ACN 010 441 666

Annual Report 2021

Magontec Limited

Global Locations and Activities

Contents

Authorisation:
Nicholas Andrews, Executive Chairman of Magontec Limited has authorised the release of this document to the ASX on 24 February 2022.

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.

Executive Chairman's Letter

Nicholas Andrews
Executive Chairman

2021 was a volatile year for the global magnesium industry and produced a very positive result for Magontec.

While historic price increases for magnesium metal and global logistics services, combined with the limitations imposed by COVID, presented significant challenges, in the final quarter a confluence of factors, particularly in the metals business, secured a strong uplift in 2021 Group EBITDA to $10.1 million ($3.5 million in the prior corresponding period).

Throughout the year our manufacturing and sales teams have been required to manage our businesses through a series of unforeseeable events and rose to the challenge on each occasion. In almost every part of our business, results have been ahead of expectations. While some of this is the result of widespread price volatility, it also reflects a robust underlying business and a stable and professional team.

The CCP businesses (magnesium and electronic anodes) performed strongly throughout the year and particularly so in the last quarter. As the charts accompanying the commentary for those businesses show, volumes were stronger in every sector; magnesium anode volumes shipped from our European and Chinese factories were up 8% and revenues from the total CCP businesses were up 37%.

GROSS PROFIT

increased

58%

from $12.2m in FY20 to $19.2m in FY21

EBITDA

increased

$6.6m

from $3.5m in FY20 to $10.1m in FY21

CASH GENERATED FROM UNDERLYING OPERATIONS*

increased

167%

from $3.9m in FY20 to $10.5m in FY21

These performances derive from a global CCP production platform that has been transformed over the last five years to support our expansion strategy, to exploit new technologies developed by Magontec's in-house science and engineering teams, and a magnesium production and buying network that has proved flexible and efficient in difficult times.

It was disappointing in late December 2021 for our Chinese CCP factory to be shuttered for 3 weeks as the entire city of Xi'an was locked down (it reopened on 17th January 2022). This will likely dent first quarter 2022 deliveries and financial performance for that product. Our 2022 expectations for production at this facility are for a rise in volumes to both Chinese and US customers and the fall-out from this COVID event may take some weeks to properly digest. Nonetheless, Magontec's Chinese CCP team have achieved strong year on year increases in volume and profitability over the last 5 years and this event is unlikely to derail that longer term trajectory.

Magontec's most difficult business remains its volume metals division. This includes magnesium alloy recycling in Romania and Germany and primary magnesium alloy production in Qinghai province, PRC. Profitability at the European plants was boosted in the fourth quarter by our ability to continually source scrap and other inputs for our factories and offer unbroken supply to our European customers. The virtues of our own global supply chain made Magontec a reliable magnesium alloy supplier in Europe in 2021.

In the 12 months to 31 December 2021 the total metals business increased Gross Profit by 40% over the previous corresponding period on volumes just 3.7% above the same period in 2020.

Magontec's primary magnesium alloy production in Qinghai remains a critical but underperforming asset. This facility commenced production in 2018 and has been unable to fulfil its potential due to the non-performance of the adjacent Qinghai Salt Lake Magnesium Co Ltd (QSLM) electrolytic magnesium smelter.

Magontec shareholders and management have been extremely patient as QSLM resolve their financial and technical issues. As we discuss elsewhere in this report, we have good cause to expect the supply of liquid pure magnesium to recommence in the second half of 2022.

The Magontec Qinghai cast house has a capacity to produce 5,000 metric tonnes of primary magnesium alloys each month. In 2021 production averaged just 472 metric tonnes a month based on supply of pure magnesium raw material from plants located at some distance from this cast house facility. As a result, Magontec Qinghai was again loss-making for the year to 31 December 2021. In FY 2021 this business lost -$0.9 million EBITDA and provided a further -$0.9 million in depreciation. The restart of the QSLM magnesium smelter will transform the economics of this business and offer Magontec customers in China, Japan, Europe and North America the lowest emission magnesium produced anywhere in the world. Based on information from QSLM and independent assessment by Magontec personnel, we remain optimistic that the Qinghai Project will restart in the second half of 2022. We also remain confident that this will be a popular offering to magnesium alloy die casters.

The supply of Qinghai primary magnesium alloy will also increase the volume of scrap material available for Magontec's European recycling facilities. Magnesium alloy die casters (our customers) typically run at scrap rates of over 40%. Without primary magnesium alloy supply from our Qinghai cast house, our European recycling businesses have been reduced to operating at lower volumes. As the Qinghai cast house recommences primary magnesium alloy shipments to European customers, we expect locally available magnesium alloy scrap volumes to return to higher levels.

Despite these challenges the 2021 performance of our European metals business has been considerably better than 2020. While much of this stems from the opportunity to supply material through periods of supply crisis, continuous improvements in the underlying economics of these businesses over many years has also reduced dependency on high volume recycling activities.

In the coming year our European recycling businesses are poised to take advantage of the resumed flow from the Qinghai plant. Unlike the gas-fired recycling furnace systems common across Europe, Magontec uses electricity with between 69% and 72% of the energy required coming from renewable power sources, enhancing our ability to supply and maintain low embedded carbon emissions throughout the production chain.

* Cash generated from underlying operations is defined as operating cashflow excluding working capital movements, interest and tax

Executive Chairman's Letter

continued

In Europe our metals business is also diversifying. Over recent years Magontec's trade in specialist metals, which largely target the aerospace and other smaller applications rather than the automotive industry, have made a growing contribution. We think that specialist metals have scope for further growth, for both current and new products.

In this Annual Report we have included a review of some of the risks that the company incorporates. We provide a break-down of ESG indicators, including diversity, our carbon footprint and other statistics and policies that govern how we treat employees and manage risk. Over the last few years, the Board has introduced new policies and guidelines intended to provide employees with greater transparency and improve communication within the organisation.

The Board has played a very active role in providing advice and counsel, through committees and in debates at Board meetings. We are fortunate to have a diverse set of talents among our Directors that match our corporate exposures in the metals and CCP industries with our operational locations in Europe, China and the USA. In a year when one of our greatest challenges has been the continued barrier to travel presented by COVID-19, it has been to Magontec's benefit that we have Directors with highly relevant skills based in China and Europe, as well as in Australia. I would like to thank them for their support, advice and committee contributions over the last 12 months.

There have been some changes to the composition of the Board in 2021. In October the QSLM representative stepped down from his position as a Non-Executive Director. Under the agreements between Magontec and QSLM, our 28.7% shareholder has the right to appoint a new Director and have indicated that they will do so. At the end of February 2022 (post balance date) Straits Mine Management (SMM) sold its 12.9% holding to a group of institutional and individual shareholders. Andre Labuschagne, the Executive Chairman of Aeris Limited, the owner of SMM, became a Non-Executive Director of Magontec in 2014 following the conversion of debt instruments into Magontec shares. Andre has been a valued contributor to our company, and I am pleased to announce that he has agreed to remain a Director following this sale.

As with every organisation, our people are our most important resource. At Magontec we are fortunate to have a senior management team with an average of over 14 years of service and many long-serving staff elsewhere in the organisation. In a period when travel has been impossible, the ability of our managers to work autonomously, to be creative and to be inspiring to their teams, has never been more important. As a reluctant video-conference CEO for much of the last 24 months, I take the opportunity to thank them all, particularly for managing the endless and serious challenges of COVID as it impacted the families and lives of employees, and the way in which we went about our daily tasks. In my visit to Europe in November 2021, I was pleased to note that our factories remain busy places and our employees highly engaged.

In our most recent releases, we have made cautionary notes about the immediate outlook relative to the last quarter of 2021. In this latter period, a series of unexpected events resulted in a sharp boost to underlying profitability that will be challenging to repeat. This largely came from the European metals and CCP businesses.

Having cautioned against extrapolation I think the outlook for 2022 also holds much promise. Recommencement of liquid pure magnesium from QSLM to our Chinese primary magnesium alloy business will generate a significant boost to profitability at a local Chinese level and at a wider metals business level.

Our CCP businesses are well positioned to exploit recently added new product and production efficiencies and it is our expectation that this will attract new customers and increased volumes in the year ahead.

Magontec's specialist metals business, where the quality of our products is industry leading, is also likely to grow again in 2022, after a steady 2021, as we continue to slowly develop new business in a group of industries that default to a highly conservative supply chain.

Importantly we have continued to grow investment in innovation and product development across the organisation, as we discuss elsewhere in this report. In 2022 we will complete the construction of a new CCP laboratory at Bottrop that will enhance our ability to bring new products to market and maintain a competitive edge. In China and in Australia we continue to work in collaboration with universities and technical institutes, particularly in the metals area, developing new alloys and new applications.

COVID has shortened horizons in every business. The ability to move quickly, a deep well of management experience, a geographically diverse asset base; these are virtues that ease the process of managing the unexpected. In 2021 Magontec was able to call on these attributes and found itself particularly well positioned.

Nicholas Andrews
Executive Chairman

24 February 2022

Financial Summary Report

KEY FINANCIAL HIGHLIGHTS	12 months to 31 Dec 2021 $'000	12 months to 31 Dec 2020 $'000	% chg
Equity and Earnings			
Gross Profit	19,232	12,195	57.7%
Gross Margin (%)	16.7%	12.8%	
Reported EBITDA	**10,077**	**3,473**	**190.2%**
Reported Net Profit After Tax	**5,008**	**(717)**	
Underlying Net Profit After Tax (NPAT excluding unrealised FX)	**4,426**	**(288)**	
Return on Equity (%)	15.4%	(2.4%)	
Net tangible assets per share (cents)*	**42.4**	**32.5**	**30.5%**
Borrowings			
Net debt	6,890	11,681	(41.0%)
Net debt to net debt + equity (%)	16.0%	28.8%	
Cashflow			
Underlying Operating Cashflow**	10,457	3,916	167.0%
Free Cashflow (excluding working capital movements)***	**8,556**	**2,433**	**251.6%**

The second half of 2021 saw an acceleration in earnings momentum with the Gross Profit margin expanding to 16.7% for the year to 31 December 2021 (2020:12.8%), continuing a positive long-term trend.

Volatility in raw material prices have heavily impacted revenue numbers in the period under review. The price of pure magnesium rose by 229% over the 12 months to 31 December 2021, adding a considerable burden to group working capital management.

Despite these price and supply challenges both the Metal and Magnesium Anode businesses were able to maintain consistent production, in line with or above the 2021 plan. The European businesses were particularly active through the second half and able to capture substantial outperformance. There may be some further positive impacts flowing through to 1Q22, although the extent and duration of this trend is difficult to quantify.

Net Profit After Tax (excluding unrealised FX) for the 12 months to 31 December 2021 was $4.4 million, a significant increase on the prior corresponding period ($288,000 loss). Net tangible asset value was 42.4 cents per share as of 31 December 2021 and Return on Equity for the year 15.4%, a record result for Magontec. Underlying Operating Cashflow* more than doubled to $10.5 million in 2021, and similarly free cashflow (excluding working capital movements) increased to $8.6 million in 2021.

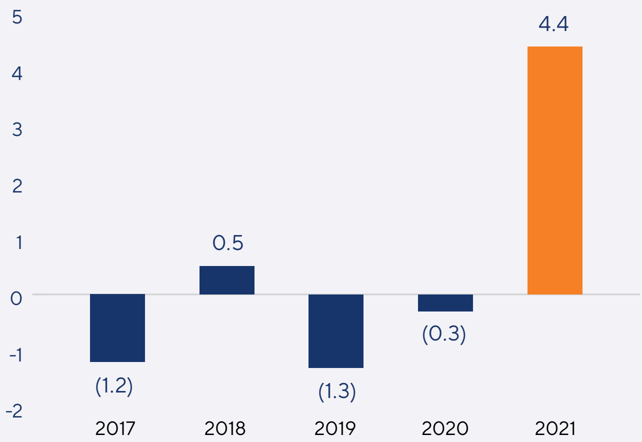
These strong cash flows allowed Magontec to reduce net debt to $6.9 million (2020: $11.7 million). A more conservative balance sheet allows the Group flexibility in managing future increases in working capital, which will remain a key focus in the face of ongoing high pure magnesium prices and pending recommencement of pure magnesium supply from QSLM.

* Net tangible assets per share excludes the right of use assets arising from AASB 16 Leases and includes deferred tax assets
** Underlying Operating Cashflow = Reported operating cashflow excluding working capital movements, interest & tax
*** Free Cashflow is defined as Operating Cashflow less capital expenditure and excluding working capital movements

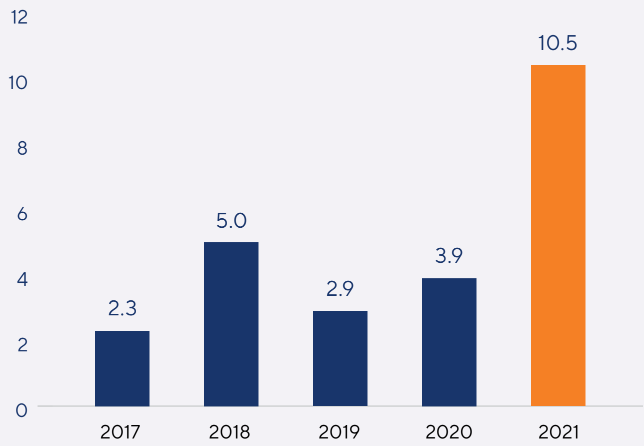
Financial Summary Report

continued

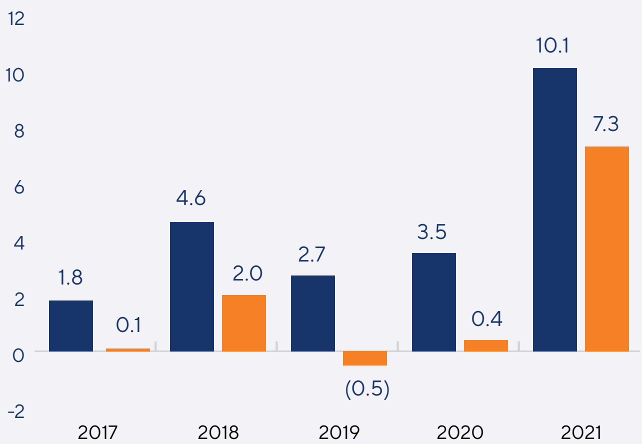
UNDERLYING NPAT* (A$M)



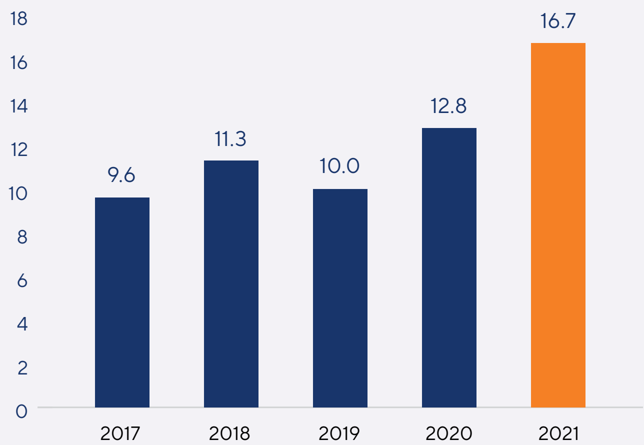
CASH FLOW FROM UNDERLYING OPERATIONS (A$M)



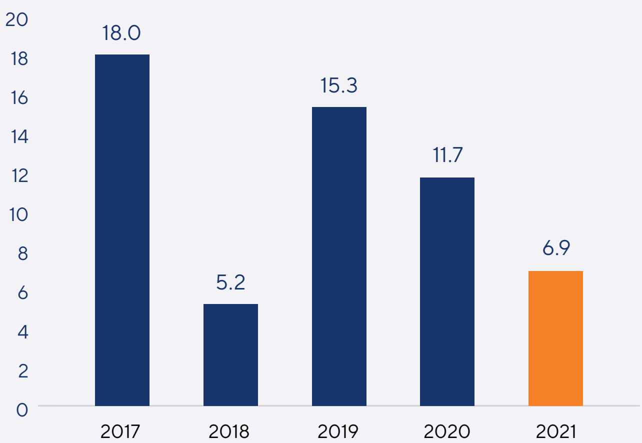
EBITDA/EBIT (A$M)



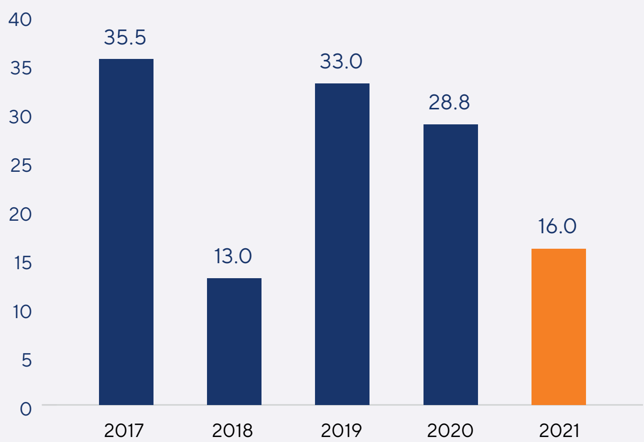
GROSS MARGIN (%)



NET DEBT (A$M)



NET DEBT TO NET DEBT + EQUITY (%)



The current period also saw the successful resolution of a long running VAT legal case in favour of Magontec Romania that gave rise to a one off $468,000 profit, recorded in Other Income. Significant items contained in earnings are outlined in the table below.

RECONCILIATION OF SIGNIFICANT ITEMS IN EARNINGS	12 months to 31 Dec 2021 $'000	12 months to 31 Dec 2020 $'000
Net Profit Before Tax, unrealised FX and significant items	**7,724**	**338**
Significant items Before tax		
Less non-cash equity (expense)/writeback	(237)	118
Less MAQ depreciation (non cash)	(917)	(1,013)
Less MAQ Metals EBITDA losses	(891)	(821)
Add writeback on MAR VAT input credits	468	–
Add COVID related government subsidies	–	669
Add COVID related salary and director fee reductions (EU & HO)	–	923
Net Profit Before tax excluding unrealised FX	**6,147**	**215**
Less tax expense	(1,722)	(502)
Net Profit After Tax excluding unrealised FX (underlying NPAT)	**4,426**	**(288)**
Add/(subtract) unrealised FX gains/(losses)	582	(429)
Reported Net Profit After Tax	**5,008**	**(717)**

In the period under review the Magontec Qinghai plant continued to be loss making, recording -$0.9 million at the EBITDA line. It also recorded -$0.9 million in non-cash depreciation. This project continues to offer considerable financial upside when supply from QSLM resumes (See comment on Magontec Qinghai in this report).

BALANCE SHEET AND BANKING FACILITIES

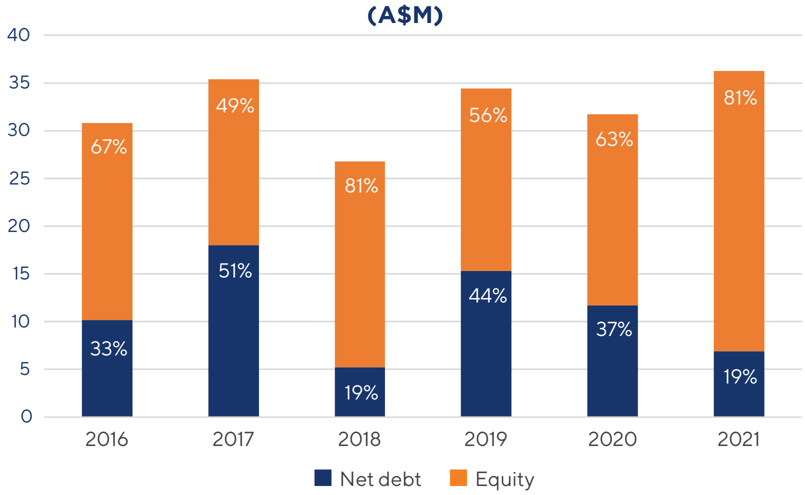
The reduction in net debt during the year reduced gearing to 16.0% as of 31 December 2021 on a net debt to net debt + equity basis (31 December 2020: 28.8%). Despite this decline in net debt, elevated raw material prices will place greater demands on the Group's overall working capital position, particularly as the Qinghai facility returns to higher levels of production in the second half of the year. At current pure magnesium prices, we expect to be able to manage working capital requirements within our current facilities although it will not be without its challenges.

During the year to 31 December 2021, the Group had $4.0 million of headroom against its existing banking facilities. The Group continues to maintain an excellent relationship with its primary banking provider, Commerzbank in Germany, who will also provide an additional EUR 3 million factoring facility in 2022. Magontec SRL transitioned to Unicredit, our new banking partner in Romania. Unicredit are providing the Group with a facility of RON 15 million on more favourable terms. At Magontec Xi'an Co Ltd we renewed a RMB 25 million facility with ZheShang Bank in July 2021.

Net working capital* was $36.3 million as of 31 December 2021 (31 December 2020: $31.7 million). This was funded by net debt of $6.9 million (19%), with the remaining $29.4 million (81%) from equity. By comparison, in 2017 when Magontec used a similar level of working capital, net debt represented 51% of the required funding.

Over the last 5 years, Magontec's growing free cash flow generation has reduced net debt and increased the share of working capital funded by shareholders equity. As our reliance on external debt decreases, a stronger financial base allows the Group to more effectively manage our exposure to volatile commodity prices and the prospect of higher interest rates.

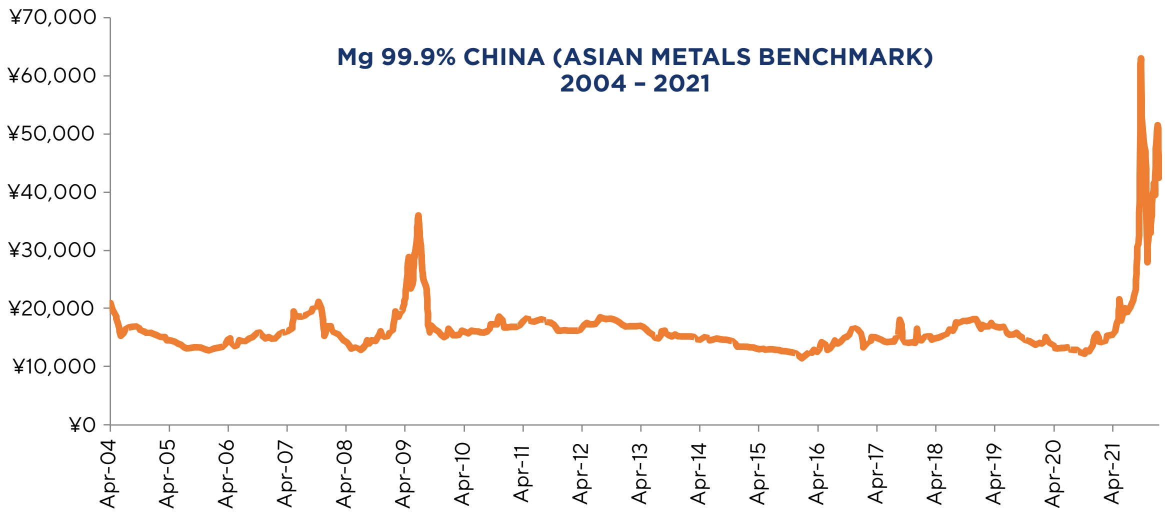
WORKING CAPITAL FUNDING PROFILE (A$M)



* Net working capital = trade & other receivables + prepayments + inventory less trade & other payables

Magnesium pricing in 2021

Over the 12 months to 31 December 2021, pure magnesium, our key raw material, experienced an historic rise in price.



The magnesium price has been on a rollercoaster ride since the end of March 2021. On 1 January 2021 the price of a tonne of pure magnesium sold in China was ¥15,350, by the end of September it had risen 310% to ¥63,000 with spot prices higher than that.

	2020	2021	2021 High (24 Sept 2021)	2022	Current
1 Jan	¥14,150	¥15,350	¥63,000	¥50,500	¥42,000
% chg		+8.5%	+310%	+229%	+174%

Even in the period after the Beijing 2008 Summer Olympics, when supply was last constrained, prices peaked at just ¥36,000 per tonne.

Over the last 12 months, the delivered prices for all Chinese materials sold into export markets were further increased as shipping costs rose precipitously and freight availability was sharply reduced – a direct result of the COVID-19 pandemic.

For Magontec, as an intermediary production company that buys pure magnesium and converts it to magnesium alloys and magnesium anodes, acquiring sufficient raw material for our production lines was a critical factor. The benefits of longstanding relationships with pure magnesium producers in China proved vital in this period and we were able to fill all our contracts and deliver both anodes and alloys to customers that could not be filled from elsewhere.

A great strength of our business is that we operate recycling and anode manufacturing activities in both China and Europe, with the European facility co-located on the same site as the Romanian magnesium alloy recycling factory. This allowed Magontec to access material more easily, particularly for the lower volume magnesium anodes business.

There are two principal issues that caused the price of magnesium to spike more dramatically than for other metals.

The first is that magnesium consumers essentially rely on supply from just one country. China produces around 85% of all pure magnesium and has an even greater share – up to 95% - of globally traded primary material. Producers in the USA, Russia, Kazakhstan and Brazil are limited to supplying protected domestic markets while the rest of the world relies on China and a small volume from Israel. When China experiences supply or production problems, global magnesium consumers – the automotive, aluminium and steel industries - are vulnerable to disruption.

The second issue is that, at this time, all Chinese magnesium is produced using the Pidgeon process with many of the plants located in the Fugu region of Shaanxi province. This is a 1940's silico-thermic reaction technology that has very high carbon emissions and uses coal derivatives as an energy source. Chinese government authorities are seeking to reduce carbon emissions and placed limits on coal consumption in high emission regions through the second half of 2021 – particularly in the period leading to the 2022 Winter Olympics on 5 February 2022 in Beijing. These limitations are particularly focussed on the Fugu region where more than 60% of Chinese magnesium is produced. Higher coal prices and supply disruptions caused magnesium production to reduce in some Chinese regions by around 50%, leading to a chronic shortage. As aluminium smelters (the largest consumers of magnesium), magnesium alloy die casters (the second largest users), steel, titanium and other industrial users scrambled for supply, prices rose sharply.

As described elsewhere in this report, Magontec is seeking to address this raw material supply issue through a new, dedicated magnesium supply channel based at Golmud in Qinghai province. We anticipate delivery of pure magnesium from Qinghai Salt Lake Magnesium's electrolytic smelter in the second half of 2022.

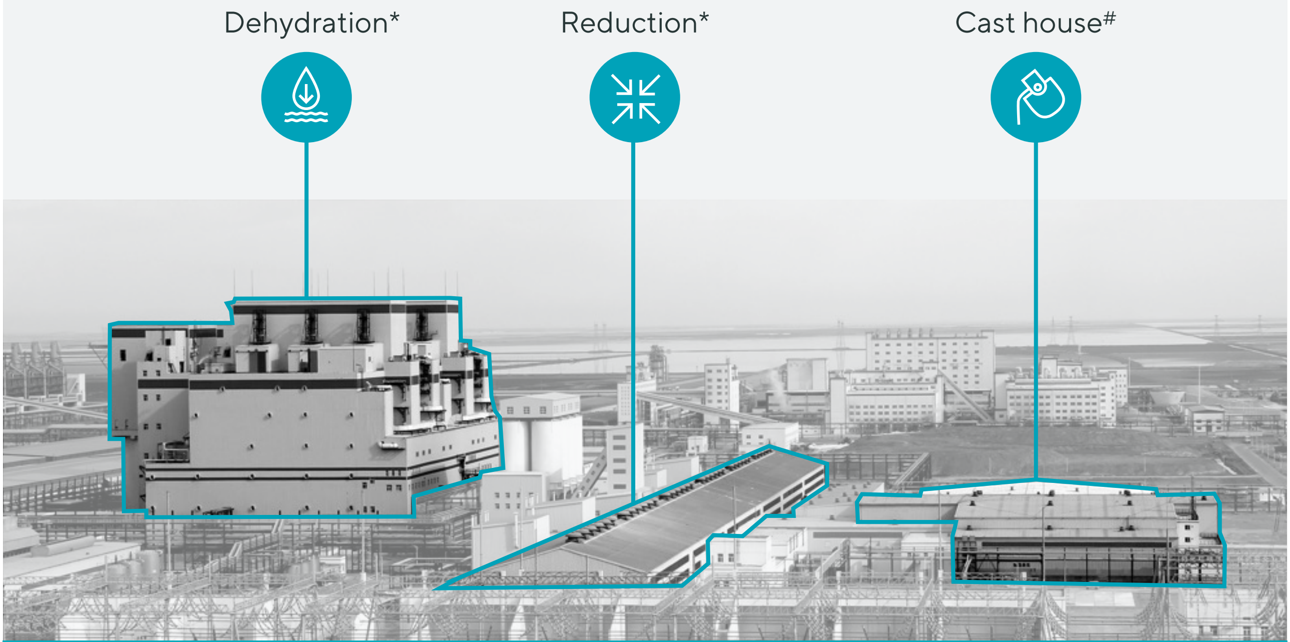
The Qinghai product will have very low CO_2 emissions as it uses electricity supplied by renewable energy (89%), has a minimal and shrinking reliance on thermal power, is exclusively available to Magontec for the manufacture of magnesium alloys and, at full production, will supply up to 56,000 tonnes of pure magnesium to our Qinghai magnesium alloy cast house – equivalent to around 15% of current global demand for magnesium alloys.

It is unlikely that magnesium prices will scale the same heights in 2022, but there is no immediate widespread solution to the current weaknesses in the global magnesium supply chain. In China in December 2021 and January 2022, coal processing plants in Fugu region have again been directed to reduce emissions while in Europe, once a leader in magnesium production, there is much talk of promoting regional supply alternatives but no action to date. Any substantial non-Chinese project is many years away and may require political support. In the meantime, the Qinghai facility, which has the capacity to grow to many times the current planned 100,000 metric tonnes per annum output, remains the best hope for price and volume stability and for a low emission magnesium product.

Magontec Qinghai

Qinghai electrolytic magnesium smelter complex

100,000 tonnes per annum > ~ 10% of global production



* QSLM assets | # Cast House shared by QSLM & Magontec

In 2021 the Magontec Qinghai magnesium alloy cast house operated at a consistent level, albeit well below the capacity of the facility.

This production unit was commissioned in 2018 and for most of its life it has had to rely on supply of raw material from pure magnesium manufacturers located at some distance from the plant. The factory sits adjacent to the currently idle Qinghai Salt Lake Magnesium (QSLM) electrolytic plant that was also commissioned in 2018 and was designed to take liquid pure magnesium from QSLM directly to its alloying furnaces.

The profitable economics of Magontec's Qinghai magnesium alloy cast house rely entirely on the supply of material from the adjacent QSLM plant. Since April 2019 QSLM have been unable to supply any pure magnesium and Magontec has been operating its Qinghai plant at a cash loss. While volumes during 2021 have averaged just 470 metric tonnes a month (rated capacity 5,000 mt per month) and the logistics of bringing material to Golmud and back to customers over many thousands of kilometres are unsustainable in the longer term, these adverse economics have been tempered by the provision by QSLM of utilities and rent at zero cost. Under the agreements with QSLM, compensation for logistics costs is also payable but remains outstanding.

In 2022 we expect our patience to be rewarded. Our partners at QSLM have indicated that, all going well, the first of six dehydration units will commence commissioning in May 2022. The other five units are expected to be

AGREEMENTS

10

Lease Agreement 10 + 10 year option

56,000mtpa

supply

Mg Alloys

exclusivity

Off Take

price formula

commissioned in subsequent months. Thus, we anticipate supply of qualified liquid pure magnesium in the second half of 2022.

Other issues that have impacted the QSLM plant over the last three years, including access to finance and output material contamination, have also been addressed. As shareholders will recall, the principal cause of the QSLM magnesium facility closure was the collapse of the company's 89% shareholder, Qinghai Salt Lake Industries Co Ltd (QSLIC).

QSLM's new owner is the Qinghai Huixin Asset Management Co Ltd (QHAM – also a Qinghai state-owned enterprise). Under this management structure, QSLM has successfully and profitably operated its non-magnesium assets on the Golmud industrial site. It has also received funding from Chinese state resources. Magontec has been advised that the company is now in a financial position sufficient to fund the remediation and re-start of the magnesium facility.

QSLM management have also discussed with Magontec some of the operating issues that hampered metal flows prior to the collapse of QSLIC in April 2019. Of particular concern was the nickel content of the pure magnesium supplied to Magontec. Research conducted over the last 24 months indicates that this is the result of nickel leaching from steel pipes within the dehydration process, attributed to repeated start-stop actions in the commissioning phase. The nickel-containing steel pipes have now been replaced with a different material and QSLM management express confidence that this has addressed the problem.

Given Magontec's experience with this project we continue to take a cautious approach at Qinghai. Our facility remains the principal conduit for magnesium material from this facility and, having continuously operated the magnesium alloy cast house for nearly five years, Magontec is eagerly awaiting QSLM supply and is well placed to increase production from this underutilised asset. We have a highly experienced team of local employees based in Golmud and can grow that core of experienced cast house operators as required and as supply becomes available.

Innovation

Magontec employs a team of scientists and engineers in Europe, China and Australia to develop and certify new applications and maintain its existing magnesium and electronic CCP product suite.

Magontec and its predecessor companies, Hydro Magnesium and Australian Magnesium, have been investing in product innovation since the inception of the original German Magnesiumgesellschaft in 1953. In 2022 it remains a central function of our business. Developing new products and processes, and refreshing existing ones, is an investment in the future and makes our businesses more competitive and more profitable.

In Australia the company has partnered with universities and research foundations since the late 1990's, developing and testing new alloys and applications. In Europe our efforts have been largely focussed on Cathodic Corrosion Protection (CCP) technologies and casting innovation for our recycling and anode manufacturing operations. Our Chinese colleagues are also invested in innovation and have successfully partnered with local universities and institutes.

CHINA

Dr Zisheng Zhen

Our Chinese innovation enterprise is led by Dr Zisheng Zhen. Zisheng holds a PhD from Beijing's University of Science and Technology, he was a post graduate student at Oxford and Brunel Universities in the UK and a researcher at the Magnesium Innovation Centre in Germany prior to joining Magontec in 2009.

Among other activities Dr Zhen is leading a PRC Government funded project to explore the property potential of Magontec's proprietary rare-earth based AE magnesium alloys in high vacuum diecasting processes. By focussing efforts on downstream magnesium alloy die casting, our Chinese business is seeking to grow demand for alloys produced at the Magontec Qinghai cast house, particularly in higher performing rare earth based magnesium alloys.

Our Chinese efforts have also continued work on wrought (extrusion) magnesium alloys. We are part of a collaborative project that includes Monash University in Australia and the Chinese steel giant, Baosteel, targeting improved deformability and processibility. In this project Magontec's proprietary magnesium-zirconium master alloy is used to address tensile compression asymmetry, a common and problematic feature of conventional wrought magnesium alloys.

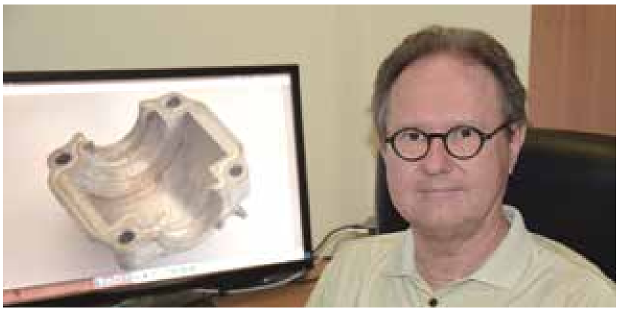
In China in 2021 we have continued to participate in international and national standard development projects, as either project leader or as a major participant. As in all industries, global standards are a vital measure for producers and consumers.

Over the last 12 months these standardisation projects have included:

- ISO 26202 Magnesium and Magnesium alloys – Magnesium alloys for cast anodes,
- GB/T 38786 Testing method for cleanliness of magnesium and magnesium alloy ingots and
- GB/T 24488 Test method for electrochemical properties of magnesium alloy sacrificial anodes.

In 2021 Magontec and the other participants in this standard development group were awarded first prize by the China Nonferrous Metal Industry Science and Technology Institute.

AUSTRALIA



Professor Trevor Abbott

Professor Trevor Abbott, located in Melbourne, Australia, coordinates a network of activities at several universities. He holds Adjunct positions at Monash University, The University of Queensland, Swinburne University of Technology, and RMIT University. He also manages Magontec's contributions to activities at these universities through ARC Linkage Grants and funding of student projects.

Trevor is also active within Magontec in support of technical issues both from customers and alloy production facilities.

The worlds of industrial production and academia are often remote and having an active role in both is advantageous.

A noteworthy example was the observation by a German die caster of Magontec's rare-earth based AE44 magnesium alloy, that significant strengthening occurred after heating. This was ultimately found to be due to precipitation hardening from manganese aluminium particles and led to several scientific publications and new applications for AE44.

Magontec's activities with universities are a combination of defined activities and serendipitous studies such as described above. Defined activities include:

- Properties and Structures of magnesium - aluminium - rare earth - manganese (AE) alloys
- Deformation behaviour of alloys at high and low strain rates and temperatures
- Extrusion alloy
- Hydrogen storage alloys
- Master alloy production

Through these networks, Magontec can undertake alloy development activities and provide technical support to customers at levels unmatched by any other magnesium alloy producers.

EUROPE

Innovation team photo, L to R Thierry Bolla, B.-Eng., Ingo Biallas, Dipl.-Ing. (FH), Ludwig Nachtigall, Matthias Faaßen, Dipl.-Ing. (FH), Sven Schmidt, Student (BSc), Jan Clausmeyer, Dr. rer. nat.

In Europe our innovation teams are led by Jan Clausmeyer and Matthias Faassen. Jan and Matthias focus on developing new products and applications for Magontec's highly successful electronic and magnesium anodes divisions that supply essential corrosion protection devices to the global water heater industry.

This is an industry that faces many challenges in the years ahead as the regulatory environment for industrial and domestic heating appliances are increasingly driven by climate change. The phasing out of oil, gas and wood heaters and the adoption of low emission, high efficiency heat pump products require new corrosion protection applications and new electronics to manage more sophisticated equipment.

Over the coming years climate change will likely drive a higher level of renewal in domestic and industrial heating products as the installed base is raised to a new standard.

At our European laboratories Magontec is dedicated to developing new solutions with more advanced features as well as improving the quality of our existing CCP product suite.

Among other tasks our application technology and engineering (A&E) department uses modern laboratories and facilities to test water heater tanks and identify optimal CCP solutions for each individual tank design on behalf of our customers.

Magontec's team of engineers, technicians and scientists are also responsible for maintaining a watching brief on trends across the water heater industry. In our laboratories we can build prototypes and test equipment using 3D-printers and state-of-the-art 3D-design software. In 2022 we plan to further expand our testing capabilities.

An overarching mission for our Application and Engineering department is to offer safe products: Our team is responsible for product certifications related to drinking water hygiene and electrical safety. Much effort has been focused in recent years on obtaining drinking water approvals for CCP components in the US, UK and European Union markets, a significant barrier to entry for all industry participants. Full technical customer support, networking activities and Magontec's representation in technical committees for standardisation have helped establishing our reputation as an expert company in cathodic corrosion protection.

CCP (magnesium and electronic anodes)

A global supplier of magnesium and electronic anodes for hot water appliance manufacturers

Magontec's CCP businesses increased Gross Profit by 66% in the 12 months to 31 December 2021 with magnesium anode volumes rising by 8.4% and total CCP revenues up 37%.

While revenue numbers are partly impacted by the sharp rise in magnesium prices in the second half of 2021 (electronic anodes have no magnesium content), the underlying improvement in the business reflects a continued rise in market penetration in Europe and the United States, our ability to quickly adjust pricing in a volatile market, our capacity to source material at all times through periods of supply uncertainty and an improving trend in production costs, particularly in Europe.

Furthermore, through the latter part of the year, when magnesium price volatility rose sharply, we were able to change supply agreements to a formula-based pricing mechanism for customers not already trading on that basis. This gave more visibility on product and underlying raw material pricing for both Magontec and our customers.

In China our magnesium anode factory suffered a series of interruptions, particularly in the second half of the year, that caused production economics to decline on the same period for 2020. These include an enforced factory closure for the National Games held in August in the city of Xi'an, where our factory is located, that then merged with a national holiday period. This resulted in a longer than normal period of low commercial activity. There was also a COVID related lockdown in Xi'an in the last week of the year.

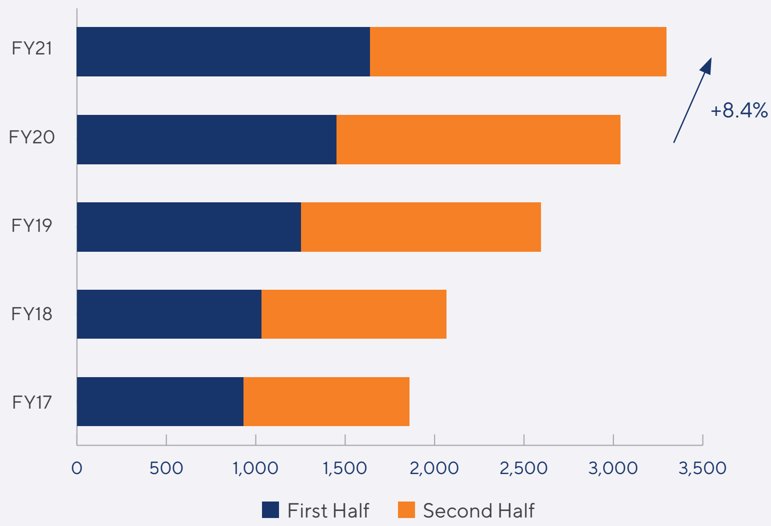
Magnesium anode sales volumes from this factory, which has enjoyed compound annual sales growth over the last 5 years of 19.8% per annum, while still positive, was slightly lower in 2021 than our internal forecasts. Some of this relates to the disruptions noted above, but we also experienced lower than anticipated growth in export volumes that are now expected in 2022.

An important macro-trend in China is the slowing rate of home construction. New homes are estimated to have fallen by more than 10% in 2021 versus 2020. Sales of water heaters to new homes represents just 20% of total sector revenue (80% goes to the replacement market) but this is a trend that seems likely to continue. Over the last few years, we have been working to get ahead of this curve by growing export volumes. Over the last three years we have built new customer relationships and sales in the USA and Australia and hope to grow those volumes in the coming years. Export sales of magnesium anodes from our Chinese facility at Xi'an have grown by 41% over the last three years compared with a growth rate of 21% for domestic sales.

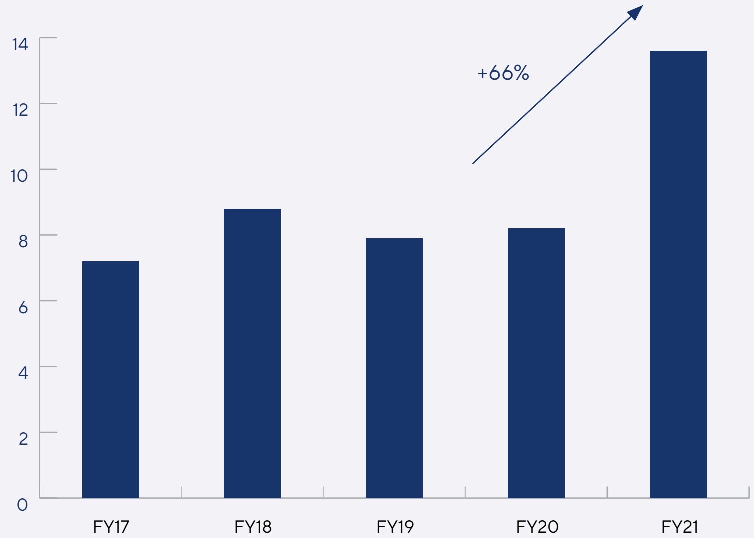
Magontec's European magnesium anode production takes place at Santana in Romania. In 2022 we celebrate the 10th anniversary of this plant. Production was moved from Germany in 2012 to access the economic benefits of manufacturing in a lower cost region. While there were many challenges for the company in moving this operation to a new home, it is now one of the most efficient anode production units in Europe and among the largest outside of China. The Romanian production and management teams have proved to be extremely efficient.

The European magnesium anode business increased sales volumes by 22% in the 2021 financial year, winning market share with regional customers and growing sales into Middle Eastern markets. Manufacturing magnesium anodes is a volume business. The impact of this sharp rise in output had a very positive impact on profitability, the strongest of the three CCP products. Over the last 5 years this business has achieved compound annual sales volume growth of 7.8%.

MAGNESIUM ANODE VOLUME (MT)



GLOBAL CCP GROSS PROFIT (A$M)



The electronic anodes business also enjoyed a positive year. While the supply chain for this product continues to be hesitant, in 2021 the business benefited from high inventory levels and revenues and profits grew strongly. Over the last 5 years this product has experienced compound annual revenue growth of 10.7% with a sharper increase in FY2021.

Magontec's industry leading electronic anodes division is supported by a team of scientists and engineers who are charged with developing new products and applications. We discuss this at greater length in the Innovation section of this report.

Metals

A global supplier of magnesium alloys and specialist metals to automotive, aerospace, power tool and electronics manufacturers.

Magontec manufactures magnesium metals in China and Europe. The principal activity is the manufacture and recycling of magnesium alloys. This is a high-volume activity that supplies feedstock for customers - magnesium alloy die casting factories - in China, Europe and North America.

In the second half of 2021 this business made exceptional returns as magnesium raw material prices spiked to record highs pushing FY21 Gross Profit for the global metals business up by 40% above the previous corresponding period (PCP).

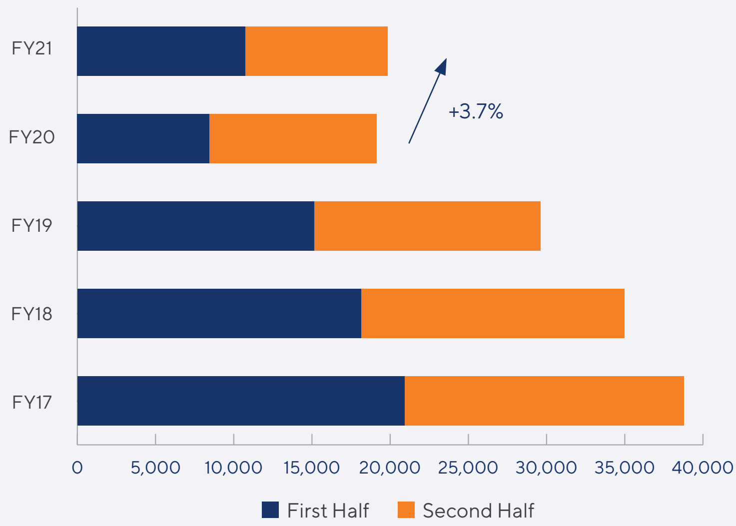
In a challenging environment, Magontec's position as a long standing, global and experienced magnesium alloy manufacturer and supplier presented a number of commercial opportunities. We were able, at all times, to access sufficient raw material in Europe and China to maintain our own production and supply our customers at a steady level. We were able to utilise inventory that would have been expensive to process in a lower magnesium price environment. More importantly our sales, logistics and purchasing teams were able to manage under extremely difficult circumstances and offer finished goods on a spot basis to customers who may otherwise have experienced costly material supply shortfalls.

Through the first half of 2022 we expect these conditions to revert to more normal circumstances, although in January and February magnesium prices have remained high and volatile. In the latter half of 2022 we anticipate rising volumes from our Qinghai primary magnesium alloy cast house. This will increase supply of material to our Asian, European and North American customers and generate additional activity for our European recycling operations.

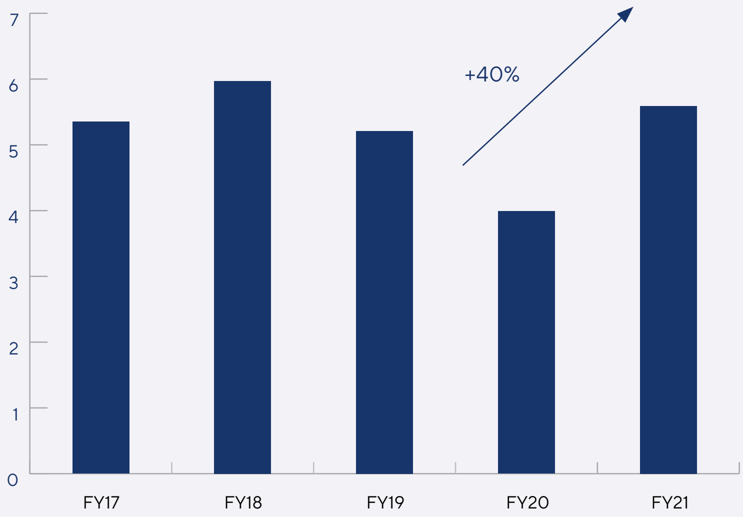
Over the last three years Magontec's global metals output has been reduced by the absence of supply of liquid pure magnesium from the Qinghai Salt Lake Magnesium Co Ltd (QSLM) electrolytic magnesium facility at Golmud in Qinghai province, PRC. Raw material supply from QSLM commenced in 2018 and was suspended in March 2019. The reasons for this are explained in more detail in our report on the Magontec Qinghai cast house activities.

Since 2019 Magontec's Qinghai primary magnesium alloy cast house has been producing around 6,000 metric tonnes per annum, largely for regional customers. Without supply from the adjacent QSLM facility this cast house operates at a cash loss. In 2021 EBITDA at Magontec Qinghai was -$0.9 million (-$0.8 million in 2020) and further impacts group financials through a depreciation charge of -$0.9 million (-$1.0 million in 2020). A change in the supply situation at Qinghai in 2022, even at relatively modest levels, will transform this business into a profitable enterprise.

GLOBAL MG ALLOY AND SPECIALIST METAL SALES VOLUMES (MT)



GLOBAL METALS GROSS PROFIT (A$M)



Our European magnesium alloy recycling businesses, based at Santana in Romania and Bottrop in Germany, continued to perform well under difficult circumstances in 2021.

Without access to supply of primary magnesium alloy imports into European customers from Qinghai, these businesses are at a disadvantage to competitors who can source primary alloys from China and have a similar global production and recycling footprint.

While our global magnesium alloys business awaits the re-start of the Qinghai project, we have undertaken several actions to improve profitability. These include the development of markets for specialist metals, production efficiencies at our existing recycling facilities and the development of new magnesium products for sale into parts of the supply chain that we have not previously explored.

Specialist metals, which includes both high performance magnesium alloys and grain refining alloys, have grown from a small profit contribution in 2019 to a much more substantial EBIT contribution in 2020 and 2021. This business is a platform for the development of other specialist metals products, and we are actively seeking to foster and acquire products that can extend our reach into these markets.

While some specialist metals are focussed on the automotive and power tool markets, others are targeted at the aerospace and niche high specification applications. In addition to providing diversification in a business that has hitherto been heavily dependent on the motor vehicle industry, specialist metals are generally a higher margin business, albeit requiring similar industrial skills.

Metals

continued

In our production facilities we have continued to invest in new processes and technologies designed to reduce the overall costs of production.

Our business in Bottrop celebrates 50 years of activity on that site in 2022 and includes among its employees a great depth of experience in the relatively niche industry of magnesium alloy melt management. Our development team, together with our regional partners, have been working on projects that will fundamentally change key parts of the liquid metal handling process.

Another key initiative has been to address the costs of waste disposal from the metal melting process.

Over many years the default position for producers of magnesium metal products has been to pay a waste company to remove and dispose of active waste material. Over the last three years we have developed a series of new processes that allow us to manage that material internally, accessing a new value chain and removing significant disposal costs.

All of these cost initiatives arrive at a critical time. In addition to challenging raw material and supply chain developments, our businesses in Europe are experiencing a sharp rise in energy prices. Between January and December 2021, energy costs per kWh rose by 120% at our German plant. We expect prices to fall again in the northern spring and summer and anticipate a more modest 10-20% average increase in FY2022 over FY2021.

Of course, this depends on circumstances well beyond the control of Magontec and in the realm of European geo-politics.

The outlook for 2022 depends to a large degree on the re-start at the QSLM facility at Golmud in Qinghai province. Our core recycling volumes in Europe have reduced over the last three years and are unlikely to recover without a more comprehensive global supply matrix. Growth in other higher margin products has allowed this business to continue to be profitable and over the coming period we will seek to expand into new areas and further diversify our revenues and earnings streams. As usual we will be able to rely on the ingenuity and hard work of our production and management teams who made such a strong contribution in 2021.

Environmental, Social and Governance (ESG)

While ESG reporting for Australia is not compulsory, the Magontec Board has continued to develop its compliance within the current voluntary standards.

In 2021 the Magontec Board and Committees have continued to build a system of ESG oversight that builds compliance at corporate and operational levels with environmental and governance regulations and rapidly changing social expectations. While ESG reporting for Australia is not compulsory, the Magontec Board has continued to develop its compliance within the current voluntary standards.

The Board operates three committees, each of which meet at least twice a year; the Finance and Audit Committee, chaired by Independent Director Atul Malhotra, the Remuneration and Nominations Committee chaired by Independent Director Robert Kaye and the Business Risk Committee chaired by the Executive Chairman Nicholas Andrews.

Each committee has responsibility for oversight of management actions and accountability across the Group's four operating facilities in China and Europe, and at Head Office in Australia. In addition to this granular oversight, broader trends within the individual businesses are reviewed at each Board meeting.

A Charter is established for each Committee and is available for shareholders to view on the company's website under the Investor Centre/ Corporate Governance tab.

The growing remit of each of these committees reflects risks associated with compliance regimes for the listed entity in Australia and for the operating subsidiaries in Europe, Asia and the USA. By actively managing identified risks the company seeks to reduce its financial exposure to costly remedial actions or ad hoc financial burdens imposed by regulatory authorities. The significant additional tasks associated with this growing administrative burden are managed within the existing resources of the Group.

Below, and in comments elsewhere in this report, we review some of the issues that arose for these committees in 2021 and discuss some of the strategies and actions that have been adopted.

Environmental, Social and Governance (ESG)

continued

1. ENVIRONMENT

Magontec has pursued a magnesium industry leading environmental strategy over the last 10 years that is expected to bear fruit in 2022 as the Qinghai Salt Lake Magnesium (QSLM) project comes back online.

The magnesium industry has an inherent environmental deficit as the vast majority (more than 85%) of its production base relies on off-gas from coal derivatives. The Pidgeon process magnesium plants (silica-thermic reduction) that produce pure magnesium in China, and the coal and ferro silicon industries that supply raw materials to those factories, are high CO_2 emission activities. As a magnesium alloy and magnesium anode manufacturer, Magontec currently buys pure magnesium from these Chinese producers for conversion into magnesium alloy ingots and magnesium anode rods.

As an intermediate manufacturing business (we buy and transform raw materials for supply to other industrial processes) Magontec has sought to address this negative environmental burden.

a. In 2014 the company embarked on a project in Qinghai province to produce low CO_2 emission magnesium alloys from an electrolytic plant powered by renewable energy. This project has suffered delays, as we describe elsewhere in this report, but is expected to come on-stream in 2022.

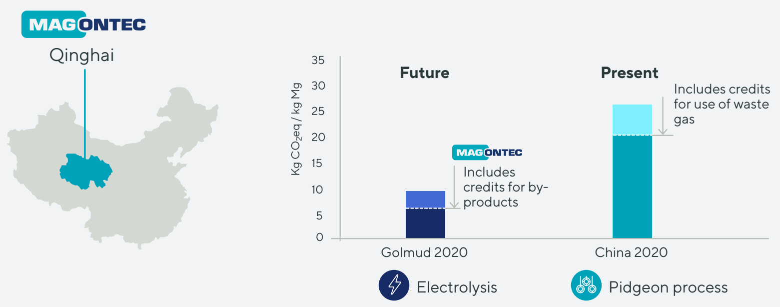
   Access to material from the Qinghai electrolytic plant will release Magontec from its reliance on high CO_2 emission Chinese Pidgeon process magnesium manufacturers and position the company as the world's leading low emission magnesium alloy producer.

   All current and projected magnesium production projects, within and outside of China, remain focussed on a form of silica-thermic reduction. Other than QSLM's Qinghai project, there are currently no other announced high-volume low emission projects anywhere in the world.

   Magnesium alloys produced from Magontec's Qinghai plant will use pure magnesium raw material made from the world's most environmentally advanced electrolytic magnesium plant. The chart below shows the CO_2 emissions per kilo of magnesium produced at QSLM's Qinghai plant compared with emissions from existing Chinese Pidgeon production plants.

   Magontec Qinghai emits CO_2 at less than 34% the level of its Chinese competitors *

Magontec Qinghai will use the lowest CO_2 Mg ever produced*



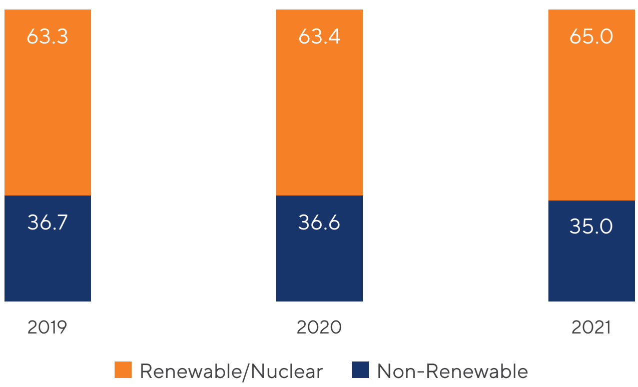
* German Aerospace Institute of Vehicle Concepts survey on CO_2 emissions from magnesium smelters around the World

b. Magontec's other manufacturing operations, at Santana in Romania, Bottrop in Germany and at Xi'an in China, also have significant non-carbon energy inputs and actively seek to grow the proportion of power sourced from renewable energy.

   In 2021 our European factories increased the proportion of energy from renewable resources; in Germany to 69% (59% in 2020) and in Romania to 72% (61% in 2020). In Qinghai 86% of total energy came from renewable resources, in line with 2020.

   In the European businesses, where we recycle magnesium alloy scrap and manufacture magnesium anodes, our plants use electrical power and not gas. This allows us to preference energy suppliers that source power from renewable technologies. The industry standard in Europe for other magnesium alloy recycling businesses remain firmly reliant on gas.

MAGONTEC ENERGY SUPPLY BY SOURCE



In Xi'an the energy supply remains carbon focussed and a strategic issue for the company to address in the years ahead. In 2021 only 12% of the energy used at the Xi'an factory was derived from renewable energy sources (13% in 2020).

Over the course of the last 2 years Magontec has embarked on other projects to improve the company's environmental footprint. Historically the melting and alloying processes involved in the manufacture of magnesium alloys and anodes have generated a variety of waste products. One project has focussed on wastes that have previously been sent to landfill at a considerable annual cost to the company. By investing in technologies and processes to manage these wastes, the company has reduced the volume of material sent to landfill by over 90%. Over the next few years, as Magontec further refines these processes, we are seeking to reduce that volume to zero.

Magontec's most salient environmental contribution is in its commitment to and focus on magnesium, the lightest structural metal. Magnesium is 2/3rds the weight of aluminium and 1/3rd the weight of steel. Unlike plastics and carbon fibre, it is also 100% recyclable. With a more robust supply chain and improved life cycle emission data, magnesium can become an increasingly attractive substitute for aluminium, iron, plastics and carbon fibre as the principal lightweight material for automotive and other applications.

Magnesium (Mg) alloys

Low density **Light and strong structural metal**

Aluminium	2.70g/cm³	Mg 36% lighter
Iron	7.87g/cm³	Mg 78% lighter
Magnesium	**1.74g/cm³**	

Unique properties | **Specific applications**

Stress resistance

Thermal conductivity

Corrosion

In 2022 Magontec expects to regain access to raw material supply from the Qinghai Salt Lake Magnesium (QSLM) electrolytic facility, a source of pure magnesium manufactured in a high-volume plant more than 86% powered by renewable energy. Bringing production from this plant to global markets, in partnership with QSLM, will provide Magontec's global customers in the automotive, power tool and electronics industry, an environmentally acceptable and lightweight alternative to traditional heavyweight grey metal manufacturing.

2. GOVERNANCE

In 2020 Magontec established a Business Risk Committee (BRC) to helps us build a more rigorous approach to the assessment of strategic and operational risks. The committee focuses on risks relating to business, trading and overall compliance with applicable laws, regulations, policies and procedures in each of the jurisdictions in which Magontec operates. 2021 was the first full year of operation for the BRC and some of the issues addressed by the committee are discussed below.

Membership of the BRC includes one Independent Director, one Non-Executive Director and the Executive Chairman. Other Independent and Non-Executive Directors are invited to attend.

This committee meets at least twice a year and reviews the company's risk settings through the prism of a Risk Register, a dynamic document that is continually updated and adjusted. The committee is a major conduit through which Director experience can assist executive management to anticipate, identify and manage risks inherent in the structure and nature of Magontec's diverse operational activities.

While all corporate and operational risks cannot be foreseen or fully accommodated in management or Board processes, the establishment of this committee has raised the profile of specific risks and focussed management attention on the introduction of remedial actions. In the time of COVID-19, cyber threats, environmental challenges and increasingly stringent regulatory oversight, this committee has been particularly active.

The BRC maintains a bi-annual oversight of environmental regulations that relate to each operating subsidiary and activity. The melting of magnesium and associated chemical processes, and material handling are governed by local and national regulatory authorities in each jurisdiction. A failure by management to appropriately observe these regulations could lead to financial and reputational loss. Through active oversight the company seeks to avoid these risks to the maximum extent possible.

Environmental, emission and workplace regulations change all the time and the BRC is charged with challenging management on the currency of certification and practices at each factory and for each operation at its bi-annual meetings and at Board meetings.

Wherever possible management has sought to reduce the Group's environmental impact and improve workplace and business practices to stay ahead of regulatory change and to ensure an optimal work environment.

An example is a change in the type of cover gas that we now use in China. The application of a cover gas is an essential process step for managing molten magnesium. It arrests the action of oxidisation and costly loss of metal in the molten state. In many magnesium alloy and diecasting factories around the world SF6 is still used as a cover gas despite its extreme GWP (Global Warming Potential). At Magontec we had moved away from SF6 to SO2, which has a much lower GWP, across our businesses over

Environmental, Social and Governance (ESG)

continued

15 years ago. Unfortunately, SO2 has other downsides including accelerated corrosion of equipment and an occasionally unpleasant atmosphere in the cast house environment. One of the legacies of the Australian magnesium project from the 1990's is the development of an alternative cover gas that is non-toxic, has considerably lower GWP than SF6, and provides an effective shielding environment for the management of molten magnesium. It is called HFC134a.

This cover gas has been in use at Magontec Qinghai for the last four years and in 2021, after much experimentation in the previous year, replaced SO2 at Magontec's Xi'an magnesium anode factory where magnesium anode rods are cast from hot metal furnaces.

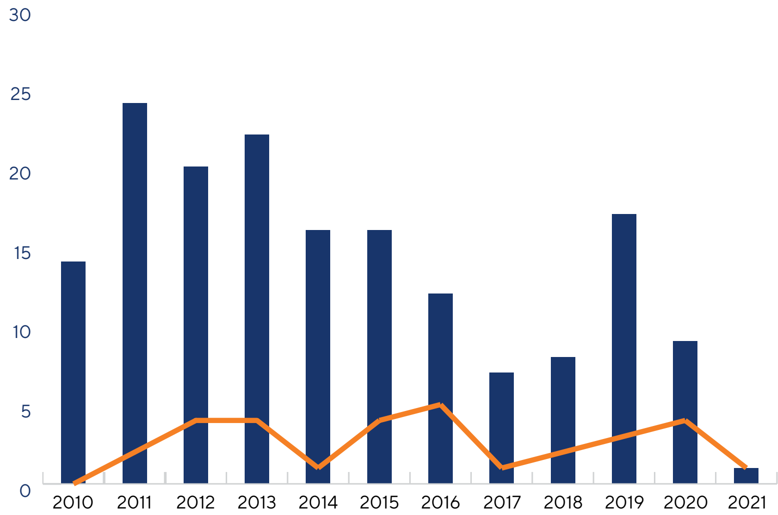
a. Safety

The Board and the BRC also review Magontec's safety records and risks. Magontec has adopted a rigorous system of workplace injury monitoring. All accidents, large and small are noted and reported. This system allows operations managers to closely oversight critical employee actions and habits, particularly in magnesium cast house operations where molten metal is stored, alloyed, or otherwise processed and transferred between one activity and another.

Sadly, over the years there have been accidents at Magontec factories. A task of management is to continually review and challenge the processes and structures in place that are designed to ensure that accidents are avoided wherever possible.

Workplace accidents not only threaten life-changing injuries for employees, they also risk a breach of workplace guidelines set down by regional regulatory authorities and raise the potential for other costs such as factory closure, third party investigation and legal liability.

In 2021 there was a single lost-time injury (LTI) sustained among 339 Magontec employees of whom 231 work in manufacturing operations and 108 in administrative and management roles. That employee was able to return to work the following day. Safety is a constant process of oversight and practice that our cast house managers and HSE staff, in Europe and China, review monthly.



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Accidents	14	24	20	22	16	16	12	7	8	17	9	1
Lost Time Injuries (RHS)	0	2	4	4	1	4	5	1	2	3	4	1

Total Accidents   Lost Time Injuries (RHS)

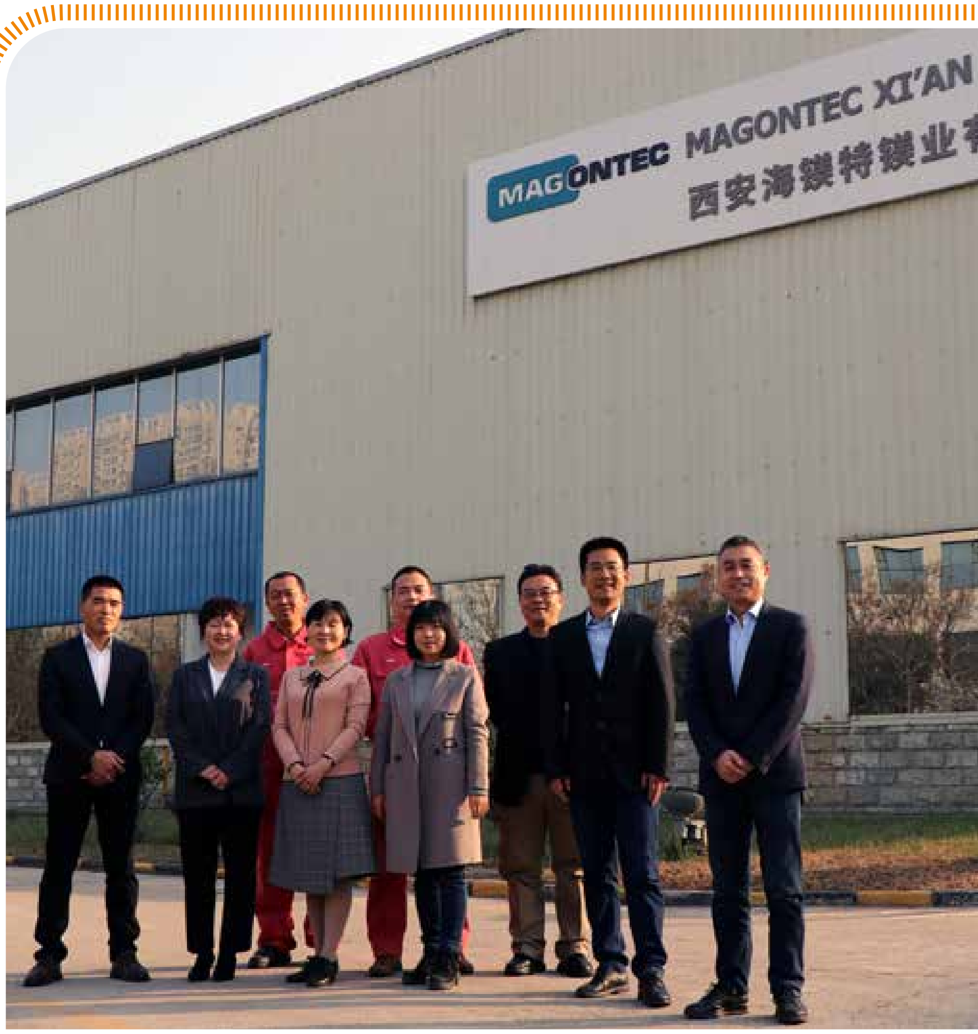
The chart above shows Total Accidents and the more serious Lost Time Injuries since 2010. The spike in Total Accidents in 2019 reflects the start-up of operations at the Magontec Qinghai facility where new employees were becoming familiar with the new primary magnesium alloy factory. In 2021 there were no injuries at Magontec's Qinghai cast house.

b. Cyber, Information Technology and Fraud

Magontec is subjected to daily phishing and other deceptive practice attacks through the Internet. This is a sadly common event for large and small corporations in every jurisdiction. The Group seeks to address these threats through the enforcement of IT and data usage protocols and practices, by maintaining and transmitting information via secure channels and by subjecting company systems to testing and review.

In 2021 our European and US subsidiaries were able to take out a cyber insurance policy offering protection against identity and reputation theft (blackmailing), bank account and credit card protection, protection of hardware and data, business interruption and compensation in liability cases and data protection incidents. These types of insurance policy are not as widely available in China.

The company engages internal resources and external agencies to oversight its IT architecture and data storage, employs sophisticated barriers to external access to Magontec systems and conducts dynamic monitoring of attacks.



Magontec acquires and sells large volumes of materials requiring substantial remittances between jurisdictions all over the World. The fraudulent interception and re-direction of remittances is a constant threat. Through the BRC and actions introduced by management, financial transfer processes including checks and layered authorisations have been established to ensure accurate and safe administration of transfers with built-in defaults designed to frustrate fraudulent activity. This risk review and management process is constantly evolving and consumes significant time and management resources. It also recognises that no system or process can guarantee security against committed and sophisticated criminals.

Across the Group and in every process the company has upgraded systems and sophistication to raise efficiency as well as security. Over the last few years, Magontec has transitioned from a relatively simple logistics management system to a comprehensive third party supplied and supported ERP (enterprise resource planning) infrastructure across all our operations in Europe, North America and China. Our ability to track inventories and logistics between Magontec, our customers and suppliers is on par with much larger organisations and represents a step-change in our ability to further grow and manage a complex matrix of products (there are over 950 different anode product codes alone in our systems) to a wide variety of customer groups.

c. Supply Chain

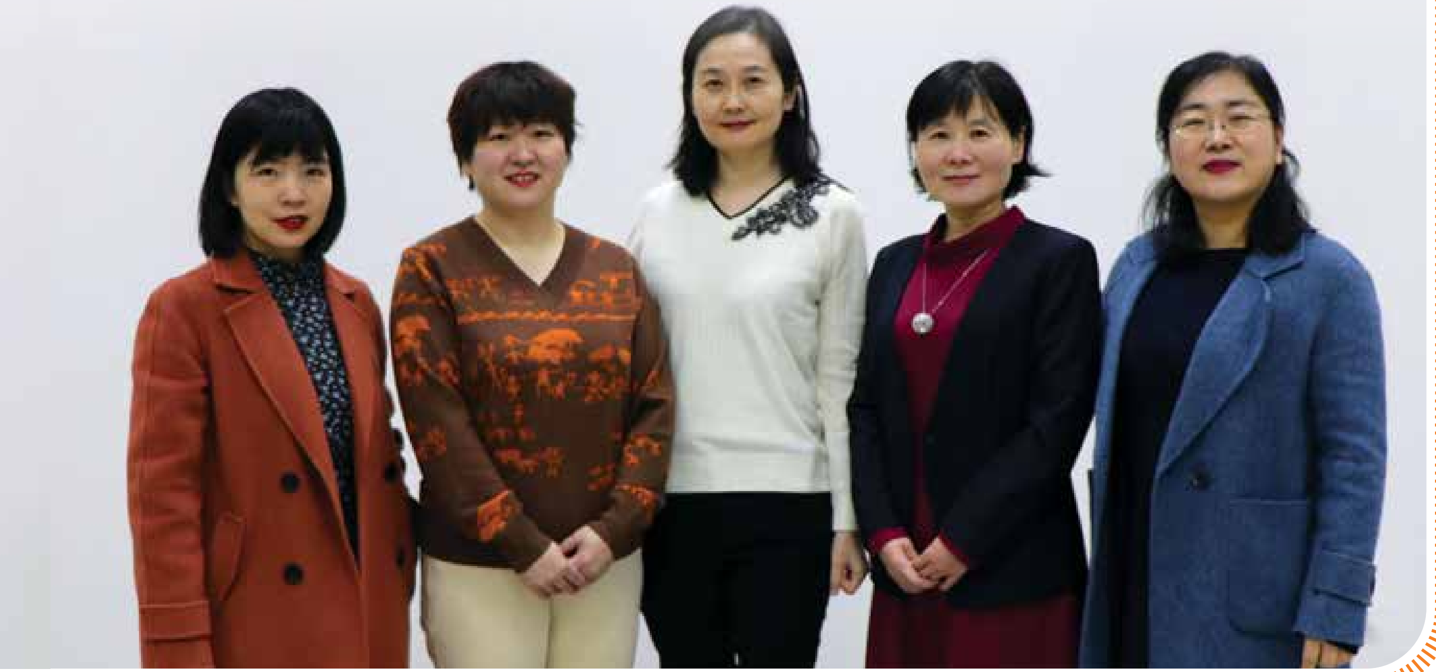
Magontec's supply chain matrix is particularly complex and considerable management time has been focussed on ensuring that we receive, and our customers receive, despatches in a timely manner. Supply chains in countries around the world have been put under extreme strain over the last 24 months, making the shift to a global ERP system particularly timely for Magontec.

Indeed, since the beginning of the COVID epidemic, industrial supply chains have been in crisis. In 2021 this became particularly acute in the magnesium industry as rising freight costs, reduced freight availability and extreme raw material price volatility combined to disrupt supply chains for magnesium metals, magnesium anodes and many of the components required in our manufacturing processes.

Our factories in China ship to Asia, the Americas and Europe while our European operations send materials to the USA and the Middle East as well as into European domestic markets. Our factories source components and materials from varied suppliers around the world.

Magontec's diverse operational structure was a great strength of our global operations in 2021. While it did not remove logistics risk, our status as a Chinese operating entity within the Chinese magnesium industry enhanced our ability to successfully source magnesium metal throughout the most difficult periods of the year and kept our European and Asian factories operating at higher levels than planned as European and US customers faced shortfalls from other suppliers. This applied equally to our magnesium alloy and magnesium anode activities.

Through 2022 and over the coming years the Group will seek to further strengthen its supply lines, adding production flexibility through investment in new plant and equipment in existing facilities and possibly new ones. For our customers this will reduce the risk of using Magontec as a supplier. For Magontec this will provide greater resilience in our manufacture and supply activities when tariff, logistics or other events interrupt the normal course of business.



L to R Hu Qi (HR Manager, Asia), Zheng Wen Jue (Logistics Manager, Asia), Su Wei Wei (Purchasing Manager, Asia), Jiang Li (Finance Manager, Asia), Wu Qi (Quality Assurance Manager, Asia)

3. SOCIAL

Alongside changes made to the company's operational activities, we have also focussed on improving risk management policies relating to personnel, in particular the important task of improving communications between employees and management.

Magontec has a strong record of staff retention, among its operations employees and in administrative and management roles. Our senior management team, the global executive management group and the leadership team in operations and sales, have an average tenure of 14.5 years. While this length of service endows the company with deep experience across our business activities, it also requires a focus on communication from factory and office staff to our long serving senior management team.

In 2021 the company introduced a Whistleblower policy so that employees can anonymously raise issues to an independent arbitrator (not an employee of the company) who can elevate concerns to an Independent Director. This is now part of an updated Code of Conduct that obliges all Magontec personnel, including the Board and executive management, to acknowledge and abide by a set of principles and ethical standards in their internal and external dealings. This document can be viewed on the Magontec website.

Through 2020 and 2021 the BRC also set up a process for reviewing all the Group's trading relationships in the context of regional, United Nations and other sanctions. Magontec trades with customers and suppliers in 23 different countries.

Through the BRC and management, policies have been introduced at regional levels so that the Group can more transparently manage its exposure to sanctioned regimes or companies and understand the associated regulatory risks.

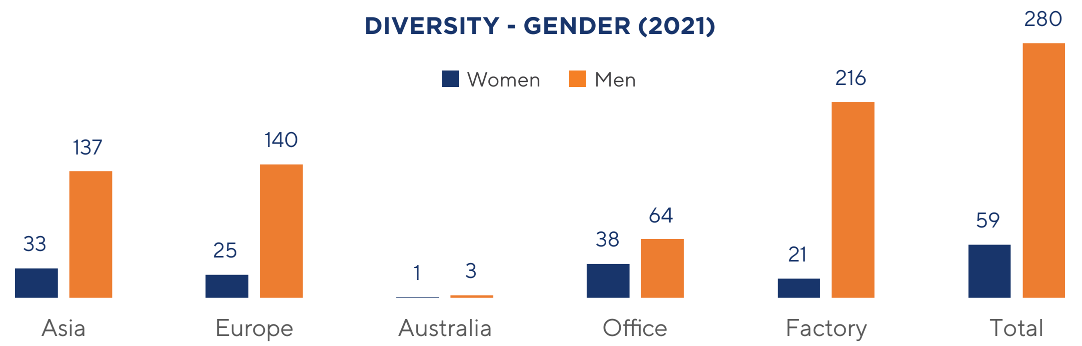
a. Diversity

Within the company's Code of Conduct we detail the manner in which we expect all employees to behave. The Code details how employees should be treated by the company, by management and by each other.

Across our organisation there is already a high level of ethnic diversity but a more modest level of gender diversity. Our published Code actively promotes equality, diversity and inclusion within the organisation for those of all ages, colours, race, ethnic or national origins, sexual orientation, marital and parental status, physical impairment, disability and religious beliefs.

In Europe we evaluate the specific function of a job based on established criteria and a scoring system. Fixed salary levels are assigned to a fixed range of points for 13 salary levels. Through this mechanism we seek to ensure that there is no difference in pay between employees based on gender or other perceived differences.

In China, recruitment, promotion, and salary levels are based on market benchmarks and an internal position ranking system designed to remove gender discrimination.



These processes are regularly reviewed and will incorporate changing industry standards and regulatory requirements in each of the regions in which Magontec operates.

The metals industry is orientated around a central function that requires the application of relatively heavy physical labour. The management of cast house processes including metal melting, the loading of metal scrap and ingots into furnaces has not hitherto attracted a diverse labour force.

In our CCP factories, there has been a growing level of gender diversity over many years in the manufacturing process at the Xi'an and Santana magnesium anode factories.

This is the first year that Magontec has provided more detailed data on this metric. In future editions of this report to shareholders, this important data series will be updated.

b. COVID-19

While the impact of COVID-19 on Magontec has hitherto been less severe than for many other businesses, there are ongoing effects, and the Group is required to deal with a 'new normal' that may continue for many years.

The most immediate effect is on workplace attendance, the flow-on effects for production, the supply of products to customers, procurement of materials for our manufacturing processes and the satisfaction of administrative and regulatory deadlines. In large part these have been manageable, particularly where they have been region-wide events.

In recent weeks our Chinese operation has been impacted by a complete lock-down in the Shaanxi provincial capital of Xi'an, where we manufacture magnesium anodes for sale to customers in China, Vietnam and the US, among other countries.

This type of lock-down is extremely difficult to manage. Our Chinese and international customer factories were all operating as normal while Magontec employees in Xi'an were unable to leave their homes or attend the workplace.

To the extent possible we arranged alternative supply for our major domestic Chinese customers while for international customers existing inventory in the supply chain and in warehouses in overseas locations provided some buffer. Some (hopefully temporary) loss of business is likely in China where the impact was most keenly felt.

Elsewhere within the Magontec Group the effect of lockdowns have not been so dramatic. In Romania and Germany our factories have been able to operate at all times through the last 24 months except when there were nation-wide lockdowns (in 2020) and all activity, Magontec and customer, had ceased in concert.

For our customers and for Magontec the effects of COVID-19 have not been limited to lockdowns. The economic impact of the pandemic has taken a toll on the global shipping industry. With fewer ships, available freight rates have risen by 200-300%.

The European and US magnesium alloy die-casting industries were particularly impacted by this event, which was compounded by the travails of the Chinese coal industry, a key supplier of energy to the magnesium production industry.

Magontec's operational locations in Europe and China managed their way through this difficult scenario in relatively good order. Our European magnesium alloy production units were able to source raw materials locally and through Magontec's Xi'an-based magnesium buyer. This led to supply opportunities in Europe and the US that increased volumes for our German and Romanian magnesium alloy factories.

For the CCP businesses the commercial impacts of COVID-19 were generally mild. As long as customer factories were in operation the demand for magnesium and electronic anodes remained constant. Our ability to maintain access to magnesium metal for conversion into magnesium anodes, made easier for Magontec through the co-location of alloy and anode factories in Europe, meant that our production lines were able to maintain and occasionally grow output in all markets.

For our employees in all jurisdictions, work conditions and attendance has, where practicable, been more relaxed through the COVID-19 period to ensure that life continues as close to normal as possible, when home schooling for children and quarantine for close contacts present such considerable challenges for families.

While each country in which Magontec operates has different responses and different regulations to manage the COVID-19 pandemic, the rate of vaccination has been high among our employees; a contributing factor in the maintenance of high levels of output across our manufacturing facilities.

Board of Directors

Nicholas Andrews
Executive Chairman

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 serves as the Executive Chairman of Magontec Limited. 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 investment management and 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 a Member of the Executive Committee and serves on the Board of the International Magnesium Association. Since 2017 he has also served as Honorary Treasurer of the IMA.

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 was a substantial shareholder of Magontec Limited to the extent of 12.94% as at 31 December 2021.

Mr Labuschagne is an experienced mining executive with a career spanning more than 30 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 25 May 2021)

Member of the Remuneration and Appointments Committee (REM)

Graduate of Wuhan University of Technology

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

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

XIE KANGMIN

Non-Executive Director (departed 28 October 2021)

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

Graduate of Chongqing University

Mr Xie is a Senior Engineer and holds a Bachelor of Engineering (Mining) degree from Chongqing University. Mr Xie was previously the President of Qinghai Salt Lake Industry Co., Ltd (QSLI), the former parent company of Qinghai Salt Lake Magnesium Limited (QSLM). Since 1984, Mr Xie held a number of roles within QSLI and its subsidiary companies.

Mr Xie was more recently the Chairman of Qinghai Huixin Asset Management, a state-owned enterprise which currently owns Qinghai Salt Lake Magnesium Limited (QSLM). Mr Xie served as the representative of QSLM on the Magontec Board of Directors prior to his departure on 28 October 2021.

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.

LI SHUN

Alternate Non-Executive Director (departed 28 October 2021)

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 served as the alternate director to Mr Xie Kangmin, prior to his departure on 28 October 2021.

Atul Malhotra
Independent Director

Robert Kaye SC
Independent Director

Executive Management

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

Tong Xunyou
President, Magontec Asia

Derryn Chin
Chief Financial Officer

Patrick Look
Vice President, Finance & HR

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 Group'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 Master's of Business Administration degree from Münster University.

TONG XUNYOU

President, Magontec Asia

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

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

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 Group'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 (SAIT/UniSA)

PhD (Monash)

Adjunct Professor, University of Queensland

Adjunct Professor, Swinburne University of Technology

Adjunct Professor, RMIT University

Adjunct Fellow, Monash University

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

Since 2000 he has developed strong industry-academia collaborations through the CAST Cooperative Research Centre and ARC Linkage grants. During the period 2000-2004 he held an academic position at Monash University where he led the magnesium applications activities within CAST. He then transferred to AMT / Magontec and continued the collaborative role from the industry side. In 2013 he established Abbottics Pty Ltd and consults in metallurgical fields, particularly magnesium, aluminium and scandium alloys.

John Talbot
Company Secretary

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

Prof Trevor Abbott
Director, Research and Development

Directors' Report

for the year ended 31 December 2021

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 2021 were authorised for issue in accordance with a resolution of the directors on 24 February 2022. 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 Xi'an (PRC) and Suzhou (PRC). 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 owned the Group's operations in Suzhou, PRC. Production ceased at this facility in 2016.	**MAS**
Major related shareholders		
Qinghai Salt Lake Magnesium Co. Ltd.	QSLM is a **28.72%** shareholder in MGL at the date of this report. QSLM is a subsidiary of Qinghai Huixin Asset Management (QHAM). QHAM is in turn owned by 3 Chinese state-owned enterprises. Its shareholders include the state of Haixi (a region of Qinghai province that includes Golmud) and two other Qinghai based investment entities.	**QSLM**
Straits Mine Management Pty Limited	The company from which MGL acquired the Magontec group of companies on 4 July 2011. SMM, a subsidiary of Aeris Resources Limited was a **12.94%** substantial shareholder of MGL as at 31 December 2021. 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 Zhong Jun, 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.

The Directors of Magontec Limited submit herewith the Annual Financial Report of the Group for the twelve-month period ended 31 December 2021. 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 Li Zhong Jun (Non-Executive Director)
- Mr Atul Malhotra (Independent Director)
- Mr Robert Kaye (Independent Director)
- Mr Andre Labuschagne (Non-Executive Director)
- Mr Xie Kang Min (Non-Executive Director) – departed 28 October 2021
- Mr Li Shun (Alternate Non-Executive Director to Mr Xie Kang Min) – departed 28 October 2021

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 and a Non-Executive Director of FAR Limited.
- Mr Andre Labuschagne is Executive Chairman of Aeris Resources Limited
- Mr Xie Kang Min was 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 (1)		REM Meetings (2)		BRC Meetings (3)	
Director	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Mr Nicholas Andrews	9	9					2	2
Mr Li Zhongjun	8	9			3	3		
Mr Atul Malhotra	8	9	2	2	3	3	2	2
Mr Robert Kaye	8	9			3	3		
Mr Andre Labuschagne	7	9	2	2			2	2
Mr Xie Kangmin	1	8	–	2				
Mr Li Shun*	1	8	1	2				

* Mr Li Shun served as the alternate director to Mr Xie Kang Min
(1) Finance, Audit & Compliance Committee
(2) Remuneration & Nominations 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	1,493,962	966,667
Mr Xie Kangmin	–	–
Mr Li Zhongjun	3,746,487	–
Mr Atul Malhotra	–	–
Mr Robert Kaye	102,565	–
Mr Andre Labuschagne	–	–
Mr Li Shun	–	–

The number of shares and performance rights presented in the table above have been adjusted to reflect the impact of the 15 for 1 share consolidation in August 2021.

REMUNERATION REPORT

The remuneration report for the year ended 31 December 2021 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 (excluding the Company Secretary) are deemed to be such individuals.

The remuneration report is presented under the following sections:

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

1. INDIVIDUAL KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES

Details of Directors and KMP are set out below. Their remuneration is detailed in the table on page 34.

(i) Directors during the year ended 31 December 2021

- Mr Nicholas Andrews (Executive Chairman)
- Mr Li Zhong Jun (Non-Executive Director)
- Mr Atul Malhotra (Independent Director)
- Mr Robert Kaye (Independent Director)
- Mr Andre Labuschagne (Non-Executive Director)
- Mr Xie Kang Min (Non-Executive Director) - departed 28 October 2021
- Mr Li Shun (Alternate Non-Executive Director to Mr Xie Kang Min) - departed 28 October 2021

(ii) Key Management Personnel (KMP) (Being the Executive Chairman and his Direct Reports excluding the Company Secretary) during the year ended 31 December 2021

- 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 was subsequently amended and approved by shareholders at the Group's AGM on 29 July 2020. This Plan is now known as the 2020 Shareholder Approved Plan. This forms the broad basis for the plans approved in subsequent periods.

3. BOARD OVERSIGHT OF REMUNERATION

Remuneration & Nominations Committee

The Remuneration & Nominations 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 periodically 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 & Nominations 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 & Nominations 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;
- In addition to base salary, remuneration for the Global Management Group comprises cash based short term incentives and equity based long term incentives in the form of performance rights.
- The implementation of these plans is utilised to:
  a. motivate members of the Global Management Group to originate innovate strategies for growth;
  b. reward the Global Management Group for the satisfaction of positive strategic and financial outcomes; and
  c. to provide an adjunct to cash remuneration to preserve cash resources.

Each member of the Global Management Group has a set of key performance indicators (KPIs) mutually agreed by the employee with the Regional CEO, Executive Chairman or 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 both STI and LTI 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 Nominations 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

Directors' Report

continued

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

Outcomes

During the year ended 31 December 2021:

- Regarding the STI scheme, there was no bonus paid to the Global Management Group as financial outcomes for the prior year ended 31 December 2020 were not achieved.
- With respect to the current year ended 31 December 2021, an STI provision of $275,000 has been made owing to the strong performance during the 12 month period under review.
- 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 2018-2020 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. The increase in 2021 remuneration outcomes over 2020 included the restoration of normal base salaries (which were reduced substantially in the prior year due to COVID) as well as some market rate adjustments.

Key Management Personnel Remuneration 12 months ended 31-Dec-21 and 31-Dec-20

		Non-Performance Related					Performance Related			
		Salary & Allowances $	Termination Payment $	Super & Statutory Pension Benefits $	Share based payments $	Motor Vehicle & Other Allowances $	Cash STI $	Non cash LTI shares* $	Non cash accrual LTI Rights** $	Total $
Mr N Andrews	**2021**	**459,994**	**–**	**26,250**	**–**	**–**	**66,534**	**–**	**56,402**	**609,180**
(Exec Chairman)	2020	387,498	–	25,000	–	–	–	–	(30,493)	382,005
Mr C Klein-Schmeink	**2021**	**340,395**	**–**	**27,561**	**–**	**31,775**	**54,539**	**–**	**47,603**	**501,873**
(President Magontec Europe)	2020	311,144	–	31,013	–	35,994	–	–	(24,521)	353,630
Mr X Tong	**2021**	**341,532**	**–**	**19,571**	**–**	**–**	**48,072**	**–**	**40,937**	**450,112**
(President Magontec Asia)	2020	327,548	–	10,486	–	–	–	–	(22,002)	316,032
Mr D Chin	**2021**	**254,998**	**–**	**24,675**	**–**	**–**	**37,940**	**–**	**31,566**	**349,179**
(Chief Financial Officer)	2020	210,832	–	20,029	–	–	–	–	(17,066)	213,795
Mr K Xie	**2021**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(Non Exec Dr)	2020	–	–	–	–	–	–	–	–	–
Mr Z Li	**2021**	**60,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**60,000**
(Non Exec Dr)	2020	47,500	–	–	–	–	–	–	–	47,500
Mr A Malhotra	**2021**	**59,756**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**59,756**
(Independent Dr)	2020	47,500	–	–	–	–	–	–	–	47,500
Mr R Kaye	**2021**	**60,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**60,000**
(Independent Dr)	2020	47,500	–	–	–	–	–	–	–	47,500
Mr A Labuschagne	**2021**	**60,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**60,000**
(Non Exec Dr)	2020	47,500	–	–	–	–	–	–	–	47,500
Mr S Li	**2021**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(Alternative Dr)	2020	–	–	–	–	–	–	–	–	–
Total year ended 31 December 2021		**1,636,675**	**–**	**98,057**	**–**	**31,775**	**207,085**	**–**	**176,508**	**2,150,100**
Total year ended 31 December 2020		**1,427,022**	**–**	**86,528**	**–**	**35,994**	**–**	**–**	**(94,082)**	**1,455,462**

* **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 accounting expense represents 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 prior year ended 31 December 2020, these values were negative due to a reduction in the assessed probability of non-market 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 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 performance rights. 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.

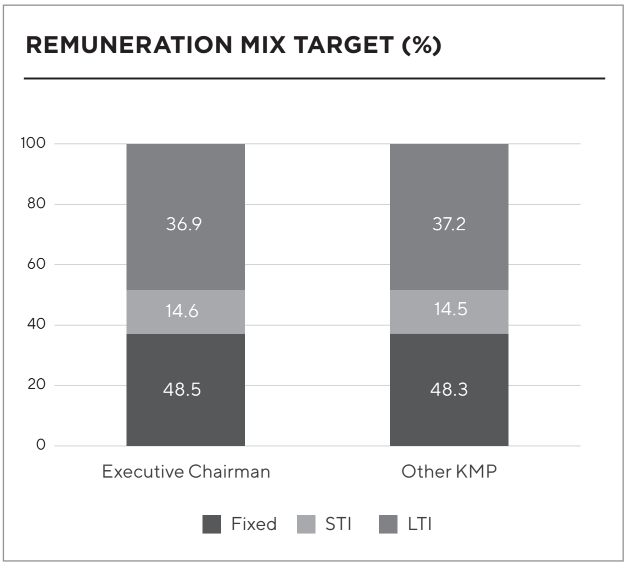
Remuneration for the Global Management Group comprises three components:

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.



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 periodically with the assistance of external consultants where deemed necessary.

Use of Remuneration Consultants

During the current year ended 31 December 2021, the Group engaged the services of independent remuneration consultants Mercer Consulting Australia Pty Ltd (Mercer). Mercer provided market benchmark remuneration data to the Group for which it was paid $7,000 excluding GST.

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 are as follows:

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

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

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 Nominations 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 Nominations Committee.

The resultant payments are subject to approval by the Board upon the recommendation of the Remuneration and Nominations 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 addition to non market based conditions as detailed below.

The plan uses absolute total shareholder return (TSR) as the basis for performance measurement of share price 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

2021-23 Plan

Commencing 1 January 2021, the number of shares to vest is calculated as follows according to a two Tier system:

1. **Tier 1 – Individual KPIs**

   Firstly, the number of performance rights (PRs) vesting into Ordinary Shares for each Participant is calculated as follows:

   Ordinary Shares to be Issued = #PRs x %KPI achievement x 30%

   where, #PRs = Number of Performance Rights

   % KPI = % of KPI achievement of Individual Executive (maximum 100%)

2. **Tier 2 – Group Level Share Price**

   Under Tier 2, further performance rights may vest upon achievement of the relevant absolute share price targets above (market based vesting conditions). However, the number of performance rights vesting under Tier 2 performance rights is only incremental to the entitlement from Tier 1.

2019-21 and 2020-22 Plans

For the prior 2019-21 and 2020-22 Plans, if the share price market based targets 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 below.

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,

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.

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

	Output Factor	Measure
1	Supply of liquid pure Mg by QSLM at a rate greater than 38,000 mtpa	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 the relevant period
4	Contribution to development of strategic initiatives	Subjective Board assessment of individual's input

During the year ended 31 December 2021, a total of 2,809,539 performance rights (or 42,143,016 prior to share consolidation) were issued with respect to the three-year period to 31 December 2023. No other options were issued to KMP during the current financial period.

Further details applicable to all LTI plans are as follows:

- The commencement date of the LTI plan is 1 January annually.
- 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 Nominations 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

From the 2021-23 Plan, at the commencement date of the relevant 3-year LTI performance period an eligible executive will receive Performance Rights –

i. equal in value to 50% of the eligible executive's gross salary at that date;
ii. equal in number to the value in i. divided by 75% of the greater of the market value of Magontec ordinary shares on the same date and the market value adopted under this provision at the commencement date of the immediately prior 3-year LTI performance period; and
iii. at nil consideration.

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

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

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

The calculation of these Performance Rights was included in 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 19 to 31 Dec 21	1 Jan 20 to 31 Dec 22	1 Jan 21 to 31 Dec 23
1. Aggregate salaries of eligible participants at commencement of 3 year LTI period	$1,896,795	$1,913,712	$1,896,436
2. Multiplication factor	30%	30%	50%
3. Value (1 x 2)	$569,039	$574,114	$948,218
4. Share price at commencement of 3 year LTI period assumed	$0.040	$0.040	$0.030
5. Performance Rights issued at commencement = Amount in step 2 / 75% * share price in step 3	18,967,955	19,137,124	42,143,016
6. Post gross up for possible dilution during the 3 year LTI period	18,967,955	19,137,124	42,143,016
7. Post adjustment for share consolidation - August 2021	1,264,529	1,275,809	2,809,539
Date of issue of Performance Rights	01-Jan-19	01-Jan-20	01-Jan-21
Date for conversion to ordinary shares	31-Dec-21	31-Dec-22	31-Dec-23

Performance Rights Issued to Global Management Group					
3 year LTI Performance Period	1 Jan 19 to 31 Dec 21	1 Jan 20 to 31 Dec 22	1 Jan 21 to 31 Dec 23	Total Rights	2021-23 Plan Fair Value $*
Nicholas Andrews	300,000	300,000	666,667	1,266,667	$189,024
Derryn Chin	167,900	167,900	373,112	708,912	$105,791
Christoph Klein-Schmeink	249,342	255,195	563,304	1,067,841	$159,717
Xunyou Tong	223,796	224,548	485,356	933,700	$137,616
John Talbot	83,333	83,333	185,186	351,852	$52,507
Patrick Look	142,402	146,317	322,972	611,691	$91,574
Zisheng Zhen	97,756	98,516	212,942	409,214	$60,377
Total Performance Rights	**1,264,529**	**1,275,809**	**2,809,539**	**5,349,877**	**$796,606**

The number of performance rights presented in the table above have been adjusted to reflect the impact of the 15 for 1 share consolidation in August 2021.

* Fair value represents the accounting value recorded in the income statement. However, the final actual value granted to the executive may not necessarily equal this amount as it is dependent on achieving the relevant market and non market based conditions set out in the LTI schemes.

Vesting of Performance Rights as Magontec Ordinary Shares

- If, at the end date of the 3-year LTI performance period, the Performance Rights have not lapsed or vested then, at that date, an individual eligible executive’s entitlement to –
  i. the number of Performance Rights will be adjusted for any dilution caused by capital restructures during the relevant 3-year LTI performance period; and
  ii. the adjusted number of Performance Rights will vest as Magontec ordinary shares according to the relevant paragraphs above.
- Performance Right share prices targets are assessed according to the 30-day VWAP to 31 December in the year of vesting.
- The percentage of Performance Rights that will vest as Magontec ordinary shares according to share price target Market Based Conditions are determined according to the following vesting % tables for the 2019-2021 Plan, the 2020-2022 Plan and the 2021-2023 Plan.

Directors' Report

continued

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

2019-2021 LTI Plan Vesting Schedule			
Performance Level		Share Price	% of Performance Rights vesting
Below threshold	Share price <	98.4	0%
Threshold range	Share price =	98.4	25%
Target range	Share price =	138.4	50%
Stretch	Share price >=	184.5	100%

2020-2022 LTI Plan Vesting Schedule			
Performance Level		Share Price	% of Performance Rights vesting
Below threshold	Share price <	98.4	0%
Threshold range	Share price =	98.4	25%
Target range	Share price =	138.4	50%
Stretch	Share price >=	184.5	100%

2021-2023 LTI Plan Vesting Schedule			
Performance Level		Share Price	% of Performance Rights vesting
Below threshold	Share price <	45.0	0%
Threshold range	Share price =	45.0	25%
Target range	Share price =	51.8	50%
Stretch	Share price >=	59.6	100%

- For example, in the 2019-2021 plan, if the share price had reached 98.4 cents per share (the Threshold Range), this would have given rise to 25% of the Performance Rights vesting into Magontec ordinary shares.
- Under the 2019-21 Plan, if the share price had increased above 98.4 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 184.5 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)

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

2021-23 Plan

As noted above, the Tier 1 Non Market Based Conditions are based on % of KPI achievement x 30%. The expense recorded assumes 100% KPI achievement and 100% of eligible members will be still eligible at the end of the 3-year period.

As the LTI payout under Tier 2 is only incremental to Tier 1, the valuation has thus been calculated as being the higher of:

a. the existing market-based binomial valuation model (Tier 2); or
b. the estimated payout that would be owing by satisfaction of the non-market based conditions (Tier 1)

2019-21 and 2020-22 Plans

For these plans, 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 estimated payout that would be owing by satisfaction of the non-market based conditions

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

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

a. 100% probability of attaining operational targets/KPIs 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

For the 2019-21 and 2020-22 Plans, due to the low likelihood of achieving 38,000mtpa production at Qinghai by the end of the relevant 3 year review periods, these probabilities were assessed as follows:

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

The table below outlines the assumptions used to determine the value of performance rights granted during the year ended 31 December 2021.

Table of assumptions

	Share price (cents)	Grant date	Contractual Life (years)	Dividend yield	Volatility	Risk free rate	Share price target (100% vesting) - cents	Fair value (100% probability) - cents	Vesting Probability (Non Market Conditions)
2019-21 Plan	36.0	24-Jan-19	2.94	0.0%	32.5%	0.77%	184.5	15.0	0.0%
2020-22 Plan	24.0	01-Jan-20	3.00	0.0%	34.7%	0.77%	184.5	15.0	0.0%
2021-23 Plan	45.0	01-Jan-21	3.00	0.0%	52.2%	0.11%	59.6	28.4	100.0%

Share prices and share price targets have been adjusted for the 15 to 1 share consolidation undertaken by the Group in August 2021

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

Loans to Members of Key Management Personnel

As at 31 December 2021, there was one employee loan outstanding to Mr Christoph Klein-Schmeink for a total of A$53,224 (2020: A$53,939).

The loan has no maturity date. Interest of 1.81% is attached to the loan. There were no other employee loans to key management personnel outstanding as at 31 December 2021.

Key Management Personnel Equity Holdings

Fully paid ordinary shares of Magontec Limited - 31 Dec 2021

	Total balance (held directly and indirectly) 01 Jan 21	Granted as remuneration	Adjustment for share consolidation	Acquired On Market or Under Share Purchase Plan	Total balance (held directly and indirectly) 31 Dec 21	Balance held nominally (indirectly)
	No.	No.	No.	No.	No.	No.
Mr Z Li (1)	56,197,298	–	(52,450,811)	–	3,746,487	3,719,820
Mr N Andrews (2)	22,409,414	–	(20,915,452)	–	1,493,962	1,129,858
Mr R Kaye (3)	1,538,461	–	(1,435,896)	–	102,565	102,565
Mr C Klein-Schmeink	6,911,442	–	(6,450,679)	–	460,763	–
Mr X Tong	9,882,973	–	(9,224,108)	–	658,865	–
Mr D Chin	1,384,615	–	(1,292,307)	–	92,308	–
	98,324,203	**–**	**(91,769,253)**	**–**	**6,554,950**	**4,952,243**

(1) 3,719,820 shares held via KWE (HK) Investment Development Co Limited and 26,667 shares are held directly
(2) 1,129,858 shares are held via DEWBERRI PTY LIMITED as trustee for Andrews Superannuation Fund and 364,104 are held directly
(3) 102,565 shares held indirectly through Bella Rebecca Kaye

Fully paid ordinary shares of Magontec Limited - 31 Dec 2020

	Total balance (held directly and indirectly) 01 Jan 20	Granted as remuneration	Adjustment for share consolidation	Acquired On Market or Under Share Purchase Plan	Total balance (held directly and indirectly) 31 Dec 20	Balance held nominally (indirectly)
	No.	No.	No.	No.	No.	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 held indirectly through Bella Rebecca Kaye

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.

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

During the reporting period ended 31 December 2021, 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 17 $	12 months to 31 Dec 18 $	12 months to 31 Dec 19 $	12 months to 31 Dec 20 $	12 months to 31 Dec 21 $
Profit attributable to shareholders	**(1,614,255)**	**776,068**	**(1,370,122)**	**(716,611)**	**5,007,963**
Less unrealised FX gains/ add unrealised FX losses	436,901	(295,573)	28,340	428,621	(582,182)
Add back non cash equity expense	190,585	78,412	134,656	(118,337)	237,426
Add back provision for STI payable	–	–	–	–	275,000
Add back provision for LTI payable	–	–	–	–	–
Profit excluding unrealised FX, STI and non cash share based payments	**(986,768)**	**558,907**	**(1,207,126)**	**(406,326)**	**4,938,207**
STI pool ($)	**–**	**–**	**–**	**–**	**275,000**
%	0.0%	0.0%	0.0%	0.0%	5.6%

With respect to the LTI scheme, the share price targets approved by shareholders for the 3-year assessment period ended 31 December 2021 were not achieved.

During the 3-year period ended 31 December 2021, the share price (adjusted for the share consolidation in 2021) of the Company increased from 30 cents per share as at 1 January 2019 to 45 cents per share at 31 December 2021 giving rise to an increase in the market capitalisation of Magontec Limited from $22.8 million to $34.5 million. After adjusting for new capital raised, dividends paid and return of capital (nil) during the 3-year assessment period, total shareholder wealth increased to an adjusted total of $34.2 million, representing an increase of $11.4 million during the LTI assessment period. However, as this fell short of the targets as outlined in the 2019-21 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 fair value at initial grant date. Subsequently, this can differ from the disclosures in the remuneration report table above due to changes in the assessed probability of achieving non market based targets or other adjustments as required by accounting standards. The 2021 LTI and 2020 LTI fair value at grant date awarded relates to the 2021-23 Plan and 2020-22 Plan respectively. With respect to the 2020 LTI, the probability of achieving non market vesting was reduced to 0% during the year to 31 December 2021 (previously 50%).

Summary of STI and LTI awarded to key management personnel	2020 STI awarded $	2020 LTI fair value awarded at grant date $	2021 STI awarded $	2021 LTI fair value awarded at grant date $
Current KMP executives				
Nicholas Andrews	–	45,000	66,534	189,024
Christoph Klein-Schmeink	–	38,279	54,539	159,717
Xunyou Tong	–	33,682	48,072	137,616
Derryn Chin	–	25,185	37,940	105,791
Total	**–**	**142,146**	**207,085**	**592,148**
Non Market Vesting Probability at initial grant date (%)		*100%*		*100%*

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

The following table details the number of LTI performance rights granted, lapsed or exercised during the year ended 31 December 2021, by plan participant and in aggregate.

Performance Rights Issued to Global Management Group

Name	Grant date	Holding at 01 Jan 21	Granted in 2021	Share Cons Adj 2021	Lapsed in 2021	Holding at 31 Dec 21	Vested at 31 Dec 21
Nicholas Andrews							
2019-21 Plan	24-Jan-19	4,500,000	–	(4,200,000)	(300,000)	–	–
2020-22 Plan	01-Jan-20	4,500,000	–	(4,200,000)	–	300,000	–
2021-23 Plan	01-Jan-21	–	10,000,000	(9,333,333)	–	666,667	–
Subtotal		**9,000,000**	**10,000,000**	**(17,733,333)**	**(300,000)**	**966,667**	**–**
Derryn Chin							
2019-21 Plan	24-Jan-19	2,518,500	–	(2,350,600)	(167,900)	–	–
2020-22 Plan	01-Jan-20	2,518,500	–	(2,350,600)	–	167,900	–
2021-23 Plan	01-Jan-21	–	5,596,667	(5,223,555)	–	373,112	–
Subtotal		**5,037,000**	**5,596,667**	**(9,924,755)**	**(167,900)**	**541,012**	**–**
Christoph Klein-Schmeink							
2019-21 Plan	24-Jan-19	3,740,129	–	(3,490,787)	(249,342)	–	–
2020-22 Plan	01-Jan-20	3,827,921	–	(3,572,726)	–	255,195	–
2021-23 Plan	01-Jan-21	–	8,449,552	(7,886,248)	–	563,304	–
Subtotal		**7,568,050**	**8,449,552**	**(14,949,761)**	**(249,342)**	**818,499**	**–**
Xunyou Tong							
2019-21 Plan	24-Jan-19	3,356,953	–	(3,133,157)	(223,796)	–	–
2020-22 Plan	01-Jan-20	3,368,210	–	(3,143,662)	–	224,548	–
2021-23 Plan	01-Jan-21	–	7,280,327	(6,794,971)	–	485,356	–
Subtotal		**6,725,163**	**7,280,327**	**(13,071,790)**	**(223,796)**	**709,904**	**–**

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

Performance Rights Issued to Global Management Group							
Name	Grant date	Holding at 01 Jan 21	Granted in 2021	Share Cons Adj 2021	Lapsed in 2021	Holding at 31 Dec 21	Vested at 31 Dec 21
John Talbot							
2019-21 Plan	24-Jan-19	1,250,000	–	(1,166,667)	(83,333)	–	–
2020-22 Plan	01-Jan-20	1,250,000	–	(1,166,667)	–	83,333	–
2021-23 Plan	01-Jan-21	–	2,777,778	(2,592,592)	–	185,186	–
Subtotal		**2,500,000**	**2,777,778**	**(4,925,926)**	**(83,333)**	**268,519**	**–**
Patrick Look							
2019-21 Plan	24-Jan-19	2,136,028	–	(1,993,626)	(142,402)	–	–
2020-22 Plan	01-Jan-20	2,194,750	–	(2,048,433)	–	146,317	–
2021-23 Plan	01-Jan-21	–	4,844,576	(4,521,604)	–	322,972	–
Subtotal		**4,330,778**	**4,844,576**	**(8,563,663)**	**(142,402)**	**469,289**	**–**
Zisheng Zhen							
2019-21 Plan	24-Jan-19	1,466,345	–	(1,368,589)	(97,756)	–	–
2020-22 Plan	01-Jan-20	1,477,743	–	(1,379,227)	–	98,516	–
2021-23 Plan	01-Jan-21	–	3,194,116	(2,981,174)	–	212,942	–
Subtotal		**2,944,088**	**3,194,116**	**(5,728,990)**	**(97,756)**	**311,458**	**–**
Aggregate							
2019-21 Plan	24-Jan-19	18,967,955	–	(17,703,426)	(1,264,529)	–	–
2020-22 Plan	01-Jan-20	19,137,124	–	(17,861,315)	–	1,275,809	–
2021-23 Plan	01-Jan-21	–	42,143,016	(39,333,477)	–	2,809,539	–
Total		**38,105,079**	**42,143,016**	**(74,898,218)**	**(1,264,529)**	**4,085,348**	**–**

7. EXECUTIVE CONTRACTUAL ARRANGEMENTS

Executive Contractual Arrangements						
Name	Position	2021 Remuneration	Contract Term	Contract Expiry	Notice Period For Termination	Payment in Lieu of Notice
Mr N Andrews	Executive Chairman	$609,180	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	$501,873	5 years	14-Aug-22	Employer initiated - 12 mths Employee initiated - 12 mths	12 months' pay
Mr X Tong	President Magontec Asia	$450,112	No fixed term or expiry		Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay
Mr D Chin	Chief Financial Officer	$349,179	3 years	30-Jun-23	Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay

7. EXECUTIVE CONTRACTUAL ARRANGEMENTS (CONTINUED)

Total 2021 Remuneration for the reporting period ended 31 December 2021 differs from current contractual arrangements due to salary adjustments made partway through the period as well as movements associated with the STI and LTI schemes.

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

- Mr Andrews' fixed contractual cash remuneration at 31 December 2021 is $522,500
- Mr Klein-Schmeink's fixed contractual cash remuneration at 31 December 2021 is $422,169.
- Mr Tong's fixed contractual cash remuneration at 31 December 2021 is $371,162.
- Mr Chin's fixed contractual cash remuneration at 31 December 2021 is $307,500.

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 $10,860.

Auditor's Independence Declaration

The Auditor's Independence Declaration is included on page 46 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 24 February 2022 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 2021 there have been:

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

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

Camphin Boston
Chartered Accountants

Justin Woods
Lead Audit Partner

Sydney

Dated this 24th day of February 2022.

Camphin Boston
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Russell Bedford
taking you further

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Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Statement of Profit & Loss and Other Comprehensive Income

for the year ended 31 December 2021

	Note	12 months to 31 Dec 2021 $'000	12 months to 31 Dec 2020 $'000
Sale of goods	2(a)	115,151	95,068
Cost of sales	2(b)	(95,919)	(82,872)
Gross profit		**19,232**	**12,195**
Other income	2(c)	1,747	1,244
Interest expense		(525)	(572)
Impairment of inventory, receivables & other financial assets	2(d)	4	(37)
Travel accommodation and meals		(209)	(278)
Research, development, licensing and patent costs		(880)	(516)
Promotional activity		(65)	(64)
Information technology		(443)	(320)
Personnel		(7,934)	(7,174)
Depreciation & amortisation		(642)	(715)
Office expenses		(640)	(402)
Corporate		(3,114)	(2,554)
Foreign exchange gain/(loss)		198	(1,022)
Profit/(Loss) before income tax expense/benefit from continuing operations		**6,730**	**(214)**
Income tax (expense)/benefit	3(a)	(1,722)	(502)
Profit/(Loss) after income tax expense/benefit from continuing operations		**5,008**	**(717)**
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement			
Exchange differences taken to reserves in equity – translation of overseas entities	17	1,203	(688)
Other Comprehensive Income - that will not emerge in the Profit and Loss Statement			
Movement in various actuarial assessments	17	933	(634)
Total Comprehensive Income		**7,144**	**(2,039)**

	Note	12 months to 31 Dec 2021 cents per share	12 months to 31 Dec 2020 cents per share
Profit/(Loss) after income tax expense for the year			
Members of the parent entity - Basic (cents per share)	19	6.5	(0.9)
Members of the parent entity - Diluted (cents per share)	19	6.3	(0.9)

Earnings per share numbers have been adjusted to capture the impact of the 15 for 1 share consolidation conducted in August 2021.

Consolidated Balance Sheet

as at 31 December 2021

	Note	31 Dec 2021 $'000	31 Dec 2020 $'000
Current assets			
Cash and cash equivalents	25(d)	4,636	4,958
Trade & other receivables	6	21,317	22,369
Inventory	7	23,689	21,690
Other	8	8,840	198
Total current assets		**58,482**	**49,215**
Non-current assets			
Other receivables	9	316	367
Property, plant & equipment	10	17,753	19,069
Deferred tax asset	3(c)	2,720	2,933
Intangibles	11	3,241	3,445
Total non-current assets		**24,030**	**25,813**
TOTAL ASSETS		**82,512**	**75,028**
Current liabilities			
Trade & other payables	12	17,570	12,539
Bank borrowings	13	7,309	10,460
Provisions	14	3,491	1,700
Total current liabilities		**28,370**	**24,699**
Non-current liabilities			
Other payables		255	286
Bank borrowings	13	4,217	6,179
Provisions	15	13,395	14,970
Total non-current liabilities		**17,867**	**21,436**
TOTAL LIABILITIES		**46,237**	**46,134**
NET ASSETS		**36,275**	**28,893**
Equity attributable to members of MGL			
Share capital	16	58,918	58,918
Reserves	17	5,153	2,780
Accumulated (losses)/profits	18	(27,796)	(32,804)
Total equity		**36,275**	**28,893**

Consolidated Statement of Changes in Equity

for the year ended 31 December 2021

	Share Capital		Foreign Currency				Employee Share	
	Ordinary	Retained Earnings	Translation Reserve	Capital Reserve	Actuarial Reserve	Expired Options Reserve	Issue Reserve	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
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)
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**
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	–	5,008	–	–	–	–	–	5,008
Comprehensive income	–	–	1,203	–	933	–	–	2,137
Issue of shares (net)	–	–	–	–	–	–	237	237
Balance 31-Dec-21	**58,918**	**(27,796)**	**3,766**	**2,750**	**(3,373)**	**1,637**	**373**	**36,275**

Consolidated Cash Flow Statement

for the year ended 31 December 2021

	Note	12 months to 31 Dec 2021 $'000	12 months to 31 Dec 2020 $'000
Cash flows from operating activities			
Profit before taxation		**6,730**	**(214)**
Adjustments for:			
– Non-cash equity expense		237	(118)
– Depreciation & amortisation		2,823	3,115
– Foreign currency effects		(582)	429
– Other non-cash items		1,249	705
Cash generated from/(utilised in) underlying operating activities		**10,457**	**3,916**
Movement in working capital balance sheet accounts			
– Trade and other receivables		(6,324)	6,807
– Inventory		(1,810)	2,831
– Trade and other payables		4,514	(8,032)
– Other		–	(184)
Cash generated from/(utilised in) underlying operational cash flow and net working capital assets		**6,837**	**5,339**
– Net Interest paid		(492)	(575)
– Income tax paid		(522)	(223)
Cash generated from/(utilised in) other operating activities		**5,823**	**4,540**
Cash flows from investing activities			
Net cash out on purchase/disposal of property, plant & equipment		(878)	(640)
Group information technology software		(9)	(44)
Security deposits		(4)	(51)
Other*		46	(20)
Net cash provided by / (used in) investing activities		**(844)**	**(756)**
Cash flows from financing activities			
Proceeds from borrowings		16,905	13,434
Repayment of borrowings		(22,214)	(16,225)
Net capital raised from issue of securities		–	11
Cashflow from leasing activities*		(353)	(352)
Net cash provided by financing activities	2(e)	**(5,661)**	**(3,133)**
Net increase / (decrease) in cash and cash equivalents		**(682)**	**652**
Foreign exchange effects on total cash flow movement		**360**	**4**
Cash and cash equivalents at the beginning of the reporting period	25(d)	**4,958**	**4,303**
Cash and cash equivalents at the end of the reporting period	25(d)	**4,636**	**4,958**

* For the year to 31 December 2020, the amount of $0.338m 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

for the year ended 31 December 2021

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 24 February 2022. 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 2021.

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 during the period.

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.

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.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Foreign Operations

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

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

f. Goods and Services Tax and Value Added Tax

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

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

g. Impairment of Assets

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

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

h. Income Tax

Current Tax

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

Deferred Tax

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

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

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period 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.

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

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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 on a straight line basis.

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.

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.

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

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.

Notes to the Financial Statements

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1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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;
- valuation 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 21 $'000	12 months to 31 Dec 20 $'000
(a) Sales Revenue:		
Metal	72,123	63,656
Anodes - Cathodic Corrosion Protection	43,028	31,412
	115,151	**95,068**
(b) Cost of Sales:		
Metal	(66,534)	(59,662)
Anodes - Cathodic Corrosion Protection	(29,385)	(23,210)
	(95,919)	**(82,872)**
(c) Other Income in Comprehensive Income Statement		
Interest revenue	35	50
Government grants	716	417
Government grants COVID related	–	669
Compensation from resolution of MAR VAT issue	468	–
Write back of provisions and other adjustments	239	71
Compensation received including insurance	248	–
Other	41	36
	1,747	**1,244**

Notes to the Financial Statements

continued

2. RESULTS FROM OPERATIONS (CONTINUED)

	12 months to 31 Dec 21 $'000	12 months to 31 Dec 20 $'000
(d) Significant expenses in Comprehensive Income Statement (not detailed elsewhere)		
Personnel Costs		
Consultancies	(190)	(323)
Share based payments	(237)	118
Defined contribution payments recognised as an expense	(1,070)	(782)
Other staff payments	(6,437)	(6,188)
Total personnel costs	**(7,934)**	**(7,174)**
Director fees	(240)	(190)
Asset impairment expense		
Trade debtors writedown expense	4	(37)
Total asset impairment expense	**4**	**(37)**

	31 Dec 2020 $'000	Cash Flows $'000	Non cash incl FX $'000	31 Dec 2021 $'000
(e) Financing cash flows reconciliation				
Bank Borrowings	16,639	(5,308)	195	11,526
Lease liabilities	522	(353)	326	496
Total liabilities from financing activities	**17,162**	**(5,661)**	**521**	**12,021**

(f) Share-Based Payments

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) and 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.

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 2021 $'000	31 Dec 2020 $'000
(Expense)/Writeback recognised from equity-settled share-based payments	(237)	118
Total (Expense)/Writeback - share-based payments	**(237)**	**118**

Notes to the Financial Statements

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3. INCOME TAXES

	12 months to 31 Dec 21 $'000	12 months to 31 Dec 20 $'000
(a) Income tax recognised in profit and loss		
Tax expense comprises:		
Current tax expense	(2,008)	(851)
Deferred tax expense		
Utilisation/(write down) of tax losses	(966)	(526)
Change in recognised deductible temporary differences	1,253	875
Subtotal deferred tax expense	287	348
Total tax expense	**(1,722)**	**(502)**
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 before tax	**6,730**	**(214)**
Nominal Income tax benefit/(expense) calculated at 30%	(2,019)	64
Nominal tax benefit (expense) effected by:		
Adjusted for effect of tax rates in foreign jurisdictions	382	(56)
Tax effect - P & L items not assessable or deductible for tax purposes.	(335)	(670)
Adjustments - changes in deductible temporary differences, tax losses	250	160
Actual tax benefit/(expense)	**(1,722)**	**(502)**

	12 months to 31 Dec 21 $	12 months to 31 Dec 20 $
(b) Income tax amounts recognised in OCI		
Revaluation of defined benefit pension plan	1,392	(946)
Tax effect (expense)/benefit through OCI	**(460)**	**312**

	31 Dec 2021 $'000	31 Dec 2020 $'000
(c) Future Income tax benefit		
Current	–	–
Non–Current		
Timing differences	2,660	2,714
Carry forward tax losses	60	219
Total	**2,720**	**2,933**

Note: The Group has revenue losses in its PRC entity which have given rise to a deferred tax asset as at 31 December 2021. 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 both the current and prior year due to the potential expiration of this limit before they can be fully utilised.

Notes to the Financial Statements

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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 2021 $'000	31 Dec 2020 $'000
(d) Unrecognised deferred tax balances		
The following deferred tax assets have not been brought to account as assets:		
Australian Tax Consolidated Group		
Deferred Tax Asset (DTA) on pre-tax consolidation revenue losses	81,581	81,581
DTA on post-tax consolidation revenue losses*	37,953	38,432
DTA on capital losses	29,019	29,019
Sub Total Australian Tax Consolidated Group	**148,553**	**149,032**
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	126,511	128,106
Aust consolidated group Tax losses – capital	96,732	96,732
Consolidated Group Total	**495,179**	**496,774**

* The 31 December 2020 numbers were updated subsequent to the release of the 2020 Annual Report following the finalisation of the Tax Return for the Australian Tax Consolidated Group.

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 $126.5 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 2021.

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

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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 2021 subject to further testing and continued compliance with loss integrity rules. No detailed Available Fraction calculations have been performed as at 31 December 2021, 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 2021 and neither is any assessment expected to be received which will result in a tax liability for the period to 31 December 2021. Accordingly, there are no franking credits available for distribution in the year ended 31 December 2021.

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 21 $'000	12 months to 31 Dec 20 $'000
Short term employee benefits	1,844	1,427
Termination benefits	–	–
Post-employment benefits	98	87
Motor vehicle	32	36
Equity based payment	177	(94)
Total Remuneration KMP	**2,150**	**1,455**

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.

5. REMUNERATION OF AUDITORS

	12 months to 31 Dec 21 $'000	12 months to 31 Dec 20 $'000
Group auditor		
– Audit or review of the financial report	98	102
– Accounting/taxation services	11	7
Auditors of subsidiaries		
– Audit or review of the financial reports	92	100
– Accounting/taxation services	23	22
	224	**232**

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 2021 $'000	31 Dec 2020 $'000
Trade receivables[1]	18,747	15,126
Allowance for doubtful debts	(306)	(313)
	18,441	**14,813**
Net GST/VAT recoverable	666	1,432
Security deposits	141	131
Notes and other receivables due to operating entities	2,069	5,992
	2,875	**7,555**
Total receivables	**21,317**	**22,369**

(1) Trade receivables represent 59.4 days sales at 31 Dec 21 (58.2 days sales at 31 Dec 20)

7. CURRENT INVENTORIES

	31 Dec 2021 $'000	31 Dec 2020 $'000
Inventory of finished alloy at cost	10,387	9,693
Provision for Inventory loss	(543)	(301)
Net value of finished goods inventory	9,844	9,391
Raw materials	8,105	9,353
Work in progress	5,740	2,946
Current inventories at net realisable value	**23,689**	**21,690**

8. OTHER CURRENT ASSETS

	31 Dec 2021 $'000	31 Dec 2020 $'000
Other prepayments	8,840	198
	8,840	**198**

9. NON CURRENT TRADE AND OTHER RECEIVABLES

	31 Dec 2021 $'000	31 Dec 2020 $'000
Pension asset	314	365
Security deposits and prepayments	2	2
	316	**367**

Notes to the Financial Statements

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10. PROPERTY PLANT & EQUIPMENT

	Capital WIP $'000	Land & Buildings $'000	Plant & Equipment $'000	Total $'000
Gross carrying amount				
Balance at 1 January 2020*	**604**	**19,283**	**38,585**	**58,471**
Additions	–	300	354	653
Adjustments, reclassifications, right of use additions	(38)	24	122	108
Disposals and write offs	–	–	(1,130)	(1,130)
Net foreign currency exchange differences	(16)	(344)	(689)	(1,048)
Balance at 31 December 2020	**550**	**19,262**	**37,242**	**57,054**
Additions	67	9	802	878
Adjustments, reclassifications, right of use additions	(16)	16	326	326
Disposals	–	(14)	(1,057)	(1,071)
Net foreign currency exchange differences	50	(19)	1,182	1,212
Balance at 31 December 2021	**651**	**19,254**	**38,495**	**58,399**
Accumulated depreciation/ amortisation and impairment				
Balance at 1 January 2020	–	**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**
Disposals and write offs	–	–	(631)	(631)
Adjustments and reclassifications	–	–	2	2
Depreciation expense	–	617	1,999	2,616
Net foreign currency exchange differences	–	38	636	673
Balance at 31 December 2021	**–**	**11,950**	**28,696**	**40,646**
Net Book Value As at 31 Dec 20	**550**	**7,967**	**10,552**	**19,069**
Net Book Value As at 31 Dec 21	**651**	**7,305**	**9,798**	**17,753**

* The gross balance of $1.9m and $1.8m was updated from Capital WIP to Plant & Equipment as at 31 December 2019 and 31 December 2020 respectively, along with associated FX impacts. No change to overall net carrying value of Property, Plant & Equipment.

During the year to 31 December 2021, indicators of impairment were present at the Magontec China Metals Segment due to the lack of supply from QSLM and associated losses with using more expensive outsourced pure Magnesium. Therefore the value of the plant and equipment located at Qinghai was tested for impairment at balance date.

The value in use of the Magontec China Metals Segment was calculated using appropriate forward projections and assumed a discount rate of 9.0% and a terminal decline rate of -4.6%. As the value in use was higher than the carrying value, no impairment loss was deemed necessary as at 31 December 2021.

Notes to the Financial Statements

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11. INTANGIBLES

	Indefinite Life [1] $'000	Finite Life $'000	Total $'000
Gross carrying amount			
Balance at 31-Dec-20	**2,800**	**2,438**	**5,238**
Net foreign currency exchange differences	–	(34)	(34)
Additions	–	9	9
Balance at 31-Dec-21	**2,800**	**2,413**	**5,213**
Accumulated depreciation/amortisation and impairment			
Balance at 31-Dec-20	**–**	**1,794**	**1,794**
Depreciation/amortisation expense	–	207	207
Net foreign currency exchange differences	–	(28)	(28)
Balance at 31-Dec-21	**–**	**1,973**	**1,973**
Net Book Value As at 31 Dec 20	**2,800**	**645**	**3,445**
Net Book Value As at 31 Dec 21	**2,800**	**441**	**3,241**

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

The indefinite life intangible assets comprise the patents over the "AE" alloys and the "Correx" anode system. Both products enjoy technical superiority over possible alternatives and continue to earn high margins. In testing this asset for impairment, an average discount rate of 5.8% (2020:6.6%) 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 13.0% 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 2021 $'000	31 Dec 2020 $'000
Trade creditors [1]	13,740	10,187
Other creditors and accruals	3,829	2,352
	17,570	**12,539**

(1) Trade creditors represent 52.3 days cost of goods sold at 31 Dec 21 (45.0 days cost of goods sold at 31 Dec 20).

13. BORROWINGS

	Notes	31 Dec 2021 $'000	31 Dec 2021 Maturity Date	31 Dec 2021 Interest pa	31 Dec 2020 $'000	31 Dec 2020 Maturity Date	31 Dec 2020 Interest pa
Bank & Institutional Borrowings							
Magontec GmbH (Bank Loan) (1)	25(i)	2,651	30–Nov–23	1.55%	4,593	30–Nov–23	1.55%
Magontec GmbH (Bank Loan) (1)	25(i)	–	31–Dec–21	2.55%	2,380	31–Dec–21	2.55%
Magontec GmbH (Bank Loan) (1)	25(i)	1,565	31–Dec–23	1.85%	1,586	31–Dec–25	1.85%
Magontec GmbH (Factoring Facility) (3)		1,947	31–Dec–21	0.95%	1,287	31–Dec–21	0.95%
Magontec SRL (Working Capital Facility) (2)		1,896	28–Feb–22	4.49%	4,106	Open	4.01%
Magontec Xi'an Limited (Bank Loan)		5,413	16–Jul–22	3.90%	3,974	09–Jul–21	3.80%
Total Bank Borrowings		**13,473**			**17,926**		
Current Borrowings							
Bank borrowings as above (excluding factoring facility)		7,309	Various		10,460	Various	
Total Current Borrowings		**7,309**			**10,460**		
Non-Current Borrowings							
Bank borrowings as above		4,217		–	6,179		
Total Non-Current borrowings		**4,217**			**6,179**		

(1) These borrowings are secured by a charge over MAB's trade debtors to the extent of €1,195,000 ($1,871,000) and inventory of €2,492,000 ($3,901,000) plus land & buildings.

(2) These borrowings are secured by a charge over MAR's trade debtors and inventory to the extent of RON 18,237,000 ($5,768,000) plus land & buildings.

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

Subsequent to 31 December 2021, the Group has:

1. Received an offer to extend the Magontec SRL (Romania) Working Capital Facility from Unicredit SA for the amount of RON 15.0 million (A$ 4.7 million) to 28 February 2023
2. Received an offer from Commerzbank for a new Factoring facility to Magontec GmbH to the extent of EUR 3 million (A$4.7 million) to 28 February 2025 to replace the Factoring Facility above from Postbank which expired on 31 December 2021.

Formal documentation for both facilities is being reviewed and is expected to be signed within the coming weeks.

Notes to the Financial Statements

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14. CURRENT PROVISIONS

	Note	31 Dec 2021 $'000	31 Dec 2020 $'000
Provision for annual & long service leave and employee costs		581	429
Provision for income tax payable		2,171	609
Other current provisions		739	662
Totals		**3,491**	**1,700**

15. NON-CURRENT PROVISIONS

	31 Dec 2021 $'000	31 Dec 2020 $'000
Provision for defined benefit pension obligation	13,111	14,714
Other provisions	285	257
Totals	**13,395**	**14,970**

Reconciliation of the defined benefit pension obligation

	Year Ended 31 Dec 21 $'000	Year Ended 31 Dec 20 $'000
Defined benefit obligation beginning of year	**14,714**	**13,842**
Current service cost	250	242
Interest cost	107	142
Total benefits paid - actual	(372)	(366)
Foreign currency exchange rate changes	(196)	(93)
Actuarial (gains)/ losses due to change of assumptions	(1,393)	946
Defined benefit obligation end of year	**13,111**	**14,714**

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

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

The defined benefit plan is an unfunded plan which has been provided to certain employees in the European business. Increasing interest rates will act to decrease the Provision. The converse is also true. In the context of falling interest rates in Europe (where the beneficiaries of this pension plan are domiciled) there has been upward pressure on the Provision over the last few years despite the increase in the current period. 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 21 $'000	Year Ended 31 Dec 20 $'000
Discount rate	1.30%	0.75%
Expected salary increase per annum	2.75%	2.75%
Expected pension increase per annum	1.75%	1.75%

Notes to the Financial Statements

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15. NON-CURRENT PROVISIONS (CONTINUED)

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

	% chg	Year Ended 31 Dec 21 $'000	Year Ended 31 Dec 20 $'000
Discount rate (%)	+0.5%	(1,135)	(1,364)
	(0.5)%	1,310	1,586
Salary increase (%)	+0.5%	59	74
	(0.5)%	(56)	(70)
Pension increase (%)	+0.5%	949	1,125
	(0.5)%	(859)	(1,015)
Life expectancy (years)	+ 1 year	705	831

16. SHARE CAPITAL

	31 Dec 2021 $'000	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)
Share capital on issued ordinary shares 76,729,210 (2020: 1,150,924,806)	**58,918**	**58,918**

A reconciliation of the movement in fully paid ordinary shares during the period is set out below.

	CONSOLIDATED / PARENT ENTITY			
	31 Dec 2021 No.	$'000	31 Dec 2020 No.	$'000
Fully paid ordinary shares				
Balance at beginning of financial year	1,150,924,806	58,918	1,140,073,483	58,907
Share consolidation	(1,074,195,596)	–	–	–
Private Placement	–	–	23,076,914	300
Small parcel share buyback	–	–	(12,225,591)	(183)
Expenses of various issues	–	–	–	(106)
	76,729,210	**58,918**	**1,150,924,806**	**58,918**

During the year to 31 December 2021, the Group undertook a 15 for 1 share consolidation.

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

Performance rights

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 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	1,203	(688)
Balance at end of financial year	**3,766**	**2,563**
Actuarial Reserves		
Balance at beginning of financial year	(4,306)	(3,673)
Deferred tax assets	(460)	312
Employee pensions	1,392	(946)
Balance at end of financial year	**(3,373)**	**(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	237	(118)
Balance at end of financial year	**373**	**136**
Total reserves	**5,153**	**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	1,203	(688)
Movement in various actuarial assessments	933	(634)
Total Other Comprehensive Income	**2,137**	**(1,322)**

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.

18. ACCUMULATED LOSSES

	31 Dec 21 $'000	31 Dec 20 $'000
Balance at beginning of financial year	(32,804)	(32,088)
Profit/(Loss) attributable to members of Magontec Limited	5,008	(717)
	(27,796)	**(32,804)**

19. EARNINGS/(LOSS) PER SHARE

Earnings per share numbers have been adjusted to capture the impact of the 15 for 1 share consolidation conducted in August 2021.

	12 months to 31 Dec 21 cents per share	12 months to 31 Dec 20 cents per share
Basic earnings/(loss) per share	6.5	(0.9)
Diluted earnings/(loss) per share	6.3	(0.9)

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 21 $'000	12 months to 31 Dec 20 $'000
Profit/(Loss) after income tax expense/benefit from continuing operations		
Members of the parent entity	5,008	(717)
Weighted average number of ordinary securities on issue (for basic earnings calculation)	**76,729,210**	**76,650,597**
Performance rights	2,606,240	3,062,008
Weighted average number of ordinary securities on issue (for diluted earnings calculation)	**79,335,450**	**79,712,605**

20. CONTINGENT LIABILITIES AND ASSETS

At 31 December 2021 a contingent liability exists in relation to the item below.

1. Claim Against MAS

A claim was made against the Magontec Suzhou company with respect to restoration costs on the property formerly occupied by this plant. The company does not believe there is a reasonable basis for this claim. Although a judgement against the company, the company continues to maintain its position on this matter.

21. CAPITAL AND LEASING COMMITMENTS

a. Right of use assets

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

RIGHT OF USE ASSETS SUMMARY

	31 Dec 2021 $'000	31 Dec 2020 $'000
Opening balance	**518**	**695**
Add new leased assets	326	163
Depreciation charge	(335)	(338)
FX movements	(8)	(1)
Closing balance	**502**	**518**

b. Lease liabilities

The total lease liabilities recorded on the balance sheet are as follows:

	31 Dec 2021 $'000	31 Dec 2020 $'000
Lease liabilities recognised in the balance sheet		
Current	240	236
Non Current	255	286
Total lease liabilities recognised in the balance sheet	**496**	**522**

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

	12 months to 31 Dec 21 $'000	12 months to 31 Dec 20 $'000
Amounts recognised in the profit and loss statement		
Interest charge on lease liabilities	12	14
Amounts recognised in the cash flow statement		
Total cash inflow/(outflow) for leases	(353)	(352)

c. Leases of low value items

During the year to 31 December 2021, the expense relating to leases of low value items was $13,000 (2020: zero).

d. Capital Expenditure Commitments

There are no material capital commitments for the Group as at 31 December 2021.

Notes to the Financial Statements

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22. CONTROLLED ENTITIES

a. Consolidated Controlled Entities

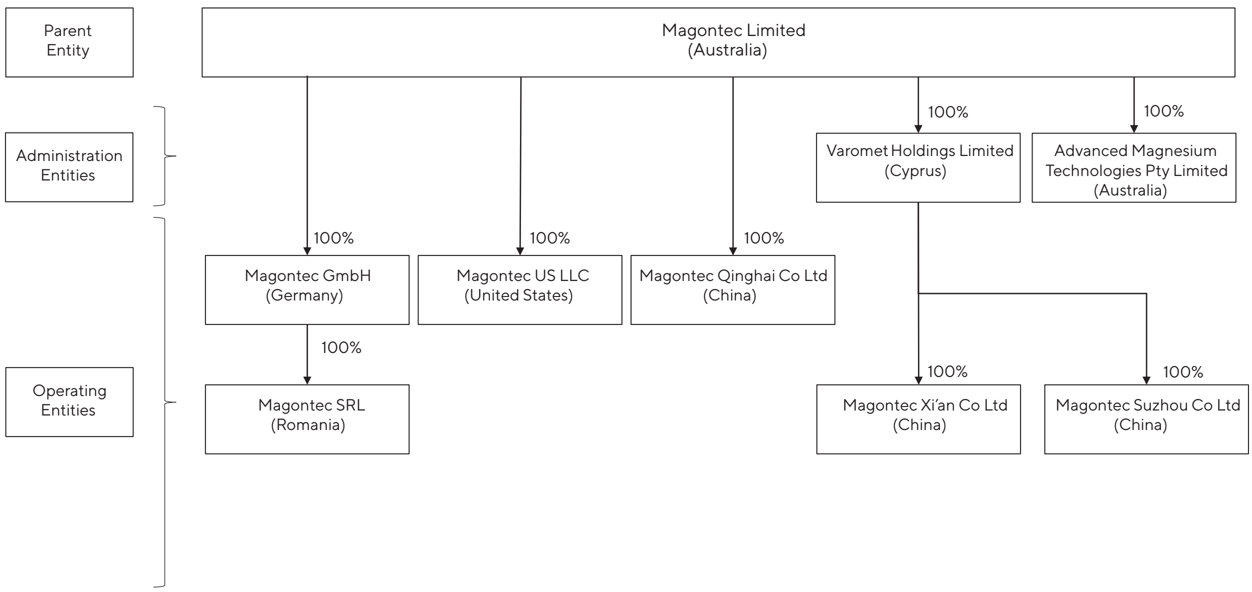
Name of entity	Ownership Entity	Country of Incorporation	Ownership interest 31-Dec-2021	Ownership interest 31-Dec-2020
Parent entity				
Magontec Limited [(a)]		Australia	100%	100%
Directly Controlled Subsidiaries Of Parent				
Advanced Magnesium Technologies Pty Ltd [(a)]	Magontec Limited	Australia	100%	100%
Magontec GmbH [(b)]	Magontec Limited	Germany	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%
AML China Ltd [(c)]	Magontec Limited	China	100%	100%
Indirectly Controlled Subsidiaries of Parent - Level 1				
Magontec SRL	Magontec GmbH	Romania	100%	100%
Magontec Xi'an Co Ltd.	Varomet Holdings Ltd	China	100%	100%
Magontec SuZhou Co Ltd	Varomet Holdings Ltd	China	100%	100%

(a) Entities included in the Australian tax consolidated Group
(b) Ownership of Magontec GmbH transferred to Magontec Limited during the year to 31 December 2021 (previously Varomet Holdings Limited)
(c) Dormant from 30 June 2012

22. CONTROLLED ENTITIES (CONTINUED)

b. Corporate Structure as at 31 December 2021

Magontec Limited Corporate Structure



Note: Ownership of Magontec GmbH (Germany) transferred to Magontec Limited during the year to 31 December 2021 (previously Varomet Holdings Limited)

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 2021, segment information is presented in respect of the three main departments within the company.

- 'Admin Units' = Magontec administrative entities performing a Head Office function comprising -
  Magontec Limited (Australia), Advanced Magnesium Technologies Pty Limited (Australia), Varomet Holdings Limited (Cyprus)
- 'EUR' = Magontec operating entities in Europe comprising -
  Magontec GmbH (Germany), Magontec SRL (Romania), Magontec LLC (United States)
- 'PRC' = Magontec operating entities in the People's Republic of China comprising -
  Magontec Xi'an Co. Ltd. (China), Magontec 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 Qinghai Co Limited (Golmud) is sold. The segment data below is presented net of intergroup transactions (other than sales).

Notes to the Financial Statements

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23. SEGMENT INFORMATION (CONTINUED)

Statement of Comprehensive Income

	12 months to 31 December 2021				12 months to 31 December 2020			
	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL
Sale of goods	–	71,001	48,006	119,007	–	64,496	31,100	95,596
Less Inter-company sales				(3,856)				(528)
Net Sales	**–**	**71,001**	**48,006**	**115,151**	**–**	**64,496**	**31,100**	**95,068**
Cost of sales	–	(54,981)	(44,794)	(99,775)	–	(54,343)	(29,057)	(83,400)
Less Inter-company sales				3,856				528
Net Cost of Sales	**–**	**(54,981)**	**(44,794)**	**(95,919)**	**–**	**(54,343)**	**(29,057)**	**(82,872)**
Gross Profit	–	**16,021**	**3,211**	**19,232**	**–**	**10,153**	**2,043**	**12,195**
Other income	–	974	773	1,747	80	282	882	1,244
Interest expense	(1)	(251)	(273)	(525)	–	(371)	(201)	(572)
Impairment of inventory, receivables & other financial assets	4	–	–	4	18	(55)	–	(37)
Travel accommodation and meals	(19)	(110)	(80)	(209)	(1)	(137)	(140)	(278)
Research, development, licensing and patent costs	(9)	(554)	(316)	(880)	(62)	(190)	(264)	(516)
Promotional activity	–	(65)	–	(65)	–	(64)	–	(64)
Information technology	(43)	(332)	(68)	(443)	(26)	(241)	(52)	(320)
Personnel	(1,410)	(4,962)	(1,562)	(7,934)	(748)	(4,755)	(1,672)	(7,174)
Depreciation & amortisation	(35)	(526)	(81)	(642)	(24)	(567)	(124)	(715)
Office expenses	(61)	(312)	(266)	(640)	(57)	(282)	(63)	(402)
Corporate and other	(685)	(1,693)	(736)	(3,114)	(479)	(1,365)	(710)	(2,554)
Foreign exchange gain/(loss)	301	186	(289)	198	(534)	(632)	144	(1,022)
Profit/(Loss) before income tax expense	**(1,959)**	**8,376**	**313**	**6,730**	**(1,834)**	**1,777**	**(157)**	**(214)**
Income tax expense	–	(1,748)	27	(1,722)	–	(576)	74	(502)
Profit/(Loss) after income tax expense/benefit including discontinued operations	**(1,959)**	**6,629**	**339**	**5,008**	**(1,834)**	**1,201**	**(83)**	**(717)**
Other Comprehensive Income								
Movement in various actuarial assessments	–	933	–	933	–	(634)	–	(634)
Exchange differences taken to reserves in equity – translation of overseas entities	(15)	(223)	1,441	1,203	24	(280)	(433)	(688)
Total Comprehensive Income	**(1,974)**	**7,339**	**1,780**	**7,144**	**(1,810)**	**287**	**(516)**	**(2,039)**

Notes to the Financial Statements

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23. SEGMENT INFORMATION (CONTINUED)

	31 Dec 21 $'000 Admin	31 Dec 21 $'000 EUR	31 Dec 21 $'000 PRC	31 Dec 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	51,143	47,414	41,650	140,207	49,884	43,014	36,356	129,254
Eliminations								
– Inter-Coy Loans	(35,938)	(6,722)	(1,757)	(44,417)	(34,945)	(4,507)	(2,387)	(41,839)
– Investment in subsidiaries	(1,317)	–	–	(1,317)	(7,078)	–	–	(7,078)
– Other	(10,702)	(404)	(855)	(11,961)	(4,634)	(52)	(623)	(5,309)
As per Consolidated Balance Sheet	**3,185**	**40,287**	**39,039**	**82,512**	**3,227**	**38,456**	**33,345**	**75,028**
Segment Liabilities								
Gross Segment liabilities	32,905	33,383	23,750	90,038	30,042	36,767	20,419	87,228
Eliminations								
– Inter-Coy Loans	(32,297)	(1,559)	(10,454)	(44,309)	(29,810)	(2,217)	(9,718)	(41,746)
– Other	200	226	81	507	392	130	130	653
As per Consolidated Balance Sheet	**809**	**32,050**	**13,378**	**46,237**	**624**	**34,679**	**10,831**	**46,134**
Net assets	**2,377**	**8,237**	**25,661**	**36,275**	**2,603**	**3,777**	**22,514**	**28,893**
Segment Disclosures								
– Acquisition of segment fixed assets	–	673	205	878	–	573	81	653
– Non-cash share based payments expense	237	–	–	237	(118)	–	–	(118)
Provisioning								
– Inventory Increase/(Decrease)	–	242	–	242	–	(66)	–	(66)
– Doubtful debts Increase/(Decrease)	–	(7)	–	(7)	–	28	–	28

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

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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	**2021**	–	–	–	–
	2020	–	36	–	–

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

During the year, there were no purchases from Qinghai Salt Lake Magnesium Co. Ltd. (QSLM), the largest shareholder of Magontec Limited as at the balance date. Some limited purchases in the prior period were made on an arm's length basis.

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

Notes to the Financial Statements

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25. FINANCIAL INSTRUMENTS (CONTINUED)

AASB 9 - Impairment of Financial Assets

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 2021.

31 December 2021	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		0.90%	4,636	–	–	4,636
Trade & other receivables (net of provision for loss)		–	–	–	21,317	21,317
Other		–	–	–	8,840	8,840
			4,636	**–**	**30,157**	**34,793**
Financial liabilities:						
Trade & other payables		–	–	–	17,570	17,570
Current Bank Borrowings	13	3.40%	9,256	–	–	9,256
Non-Current Bank Borrowings	13	1.66%	4,217	–	–	4,217
			13,473	-	**17,570**	**31,043**

Notes to the Financial Statements

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25. FINANCIAL INSTRUMENTS (CONTINUED)

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 Borrowings	13	2.73%	11,747	–	–	11,747
Non-Current Borrowings	13	1.63%	6,179	–	–	6,179
			17,926	**–**	**12,539**	**30,465**

(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 2021 $'000	31 Dec 2020 $'000	31 Dec 2021 $'000	31 Dec 2020 $'000
Foreign currency monetary assets and liabilities				
Cash and cash equivalents	4,599	4,917		
Trade and other receivables	22,647	23,566		
Other non-current receivables	314	365		
Trade and other payables			17,453	12,723
Provisions			16,411	16,265
Borrowings			11,526	16,639
Other				
Other net assets and liabilities	54,951	46,180	847	507
Total	**82,512**	**75,028**	**46,237**	**46,134**

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 2021 $'000	31 Dec 2020 $'000
		USD impact	
Effect on Profit/Loss and other equity of a 10% increase in USD rate	(i)	732	406
Effect on Profit/Loss and other equity of a 10% decrease in USD rate		(732)	(406)
		EUR impact	
Effect on Profit/Loss and other equity of a 10% increase in EUR rate	(ii)	(2,268)	(2,291)
Effect on Profit/Loss and other equity of a 10% decrease in EUR rate		2,268	2,291
		RMB impact	
Effect on Profit/Loss and other equity of a 10% increase in RMB rate	(iii)	24	536
Effect on Profit/Loss and other equity of a 10% decrease in RMB rate		(24)	(536)
		RON impact	
Effect on Profit/Loss and other equity of a 10% increase in RON rate	(iv)	(270)	(433)
Effect on Profit/Loss and other equity of a 10% decrease in RON rate		270	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 5.3 million as at 31-Dec-21 (Net monetary assets of USD 3.1 million as at 31-Dec-20)

(ii) Exposure to EUR is represented by net monetary liabilities of EUR 14.5 million as at 31-Dec-21 (Net monetary liabilities of EUR 14.4 million as at 31-Dec-20)

(iii) Exposure to RMB is represented by net monetary assets of RMB 1.1 million as at 31-Dec-21 (Net monetary assets of RMB 27.0 million as at 31-Dec-20)

(iv) Exposure to RON is represented by net monetary liabilities of RON 8.5 million as at 31-Dec-21 (Net monetary liabilities of RON 10.1 million as at 31-Dec-20)

Derivatives and hedging

During the year to 31 December 2021, the Group entered into one interest rate swap to manage the risk of rising interest rates below.

During the prior year to 31 December 2020, 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 2021				
FX hedges	–	–	–	–
Interest rate swaps	–	7	–	7
31 December 2020				
FX hedges	1	1	1	–
Interest rate swap	–	–	–	–

25. FINANCIAL INSTRUMENTS (CONTINUED)

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

	AUD impact of change	
	31 Dec 2021 $'000	31 Dec 2020 $'000
FX hedges		
Sensitivity to +10% change in USD EUR rate	–	73
Sensitivity to -10% change in USD EUR rate	–	(73)
Interest rate swaps		
Sensitivity to +0.5% change in interest rates	8	–
Sensitivity to -0.5% change in interest rates	(8)	–

(i) Capital Management and Interest rate risk management

The Group has bank loans outstanding of $4,217,000 (refer Note 13) owing to Commerzbank globally. Management remains confident that Commerzbank will continue offering its facilities as the Company's relationship with the bank is strong and significant headroom exists compared with facilities drawn.

(j) Credit risk management

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

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

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

Provision matrix

The Group applies a provision matrix in order to determine Expected Credit Losses in accordance with 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%	0.00%
1-30 days overdue	0.02%	0.01%
31-60 days overdue	0.02%	0.01%
61-90 days overdue	0.03%	0.01%
90 days + overdue	0.04%	0.02%

Notes to the Financial Statements

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26. PARENT ENTITY INFORMATION MAGONTEC LIMITED

Statement of Comprehensive Income

	Magontec Limited	
	12 months to 31 Dec 21 $'000	12 months to 31 Dec 20 $'000
Sale of goods	–	–
Cost of sales	–	–
Gross profit	**–**	**–**
Other income	4	4
Interest expense	–	–
Impairment of inventory, receivables & other financial assets	276	1,450
Travel accommodation and meals	–	–
Research, development, licensing and patent costs	–	(52)
Promotional activity	–	–
Information technology	(32)	(13)
Personnel	(7)	–
Depreciation & amortisation	–	–
Office expenses	–	(6)
Corporate	(641)	(464)
Foreign exchange gain/(loss)	547	(801)
Profit/(Loss) before income tax expense/benefit from continuing operations	**146**	**117**
Income tax (expense)/benefit	–	–
Profit/(Loss) after income tax expense/benefit from continuing operations	**146**	**117**
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	**146**	**117**

Notes to the Financial Statements

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26. PARENT ENTITY INFORMATION MAGONTEC LIMITED (CONTINUED)

Balance Sheet

	Magontec Limited	
	31 Dec 2021 $'000	31 Dec 2020 $'000
Cash and cash equivalents	14	30
Trade & other receivables	(5)	(1)
Other	62	59
Total current assets	**71**	**88**
Non-current assets		
Inter Company Loan Receivables (net of provisioning)	11,139	10,389
Investment in shares of subsidiaries (net of provisioning)	11,718	11,718
Other financial assets	8,314	8,314
Total non-current assets	**31,171**	**30,421**
Total assets	**31,243**	**30,509**
Current liabilities		
Trade & other payables	88	51
Total current liabilities	**88**	**51**
Non-current liabilities		
Other	8,055	7,505
Total non-current liabilities	**8,055**	**7,505**
Total liabilities	**8,144**	**7,556**
Net assets	**23,099**	**22,953**
Equity attributable to members of MGL		
Share capital	58,627	58,627
Reserves	1,637	1,637
Accumulated losses	(37,165)	(37,311)
Total equity	**23,099**	**22,953**

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2021.

Capital commitments - property, plant and equipment

The parent entity had no material capital commitments for property, plant and equipment as at 31 December 2021.

Significant accounting policies

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

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27. SUBSEQUENT EVENTS

As described in Note 13 Borrowings, subsequent to 31 December 2021, the Group has:

1. Received an offer to extend the Magontec SRL (Romania) Working Capital Facility from Unicredit SA for the amount of RON 15.0 million (A$ 4.7 million) to 28 February 2023
2. Received an offer from Commerzbank for a new Factoring facility to Magontec GmbH to the extent of EUR 3 million (A$4.7 million) to 28 February 2025 to replace the facility from Postbank which expired on 31 December 2021.

Formal documentation for both facilities is being reviewed and is expected to be signed within the coming weeks.

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.

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Fax: 61 2 9252 8960

Directors' Declaration

The Directors declare as follows -

a. in the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;
b. in the Directors' opinion, the financial statements and notes thereto set out on pages 47 to 80 of this Annual Report, are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and give a true and fair view of the financial position and performance of the Group; and
c. the Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

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

On behalf of the Board of Directors

Mr N Andrews
Executive Chairman

Mr A Malhotra
Non-executive Director

24 February 2022

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 2021, 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 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 2021 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.

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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the same time of this auditor's report.

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
Impairment of Assets The Company's significant assets include plant & equipment in both China and Europe. We focused on this area due to the: • Delays in providing liquid metal from the facility in China; • Customer concentration risk in the Romanian operation; • The Group's Net Assets exceeding its Market Capitalisation; and	Our procedures included, amongst others, • Assessing management's determination of the relevant CGU; • Evaluating the integrity of the cash flow model used to calculate the value in use and its compliance with Accounting Standards; • Understand the Group's process and internal controls related to its impairment assessment;

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- Extent of management judgment involved in assessing impairment indicators and determining the assumptions used in evaluating these indicators.

Management conducts a test for impairment on an annual basis using a value in use model. This model requires the application of significant judgements and estimates.

- Challenging management with respect to key forward looking assumptions including future revenue amounts and discount rates applied, and compare these assumptions with internally reported metrics and external information;
- 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 underlying price of Magnesium;
- Multiple geographical areas; and
- A sharp increase in the spot price for raw magnesium close to reporting date.

Our procedures included, amongst others,

- Attendance at stock takes by subsidiary auditors for all significant locations to conduct test counts and assess internal controls;
- Testing of carrying value to subsequent sales and cost;
- Review of costing methodology applied by entities within the group for compliance with the Group accounting policy;

Other Information

The directors are responsible for the other information in the Annual Report. The other information comprises the pages spanning from the Executive Chairman's Letter through to and including the Directors' Report and the shareholder information, but does not include the financial report, Directors' Declaration and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Home.aspx. This description forms part of our auditor's report.

Report on the Remuneration Report

Auditor's Opinion

We have audited the Remuneration Report included in pages 32 to 45 of the directors' report for the year ended 31 December 2021.

In our opinion the Remuneration Report of Magontec Limited for the year ended 31 December 2021 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

J Woods

Justin Woods
Partner

Level 5, 179 Elizabeth Street, Sydney NSW 2000
Dated: this 25th day of February 2022.

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	22,035,719	28.72
2	STRAITS MINE MANAGEMENT PTY LTD	9,924,968	12.94
3	CITICORP NOMINEES PTY LIMITED	5,312,526	6.92
4	J P MORGAN NOMINEES AUSTRALIA	3,981,427	5.19
5	KEWEIER METAL CO LTD & LI ZHONG JUN	3,746,487	4.88
6	BNP PARIBAS NOMINEES PTY LTD	2,575,003	3.36
7	MR NICHOLAS WILLIAM ANDREWS	1,493,962	1.95
8	YELLOW ZONE SUPER FUND	1,416,931	1.85
9	MR SCOTT PARHAM	1,251,636	1.63
10	NATIONAL NOMINEES LIMITED	919,106	1.20
11	MRS DAWN PATRICIA DAVIS	906,667	1.18
12	HSBC CUSTODY NOMINEES	788,212	1.03
13	MIENGROVE PTY LTD	752,565	0.98
14	BRIAN GORMAN SELF MANAGED SUPER FUND PTY LTD	666,667	0.87
15	MR XUNYOU TONG	658,865	0.86
16	DALSIZ PTY LTD	636,924	0.83
17	DR ANDREW DUNCAN MACLAINE-CROSS	574,231	0.75
18	ESCOR EQUITIES CONSOLIDATED	533,334	0.70
19	MR CHRISTOPH KLEIN-SCHMEINK	460,763	0.60
20	MR PETER FABIAN HELLINGS	450,000	0.59
TOTAL		**59,085,993**	**77.01**

Distribution of Shareholders as at End Date of Current Reporting Period

Number Held	Holders	No. of Securities	Percentage
1–1,000	634	99,439	0.13
1,001–5,000	794	1,797,388	2.34
5,001–10,000	203	1,444,530	1.88
10,001–100,000	269	8,071,353	10.52
100,001 and over	47	65,316,500	85.13
TOTAL	**1,947**	**76,729,210**	**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 share capital
Qinghai Salt Lake Magnesium Co. Ltd (QSLM)	22,035,719	28.72%
Allan Gray Australia Pty Limited	10,696,886	13.94%
Straits Mine Management Pty Ltd	9,924,968	12.94%

As at 31-Dec-2021 a marketable parcel of securities ($500) is a holding of at least 1,111 securities (1).

1. Based on a closing share price of $0.450.

Issued Capital and Securities	On Issue at 31 Dec 21
Ordinary Shares fully paid	76,729,210

Share Registry: Boardroom Pty Limited	Postal:	Local:	International
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SYDNEY, NSW 2000			Website: www.boardroomlimited.com.au

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