

Performance Rights Issued to Global Management Group

Name	Grant date	Performance Condition	Probability Weighted Fair Value/ right (cents/ share) 31-Dec-20	Holding at 01-Jan-20	Granted in 2020	Lapsed in 2020	Holding at 31-Dec-20	Vested at 31-Dec-20
John Talbot								
2018-20 Plan	10-May-18	TSR or Operational	–	1,250,000	–	(1,250,000)	–	–
2019-21 Plan	24-Jan-19	TSR or Operational	–	1,250,000	–	–	1,250,000	–
2020-22 Plan	01-Jan-20	TSR or Operational	0.50	–	1,250,000	–	1,250,000	–
Subtotal				**2,500,000**	**1,250,000**	**(1,250,000)**	**2,500,000**	**–**
Patrick Look								
2018-20 Plan	10-May-18	TSR or Operational	–	2,068,950	–	(2,068,950)	–	–
2019-21 Plan	24-Jan-19	TSR or Operational	–	2,136,028	–	–	2,136,028	–
2020-22 Plan	01-Jan-20	TSR or Operational	0.50	–	2,194,750	–	2,194,750	–
Subtotal				**4,204,978**	**2,194,750**	**(2,068,950)**	**4,330,778**	**–**
Zisheng Zhen								
2018-20 Plan			–	–	–	–	–	–
2019-21 Plan	24-Jan-19	TSR or Operational	–	1,466,345	–	–	1,466,345	–
2020-22 Plan	01-Jan-20	TSR or Operational	0.50	–	1,477,743	–	1,477,743	–
Subtotal				**1,466,345**	**1,477,743**	**–**	**2,944,088**	**–**
Aggregate								
2018-20 Plan	10-May-18	TSR or Operational	–	17,181,612	–	(17,181,612)	–	–
2018-20 Plan	24-Jan-19	TSR or Operational	–	18,967,955	–	–	18,967,955	–
2020-22 Plan	01-Jan-20	TSR or Operational	0.50	–	19,137,124	–	19,137,124	–
Total				**36,149,567**	**19,137,124**	**(17,181,612)**	**38,105,079**	**–**

7. EXECUTIVE CONTRACTUAL ARRANGEMENTS

Executive Contractual Arrangements

Name	Position	2020 Remuneration[1]	Contract Term	Contract Expiry	Notice Period For Termination	Payment in Lieu of Notice
Mr N Andrews	Executive Chairman	$382,005	3 years	30-Jun-23	Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay
Mr C Klein-Schmeink	President Magontec Europe & North America	$353,630	5 years	14-Aug-22	Employer initiated - 12 mths Employee initiated - 12 mths	12 months' pay
Mr X Tong	President Magontec Asia	$316,032	No fixed term or expiry		Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay
Mr D Chin	Chief Financial Officer	$213,795	3 years	30-Jun-23	Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay

Total 2020 Remuneration for the reporting period ended 31 December 2020 differs from current contractual arrangements mainly due to impacts associated with the temporary COVID related salary reductions (taken by Australian Head Office and European Staff) and the write back on equity expense arising from the LTI schemes.

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

- Mr Andrews' fixed contractual cash remuneration at 31 December 2020 is $450,000
- Mr Klein-Schmeink's fixed contractual cash remuneration at 31 December 2020 is $399,799.
- Mr Tong's fixed contractual cash remuneration at 31 December 2020 is $338,034.
- Mr Chin's fixed contractual cash remuneration at 31 December 2020 is $251,850.

FINANCIAL REPORT

Refer to 'Financial Report' section.

OPERATIONS REPORT

Refer to Operations Report.

DIVIDENDS

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

Subsequent Events

Subsequent events are detailed in Note 27.

Future Developments

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

Non-Audit Services

Camphin Boston (the Group's auditors) provided tax and other services during the financial year. Aggregate fees for non audit services paid in the financial year were $7,400.

Auditor's Independence Declaration

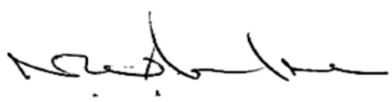
The Auditor's independence declaration is included on page 36 of this Annual Report.

Indemnification of Officers and Auditors

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

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

On behalf of the Board of Directors



Mr N Andrews
Executive Chairman

Signed on the 23 February 2021 in accordance with a resolution of the Directors made pursuant to Section 298(2) of the *Corporations Act 2001*.

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

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

Dear Board Members,

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

We hereby declare, that to the best of our knowledge and belief, during the financial year ended 31 December 2020 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

G S Boston

Greg Boston
Lead Audit Partner

Sydney

Dated this 26 February 2021.

Camphin Boston
ABN 69 688 697 499
Level 5, 179 Elizabeth Street
Sydney, NSW 2000
GPO Box 3403, Sydney, NSW 2001

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E cambos@cambos.com.au
W camphinboston.com.au

Consolidated Statement of Profit & Loss and Other Comprehensive Income

for the year ended 31 December 2020

	Note	12 months to 31 Dec 2020 $'000	12 months to 31 Dec 2019 $'000
Sale of goods	2(a)	95,068	130,617
Cost of sales	2(b)	(82,872)	(117,498)
Gross profit		**12,195**	**13,119**
Other income	2(c)	1,244	480
Interest expense		(572)	(599)
Impairment of inventory, receivables & other financial assets	2(d)	(37)	47
Travel accommodation and meals		(278)	(802)
Research, development, licensing and patent costs		(516)	(422)
Promotional activity		(64)	(75)
Information technology		(320)	(330)
Personnel	2(d)	(7,174)	(7,925)
Depreciation & amortisation		(715)	(695)
Office expenses		(402)	(517)
Corporate		(2,554)	(3,418)
Foreign exchange gain/(loss)		(1,022)	33
Profit/(Loss) before income tax expense/benefit from continuing operations		**(214)**	**(1,103)**
Income tax (expense)/benefit	3(a)	(502)	(267)
Profit/(Loss) after income tax expense/benefit from continuing operations		**(717)**	**(1,370)**
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	(688)	(718)
Other Comprehensive Income – that will not emerge in the Profit and Loss Statement			
Movement in various actuarial assessments	17	(634)	(1,289)
Total Comprehensive Income		**(2,039)**	**(3,378)**
Profit/(Loss) after income tax expense for the year			
Members of the parent entity - Basic (cents per share)	19	(0.062)	(0.120)
Members of the parent entity - Diluted (cents per share)	19	(0.060)	(0.115)

Consolidated Balance Sheet

as 31 December 2020

	Note	31 Dec 2020 $'000	31 Dec 2019 $'000
Current assets			
Cash and cash equivalents	25(d)	4,958	4,303
Trade & other receivables	6	22,369	26,029
Inventory	7	21,690	24,863
Other	8	198	596
Total current assets		**49,215**	**55,791**
Non-current assets			
Other receivables	9	367	350
Property, plant & equipment	10	19,069	21,661
Deferred tax asset	3(c)	2,933	2,371
Intangibles	11	3,445	3,618
Total non-current assets		**25,813**	**28,001**
TOTAL ASSETS		**75,028**	**83,792**
Current liabilities			
Trade & other payables	12	12,539	17,065
Bank borrowings	13	10,460	19,616
Provisions	14	1,700	1,577
Total current liabilities		**24,699**	**38,258**
Non-current liabilities			
Other payables		286	385
Bank borrowings	13	6,179	–
Provisions	15	14,970	14,110
Total non-current liabilities		**21,436**	**14,495**
TOTAL LIABILITIES		**46,134**	**52,752**
NET ASSETS		**28,893**	**31,039**
Equity attributable to members of MGL			
Share capital	16	58,918	58,907
Reserves	17	2,780	4,220
Accumulated (losses)/profits	18	(32,804)	(32,088)
Total equity		**28,893**	**31,039**

Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

	Share Capital									
	Ordinary	Options Valuation	Retained Earnings	Foreign Currency Translation Reserve	Capital Reserve	Actuarial Reserve	Expired Options Reserve	Employee Share Issue Reserve	Minority Interests	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance 1-Jan-19	**58,907**	**–**	**(30,709)**	**3,969**	**2,750**	**(2,383)**	**1,637**	**120**	**463**	**34,754**
Profit/(Loss) attributable to members of parent entity	–	–	(1,370)	–	–	–	–	–	–	(1,370)
Other [(1)]	–	–	(8)	–	–	–	–	–	(463)	(471)
Comprehensive income	–	–	–	(718)	–	(1,289)	–	–	–	(2,008)
Issue of shares	–	–	–	–	–	–	–	135	–	135
Balance 31-Dec-19	**58,907**	**–**	**(32,088)**	**3,251**	**2,750**	**(3,672)**	**1,637**	**254**	**–**	**31,039**
Balance 1-Jan-20	**58,907**	**–**	**(32,088)**	**3,251**	**2,750**	**(3,672)**	**1,637**	**254**	**–**	**31,039**
Profit/(Loss) attributable to members of parent entity	–	–	(717)	–	–	–	–	–	–	(717)
Other	–	–	–	–	–	–	–	–	–	–
Comprehensive income	–	–	–	(688)	–	(634)	–	–	–	(1,322)
Issue of shares (net)	11	–	–	–	–	–	–	(118)	–	(108)
Balance 31-Dec-20	**58,918**	**–**	**(32,804)**	**2,563**	**2,750**	**(4,306)**	**1,637**	**136**	**–**	**28,893**

(1) Movement in retained earnings relates to the adjustment for the implementation of AASB 16 Leases from 1 January 2019. The movement in minority interest relates to the closure of the corporate entity of Magontec Shanxi Co. Ltd. during the year ended 31 December 2019.

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Consolidated Cash Flow Statement

for the year ended 31 December 2020

	Note	12 months to 31 Dec 2020 $'000	12 months to 31 Dec 2019 $'000
Cash flows from operating activities			
Profit before taxation		**(214)**	**(1,103)**
Adjustments for:			
– Non-cash equity expense		(118)	135
– Depreciation & amortisation		3,115	3,200
– Foreign currency effects		429	28
– Other non–cash items		705	687
Cash generated from/(utilised in) underlying operating activities		**3,916**	**2,946**
Movement in working capital balance sheet accounts			
– Trade and other receivables		6,807	(5,835)
– Inventory		2,831	(1,425)
– Trade and other payables		(8,032)	(2,669)
– Other		(184)	52
Cash generated from/(utilised in) underlying operational cash flow and net working capital assets		**5,339**	**(6,931)**
– Net Interest paid		(575)	(504)
– Income tax paid		(223)	(697)
Cash generated from/(utilised in) other operating activities		**4,540**	**(8,132)**
Cash flows from investing activities			
Net cash out on purchase/disposal of property, plant & equipment		(640)	(1,725)
Group information technology software		(44)	(200)
Security deposits		(51)	(41)
Lease payments and other		(358)	(403)
Net cash provided by / (used in) investing activities		**(1,094)**	**(2,369)**
Cash flows from financing activities			
Proceeds from borrowings		13,434	14,585
Repayment of borrowings		(16,225)	(12,678)
Net capital raised from issue of securities		11	–
Other		(14)	(16)
Net cash provided by financing activities		**(2,795)**	**1,891**
Net increase/(decrease) in cash and cash equivalents		**652**	**(8,610)**
Foreign exchange effects on total cash flow movement		**4**	**24**
Cash and cash equivalents at the beginning of the reporting period	25(d)	**4,303**	**12,889**
Cash and cash equivalents at the end of the reporting period	25(d)	**4,958**	**4,303**

Notes to the Financial Statements

for the year ended 31 December 2020

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 2021. 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 2020.

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.

The accounts are prepared on a going concern basis. The Group, having made appropriate enquiries have a reasonable expectation that Magontec Limited has adequate resources to continue in operational existence for the foreseeable future.

Changes in Significant Accounting Polices

There were no changes in significant accounting policies. The prior period saw the initial adoption of AASB 16 Leases from 1 January 2019. In accordance with the transition methods chosen by the Group, comparative information has not been restated to reflect the requirements of these new standards unless otherwise stated. The Group applied the standard retrospectively by reflecting this as an adjustment to opening retained earnings.

The impact of applying this standard is that the operating lease treatment has been eliminated. Under AASB 16 Leases, all leases are recognised by recording a lease liability and a corresponding "right of use" asset on the balance sheet. The lease liability is unwound over time, with each lease payment apportioned between an interest expense component and a principal reduction component. The right of use asset is depreciated over the useful life of the asset.

Significant Accounting Polices

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

a. Cash and Cash Equivalents

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

b. Employee Benefits

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

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

Contributions by the Group to superannuation plans on behalf of Australian employees and other defined contribution payments on behalf of employees are expensed when incurred.

Provision is made for any long term defined benefit pension obligations the Group has to employees in foreign jurisdictions. The required amount of the provision is actuarially assessed having regard to such matters as future interest rates, the date at which pension payments might commence and the likely period over which pensions may be paid.

c. Financial Assets

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

Receivables

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

d. Financial Instruments Issued by the Company

Debt and Equity Instruments

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

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Transaction Costs on the Issue of Equity Instruments

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

e. Foreign Currency

Foreign Currency Transactions

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

Foreign Operations

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

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

f. Goods and Services Tax and Value Added Tax

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

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

g. Impairment of Assets

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

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

h. Income Tax

Current Tax

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

Deferred Tax

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

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

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

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

Current and Deferred Tax for the Period

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

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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 the notes to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

i. Intangible Assets

Patents, Trademarks and Licences

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

Research and Development Costs

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

j. Inventories

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

k. Leases

Leases are recognised by recording a lease liability at inception and a corresponding "right of use" asset on the balance sheet.

The lease liability is unwound over time, with each lease payment apportioned between an interest expense component and a principal reduction component. The right of use asset is depreciated over the useful life of the asset.

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.

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

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

p. Plant and Equipment

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

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

q. Provisions

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

r. Revenue Recognition

Sale of Goods

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

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

Rendering of Services

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

Interest Revenue

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

s. Share-based Payments

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

Equity-settled Transactions

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

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

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

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

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

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

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. Any additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee.

Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Cash-settled Transactions

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

t. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

- valuation of Long Term Incentive Expenses ;
- impairment assessments;
- actuarial assessment of future pension liabilities;
- value of trade debtors; and
- valuation of intellectual property acquired

u. New Accounting Standards for Application in Future Periods

The AASB has issued new and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has not early adopted any of these standards.

2. RESULTS FROM OPERATIONS

	12 months to 31 Dec 2020 $'000	12 months to 31 Dec 2019 $'000
(a) Sales Revenue:		
Alloys	63,656	99,872
Anodes	31,412	30,745
	95,068	**130,617**
(b) Cost of Sales:		
Alloys	(59,662)	(94,661)
Anodes	(23,210)	(22,836)
	(82,872)	**(117,498)**
(c) Other Income in Comprehensive Income Statement		
Interest revenue	50	78
Government grants	417	233
Government grants COVID related	669	–
Write back of provisions and other adjustments	71	50
Other	36	120
	1,244	**480**

2. RESULTS FROM OPERATIONS (CONTINUED)

	12 months to 31 Dec 2020 $'000	12 months to 31 Dec 2019 $'000
(d) Significant expenses in Comprehensive Income Statement (not detailed elsewhere)		
Personnel Costs		
Consultancies	(323)	(372)
Share based payments	118	(135)
Defined contribution payments recognised as an expense	(782)	(1,145)
Other staff payments	(6,188)	(6,274)
Total personnel costs	**(7,174)**	**(7,925)**
Director fees	(190)	(240)
Asset impairment expense		
Write down of trade debtors	(37)	47
Total asset impairment expense	**(37)**	**47**

	31 Dec 2019 $'000	Cash Flows $'000	Non cash incl FX $'000	31 Dec 2020 $'000
(e) Cash flow reconciliations				
Bank Borrowings	19,616	(2,791)	(186)	16,639
Lease liabilities	699	(352)	175	522
Total	**20,315**	**(3,143)**	**(11)**	**17,161**

(f) Share-Based Payments

Executive STI plan

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

Executive LTI plan

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

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

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

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

	31 Dec 2020 $'000	31 Dec 2019 $'000
(Expense)/Writeback recognised from equity-settled share-based payments	118	(135)
Total (Expense)/Writeback - share-based payments	**118**	**(135)**

Notes to the Financial Statements

continued

3. INCOME TAXES

	12 months to 31 Dec 2020 $'000	12 months to 31 Dec 2019 $'000
(a) Income tax recognised in profit and loss		
Tax expense comprises:		
Current tax expense	(851)	(348)
Deferred tax expense		
Utilisation/(write down) of tax losses	(526)	–
Change in recognised deductible temporary differences	875	81
Subtotal deferred tax expense	348	81
Total tax expense	**(502)**	**(267)**
The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:		
Profit/(Loss) from total operations	**(214)**	**(1,103)**
Nominal Income tax benefit/(expense) calculated at 30%	64	331
Nominal tax benefit (expense) effected by:		
Adjusted for effect of tax rates in foreign jurisdictions	(56)	(109)
Tax effect - P & L items not assessable or deductible for tax purposes.	(670)	(577)
Adjustments - changes in deductible temporary differences, tax losses	160	89
Actual tax benefit/(expense)	**(502)**	**(267)**

	12 months to 31 Dec 2020 $	12 months to 31 Dec 2019 $
(b) Income tax amounts recognised in OCI		
Revaluation of defined benefit pension plan	(946)	(1,925)
Tax effect (expense)/benefit through OCI	**312**	**635**

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

	31 Dec 2020 $'000	31 Dec 2019 $'000
(c) Future Income tax benefit		
Current	–	–
Non-Current		
Timing differences	2,714	2,180
Carry forward tax losses	219	191
Total	**2,933**	**2,371**

Note: The Group has revenue losses in its PRC entity which have given rise to a deferred tax asset as at 31 December 2020. The utilisation of these losses in the PRC is subject to a 5 year time limit. A portion of MAQ tax losses were written down during the year to 31 December 2020 due to the potential expiration of this limit before they can be fully utilised.

Notes to the Financial Statements

continued

3. INCOME TAXES (CONTINUED)

Tax Consolidation

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

The members of the tax-consolidated group are identified at Note 22.

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 2020 $'000	31 Dec 2019 $'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	38,743	38,083
DTA on capital losses	29,019	29,019
Sub Total Australian Tax Consolidated Group	**149,343**	**148,683**
These are based on the following tax losses:		
Aust consolidated group Tax losses – revenue pre-tax consolidation	271,936	271,936
Aust consolidated group Tax losses – revenue post-tax consolidation	129,142	126,944
Aust consolidated group Tax losses – capital	96,732	96,732
Consolidated Group Total	**497,809**	**495,612**

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 $129.1 million. These losses will be fully available to offset future taxable income to the extent MGL continues to satisfy the loss integrity rules (i.e. Continuity of Ownership Test and Same Business Test).

Based on testing performed by MGL and its advisors, these losses should satisfy the loss integrity rules as at 31 December 2020.

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

Notes to the Financial Statements

continued

3. INCOME TAXES (CONTINUED)

Based on testing performed by MGL and its advisors, MGL's pre consolidation losses should satisfy the loss integrity rules at 31 December 2020 subject to further testing and continued compliance with loss integrity rules. No detailed Available Fraction calculations have been performed as at 31 December 2020, 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 2020 and neither is any assessment expected to be received which will result in a tax liability for the period to 31 December 2020. Accordingly, there are no franking credits available for distribution in the year ended 31 December 2020.

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 key management personnel of the Group is set out below:

	12 months to 31 Dec 2020 $'000	12 months to 31 Dec 2019 $'000
Short term employee benefits	1,427	1,543
Termination benefits	–	–
Post-employment benefits	87	92
Motor vehicle	36	35
Equity based payment (1)	(94)	105
Total Remuneration KMP	**1,455**	**1,775**

Individual directors and executives compensation disclosures

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

5. REMUNERATION OF AUDITORS

	12 months to 31 Dec 2020 $'000	12 months to 31 Dec 2019 $'000
Group auditor		
– Audit or review of the financial report	102	98
– Accounting/taxation services	7	8
Auditors of subsidiaries		
– Audit or review of the financial reports	100	90
– Accounting/taxation services	22	83
	232	**279**

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

Notes to the Financial Statements

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6. CURRENT TRADE AND OTHER RECEIVABLES

	31 Dec 2020 $'000	31 Dec 2019 $'000
Trade receivables [1]	15,126	19,803
Allowance for doubtful debts	(313)	(285)
	14,813	**19,518**
Net GST/VAT recoverable	1,432	2,389
Security deposits	131	82
Other receivables due to operating entities	5,992	4,031
Other	–	9
	7,555	**6,511**
Total receivables	**22,369**	**26,029**

(1) Trade receivables represent 58.2 days sales at 31 Dec 20 (55.3 days sales at 31 Dec 19)

7. CURRENT INVENTORIES

	31 Dec 2020 $'000	31 Dec 2019 $'000
Inventory of finished alloy at cost	9,693	9,700
Provision for inventory loss	(301)	(368)
Net value of finished goods inventory	9,391	9,332
Raw materials	9,353	12,634
Work in progress	2,946	2,897
Current inventories at net realisable value	**21,690**	**24,863**

8. OTHER CURRENT ASSETS

	31 Dec 2020 $'000	31 Dec 2019 $'000
Other prepayments	198	596
	198	**596**

9. NON-CURRENT TRADE AND OTHER RECEIVABLES

	31 Dec 2020 $'000	31 Dec 2019 $'000
Pension asset	365	348
Security deposits and prepayments	2	2
	367	**350**

Notes to the Financial Statements

continued

10. PROPERTY PLANT & EQUIPMENT

	Capital WIP $'000	Land & Buildings $'000	Plant & Equipment $'000	Total $'000
Gross carrying amount				
Balance at 1 January 2019	**2,570**	**19,511**	**33,947**	**56,028**
Additions	190	24	1,504	1,718
Adjustments, reclassifications and right of use asset additions	(235)	214	1,923	1,901
Disposals and write offs	–	–	(16)	(16)
Net foreign currency exchange differences	(28)	(465)	(668)	(1,160)
Balance at 31 December 2019	**2,498**	**19,283**	**36,691**	**58,471**
Additions	–	300	354	653
Adjustments, reclassifications and right of use asset additions	(38)	24	122	108
Disposals	–	–	(1,130)	(1,130)
Net foreign currency exchange differences	(68)	(344)	(637)	(1,048)
Balance at 31 December 2020	**2,393**	**19,262**	**35,400**	**57,054**
Accumulated depreciation/ amortisation and impairment				
Balance at 1 January 2019	–	**10,395**	**23,145**	**33,540**
Disposals and write offs	–	–	(14)	(14)
Depreciation expense	–	622	2,369	2,991
Net foreign currency exchange differences	–	(207)	(423)	(630)
Balance at 31 December 2019	**–**	**10,809**	**26,001**	**36,810**
Disposals and write offs	–	–	(1,070)	(1,070)
Adjustments and reclassifications	–	–	(15)	(15)
Depreciation expense	–	652	2,243	2,895
Net foreign currency exchange differences	–	(165)	(470)	(635)
Balance at 31 December 2020	**–**	**11,296**	**26,690**	**37,986**
Net Book Value As at 31 December 19	**2,498**	**8,475**	**10,689**	**21,661**
Net Book Value As at 31 December 20	**2,393**	**7,967**	**8,710**	**19,069**

11. INTANGIBLES

	Indefinite Life [(1)] $'000	Finite Life $'000	Total $'000
Gross carrying amount			
Balance at 31 December 2019	**2,800**	**2,415**	**5,215**
Net foreign currency exchange differences	–	(21)	(21)
Additions	–	44	44
Balance at 31 December 2020	**2,800**	**2,438**	**5,238**
Accumulated depreciation/amortisation and impairment			
Balance at 31 December 2019	**–**	**1,597**	**1,597**
Depreciation/amortisation expense	–	220	220
Net foreign currency exchange differences	–	(23)	(23)
Balance at 31 December 2020	**–**	**1,794**	**1,794**
Net Book Value As at 31 December 2019	**2,800**	**818**	**3,618**
Net Book Value As at 31 December 2020	**2,800**	**645**	**3,445**

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

11. INTANGIBLES (CONTINUED)

The indefinite life intangible assets comprise the patents over the "AE" alloys and the "Correx" anode system. Both products enjoy technical superiority over possible alternatives and continue to earn high margins. In testing this asset for impairment, an average discount rate of 6.6% (2019:6.3%) to management cash flow forecasts was applied. A zero growth rate has been assumed over the initial 5 year period, with an average terminal decline rate of 12.8% per annum thereafter. The value in use was found to be in excess of the carrying amount and thus no impairment loss was recorded.

12. CURRENT TRADE AND OTHER PAYABLES

	31 Dec 2020 $'000	31 Dec 2019 $'000
Trade creditors [1]	10,187	14,849
Other creditors and accruals	2,352	2,215
	12,539	**17,065**

(1) Trade creditors represent 45.0 days cost of goods sold at 31 Dec 20 (46.1 days cost of goods sold at 31 Dec 19).

13. BORROWINGS

	Notes	31 Dec 2020 $'000	31 Dec 2020 Maturity Date	31 Dec 2020 Interest pa[1]	31 Dec 2019 $'000	31 Dec 2019 Maturity Date	31 Dec 2019 Interest pa[1]
Bank & Institutional Borrowings							
Magontec GmbH (Bank Loan) [2] [5]	25(i)	4,593	30-Nov-23	1.55%	11,008	30-Sep-20	1.55%
Magontec GmbH (Bank Loan) [2] [5]	25(i)	2,380	31-Dec-21	2.55%	–	–	–
Magontec GmbH (Bank Loan) [2] [5]	25(i)	1,586	31-Dec-25	1.85%	–	–	–
Magontec GmbH (Factoring Facility) [4]		1,287	31-Dec-21	0.95%	925	30-Nov-20	1.06%
Magontec SRL (Working Capital Facility) [3]		4,106	Open	4.01%	4,523	Open	5.04%
Magontec Xi'an Limited (Bank Loan)		3,974	09-Jul-21	3.80%	4,086	28-Apr-20	4.79%
Total Bank Borrowings		**17,926**			**20,542**		
Current Borrowings							
Bank borrowings as above (excluding factoring facility)		10,460	Various		19,616	Various	
Total Current Borrowings		**10,460**			**19,616**		
Non-Current Borrowings							
Bank borrowings as above		6,179		–	–		
Total Non-Current borrowings		**6,179**			**–**		

(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 €910,400 ($1,444,288) and inventory of €3,999,200 ($6,344,459) plus land & buildings.
(3) These borrowings are secured by a charge over MAR's trade debtors and inventory to the extent of RON15,803,370 ($5,151,503) plus land & buildings.
(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 FX and interest rate swaps which the group uses to hedge against adverse movements in variable rates.

Notes to the Financial Statements

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14. CURRENT PROVISIONS

	Note	31 Dec 2020 $'000	31 Dec 2019 $'000
Provision for annual & long service leave and employee costs		429	578
Provision for income tax payable		609	161
Provision for loss on FX hedges and interest rate swaps	25	–	13
Other current provisions		662	824
Totals		**1,700**	**1,577**

15. NON-CURRENT PROVISIONS

	31 Dec 2020 $'000	31 Dec 2019 $'000
Provision for defined benefit pension obligation	14,714	13,842
Other provisions	257	268
Totals	**14,970**	**14,110**

Reconciliation of the defined benefit pension obligation

	Year Ended 31 Dec 2020 $'000	Year Ended 31 Dec 2019 $'000
Defined benefit obligation beginning of year	**13,842**	**12,027**
Current service cost	242	233
Interest cost	142	221
Total benefits paid - actual	(366)	(351)
Foreign currency exchange rate changes	(93)	(213)
Actuarial (gains)/ losses due to change of assumptions	946	1,925
Defined benefit obligation end of year	**14,714**	**13,842**

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

Notes to the Financial Statements

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15. NON-CURRENT PROVISIONS (CONTINUED)

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

Key actuarial assumptions used in calculation of the defined benefit obligation

	Year Ended 31 Dec 2020 $'000	Year Ended 31 Dec 2019 $'000
Discount rate	0.75%	1.05%
Expected salary increase per annum	2.75%	2.75%
Expected pension increase per annum	1.75%	1.75%

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

	% chg	Year Ended 31 Dec 2020 $'000	Year Ended 31 Dec 2019 $'000
Discount rate (%)	+0.5%	(1,364)	(1,274)
	(0.5)%	1,586	1,481
Salary increase (%)	+0.5%	74	73
	(0.5)%	(70)	(70)
Pension increase (%)	+0.5%	1,125	1,043
	(0.5)%	(1,015)	(942)
Life expectancy (years)	+ 1 year	831	741

Notes to the Financial Statements

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16. SHARE CAPITAL

	31 Dec 2020 $'000	31 Dec 2019 $'000
Opening balance of share capital attributable to members of MGL	**58,907**	**58,907**
Private Placement	300	–
Small parcel share buyback	(183)	–
Various costs associated with issue of shares	(106)	–
Share capital on issued ordinary shares 1,150,924,806 (2019: 1,140,073,483)	**58,918**	**58,907**

A reconciliation of the movement in fully paid ordinary shares at the line in Note 16 'Share capital on issued ordinary shares 1,150,924,806 (31 Dec 2019: 1,140,073,483) is set out below:

	CONSOLIDATED / PARENT ENTITY			
	31 Dec 2020		31 Dec 2019	
	No.	$'000	No.	$'000
Fully paid ordinary shares				
Balance at beginning of financial year	1,140,073,483	58,907	1,140,073,483	58,907
Private Placement	23,076,914	300	–	–
Small parcel share buyback	(12,225,591)	(183)	–	–
Expenses of various issues	–	(106)	–	–
	1,150,924,806	**58,918**	**1,140,073,483**	**58,907**

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

Share Options

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

Notes to the Financial Statements

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17. RESERVES

	31 Dec 2020 $'000	31 Dec 2019 $'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	3,251	(3,969)
Movement in VHL Consolidated accounts	(688)	(718)
Balance at end of financial year	**2,563**	**3,251**
Actuarial Reserves		
Balance at beginning of financial year	(3,673)	(2,383)
Deferred tax assets	312	635
Employee pensions	(946)	(1,925)
Balance at end of financial year	**(4,306)**	**(3,672)**
Expired Options Reserve		
Balance at beginning of financial year	1,637	1,637
Balance at end of financial year	**1,637**	**1,637**
Share Issue Reserve		
Balance at beginning of financial year	254	120
Issue of ordinary shares on conversion of rights	–	–
Fair value of performance rights issued for future periods	(118)	135
Balance at end of financial year	**136**	**254**
Total reserves	**2,780**	**4,220**
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement		
Exchange differences taken to reserves in equity – translation of overseas entities	(688)	(718)
Movement in various actuarial assessments	(634)	(1,289)
Total Other Comprehensive Income	**(1,322)**	**(2,008)**

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.

Notes to the Financial Statements

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18. ACCUMULATED LOSSES

	31 Dec 2020 $'000	31 Dec 2019 $'000
Balance at beginning of financial year	(32,088)	(30,709)
Adjustment to opening retained earnings due to AASB 16	–	(8)
Profit/(Loss) attributable to members of Magontec Limited	(717)	(1,370)
	(32,804)	**(32,088)**

19. EARNINGS/(LOSS) PER SHARE

	12 months to 31 Dec 2020 cents per share	12 months to 31 Dec 2019 cents per share
Basic earnings/(loss) per share	(0.062)	(0.120)
Diluted earnings/(loss) per share	(0.060)	(0.115)

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 2020 $'000	12 months to 31 Dec 2019 $'000
Profit/(Loss) after income tax expense/benefit from continuing operations		
Members of the parent entity	(717)	(1,370)
Weighted average number of ordinary securities on issue (for basic earnings calculation)	**1,147,474,198**	**1,140,073,483**
Performance rights	52,192,668	57,233,050
Weighted average number of ordinary securities on issue (for diluted earnings calculation)	**1,199,666,866**	**1,197,306,533**

20. CONTINGENT LIABILITIES AND ASSETS

1. Romanian Tax Office Audit of MAR

At 31 December 2020 a contingent asset exists in relation to the item below.

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

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

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

(ii) imposition of penalties and interest amounting to $116,469 associated with denial of a VAT input credit.

Item (ii) may be recovered in 3 ways -

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

Legal action subsequently resulted in a preliminary judgement in favour of the Group. However, the fiscal authorities have the right of appeal. The matter is expected to progress in the first half of 2021.

2. Claim Against MAS

At 31 December 2020 a contingent liability exists in relation to the item below.

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

Notes to the Financial Statements

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21. CAPITAL AND LEASING COMMITMENTS

a. Right of use assets

From 1 January 2019, the Group adopted AASB 16 Leases.

The Group recognises a right of use lease asset at inception in the Property, Plant & Equipment caption on the balance sheet, which includes equipment and vehicles as well as a corresponding lease liability in the Current and Non Current Provisions on the balance sheet.

The right of use asset is depreciated on a straight-line basis per the term of the lease

The lease liability is unwound over the term of the lease, with interest expense recorded in the income statement

The Group used the modified retrospective approach, whereby transition entries have been taken to 2019 opening retained earnings with a negative impact of $8,000 being the net of depreciation charges and additional interest charges associated with the unwinding of the lease liability on the balance sheet.

The movement in the right of use assets balance during the period is summarised below.

RIGHT OF USE ASSETS SUMMARY

	31 Dec 2020 $'000	31 Dec 2019 $'000
Amount recognised at inception on adoption of AASB 16		**1,397**
Less accumulated depreciation in retained earnings		(942)
Opening balance	**695**	**455**
Add new leased assets	163	615
Depreciation charge	(338)	(375)
FX movements	(1)	–
Closing balance	**518**	**695**

b. Lease liabilities

The total undiscounted lease payments are as follows:

	31 Dec 2020 $'000	31 Dec 2019 $'000
Lease liabilities recognised in the balance sheet		
Current	236	314
Non Current	286	385
Total lease liabilities recognised in the balance sheet	**522**	**699**

Interest charges and amounts recognised in interest payments in the cash flow statement during the period were as follows:

	12 months to 31 Dec 2020 $'000	12 months to 31 Dec 2019 $'000
Amounts recognised in the profit and loss statement		
Interest charge on lease liabilities	14	16
Amounts recognised in the cash flow statement		
Total cash inflow/(outflow) for leases	(352)	(395)

c. Capital Expenditure Commitments

There are no material capital commitments for the Group as at 31 December 2020.

Notes to the Financial Statements

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22. CONTROLLED ENTITIES

a. Consolidated Controlled Entities

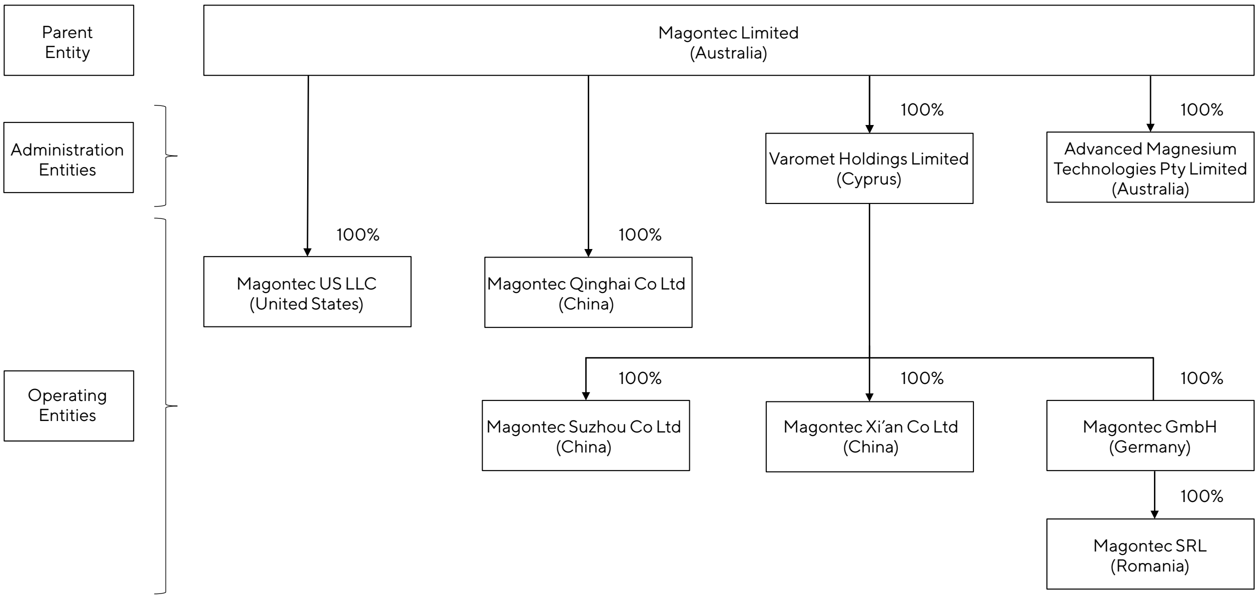
Name of entity	Ownership Entity	Country of Incorporation	Ownership interest 31 Dec 2020	Ownership interest 31 Dec 2019
Parent entity				
Magontec Limited [(a)]		Australia	100%	100%
Directly Controlled Subsidiaries Of Parent				
Advanced Magnesium Technologies Pty Ltd [(a)]	Magontec Limited	Australia	100%	100%
AML China Ltd [(b)]	Magontec Limited	China	100%	100%
Varomet Holdings Limited	Magontec Limited	Cyprus	100%	100%
Magontec Qinghai Co. Ltd.	Magontec Limited	China	100%	100%
Magontec US LLC	Magontec Limited	United States	100%	100%
Indirectly Controlled Subsidiaries of Parent - Level 1				
Magontec Xi'an Co Ltd.	Varomet Holdings Ltd	China	100%	100%
Magontec GmbH	Varomet Holdings Ltd	Germany	100%	100%
Magontec SuZhou Co Ltd	Varomet Holdings Ltd	China	100%	100%
Indirectly Controlled Subsidiaries of Parent - Level 2				
Magontec SRL	Magontec GmbH	Romania	100%	100%

(a) Entities included in the Australian tax consolidated Group.
(b) Dormant from 30 June 2012.

22. CONTROLLED ENTITIES (CONTINUED)

b. Corporate Structure as at 31 December 2020

MAGONTEC LIMITED 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.

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 2020, 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 Qinghai Co. Ltd. (China), Magontec Suzhou 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 Qinghai Co Limited (Golmud, PRC) destined for Europe is sold.

The segment data below 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 2020				12 months to 31 December 2019			
	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL
Sale of goods	–	64,496	31,100	95,596	–	79,470	52,319	131,788
Less Inter-company sales				(528)				(1,171)
Net Sales	**–**	**64,496**	**31,100**	**95,068**	**–**	**79,470**	**52,319**	**130,617**
Cost of sales	–	(54,343)	(29,057)	(83,400)	–	(70,061)	(48,609)	(118,669)
Less Inter-company sales				528				1,171
Net Cost of Sales	**–**	**(54,343)**	**(29,057)**	**(82,872)**	**–**	**(70,061)**	**(48,609)**	**(117,498)**
Gross Profit	–	**10,153**	**2,043**	**12,195**	**–**	**9,409**	**3,710**	**13,119**
Other income	80	282	882	1,244	14	158	309	480
Interest expense	–	(371)	(201)	(572)	(2)	(377)	(220)	(599)
Impairment of inventory, receivables & other financial assets	18	(55)	–	(37)	(1)	(11)	58	47
Travel accommodation and meals	(1)	(137)	(140)	(278)	(90)	(347)	(364)	(802)
Research, development, licensing and patent costs	(62)	(190)	(264)	(516)	(38)	(120)	(264)	(422)
Promotional activity	–	(64)	–	(64)	(2)	(73)	–	(75)
Information technology	(26)	(241)	(52)	(320)	(23)	(250)	(57)	(330)
Personnel	(748)	(4,755)	(1,672)	(7,174)	(1,086)	(5,037)	(1,802)	(7,925)
Depreciation & amortisation	(24)	(567)	(124)	(715)	(41)	(545)	(109)	(695)
Office expenses	(57)	(282)	(63)	(402)	(67)	(306)	(143)	(517)
Corporate and other	(479)	(1,365)	(710)	(2,554)	(538)	(1,365)	(1,514)	(3,418)
Foreign exchange gain/(loss)	(534)	(632)	144	(1,022)	(11)	(181)	225	33
Profit/(Loss) before income tax expense	**(1,834)**	**1,777**	**(157)**	**(214)**	**(1,885)**	**954**	**(172)**	**(1,103)**
Income tax expense	–	(576)	74	(502)	43	(301)	(10)	(267)
Profit/(Loss) after income tax expense/benefit including discontinued operations	**(1,834)**	**1,201**	**(83)**	**(717)**	**(1,842)**	**653**	**(181)**	**(1,370)**
Other Comprehensive Income								
Movement in various actuarial assessments	–	(634)	–	(634)	–	(1,289)	–	(1,289)
Exchange differences taken to reserves in equity – translation of overseas entities	24	(280)	(433)	(688)	(41)	(361)	(317)	(718)
Total Comprehensive Income	**(1,810)**	**287**	**(516)**	**(2,039)**	**(1,883)**	**(997)**	**(498)**	**(3,378)**

23. SEGMENT INFORMATION (CONTINUED)

	31 Dec 2020 $'000 Admin	31 Dec 2020 $'000 EUR	31 Dec 2020 $'000 PRC	31 Dec 2020 $'000 TOTAL	31 Dec 2019 $'000 Admin	31 Dec 2019 $'000 EUR	31 Dec 2019 $'000 PRC	31 Dec 2019 $'000 TOTAL
Segment Assets								
Gross Segment assets	49,884	43,014	36,356	129,254	48,172	47,644	39,379	135,194
Eliminations								
– Inter-Coy Loans	(34,945)	(4,507)	(2,387)	(41,839)	(34,663)	(3,671)	(2,708)	(41,042)
– Investment in subsidiaries	(7,078)	–	–	(7,078)	(15,392)	–	–	(15,392)
– Other	(4,634)	(52)	(623)	(5,309)	5,153	326	(449)	5,031
As per Consolidated Balance Sheet	**3,227**	**38,456**	**33,345**	**75,028**	**3,270**	**44,300**	**36,222**	**83,792**
Segment Liabilities								
Gross Segment liabilities	30,042	36,767	20,419	87,228	27,839	41,922	22,966	92,727
Eliminations								
– Inter-Coy Loans	(29,810)	(2,217)	(9,718)	(41,746)	(27,619)	(2,549)	(10,772)	(40,939)
– Other	392	130	130	653	419	280	266	965
As per Consolidated Balance Sheet	**624**	**34,679**	**10,831**	**46,134**	**640**	**39,653**	**12,460**	**52,752**
Net assets	**2,603**	**3,777**	**22,514**	**28,893**	**2,630**	**4,647**	**23,762**	**31,039**
Segment Disclosures								
– Acquisition of segment fixed assets	–	573	81	653	–	909	809	1,718
– Non-cash share based payments expense	(118)	–	–	(118)	135	–	–	135
Provisioning								
– Inventory Increase/(Decrease)	–	(66)	–	(66)	–	233	–	233
– Doubtful debts Increase/(Decrease)	–	28	–	28	–	6	(233)	(227)

24. RELATED PARTY DISCLOSURES

a. Equity interests in related parties

Equity interest in subsidiaries

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

b. Transactions with Key Management Personnel including Loans

Details of KMP 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

24. RELATED PARTY DISCLOSURES (CONTINUED)

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

		Sales to Related Parties $'000	Purchases from Related Parties $'000	Amounts owed by Related Parties $'000	Amounts owed to Related Parties $'000
Entity with significant influence					
Qinghai Salt Lake Magnesium Co. Ltd	**2020**	–	36	–	–
	2019*	–	10,186	–	–
	2018*	–	7,916	–	–

* Updated from previous 2019 Annual Report.

Nature of related party transactions with Qinghai Salt Lake Magnesium Co. Ltd

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

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

25. FINANCIAL INSTRUMENTS

AASB 9 - classification and measurement of financial assets and financial liabilities

AASB 9 provides three categories for classification of financial assets, being amortised cost, fair value through other comprehensive income and fair value through profit and loss. This is assessed in accordance with the contractual cash flows and nature of the underlying asset. The table below summarises the classifications under AASB 9. The main financial impact of adopting AASB 9 related to the application of the impairment of trade receivables arising from Lifetime Expected Credit Losses as can be seen below. The Group did not apply hedge accounting to derivatives during the reporting period.

	Category per AASB 9	Fair value hierarchy where applicable*
Financial assets:		
Cash and cash equivalents	Amortised cost	Not applicable
Trade & other receivables	Amortised cost	Not applicable
Other	Amortised cost	Not applicable
Financial liabilities:		
Trade & other payables	Other financial liabilities	Not applicable
Current Bank Borrowings	Other financial liabilities	Level 2
Non-Current Bank Borrowings	Other financial liabilities	Level 2

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

25. FINANCIAL INSTRUMENTS (CONTINUED)

AASB 9 - Impairment of Financial Assets

As a result of the introduction of AASB 9, the Group adopts an "Expected Credit Loss" model to assess impairment of financial assets. The Group has elected to apply the practical expedient with respect to impairment losses on trade receivables with the use of a provision matrix which takes into account historical bad debt losses as well as estimates of future losses where considered material. More detail is provided in the credit risk section below.

a. Capital Risk Management

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

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

The Group's main financial risk management issues are ensuring the integrity of debtors, planning for production capacity expansion in China and continued availability of debt funding. The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades.

None of the Group's entities are subject to externally imposed capital requirements.

b. Financial risk management objectives

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

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

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

c. Significant accounting policies

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

d. Categories and maturity profile of financial instruments and interest rate risk

The following table details the consolidated entity's exposure to interest rate risk as at 31 December 2020.

31 December 2020	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		0.34%	4,958	–	–	4,958
Trade & other receivables (net of provision for loss)		–	–	–	22,369	22,369
Other		–	–	–	198	198
			4,958	**–**	**22,566**	**27,525**
Financial liabilities:						
Trade & other payables		–	–	–	12,539	12,539
Current Bank Borrowings	13	2.73%	11,747	–	–	11,747
Non-Current Bank Borrowings	13	1.63%	6,179	–	–	6,179
			17,926	–	**12,539**	**30,465**

25. FINANCIAL INSTRUMENTS (CONTINUED)

The following table details the consolidated entity's exposure to interest rate risk as at 31 December 2019.

31 December 2019	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		0.91%	4,303	–	–	4,303
Trade & other receivables (net of provision for loss)		–	–	–	26,029	26,029
Other		–	–	–	596	596
			4,303	**–**	**26,625**	**30,928**
Financial liabilities:						
Trade & other payables		–	–	–	17,065	17,065
Current Borrowings	13	2.94%	20,542	–	–	20,542
Non-Current Borrowings	13	–	–	–	–	–
			20,542	**–**	**17,065**	**37,607**

e. Market risk

Refer comments under headings a and b of Note 25.

f. 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.

g. 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.

h. 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 2020 $'000	31 Dec 2019 $'000	31 Dec 2020 $'000	31 Dec 2019 $'000
Foreign currency monetary assets and liabilities				
Cash and cash equivalents	4,917	4,264		
Trade and other receivables	23,566	26,103		
Other non-current receivables	365	348		
Trade and other payables			12,723	17,398
Provisions			16,265	15,208
Borrowings			16,639	19,616
Other				
Other net assets and liabilities	46,180	53,076	507	530
Total	**75,028**	**83,792**	**46,134**	**52,752**

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

25. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency sensitivity analysis

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

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

	Notes	31 Dec 2020 $'000	31 Dec 2019 $'000
		USD impact	
Effect on Profit/Loss of a 10% increase in USD rate	(i)	406	636
Effect on Profit/Loss of a 10% decrease in USD rate		(406)	(636)
		EUR impact	
Effect on Profit/Loss of a 10% increase in EUR rate	(ii)	(2,291)	(2,563)
Effect on Profit/Loss of a 10% decrease in EUR rate		2,291	2,563
		RMB impact	
Effect on Profit/Loss of a 10% increase in RMB rate	(iii)	536	209
Effect on Profit/Loss of a 10% decrease in RMB rate		(536)	(209)
		RON impact	
Effect on Profit/Loss of a 10% increase in RON rate	(iv)	(329)	(433)
Effect on Profit/Loss of a 10% decrease in RON rate		329	433

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

(i) Exposure to USD is represented by net monetary assets of USD 3.1 million as at 31-Dec-20 (Net monetary assets of USD 4.5 million as at 31-Dec-19).

(ii) Exposure to EUR is represented by net monetary liabilities of EUR 14.4 million as at 31-Dec-20 (Net monetary liabilities of EUR 16.0 million as at 31-Dec-19).

(iii) Exposure to RMB is represented by net monetary assets of RMB 27.0 million as at 31-Dec-20 (Net monetary assets of RMB 10.2 million as at 31-Dec-19).

(iv) Exposure to RON is represented by net monetary liabilities of RON 10.1 million as at 31-Dec-20 (Net monetary liabilities of RON 13.0 million as at 31-Dec-19).

Notes to the Financial Statements

continued

25. FINANCIAL INSTRUMENTS (CONTINUED)

Derivatives and hedging

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

	Carrying value $'000	Market value $'000	Cash flow due within 1 year $'000	Cash flow due after 1 year $'000
31 December 2020				
FX hedges	1	1	1	–
31 December 2019				
FX hedges	(13)	(13)	(13)	–

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

	AUD impact of change	
	31 Dec 2020 $'000	31 Dec 2019 $'000
FX hedges		
Sensitivity to +10% change in USD EUR rate	73	11
Sensitivity to -10% change in USD EUR rate	(73)	(11)

i. Capital Management and Interest rate risk management

The Group has bank loans outstanding of $8,558,965 (refer Note 13) owing to Commerzbank globally. Management remains confident that Commerzbank will continue offering its facilities as the Group's relationship with the bank is strong and significant headroom exists compared with facilities drawn.

Credit

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

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

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

Provision matrix

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

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

Provision Matrix	EU & NA	PRC
Due Date	0.01%	0.05%
1-30 days overdue	0.03%	0.09%
31-60 days overdue	0.04%	0.14%
61-90 days overdue	0.05%	0.19%
90 days + overdue	0.07%	0.23%

Notes to the Financial Statements

continued

26. PARENT ENTITY INFORMATION MAGONTEC LIMITED

Statement of Comprehensive Income

	Magontec Limited	
	12 months to 31 Dec 2020 $'000	12 months to 31 Dec 2019 $'000
Sale of goods	–	–
Cost of sales	–	–
Gross profit	**–**	**–**
Other income	4	20
Interest expense	–	–
Impairment of inventory, receivables & other financial assets	1,450	(339)
Travel accommodation and meals	–	(64)
Research, development, licensing and patent costs	(52)	(31)
Promotional activity	–	–
Information technology	(13)	(11)
Personnel	–	(2)
Depreciation & amortisation	–	–
Office expenses	(6)	(5)
Corporate	(464)	(522)
Foreign exchange gain/(loss)	(801)	(155)
Other operating expenses	–	–
Profit/(Loss) before income tax expense/benefit from continuing operations	**117**	**(1,108)**
Income tax (expense)/benefit	–	–
Profit/(Loss) after income tax expense/benefit from continuing operations	**117**	**(1,108)**
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	**117**	**(1,108)**

Notes to the Financial Statements

continued

26. PARENT ENTITY INFORMATION MAGONTEC LIMITED (CONTINUED)

Balance Sheet

	Magontec Limited	
	31 Dec 2020 $'000	31 Dec 2019 $'000
Cash and cash equivalents	30	15
Trade & other receivables	(1)	(1)
Other	59	66
Total current assets	**88**	**80**
Non-current assets		
Inter Company Loan Receivables (net of provisioning)	10,389	17,110
Investment in shares of subsidiaries (net of provisioning)	11,718	11,718
Financial Assets	8,314	–
Total non-current assets	**30,421**	**28,828**
Total assets	**30,509**	**28,907**
Current liabilities		
Trade & other payables	51	55
Total current liabilities	**51**	**55**
Non-current liabilities		
Other	7,505	6,027
Total non-current liabilities	**7,505**	**6,027**
Total liabilities	**7,556**	**6,082**
Net assets	**22,953**	**22,825**
Equity attributable to members of MGL		
Share capital	58,627	58,616
Reserves	1,637	1,637
Accumulated losses	(37,311)	(37,428)
Total equity	**22,953**	**22,825**

26. PARENT ENTITY INFORMATION MAGONTEC LIMITED (CONTINUED)

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2020.

Capital commitments - property, plant and equipment

The parent entity had no material capital commitments for property, plant and equipment as at 31 December 2020.

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 Group's knowledge there have been no other material subsequent events that require disclosure.

ADDITIONAL COMPANY INFORMATION

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

Registered Office and Principal Place of Business

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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 37 to 70 of this Annual Report, are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and give a true and fair view of the financial position and performance of the Group; and
c. the Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

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

On behalf of the Board of Directors

Mr N Andrews
Executive Chairman
23 February 2021

Mr A Malhotra
Non-executive Director

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 2020, 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 2020 and of its performance for the year ended on that date; and
(ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

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

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

Key audit matter	How our audit addressed the key audit matter
Valuation and Existence of Property, Plant & Equipment	
The Company's significant assets include plant & equipment in both China and Europe. We focused on this area due to the: • The Group's Net Assets exceeding its Market Capitalisation. • 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 the relevant CGU. • Assessment of key forward looking assumptions used to estimate any possible impairment, including projected future growth rates of CGU, costs, and the discount rate applied; • Assessing management's determination of any impairment charge, and analysis of internal reporting to assess how operating performance is monitored and reported; • Retrospective review of historical results against previous forecasts to identify any indications of management bias; • Assessing the sensitivity of the model to variances in key inputs.
Valuation and Existence of Inventory	
We focused on this area as a key audit matter due to the: • Quantum of amounts involved; • Sensitivity of the Company's margins to changes in the	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;

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underlying price of Magnesium; and
- Multiple geographical areas.

- Review of costing methodology applied by entities within the group for compliance with the Group accounting policy;

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

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

Report on the Remuneration Report

Auditor's Opinion
We have audited the Remuneration Report included in pages 22 to 35 of the directors' report for the year ended 31 December 2020.
In our opinion the Remuneration Report of Magontec Limited for the year ended 31 December 2020 complies with section 300A of the *Corporations Act 2001*.

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

Camphin Boston
Chartered Accountants

G S Boston

Greg Boston
Partner

Level 5, 179 Elizabeth Street, Sydney NSW 2000
Dated: 26 February 2021

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	%
1	QINGHAI SALT LAKE MAGNESIUM CO LTD	330,535,784	28.72
2	STRAITS MINE MANAGEMENT PTY LTD	148,874,507	12.94
3	J P MORGAN NOMINEES AUSTRALIA	100,468,062	8.73
4	CITICORP NOMINEES PTY LIMITED	71,252,222	6.19
5	KEWEIER METAL CO LTD & LI ZHONG JUN	56,197,298	4.88
6	MR NICHOLAS WILLIAM ANDREWS	22,409,414	1.95
7	NATIONAL NOMINEES LIMITED	21,429,012	1.86
8	MR SCOTT PARHAM	18,774,531	1.63
9	MR JORIS LUGTENBURG	16,423,651	1.43
10	HSBC CUSTODY NOMINEES	14,862,887	1.29
11	MRS DAWN PATRICIA DAVIS	13,600,000	1.18
12	MIENGROVE PTY LTD	11,288,461	0.98
13	MR XUNYOU TONG	9,882,973	0.86
14	DALSIZ PTY LTD	9,553,846	0.83
15	DR ANDREW DUNCAN MACLAINE-CROSS	8,613,461	0.75
16	ESCOR EQUITIES CONSOLIDATED	8,000,000	0.70
17	MR PETER FABIAN HELLINGS	7,153,846	0.62
18	BRIAN GORMAN SELF MANAGED	7,000,000	0.61
19	MR CHRISTOPH KLEIN-SCHMEINK	6,911,442	0.60
20	MR JOHN DAVID TALBOT	6,433,680	0.56
TOTAL		**889,665,077**	**77.30**

Distribution of Shareholders as at End Date of Current Reporting Period

Number Held	Holders	No. of Securities	Percentage
1-1,000	403	163,704	0.01
1,001-5,000	130	283,678	0.02
5,001-10,000	43	341,991	0.03
10,001-100,000	908	35,183,670	3.06
100,001 and over	403	1,114,951,763	96.87
TOTAL	**1,887**	**1,150,924,806**	**100.00**

Shareholder Information

continued

Substantial shareholders

Magontec Limited has been notified of the following substantial shareholdings:

Holder	Number of ordinary shares	% of issued ordinary share capital
Qinghai Salt Lake Magnesium Co. Ltd (QSLM)	330,535,784	28.72%
Allan Gray Australia Pty Limited	176,858,972	15.37%
Straits Mine Management Pty Ltd	148,874,507	12.94%

As at 31-Dec-2020 a marketable parcel of securities ($500) is a holding of at least 26,316 securities [(1)].

1. Based on a closing share price of $0.019.

Issued Capital and Securities	On Issue at 31 Dec 20
Ordinary Shares fully paid	1,150,924,806

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

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