MAGONTEC

Magontec Limited

ACN 010 441 666

Half Year Report 2021

Corporate Information and Glossary

1. CORPORATE INFORMATION

The consolidated financial statements of Magontec Limited and its controlled subsidiaries as listed in Note 4.1 herein (collectively, the Group) for the 6 months to 30 June 2021 were authorised for issue in accordance with a resolution of the directors on 25 August 2021. Magontec Limited is a company limited by shares incorporated in Australia. The shares are publicly traded on the Australian Securities Exchange under the code "MGL".

2. GLOSSARY OF TERMS REFERRED TO IN THIS REPORT

Formal Name of Entity	Description of Entity	Referred to as
Head office entities		
Magontec Limited	The ultimate parent/holding company of the Group.	**Parent Company or MGL**
Advanced Magnesium Technologies Pty Limited	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.	**MAU**
Entities where operations have ceased		
Magontec Suzhou Co. Ltd.	The wholly owned entity that owns the Group's operations in Suzhou, PRC.	**MAS**
Major related shareholders and other terms		
Qinghai Salt Lake Magnesium Co. Limited	A subsidiary of Qinghai Huixin Asset Management (QHAM), a Chinese state owned enterprise and a shareholder in MGL to the extent of 28.72% at the date of this report. Previously owned by the Qinghai Salt Lake Industry Co. Limited (a company listed on the Shenzhen Stock Exchange).	**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 Zhong Jun Li, a director of Magontec Limited is also a director and shareholder of KWE(HK) Investment Development Co Ltd.	**KWE (HK)**
People's Republic of China		**PRC**

3. ROUNDING ERRORS

The tables in this report may indicate apparent errors to the extent of one unit (being $1,000) in the addition of items comprising total and sub totals and the comparative balances of items from the financial accounts. Such differences arise from the process of converting foreign currency amounts to two decimal places in AUD and subsequent rounding of the AUD amounts to one thousand dollars.

Financial Highlights

	1H21	1H20
Gross Profit	$7.70m	$5.92m
Gross Margin (%)	15.1%	12.9%
Reported Net Profit/(Loss) After Tax	$1.13m	($0.15m)
Underlying NPAT*	$0.684m	($0.04m)
Underlying Operating Cashflow**	$2.66m	$2.35m
Net Debt to Net Debt + Equity	24.8%	27.9%

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

** Underlying Operating Cash Flow is defined as Cashflow From Operations excluding working capital movements, interest and tax payments

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Reporting Highlights

FINANCIAL

- Strong rebound from 1H 2020 COVID effect
- Cash from underlying operations up 13.0% to $2.66 million
- Reported Interim Net Profit After Tax of $684,000, excluding unrealised FX gain of $446,000
- Interim Gross Profit +30% to $7.70 million
- Interim Revenue +11% to $51 million
- Net Debt down to $10.2 million from $12.2 million in 1H 2020

CORPORATE

- Share consolidation in the ratio of 15 for 1 approved by EGM on 6 August 2021 and normal T+2 trading on the new basis commencing on Thursday 26 August 2021

ANODES (CATHODIC CORROSION PROTECTION – CCP)

- CCP division Gross Profit +58% on previous corresponding period (PCP) driven by rising volumes in Europe and USA.
- Mg anode volumes up 13% on PCP and +76% over the 5 years since 1H17

MAGNESIUM ALLOYS AND SPECIALIST METALS

- Primary and recycled magnesium alloy volumes up 27% on PCP
- Qinghai Magnesium Alloy Cast House continues to operate at lower levels
- EBITDA loss at Qinghai down 58% to -$143,000 for the 6 months to 30 June 2021
- QSLM indicate that supply from Qinghai electrolytic smelter may recommence in 1Q 2022
- Specialist metals volumes slightly down on PCP

HEALTH, SAFETY & ENVIRONMENT

- There were no accidents at any Magontec factory in the 6 months to 30 June 2021

Financial Summary

for the 6 months ended 30 June 2021

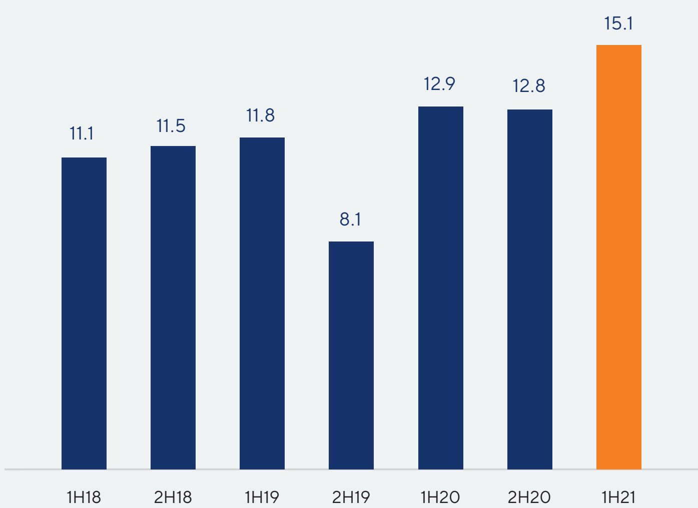
RECONCILIATION OF SIGNIFICANT ITEMS IN EARNINGS	6 months to 30 June 2021 $'000	6 months to 30 June 2020 $'000
Net Profit Before Tax and Significant Items	**2,238**	**(49)**
Significant items Before tax		
Less non-cash equity (expense)/writeback	(150)	-
Less MAQ depreciation (non cash)	(442)	(520)
Less MAQ Primary Magnesium Alloy EBITDA losses	(143)	(342)
Add writeback on Romanian VAT input credits	226	-
Add COVID related government subsidies	-	362
Add COVID related salary and director fee reductions (EU & HO)	-	552
Net Profit Before Tax	**1,730**	**4**
Less tax expense	(600)	(153)
Reported Net Profit After Tax	**1,130**	**(149)**
(Less)/Add unrealised FX (gains)/losses	(446)	105
Net Profit After Tax excluding unrealised FX (underlying NPAT*)	**684**	**(44)**

In the 6 months to 30 June 2021, the Group reported a Net Profit After Tax of $1.13 million (30 June 2020: loss of $149,000). After excluding unrealised FX gains of $446,000, underlying NPAT* was $684,000 - a significant improvement on the prior corresponding period (PCP).

The Group recorded a Gross Profit of $7.7 million, an increase of 30% over the PCP, which was impacted by COVID shutdowns. The CCP businesses across both Europe and China performed strongly, with ongoing production efficiency gains underpinning the result.

The table above details the significant items contained in both the current half and the prior corresponding period. The current half included ongoing losses at the Magontec Qinghai Primary Magnesium Alloy operations including $442,000 of non cash depreciation.

GROSS MARGIN (%)



* Underlying NPAT is defined as Net Profit After Tax excluding unrealised FX gains and losses.

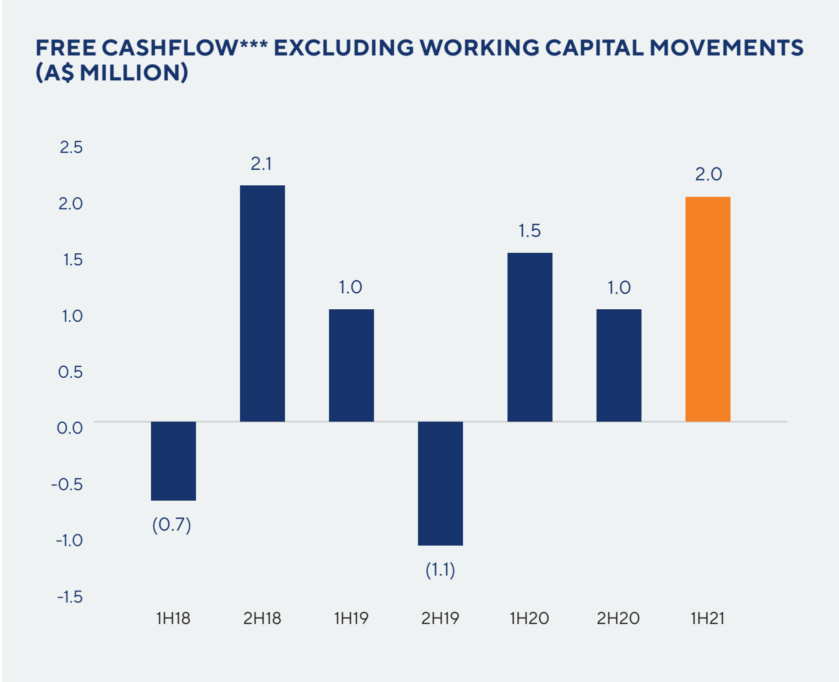
Financial Summary

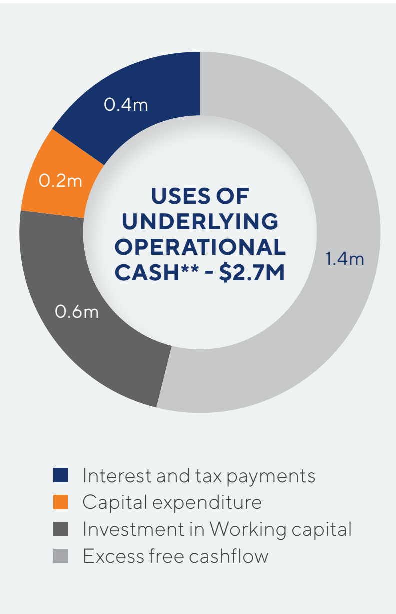
continued

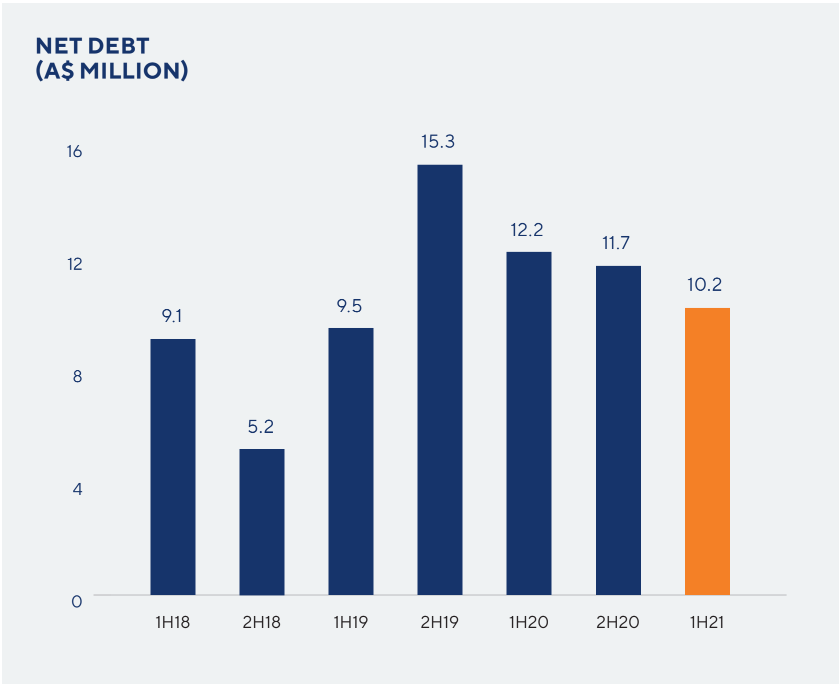
This was offset by a $226,000 gain recognised in other income arising from the finalisation of a VAT input credit dispute with the Romanian tax office decided in the Group's favour and previously provided for. The Group's tax rate remains high as Australian head office expenses are not applied against taxable income generated in other jurisdictions.

CASHFLOW AND BALANCE SHEET

The half to 30 June 2021 saw underlying operating cash** of $2.7 million, 13.0% above the PCP driven by the improved operating result in the half. The chart below shows the application of this amount, with $1.4 million of excess free cashflow*** generated during the half (or $2.0 million excluding working capital investment of $0.6 million).







Net debt fell to $10.2 million with lower inventory in the European metals business leading to reduced bank borrowings as at 30 June 2021.

BANKING FACILITIES

Subsequent to balance date, the Group's facility in China with Zheshang Bank of RMB 20 million was renewed for a further year at an increased limit of RMB 25 million. In addition, the ING facility in Romania (RON 14 million) has been replaced by a new facility from UniCredit SA on improved terms with an increased credit limit of RON 15 million.

** Underlying Operating Cashflow is defined as Operating Cashflow excluding working capital movements, interest and income tax paid.

*** Free cashflow is defined as Underlying Operating Cashflow less interest paid, income tax paid and capital expenditure.

Summary & Outlook

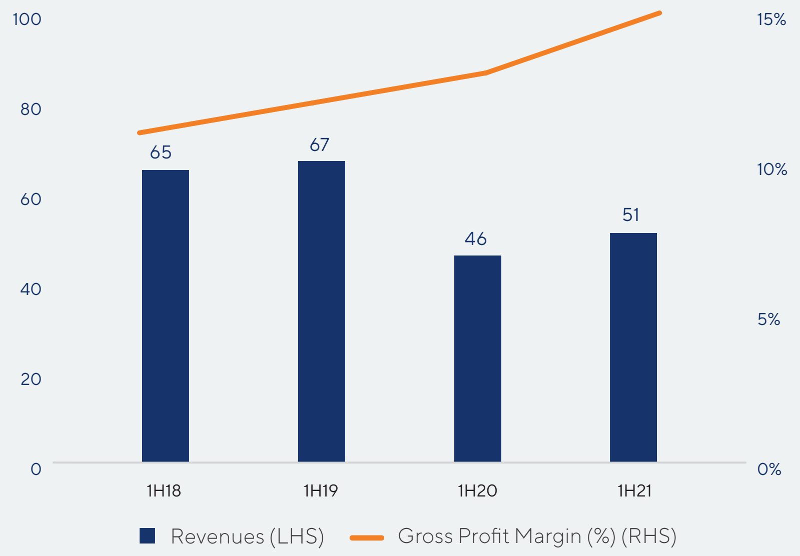
In the first half of 2021 Magontec's overall business rebounded strongly from the pandemic effects of the prior corresponding period (PCP).

The financial report details the changing shape of Magontec's underlying business with a reduced emphasis on high volume lower margin activities, lower working capital and debt requirements, and a strong rise in Net Profit After Tax (excluding unrealised foreign exchange effects), up from -$44,000 in 1H 2020 to $684,000 in the period under review. Underlying Operating Cashflow* rose to $2.7 million for the six months to 30 June 2021, up 13.0% on PCP.

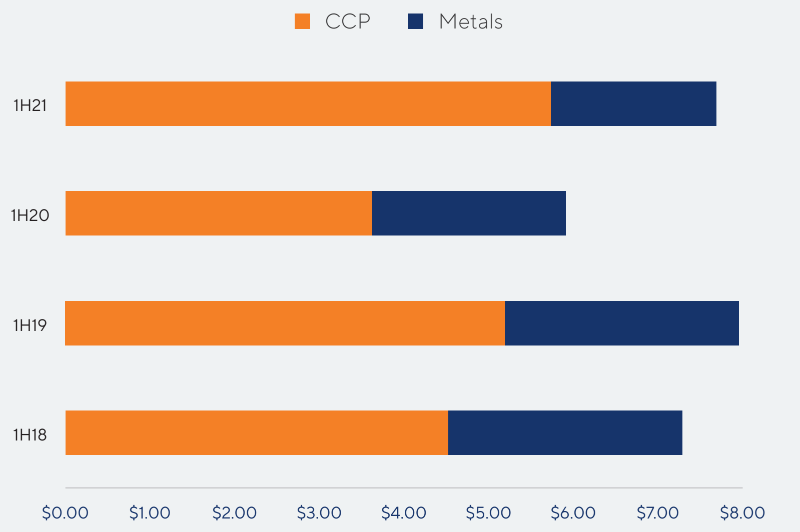
In another COVID affected period costs have remained low as management continues to take a cautious approach. Global markets for Magontec's Cathodic Corrosion Protection (CCP) products appear steady but the automotive industry, the principal customer for primary and recycled magnesium alloys, has many challenges and magnesium raw material pricing has been volatile. Logistics costs and currencies have also been difficult to predict and present challenges for a business that delivers materials from its European and Chinese factories to customers all over the world.

As has been the case for the last 2 years, Magontec's primary magnesium alloy plant in Qinghai province PRC is operating at reduced levels of output. A detailed comment on the Qinghai project is included in this report.

REVENUES AND GROSS PROFIT MARGIN (%) (A$ MILLION)



GROSS PROFIT BY DIVISION (A$ MILLION)



* Underlying Operating Cashflow is defined as Operating Cashflow excluding working capital movements, interest and income tax paid.

Summary & Outlook

continued

The overall Gross Profit margin, driven in large part by the CCP business, rose to 15.1% in the 6 months to 30 June 2021. Interim group revenues were also above the PCP, but below prior years reflecting lower magnesium alloy volumes.

In addition to growth in higher margin CCP products, the change in the tilt of business reflects the changing complexion of the metals business over the last 2 years as production has moved away from lower margin volume magnesium alloys and towards higher margin specialist metals products.

Our expectation is that magnesium alloy volumes will recover for both the European recycling businesses and at Magontec's Qinghai primary magnesium alloy cast house when supply recommences from our partner company, Qinghai Salt Lake Magnesium (QSLM). Magontec Qinghai's primary magnesium alloy facility will offer the greenest magnesium product into a world that is grappling with rapidly escalating environmental challenges, including changing investor and consumer expectations.

The company has been building towards a greater emphasis on CCP for some years as investment in production capacity and development of new markets has made Magontec a global leader in this sector.

CCP volumes have risen 76% over the last 5 years and continued investment over the coming years is expected to lead to further growth in volume output and profitability.

In the metals business, profitability is below 2020 levels, largely due to the stasis at Qinghai. While the supply of liquid pure magnesium to Magontec's adjacent magnesium alloy cast house is stalled, our global magnesium alloys business will continue to suffer. We remain of the view that this is a temporary circumstance and expect to rebuild our position in global magnesium markets as supply of raw material from QSLM allows.

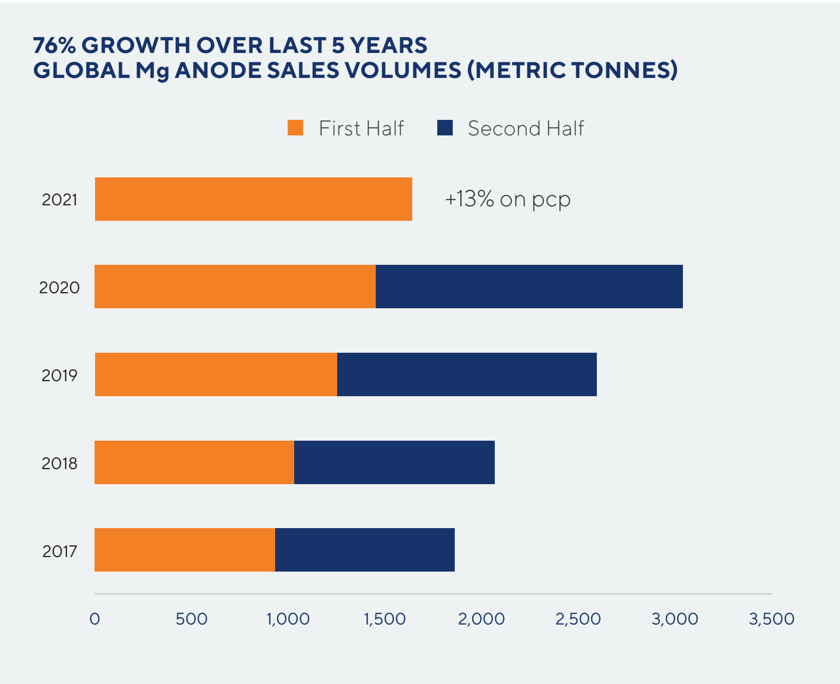
The EBITDA cost of operating the Magontec Qinghai magnesium alloy cast house in the first six months of 2021 was down 58% to -$143,000. Depreciation costs at Qinghai in the same period were $442,000.

Over the last 12 months the Board and management at Magontec have taken a number of steps to improve the presentation of the company to the investment community. In August 2020 a small parcel shareholder buyback provided an exit for 11,330 legacy shareholders holding unmarketable parcels. In August 2021 the Company moved to consolidate the share price on the basis of 15 old shares for 1 new share. It is anticipated this will also help to reduce the volatility of the share price.

Operations Report

Cathodic Corrosion Protection (CCP – magnesium and electronic anodes)

Magontec continues to build market share and profitability in global CCP markets.



Volumes of all types of CCP product manufactured in Europe and China are sold into markets across the world to hot water appliance manufacturers. This is an industry that has been exceptionally stable throughout the pandemic.

In the six months to 30 June 2021 Magontec global sales volumes of magnesium (Mg) anodes rose 13% compared with PCP. In past periods Magontec's Chinese factory has been the main driver for volume growth. In the first half of 2021 the European Mg anodes business also recorded a strong improvement in sales and profitability.

Over the last five years at both the Romanian and Xi'an Mg anode factories we have invested heavily in automation and output capacity.

Operations Report

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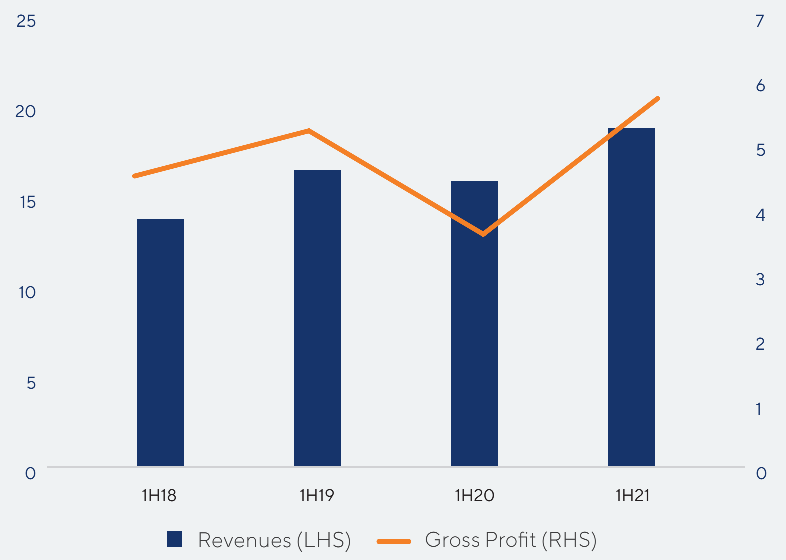
GLOBAL CCP REVENUES AND GROSS PROFIT (A$M)



This has maintained and improved Magontec's competitiveness in a sector where volume throughput is a critical metric. The cost of converting metal into saleable product continues to fall, driven by global Mg anode volumes up 76% over the last 5 years.

In the period under review Magontec's consistent investment process has been particularly rewarded. Global Interim 2021 CCP revenues (including electronic anodes) were up 18% to $18.7 million while Gross Profit rose 58% to $5.7 million.

In 2021 we are continuing to invest in new production technologies at both facilities ensuring that these businesses can continue to compete in all markets. At the Xi'an factory, which sold just 1,103 tonnes in 2017, we are targeting rated output capacity in excess of 4,500 tonnes per annum by the end of 2022.

This growth in Chinese CCP is driven by maintaining a highly competitive position in the Chinese domestic market as well as by entering new markets in other countries.

Magontec Xi'an is becoming a growing supplier to US hot water appliance manufacturers. It also continues to pick up new business in other regions as the world's largest hot water manufacturers move into new markets and consolidate the global industry.

North American and European markets have also been very positive for Magontec's proprietary electronic anodes business. Magontec is a market leader in the development and application of electronic CCP devices.

This technology is increasingly adopted in developed markets as consumers shift to more sophisticated and energy efficient heat pump devices to power hot water and home heating appliances. In many countries, particularly among developed nations, governments are introducing water heater appliance replacement incentives that subsidise the adoption of environmentally progressive technologies to help meet climate abatement targets. A large proportion of these new appliances will contain a Magontec electronic CCP device.

The second half of the year (July to December) is generally the stronger period for CCP sales volumes. As the northern hemisphere nations move into the winter months, purchases and replacement activity picks up (the replacement market for hot water appliances is about 80% of the total). While that augurs well for volume output, profitability may be impacted by raw material pricing. The principal raw material, magnesium alloy, has experienced considerable price volatility in the first half of 2021. While contract pricing is generally linked to movements in underlying raw material pricing, the effects of price changes can be delayed by one or two quarters. Broadly speaking Magontec selling prices have been the beneficiary of an improving raw material price trend in the first half of 2021.

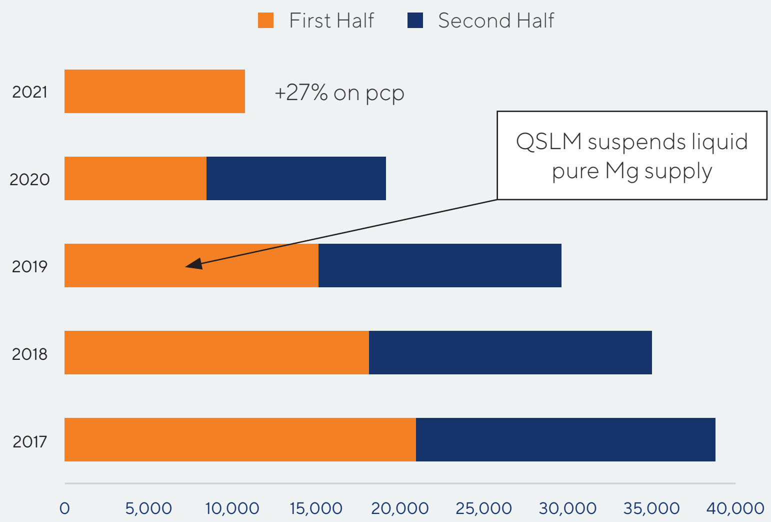
Metals (Primary and recycled Mg alloys and specialist metals)

Primary and recycled magnesium alloy sales volumes were 27% above the first half of 2020, principally reflecting a recovery from COVID impacts, however the Gross Profit contribution from this business has fallen 14% to $2.0m.

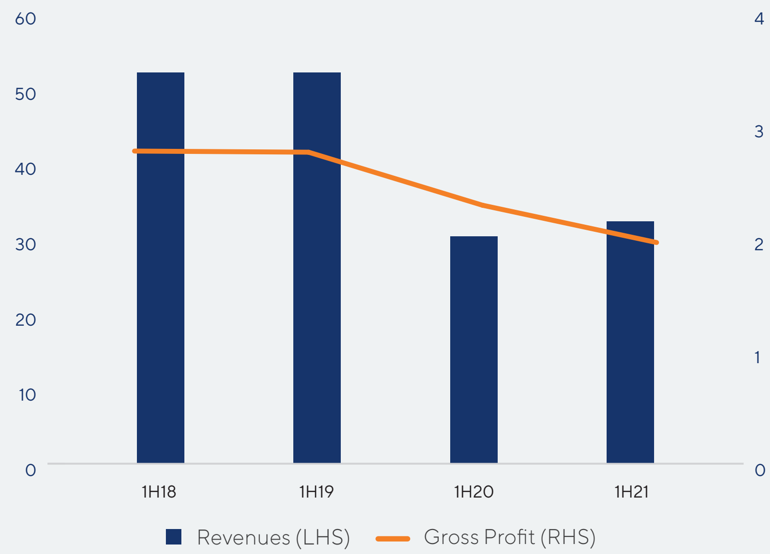
In addition to the product mix, profitability for the global metals business continues to be impacted by a number of adverse influences. These include lower overall automotive industry volumes, the loss of important contracts at Magontec's two European recycling plants for the half under review, lower specialist metals sales and the continuing absence of supply of liquid pure magnesium to the Qinghai facility.

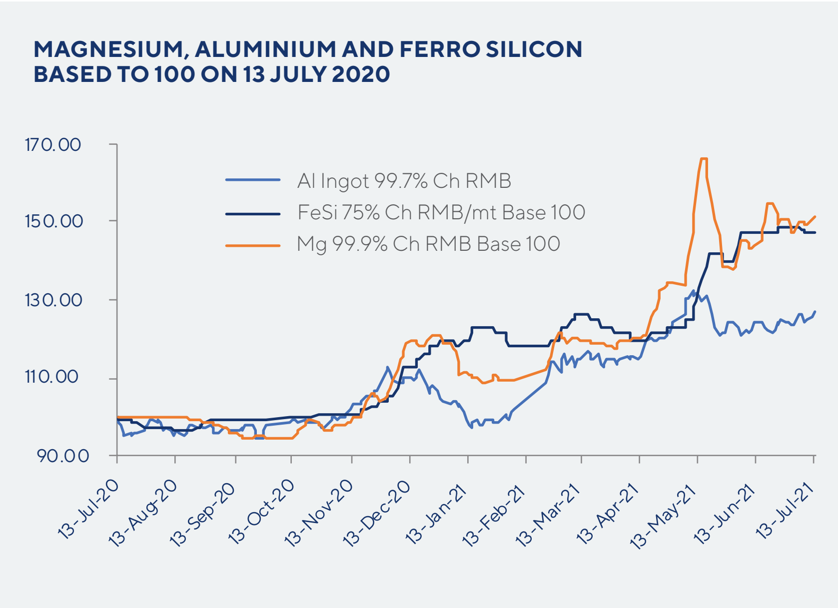
As we discuss below, production at Magontec's Qinghai magnesium alloy cast house is dependent on QSLM, owner of the adjacent 100,000 metric tonne per annum magnesium electrolytic plant, resolving their internal financial and structural issues and resuming supply. It appears that they are moving slowly to this position. QSLM have indicated that supply will resume in the first quarter of 2022. In that event we would expect Magontec's Chinese primary magnesium alloy volumes and profitability to rise sharply.

GLOBAL MG ALLOY AND SPECIALIST METAL SALES VOLUMES (MT)



GLOBAL METAL REVENUE AND GROSS PROFIT ($AM)





We maintain a positive attitude to the Qinghai project. In March the magnesium project received attention at the National Party Conference where President Xi "encouraged Qinghai to intensify efforts to build a world-class Salt Lake industrial base and foster an economic system featuring green, low-carbon and circular development". Evidently, the Qinghai project is a central pillar in China's plan to reduce emissions from a heavily polluting sector in which they are the world's dominant producer.

In Europe 1H21 sales volumes were ahead of forecasts and ahead of the PCP, however both plants continue to operate at less-than-optimal levels. More impactful on 1H21 metals profitability was the decline in specialist metals sales volumes compared with PCP. This is a new business that has gained a foothold in the US over the last 2 years and is expected to grow in the coming years into European and other markets.

Magnesium metals markets have also been impacted by price volatility in the first period of 2021. While demand for magnesium alloys, principally from the automotive industry, has been weak, supply side activity has sent confused signals.

The price of pure magnesium rose 25% in the first 6 months of 2021 with much volatility in between. Some of this exuberance can be explained by a sharp increase in the price of ferro silicon, a key cost component for Pidgeon process magnesium but also for steel production, which rose strongly across China in the first half of 2021.

Other factors are also at play: Coal, which powers all Pidgeon process magnesium production, has experienced a price rise of 116% since its 2020 lows. At the same time Chinese pure magnesium producers have sought to coordinate output volumes and prices, with varying levels of success.

In this complex environment Magontec's European based magnesium alloy recycling businesses have fared better than forecast in the six months under review. The cancellation or delay of supply to European automotive parts manufacturers by contracted parties has diverted demand to recycling facilities able to supply at short notice. Overall Magontec has supplied nearly 50% higher volumes than anticipated from its Romanian and German recycling plants in 1H21.

As Europe's largest and most efficient magnesium alloy recycler our European management have been able to process demand as it arose on a spot basis.

The outlook for the second half is a little clouded, largely because of the cascading and unpredictable effects of broader industrial issues that impact production of the key magnesium alloy customer industry, the automotive sector.

Automotive manufacturers are already facing myriad challenges as they shift from internal combustion to electric power units. These issues are compounded by a shortage of computer chips and extraordinary rises in freight rates.

At the outset of the pandemic, chip manufacturers shifted production away from automotive to the burgeoning and higher margin consumer electronics sector. As automotive demand rebounded access to chips remained constrained as chip manufacturers continued to produce for the more rewarding electronics customers. Automotive plants in Europe are increasingly on short-time or downtime and that is likely to continue through the rest of 2021, possibly reducing recycling volumes available to Magontec.

Changes in freight rates are another extraordinary pandemic effect. Prices on the China-Europe route are up 150% in 2021 year-to-date and twice that since the pandemic began. Magontec currently ships low volumes between China and Europe, so the direct effect is small. However, our recycling factories in Europe rely on primary magnesium alloy supplies to European automotive and power tool OEMs and Tier 1 manufacturers and a prolonged reduction in material flow ex-China may reduce the volume of scrap raw material supply.

Magontec Qinghai

Magontec's magnesium alloy cast house at Golmud in Qinghai province PRC sold 3,376 metric tonnes in 1H21, up 51% on PCP, a number that reflects last year's pandemic effects, which severely reduced volumes at the factory from March to June 2020.

Higher sales from this facility also generated a recovery in Gross Profit contribution, albeit lower than the first quarter of 2019 when Magontec last received supply of liquid pure magnesium from QSLM. Over the last 6 months, and in all likelihood for the period to 31 December 2021, the Magontec Qinghai cast house will continue to source all its raw material from distant pure magnesium plants and not from the adjacent Qinghai Magnesium Salt Lake Co Ltd (QSLM) electrolytic magnesium smelter as planned.

Under the current raw material sourcing conditions, it is not possible for the cast house to make a positive contribution to group EBITDA. For the first six months of 2021 the Magontec Qinghai cast house generated an EBITDA loss of $143,000 and the group recorded $442,000 in depreciation against this asset.

Following the financial collapse of its previous owner, Qinghai Salt Lake Industries Co Ltd, the magnesium project at Qinghai has been idle. The new owner of QSLM, Qinghai Huixin Asset Management Co Ltd (QHAM) informed Magontec by letter on 20 July 2021 that an engineering company had been appointed to carry out remediation of the key dehydration plant. Preparatory work has commenced and QSLM currently anticipate remediation of one of six dehydration lines to be completed by 31 December 2021 and commissioned in the first quarter of 2022.

As frustrating as these delays are for Magontec shareholders, the potential of this project remains compelling. As noted above, management remain confident of the project's ultimate delivery. However, as we are unable to visit Qinghai and QSLM management at this time, the final restart date, the future operating conditions and full realisation of the project remain unclear.

Magontec has a 20-year offtake agreement with QSLM to receive up to 56,000 metric tonnes per annum of liquid pure magnesium into its Qinghai cast house. Magontec built the cast house through 2016 and 2017 and commissioned it in 2018. The facility currently operates on external sources of raw material with output limited to around 500-600 metric tonnes per month. On the re-commencement of 1 dehydration line, we might expect this to rise to 1,000 mt per month. At full capacity the QSLM smelter is expected to be able to supply Magontec's magnesium alloy cast house with 4,600mt per month with a further 3,600mt per month going to QSLM's own pure magnesium cast house.

QSLM's Qinghai facility is the most environmentally advanced magnesium smelter in the world. Magnesium production in other Chinese provinces currently supplies 80% of the world's pure magnesium demand. This industry is entirely based on the highly polluting Pidgeon process technology that generates, according to the DLR[1], more than 20 tonnes of CO_2 per tonne of magnesium produced. The DLR survey estimated that QSLM's facility will emit just 7 tonnes of CO_2 per tonne of magnesium production.

Magnesium produced at Qinghai will be a popular and profitable alternative to the current magnesium offerings and the returns from Magontec's Qinghai investment, at full production, are forecast to be greater than the contributions from all the other current Magontec businesses combined.

While the Board regularly considers Magontec's investment in the Qinghai cast house, it remains committed to the project.

1 2020 Life Cycle Analysis (LCA) report from the German Institute of Transport and Aerospace (DLR).

Financial Report

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Directors' Report

The Directors of Magontec Limited ('the Company' or 'MGL') submit herewith the financial report for the half-year ended 30 June 2021. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows.

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

– Mr Nicholas Andrews (Executive Chairman)	
– Mr Kang Min Xie (Non-Executive Director)	Re-appointed 25 May 2021
– Mr Shun Li (Alternate Director to Mr Kang Min Xie)	Appointed 25 October 2017
– Mr Zhong Jun Li (Non-Executive Director)	Re-appointed 25 May 2021
– Mr Atul Malhotra (Independent Director)	Appointed 10 May 2019
– Mr Robert Kaye (Independent Director)	Re-appointed 29 July 2020
– Mr Andre Labuschagne (Non-Executive Director)	Re-appointed 10 May 2019

Review of Operations

For the six months ended 30 June 2021 the consolidated profit after tax from continuing operations was - $1,129,954

For the six months ended 30 June 2020 the consolidated (loss) after tax from continuing operations was - ($149,233)

Corporate

The 38th annual general meeting of the Company was held on 25 May 2021.

As at the date of this report, the composition of the committees of the Board are as follows.

Remuneration and Nominations Committee

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

Finance, Audit & Compliance Committee

- Chairman: Atul Malhotra (Independent Director)
- Xie Kangmin (Non-Executive Director)
- Andre Labuschagne (Non-Executive Director)

Business Risk Committee

- Chairman: Nicholas Andrews (Executive Director)
- Atul Malhotra (Independent Director)
- Andre Labuschagne (Non-Executive Director)

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required by S307C of the *Corporations Act 2001* is set out on page 14.

This Report is made in accordance with a resolution of the Directors.

Nicholas Andrews
Executive Chairman

25 August 2021

Auditor's Independence Declaration

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

AUDITOR'S INDEPENDENCE DECLARATION

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

Dear Board Members,

In accordance with the requirements of section 307C of the Corporations Act 2001, we hereby declare, that to the best of our knowledge and belief, during the half-year ended 30 June 2021 there have been:

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

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

Camphin Boston
Chartered Accountants

SWoods

Justin Woods
Lead Audit Partner

Sydney

Dated this 26th day of August 2021

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CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

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

Report on the Half-Year Financial Report

Auditor's Conclusion

We have reviewed the accompanying half-year financial report of Magontec Limited and Controlled Entities, which compromises the consolidated balance sheet as at 30 June 2021, consolidated comprehensive income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the accompanying half-year financial report of Magontec Limited and Controlled Entities has not been prepared, in all material respects, in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2021 and of its performance for the half-year ended on that date; and

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

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report.

We have complied with the independence requirements of the *Corporations Act 2001*. In accordance with the *Corporations Act 2001*, we have given the directors of Magontec Limited a written Auditor's Independence Declaration.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the half-year financial report in accordance with the Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that causes us to believe that the financial report has not been prepared, in all material respects, in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2021 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Magontec Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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Independent Auditor's Review Report

continued

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

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

J Woods

Justin Woods
Partner

Camphin Boston
Chartered Accountants

Sydney NSW 2000

26 August 2021

Directors' Declaration

The Directors declare that:

a) in the Directors' opinion, there are reasonable grounds to believe that there is no intention or necessity to close the current operations or cease trading within twelve months from the date of this report;

b) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity

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

On behalf of the Directors

Nicholas Andrews
Executive Chairman
Sydney

25 August 2021

Consolidated Comprehensive Income Statement

for the half-year ended 30 June 2021

	Note	6 months to 30 Jun 2021 $'000	6 months to 30 Jun 2020 $'000
Sale of goods	3, 4.3	50,863	45,982
Cost of sales	3, 4.3	(43,161)	(40,061)
Gross profit		**7,702**	**5,920**
Other income	10	447	738
Interest expense		(250)	(324)
Impairment of inventory, receivables & other financial assets		–	1
Travel accommodation and meals		(71)	(184)
Research, development, licensing and patent costs		(235)	(219)
Promotional activity		(9)	(63)
Information technology		(212)	(155)
Personnel		(3,684)	(3,789)
Depreciation & amortisation		(321)	(381)
Office expenses		(280)	(215)
Corporate		(1,499)	(1,285)
Foreign exchange gain/(loss)		142	(41)
Profit/(Loss) before income tax expense/benefit from continuing operations		**1,730**	**4**
Income tax (expense)/benefit		(600)	(153)
Profit/(Loss) after income tax expense/benefit from continuing operations		**1,130**	**(149)**
Other Comprehensive Income			
Exchange differences taken to reserves in equity – translation of overseas entities		495	165
Movement in various actuarial assessments		375	229
Total Comprehensive Income		**2,000**	**244**

	Note	6 months to 30 Jun 2021	6 months to 30 Jun 2020
Earnings/(Loss) per share from continuing operations			
Basic (cents per share)	9	0.098 cents	(0.013) cents
Diluted (cents per share)	9	0.092 cents	(0.012) cents

Notes to the financial statements are included on pages 22 to 30.

Consolidated Balance Sheet

as at 30 June 2021

	Note	30 Jun 2021 $'000	31 Dec 2020 $'000
Current assets			
Cash and cash equivalents	7	2,359	4,958
Trade & other receivables	11.1	24,550	22,369
Inventory		19,645	21,690
Other		1,394	198
Total current assets		**47,948**	**49,215**
Non-current assets			
Other receivables		300	367
Property, plant & equipment		18,496	19,069
Deferred tax asset		2,684	2,933
Intangibles		3,344	3,445
Total non-current assets		**24,824**	**25,813**
TOTAL ASSETS		**72,772**	**75,028**
Current liabilities			
Trade & other payables	11.2	12,392	12,539
Bank borrowings	13	9,664	10,460
Provisions		2,044	1,700
Total current liabilities		**24,100**	**24,699**
Non-current liabilities			
Other payables		320	286
Bank borrowings	13	2,927	6,179
Provisions		14,382	14,970
Total non-current liabilities		**17,629**	**21,436**
TOTAL LIABILITIES		**41,730**	**46,134**
NET ASSETS		**31,042**	**28,893**
Equity attributable to members of MGL			
Share capital	6	58,918	58,918
Reserves	12	3,799	2,780
Accumulated (losses)/profits		(31,674)	(32,804)
Total equity		**31,042**	**28,893**

Notes to the financial statements are included on pages 22 to 30.

Consolidated Statement of Changes In Equity

for the half-year ended 30 June 2021

	Share Capital								
	Ordinary $'000	Options Valuation $'000	Retained Earnings $'000	FCTR[1] $'000	Capital Reserve $'000	Actuarial Reserve $'000	Expired Options Reserve $'000	Share Issue Reserve $'000	Total Equity $'000
Balance 1-Jan-21	**58,918**	**–**	**(32,804)**	**2,563**	**2,750**	**(4,306)**	**1,637**	**136**	**28,893**
Profit/(Loss) attributable to members of parent entity	–	–	1,130	–	–	–	–	–	1,130
Comprehensive income	–	–	–	495	–	375	–	–	870
Share issue reserve	–	–	–	–	–	–	–	150	150
Balance 30-Jun-21	**58,918**	**–**	**(31,674)**	**3,058**	**2,750**	**(3,931)**	**1,637**	**285**	**31,042**
for the Half-Year Ended 30 June 2020									
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	–	–	(149)	–	–	–	–	–	(149)
Comprehensive income	–	–	–	165	–	229	–	–	393
Share issue reserve	260	–	–	–	–	–	–	–	260
Balance 30-Jun-20	**59,167**	**–**	**(32,237)**	**3,416**	**2,750**	**(3,444)**	**1,637**	**254**	**31,543**

(1) FCTR = Foreign Currency Translation Reserve

Notes to the financial statements are included on pages 22 to 30.

Consolidated Cash Flow Statement

for the year ended 30 June 2021

	6 months to 30 Jun 21 $'000	6 months to 30 Jun 20 $'000
Cash flows from operating activities		
Profit before taxation	**1,730**	**4**
Adjustments for:		
- Non-cash equity expense	150	–
- Depreciation & amortisation	1,400	1,585
- Foreign currency effects	(446)	105
- Other non-cash items	(179)	656
Cash generated from/(utilised in) underlying operating activities	**2,655**	**2,350**
Movement in working capital balance sheet accounts		
- Trade and Other Receivables	(3,007)	10,304
- Inventory	2,282	(2,553)
- Trade and Other Payables	116	(5,742)
- Other	–	(3)
Cash generated from/(utilised in) working capital accounts	**(609)**	**2,006**
Cash generated from/(utilised in) underlying operational cash flow and net working capital assets	**2,046**	**4,356**
– Net Interest paid	(176)	(278)
– Income tax paid	(212)	(222)
Cash generated from/(utilised in) other operating activities	**1,657**	**3,856**
Cash flows from investing activities		
Net cash out on purchase/disposal of property, plant & equipment	(225)	(389)
Group Information Technology software	(9)	(3)
Security Deposit	41	(47)
Other*	65	49
Net cash provided by / (used in) investing activities	**(128)**	**(391)**
Cash flows from financing activities		
Proceeds from borrowings	2,318	4,276
Repayment of borrowings	(6,396)	(9,918)
Net capital raised from issue of securities	–	260
Cash outflow from leasing activities*	(170)	(189)
Net cash provided by financing activities	**(4,248)**	**(5,570)**
Net increase / (decrease) in cash and cash equivalents	**(2,718)**	**(2,105)**
Foreign exchange effects on total cash flow movement	**119**	**142**
Cash and cash equivalents at the beginning of the reporting period	**4,958**	**4,303**
Cash and cash equivalents at the end of the reporting period	**2,359**	**2,340**

* *For the 6 months to 30 June 2020, the amount of $0.18m was reclassed into "Cashflow from Leasing Activities". Previously this was presented in "Other" cashflows from investing activities. Total increase/decrease in cash and cash equivalents remains unchanged for the period.*

Notes to the financial statements are included on pages 22 to 30.

Notes to the Condensed Financial Statements

for the half-year ended 30 June 2021

1. SUMMARY OF ACCOUNTING POLICIES

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the annual report for the year ended 31 December 2020.

Basis of preparation

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

The accounting policies and methods of computation adopted in the preparation of the 30 June 2021 half-year financial report are consistent with those adopted and disclosed in the Company's annual report for the financial year ended 31 December 2020.

2. SIGNIFICANT TRANSACTIONS AND MATERIAL ITEMS

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

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

There are no options on issue as at the reporting date.

2.2 Income Tax Expense/Benefit

Tax losses previously disclosed in the 31 December 2020 Annual Report encompass Magontec Limited and its Australian controlled entities. The tax benefit corresponding to these losses is not recognised as an asset in the accounts. Income taxes incurred in foreign jurisdictions are not sheltered by these Australian tax losses and are governed by relevant tax legislation in the various foreign jurisdictions in which the Group operates.

2.3. Dividends

No dividend was declared or recommended during the 6 months ended 30 June 2021 (6 months ended 30 June 2020: no dividend declared or recommended). The balance of the franking account at 30 June 2021 was $nil (30 June 2020: $nil).

3. RESULTS FROM OPERATIONS

	6 months to 30 Jun 21 $'000	6 months to 30 Jun 20 $'000
Metal	32,175	30,187
Anodes - Cathodic Corrosion Protection	18,688	15,795
Sales revenue	**50,863**	**45,982**
Metal	(30,206)	(27,893)
Anodes - Cathodic Corrosion Protection	12,955	(12,168)
Cost of sales	**(43,161)**	**(40,061)**
Metal	1,969	2,294
Anodes - Cathodic Corrosion Protection	5,733	3,626
Gross Profit	**7,702**	**5,920**

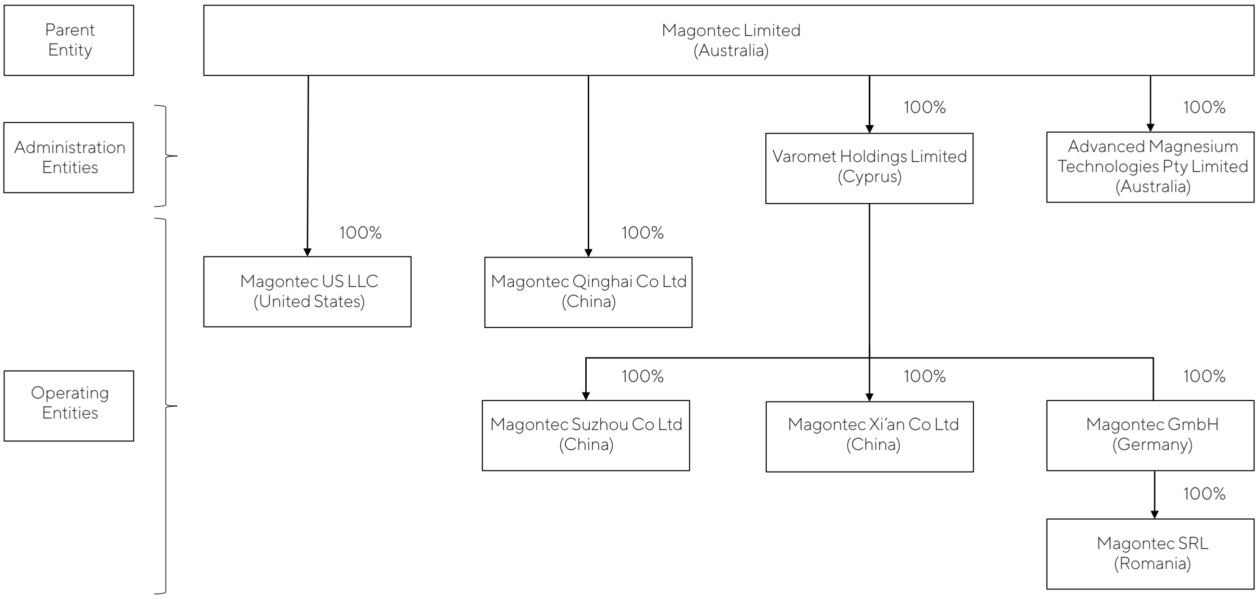
Notes to the Condensed Financial Statements

continued

4. SEGMENT REPORTING

4.1 Corporate Structure as at 30 June 2021

Magontec Limited Corporate Structure



4.2 Identification of Reportable Segments

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

In respect of the period to 30 June 2021, segment information is presented in respect of the three main departments within the company as described in the chart at Note 4.1 above.

- 'Admin Units' = Magontec administrative entities performing a Head Office function comprising -
  - Magontec Limited (Australia);
  - Advanced Magnesium Technologies Pty Limited (Australia); and
  - Varomet Holdings Limited (Cyprus).
- 'EUR' = Magontec operating entities in Europe and North America comprising -
  - Magontec GmbH (Germany);
  - Magontec SRL (Romania); and
  - Magontec LLC (United States).
- 'PRC' = Magontec operating entities in People's Republic of China comprising -
  - Magontec Xi'an Co. Ltd. (China);
  - Magontec Qinghai Co. Ltd. (China); and
  - Magontec Suzhou Co. Ltd. (China) - non operational

Closure procedures with respect to Magontec Suzhou Co. Ltd. (China) are yet to be finalised as at 30 June 2021.

Notes to the Condensed Financial Statements

continued

4. SEGMENT REPORTING (continued)

4.3 Segment Information – Comprehensive Income

	6 months to 30 June 2021				6 months to 30 June 2020			
	$'000 Admin	$'000 EUR	$'000 PRC	$'000 Total	$'000 Admin	$'000 EUR	$'000 PRC	$'000 Total
Sale of goods	–	33,227	17,711	50,938	–	31,225	15,140	46,365
Less Inter-company sales				(75)				(383)
Net Sales	**–**	**33,227**	**17,711**	**50,863**	**–**	**31,225**	**15,140**	**45,982**
Cost of sales	–	(27,018)	(16,219)	(43,236)	–	(25,998)	(14,447)	(40,444)
Less Inter-company sales				75				383
Net Cost of Sales	**–**	**(27,018)**	**(16,219)**	**(43,161)**	**–**	**(25,998)**	**(14,447)**	**(40,061)**
Gross Profit	–	**6,209**	**1,493**	**7,702**	**–**	**5,227**	**693**	**5,920**
Other income	–	329	118	447	38	127	574	738
Interest expense	(1)	(175)	(75)	(250)	–	(195)	(128)	(324)
Impairment of inventory, receivables & other financial assets	–	–	–	–	1	–	–	1
Travel accommodation and meals	–	(35)	(36)	(71)	(10)	(82)	(91)	(184)
Research, development, licensing and patent costs	(9)	(59)	(167)	(235)	(5)	(107)	(107)	(219)
Promotional activity	–	(9)	–	(9)	–	(63)	–	(63)
Information technology	(14)	(158)	(40)	(212)	(5)	(128)	(22)	(155)
Personnel	(638)	(2,366)	(681)	(3,684)	(437)	(2,467)	(885)	(3,789)
Depreciation & amortisation	(12)	(265)	(44)	(321)	(21)	(292)	(68)	(381)
Office expenses	(32)	(138)	(109)	(280)	(35)	(146)	(33)	(215)
Corporate	(266)	(875)	(358)	(1,499)	(204)	(748)	(333)	(1,285)
Foreign exchange gain/(loss)	140	175	(173)	142	138	(103)	(77)	(41)
Profit/(Loss) before income tax expense	**(832)**	**2,633**	**(71)**	**1,730**	**(541)**	**1,023**	**(478)**	**4**
Income tax expense	–	(502)	(98)	(600)	–	(291)	138	(153)
Profit/(Loss) after income tax expense/benefit including discontinued operations	**(832)**	**2,131**	**(169)**	**1,130**	**(541)**	**732**	**(340)**	**(149)**
Other Comprehensive Income								
Movement in various actuarial assessments	–	375	–	375	–	229	–	229
Exchange differences taken to reserves in equity – translation of overseas entities	(47)	(88)	630	495	73	(34)	126	165
Total Comprehensive Income	**(879)**	**2,418**	**461**	**2,000**	**(468)**	**927**	**(214)**	**244**

Notes to the Condensed Financial Statements

continued

4. SEGMENT REPORTING (continued)

4.4 Segment Information – Balance Sheet

	30 Jun 21 $'000 Admin	30 Jun 21 $'000 EUR	30 Jun 21 $'000 PRC	30 Jun 21 $'000 Total	31 Dec 20 $'000 Admin	31 Dec 20 $'000 EUR	31 Dec 20 $'000 PRC	31 Dec 20 $'000 Total
Segment Assets								
Gross Segment assets	50,612	41,674	36,322	128,608	49,884	43,014	36,356	129,254
Adjustments								
Eliminations								
- Inter-Coy Loans	(35,357)	(5,599)	(2,438)	(43,394)	(34,945)	(4,507)	(2,387)	(41,839)
- Investment in subsidiaries	(7,078)	–	–	(7,078)	(7,078)	–	–	(7,078)
- Other	(4,939)	317	(742)	(5,364)	(4,634)	(52)	(623)	(5,309)
As per Consolidated Balance Sheet	**3,238**	**36,392**	**33,142**	**72,772**	**3,227**	**38,456**	**33,345**	**75,028**
Segment Liabilities								
Gross Segment liabilities	31,162	33,244	19,778	84,185	30,042	36,767	20,419	87,228
Eliminations								
- Inter-Coy Loans	(30,950)	(2,255)	(10,045)	(43,250)	(29,810)	(2,217)	(9,718)	(41,746)
- Other	377	260	158	795	392	130	130	653
As per Consolidated Balance Sheet	**589**	**31,250**	**9,891**	**41,730**	**624**	**34,679**	**10,831**	**46,134**
Net assets	**2,649**	**5,142**	**23,251**	**31,042**	**2,603**	**3,777**	**22,514**	**28,893**

5. CONTINGENT ASSETS & LIABILITIES

With respect to contingent assets and liabilities, these are unchanged compared with those disclosed in the Annual Report at 31 December 2020 as at the date of this report except as stated below.

Contingent asset - Magontec Romania VAT issue

Having obtained a preliminary judgement in the Group's favour, the appeal of the Romanian tax office was dismissed during the half to June 2021. This means Magontec SRL (Romania) is entitled to a receivable of RON 853,000 (A$281,000) with respect to VAT input credits claimed by Magontec GmbH (Germany) for expenses incurred on behalf of Magontec SRL (Romania). As at 31 December 2020, the Company had recorded a provision of A$226,000 against this amount due to the long standing nature of the dispute. This provision of $226,000 was written back through other income in the profit and loss statement for the half to 30 June 2021.

Additionally, the Company notes a contingent asset with respect to RON 357,000 (A$115,000) of penalties and interest that were paid in relation to this matter. The company will seek to reclaim this amount from the Romanian tax office.

Contingent liability - Magontec Romania transfer pricing audit

Magontec SRL (Romania) is currently undergoing its 2016-2020 taxation audit. During the course of this work, the Romanian tax office has communicated a proposed income adjustment on the basis of its assessment of transfer pricing comparable companies. The Group was assisted by KPMG Romania in preparing the comparable companies analysis.

The Group does not accept the position of the Romanian tax office, and will contest the matter to the full extent possible with the assistance of its advisers.

Notes to the Condensed Financial Statements

continued

6. SHARE CAPITAL

	6 months to 30 Jun 21 $'000	12 months to 31 Dec 2020 $'000
Opening balance of share capital attributable to members of MGL	**58,918**	**58,907**
Private Placement	–	300
Small parcel share buyback	–	(183)
Various costs associated with issue of shares	–	(106)
Total share capital on issued ordinary shares 1,150,924,806 (2020: 1,150,924,806)	**58,918**	**58,918**

During the year to 31 December 2020, the company undertook private placement of $300,000 in order to fund the small parcel share buyback as well as various associated costs as indicated in the table above.

7. RECONCILIATION OF CASH

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

	6 months to 30 Jun 21 $'000	6 months to 30 June 20* $'000
Cash and cash equivalents at the beginning of the reporting period	**4,958**	**4,303**
Net cash (used)/generated in operating activities	1,657	3,856
Net cash provided by / (used in) investing activities	(128)	(391)
Net cash provided by / (used in) financing activities	(4,248)	(5,570)
Foreign exchange effects on total cash flow movement	119	142
Cash and cash equivalents at the end of the reporting period	**2,359**	**2,340**

* *For the 6 months to 30 June 2020, the amount of $0.18m was reclassed into "Cashflow from Leasing Activities" in cash used in financing activities. Previously this was presented in "Other" cashflows from investing activities. Total increase/decrease in cash and cash equivalents remains unchanged for the period.*

8. EVENTS SUBSEQUENT TO BALANCE DATE

Except the events outlined elsewhere in this report (including the 2016-2020 taxation audit at our Romanian facility as detailed in Note 5), there are no matters subsequent to the end of the financial half year that have, or may, significantly affect the Group's operations, the results of those operations, or the state of the Group's affairs.

9. CALCULATION OF EARNINGS/(LOSS) PER SHARE

		6 months to 30 Jun 21 $'000	6 months to 30 Jun 20 $'000
Earning/(Loss) per share:			
Profit/(Loss) attributable to members of the parent entity	1	$1,129,954	($149,233)
Average shares on issue for the period	2	1,150,924,806	1,141,721,834
Average performance rights on issue	3	75,358,574	53,961,013
Basic Earnings/(Loss) per share (cents per share)	1 ÷ 2 × 100	0.098	(0.013)
Diluted Earnings/(Loss) per share (cents per share)	1 ÷ (2 +3) × 100	0.092	(0.012)

Notes to the Condensed Financial Statements

continued

10. OTHER INCOME IN COMPREHENSIVE INCOME STATEMENT

	6 months to 30 Jun 21 $'000	6 months to 30 Jun 20 $'000
Interest revenue	12	34
Government grants	92	338
Government grants COVID related	–	362
Writeback on provision for MAR VAT input issue	226	–
Write back of provisions and other adjustments	66	2
Other	50	3
	447	**738**

11. TRADE RECEIVABLES AND PAYABLES

11.1 Current Trade and Other Receivables

	30 Jun 2021 $'000	31 Dec 2020 $'000
Trade receivables (1)	15,784	15,126
Allowance for doubtful debts	(312)	(313)
	15,472	**14,813**
Net GST/VAT recoverable	1,094	1,432
Security deposits	94	131
Derivatives fair value adjustment	41	–
Notes and other receivables due to operating entities	7,849	5,992
	9,078	**7,555**
Total receivables	**24,550**	**22,369**

(1) Trade receivables represent 56.2 days sales at 30 Jun 21 (53.5 days sales at 30 Jun 20)

11.2 Current Trade and Other Payables

	30 Jun 2021 $'000	31 Dec 2020 $'000
Trade creditors (1)	9,639	10,187
Other creditors and accruals	2,753	2,352
	12,392	**12,539**

(1) Trade creditors represent 40.4 days cost of goods sold at 30 Jun 21 (45.9 days cost of goods sold at 30 Jun 20)

11.3 Related Party Disclosures

During the 6 months ended 30 June 2021, the Group made no payments for purchases of raw material from its substantial shareholder Qinghai Salt Lake Magnesium Co Limited (30 June 2020: $40,000). There are no balances outstanding as at 30 June 2021.

Outstanding balances are on an interest free basis, unsecured and settlement will occur in cash. No guarantees have been provided or received with respect to related party balances.

11. TRADE RECEIVABLES AND PAYABLES (continued)

11.4 Leases

Pursuant to AASB 116 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 provisions on the balance sheet. This is calculated as being the future value of lease payments discounted at the relevant incremental borrowing rate.

The right of use asset is depreciated on a straight-line basis over the term of the lease. The lease liability is unwound over the term of the lease, with interest expense recorded in the income statement.

a **Right of use assets**

The movement in the right of use assets balance is presented below.

RIGHT OF USE ASSETS SUMMARY	6 months to 30 Jun 2021 $'000	6 months to 30 Jun 2020 $'000
Opening balance	**518**	**695**
Add new leased assets	270	44
Depreciation charge	(164)	(183)
FX movements	(2)	14
Closing balance	**622**	**570**

b **Lease liabilities**

The movement in total lease liabilities is presented below.

LEASE LIABILITY SUMMARY	6 months to 30 Jun 2021 $'000	6 months to 30 Jun 2020 $'000
Opening balance	**522**	**699**
Add new lease liabilities	270	44
Less unwind of lease liabilities	(168)	(181)
FX movements	(2)	14
Closing balance	**623**	**577**

LEASE LIABILITY SPLIT – CURRENT AND NON CURRENT	30 Jun 2021 $'000	31 Dec 2020 $'000
Lease liabilities recognised in the balance sheet		
Current	302	236
Non Current	320	286
Total lease liabilities recognised in the balance sheet	**623**	**522**

12. RESERVES

	30 Jun 2021 $'000	31 Dec 2020 $'000
Capital reserve		
Balance at beginning of financial year	2,750	2,750
Balance at end of financial year	**2,750**	**2,750**
Foreign currency translation reserve		
Balance at beginning of financial year	2,563	3,251
Movement in VHL Consolidated accounts	495	(688)
Balance at end of financial year	**3,058**	**2,563**
Actuarial Reserves		
Balance at beginning of financial year	(4,306)	(3,673)
Deferred tax assets	(185)	312
Employee pensions	560	(946)
Balance at end of financial year	**(3,931)**	**(4,306)**
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	136	254
Issue of ordinary shares on conversion of rights	–	–
Fair value of performance rights issued for future periods	150	(118)
Balance at end of financial year	**285**	**136**
Total reserves	**3,799**	**2,780**
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement		
Exchange differences taken to reserves in equity – translation of overseas entities	495	(688)
Movement in various actuarial assessments	375	(634)
Total Other Comprehensive Income	**870**	**(1,322)**

Notes

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

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

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

The **actuarial reserve** represents the cumulative amount of actuarial gains / (losses) on the Group's unfunded defined benefit pension obligation as well as movements in deferred tax assets and financial instruments that need to be recognised in "Other comprehensive income" (OCI).

Notes to the Condensed Financial Statements

continued

13. BORROWINGS

	30 Jun 2021 $'000	30 Jun 2021 Maturity Date	30 Jun 2021 Interest pa [1]	31 Dec 2020 $'000	31 Dec 2020 Maturity Date	31 Dec 2020 Interest pa [1]
Bank & Institutional Borrowings						
Magontec GmbH (Bank Loan) [2]	1,346	30-Nov-23	1.55%	4,593	30-Nov-23	1.55%
Magontec GmbH (Bank Loan) [2]	1,186	31-Dec-21	2.55%	2,380	31-Dec-21	2.55%
Magontec GmbH (Bank Loan) [2]	1,581	31-Dec-25	1.85%	1,586	31-Dec-25	1.85%
Magontec GmbH (Factoring Facility) [4]	2,221	31-Dec-21	0.95%	1,287	31-Dec-21	0.95%
Magontec SRL (Working Capital Facility) [3]	4,346	Open	3.45%	4,106	Open	4.01%
Magontec Xi'an Limited (Bank Loan) [5]	4,132	9-Jul-21	3.80%	3,974	9-Jul-21	3.80%
Total Bank Borrowings	**14,812**			**17,926**		
Bank Borrowings Maturity Profile						
Current	9,664			10,460		
Non Current	2,927			6,179		
Total Borrowings on Balance Sheet	**12,591**			**16,639**		
Factoring facility (offset against trade receivables)	2,221			1,287		
Total Borrowings	**14,812**			**17,926**		

(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 €777,000 ($1,228,000) and inventory of €3,257,000 ($5,150,000), and the MAB factory facility.
(3) These borrowings are secured by a charge over MAR's trade debtors and inventory to the extent of RON 10,073,000 ($3,232,000) and the MAR factory facility.
(4) This facility is set off against trade debtors, and thus is not shown in 'Borrowings' on the balance sheet.
(5) These borrowings are secured against the MAX factory building

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