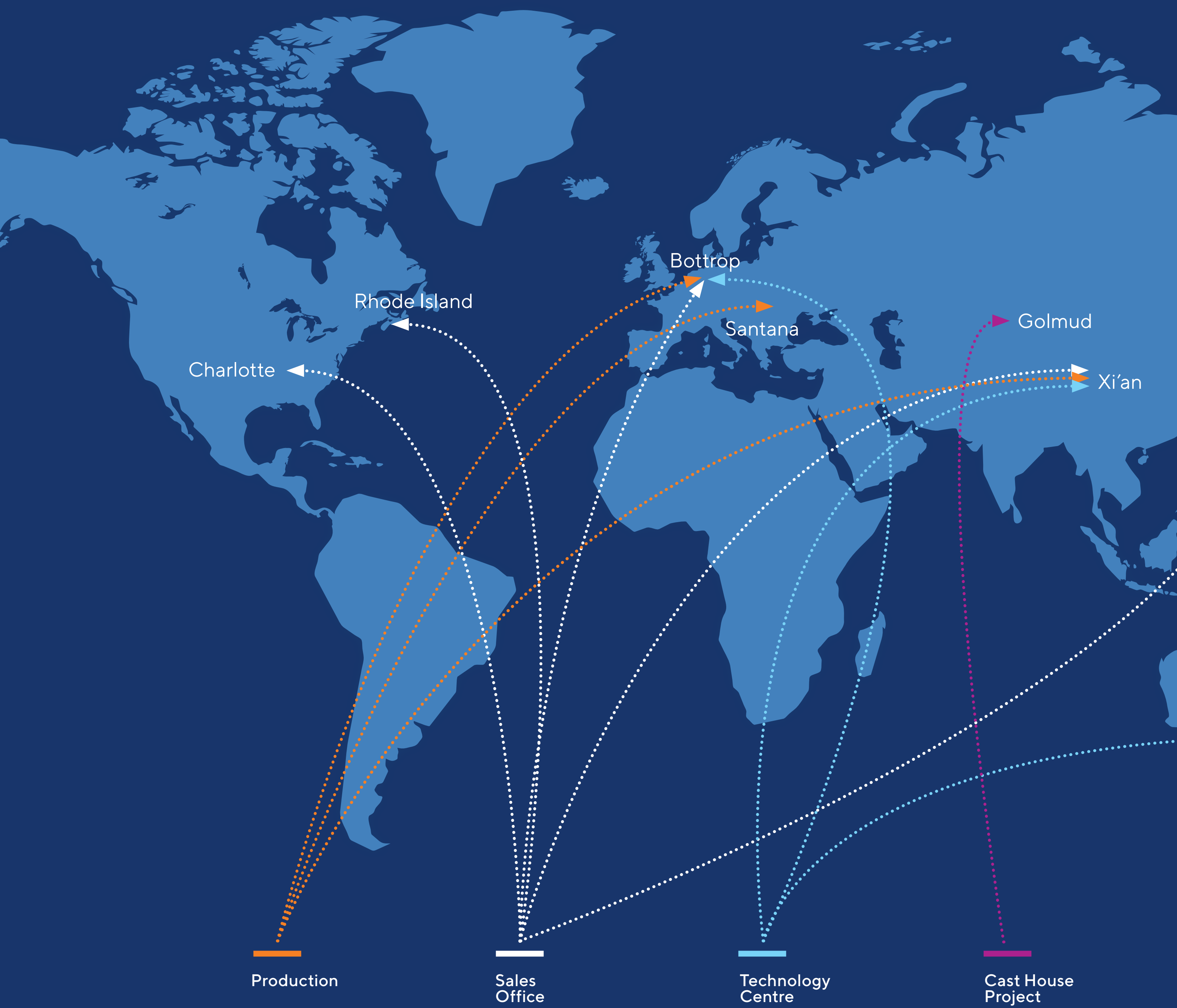
ACN 010 441 666

Magontec Limited

Annual Report 2022

Global Locations and Activities



Contents

Authorisation:
Nicholas Andrews, Executive Chairman of Magontec Limited has authorised the release of this document to the ASX on 23 February 2023.

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

Market conditions for Magontec's recycling and anodes business in 2022 were exceptional.

Higher profitability and strong cash flows were driven by elevated magnesium prices, supply uncertainty and positive pricing pressures in key markets.

Nicholas Andrews

Net Profit After Tax rose to $16.5 million in the year to 31 December 2022, up from $5 million in the prior year, with all businesses contributing increased profitability. The effects on Magontec's balance sheet were profound as positive cash flow and the impact of rising interest rates on pension obligations, reduced debt and other liabilities. At the end of 2022 Magontec Net Tangible Assets Per Share were 67.9 cents, up from 42.4 cents at the end of 2021.

Cash flow from underlying operations* in 2022 was $28.0 million, 168% ahead of the previous year, eliminating the company's net debt position. As of 31 December 2022, Magontec has positive cash, net of all bank debt obligations, of $2.0 million.

* Cash from underlying operations is defined as Operating Cashflow excluding working capital movements, interest and tax paid

As we enter 2023, when trading conditions are likely to be more muted than in the previous 18 months, Magontec has relatively limited exposure to higher interest rates and the opportunity to examine growth prospects in magnesium and other industries in which it has current operations.

When markets present opportunities to expand margins and develop new businesses, the ability of a company to leverage those opportunities is a measure of the quality of its employees and the underlying business structure. In 2022 Magontec's sales and production teams in Europe and Asia were extremely active and able to fully exploit the group's assets and advantages.

Following a strong first half of 2022 Magontec announced a maiden unfranked dividend of 0.6 cents per share, which was paid in October 2022.

For the six months to 31 December 2022 the Board has announced that the company will pay another unfranked dividend of 0.6 cents per share bringing the annual dividend to 1.2 cents per share (unfranked).

As a part of the dividend offering the company also put in place a Dividend Reinvestment Plan (DRP). Most shareholders, including the company's largest shareholders, took the opportunity to re-invest in the company.

There were two changes to the Board of Magontec in 2022. Robert Kaye, who has served as non-Executive Director since 2013, was appointed Lead Independent Director and in September, under the terms of the agreements between Magontec and our largest shareholder, the Qinghai Salt Lake Magnesium Co Ltd (QSLM), Mr Xing Cai Li was appointed to the Board.

Magontec is privileged to have a strong and active Board and I would like to thank them for their efforts in 2022. Magontec's Board members have a wide variety of skills and experience that provides insight and advice on our global operations base and on governance issues.

Since 2008 John Talbot has served Magontec, first as CFO and more recently as Company Secretary. John's efforts on behalf of shareholders have been extraordinary and I extend both my personal gratitude and that of the many shareholders who have engaged with John over the last 15 years. We wish him well in his retirement.

In the following pages we describe in more detail the market trends and operational features of the 12 months to 31 December 2022. In summary our recycling and anodes businesses were particularly busy in Europe, North America and Asia. As our businesses have grown over recent years so we have become an increasingly important supplier for major Tier 1 and OEM manufacturers in the automotive, power tool and hot water appliance industries among others. Through the difficult COVID period and in the period since, Magontec has proved itself a reliable, innovative and consistent supplier

In addition to high volume alloy and anode products, the company has moved in both businesses towards higher value and lower volume activities, to take advantage of market opportunities and to balance volatility associated with our more narrowly focused historic businesses.

In these endeavours we have targeted new products, applications and markets and developed new processes to exploit opportunities. While it is a lengthy process to enter new markets and to develop new customers, in 2022 we saw growing demand for Magontec-developed specialist metals and higher technology powered anodes. We have also worked hard to ensure that our processes emit very low levels of unusable waste. The driving rationale is to further reduce emissions and develop different grades of magnesium output while at the same time lowering average production costs.

As a recycling and fabrication business Magontec already has a low environmental footprint, both because we source high levels of renewable energy for our European and Qinghai plants and because we are an efficient recycler of waste materials. In our magnesium anode and magnesium alloy manufacturing operations we find great synergies that ensure we have consistent access to material for both manufacturing processes.

Like your Board, shareholders will be disappointed by the ongoing delays at the company's project at Qinghai. Other than the comments in this report, and in other releases to the ASX in late 2022, there is little more to add. However, the Board remains confident that QSLM will bring their 100,000 tonnes per annum electrolytic magnesium smelter into production at the conclusion of the current remediation process and we are very pleased to welcome the General Manager of QSLM's parent company, Mr Xing Cai Li, to the Board. He has brought new energy to the QSLM project and a renewed commitment to the agreements with Magontec.

QSLM's facility remains the only constructed, high volume, low emission electrolytic magnesium smelter in the world and its commencement is eagerly awaited by Magontec and our magnesium alloy die casting customers. Through 2022, Magontec operated its adjacent magnesium alloy cast house at close to a break even level. Profitability continues to be constrained by higher logistics costs of raw material supply of pure magnesium from plants in other parts of China rather than the QSLM facility. However, on recommencement of liquid pure magnesium supply to the Magontec cast house, we are confident that we will be able to quickly increase output of magnesium alloy to customers in Europe, North America and Asia.

While 2022 has been an outstanding year for the company, the short-term outlook is less clear. Whatever the immediate future does hold the company now enjoys a robust financial position and is largely insulated from rising global interest rates.

Our major growth project at Qinghai remains in prospect for re-commencement in the next 12 months while other Magontec manufacturing activities have strong market positions, many with the benefit of innovative new processes and products to drive revenues and profitability in the years ahead. Our recycling businesses anticipate a less exciting year as motor vehicle sales flag in many markets while our anode businesses are expected to be more predictable and may even grow in 2023.

We think the emergence of the Chinese economy from zero COVID and the growing likelihood of a soft landing for the US economy will be positive for our PRC anodes businesses. The war in Ukraine and rising interest rates are less positive for European economic activity. Despite an uncertain economic horizon Magontec has a strong presence in its key markets and a global reputation for quality products. In 2023 we will continue to leverage those assets to the best effect.

Nicholas Andrews
Executive Chairman

Chief Financial Officer's Report

Strong cash flows through 2022 have transformed Magontec's financial position.

- **Highest ever reported net profit after tax of $16.5 million** for the year to 31 December 2022
- **Dividends declared of 1.2 cents per share (unfranked)** with respect to the year to 31 December 2022 – the first in the Company's history to be paid from operating profits
- **Net cash position of $2.0 million** achieved as at 31 December 2022
- **Return on equity increased to 35.7%** for the year to 31 December 2022. This was a significant rise over the 15.4% achieved for the prior year and well above the trend of the preceding years.
- **Return on invested capital of 35.3%** also substantially exceeded the Group's weighted average cost of capital.
- **Net tangible assets** rising to a record **67.9 cents per share** as at 31 December 2022.

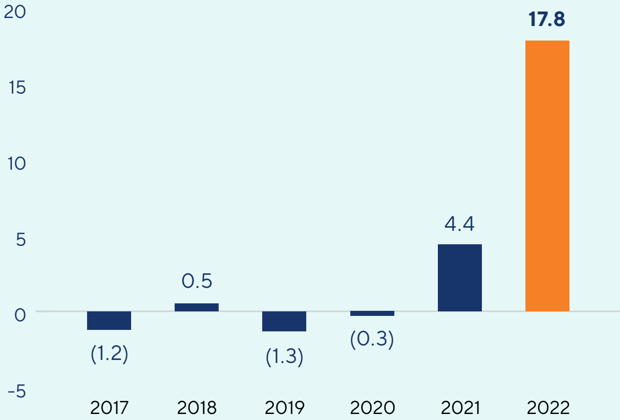
The period under review was distinguished by several notable achievements.

Derryn Chin

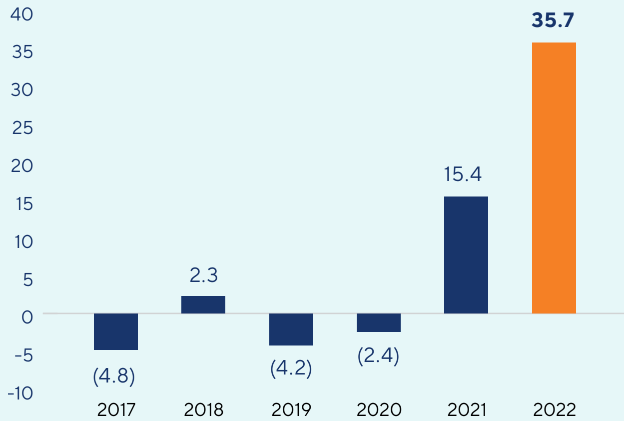
Key financial highlights	12 months to 31 Dec 2022 $'000	12 months to 31 Dec 2021 $'000	% chg
Equity and Earnings			
Gross Profit	**38,595**	**19,232**	**100.7%**
Gross Margin (%)	24.3%	16.7%	
Reported EBITDA	**27,263**	**10,077**	**170.5%**
Reported Net Profit After Tax	**16,515**	**5,008**	**229.8%**
Net Profit After Tax excluding unrealised FX	**17,818**	**4,426**	**302.6%**
Return on Equity (%)	35.7%	15.4%	
Return on Invested Capital (%)	35.3%	13.2%	
Net tangible assets per share (cents)	67.9	42.4	60.1%
Borrowings			
Net debt/(net cash)	(1,964)	6,890	(128.5%)
Net debt to net debt + equity (%)	(3.6%)	16.0%	
Cashflow			
Reported Operating Cashflow	10,746	5,823	84.6%
Underlying Operating Cashflow	28,030	10,457	168.1%
Free Cashflow (excluding working capital movements)	23,211	8,556	171.3%

In the period under review, the company has progressed on almost every metric. Gross Profit for the year to 31 December 2022 was $38.6m, up 101% on the previous year, and underlying NPAT was $16.5m, up 230% on the prior year.

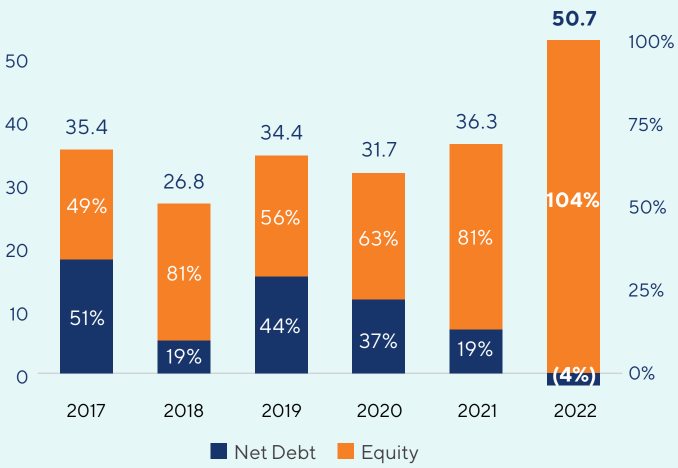
Underlying NPAT* (A$m)



Return on Equity (%)

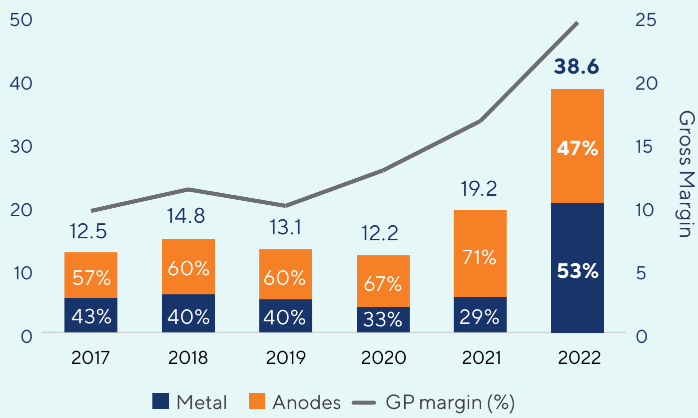


Working Capital Funding Profile (A$m)

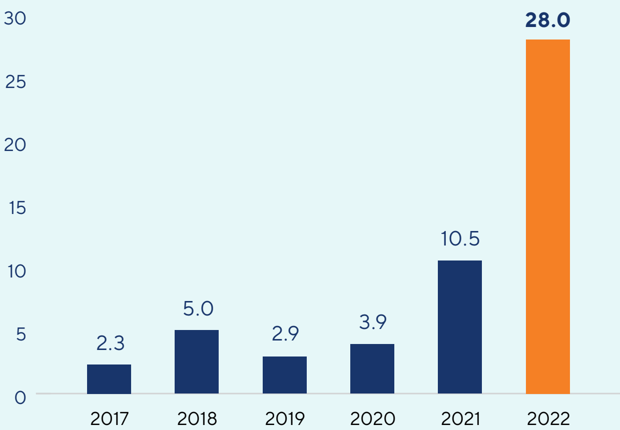


Net working capital = trade & other receivables + prepayments + inventory less trade & other payables

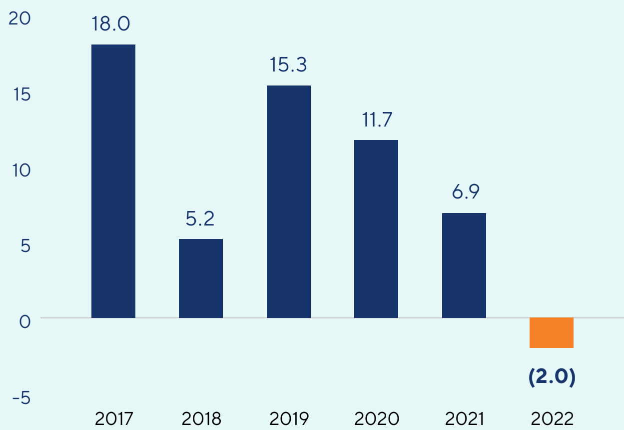
Gross Profit (A$m) and Gross Margin (%)



Cash flow from underlying operations** (A$m)



Net Debt (A$m)



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

** Cash from underlying operations is defined as Operating Cashflow excluding working capital movements, interest and tax paid

Rising margins for the company's higher volume activities in magnesium anodes and magnesium alloys were particularly impactful. The resulting cash flow from operating activities of $10.7 million, up from $5.8 million in the prior year, has driven the transformation of the balance sheet from Net Debt of $6.9 million to Net Cash of $2.0 million as at 31 December 2022.

Balance Sheet

Net assets increased considerably to $56.1 million as at 31 December 2022, up 54.7% from $36.3 million in the prior year. As can be seen on the chart, the largest contributor to this increase was higher net working capital of $14.4 million funding a higher value sales base.

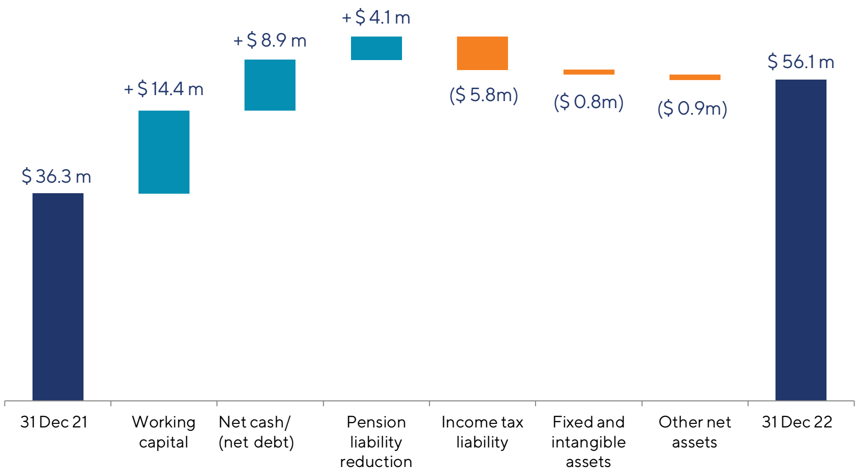
The net asset position was further improved by a reduction of $8.9 million in net debt and a decline in the German pension fund liability of $4.1 million (from $13.1 million to $9.0 million), driven mostly by a rise in the discount rate to 3.9% as at 31 December 2022 (1.3%: 31 December 2021).

At the end of December 2022, Magontec's balance sheet showed deployed working capital of $50.7 million, up from $36.3 million in the prior year. This is largely the result of higher prices feeding through from increases in raw material pricing. In the last few weeks of 2022 and the early weeks of 2023 prices of Magontec's key raw materials have moderated. While they have not fallen to the levels of early 2021, they are well below the levels of early 2022. The timing of Magontec's contracts will likely see the amount of working capital deployed decline further in the early part of 2023, making further cash resources available to the group.

Balance Sheet Summary

	31 Dec 2022	31 Dec 2021	% chg
Net cash/(net debt)	1,964	(6,890)	(128.5%)
Working capital	50,715	36,276	39.8%
Pension liability	(9,024)	(13,111)	(31.2%)
Fixed and intangible assets	20,158	20,994	(4.0%)
Income tax liability	(7,963)	(2,171)	266.8%
Other net assets	279	1,178	(76.3%)
Net assets	**56,129**	**36,275**	**54.7%**

Magontec Limited Net Asset Bridge Analysis Year to 31 December 2022

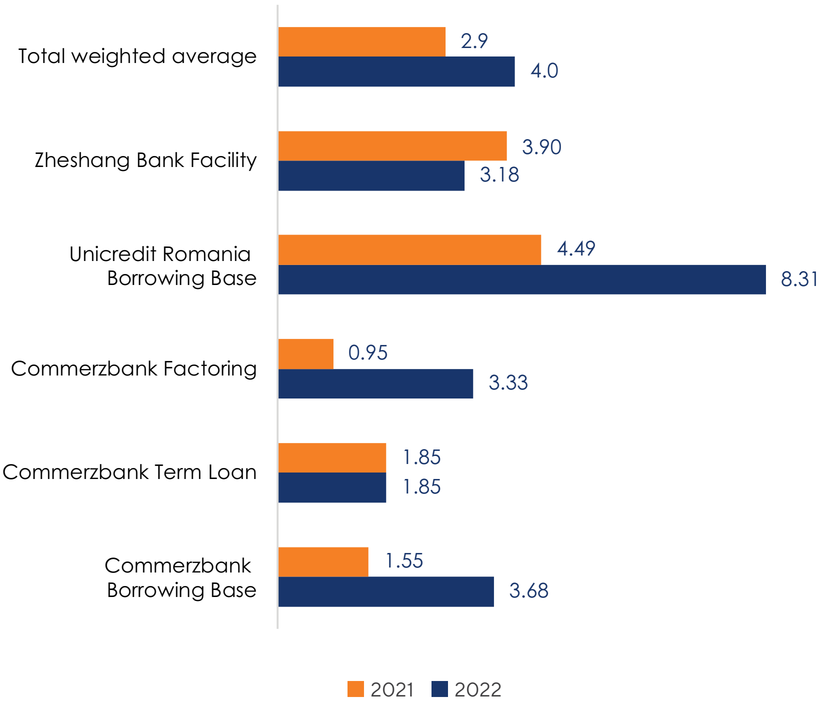


Banking

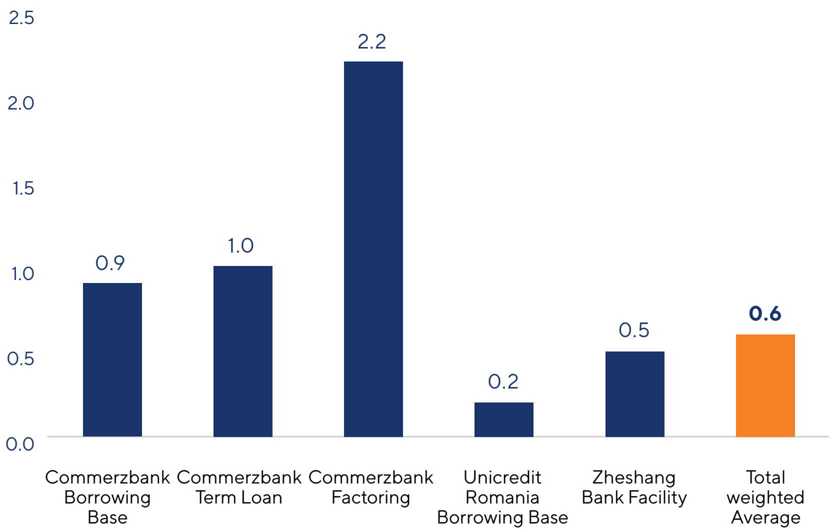
As at 31 December 2022, the weighted average interest rate of drawn borrowings was 4.0%, a 1.1% increase over the 12 month period. The Group maintains banking facilities in all regions, although at much lower levels in Europe than in previous years. The additional headroom afforded under these facilities will be necessary to underpin future growth opportunities for Magontec, including the Qinghai business. However, for the time being a reduced level of borrowings in Europe comes at an opportune moment as interest rates have risen throughout the year in both Germany and Romania. Furthermore, the prospect remains of more interest rate rises in 2023 as central banks continue to address inflation challenges.

The weighted average maturity of all debt facilities was less than 1 year as at 31 December 2022. However, the Group has maintained strong relationships with its key banking partners and the current year's strong financial outcomes leave the Group well positioned.

Bank Borrowing Interest Rate Profile (%)



Bank Borrowings Maturity Profile (Years to maturity as at 31 December 2022)



In China the Zheshang Bank facility was increased to RMB 31 million at the 2022 renewal and at an improved interest rate of 3.18% as at 31 December 2022 (31 December 2021: 3.9%). This larger facility has been required to fund growing activities in the US markets where distance from our Xi'an, China factory and uncertain supply chains have seen inventories at higher levels than in prior years. These began to trend down in the latter quarters of 2022 but may grow again as sales volumes recover in the USA in 2023.

With respect to US customers, Magontec also enters hedges from time to time to protect its position on US denominated receivables where it is available and practicable to do so.

Dividend

In 2022 Magontec Limited paid a maiden dividend from operating profits, a reflection of buoyant markets and a large group of smaller shareholders who expressed a desire for a dividend payment. The Board of Magontec Limited has declared a final dividend to shareholders of 0.6 cents per share (unfranked) with respect to the 6 months to 31 December 2022. **Along with the interim dividend of 0.6 cents per share (unfranked), this brings the total dividend for the year to 1.2 cents per share (unfranked).**

At the time of the Interim Dividend, paid in October 2022, Magontec established a Dividend Reinvestment Plan (DRP) so that shareholders could elect to take their dividend in new shares instead of cash. This was well received in October with nearly 65% of the dividend paid in shares at a 5% discount to the then prevailing price. A similar facility will be available for the Final Dividend. The popularity of the DRP allows the Company to conserve cash and satisfy its dividend obligations.

Letter from the Chairman of the Remuneration Committee

On behalf of the Magontec Limited Board of Directors, I am pleased to present the 2022 Remuneration Report.

Robert Kaye, SC

Dear Shareholders,

It is the Board and Remuneration Committee's intent to regularly review Magontec's remuneration practices and maintain their market competitiveness, whilst ensuring the framework is aligned with market and shareholder expectations to motivate and incentivise executives to improve shareholder returns.

The Remuneration & Nominations Committee (REM) comprises 3 members, the majority of whom are independent directors, and is Chaired by me as Lead Independent Director.

Through 2022, the management team continued to build on the foundation established in prior years, resulting in a record financial performance despite the continued challenges presented by the COVID pandemic, particularly in our China based operations.

The strong financial result in 2022 allowed the Board to declare an inaugural dividend payment of 0.6 cents per share which will be followed by a final dividend to shareholders of 0.6 cents per share, both unfranked.

The 2022 result was supported by strong global magnesium prices and provides a solid platform for future growth. The executive team continues to focus on the group's core strategic objectives including the anticipated receipt of liquid pure Magnesium at our Qinghai facility and the development of new markets and customers for the company's existing products.

Magontec's remuneration framework is designed to incentivise and motivate the executive team to deliver improved performance for shareholders. Details of the governance process are explained in the Remuneration Report.

2022 AGM: Remuneration Report

The 2021 Remuneration Report resolution tabled for approval at the 2022 AGM was passed with 71.03% of votes cast in favour of its adoption (prior year 95.31% voted in favour) but failed to reach the required 75% under the Corporations Act 2001.

Feedback obtained from our shareholders related mostly to explanation surrounding KMP rewards, particularly with respect to the Executive Chairman.

The REM Committee has taken steps to review the remuneration framework, policies and processes that determine fixed and variable remuneration of executives.

Fixed Remuneration

During the 2021 year, an external remuneration advisor (Mercer) was appointed to perform an independent market assessment of Key Management Personnel (KMP). The work resulted in identification of a gap between Magontec executive remuneration levels and those of the peer group as identified by Mercer. This resulted in increases in fixed remuneration as disclosed in the 2021 REM Report.

Some of the underlying causes of this gap included:

- A reduction in fixed remuneration in 2020 to meet the challenge of COVID and to protect Magontec from a potential economic downturn and cashflow reduction.
- A remuneration policy and procedure that only reviewed KMP remuneration every 3 years. This policy resulted in larger increases in each review year that were inclusive of prior years' market movements.
- The 2021 results reflected a change in remuneration process to an annual basis, reinstatement of the COVID related reduction and an alignment to current market rates.

Variable (at-risk) Remuneration

The Magontec Global Management Group Incentive Plan framework was originally developed by external advisor Godfrey Remuneration Group in 2011 and aligned with best practice at the time. The recommendations for variable (at-risk) remuneration in the form of STI and LTI structures were implemented. Over time there have been modifications made to the plan, but underlying fundamentals have remained in place.

Following feedback from the 2021 Report, the Plan and framework will be reviewed in greater detail. In addition to reviewing the remuneration Plan, the REM Committee must also develop an appropriate transition plan. It is expected that this work will be completed in 2023 with appropriate disclosures made once approved by the Board.

The outline of Magontec's current framework for remuneration is detailed in the 2022 Remuneration Report.

Remuneration and Incentives approved by the Board for year

2022 Executive reward outcomes: Fixed

The Remuneration Framework aims to reward KMP at the 25th percentile of the relative benchmark for each Executive (measured independently) which is low to market but offset by higher at-risk components in the form of variable remuneration (STI, LTI).

During 2022, fixed increases in remuneration of 4 members of Key Management Personnel (KMP) were provided which align with the 25th Percentile of their relative benchmark. Details of the increases are shown in the Remuneration Report.

2022 Executive reward outcomes: STI

The Remuneration Committee recommended and the Board approved the provision of a STI payment pool of $693k (2021: $275k) for payment to the Global Management Group. The remuneration committee took into consideration individual executive plans, their KPIs and individual contribution and the impact of external factors on the result.

The Short-Term Incentive is calculated according to a formula which measures the extent of outperformance between actual financial performance compared with budget. The Board and Remuneration Committee have the right to adjust the discretionary component to allow for circumstances that are considered external to the outperformance.

2022 Executive reward outcomes: LTI

The LTI Performance Rights (PR) allocation is limited to a % of the executive's fixed remuneration mix. Vesting conditions include both market based and non market based vesting conditions, including share price targets being achieved over a rolling 3-year performance period.

In 2022, the Remuneration Committee recommended, and the Board approved the issue of 3,125,212 PRs in accordance with the approved Magontec Management Group Incentive Plan. Offsetting this were 1,275,809 lapsed PRs as at 31 December 2022. Following a further issue of 3,021,042 PRs in 2023, there are currently 8,955,793 PRs issued to the executive team outstanding.

The LTI scheme has not vested for participating executives since the year ended 31 December 2016.

In Summary

2022 saw a continuation of the 2021 performance. Looking ahead the Group will remain focussed on current operations and opportunities for growth.

I would like to take this opportunity to thank shareholders for their ongoing support.

Robert Kaye SC

Lead Independent Director

Chairman - Remuneration & Nomination Committee

Environmental, Social and Governance (ESG)

Magontec has developed a system of Board oversight that monitors environmental and social issues as well as critical corporate governance metrics across its global operating activities.

Team building exercise for Magontec Romania – a cooking night

In 2022 the Magontec Board and Committees have continued to maintain and build a system of governance oversight. This includes compliance oversight 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 continues to develop its compliance within the current voluntary standards.

In 2022 the Company addressed the issue of Board structure. Robert Kaye, a non-executive independent director of Magontec since 2013, has been elected by the Board to the position of Lead Independent Director. The role of the Lead Independent Director is to chair sessions outside of the presence of the Executive Chairman, to set meeting agendas where necessary and to provide an alternative communications channel between the Executive Chairman and other non-executive Directors.

The structure of the Board has also changed as a result of the sale by Straits Mine Management of its 12.94% holding in the company. Prior to this sale, Andre Labuschagne, as Executive Chairman of Aeris Resources (the parent company of Straits Mine Management), served as a Non-Executive Director. Andre agreed to continue to serve as a director after the sale of Straits' stake and is now an Independent Director. The Board of Magontec currently comprises three Independent Directors and two Non-Executive Directors with associated shareholdings as well as the Executive Chairman.

The Board members have diverse skills and backgrounds. It includes individuals with magnesium industry experience in Europe and China, legal, accounting and other professional qualifications and relevant experience.

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 Lead 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 individual Magontec business operations 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 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. These significant 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 2022 and discuss some of the strategies and actions that have been adopted.

1. Environment

The magnesium industry has an inherent environmental deficit as the vast majority (more than 90%) of its global production base relies on off-gas from coal derivatives. 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 that process, 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 (transforming raw materials, including pure magnesium, for supply to other industrial processes) Magontec has specifically sought to address this negative environmental burden.

Magontec's involvement with Qinghai Salt Lake Magnesium Co Ltd's (QSLM) 100,000 metric tonne per annum electrolytic magnesium production facility at Golmud in Qinghai province PRC, includes access to high levels of renewable energy including hydro, wind and solar.

When this project comes on stream it will have very low CO_2 emissions compared with Pidgeon process pure magnesium production (less than 7 tonnes of CO_2 compared with more than 20 tonnes of CO_2 per tonne of magnesium produced). Under agreements between Magontec and QSLM this facility will deliver 56% of its output to Magontec Qinghai's magnesium alloy cast house, making Magontec the world's most environmentally advanced, high volume magnesium alloy producer. 2022 production from this cast house, over 5,000 mt per annum, received 87% of its energy from these renewable sources.

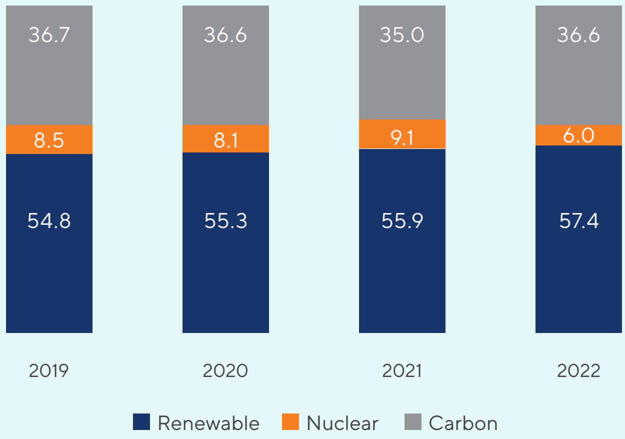
Magontec's other manufacturing operations, at Santana in Romania, Bottrop in Germany and at Xi'an in China, also have significant non-carbon energy inputs and actively seek to grow the proportion of power sourced from renewable energy.

In 2022 the availability of nuclear energy to Magontec's European operations reduced in total contribution from 9.1% to 6.0% while renewable energy inputs other than nuclear increased contribution from 55.9% to 57.4%. While we actively seek energy supplies from renewable sources, competition for non-gas supplies in Europe rose sharply over recent months.

At Magontec's European operations, 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 and has provided some additional protection against surging European gas prices through 2022.

In Xi'an the regional energy supply remains carbon focussed and a strategic issue for the company to address in the years ahead. In 2022, 13% of the energy used at the Xi'an factory was derived from renewable energy sources (12% in 2021).

Magontec energy supply by source (%)



In 2022 Magontec's processing operations continued to pursue a continuous improvement strategy. The re-processing of waste products from magnesium alloy recycling and the reduction of energy inputs through the implementation of efficiency programmes have assumed even greater importance through 2022 as energy prices rose precipitously.

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. Magontec is one of the largest magnesium recycling companies in the world and the largest in Europe with two plants and recycling capacity of over 25,000 metric tonnes per annum. As lower emission magnesium becomes available over the coming years, Magontec's low emission recycling assets represent an increasingly valuable regional environmental resource.

2. Governance

Magontec operates three committees that provide Governance oversight of the Group's operating activities.

The Remuneration and Nominations Committee is chaired by Robert Kaye, Lead Independent Director. Committee members include Independent Director Atul Malhotra and Non-Executive Director Zhong Jun Li.

The committee is established under a charter and has responsibilities including ensuring that:

- The Group's remuneration policies and practices are consistent with the Group's goals and objectives
- MGL has a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

The Committee is responsible for making recommendations to the Board on all aspects of appointment, remuneration and termination for the Chairman and Chief Executive Officer (or equivalent) and to review the appointment, remuneration or termination of key management personnel (defined as those senior executives reporting directly to the CEO) as requested by the Board, Chairman or Chief Executive Officer (or their equivalents). It also addresses relevant Group remuneration issues.

The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board to obtain outside independent professional advice, if it considers this necessary within the scope of its duties with the cost of advice borne by the Company.

In 2022 the Remunerations and Nominations Committee met 3 times.

The Finance, Audit & Compliance Committee (FAC) is Chaired by Independent Director Atul Malhotra and its members include Lead Independent Director Robert Kaye and Independent Director Andre Labuschagne.

The Finance, Audit & Compliance Committee of Magontec Limited is responsible for oversight and for making recommendations to the Board in respect of the Company's financial affairs, information technology, business control framework and legal requirements.

The Committee is authorised by the Board to investigate any activity within its charter. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary within the scope of its duties.

The FAC is specifically responsible for review of the interim and full year company audits including the appointment of the auditor and approval of changes to accounting policies.

The FAC is also responsible for oversight of financial exposures, monitoring the application of risk management techniques and financial exposures and for recommending strategies regarding funding and dividend payments.

In 2022 the FAC committee met on 2 occasions.

The Business Risk Committee (BRC), which was established in 2020, provides additional oversight to the Board and Committee functions through a twice yearly granular review of broader 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.

The Chair of the Committee is Executive Chairman Nicholas Andrews and the members include Independent Directors Andre Labuschagne and Atul Malhotra. Other Independent and Non-Executive Directors are invited to attend.

This committee reviews the company's risk settings through the prism of a Risk Register, a dynamic document that is updated and adjusted prior to each meeting. The committee is an important 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.

The primary responsibility of the BRC is to oversee and evaluate the overall effectiveness of the Group's business risk management framework, systems for compliance and adequacy of internal controls.

Further, the BRC seeks to ensure that Management has:

a. identified and analysed the business and environmental risks facing the Group, including assessment and implementation of principles, policies, processes and controls to avoid, manage or mitigate those risks, and
b. established policies and procedures to ensure, monitor and report on ongoing compliance with statutory and internal compliance obligations

The BRC ensures that the board maintains oversight of material operational, environmental and social risks. In addition to the analysis of the Risk Register the BRC reviews environmental and operational certification for each manufacturing location including currency, renewal date and outstanding requirements imposed by a relevant regional authority.

This committee meets on two occasions each year, immediately prior to the key Interim and Annual Reports to shareholders.

a. Safety

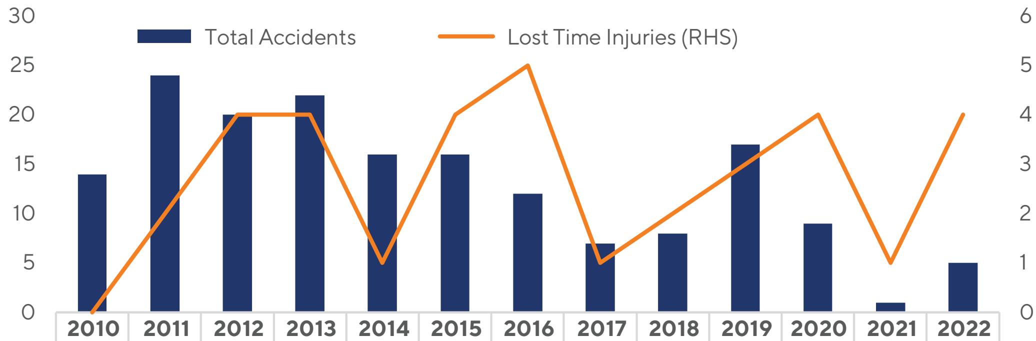
The Board reviews Magontec's safety records and risks each month. The company has in place a rigorous system of workplace injury monitoring. All accidents, large and small are noted and reported. This system allows operations managers to closely oversight critical employee actions and habits, particularly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

Over the years there have been accidents at all 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.

In 2022 there were four lost-time injuries (LTI) sustained among 320 Magontec employees of whom 220 work in manufacturing operations and 100 in administrative and management roles.

There were two significant accidents in 2022. An employee in our Xi'an plant was injured during a machine cleaning process and required hospitalisation. This employee has since returned to work. In July and August there was a fire at the company's German recycling plant in a scrap holding bay. This was addressed by the company's own emergency response team and did not require outside assistance.

While all accidents are distressing, particularly where there is an injury to a staff member, remedial action and changes to work processes and oversight are quickly introduced. We continue to seek to make our workplaces safer and to avoid any repeat accidents.



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Accidents	14	24	20	22	16	16	12	7	8	17	9	1	5
Lost Time Injuries (RHS)	0	2	4	4	1	4	5	1	2	3	4	1	4

b. Cyber, Information Technology and Fraud

In common with companies all over the world, Magontec is subjected to daily phishing and other deceptive practice attacks through the Internet. The Group addresses 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.

We are able to acquire further protection for our European and US subsidiaries through cyber insurance policies that offer protection against identity and reputation theft (blackmailing), bank account and credit card fraud, hardware and data breaches, business interruption and compensation in liability cases and data protection incidents. This type of insurance policy is not available in China.

In 2022 Magontec engaged external parties in China and Europe to test the company's defences against external threats. Reports on both business units were provided to the BRC and recommendations were made to strengthen the company's defences.

Over the last few years, Magontec has implemented a comprehensive, third party supplied and supported, ERP (enterprise resource planning) infrastructure across all its operations in Europe, North America and China. Management can track and locate inventories and monitor logistics at each point between despatch from the company's facilities and arrival at customers premises.

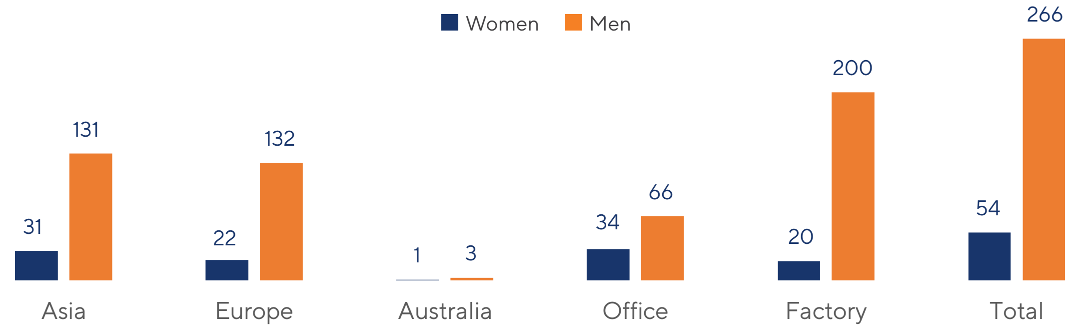
3. Social

Magontec has maintained a strong record of staff retention, among its operations employees and in administrative and management roles. The company's senior management team, the global executive management group and the regional leadership teams in operations and sales, have an average tenure of over 15 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 part of a Code of Conduct document 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.

The BRC undertakes a twice yearly review of 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.

Diversity by Gender (2022)



a. Diversity

The company's Code of Conduct details the manner in which employees are expected to behave and how employees should be treated by the company, by management and by each other.

As a multi-national organisation there is a high level of ethnic diversity within Magontec, but a more modest level of gender diversity. Our published Code actively promotes equality, diversity and inclusion within the organisation for employees of all ages, 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 gender-diverse labour force.

In our anodes manufacturing operations there has been a growing level of gender diversity over many years at the Xi'an and Santana facilities.

b. COVID-19

In our 2021 Annual Report we identified the COVID situation in China as posing a particular risk to the Group's operations in that part of the World. Indeed throughout 2022 COVID presented a significant threat to our Chinese business. Over the last 12 months we have experienced factory closures in Xi'an and at the Golmud factory. While these were difficult to manage there was no interruption in supply to anode or alloy customers. With the move away from zero COVID in China we think that the risks from COVID are now highly manageable.

In Europe there were very few ongoing pandemic effects.

Metals

The magnesium alloy recycling and primary magnesium alloy manufacturing businesses enjoyed buoyant conditions in 2022.

Magontec manufactures primary magnesium alloys in China at its Golmud, Qinghai facility and recycles magnesium alloys in Germany and Romania.

The automotive industry is the principal customer for these products along with smaller volumes to the power tool industry. The company also manufactures a wide variety of specialist alloys and a growing volume in other value-added magnesium products that are sold into the aerospace and steel industries, among others.

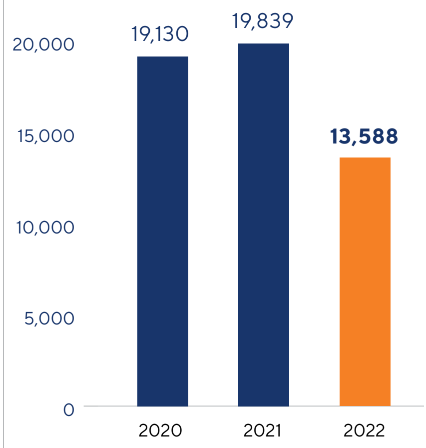
Metals Report

In 2022 all Magontec's metals businesses recorded profits ahead of the previous year. The surge in magnesium prices was reflected in increased revenues and created exceptional opportunities for margin expansion.

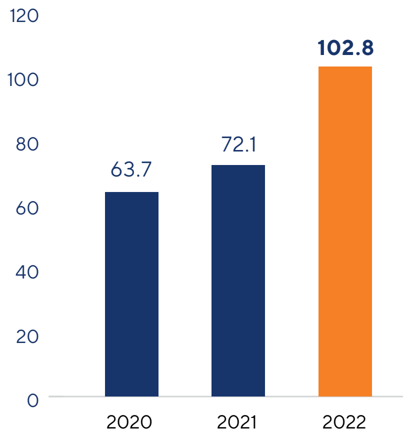
As the adjacent charts show, while margins were strong, magnesium alloy sales volumes were lower than in 2021, partly the result of high prices and widespread economic contraction leading to lower offtake by customers in Europe, North America and Asia.

While economic factors have constrained industrial activity, Magontec's global magnesium alloy sales volumes are further reduced by the low output of primary product from our Golmud cast house. Since 2019 this facility has operated without supply from our partner company, the Qinghai Salt Lake Magnesium Co Ltd (QSLM).

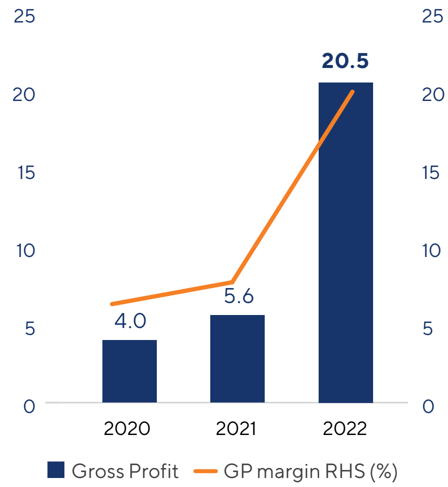
Magontec Metal Volumes (tonnes)



Magontec Metal Revenues (AUD mil)



Magontec Metal Gross Profit (AUD mil)




Magontec Qinghai's magnesium alloy cast house

Magontec's global magnesium alloy business is reliant on the supply of primary product from our Chinese facility into European and other markets, and scrap returns generated from those sales to our recycling factories.

The lengthy delay in the start-up of the QSLM pure magnesium electrolytic smelter, and the absence of supply of that product to Magontec's adjacent cast house, creates a deficit at each step of the global metals production chain for our company. In particular it reduces our ability in Europe to source scrap returns for our recycling assets in Romania and Germany.

Magontec remains fully invested in its Qinghai project which produced several thousand tonnes for customers in Asian and North American markets. Because of the location of the plant it is heavily reliant on local supply by QSLM and under the current supply metrics (no metal was supplied by QSLM in 2022) it is not possible to produce higher volumes at a reasonable margin.

Despite these limitations, the Magontec Qinghai cast house reduced its losses in the year under review while the overall metals business, including recycling activities, posted a close to break-even EBIT result.

Our partners at Qinghai, QSLM (a major shareholder), have continued to work their way through a difficult remediation schedule and financial restructure. The new leader of the Golmud pure magnesium project, Xing Cai Li, joined the Board of Magontec in September 2022 after his appointment as General Manager at Qinghai Huixin Asset Management (QSLM's parent company) in early 2022.

We remain confident that QSLM will commence supply of pure magnesium to Magontec's Qinghai cast house in the near future as the technical and process issues that have impacted this project are resolved.

It remains the case that the QSLM electrolytic magnesium smelter will manufacture the lowest CO_2 magnesium product in the world. While there are other projects under consideration in other regions of the world, with some reportedly under construction, the QSLM facility is the only constructed large scale, low emission electrolytic project in the world today and its output will be much in demand.

In 2022 Magontec's metals recorded Gross Profit of $20.5 million compared with $5.6 million in 2021. This was largely generated by the company's recycling and remelting businesses.

In the first six months of 2022 magnesium prices remained high and we were able to ship a large inventory of recycled scrap material to customers all over the world. In the US the shuttering of the local magnesium manufacturer was a key contributor to higher prices. For nearly 20 years American magnesium customers have paid a very high duty on Chinese magnesium imports to protect a local producer from whom they have historically sourced a large proportion of their requirements. In the absence of this source, US customers have had to source supply from international recyclers among others. No announcements have been made by the sole domestic US producer on a recommencement of its Great Salt Lake operations.

Magontec operates Europe's lowest CO_2 emissions recycling business with two plants strategically located in Germany and Romania. The migration of European industry from west to the east over the last 20 years has seen the growth of a magnesium alloy die casting industry, particularly magnesium alloy steering wheels, to Romania.

Both of Magontec's European recycling operations performed extremely well through the year with little downtime. There were no residual COVID effects and both operations were back to normal operating status.

The salient operating event was the change in energy prices. Since the Russian invasion of Ukraine, energy supplies to all European companies have been under threat and prices have been rising. In 2022 the average energy cost per kWh rose by 68% for the combined European recycling businesses over 2021.

In Romania the effect was slow to materialise as the Government in that country capped energy prices for businesses in the early part of the year. This cap has since been removed. In Germany there was no cap in 2022 but in 2023 a price cap has been introduced limiting the price paid for 70% of historical production volume.

Energy costs and availability are critical inputs for recycling and primary magnesium alloy manufacturing. While the immediate energy crisis has been successfully managed through the northern winter and energy prices will likely retrace through the spring and summer, the longer-term energy situation is not resolved and will remain a risk into the winter of 2023 and possibly beyond. Other costs are also rising. Wages in Germany and Romania have risen rapidly in the last few months and labour availability is an issue at all manufacturing operations.

Magontec's European metals business has sought to manage reduced scrap availability and rising costs by growing activities in downstream value-added products. Our specialist metals division supplies increasing volumes of hybrid magnesium products to the aerospace industry and has been a growing contributor to earnings in the last few years. It is likely to receive a boost from aerospace inventory re-stocking that is now occurring in many Western countries. Other businesses and supply sources have been developed by better management of melt output and metal recovery.

The outlook for the metals business is certainly more challenging than for the last 12 months. For our customers, supply of primary metal from China is now more certain than it appeared at this time last year. Shipping availability is no longer a threat, transportation costs between China and Europe have declined to lower levels and pure magnesium prices have been stable around ¥20,000 – ¥25,000 per tonne for some time. While the US producer has been absent from World markets for over 12 months, its long-term future and the ramifications for the global magnesium industry if it does not return, are difficult to forecast. As things stand Chinese imports to the US remain highly taxed. A change to this tariff, which aluminium alloy manufacturers will be as keen to pursue as magnesium alloy die casters, would impact global magnesium metal flows and prices in all jurisdictions.

Magontec's magnesium metal strategy continues to focus on the re-start of supply of liquid pure magnesium metal from QSLM to our adjacent magnesium alloy cast house. This event will revitalise our global trading and recycling activities and is keenly anticipated by the wider magnesium alloy diecasting industry. We have also worked hard to develop new earnings streams for this business to reduce reliance on recycling and reduce risks associated with a high-volume lower margin business. Our new activities are all focussed on higher margins and a broad range of niche products where production and technology skills are more important than volume throughput. In the near future we expect to have both of these strategies driving higher profits for shareholders.

Magnesium Markets and Commodity Review

The magnesium industry has been through a price rollercoaster over the last year and a half. It appears to be settling back down again at the start of 2023.

The underlying price of pure magnesium emerged as a key profit driver for Magontec over the last 18 months.

Rapidly rising and then sustained high prices coupled with higher levels of demand resulted in robust trading conditions for both primary and recycled Mg alloy production, particularly in the first half of 2022. In recent months demand has moderated and is likely to be more muted still in the early part of 2023.

There have been a variety of influences on the magnesium price in this period including a sharp reduction in supply from the sole US producer, environmental constraints on Chinese producers and Chinese coal miners through 2021 to fluctuating demand for magnesium products as international consumers have sought to manage global logistics risks and, more latterly, challenging macro-economic trends.

Chart 1 on page 20 shows the long run relationship between magnesium (Mg) and aluminium (Al) expressed in Chinese RMB and the seismic price event of August 2021.

The world's principal light metals, Mg and Al, are relatively interchangeable, at least for some automotive and electronics applications, and this has caused the two prices to run in sync for many years. As the global economy emerged from the COVID period, the price of all metals began to rise, reflecting rising consumer demand and supply shortages.

For Mg two other events occurred in mid-2021 causing an even sharper price increase; the closure of the US Magnesium operations at Park City Utah and the imposition of stricter environmental conditions on Chinese coal miners and Pidgeon process magnesium producers that are heavily dependent on coal gas and coal prices.

While the US Magnesium facility has not returned to prior output levels, Chinese regulatory impositions on domestic coal and Mg production appear to have moderated, at least temporarily, and the global economy has stalled. This caused Mg prices to retrace sharply in 2022 and stabilise in a band between ¥20,000 and ¥25,000 a tonne in the second half of the year, still at a level somewhat higher than the long-run average. In the US prices have stayed higher for longer reflecting a complex supply matrix that has historically excluded direct Mg alloy ingot shipments from China due to extreme tariff barriers but includes a wide variety of indirect scrap collection from Asia and European ingot supply.

It seems likely that Mg prices will continue to be supported at these higher levels as coal, ferro-silicon and dolomite prices, the key energy and raw material inputs for Pidgeon production, are also tracking above longer-term trends. While demand has been weakening for some months and is expected to weaken further in the first period of 2023, the current Chinese factory gate price is estimated to be close to the Chinese costs of production.

Ferro Silicon (**Chart 2**), the most expensive raw material input for Pidgeon magnesium, is also heavily influenced by coal prices (**Chart 3**) and has been subjected to growing environmental controls that have increased its own costs of production. Similarly, the magnesium host rock, dolomite (**Chart 4**), has also seen a sharp rise in production costs over the last 18 months. Other inputs, in particular labour, are also subject to economic pressures.

Chart 1. Magnesium & Aluminium (1 Jan 2020 - 31 Dec 2022)

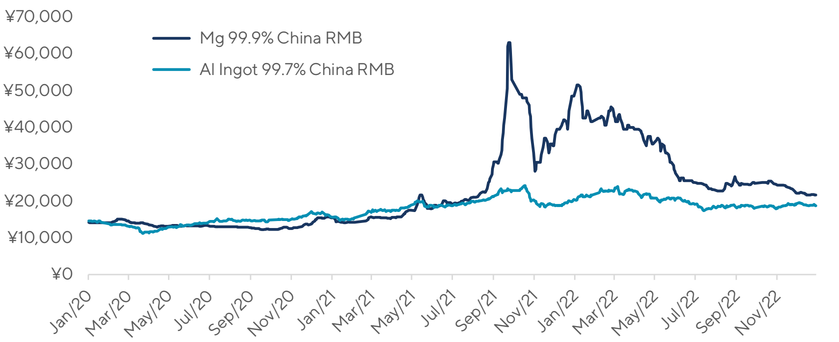


Chart 2. Magnesium & Ferro Silicon (RHS) (1 Jan 2020 - 31 Dec 2022)

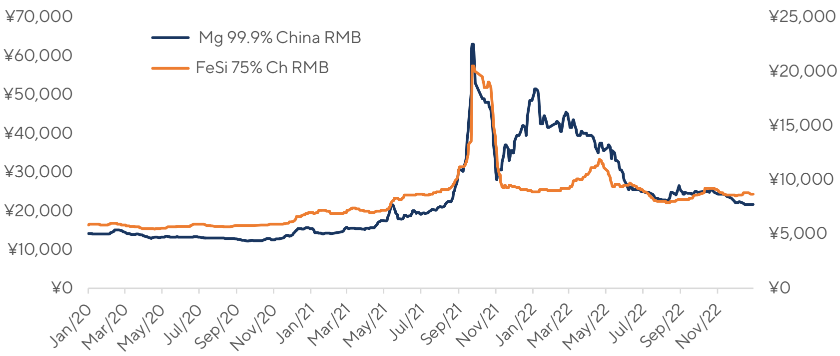


Chart 3. Chinese Coal and Magnesium prices (1 Jan 2021 - 31 Dec 2022)

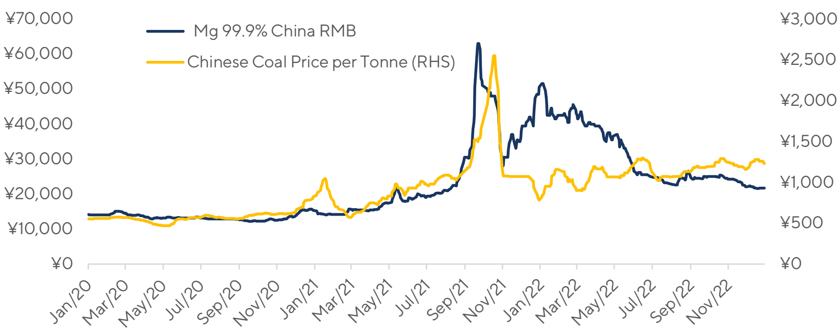


Chart 4. Chinese Dolomite Prices (December 2021 to January 2023)

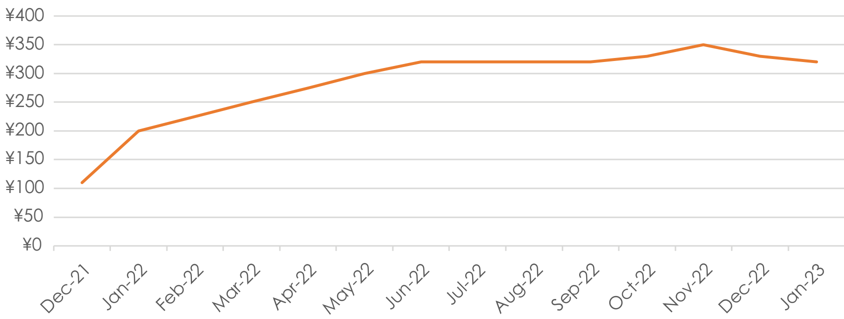
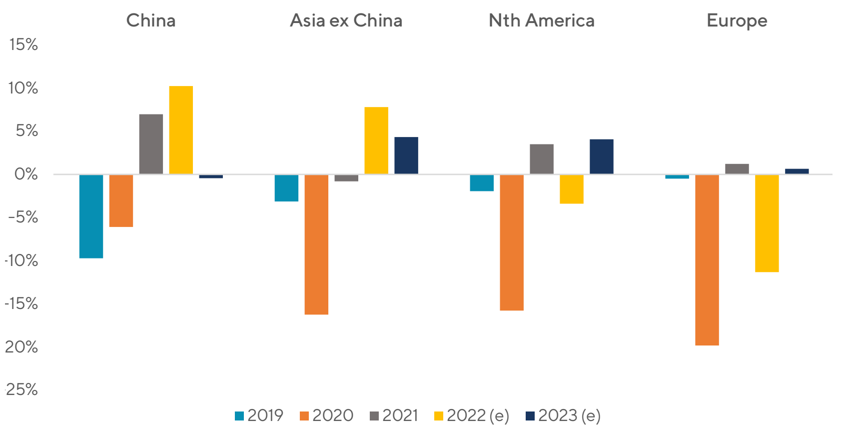


Chart 5. Mg alloy quarterly Chinese export volumes and Mg prices (1Q '20- 4Q '22)

Chart 6. Global Automotive Sales By Region



Pidgeon process magnesium has a very high labour input cost compared to electrolytic magnesium production; a great advantage 20 years ago but likely to become a growing burden in the years ahead.

Demand for Mg alloy, the market that Magontec operates in as a primary producer and recycler, is largely focussed on the automotive industry with smaller shares going to power tools and electronics – all consumer sectors and exposed to rising interest rates and underlying demand weakness.

Chart 5 shows Chinese Mg alloy export volumes and the pure Mg price over the last three years, including a sharp rise in demand following the initial COVID wave, a less sharp decline as Mg prices rose through 2Q and 3Q 2021 and a more sustained level of exports through the first three quarters of 2022 as pent-up automotive demand, artificially suppressed by COVID induced microchip shortages, began to flow into new automotive sales.

Through the last 12 months automotive sales have continued a steady recovery from the 2020 COVID shock and chip shortage leading to marginally higher global sales in all regions, although the outlook in 2023 remains uncertain.

In Europe a general decline in automotive sales, exacerbated by plummeting Russian demand, has seen regional unit sales fall by around 1.1 million in 2022 while in China, despite the COVID lockdown, sales grew strongly, particularly in the EV (electric vehicle) sector. Indeed, as **Chart 7** shows, EV sales are expected to grow to around 10% of all global sales by 2024, with China leading the way in this sector.

There is certainly hesitancy in the automotive sector and Magontec has experienced this in its conversations with customers in Europe, North America and China in the last few months of 2022. Our direct customers are the automotive application manufacturers. These are Tier 1 die casting companies that make steering wheels, instrument panel beams and airbag containers among other products. Most of the applications manufactured using Magontec's primary and recycled magnesium alloys will continue to be applied in EVs as they have been in ICEs (internal combustion engine). The exception being gear box cases that will no longer be present in EVs. The outlook for 2023 is as difficult to predict as in any prior year. We can, however, say with some certainly that margins for Mg alloy products will be lower than in 2022

Finally, a comment on the emerging magnesium supply matrix. As shareholders will recall China is the largest producer of pure magnesium and uses the Pidgeon manufacturing process. Other major producing countries are Israel, the USA, Russia and Brazil. In **Chart 8** we show the long run growth in pure magnesium production and the change in the production base from principally western countries to around 88% Chinese production in 2022.

China continues to be the dominant player in this industry and the Pidgeon process, despite its environmental challenges, the dominant production method.

Chart 7. Global ICE and EV Automotive Sales

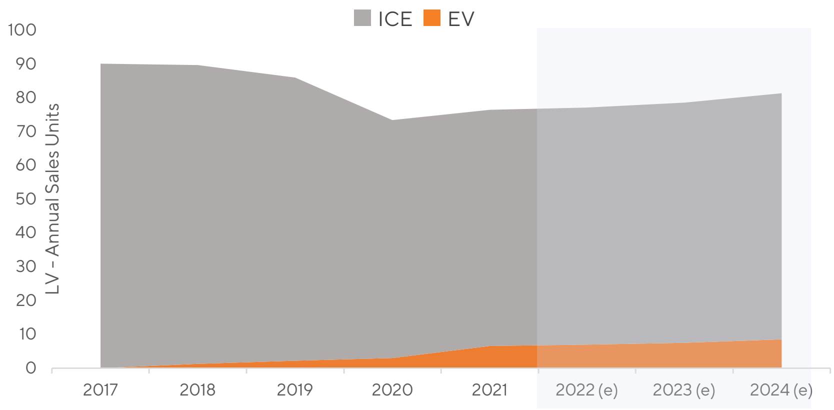
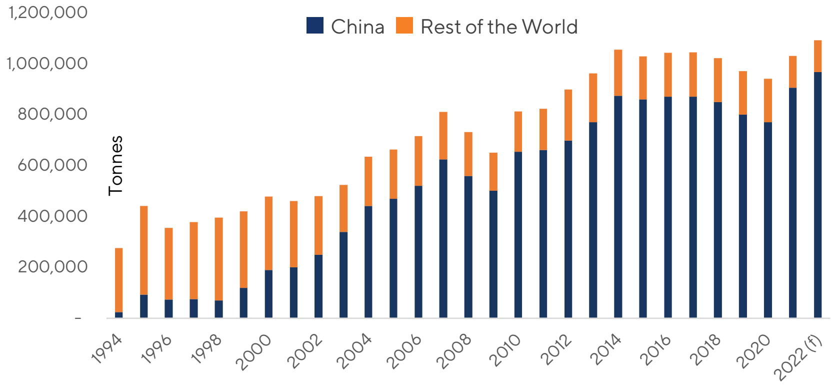


Chart 8. Global Pure Magnesium Production (1994 – 2022)



The chart also shows the resurgence of production following the COVID period in 2020. Demand for magnesium products from the aluminium, automobile, power tool, steel and titanium industries continues to experience long-term positive momentum with the magnesium alloy sector (where Magontec operates) expected to enjoy CAGR over the 5-year period to 2027 of 6.7%.

As a result of the magnesium price spike in 2021 several new projects have emerged in Europe, Australia and Canada. None of these are yet in production and most are still in an embryonic stage. As a global magnesium alloy producer and recycler, new pure magnesium production, both within and outside of China, will provide added impetus for all Magontec's Mg alloying businesses.

Anodes

Anodes are an essential and integral part of the hot water appliance industry and Magontec is a leading global supplier.

Magontec manufactures both magnesium anodes and electronic anodes in China and Europe. The key customer for Magontec anodes is the global hot water appliance manufacturing industry.

Magontec's anodes businesses enjoyed stronger markets in 2022 driven by rising raw material prices and some regional market share growth.

Despite improved margins, sales volumes for both magnesium and electronic anodes were slightly lower than in 2021, reflecting weakening markets and high inventories in the second half of the year, particularly in China and the USA.

Hot water appliance sales have a strong bias to the replacement cycle (generally about 80% of production) in the longer run, however the speed of the global economic adjustment in late 2022 appeared to cause some inventory indigestion, exacerbated by the Chinese covid lock down. We expect that to clear through the first half of 2023 in all regions.

The rise in the price of magnesium is largely responsible for the strong increase in revenues in the early part of 2022. As magnesium prices have fallen significantly from their highest levels this will feed into contract prices through the first half of 2023. Our expectation at this time is that prices will not return to first half 2021 levels when pure magnesium prices averaged just ¥16,645 per tonne.

Magontec is a global leader in the anode manufacturing business with strong market shares in China, Europe, the US and the Middle East.

Ready access to magnesium raw materials, even in periods of supply constraint, an active approach to technical development and high-quality manufacturing processes are all factors that help Magontec's businesses remain competitive in a challenging global market.

In China we have continued to invest in automation and expanded capacity and in 2023 we will start delivering a wider selection of anodes to customers where water quality requires a different technology.

In Europe and China a key industry attribute is the ability to supply many different anode types for a wide range of hot water appliances to many different manufacturers at a competitive price. Over many years our Xi'an, PRC and Santana, Romania magnesium anode factories have proved themselves equal to that task.

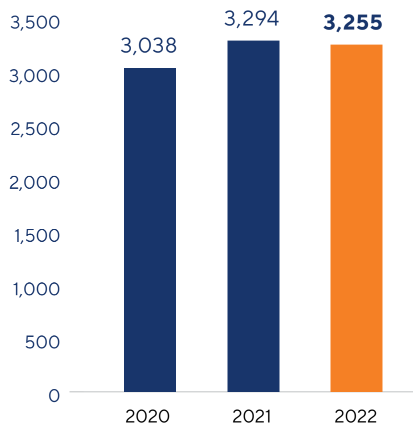
In the US and Europe we will launch a new series of electronic anodes with higher functionality to meet new standards in the rapidly growing heat pump market. As climate change pushes regional regulations towards more environmentally friendly water heating devices, the demand for intelligent anodes that can manage all aspects of cathodic protection is also growing.

As a leader in electronic anode technology, and with a team of scientists based at our German facility in Bottrop, Magontec is well placed to meet the changing market for cathodic protection devices for hot water appliance manufacturers and other applications that are subject to the effects of corrosion from proximity to water.

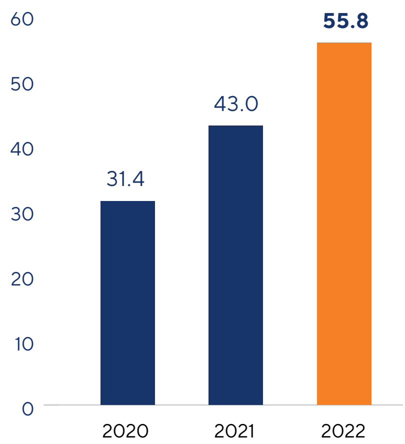
While 2022 was a more profitable year for Magontec's sacrificial anodes, all these businesses have enjoyed steady growth in volumes and earnings over many years. As a stand-alone business with a Gross Profit of $18.1 million in 2022, Magontec's global anode business would likely attract an independent valuation greater than the entire market value of the company as at the end of 2022.

The outlook for Magontec's global anodes businesses remains positive. We continue to grow volumes into the US in all anode types and see much opportunity there. We are beginning to see opportunities in other Asian regions as new housing developments in major cities are starting to resemble the explosive growth of Chinese apartment developments over the last 20 years. In China itself apartment building has slowed through the heavily pandemic-impacted 2022 but should see some resurgence through 2023 as government support for apartment development companies provides greater stability to this important sector. Together with the move towards more environmentally friendly technologies in western countries the outlook for sacrificial and electronic anode demand continues in a long-term positive trend, albeit the margins in magnesium anodes experienced in 2022 cannot be repeated.

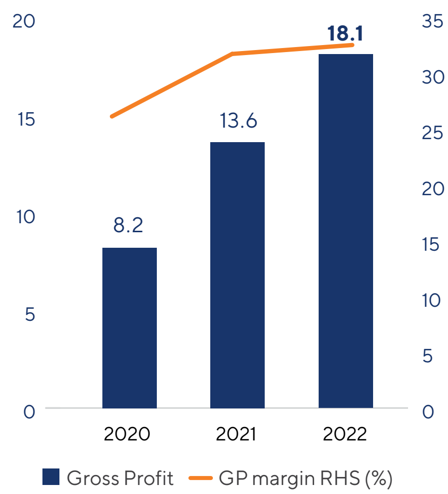
Mg Anode Volumes



Total Anode Revenues (AUD mil)



Anode Business Gross Profit (AUD mil) and GP Margin



Innovation

Magontec is a market leader in a number of niche industries. Our focus on innovation is designed to entrench and grow our participation in each sector.

Magontec continues to invest in new product development and process refinement at its Chinese and European facilities.

In addition to the company's own research and development teams, we also engage with universities and research institutes in Germany, China and Australia.

China

Through 2022 the company's Chinese teams focused on developing local capacity for hybrid specialist metals production, a new sacrificial anode product for the US market and a new resistor anode for Chinese markets.

In 2023 we expect to deliver the new sacrificial anode product to a US customer after installing and commissioning equipment for this market. The product has a wide application for poor water quality regions and we expect to find other US customers in the coming months. The new resistor anode is a cast or extruded product integrated with an injection process. This product will also be introduced for the Chinese market in 2023.

In 2022 Magontec Xi'an again participated in China's National Key R&D program together with 10 partners and over ¥19m of funding. Magontec was awarded specific funding of ¥1.16m and participated in one of 5 sub-projects to optimize alloying of magnesium using liquid pure Mg raw material from its partner company in Qinghai, QSLM. The project started at the end of 2022 and will continue for 3 years.

Other associations include an Australian Linkage project, a collaborative enterprise that includes Magontec Xi'an, Monash University and Baosteel with additional financial support from the Australian government. A new alloy system is being investigated that shows good deformation symmetry behaviour after extrusion, improving tensile and compression property asymmetry issues.

This may lead to stamping and drawing process applications that use existing Magontec specialist alloy components.

Our Chinese research team is also involved in the Qinghai Key Science and Technology project seeking to expand applications for Magontec's proprietary AE44 magnesium alloy in new automotive applications.

Australia

In Australia, in association with universities in Victoria, we have focussed on developing master alloys; a mixture of magnesium plus high levels of a second element. These are used in the manufacture of commercial alloys when direct addition of the second element in pure form is problematic. These master alloys are now a key part of Magontec's specialist metals product portfolio.

Starting from a zero base some years ago, in 2022 master alloys and associated metals products now represent a significant business for Magontec in the aerospace industries, among others. The development story of these products illustrates the value of innovation, research and development and points to future opportunities.

The development of master alloys began with university scale research at The University of Queensland followed by further development at the Australian research organisation, CSIRO. Research was undertaken under the Australian Government's Cooperative Research Centres program that combined the activities of research organisations with one of Magontec's predecessor organisations, Australian Magnesium Corporation. Industrial scale production trials were carried out in several locations including Japan, China, and Germany before eventually settling on the commercially successful products of today.

Magontec has recently returned to master alloy innovation and research, this time in partnership with Swinburne University, based in Melbourne, Australia, and Indonesia's National Research and Innovation agency, BRIN.

Many specialist magnesium alloys, such as ZE41, the workhorse alloy for magnesium gravity casting foundries, and AE44 used in high pressure diecasting applications, rely on the low-cost rare earths cerium and lanthanum that are produced as by-products of more expensive rare earths such as neodymium and europium.

Typical rare earth production proceeds through numerous stages from concentrated oxide that is converted to rare earth metal. The conversion to metal occurs at a small number of locations worldwide and is associated with high cost and environmental penalties. The production of magnesium-rare earth master alloys directly from oxide materials, the focus of these research projects, presents advantages in terms of cost, environment, and supply chain security.

The examples given by Magontec's magnesium master alloys illustrate how research and innovation can lead from initial innovation to commercial success and deliver significant commercial rewards for shareholders.

Europe

In Europe our research focus has been on developing new products and new standards for our global water heater manufacturing customers. As national governments and global authorities commit to further reductions in carbon dioxide emissions, customer demands for sustainability in production and operation of building services equipment are also rising.

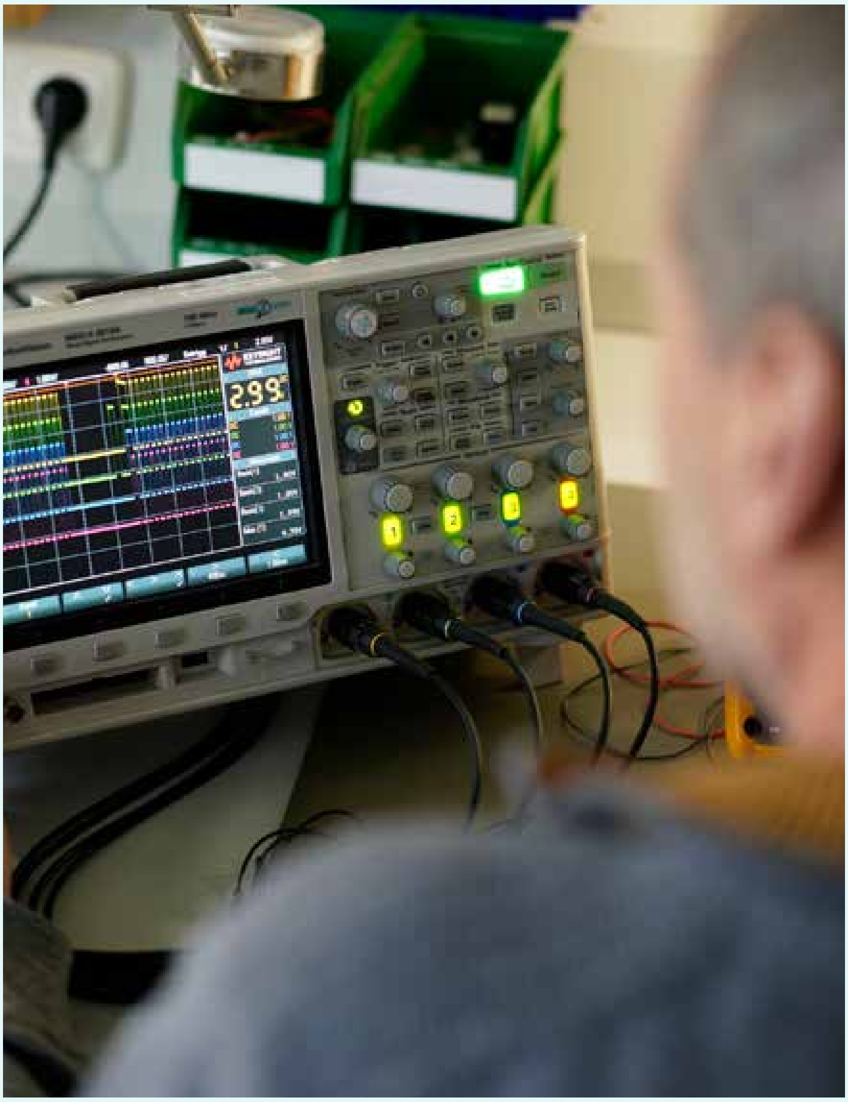
This trend plays to Magontec's strength as a supplier of durable corrosion protection equipment that increases the service life of drinking water appliances and saves valuable natural resources. Our European application technology & engineering (A&E) team is now focused more than ever on increasing longevity and energy efficiency of existing and new products.

This work has led to newly established service-life tests of electrical components and functional materials, which are performed in-house at Magontec and at external facilities. Examples include accelerated life-time tests of powered anode coatings as well as thermic stress tests for switching mode power supplies.

The A&E team is also engaged in the search for trusted international suppliers from early-stage development through all phases of each product's life cycle. Only the most durable components from the most reliable sources are accepted into serial production. This focus on supply chains helps prevent product failures and allows long-run strategic planning with minimum risk. In 2022 Magontec commenced a major extension of its Bottrop laboratory facilities that is now near completion and will allow more advanced in-house long-term testing.

Magontec's German research efforts are also focused on the next generation of cathodic corrosion protection systems: smart, efficient and aesthetically appealing. Features of Magontec's new product lines go beyond cathodic corrosion protection; a key aspect of the new generation products is a platform strategy which allows easy adjustment to national technical standards, such as different regional power grid characteristics. Through optimization of control algorithms and the use of modern circuit elements it is now possible to reduce the power consumption of powered anode controllers by up to 90 % compared with prior generation models.

In 2022 our German A&E team have worked on international standards relating to regulatory aspects for products in contact with drinking water. Magontec has now obtained product certification from the National Sanitation Foundation (NSF) for new powered anode systems designed for the North American market. NSF accreditation provides customers with the highest level of confidence and transparency. These same products are in full compliance with the strictest drinking water regulatory frameworks in the world including the Water Regulatory Advisory Scheme (WRAS) of the United Kingdom and the German Environment Agency (UBA).



Board of Directors

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.

Robert Kaye SC

Lead Independent Director (re-appointed 29 July 2020)

Chairman of the Remuneration and Nominations Committee (REM)
Member of the Finance, Audit and Compliance Committee (FAC)
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 and Electro Optic Systems Holdings Limited. Mr Kaye was previously the Chairman of Spicers Limited, the Chairman of the Macular Disease Foundation Australia and also was formerly a non-executive director with both UGL Limited and HT&E Limited.

Xing Cai Li

Non-Executive Director (appointed 28 September 2022)

MBA, (Qinghai Nationalities Minzu University)

Xing Cai Li is General Manager of Qinghai Huixin Asset Management Co Ltd (QHAM), the owner of Qinghai Salt Lake Magnesium Co Ltd (QSLM), which operates the Qinghai electrolytic magnesium smelter complex in which Magontec's Magnesium Alloy Cast House is based.

Mr Li has held previous positions as the Deputy Director of Finance at the Shanghai and Hong Kong listed Aluminium Corporation of China (Chalco), one of the world's largest producers of alumina and aluminium. Prior to that Mr Li was Vice President at Western Mining Co Ltd, responsible for overall financial management, fund raising and investment management as well as being secretary to the Board. Western Mining is a ¥23 billion company listed on the Shanghai Stock Exchange engaged in the mining, smelting, and trading of metal minerals, including copper, lead, zinc, iron, gold and silver.

QSLM is a 28.85% substantial shareholder in Magontec Limited and the company with whom Magontec Limited has entered into a number of agreements in relation to the Magontec Qinghai alloy production facility at Golmud in Qinghai Province PRC.

Andre Labuschagne

Independent Director (re-appointed 25 May 2022)

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). 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.

Atul Malhotra

Independent Director
(re-appointed 25 May 2022)

Chairman of the Finance, Audit and Compliance Committee (FAC)
Member of the Remuneration and Nominations 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.

Zhong Jun Li

Non-Executive Director
(re-appointed 25 May 2021)

Member of the Remuneration and Nominations 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.

Executive Management

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 (University of New South Wales) 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 Group 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

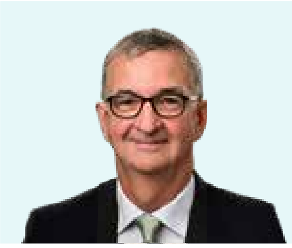
B Bus, Accounting (UTS)

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.

Mr Talbot resigned from the position of Company Secretary in January 2023.



Dean Taylor

Company Secretary

CA, FGIA, FCIS

Mr Dean Taylor was appointed to the position of Company Secretary in January 2023.

Mr Taylor is a Chartered Secretary and member of the Governance Institute of Australia. He has previously acted as Chief Financial Officer, Company Secretary and a Board member for an extensive range of organisations including Standards Australia, LifeHealthcare and HPM Legrand.

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 (CASTAMT- 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.

Directors' Report

for the year ended 31 December 2022

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 2022 were authorised for issue in accordance with a resolution of the directors on 23 February 2023. 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 wholly owned holding entity that owns the Group's operating businesses at Xi'an (PRC) and Suzhou (PRC).	**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 **28.85%** 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**
KWE (HK) Investment Development Co Ltd	Shareholder in Magontec Limited. Mr Zhong Jun Li, a director of Magontec Limited is also a director and shareholder of KWE (HK) Investment Development Co. Ltd.	**KWE (HK)**

3. Rounding errors

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

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

Such differences arise from the process of:

- converting foreign currency amounts to two decimal places in AUD; and
- subsequent rounding of the AUD amounts to one thousand dollars.

Directors' Report

continued

The Directors of Magontec Limited submit herewith the Annual Financial Report of the Group for the twelve-month period ended 31 December 2022. 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 Robert Kaye SC (Lead Independent Director)
- Mr Atul Malhotra (Independent Director)
- Mr Andre Labuschagne (Independent Director)
- Mr Zhong Jun Li (Non-Executive Director)
- Mr Xing Cai Li (Non-Executive Director)

Directorships of other Listed Companies

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

- Mr Robert Kaye is Chairman of Collins Foods Limited, a Non-Executive Director of FAR Limited and a Non-Executive Director of Electro Optic Systems Holdings Limited.
- Mr Andre Labuschagne is Executive Chairman of Aeris Resources Limited

Company Secretary

Mr John 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. Mr Talbot has resigned from the position of Company Secretary in January 2023.

Mr Dean Taylor

Member, Institute of Chartered Accountants Australia & New Zealand (CA ANZ), Institute of Chartered Secretaries (FCG), Governance Institute of Australia (FGIA), Australian Institute of Company Directors (MAICD)

Mr Dean Taylor was appointed to the position of company secretary in January 2023. Mr Taylor is a Chartered Secretary and member of the Governance Institute of Australia. He has previously acted as Chief Financial Officer, Company Secretary and a Board member for a range of organisations including Standards Australia, LifeHealthcare and HPM Legrand.

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' Report

continued

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	10	10					2	2
Mr Zhong Jun Li	9	10			3	3		
Mr Atul Malhotra	9	10	2	2	3	3	2	2
Mr Robert Kaye	8	10	–	1	3	3		
Mr Andre Labuschagne	6	10	2	2			2	2
Mr Xing Cai Li	2	2						

(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	1,520,364	1,440,741
Mr Zhong Jun Li	3,792,907	–
Mr Atul Malhotra	–	–
Mr Robert Kaye	102,565	–
Mr Andre Labuschagne	–	–
Mr Xing Cai Li	–	–

Remuneration Report

The Remuneration Report is set out on Pages 35 to 48 and forms part of the Directors Report for the financial year ended 31 December 2022.

Directors' Report

continued

Remuneration Report (audited)

The Directors of Magontec are pleased to present the Remuneration Report for the financial year ended 31st December 2022. The report forms part of the Directors Report and has been audited in accordance with section 300A of the *Corporations Act 2001*.

The remuneration report is presented under the following sections:

1. Key Management Personnel (KMP) covered by this Report
2. Remuneration at a glance
   i. Remuneration objectives
   ii. Remuneration policy
   iii. Executive KMP remuneration mix
3. Governance of remuneration framework
4. KMP Remuneration arrangements
   i. Current service arrangements for Executive KMP
   ii. KMP remuneration for the year ended 31 December 2022
   iii. Loans to Members of Key Management Personnel
5. Group performance and the link to remuneration
6. 2022 Executive KMP Remuneration in detail
   i. 2022 Fixed Remuneration
   ii. 2022 Short-term incentive (STI)
   iii. 2022 Long-term incentive (LTI)
   iv. Valuation of Performance Rights
   v. KMP Equity Holdings
7. Independent & Non-executive Director Remuneration arrangements

1. Key Management Personnel (KMP) Covered by this Report

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 those executives with a direct reporting responsibility to the Executive Chairman (excluding the Company Secretary) are deemed to be such individuals. Details of Directors and KMP are set out below.

Type	Name	Position	Appointed	Committee
Non-Executive KMP	Robert Kaye SC	Lead Independent Director	19 Jul 2013	Chair – Rem Member - FAC
	Atul Malhotra	Independent Director	1 Jan 2019	Chair - FAC Member – REM Member - BRC
	Andre Labuschagne	Independent Director	22 Jan 2014	Member - FAC Member - BRC
	Zhong Jun Li	Non-Executive Director	31 Aug 2009	Member - REM
	Xing Cai Li	Non-Executive Director	28 Sep 2022	
Executive KMP	Nicholas Andrews	Executive Chairman	14 May 2007	Chair - BRC
	Christoph Klein-Schmeink	President Magontec Europe, North America and Middle East	7 May 2012	
	Tong Xunyou	President Magontec Asia	7 May 2012	
	Derryn Chin	Chief Financial Officer	1 Mar 2016	

FAC – Finance & Audit Committee

REM – Remuneration & Nominations Committee

BRC – Business Risk Committee

Directors' Report

continued

2. Remuneration at a Glance

I. Remuneration Objectives

Magontec's remuneration objectives are to ensure that there is an alignment between the outcomes desired by shareholders with those of the employee with a clear focus on the agreed strategic direction and priorities of the Group.

Magontec's Vision *is that it seeks to entrench itself as a leading global manufacturer and recycler of magnesium alloys and magnesium alloy products, to be known as a fair and safe workplace, for its embrace of technology, high environmental standards, efficient execution of global logistics and high standards of corporate governance.*

By ensuring this alignment between shareholders and management, it creates the right environment to deliver on the outcomes, providing a stability in the executive team and focus on the right priorities that drive total shareholder returns.

The Remuneration objectives are not singularly focused on financial issues, but are balanced with environmental, social and governance-based stakeholder expectations.

II. Remuneration Policy

The Remuneration Policy is reviewed on an annual basis by the Remuneration & Nominations Committee to ensure that the principles and expected outcomes are matched with the business strategy and rapidly evolving market environment.

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.

The implementation of these plans is utilised to:

- motivate members of the Global Management Group to originate innovate strategies for growth;
- reward the Global Management Group for the satisfaction of positive strategic and financial outcomes; and
- to provide an adjunct to cash remuneration to preserve cash resources.

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.

III. Executive KMP Remuneration Mix

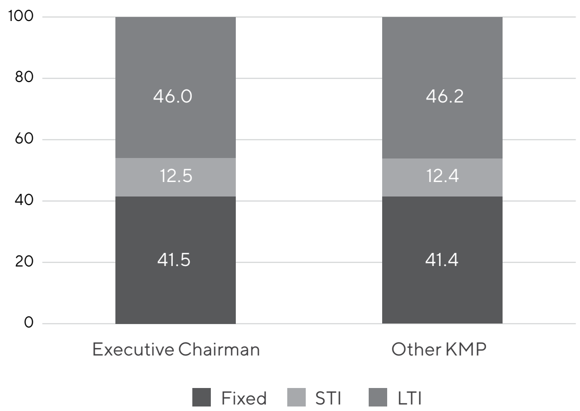
The Group's remuneration framework includes a mix of fixed and variable at-risk remuneration. It is deemed that the mix provides the appropriate balance between guaranteed remuneration and at-risk to the employee which is aligned with shareholders and the current employment market conditions.

Remuneration for the Global Management Group comprises three components:

i. Fixed remuneration (TFR);
ii. Short-term incentive (STI) in the form of cash; and
iii. Long-term incentive (LTI) in the form of performance rights.

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

Remuneration Mix Target (%)



Variable at-risk Remuneration

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 executive'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.

Directors' Report

continued

2. Remuneration at a Glance (continued)

The Board believes that the balance between short-term and long-term remuneration is appropriate and encourages long-term value creation. High short-term remuneration mix has a tendency to encourage short term reactionary decisions that are not in the best interests of shareholders.

The STI LTI Governing Document is available on the Magontec website.

I. Total Fixed Remuneration (TFR)

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.

When an executive or an employee is recruited, the Group's aim is to reward its staff at Quartile 1 (25%) market rates within the manufacturing technology industry as determined and in consultation with a remuneration specialist where appropriate.

The Board believes that providing fixed remuneration (TFR) at the first quartile and providing a higher weighting to LTI provides the right reward/risk balance for the executive team with focus on strategic priorities which generate long term value creation for shareholders.

II. Short-Term Incentive (STI)

The STI plan rewards executives according to a set policy with reference to group profitability. This includes provisions to limit the overall maximum pool according to constraints inherent in the policy.

<table>
<tr><td>How is performance measured?</td><td>The Board determines the size of the pool based on actual financial metrics achieved relative to a board approved budget and has discretion to adjust payment depending on the particular circumstances of the Group and other qualitative factors as it sees appropriate.</td></tr>
<tr><td>How is the pool calculated?</td><td>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".

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:

<table><tr><th>1. If Pool as a % of Actual NOPAT is equal to:</th><th>2. The Pool is Modified to this % of excess Actual NOPAT over Budget NOPAT</th></tr><tr><td>From 0.0% to 12%</td><td>25.0%</td></tr><tr><td>Over 12.0% to 20%</td><td>15.0%</td></tr><tr><td>Over 20.0%</td><td>8.0%</td></tr></table></td></tr>
<tr><td>How is the pool allocated to executives?</td><td>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:

– 45% of the Provisional Payment by way of a fixed component as determined by the formula described above; and
– 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.</td></tr>
<tr><td>How is the STI governed?</td><td>The payments are subject to approval by the Board upon the recommendation of the Remuneration and Nominations Committee.</td></tr>
</table>

Directors' Report

continued

2. Remuneration at a Glance (continued)

How is risk managed in context to the STI Pool?	There are several ways that risk is managed with the STI pool: – The STI Pool is created to the extent that the group is profitable. – The STI Pool is only created when actual NOPAT exceeds the Board Approved Annual Budget. – The STI Pool % allocation is reduced if pool as % of actual NOPAT is over certain criteria which is assessed periodically by the Remuneration and Nominations Committee. – The Board has discretion with 55% of the pool allocation with consideration relating 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.
What period does the STI relate to?	– 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. – Net operating profit after tax (NOPAT) is defined as reported net profit after tax adjusted for specific items as deemed appropriate by the board for the relevant year completed.
How is it paid?	STI remuneration is 100% cash settled annually and paid subsequent to completion of the Approved Audited Financial Statements for the relevant year.
What happens if the executive leaves?	If an executive resigns or is terminated for cause before the end of the financial year, or prior to payment of the STI, no STI is awarded for that year unless otherwise determined by the Board

III. Long-Term Incentive (LTI)

Long term incentives are provided via the issue of performance rights (a form of option) to the Global Management Group which may convert into Magontec ordinary shares subject to the achievement of pre-determined share price targets in addition to non-market-based conditions as detailed below.

How is performance measured?	Performance is measured according to a combination of non-market based KPIs (Tier 1) and Market-based Share Price Targets (Tier 2). With respect to share price targets, performance is measured on the basis of a 30 day VWAP absolute total shareholder return (TSR) for each three-year LTI performance period ended 31 December.
How is the TSR calculated?	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 the 3-year LTI performance period. The performance condition of TSR is deemed as being the most appropriate by the Board. It aligns the interests of employees in the management group with those of shareholders.
How is LTI granted?	From the 2021-23 Plan onwards, 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; i. 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.
How do Performance Rights Vest?	Performance Rights which are granted may convert into Magontec ordinary shares according to the two tests below: **1. Tier 1 – Individual KPIs (30%)** The executive's performance is rated against multiple KPIs prescribed by the individual and approved by the Board. **2. Tier 2 – Group Level Share Price (70%)** Under Tier 2, further performance rights may vest upon achievement of the relevant absolute share price targets above (market-based vesting conditions). The number of performance rights vesting under Tier 2 performance rights is only incremental to the Tier 1 entitlement.

Directors' Report

continued

2. Remuneration at a Glance (continued)

How do Performance Rights Vest? continued	If, at the end date of the 3-year LTI performance period, the Performance Rights have not otherwise 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. 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 vesting % tables on page 45.
How is the LTI governed?	The resultant payments are subject to approval by the Board upon the recommendation of the Remuneration and Nominations Committee.
How is risk managed in context to the LTI?	There are several ways that risk is managed with the LTI pool: – The absolute value of the LTI benefit is restricted to 50% of the employees TFR. – The determination of the vesting conditions are recommended by the Remuneration and Nominations Committee and are aligned with exceeding the share price of the previous period. – The Performance Rights will lapse after 3 years if the vesting conditions are not achieved. – 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.
What are the terms of the LTI?	– 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. – 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. – 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.
How is it paid?	Performance Rights are granted annually . In the event that the vesting conditions are met, the Performance rights will convert to fully paid ordinary shares in Magontec Limited.
What happens if the executive leaves?	In the event of the death, dismissal, retrenchment, retirement or resignation of the executive, Performance Rights will automatically lapse unless otherwise determined by the Board having regard to the nature of the contribution to the Company by and circumstances of, the particular executive.

Directors' Report

continued

3. Governance of Remuneration Framework

During 2022, the Board reviewed the governance structure for remuneration and refined the framework to ensure its appropriateness to current market practice.

Role of the Board

The Board maintains overall responsibility for the remuneration strategy and outcomes for executives and non-executive directors and reviews and approves the recommendations received from the Remuneration and Nominations Committee.

The Board Charter is available on the website: www.magontec.com

Remuneration & Nominations Committee (REM)

The Remuneration & Nominations Committee is responsible for oversight of the Remuneration Framework and ensures that the appropriate remuneration and retention strategies are established. The Committee will make recommendations to the board on the remuneration arrangements for non-executive directors (NEDs) and executives.

The Committee is responsible for making recommendations to the Board on all aspects of appointment, remuneration and termination for the Chairman and Chief Executive Officer (or equivalent) and to review the appointment, remuneration or termination of key management personnel (defined as those senior executives reporting directly to the CEO excluding the Company Secretary) as requested by the Board, Chairman or Chief Executive Officer (or their equivalents).

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.

The REM Committee Charter is available on the website: www.magontec.com

Remuneration Approval Process

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

Remuneration Benchmarking and Use of Remuneration Consultants

From time to time, external independent information is obtained that is relevant for remuneration recommendations by the REM Committee and decisions by the Board. This advice includes, but is not limited to, advice on current remuneration practices, remuneration trends, regulatory and governance updates and market data.

During the current year ended 31 December 2022, the Group engaged the following external remuneration consultants:

- Egan Associates Pty Limited undertook a review of fees paid to Magontec Directors, having regard to their varying obligations, including the roles of Lead Independent Director and Non-Executive Director. The Group paid Egan $6,000 excluding GST during the 12 months to 31 December 2022.

4 KMP Remuneration Arrangements

I. Current Service Arrangements for Executive KMP

The table below sets out the remuneration of the Executive KMP.

Executive Contractual Arrangements						
Name	Position	31 Dec 2022 Fixed Remuneration	Contract Term	Contract Expiry	Notice Period For Termination	Payment in Lieu of Notice
Mr N Andrews	Executive Chairman	$559,018	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	$382,505	5 years	14-Aug-27	Employer initiated - 12 mths Employee initiated - 12 mths	12 months' pay
Mr X Tong	President Magontec Asia	$436,830	No fixed term or expiry		Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay
Mr D Chin	Chief Financial Officer	$333,869	3 years	30-Jun-23	Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay

Directors’ Report

continued

4. KMP Remuneration Arrangements (continued)

II. KMP Remuneration for the year ended 31 December 2022

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

		Non-Performance Related					Performance Related			
Key Management Personnel Remuneration 12 months ended 31 Dec 2022 and 31 Dec 2021		Salary & Allowances $	Termination Payment $	Super & Statutory Pension Benefits $	Share based payments $	Motor Vehicle & Other Allow-ances $	STI $	LTI shares* $	Non cash accrual LTI Rights** $	Total $
Mr N Andrews	**2022**	**513,249**	**-**	**27,500**	**-**	**-**	**164,437**	**-**	**62,875**	**768,061**
(Exec Chairman)	2021	459,994	-	26,250	-	-	66,534	-	56,402	609,180
Mr C Klein-Schmeink	**2022**	**350,894**	**-**	**16,934**	**-**	**15,184**	**152,894**	**-**	**50,314**	**586,220**
(President Magontec Europe)	2021	340,395	-	27,561	-	31,775	54,539	-	47,603	501,873
Mr X Tong	**2022**	**363,210**	**-**	**21,540**	**-**	**-**	**109,349**	**-**	**43,443**	**537,542**
(President Magontec Asia)	2021	341,532	-	19,571	-	-	48,072	-	40,937	450,112
Mr D Chin	**2022**	**293,184**	**-**	**27,500**	**-**	**-**	**97,516**	**-**	**37,066**	**455,266**
(Chief Financial Officer)	2021	254,998	-	24,675	-	-	37,940	-	31,566	349,179
Mr R Kaye	**2022**	**67,308**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**67,308**
(Lead Independent Dr)	2021	60,000	-	-	-	-	-	-	-	60,000
Mr A Malhotra	**2022**	**60,393**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**60,393**
(Independent Dr)	2021	59,756	-	-	-	-	-	-	-	59,756
Mr A Labuschagne	**2022**	**60,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**60,000**
(Independent Dr)	2021	60,000	-	-	-	-	-	-	-	60,000
Mr Z Li	**2022**	**60,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**60,000**
(Non Exec Dr)	2021	60,000	-	-	-	-	-	-	-	60,000
Mr X Li	**2022**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
(Non Exec Dr) (1)	2021	-	-	-	-	-	-	-	-	-
Mr K Xie	**2022**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
(Non Exec Dr) (2)	2021	-	-	-	-	-	-	-	-	-
Mr S Li	**2022**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
(Alternative Dr) (3)	2021	-	-	-	-	-	-	-	-	-
Total year ended 31 December 2022		**1,768,238**	**-**	**93,474**	**-**	**15,184**	**524,196**	**-**	**193,698**	**2,594,790**
Total year ended 31 December 2021		**1,636,675**	**-**	**98,057**	**-**	**31,775**	**207,085**	**-**	**176,508**	**2,150,100**

(1) Appointed 28 September 2022
(2) Departed 28 October 2021
(3) Departed 28 October 2021

* **LTI shares**

This reflects the expense related to actual shares vesting to the employee from the scheme.

No performance rights issued were converted to shares in the current year with respect to the 3-year period from 2020-2022 to members of the Global Management Group.

** **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.

Directors' Report

continued

4. KMP Remuneration Arrangements (continued)

III. Loans to Members of Key Management Personnel

As at 31 December 2022, there was one employee loan outstanding to Mr Christoph Klein-Schmeink for a total of A$53,557 (2021: A$53,224).

The loan has a term of either 10 years or repayable in full on termination of employment or sale of shares in part or full held in Magontec Limited. Interest of 1.81% is attached to the loan. There were no other employee loans to key management personnel outstanding as at 31 December 2022.

5. 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 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.

Outcomes with respect to financial performance over the last 5 years are summarised below.

Summary of financial performance					
$'000 unless otherwise stated	12 months to 31 Dec 18	12 months to 31 Dec 19	12 months to 31 Dec 20	12 months to 31 Dec 2021	12 months to 31 Dec 2022
Sales	130,793	130,617	95,068	115,151	158,600
Gross Profit	**14,803**	**13,119**	**12,195**	**19,232**	**38,595**
Margin (%)	*11.3%*	*10.0%*	*12.8%*	*16.7%*	*24.3%*
Net Profit After Tax attributable to members	**776**	**(1,370)**	**(717)**	**5,008**	**16,515**
Ordinary shares on issue at end of year*	76,004,899	76,004,899	76,728,320	76,729,210	77,521,835
Basic EPS (cents)	1.0	(1.8)	(0.9)	6.5	21.5
Diluted EPS (cents)	1.0	(1.7)	(0.9)	6.3	19.7
Net tangible assets per share (cents)	40.9	35.2	32.5	42.4	67.9
Share price at end of year (cents)	30.0	24.0	27.0	45.0	32.5
Change in share price (cents)	(24.0)	(6.0)	+ 3.0	+ 18.0	(12.5)
Return on Equity (%)	2.3%	(4.2)%	(2.4)%	15.4%	35.7%
Dividends declared per share (cents) – unfranked	–	–	–	–	1.2
Dividend Paid during the year	–	–	–	–	460

* Adjusted for 15 to 1 share consolidation in August 2021

With respect to the LTI scheme, the share price targets approved by shareholders for the 3-year assessment period ended 31 December 2022 were not achieved. Similarly, non-market based targets during this period were not achieved.

During the 3-year period ended 31 December 2022, the share price (adjusted for the share consolidation in 2021) of the Company increased from 24.0 cents per share as at 1 January 2020 to 32.5 cents per share at 31 December 2022 giving rise to an increase in the market capitalisation of Magontec Limited from $18.2 million to $25.2 million.

After adjusting for new capital raised, dividends paid and return of capital (nil) during the 3-year assessment period, total shareholder wealth remained at an adjusted total of $25.2 million, representing an increase of $6.9 million during the LTI assessment period. However, as this fell short of the targets as outlined in the 2020-22 plan, no performance rights with respect to this period were eligible for vesting and thus have lapsed.

Directors' Report

continued

6. 2022 Executive Remuneration in detail

i. 2022 Fixed Remuneration

During 2022, fixed increases in remuneration of 4 members of Key Management Personnel (KMP) were provided which align with the 25th Percentile of their relative benchmark. Details of the increases are included in the Remuneration Report.

The Remuneration Framework aims to reward KMP at the 25th percentile of the relative benchmark for each Executive (measured independently) which is low to market but offset by higher at-risk component in form of variable remuneration (STI, LTI).

The increases during the year 2021 and 2022 reflect:

- Catch-up adjustments as Executives were being paid below these benchmarks for several years prior.
- Key Management Personnel (along with all staff in the EU and Australian business as well as each Non-Executive Director) taking a significant pay reduction during the 2020 year to manage cashflow during the COVID pandemic. This allowed the Group to maintain its existing personnel numbers and ultimately laid the platform for the results seen in 2021 and 2022.

ii. 2022 Short-Term Incentive (STI) - Performance against STI measures

In accordance with the Group's Remuneration Policy and Executive KMP employment arrangements, for the current year ended 31 December 2022, an STI provision of $693,945 has been provided for in the Financial Statements as a result of financial performance for the year.

This represents the "Provisional Payment" of 45% of the total STI pool available for eligible executives to receive. The Board, upon recommendation of the REM Committee, did not allocate the remaining "Residual Discretionary Component" due to the abnormal magnesium price conditions assisting the 2022 financial result.

iii. 2022 Executive Long-Term Incentive (LTI) - Performance against LTI measures

LTI grants vested during the year

No LTI grants for Executive KMP have vested during 2022 because the vesting conditions for the Performance Period 1 January 2020 to 31 December 2022 were not achieved.

Consequently, total Performance Rights of 1,275,809 on issue for this period lapsed.

No LTI grants have vested since 31 December 2016.

LTI granted during the year

During the year ended 31 December 2022, a total of 3,125,212 Performance Rights were granted with respect to the three-year period 1 January 2022 to 31 December 2024.

No other Performance Rights were granted to Executive KMP during the 2022 financial period.

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.

LTI grants to be issued in 2023

In accordance with the Group's Remuneration Policy and Executive KMP employment arrangements and subject to shareholder approval at the 2023 AGM, it is anticipated that 3,021,042 performance rights will be granted in 2023 reflecting the 3-year LTI incentive for the period 1 January 2023 to 31 December 2025.

Directors' Report

continued

6. 2022 Executive Remuneration in detail (continued)

Summary of current LTI grants

The table below summarises the current LTI grants provided to eligible executives.

Calculation of Performance Rights Issued to Global Management Group			
3 Year LTI Performance Period	1 Jan 20 to 31 Dec 2022	1 Jan 21 to 31 Dec 2023	1 Jan 22 to 31 Dec 24
1. Aggregate salaries of eligible participants at commencement of 3 year LTI period	$1,913,712	$1,896,436	$2,109,518
2. Multiplication factor	30%	50%	50%
3. Value (1 x 2)	$574,114	$948,218	$1,054,759
4. Share price assumed at commencement of 3 year LTI period to calculate number of Performance Rights to issue*	$0.600	$0.450	$0.450
5. Performance Rights issued at commencement = Amount in step 3 / 75% * share price in step 4	1,275,809	2,809,539	3,125,212
Date of issue of Performance Rights	01-Jan-20	01-Jan-21	01-Jan-22
Date for conversion to ordinary shares	31 Dec 2022	31-Dec-23	31-Dec-24

* Adjusted for 15-1 share consolidation in August 2021

Performance Rights Issued to Global Management Group						
3 year LTI Performance Period	1 Jan 20 to 31 Dec 2022	1 Jan 21 to 31 Dec 2023	1 Jan 22 to 31 Dec 24	Total Rights	2021* Value $	2022 Value $
Nicholas Andrews	300,000	666,667	774,074	1,740,741	90,000	195,232
Derryn Chin	167,900	373,112	455,556	996,568	50,370	114,897
Christoph Klein-Schmeink	255,195	563,304	620,594	1,439,093	76,046	156,522
Xunyou Tong	224,548	485,356	535,755	1,245,659	65,523	135,124
John Talbot	83,333	185,186	185,185	453,704	25,001	46,706
Patrick Look	146,317	322,972	321,075	790,364	43,601	80,979
Zisheng Zhen	98,516	212,942	232,973	544,431	28,747	58,759
Total Performance Rights	**1,275,809**	**2,809,539**	**3,125,212**	**7,210,560**	**379,288**	**788,219**

* Updated since 2021 Annual Report. Impact not material

Directors' Report

continued

6. 2022 Executive Remuneration in detail (continued)

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%

2022-2024 LTI Plan Vesting Schedule

Performance Level		Share Price	% of Performance Rights vesting
Below threshold	Share price <	60.0	0%
Threshold range	Share price =	60.0	25%
Target range	Share price =	70.0	50%
Stretch	Share price >=	80.0	100%

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 2022 LTI and 2021 LTI fair value at grant date awarded relate to the 2022-24 Plan and 2021-23 Plan respectively.

Summary of STI and LTI awarded to key management personnel

	2022 STI awarded $	2022 LTI fair value awarded at grant date $	2021 STI awarded $	2021 LTI fair value awarded at grant date* $
Current KMP executives				
Nicholas Andrews	164,437	195,232	66,534	90,000
Christoph Klein-Schmeink	152,894	156,522	54,539	76,046
Xunyou Tong	109,349	135,124	48,072	65,523
Derryn Chin	97,516	114,897	37,940	50,370
Total	**524,196**	**601,775**	**207,085**	**281,939**
Non Market Vesting Probability at grant date (%)		*100%*		*100%*

* Updated since 2021 Annual Report. Impact not material

Directors’ Report

continued

6. 2022 Executive Remuneration in detail (continued)

The following table details the number of LTI performance rights granted, lapsed or exercised during the year ended 31 December 2022, by plan participant and in aggregate.

Performance Rights Issued to Global Management Group						
Name	Grant date	Holding at 1 Jan 22	Granted in 2022	Lapsed in 2022	Holding at 31 Dec 2022	Vested at 31 Dec 2022
Nicholas Andrews						
2020-22 Plan	1-Jan-20	300,000	–	(300,000)	–	–
2021-23 Plan	1-Jan-21	666,667	–	–	666,667	–
2022-24 Plan	1-Jan-22	–	774,074	–	774,074	–
Subtotal		**966,667**	**774,074**	**(300,000)**	**1,440,741**	**–**
Derryn Chin						
2020-22 Plan	1-Jan-20	167,900	–	(167,900)	–	–
2021-23 Plan	1-Jan-21	373,112	–	–	373,112	–
2022-24 Plan	1-Jan-22	–	455,556	–	455,556	–
Subtotal		**541,012**	**455,556**	**(167,900)**	**828,668**	**–**
Christoph Klein-Schmeink						
2020-22 Plan	1-Jan-20	255,195	–	(255,195)	–	–
2021-23 Plan	1-Jan-21	563,304	–	–	563,304	–
2022-24 Plan	1-Jan-22	–	620,594	–	620,594	–
Subtotal		**818,499**	**620,594**	**(255,195)**	**1,183,898**	**–**
Xunyou Tong						
2020-22 Plan	1-Jan-20	224,548	–	(224,548)	–	–
2021-23 Plan	1-Jan-21	485,356	–	–	485,356	–
2022-24 Plan	1-Jan-22	–	535,755	–	535,755	–
Subtotal		**709,904**	**535,755**	**(224,548)**	**1,021,111**	**–**
John Talbot						
2020-22 Plan	1-Jan-20	83,333	–	(83,333)	–	–
2021-23 Plan	1-Jan-21	185,186	–	–	185,186	–
2022-24 Plan	1-Jan-22	–	185,185	–	185,185	–
Subtotal		**268,519**	**185,185**	**(83,333)**	**370,371**	**–**
Patrick Look						
2020-22 Plan	1-Jan-20	146,317	–	(146,317)	–	–
2021-23 Plan	1-Jan-21	322,972	–	–	322,972	–
2022-24 Plan	1-Jan-22	–	321,075	–	321,075	–
Subtotal		**469,289**	**321,075**	**(146,317)**	**644,047**	**–**

Directors' Report

continued

6. 2022 Executive Remuneration in detail (continued)

Performance Rights Issued to Global Management Group

Name	Grant date	Holding at 1 Jan 22	Granted in 2022	Lapsed in 2022	Holding at 31 Dec 2022	Vested at 31 Dec 2022
Zisheng Zhen						
2020-22 Plan	1-Jan-20	98,516	–	(98,516)	–	–
2021-23 Plan	1-Jan-21	212,942	–	–	212,942	–
2022-24 Plan	1-Jan-22	–	232,973	–	232,973	–
Subtotal		**311,458**	**232,973**	**(98,516)**	**445,915**	**–**
Aggregate						
2020-22 Plan	1-Jan-20	1,275,809	–	(1,275,809)	–	–
2021-23 Plan	1-Jan-21	2,809,539	–	–	2,809,539	–
2022-24 Plan	1-Jan-22	–	3,125,212	–	3,125,212	–
Total		**4,085,348**	**3,125,212**	**(1,275,809)**	**5,934,751**	**–**

iv. Valuation of performance rights

The fair value of performance rights granted as consideration by the Group has been estimated by reference to the fair value of the equity instruments granted. The group uses a binomial options pricing model which was used to determine the fair value of performance rights issued to executives for market-based conditions.

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.

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 pay-out that would be owing by satisfaction of the non-market based conditions (Tier 1)

Grant Year	2021	2022	2023 (For approval)
Status	Approved 2021 AGM	Approved 2022 AGM	To Be Approved 2023 AGM*
Grant Date	1 January 2021	1 January 2022	1 January 2023
Performance Period	1 January 2021 to 31 December 2023	1 January 2022 to 31 December 2024	1 January 2023 to 31 December 2025
Vesting Date	31 December 2023	31 December 2024	31 December 2025
Vesting Period	3 years	3 years	3 years
Performance Rights Awarded – Exec Chair	666,667	774,074	828,175
Performance Rights Awarded – other KMP	2,142,872	2,351,138	2,192,867
Share price at grant date	27.0c	45.0c	32.5c
Share Price Target 100% Vesting	59.6c	80.0c	59.6c
Volatility %	52.2%	62.3%	64.8% (estimate)
Discount rate (risk free) p.a.	0.11%	0.93%	3.19% (estimate)
Dividend Yield p.a.	0.0%	0.0%	0.0% (estimate)
Fair Value (cents)	11.0c	25.2c	19.2c (estimate)

Directors' Report

continued

6. 2022 Executive Remuneration in detail (continued)

v. Key Management Personnel Equity Holdings

Fully paid ordinary shares of Magontec Limited – 31 Dec 2022

	Total balance (held directly and indirectly) 01-Jan-22	Granted as remuneration	Acquired On Market	Issued under Dividend Reinvestment Plan	Total balance (held directly and indirectly) 31 Dec 2022	Balance held nominally (indirectly)
	No.	No.	No.	No.	No.	No.
Mr Z Li (1)	3,746,487	–	–	46,420	3,792,907	3,765,840
Mr N Andrews (2)	1,493,962	–	–	26,402	1,520,364	1,149,826
Mr R Kaye (3)	102,565	–	–	–	102,565	102,565
Mr C Klein-Schmeink	460,763	–	–	6,923	467,686	–
Mr X Tong	658,865	–	–	9,900	668,765	–
Mr D Chin	92,308	–	7,692	936	100,936	–
Total	**6,554,950**	**–**	**7,692**	**90,581**	**6,653,223**	**5,018,231**

(1) 3,765,840 shares held via KWE (HK) Investment Development Co Limited and 27,067 shares are held directly
(2) 1,149,826 shares are held via DEWBERRI PTY LIMITED as trustee for Andrews Superannuation Fund and 370,538 are held directly
(3) 102,565 shares held indirectly through Bella Rebecca Kaye

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 2021	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

7. Independent & Non-Executive Director Remuneration Arrangements

The remuneration of Independent and Non-Executive Directors (NED) consists of Directors' fees. The aggregate amount of independent and NEDs fees are 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 aggregate $600,000 fees approved by Shareholders for Independent and NEDs, compensation is set at $60,000 per annum for each Independent and NED and at $80,000 for the Lead Independent 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.

Independent and NEDs are reimbursed for all reasonable travel costs and other expenses properly incurred by them in attending any meetings of committees of the Board, in attending any general meetings or otherwise in connection with the affairs of the Group

Equity based compensation including the issue of options is generally avoided for Independent and NEDs. 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.

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 2022 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

JWoods

Justin Woods
Lead Audit Partner

Sydney

Dated this 23rd day of February 2023.

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

T (02) 9221 7022
F (02) 9221 7080
E cambos@cambos.com.au
W camphinboston.com.au

Russell Bedford taking you further

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

Consolidated Statement of Profit & Loss and Other Comprehensive Income

for the year ended 31 December 2022

	Note	12 months to 31 Dec 2022 $'000	12 months to 31 Dec 2021 $'000
Sale of goods	2(a)	158,600	115,151
Cost of sales	2(b)	(120,005)	(95,919)
Gross profit		**38,595**	**19,232**
Other income	2(c)	1,450	1,747
Interest expense		(650)	(525)
Impairment of inventory, receivables & other financial assets	2(d)	(25)	4
Travel accommodation and meals		(459)	(209)
Research, development, licensing and patent costs		(825)	(880)
Promotional activity		(180)	(65)
Information technology		(403)	(443)
Personnel	2(d)	(9,094)	(7,934)
Depreciation & amortisation		(605)	(642)
Office expenses		(586)	(640)
Corporate		(3,314)	(3,114)
Foreign exchange gain/(loss)		(66)	198
Profit/(Loss) before income tax expense		**23,837**	**6,730**
Income tax (expense)/benefit	3(a)	(7,322)	(1,722)
Profit/(Loss) after income tax expense		**16,515**	**5,008**
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	484	1,203
Other Comprehensive Income – that will not emerge in the Profit and Loss Statement			
Movement in various actuarial assessments	17	2,806	933
Total Comprehensive Income		**19,805**	**7,144**

	Note	12 months to 31 Dec 2022 cents per share	12 months to 31 Dec 2021 cents per share
Profit/(Loss) after income tax expense for the year			
Members of the parent entity – Basic (cents per share)	19	21.5	6.5
Members of the parent entity – Diluted (cents per share)	19	19.7	6.3

Earnings per share numbers in 2021 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 2022

	Note	31 Dec 2022 $'000	31 Dec 2021 $'000
Current assets			
Cash and cash equivalents	25(d)	11,259	4,636
Trade & other receivables	6	24,797	21,317
Inventory	7	35,928	23,689
Other	8	2,017	8,840
Total current assets		**74,001**	**58,482**
Non-current assets			
Other receivables	9	334	316
Property, plant & equipment	10	17,099	17,753
Deferred tax asset	3(c)	1,830	2,720
Intangibles	11	3,059	3,241
Total non-current assets		**22,322**	**24,030**
TOTAL ASSETS		**96,323**	**85,512**
Current liabilities			
Trade & other payables	12	12,026	17,570
Bank borrowings	13	9,295	7,309
Provisions	14	9,259	3,491
Total current liabilities		**30,580**	**28,370**
Non-current liabilities			
Other payables		254	255
Bank borrowings	13	–	4,217
Provisions	15	9,360	13,395
Total non-current liabilities		**9,614**	**17,867**
TOTAL LIABILITIES		**40,195**	**46,237**
NET ASSETS		**56,129**	**36,275**
Equity attributable to members of MGL			
Share capital	16	59,174	58,918
Reserves	17	15,554	5,153
Accumulated (losses)/profits	18	(18,599)	(27,796)
Total equity		**56,129**	**36,275**

Consolidated Statement of Changes in Equity

for the year ended 31 December 2022

	Share Capital Ordinary	Retained Earnings	Profits Reserve	Foreign Currency Translation Reserve	Capital Reserve	Actuarial Reserve	Expired Options Reserve	Employee Share Issue Reserve	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance 1-Jan-21	**58,918**	**(32,804)**	**–**	**2,563**	**2,750**	**(4,306)**	**1,637**	**136**	**28,893**
Profit/(Loss) attributable to members of parent entity	–	5,008	–	–	–	–	–	–	5,008
Comprehensive income	–	–	–	1,203	–	933	–	–	2,137
Issue of shares (net)	–	–	–	–	–	–	–	237	237
Balance 31 Dec 2021	**58,918**	**(27,796)**	**–**	**3,766**	**2,750**	**(3,373)**	**1,637**	**373**	**36,275**
Balance 1-Jan-22	**58,918**	**(27,796)**	**–**	**3,766**	**2,750**	**(3,373)**	**1,637**	**373**	**36,275**
Profit/(Loss) attributable to members of parent entity	–	16,515	–	–	–	–	–	–	16,515
Transfer to Profits Reserve	–	(7,317)	7,317	–	–	–	–	–	–
Dividends	–	–	(460)	–	–	–	–	–	(460)
Comprehensive income	–	–	–	484	–	2,806	–	–	3,290
Issue of shares (net)	256	–	–	–	–	–	–	253	509
Balance 31 Dec 2022	**59,174**	**(18,599)**	**6,857**	**4,250**	**2,750**	**(567)**	**1,637**	**627**	**56,129**

Note: Amounts transferred to the Profits Reserve characterise profits available for distribution as dividends in future years and reflects the amounts transferred by individual entities in the Group. Therefore it is not equivalent to Consolidated Group profit.

Consolidated Cash Flow Statement

for the year ended 31 December 2022

	Note	12 months to 31 Dec 2022 $'000	12 months to 31 Dec 2021 $'000
Cash flows from operating activities			
Profit before taxation		**23,837**	**6,730**
Adjustments for:			
– Non-cash equity expense		253	237
– Depreciation & amortisation		2,776	2,823
– Foreign currency effects		1,303	(582)
– Other non-cash items		(139)	1,249
Cash generated from/(utilised in) underlying operating activities		**28,030**	**10,457**
Movement in working capital balance sheet accounts			
– Trade receivables and other current assets		2,352	(6,324)
– Inventory		(11,537)	(1,810)
– Trade payables and other current liabilities		(5,191)	4,514
Cash generated from/(utilised in) underlying operational cash flow and net working capital assets		**13,654**	**6,837**
– Net Interest paid		(632)	(492)
– Income tax paid		(2,276)	(522)
Cash generated from/(utilised in) operating activities		**10,746**	**5,823**
Cash flows from investing activities			
Net cash out on purchase/disposal of property, plant & equipment		(1,891)	(878)
Group information technology software		(20)	(9)
Security deposits		151	(4)
Other*		(16)	46
Net cash provided by / (used in) investing activities		**(1,776)**	**(844)**
Cash flows from financing activities			
Dividends paid		(191)	–
Proceeds from borrowings	2(e)	19,387	16,905
Repayment of borrowings	2(e)	(21,252)	(22,214)
Cashflow from leasing activities	2(e)	(284)	(353)
Other		(13)	–
Net cash provided by financing activities		**(2,353)**	**(5,661)**
Net increase / (decrease) in cash and cash equivalents		**6,617**	**(682)**
Foreign exchange effects on total cash flow movement		**7**	**360**
Cash and cash equivalents at the beginning of the reporting period	25(d)	**4,636**	**4,958**
Cash and cash equivalents at the end of the reporting period	25(d)	**11,259**	**4,636**

Notes to the Financial Statements

for the year ended 31 December 2022

1. Summary of Accounting Policies

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The audited accounts were authorised for issue by the Directors on 23 February 2023. The Group has assessed that there are no new standards with a material impact to be adopted with a date of initial application of 1 January 2022.

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.

Notes to the Financial Statements

continued

1. Summary of Accounting Policies (continued)

Foreign Operations

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

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

f. Goods and Services Tax and Value Added Tax

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

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

g. Impairment of Assets

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

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

h. Income Tax

Current Tax

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

Deferred Tax

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

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

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

Notes to the Financial Statements

continued

1. Summary of Accounting Policies (continued)

amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in the notes to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

i. Intangible Assets

Patents, Trademarks and Licences

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

Research and Development Costs

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

j. Inventories

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

k. Leases

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

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

l. Non-current Assets Held for Sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

m. Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

n. Presentation Currency

The presentation currency of the Group is Australian dollars.

o. Principles of Consolidation and Investments in Subsidiaries

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements.' A list of subsidiaries appears in the notes to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Similarly, any excess of the fair market value over the cost of acquisition is recognised as a discount upon acquisition.

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

p. Plant and Equipment

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

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.

Notes to the Financial Statements

continued

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

continued

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;
- value of trade debtors; and
- valuation of intellectual property acquired

u. New Accounting Standards for Application in Future Periods

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

2. Results from Operations

	12 months to 31 Dec 2022 $'000	12 months to 31 Dec 2021 $'000
(a) Sales Revenue:		
Metal	102,752	72,123
Anodes - Cathodic Corrosion Protection	55,848	43,028
	158,600	**115,151**
(b) Cost of Sales:		
Metal	(82,292)	(66,534)
Anodes - Cathodic Corrosion Protection	(37,713)	(29,385)
	(120,005)	**(95,919)**
Gross Profit:		
Metal	20,460	5,589
Anodes - Cathodic Corrosion Protection	18,135	13,643
	38,595	**19,232**
(c) Other Income in Comprehensive Income Statement		
Interest revenue	30	35
Government grants	224	716
Derivative market re-valuation	67	–
Compensation (non recurring) received including from insurance	430	248
Compensation from resolution of MAR VAT issue	–	468
Write back of provisions	647	239
Other	51	41
	1,450	**1,747**

Notes to the Financial Statements

continued

2. Results from Operations (continued)

	12 months to 31 Dec 2022 $'000	12 months to 31 Dec 2021 $'000
(d) Significant expenses in Comprehensive Income Statement (not detailed elsewhere)		
Personnel Costs		
Consultancies	(354)	(190)
Share based payments	(253)	(237)
Defined contribution payments recognised as an expense	(1,107)	(1,070)
Other staff payments	(7,380)	(6,437)
Total personnel costs	**(9,094)**	**(7,934)**
Director fees	(248)	(240)
Asset impairment expense		
Write down of trade debtors	(25)	4
Total asset impairment expense	**(25)**	**4**

	31 Dec 2021 $'000	Cash Flows $'000	Non cash FX $'000	31 Dec 2022 $'000
(e) Financing cash flows reconciliation				
Bank Borrowings	11,526	(1,865)	(365)	9,295
Lease liabilities	496	(284)	232	444
Total liabilities from financing activities	**12,021**	**(2,149)**	**(133)**	**9,739**

(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 2022 $'000	31 Dec 2021 $'000
(Expense)/Writeback recognised from equity-settled share-based payments	(253)	(237)
Total (Expense)/Writeback - share-based payments	**(253)**	**(237)**

Notes to the Financial Statements

continued

3. Income Taxes

	12 months to 31 Dec 2022 $'000	12 months to 31 Dec 2021 $'000
(a) Income tax recognised in profit and loss		
Tax expense comprises:		
Current tax expense	(7,802)	(2,008)
Deferred tax expense*		
Increase/(write down) of tax losses	46	(15)
Change in recognised deductible temporary differences	434	301
Subtotal deferred tax expense	480	287
Total tax expense	**(7,322)**	**(1,722)**
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	**23,837**	**6,730**
Nominal Income tax benefit/(expense) calculated at 30%	(7,151)	(2,019)
Nominal tax benefit (expense) effected by:		
Adjusted for effect of tax rates in foreign jurisdictions	24	382
Tax effect - P & L items not assessable or deductible for tax purposes.	(766)	(335)
Changes in deductible temporary differences, tax losses and other items	571	250
Actual tax benefit/(expense)	**(7,322)**	**(1,722)**

* The 2021 split of deferred tax expense has been updated from the last Annual Report. No change to overall subtotal of deferred tax expense.

	12 months to 31 Dec 2022 $	12 months to 31 Dec 2021 $
(b) Income tax amounts recognised in OCI		
Revaluation of defined benefit pension plan	4,188	1,392
Tax effect (expense)/benefit through OCI	**(1,382)**	**(460)**

	31 Dec 2022 $'000	31 Dec 2021 $'000
(c) Deferred Tax Asset		
Non-Current		
Timing differences	1,557	2,488
Carryforward tax losses	273	232
Total	**1,830**	**2,720**

Note: The Group has revenue losses in its PRC segment which have given rise to a deferred tax asset as at 31 December 2022. The utilisation of these losses in the PRC is subject to a 5 year time limit. A portion of MAQ tax losses were written during the year to 31 December 2022 due to the potential expiration of this limit before they can be fully utilised.

The deferred tax asset split between timing difference and carry forward tax losses in 2021 has been updated since the last Annual Report. No change to the overall total of Deferred Tax Asset.

Notes to the Financial Statements

continued

3. Income Taxes (continued)

Tax Consolidation

The parent Company and its wholly-owned Australian subsidiary (AMT) 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. Magontec Limited has not entered into a tax funding arrangement or tax sharing agreement with AMT.

	Consolidated Parent Entity	
	31 Dec 2022 $'000	31 Dec 2021 $'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*	40,309	38,987
DTA on capital losses	29,019	29,019
Sub Total Australian Tax Consolidated Group	**150,909**	**149,587**
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*	134,364	129,957
Aust consolidated group Tax losses – capital	96,732	96,732
Consolidated Group Total	**503,032**	**498,625**

* The 31 December 2021 numbers were updated subsequent to the release of the 2021 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 $134.4 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 2022.

Unused tax losses incurred prior to the formation of the former Advanced Magnesium Limited (the former name of Magontec Limited) consolidated group were $271.9 million. These losses will be subject to restricted use (Available Fraction rules).

These restrictions on use are in addition to the loss integrity rules. Broadly, the Available Fraction rules limit the amount of losses that can be used each year by applying the following formula:

Available Fraction x Taxable income for year = Pre consolidation losses available for use for year

Notes to the Financial Statements

continued

3. Income Taxes (continued)

No detailed Available Fraction calculations have been performed as at 31 December 2022, 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 2022 and neither is any assessment expected to be received which will result in a tax liability for the period to 31 December 2022. Accordingly, there are no franking credits available for distribution in the year ended 31 December 2022.

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 2022 $'000	12 months to 31 Dec 2021 $'000
Short term employee benefits	2,292	1,844
Post-employment benefits	93	98
Motor vehicle	15	32
Equity based payment	194	177
Total Remuneration KMP	**2,595**	**2,150**

Individual directors and executives compensation disclosures

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

5. Remuneration of Auditors

	12 months to 31 Dec 2022 $'000	12 months to 31 Dec 2021 $'000
Group auditor		
– Audit or review of the financial report	109	98
– Accounting/taxation services	8	11
Auditors of subsidiaries		
– Audit or review of the financial reports	80	92
– Accounting/taxation services	37	23
	234	**224**

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

continued

6. Current Trade and Other Receivables

	31 Dec 2022 $'000	31 Dec 2021 $'000
Trade receivables [1]	18,324	18,747
Allowance for doubtful debts	(658)	(306)
	17,666	**18,441**
Net GST/VAT recoverable	225	666
Security deposits	–	141
Derivative Fair Value	60	–
Notes and other receivables due to operating entities [2]	6,847	2,069
	7,131	**2,875**
Total receivables	**24,797**	**21,317**

(1) Trade receivables represent 42.2 days sales at 31 Dec 2022 (59.4 days sales at 31 Dec 2021).
(2) Notes receivable are issued by customers as consideration for services provided, and are redeemable for cash at a discount.

7. Current Inventories

	31 Dec 2022 $'000	31 Dec 2021 $'000
Inventory of finished alloy at cost	16,667	10,387
Provision for Inventory loss	(179)	(543)
Net value of finished goods inventory	16,488	9,844
Raw materials	13,016	8,105
Work in progress	6,424	5,740
Current inventories at net realisable value	**35,928**	**23,689**

8. Other Current Assets

	31 Dec 2022 $'000	31 Dec 2021 $'000
Other prepayments	2,017	8,840
	2,017	**8,840**

9. Non Current Trade and Other Receivables

	31 Dec 2022 $'000	31 Dec 2021 $'000
Pension asset	332	314
Security deposits and prepayments	2	2
	334	**316**

Notes to the Financial Statements

continued

10. Property Plant & Equipment

	Capital WIP $'000	Land & Buildings $'000	Plant & Equipment $'000	Total $'000
Gross carrying amount				
Balance at 1 January 2021	**550**	**19,262**	**37,242**	**57,054**
Additions	67	9	802	878
Adjustments, reclassifications, right of use additions	(16)	16	326	326
Disposals and write offs	-	(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**
Additions	52	209	1,678	1,939
Adjustments, reclassifications, right of use additions	(50)	(1)	214	163
Disposals	-	(10)	(562)	(572)
Net foreign currency exchange differences	(12)	49	(226)	(190)
Balance at 31 December 2022	**641**	**19,500**	**39,599**	**59,740**
Accumulated depreciation/amortisation and impairment				
Balance at 1 January 2021	**–**	**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**
Disposals	–	(3)	(57)	(59)
Write Offs	–	–	(449)	(449)
Adjustments and reclassifications	–	–	16	16
Depreciation expense	–	574	2,006	2,579
Net foreign currency exchange differences	–	23	(114)	(91)
Balance at 31 December 2022	**–**	**12,544**	**30,097**	**42,641**
Net Book Value As at 31 Dec 2021	**651**	**7,305**	**9,798**	**17,753**
Net Book Value As at 31 Dec 2022	**641**	**6,957**	**9,502**	**17,099**

During the year to 31 December 2022, 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 8.9% and a terminal decline rate of -4.7%. As the value in use was higher than the carrying value, no impairment loss was deemed necessary as at 31 December 2022.

Notes to the Financial Statements

continued

11. Intangibles

	Indefinite Life [1] $'000	Finite Life $'000	Total $'000
Gross carrying amount			
Balance at 31 Dec 2021	**2,800**	**2,413**	**5,213**
Net foreign currency exchange differences	–	16	16
Additions	–	20	20
Balance at 31 Dec 2022	**2,800**	**2,449**	**5,249**
Accumulated depreciation/amortisation and impairment			
Balance at 31 Dec 2021	**–**	**1,973**	**1,973**
Depreciation/amortisation expense	–	197	197
Net foreign currency exchange differences	–	20	20
Balance at 31 Dec 2022	**–**	**2,189**	**2,189**
Net Book Value As at 31 Dec 2021	**2,800**	**441**	**3,241**
Net Book Value As at 31 Dec 2022	**2,800**	**259**	**3,059**

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 8.65% (2021: 5.8%) 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 11.1% 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 2022 $'000	31 Dec 2021 $'000
Trade creditors [1]	7,841	13,740
Other creditors and accruals	4,185	3,829
	12,026	**17,570**

(1) Trade creditors represent 23.8 days cost of goods sold at 31 Dec 2022 (52.3 days cost of goods sold at 31 Dec 2021).

Notes to the Financial Statements

continued

13. Borrowings

	Notes	31 Dec 2022 $'000	31 Dec 2022 Maturity Date	31 Dec 2022 Interest pa	31 Dec 2021 $'000	31 Dec 2021 Maturity Date	31 Dec 2021 Interest pa
Bank & Institutional Borrowings							
Magontec GmbH (Bank Loan) (1)	25(i)	–	30-Nov-23	3.68%	2,651	30-Nov-23	1.55%
Magontec GmbH (Bank Loan) (1)	25(i)	788	31-Dec-23	1.85%	1,565	31-Dec-23	1.85%
Magontec GmbH (Factoring Facility) (3)		1,203	28-Feb-25	3.33%	1,947	31 Dec 2021	0.95%
Magontec SRL (Working Capital Facility) (2)		1,923	28-Feb-23	8.31%	1,896	28-Feb-22	4.49%
Magontec Xi'an Limited (Bank Loan)		6,584	12-Jun-23	3.18%	5,413	16-Jul-22	3.90%
Total Bank Borrowings		**10,498**			**13,473**		
Current Borrowings							
Bank borrowings as above (excluding factoring facility)		9,295	Various		7,309	Various	
Total Current Borrowings		**9,295**			**7,309**		
Non-Current Borrowings							
Bank borrowings as above		–		–	4,217		
Total Non-Current borrowings		**–**			**4,217**		

(1) These borrowings are secured by a charge over MAB's trade debtors to the extent of €888,000 ($1,398,778) and inventory of €4,612,000 ($7,264,822) plus land & buildings.

(2) These borrowings are secured by a charge over MAR's trade debtors and inventory to the extent of RON27,331,574 ($8,666,842) plus land & buildings.

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

14. Current Provisions

	31 Dec 2022 $'000	31 Dec 2021 $'000
Provision for annual & long service leave and employee costs	548	581
Provision for income tax payable	7,963	2,171
Other current provisions	716	739
Provision for loss on FX hedges	32	–
Total	**9,259**	**3,491**

15. Non-Current Provisions

	31 Dec 2022 $'000	31 Dec 2021 $'000
Provision for defined benefit pension obligation	9,024	13,111
Other provisions	337	285
Total	**9,360**	**13,395**

Notes to the Financial Statements

continued

15. Non-Current Provisions (continued)

Reconciliation of the defined benefit pension obligation

	Year Ended 31 Dec 2022 $'000	Year Ended 31 Dec 2021 $'000
Defined benefit obligation beginning of year	**13,111**	**14,714**
Current service cost	217	250
Interest cost	169	107
Total benefits paid – actual	(367)	(372)
Foreign currency exchange rate changes	83	(196)
Actuarial (gains)/ losses due to change of assumptions	(4,188)	(1,393)
Defined benefit obligation end of year	**9,024**	**13,111**

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. 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 2022 $'000	Year Ended 31 Dec 2021 $'000
Discount rate	3.90%	1.30%
Expected salary increase per annum	2.75%	2.75%
Expected pension increase per annum	2.20%	1.75%

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

	% chg	Year Ended 31 Dec 2022 $'000	Year Ended 31 Dec 2021 $'000
Discount rate (%)	+0.5%	(615)	(1,135)
	(0.5)%	692	1,310
Salary increase (%)	+0.5%	24	59
	(0.5)%	(23)	(56)
Pension increase (%)	+0.5%	541	949
	(0.5)%	(496)	(859)
Life expectancy (years)	+ 1 year	383	705

Notes to the Financial Statements

continued

16. Share Capital

	31 Dec 2022 $'000	31 Dec 2021 $'000
Opening balance of share capital attributable to members of MGL	**58,918**	**58,918**
Dividend Reinvestment Plan	269	–
Various costs associated with issue of shares	(13)	–
Share capital on issued ordinary shares 77,521,835 (2021: 76,729,210)	**59,174**	**58,918**

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

	CONSOLIDATED / PARENT ENTITY			
	31 Dec 2022 No.	31 Dec 2022 $'000	31 Dec 2021 No.	31 Dec 2021 $'000
Fully paid ordinary shares				
Balance at beginning of financial year	76,729,210	58,918	1,150,924,806	58,918
Dividend reinvestment plan	792,625	269	(1,074,195,596)	–
Expenses of various issues	–	(13)	–	–
	77,521,835	**59,174**	**76,729,210**	**58,918**

During the year to 31 December 2022, the Group offered a Dividend Reinvestment Plan to shareholders, resulting in the issue of 792,625 new shares.

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.

Total dividends distributed including both cash and share issues plus related taxes for the 6 months to 30 June 2022	$460,000
Dividend amount per share	$0.006

A further dividend amount per share of 0.6 cents per share has been declared with respect to the 6 months to 31 December 2022.

All dividends are unfranked.

Notes to the Financial Statements

continued

17. Reserves

	31 Dec 2022 $'000	31 Dec 2021 $'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	3,766	2,563
Movement in VHL Consolidated accounts	484	1,203
Balance at end of financial year	**4,250**	**3,766**
Actuarial Reserves		
Balance at beginning of financial year	(3,373)	(4,306)
Deferred tax assets	(1,382)	(460)
Employee pensions	4,188	1,392
Balance at end of financial year	**(567)**	**(3,373)**
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	373	136
Fair value of performance rights issued for future periods	253	237
Balance at end of financial year	**627**	**373**
Profits Reserve		
Balance at beginning of financial year	–	–
Transfer to Profits Reserve	7,317	–
Dividends paid	(460)	–
Balance at end of financial year	**6,857**	**–**
Total reserves	**15,554**	**5,153**
Other Comprehensive Income – that may later emerge in the Profit and Loss Statement		
Exchange differences taken to reserves in equity – translation of overseas entities	484	1,203
Movement in various actuarial assessments	2,806	933
Total Other Comprehensive Income	**3,290**	**2,137**

Notes

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

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

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

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

Notes to the Financial Statements

continued

18. Accumulated Losses

	31 Dec 2022 $'000	31 Dec 2021 $'000
Balance at beginning of financial year	(27,796)	(32,804)
Transfer to Profit Reserve during the financial year	(7,317)	–
Profit/(Loss) attributable to members of Magontec Limited	16,515	5,008
	(18,599)	**(27,796)**

19. Earnings/(Loss) Per Share

	12 months to 31 Dec 2022 cents per share	12 months to 31 Dec 2021 cents per share
Basic earnings/(loss) per share	21.5	6.5
Diluted earnings/(loss) per share	19.7	6.3

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 2022 $'000	12 months to 31 Dec 2021 $'000
Profit/(Loss) after income tax expense/benefit from continuing operations		
Members of the parent entity	16,515	5,008
Weighted average number of ordinary securities on issue (for basic earnings calculation)	**76,846,475**	**76,729,210**
Performance rights	7,047,063	2,606,240
Weighted average number of ordinary securities on issue (for diluted earnings calculation)	**83,893,538**	**79,335,450**

20. Contingent Liabilities and Assets

At 31 December 2022 a contingent liability exists in relation to the item below.

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 contest this matter.

Notes to the Financial Statements

continued

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 2022 $'000	31 Dec 2021 $'000
Opening balance	**502**	**518**
Add new leased assets	232	326
Depreciation charge	(288)	(335)
FX movements	3	(8)
Closing balance	**449**	**502**

b. Lease liabilities

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

	31 Dec 2022 $'000	31 Dec 2021 $'000
Lease liabilities recognised in the balance sheet		
Current	190	240
Non Current	254	255
Total lease liabilities recognised in the balance sheet	**444**	**496**

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

	12 months to 31 Dec 2022 $'000	12 months to 31 Dec 2021 $'000
Amounts recognised in the profit and loss statement		
Interest charge on lease liabilities	14	12
Amounts recognised in the cash flow statement		
Total cash inflow/(outflow) for leases	(298)	(353)

c. Low value items

During the year to 31 December 2022, the expense relating to leases of low value was $23,000 (2021: $13,000)

d. Capital Expenditure Commitments

There are no material capital commitments for the Group as at 31 December 2022.

Notes to the Financial Statements

continued

22. Controlled Entities

a. Consolidated Controlled Entities

Name of entity	Ownership Entity	Country of Incorporation	Ownership interest 31 Dec 2022	Ownership interest 31 Dec 2021
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%

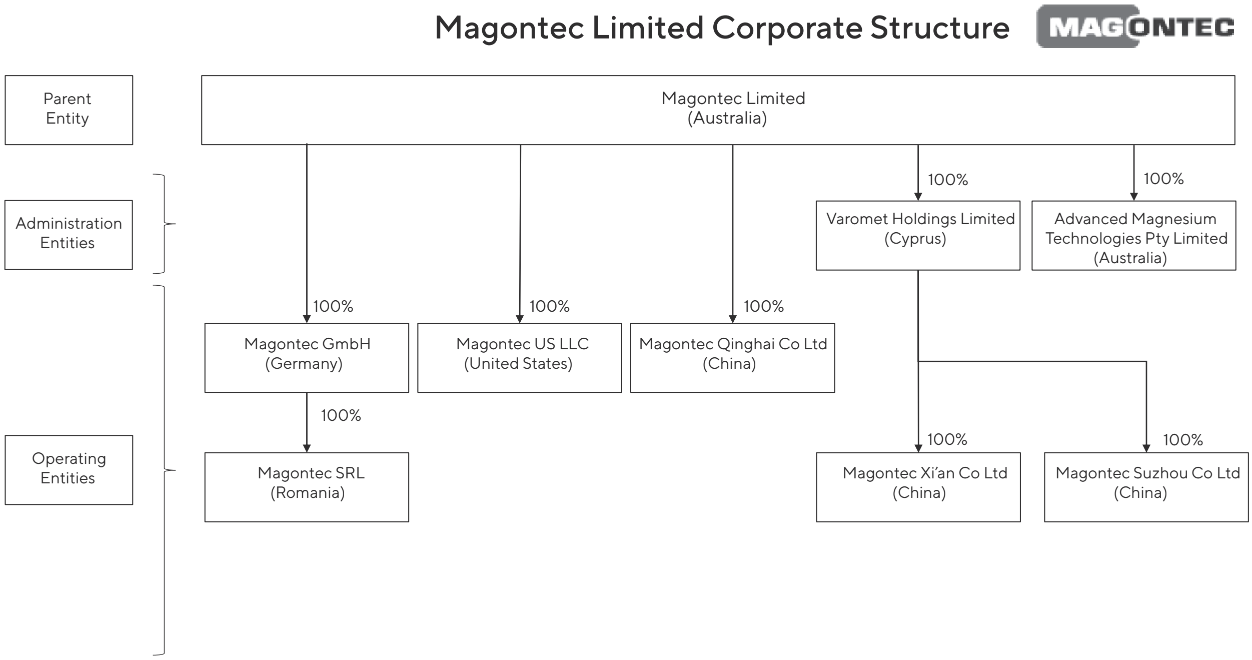
(a) Entities included in the Australian tax consolidated Group.
(b) Ownership of Magontec GmbH transferred to Magontec Limited during the year to 31 December 2021 (previously Varomet Holdings Limited).
(c) Dormant from 30 June 2012.

Notes to the Financial Statements

continued

22. Controlled Entities (continued)

b. Corporate Structure as at 31 December 2022



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 2022, 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 in Europe. The segment data below is presented net of intergroup transactions (other than sales).

Notes to the Financial Statements

continued

23. Segment Information (continued)

Statement of Comprehensive Income

	12 months to 31 December 2022				12 months to 31 December 2021			
	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL
Sale of goods	–	96,433	63,037	159,469	–	71,001	48,006	119,007
Less Inter-company sales				(869)				(3,856)
Net Sales	**–**	**96,433**	**63,037**	**158,600**	**–**	**71,001**	**48,006**	**115,151**
Cost of sales	–	(62,134)	(58,740)	(120,874)	–	(54,981)	(44,794)	(99,775)
Less Inter-company sales				869				3,856
Net Cost of Sales	**–**	**(62,134)**	**(58,740)**	**(120,005)**	**–**	**(54,981)**	**(44,794)**	**(95,919)**
Gross Profit	**–**	**34,298**	**4,296**	**38,595**	**–**	**16,021**	**3,211**	**19,232**
Other income	–	1,197	252	1,450	–	974	773	1,747
Interest expense	(1)	(294)	(356)	(650)	(1)	(251)	(273)	(525)
Impairment of inventory, receivables & other financial assets	–	(25)	–	(25)	4	–	–	4
Travel accommodation and meals	(95)	(239)	(125)	(459)	(19)	(110)	(80)	(209)
Research, development, licensing and patent costs	(10)	(377)	(438)	(825)	(9)	(554)	(316)	(880)
Promotional activity	–	(180)	–	(180)	–	(65)	–	(65)
Information technology	(19)	(319)	(66)	(403)	(43)	(332)	(68)	(443)
Personnel	(1,611)	(5,764)	(1,719)	(9,094)	(1,410)	(4,962)	(1,562)	(7,934)
Depreciation & amortisation	(27)	(522)	(56)	(605)	(35)	(526)	(81)	(642)
Office expenses	(70)	(270)	(245)	(586)	(61)	(312)	(266)	(640)
Corporate and other	(676)	(2,002)	(637)	(3,314)	(685)	(1,693)	(736)	(3,114)
Foreign exchange gain/(loss)	130	28	(224)	(66)	301	186	(289)	198
Profit/(Loss) before income tax expense	**(2,379)**	**25,532**	**684**	**23,837**	**(1,959)**	**8,376**	**313**	**6,730**
Income tax expense	–	(7,365)	44	(7,322)	–	(1,748)	27	(1,722)
Profit/(Loss) after income tax expense	**(2,379)**	**18,167**	**728**	**16,515**	**(1,959)**	**6,629**	**339**	**5,008**
Other Comprehensive Income								
Movement in actuarial assessments	–	2,806	–	2,806	–	933	–	933
FX difference taken to Reserves - translation of overseas entities	9	824	(350)	484	(15)	(223)	1,441	1,203
Total Comprehensive Income	**(2,370)**	**21,797**	**378**	**19,805**	**(1,975)**	**7,339**	**1,780**	**7,144**

Notes to the Financial Statements

continued

23. Segment Information (continued)

Statement of Comprehensive Income (continued)

	12 months to 31 December 2022				12 months to 31 December 2021			
	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL
Segment Disclosures								
Segment assets	3,562	54,152	38,609	96,323	3,185	40,287	39,039	82,512
Segment liabilities	987	27,962	11,245	40,195	809	32,050	13,378	46,237
Segment net assets	**2,575**	**26,190**	**27,364**	**56,129**	**2,377**	**8,237**	**25,661**	**36,275**
Acquisition of segment fixed assets	–	1,638	301	1,939	–	673	205	878
Non-cash share based payments expense	115	76	62	253	237	–	–	237
Provisioning								
- Inventory Increase/(Decrease)	–	(364)	–	(364)	–	242	–	242
- Doubtful debts Increase/(Decrease)	–	352	–	352	–	(7)	–	(7)

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.

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	**2022**	–	–	–	–
	2021	–	–	–	–

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.

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.

Notes to the Financial Statements

continued

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.

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.

Notes to the Financial Statements

continued

25. Financial Instruments (continued)

(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 2022.

31 December 2022	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		0.37%	6,838	–	4,421	11,259
Trade & other receivables (net of provision for loss)		–	–	–	24,797	24,797
Other		–	–	–	2,017	2,017
			6,838	**–**	**31,235**	**38,073**
Financial liabilities:						
Trade & other payables		–	–	–	12,026	12,026
Current Bank Borrowings	13	4.22%	10,498	–	–	10,498
Non-Current Bank Borrowings	13	–	–	–	–	–
			10,498	**–**	**12,026**	**22,525**

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 Borrowings	13	3.40%	9,256	–	–	9,256
Non-Current Borrowings	13	1.66%	4,217	–	–	4,217
			13,473	**–**	**17,570**	**31,043**

Notes to the Financial Statements

continued

25. Financial Instruments (continued)

(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 2022 $'000	31 Dec 2021 $'000	31 Dec 2022 $'000	31 Dec 2021 $'000
Foreign currency monetary assets and liabilities				
Cash and cash equivalents	11,091	4,599		
Trade and other receivables	27,900	22,647		
Other non-current receivables	332	314		
Trade and other payables			11,712	17,453
Provisions			18,135	16,411
Borrowings			9,295	11,526
Other				
Other net assets and liabilities	57,000	54,951	1,052	847
Total	**96,323**	**82,512**	**40,195**	**46,237**

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.

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.

Notes to the Financial Statements

continued

25. Financial Instruments (continued)

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 2022 $'000	31 Dec 2021 $'000
		USD impact	
Effect on Profit/Loss and other equity of a 10% increase in USD rate	(i)	1,209	732
Effect on Profit/Loss and other equity of a 10% decrease in USD rate		(1,209)	(732)
		EUR impact	
Effect on Profit/Loss and other equity of a 10% increase in EUR rate	(ii)	(1,526)	(2,268)
Effect on Profit/Loss and other equity of a 10% decrease in EUR rate		1,526	2,268
		RMB impact	
Effect on Profit/Loss and other equity of a 10% increase in RMB rate	(iii)	634	24
Effect on Profit/Loss and other equity of a 10% decrease in RMB rate		(634)	(24)
		RON impact	
Effect on Profit/Loss and other equity of a 10% increase in RON rate	(iv)	(300)	(270)
Effect on Profit/Loss and other equity of a 10% decrease in RON rate		300	270

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 8.2 million as at 31 Dec 2022 (Net monetary assets of USD 5.3 million as at 31 Dec 2021).

(ii) Exposure to EUR is represented by net monetary liabilities of EUR 9.7 million as at 31 Dec 2022 (Net monetary liabilities of EUR 14.5 million as at 31 Dec 2021).

(iii) Exposure to RMB is represented by net monetary assets of RMB 29.9 million as at 31 Dec 2022 (Net monetary assets of RMB 1.1 million as at 31 Dec 2021).

(iv) Exposure to RON is represented by net monetary liabilities of RON 9.4 million as at 31 Dec 2022 (Net monetary liabilities of RON 8.5 million as at 31 Dec 2021).

Derivatives and hedging

During the period, the Company 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.

	Notes	Carrying value $'000	Market value $'000	Cash flow due within 1 year $'000	Cash flow due after 1 year $'000
31 December 2022					
FX hedges	6	60	(32)	(32)	–
Interest rate swaps	14	(32)	59	–	59
31 December 2021					
FX hedges	6	–	–	–	–
Interest rate swap	14	–	7	–	7

Notes to the Financial Statements

continued

25. Financial Instruments (continued)

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

	AUD impact of change	
	31 Dec 2022 $'000	31 Dec 2021 $'000
FX hedges		
Sensitivity to +10% change in USD EUR rate	438	–
Sensitivity to -10% change in USD EUR rate	(438)	–
Interest rate swaps		
Sensitivity to +0.5% change in interest rates	6	8
Sensitivity to -0.5% change in interest rates	(6)	(8)

(i) Capital Management and Interest rate risk management

The Group has bank loans outstanding of $787,600 (refer Note 13) owing to Commerzbank globally (excluding the factoring facility). 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 Group also receives notes receivable as consideration for goods and services provided from a limited number of counterparties in China. The majority of these are guaranteed by a bank, and the Group only accepts these from specific large customers.

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%	0.01%
1-30 days overdue	0.02%	0.02%
31-60 days overdue	0.03%	0.03%
61-90 days overdue	0.04%	0.04%
90 days + overdue	0.05%	0.05%

Notes to the Financial Statements

continued

26. Parent Entity Information Magontec Limited

Statement of Comprehensive Income

	Magontec Limited	
	12 months to 31 Dec 2022 $'000	12 months to 31 Dec 2021 $'000
Sale of goods	–	–
Cost of sales	–	–
Gross profit	**–**	**–**
Other income	6,395	4
Interest expense	–	–
Impairment of inventory, receivables & other financial assets	1,077	276
Travel accommodation and meals	(22)	–
Research, development, licensing and patent costs	(10)	–
Promotional activity	–	–
Information technology	–	(32)
Personnel	(36)	(7)
Depreciation & amortisation	–	–
Office expenses	–	–
Corporate	(642)	(641)
Foreign exchange gain/(loss)	555	547
Profit/(Loss) before income tax expense/benefit from continuing operations	**7,317**	**146**
Income tax (expense)/benefit	–	–
Profit/(Loss) after income tax expense/benefit from continuing operations	**7,317**	**146**
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	**7,317**	**146**

Notes to the Financial Statements

continued

26. Parent Entity Information Magontec Limited (continued)

Balance Sheet

	Magontec Limited	
	31 Dec 2022 $'000	31 Dec 2021 $'000
Cash and cash equivalents	14	14
Trade & other receivables	1	(5)
Other	74	62
Total current assets	**89**	**71**
Non-current assets		
Inter Company Loan Receivables (net of provisioning)	11,674	11,139
Investment in shares of subsidiaries (net of provisioning)	11,718	11,718
Other financial assets	8,314	8,314
Total non-current assets	**31,706**	**31,171**
Total assets	**31,795**	**31,243**
Current liabilities		
Trade & other payables	36	88
Total current liabilities	**36**	**88**
Non-current liabilities		
Other	1,547	8,055
Total non-current liabilities	**1,547**	**8,055**
Total liabilities	**1,583**	**8,144**
Net assets	**30,212**	**23,099**
Equity attributable to members of MGL		
Share capital	58,883	58,627
Reserves	8,494	1,637
Accumulated losses	(37,165)	(37,165)
Total equity	**30,212**	**23,099**

Note: There was a $6.9m transfer (net of dividends) of 2022 Profits to the Profit Reserve instead of accumulated losses.
Amounts transferred to the Profits Reserve characterise profits available for distribution as dividends in future years.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2022.

Capital commitments – Property, plant and equipment

The parent entity had no material capital commitments for property, plant and equipment as at 31 December 2022.

Significant accounting policies

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

Notes to the Financial Statements

continued

27. Subsequent Events

Subsequent to 31 December 2022, the Group has received an approved offer to extend the Magontec SRL (Romania) Working Capital Facility from Unicredit SA for the amount of RON 15.0 million (A$4.8 million) to 28 February 2024.

Formal documentation is being reviewed and is expected to be finalised in 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.

Registered Office and Principal Place of Business

Suite 1.03
46A Macleay St
Potts Point, NSW 2011
Tel: 61 2 8084 7813

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 50 to 84 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

23 February 2023

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 2022, and the Consolidated Statement of Profit & Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement 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 2022 and of its performance for the year ended on that date; and

(ii) complying with *Australian 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 **Impairment of Assets**	**How our audit addressed the key audit matter**
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;	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;

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

T (02) 9221 7022
F (02) 9221 7080
E cambos@cambos.com.au
W camphinboston.com.au

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

• The Group's Net Assets exceeding its Market Capitalisation; and • 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 rapid increase in the spot price for raw magnesium during the year.	Our procedures included, amongst others, • Attendance at stock takes by subsidiary auditors for all significant locations to conduct test counts and assess internal controls; • Comparing the carrying value of a sample of inventory items to subsequent sales price 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, except for the Remuneration Report, 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.

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

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 35 to 48 of the Annual Report for the year ended 31 December 2022.

In our opinion the Remuneration Report of Magontec Limited for the year ended 31 December 2022 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

JWoods

Justin Woods
Partner

Level 5, 179 Elizabeth Street, Sydney NSW 2000
Dated: this 24th day of February 2023.

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	22,366,742	28.85
2	CITICORP NOMINEES PTY LIMITED	9,751,252	12.58
3	J P MORGAN NOMINEES AUSTRALIA	3,847,720	4.96
4	KEWEIER METAL CO LTD & Zhong Jun Li	3,792,907	4.89
5	YELLOW ZONE SUPER FUND	3,216,931	4.15
6	BNP PARIBAS NOMINEES PTY LTD	2,576,448	3.32
7	NATIONAL NOMINEES LIMITED	1,973,375	2.55
8	MR NICHOLAS WILLIAM ANDREWS & DEWBERRI PTY LTD	1,520,364	1.96
9	MR SCOTT PARHAM	1,273,756	1.64
10	BELLINO PTY LTD	1,200,000	1.55
11	EST MRS DAWN PATRICIA DAVIS	906,667	1.17
12	MIENGROVE PTY LTD	752,565	0.97
13	MR XUNYOU TONG	668,765	0.86
14	BRIAN GORMAN SELF MANAGED SUPER FUND PTY LTD	650,000	0.84
15	DALSIZ PTY LTD	648,180	0.84
16	DR ANDREW DUNCAN MACLAINE-CROSS	584,379	0.75
17	ESCOR EQUITIES CONSOLIDATED	533,334	0.69
18	MR PETER FABIAN HELLINGS	520,000	0.67
19	MR JOHN DAVID TALBOT	470,668	0.61
20	MR CHRISTOPH KLEIN-SCHMEINK	467,686	0.60
TOTAL		**57,721,739**	**74.46**

Distribution of Shareholders as at End Date of Current Reporting Period

Number Held	Holders	No. of Securities	Percentage
1–1,000	617	91,593	0.12
1,001–5,000	796	1,797,247	2.32
5,001–10,000	206	1,464,701	1.88
10,001–100,000	277	8,447,831	10.90
100,001 and over	59	65,720,463	84.78
TOTAL	**1,955**	**77,521,835**	**100.00**

Shareholder Information

continued

Substantial shareholders

Magontec Limited has been notified of the following substantial shareholdings:

Holder	Number of ordinary shares	% of issued ordinary share capital
Qinghai Salt Lake Magnesium Co. Ltd (QSLM)	22,366,742	28.85%
Allan Gray Australia Pty Limited	15,109,260	19.49%

As at 31-Dec-2022 a marketable parcel of securities ($500) is a holding of at least 1,538 securities.

This is based on a closing share price of *$0.325*

Issued Capital and Securities	On Issue at 31 Dec 2022
Ordinary Shares fully paid	77,521,835

Share Registry: Boardroom Pty Limited	Postal:	Local:	International
Address: Level 8,	GPO Box 3993,	Tel: 1300 737 760	Tel: +61 2 9290 9600
210 George Street	SYDNEY NSW 2001	Fax: 1300 653 459	Fax: +61 2 9279 0664
SYDNEY, NSW 2000			Website: www.boardroomlimited.com.au

Suite 1.03 | 46A Macleay Street | Potts Point | 2011 NSW Australia
T. +61 2 8084 7813 | www.magontec.com