

MARKET RELEASE 26 February 2016

MAGONTEC LIMITED ANNOUNCES 2015 RESULTS

Attached is the company's 2015 audited Annual Report.

I am very pleased to report that Magontec Limited has recorded a year of strong progress and considerable improvement across its business units.

In 2015 the company reports a Net Profit After Tax of \$45,000, an improvement of \$1.7 million on the 2014 result. Adjusting for extraordinary expenses and unrealised foreign exchange gains the Net Profit Before Tax rose to \$1.14 million, up from - \$0.77 million in 2014.

This strong profit improvement reflects a considerably more robust business able to compete in magnesium markets around the world. In 2015 Gross Profit rose to \$12.9 million, up 52% on 2014.

Importantly in 2015 Magontec has generated an underlying operating cash flow of \$3.5 million. The strong improvement on 2014 contributed to interest cover rising to 2.7 times and Net Tangible Assets per share rising to 2.85 cents.

Of particular note are the company's operations in China where export success, driven by production efficiencies, saw primary magnesium sales volumes rise 13% and magnesium anode sales volumes rise 36%.

In Europe Magontec's German magnesium recycling business also achieved a much-improved result gaining further market share as investment in production efficiencies in prior years delivered a more competitive product and a \$0.68 million improvement in EBIT contribution.

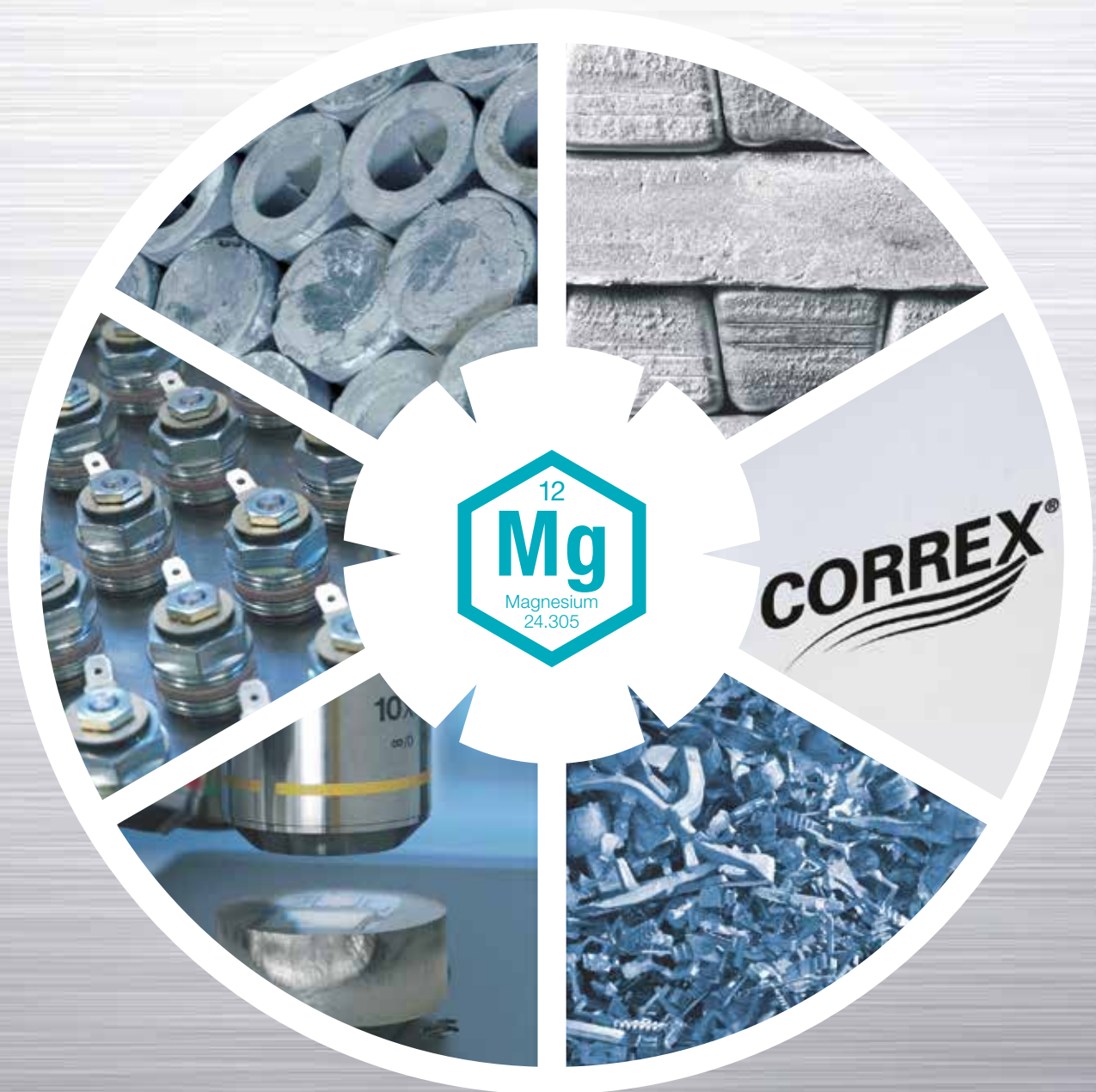
Looking forward into 2016 the company anticipates the commencement of production at its new Qinghai magnesium alloy cast house. Our partners have completed construction of the 100,000 metric tonne per annum electrolytic magnesium production facility and will deliver liquid pure magnesium to the Magontec alloying cast house following hot commissioning.

While the commencement of such a large project will present many challenges for our staff on site in Qinghai Province and for our sales teams around the world, it also augurs in a new era for Magontec. From the Qinghai plant Magontec will gain access to a new low-cost, high-volume source of raw material and offer customers the world's most environmentally sound magnesium alloy.

Nic Andrews
Executive Chairman



ANNUAL REPORT 2015



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A summary of the Group's main corporate governance practices including the Corporate Governance Statement discussing the company's adherence to the Australian Securities Exchange's Third Edition "Corporate Governance Principles and Recommendations" as well as other documents outlining company policies can be located at www.magontec.com in the 'Corporate Governance' section, which is located under the Investor Relations tab on the home page.

Magontec is a leading manufacturer of magnesium alloys and Cathodic Corrosion Protection (anode) products made from magnesium and titanium.

Magontec is a pioneer in the field of magnesium alloys and anode products with vast experience in production and development of new alloy and anode applications.

GLOBAL LOCATIONS AND PRODUCTION CAPACITIES



MAGONTEC IS BUILDING AN OPERATING BASE FOR THE FUTURE WITH INVESTMENT IN NEW PLANT AND EQUIPMENT IN CHINA AND EUROPE.



2015 HIGHLIGHTS

MAGONTEC QINGHAI PROJECT

- Major construction phase of Qinghai Project completed
- Commissioning of dehydration and reduction units (partner projects) commences first quarter 2016
- Magontec Qinghai cast house installation and preparation for production remains on schedule
- Production phase of Magontec Qinghai project expected to commence in 2016

ASIAN OPERATIONS

- Strongly positive EBIT contribution from both alloys and anodes
- Continued and sustainable improvement in alloy conversion costs on primary alloy sales volumes up 13%
- Magnesium anode volumes up 36% driving unit costs down and improving competitiveness
- Recycling activities will likely be consolidated to Shanxi plant following loss of volumes at Suzhou

EUROPE & NORTH AMERICAN OPERATIONS

- Recycling EBIT up strongly on specialist metal and higher overall volumes
- Scope for significant further efficiency gains from Romanian recycling operation
- Electronic anodes delivered another strong EBIT contribution
- Magnesium anode volumes up 22%, a strong improvement on the previous corresponding period

FINANCIAL HIGHLIGHTS

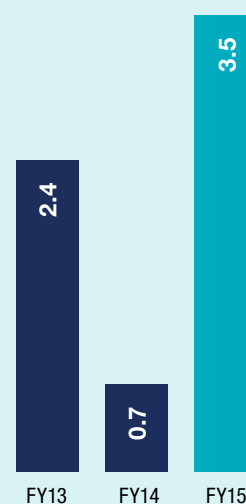
GROSS PROFIT (\$M)



GROSS PROFIT MARGIN (%)



CASH FROM UNDERLYING OPERATIONS (\$M)



EXECUTIVE CHAIRMAN'S REPORT



Nicholas Andrews
Executive Chairman

"I AM VERY PLEASED TO BE ABLE TO REPORT TO SHAREHOLDERS ANOTHER YEAR OF GROWTH AT MAGONTEC LIMITED."

Over the last three years the company has made steady progress towards greater financial stability and its key strategic objectives. In 2015 Magontec generated positive underlying operating cash flow of \$3.5 million and gross profit of \$12.9 million, a 52% improvement on the previous 12-month result.

While 2015 was not without its challenges, the Company is now better placed to absorb adverse events and to pursue new opportunities. Over the last 12 months the Company incurred extraordinary costs totaling \$1.2 million. These costs are detailed in the heading 'Financial Overview' at page 7 under the sub heading 'Profit Analysis Net of Extraordinary Items'.

These extraordinary events, together with a much lower level of Other Income, disguise the true measure of the year-on-year improvement in the Company's financial performance.

In previous commentaries to shareholders I have articulated a strategy that focuses on developing Magontec's current magnesium industry assets to build a platform for our major investment in Qinghai. Over the last 3 years Magontec has developed a strong base that equips the company to exploit the opportunities that will emerge as the new Qinghai primary magnesium alloy production cast house comes online.

In 2015 we have achieved much of our ambition. Certainly Magontec offers a considerably more robust financial profile reflecting fundamental improvements in all of our operational activities.

Magontec has a diverse geographical footprint which has worked in our favour through 2015 as in previous years. European markets for primary magnesium alloy exports from China continue to be heavily discounted, often below manufacturing cost, in contrast with more normalised markets elsewhere. Furthermore the nature of our business has insulated Magontec to a great extent from the precipitous price declines evident in many primary metal markets. Magontec is a buyer of pure magnesium metal for conversion into magnesium alloys and has enjoyed lower input costs, albeit at lower selling prices.

At an operational level the Company has again improved manufacturing efficiencies and increased the scale of its businesses in Asia and Europe. Total magnesium alloy sales rose to 38,400 metric tonnes in 2015 while magnesium anode volumes were also up 30% across the group. The rise in total magnesium alloy sales came despite sharply reduced production at our Chinese recycling operations in Suzhou where an enforced closure by the local authority has severely compromised our business to the extent that this facility has not been a material earnings contributor for some time and will likely be wound down over the course of the coming year.

In 2015 the outstanding performance came from our largest production unit, the Jishan primary magnesium alloying business in Shanxi Province, PRC. The management team at Jishan have had a relentless focus on production efficiency to bring conversion costs down to industry best standard. This performance augurs well for Magontec as we will rely on this same management team to initiate production at the new Qinghai facility in the coming months.

Elsewhere Magontec has also enjoyed performance improvements in 2015. The European magnesium anode business has recovered strongly from a difficult 12 months in 2014 while the Chinese magnesium anode unit recorded a very strong performance improvement, driven by new manufacturing efficiencies and rising volumes, delivering products at more competitive prices to our customers. While there are further opportunities for productivity improvements in both units, the 2015 result indicates that these businesses are successfully meeting the challenge of low cost competition through cost reduction, product innovation and marketing skill.

EXECUTIVE CHAIRMAN'S REPORT

continued

The requirement for lightweight applications in the transportation and electronics industries continues to be a key driver for the magnesium alloy industry. In 2015 a number of events have combined to further promote the virtues of magnesium including the Paris climate change summit, a heightened focus on vehicle emissions and the emergence of hybrid and electric cars.



Through 2014 and 2015 Magontec made a major investment in new production capacity and efficiencies in its European recycling businesses, located at Santana in Romania and Bottrop in Germany. Both operations rely on their ability to access magnesium scrap volumes from European magnesium alloy die cast customers. In Romania our business is based on long-term contracts with high volume regional die casting operations. This is a very stable business where we have been able to grow volume significantly since the factory was opened in 2013. While there have been some production challenges associated with a significant expansion of capacity, these have largely been overcome in the latter part of 2015 and we anticipate a stronger contribution from this unit in 2016. In Germany, magnesium scrap recycling has operated at higher volumes through 2015, and realised much improved efficiencies following a major upgrade in the latter part of 2014.

More broadly the magnesium industry continues to grow in all regions of the World. China, the World's largest manufacturer of magnesium alloys, experienced export growth of 8% in 2015, up from just over 4% in 2014, with Europe, Taiwan, Japan and Mexico among the fastest growing markets.

The automotive sector, the largest consumer of magnesium alloy die cast products, has also continued to grow through 2015, particularly in Western Europe and North America where magnesium alloy applications are most common. Industry surveys suggest that the outlook for 2016 will see stronger growth again.

The decline in magnesium alloy demand in the electronics sector, evident through 2014 and the first half of 2015, appears to have abated and there are indications that new electronics applications will promote future magnesium alloy consumption well above the levels of global GDP growth.

The requirement for lightweight applications in the transportation and electronics industries continues to be a key driver for the magnesium alloy industry. In 2015 a number of events have combined to further promote the virtues of magnesium, including the Paris climate change summit, a heightened focus on vehicle emissions and emergence of hybrid and electric cars. Magnesium alloys are lighter than aluminium and steel and contribute to greater fuel-efficiency in all types of vehicles, whether petrol, diesel, hybrid or electric. The much-vaunted challenge to magnesium from carbon-fibre appears to be little more than a fashion trend among high-end manufacturers and unlikely to transfer to mass-market models on the basis of significantly higher cost and low recycling efficiency. Magontec's generic and specialist magnesium alloys, to be produced from the World's lowest CO₂-emitting manufacturing plant, will be well placed to compete strongly in a challenging and environmentally aware global economy.

Magontec's new production facility at Golmud in Qinghai Province remains central to the future of the Company. The Qinghai Salt Lake Magnesium Co Ltd (QSLM), a subsidiary of the Shenzhen-listed Qinghai Salt Lake Industries Co Ltd, is constructing the World's largest magnesium production facility, located in Qinghai Province in the west of China. While the project has experienced some delays in the construction phase, commissioning is expected to commence in early 2016 and the first metal to flow this year. Magontec, under a series of agreements with QSLM, will operate a 56,000 metric tonne per annum primary magnesium alloy cast house on this site. The first of four 14,000 metric tonne per annum casting lines is currently undergoing commissioning and a further 2 lines are in the process of installation with commissioning expected to be completed by June 2016.

From our Qinghai plant Magontec will offer customers in China and around the World high volume supply of primary magnesium alloys with a lower carbon footprint than any other producer. Other than in high priced protected markets, such as the USA and Brazil, Magontec Qinghai will also be the only volume supplier of magnesium alloys produced using the continuous electrolytic process rather than the more common labour intensive and high CO2 emission Pidgeon process.

Through 2015 Magontec has maintained its long-term focus on research and development. The development of new magnesium alloys and discovery of new mechanical and chemical characteristics are critical for the future growth of the magnesium alloy industry. Magontec remains a leader in this field and has a number of exciting projects under way in Australia, China and Europe. While much of our focus is on magnesium alloys that demonstrate heat and creep resistance for high temperature automotive applications, we are also working on new magnesium alloy formulations that demonstrate exceptional thermal conductivity as well as new magnesium alloy coating processes with our partner organisations.

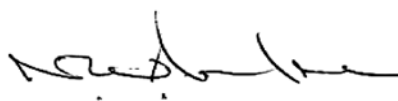
Magontec's magnesium alloy research activities are focussed on new applications that are commercially viable and in all of our projects we are working with industry leading die casting organisations or OEMs who will assist Magontec to bring its developments to market in the shortest possible time.

At the end of 2015 Magontec finds itself in a considerably stronger financial position. Despite significant provisions and a reduction in Other Income, the 2015 profit result shows improvements in all financial metrics. Most importantly the underlying operating cash profitability of the company has continued to show a strong improvement on marginally higher revenues and volumes while the balance sheet is well positioned to fund commitments for the remainder of the Qinghai project and beyond.

Throughout the last 12 months the staff and management of Magontec have worked hard to improve the overall efficiency and profitability of the Company. There is a great deal of excitement at the prospect of our new venture in Qinghai commencing magnesium alloy supply to Magontec customers around the World. There are also many smaller projects that will incrementally contribute to profitability that have their seeds in the hard work of 2015. The electronic anodes technical and product management teams in Germany have developed a number of new products over recent months that will develop momentum in 2016. The German specialist metals team has successfully brought to market a new magnesium master alloy that is winning new customers in Europe and North America. In Romania the significant challenges of bringing new capacity on stream have now been met and this is expected to make an additional contribution to overall profitability in 2016.

The magnesium alloy manufacturing and recycling business involves the daily processing of high volumes of liquid magnesium metal. The safety of Magontec employees engaged in these processes is a primary concern of the Board and executive management. I am pleased to report that over the 12 months to 31 December 2015 there were no major incidents. At Magontec we have introduced strict regulations for hot metal handling and review and reinforce those regulations on a regular basis to mitigate the risks inherent in our industry.

Finally, I would like to acknowledge the support and expert advice that the Company receives from its Independent and Non-executive Board members. Directors on the Magontec Board include individuals with a wide experience of commercial and corporate matters in Australia and around the World. We are particularly privileged, as a company with a strong focus on China, to have three experienced Chinese businessmen to assist us in managing our exposure to that most important economy. I also want to thank the staff and management of Magontec Limited who have shown an exceptional dedication to their tasks, often in challenging circumstances.



Nicholas Andrews
Executive Chairman

FINANCIAL OVERVIEW



During 2015, Magontec's underlying operational cash flow grew strongly year on year to \$3.5 million (\$0.7 million; 2014) due to efficiencies derived from an increase in sales scale and other production efficiencies.

1. From left to right:
Derryn Chin Group Finance Manager
Nicholas Andrews Executive Chairman and CEO
John Talbot Chief Financial Officer and Company Secretary

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s Magontec approaches a critical period leading up to the transition of primary magnesium alloy production to the Qinghai facility, the finance team has identified the following broad, yet critical financial objectives for the company:

- Continue to grow underlying operational cash flow through operational improvements in order to provide a solid financial platform for the company throughout the Qinghai capital expenditure program;
- Maintain strong relationships with the company's key banking partners to ensure a stable funding base and to explore future funding options as the company looks to more than double its Chinese alloying capacity after the move to our new Qinghai manufacturing facility; and
- Minimise working capital to ensure the most efficient use of existing banking facilities to relieve pressure on shareholders' funds wherever possible and maintain appropriate gearing ratios.

During the 12 months ended 31 December 2015, Magontec made significant progress in all of these objectives.

PROFIT ANALYSIS NET OF EXTRAORDINARY ITEMS

The 2015 financial year saw Magontec incur a number of extraordinary items that impacted reported net profit before tax. These items are listed in the table immediately below.

	12 months to 31 Dec 2015 \$'000	12 months to 31 Dec 2014 \$'000
Profit/(Loss) before income tax expense/benefit from continuing operations	195	(1,434)
Deduct unrealised foreign exchange gains	(293)	(333)
Add back extraordinary expenses		
Extraordinary doubtful debt provision in PRC.	470	–
Impairment of fixed and other assets ⁽¹⁾ (other than trade debtors)	371	–
Imposts levied by Romanian fiscal authorities ⁽²⁾	118	–
Other imposts levied by Romanian fiscal authorities	37	–
Adjustment to MAR opening retained earnings ⁽³⁾	88	–
Redundancies at MAS ⁽⁴⁾	149	–
Government enforced industry closure at MAS ⁽⁵⁾		1,000
NPBT excluding FX and extraordinary items above	1,136	(767)

(1) Note 10 and Note 1 at foot of table (page 46).

(2) Note 20 sub point 2ii (page 54).

(3) Note 20 sub point 1 (page 54).

(4) Associated with reduced recycling sales volumes at MAS

(5) Refer 'Asia Operations Report' page 12 2014 Annual Report

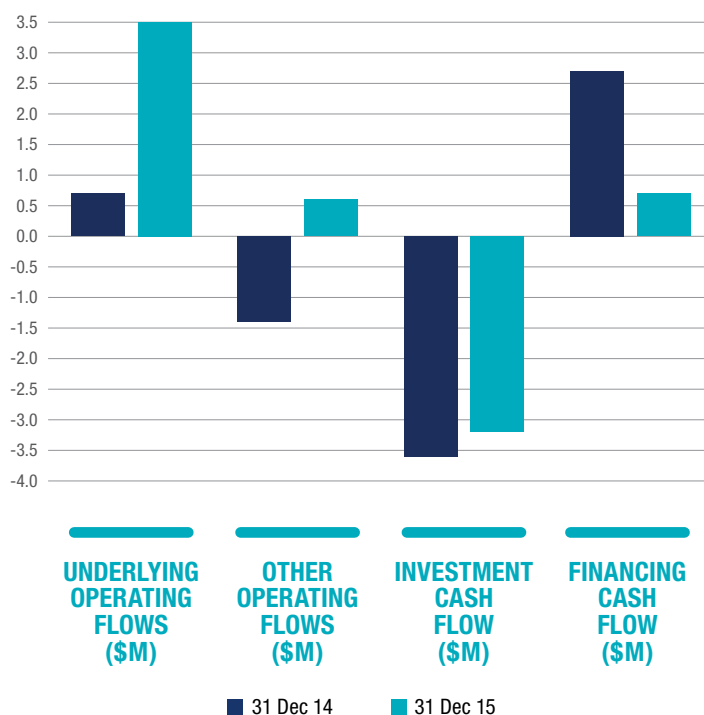
Excluding unrealised foreign exchange gains and extraordinary expenses, Net Profit Before Tax in 2015 was \$1.136 million. The comparative result for 2014 was a Net Loss Before Tax of (\$0.767) million.

CASH POSITION

The key area of focus for the company is cash generation.

Accounting numbers can sometimes disguise the underlying performance of the business and this was certainly the case for Magontec during 2015, which saw a number of extraordinary adjustments, as outlined in the table above.

The critical cash metric which the company monitors is cash from underlying operations, defined as being cash generated from operating activities excluding movements in working capital, interest payments and income taxes paid.



FINANCIAL OVERVIEW

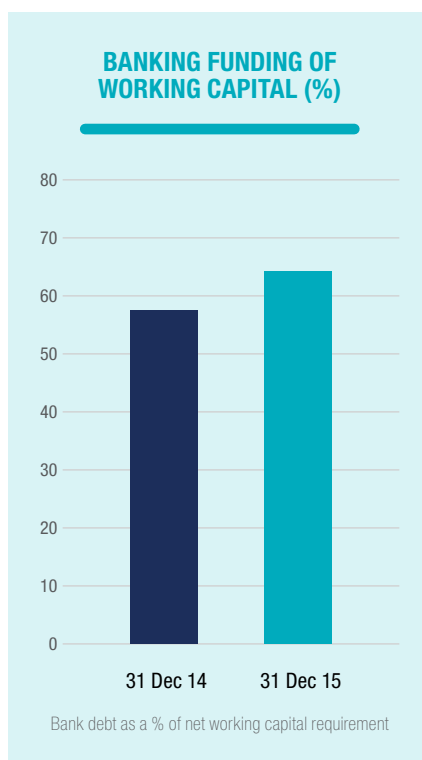
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In 2015, Magontec's underlying operational cash flow grew strongly year on year to \$3.5 million (\$0.7 million; 2014) due to efficiencies derived from an increase in sales, production efficiencies and other cost reductions. As a result, the 2015 gross margin increased to 9.3% (2014: 6.4%) with gross margin expansion seen across China and Europe.

With regards to cash generated/consumed from investing and financing activities –

- the majority of funds consumed in investing activities related to the capital expenditure associated with the construction of the magnesium alloy cast house at Qinghai; and
- there was an increase in funds provided from financing sources during the period, however this was not significant. Despite the sharp improvement in sales and earnings in 2015, the company was able to release cash from working capital from a combination of more flexible inventory balances in both Europe and China, an improved customer mix with more robust credit profiles as well as a falling pure Mg price which reduced the amount required for raw material purchases.

The combination of these movements saw the company's cash balance rise to \$8.5 million as at 31 December 2015, compared with \$6.4 million at the start of the year.



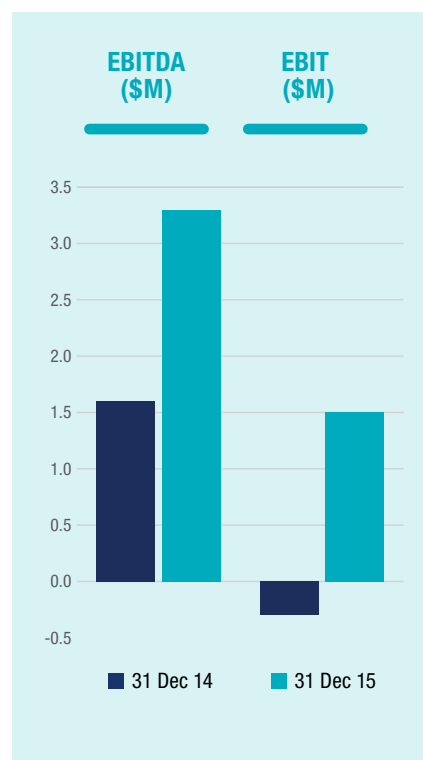
BANKING FACILITIES

The company's banking partners remain highly supportive of Magontec as the company continues to improve operationally. In 2015 a RMB 20 million Communications Bank facility in China was rolled over for a third year and in Romania the ING Bank further increased its facility as the local business continued to build scale.

Overall, Magontec maintains significant flexibility with respect to its banking facilities. As at 31 December 2015, the total drawn against the bank lending limits was \$21.4 million, leaving \$7.4 million available under its aggregate facilities limits.

Accessing the undrawn portion of the available limits will, for the most part, depend on the availability of unencumbered trade receivables and inventory.

A reduction in Shareholders' Funds to meet working capital requirement means Shareholders' Funds are more efficiently directed to capital expenditure.



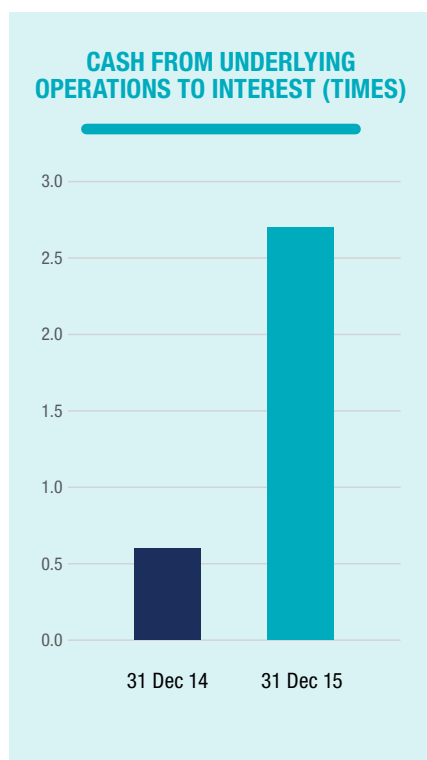
FINANCIAL INDICATORS AND RATIOS

EBITDA = Earnings Before Interest Tax Depreciation & Amortisation

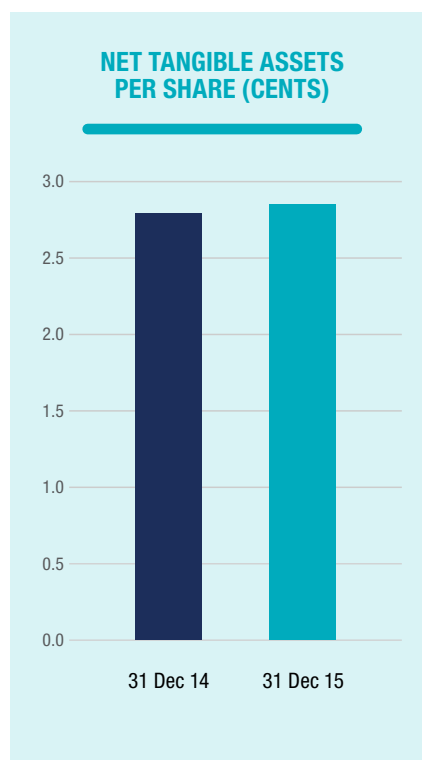
A proxy to measure cash generated from operations

EBIT = Earnings Before Interest & Tax

The availability of profit to meet interest



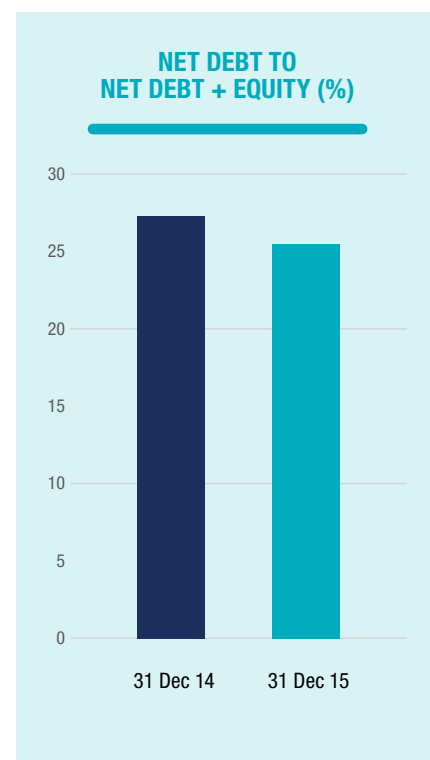
The availability of cash to meet interest



Net tangible assets

Net tangible assets per share has remained broadly static with a small increase from 2.79 cents in 2014 to 2.85 cents in 2015.

NB: For the purpose of this analysis net tangible assets include the Deferred Tax Asset on the basis that this asset is expected to be realised.



Balance sheet risk

Lower balance sheet risk with gearing having reduced from 27.3% in 2014 to 25.5% in 2015.

(Net Debt = Current & Non-current loans less cash).

OPERATIONS REPORT

EUROPE AND NORTH AMERICA



2. German Team – from left to right
Christian Röhling Supply Chain Director EU
Janus Czerniejewski Manager Metal Production EU
Jens Gruetzmann Director Sales CCP
Bärbel Fühlinger Quality Manager EU
Christoph Klein-Schmeink President Europe & Americas
Patrick Look VP Finance Manager and Human Resources

3. Romanian Team – from left to right
Levente Pusztai Quality Manager
Andreea Vekas Commercial Manager
Marius Darie General Manager
Sergiu Caramidariu Finance Manager

Over the last 18 months Magontec's European recycling operations in Romania and Germany have completed major equipment and process upgrade programs. This capital expenditure program has allowed both facilities to reduce conversion costs and increase the volume of production.

As at the end of 2015, Magontec has annual recycling capacity of over 22,000 metric tonnes and offers a highly efficient volume recycling service to European magnesium alloy die casters. We estimate that Magontec's current European magnesium recycling market share is now close to 50%.

In 2016 our challenge will be to extract further efficiency improvements, particularly from our Romanian magnesium alloy recycling operations where technical issues associated with the newly installed equipment significantly impaired productivity in 2015.

In addition to recycling Magontec also imports primary magnesium alloys from its Chinese business units for sale into European markets. As in previous years Chinese magnesium exports into Europe have been aggressively priced and often offered below cost by some traders. In this difficult market Magontec achieved sales ahead of budget but still at a level below that recorded in previous years.

As we look forward to 2016 we expect to see a growing volume of specialist magnesium alloys as programs commenced in 2015 come to fruition. Magontec's proprietary AE family of alloys continue to experience growing demand, principally from the automotive industry but increasingly from other industries where lightweight applications offer a cost or performance benefit.

Other specialty magnesium alloys are also experiencing rising demand as automotive applications in high temperature components become more common in Europe and Japan. In 2015 Magontec qualified as a primary magnesium alloy supplier of these high-end products for a number of die cast manufacturers for new applications.

OPERATIONS REPORT

continued

EUROPE AND NORTH AMERICA



This has enabled the company to secure supply and recycling contracts for growing volumes of material other than generic alloys. Specialty magnesium alloys, including Magontec's AE alloys, are more complex products and generally attract a higher margin for the group.

In the North American markets Magontec volumes have risen in Mexico and Canada for primary magnesium alloys from China. High tariff barriers for Chinese material in the USA have considerably reduced the size of the US die casting industry and caused much of the once robust US industry to migrate to other North American countries and to Asia.

In 2015 a number of events cast a pall over the global automotive industry, in particular the vehicle emissions scandal and identification of defective airbags. Magontec is a supplier to many of the companies impacted by these events however to date we have experienced no negative effect on demand for supply or recycling of magnesium alloys. Indeed the global automotive industry, responsible for around 80% of global magnesium alloy demand, is estimated to have grown by 2% in 2015 and is forecast to grow by a further 4% in 2016.

In 2016 we anticipate a stronger performance from the Romanian magnesium alloy recycling business as technical issues associated with the installation of new furnaces and casting lines are resolved and production settles into a more predictable rhythm. In Germany we currently anticipate slightly lower recycling volumes in 2016 but higher margins as the balance of production shifts towards specialty alloys. In the event that the US Dollar weakens against the Euro the export of scrap magnesium from Europe to the USA, a feature of the second half of 2015, may slow and move back towards European recyclers.

Magontec Europe also manufactures magnesium and electronic anodes for supply to water heater and other water management device manufacturers. In the last few years the magnesium anode business has faced strong competition from Eastern European and Chinese suppliers. Since the relocation of this business to Romania Magontec's product has become considerably more competitive and made a much improved contribution to group profit in 2015.

The electronic anodes business has been a strong performer for Magontec for many years and in 2015 our European technical and sales teams have laid the foundations for a very strong future for this product. Magontec electronic anodes are now being installed in a range of new applications including the S-Patron solar water heater controller product (a Magontec consumer product) and in other applications for a range of new customers.

In 2016 we anticipate a further improvement in the overall anode business performance with incremental improvement in magnesium anodes and continued growth in the electronic anodes business.

OPERATIONS REPORT

continued

ASIA



4. Magontec PRC senior management team
— from left to right
Zhen Yuanbo HSE Manager PRC
Jiang Li Finance Manager PRC
Tong Xunyou President Magontec Asia
Lu Yu Human Resources Manager PRC
Zhen Zisheng Technical Director
Wen Xinning Operations Director PRC



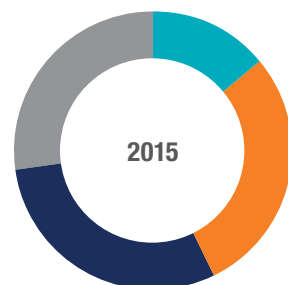
Magontec operations in the PRC enjoyed favourable conditions in 2015, particularly in the primary magnesium alloy division. The dividends from hard

work by the local management team and investment in plant and equipment through 2014 and 2015 were evident.

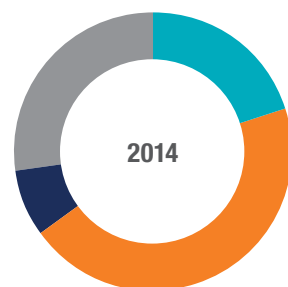
The primary magnesium alloy manufacturing plant in Shanxi Province (original production of magnesium alloy ingots from pure magnesium and other alloying elements) is a leased facility with a capacity of around 25,000 metric tonnes per annum. Magontec has invested considerable effort and capital to upgrade the plant, the working conditions and production efficiency. In 2015 the plant achieved improved operating metrics generating a much improved profit contribution.

In 2015 primary magnesium alloy production rose 13% to 17,500 metric tonnes. Over the last 12 months the group has focused strongly on developing international markets at the expense of sales to the more competitive domestic Chinese market. In China competitiveness is not always the result of production efficiency and is often strongly associated with regional subsidies providing financial support to high labour input industries. Environmental and economic pressures may see these subsidies decline in the years ahead.

PRIMARY MAGNESIUM ALLOY SALES BY REGION



Europe	14%
China	29%
North America	30%
Asia ex-China	27%



Europe	20%
China	45%
North America	8%
Asia ex-China	27%

OPERATIONS REPORT

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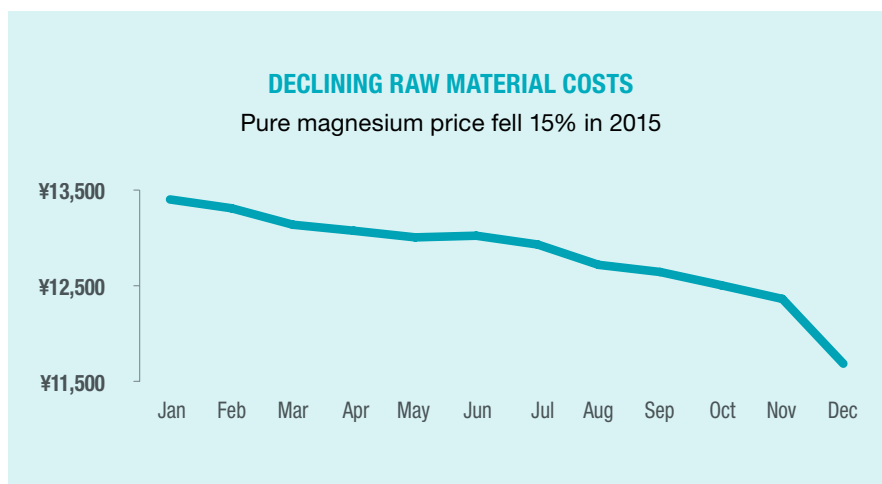
ASIA

North American and Asian die casters have experienced strong growth in 2015 and Magontec has successfully grown its share of these markets. The imposition of very high tariff barriers by the US Government in 2005 has resulted in the gradual relocation of magnesium alloy die casting capacity to Mexico and Canada. This trend is unlikely to reverse in the short-term with the existing tariff structure expected to be re-imposed in the US for a further 5 years in 2016.

In 2015 Magontec was the largest exporter of magnesium alloys from China. Leveraging and building the global logistics and sales capacity of the group has been an important achievement as the Company moves towards the start of production at Qinghai. Similarly, understanding global pricing dynamics and the ability to move with our global customers to new locations, sets Magontec apart in an industry that is largely China-based and dependent on regional agents for support in international markets.

In addition to the manufacture of primary magnesium alloy, Magontec also manufactures magnesium anodes for the water heater industry. This business has performed well benefiting from higher volumes and an investment program in casting and processing equipment that is still in its early stages. The divisional contribution to EBIT from the Chinese magnesium anodes business was almost double that of 2014.

In 2016 additional productivity measures will be introduced to further reduce production costs and entrench Magontec, already a market leader in China, as a leading supplier to international markets elsewhere in Asia and North America. In 2015 magnesium anode sales volumes rose 36% reflecting both a recovery of some lost market share in 2014 and a more competitive product.



Despite improvements in performance from both PRC divisions the weakening Chinese economy has presented considerable challenges. The price of pure magnesium declined over 15% in 2015 from ¥13,450 to ¥11,400. Like many Chinese metals industries, both pure magnesium and magnesium alloy suffer from chronic over capacity. While Magontec is a converter of pure magnesium into magnesium alloy, thus enjoying falling prices for its raw materials, managing the volatility in the market for pure magnesium presents considerable challenges.

Similarly, in the magnesium recycling industry, rapid shifts in material selection, particularly in the domestic Chinese electronics industry, has made this a challenging sector. On a more positive note new applications in the electronics sector have been developed through 2015, which hold great promise for volume growth for specialist magnesium alloys in 2016 and beyond, potentially reducing the focus of the company on the automotive industry.

In China, as in other regions of the World, Magontec has a very strong focus on employee safety. In 2015 there were no serious accidents at the Magontec magnesium foundries in China and the employees and management are to be congratulated on this achievement.

Looking further ahead the Chinese economy appears likely to continue to slow as the era of massive infrastructure and home building passes its peak. Inflation is forecast to be around 1.4% and GDP growth at 6.5% in 2016. While these indicators have caused considerable concern in global and Chinese markets, we have seen continued growth in key consumer markets for Magontec alloys and anodes in the global automotive market and in the Chinese market for water heaters. Although markets in 2016 may be subdued, the requirement for greater fuel efficiency in the automotive industry ensures that lightweight metals, such as magnesium, continue to attract the attention of automotive application designers. While the Chinese housing market has weakened, the electric water heater sector grew by 3% in 2015.

MAGONTEC QINGHAI

5. Qinghai facility including Magontec's alloy cast house.



6. Magontec Qinghai Installation and Commissioning Team beside a newly installed ingot casting line at the Magontec Qinghai Project – from left to right
Matthias Gruber VP Technology and Production
Chen Chunhong Maintenance Supervisor
Fan Guiping Project Manager Magontec Qinghai
Bao Fengxiao Electrical Engineer
Li Taiyuan Maintenance Technician
Chen Xiaoming VP Production Manager
Xue Jizhong Electrician



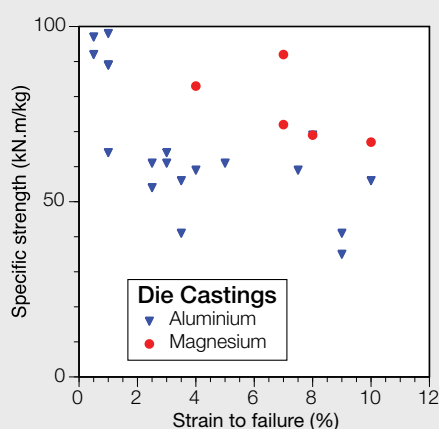
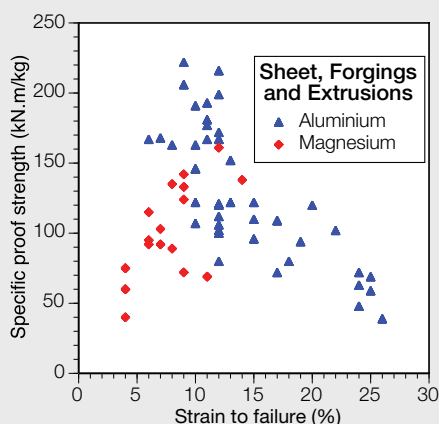
MAGONTEC QINGHAI

- In 2013 Magontec Limited concluded a series of agreements with the Qinghai Salt Lake Magnesium Co Ltd (QSLM).
- Under these agreements Magontec was granted the exclusive right to manufacture and sell magnesium alloys made from liquid pure magnesium produced at this new facility.
- In return Magontec agreed to finance and install 56,000 metric tonnes per annum of magnesium alloy cast house capacity.
- This new facility at Golmud in Qinghai Province PRC will have an annual production capacity of 100,000 metric tonnes per annum (with 44,000 metric tonnes per annum destined for the pure magnesium markets through QSLM).
- The electrolytic manufacturing process will use solar and hydroelectric sources to generate 85% of its power requirements, making it the greenest magnesium manufacturing factory in the World.
- In 2015 Magontec installed and cold commissioned the first of 4 magnesium alloy casting lines and commenced the installation process for additional lines.
- QSLM have announced that the construction phase for the project has now been completed and the commissioning phase will commence in the first quarter of 2016.
- Production at Magontec Qinghai will move the Company to the forefront of global primary magnesium alloy production.
- From our new facility Magontec will service customers in Europe, Asia and North America with competitive and high quality magnesium alloy products.

RESEARCH AND DEVELOPMENT

MAGNESIUM ALLOY RESEARCH AND DEVELOPMENT

Our primary focus is on alloys for high pressure diecast applications that dominate the market for magnesium alloys.



Main source: ASM Metals handbook



The name Magontec is a play on magnesium and technology. Our technological heritage in magnesium alloys stems from two sources, the former Hydro Magnesium organisation that became Magontec, and from our key role in the CAST Cooperative Research Centre in Australia. Magontec holds a number of alloy patents and know-how that originated from this twin base, forming the core of an actively growing alloy commercialisation program.

Our primary focus is on alloys for high pressure diecast applications that dominate the market for magnesium alloys. Despite the international research community's focus on other application areas, such as magnesium sheet, high pressure diecast applications remain dominant, simply because of strength to weight advantages over aluminium alloys that are apparent in die cast alloys but not in wrought alloys (see figure showing specific strength vs ductility).

Magontec's patented AE44 alloy is finding increased applications (see picture above showing AE44 application examples). AE44 was originally developed for high temperature applications and became dominant over rival alloys due to development priorities that focused on both properties and die castability.

Recent developments have expanded beyond components for automotive powertrain and into new die cast applications:

- Alloys with high thermal conductivity for electronics
- Strong and highly deformable alloys for structural components
- High strength alloys for demanding high temperature applications

Magontec's R&D process has moved away from the isolated research laboratory model to now work in close collaboration with customers (including major OEMs) and research organisations. Magontec, in conjunction with a consortium of Australian research organisations, has also been successful in obtaining a grant from the Australian Research Council to further develop AE type alloys.

Magnesium alloys used in applications other than die casting remain a niche market, however, these are typically high value alloys. Magontec's newly introduced magnesium – zirconium product, MicroZir™, signals our entry into this market. Many specialist magnesium alloys require zirconium in a specific form. Our technology to create a suspension of micro sized zirconium particles in a magnesium matrix is the basis of MicroZir™, which has been met with positive reactions from the market.

BOARD OF DIRECTORS



NICHOLAS ANDREWS

Executive Chairman

B Ec.(Syd)

Mr Andrews has been the Executive Chairman of Magontec Limited since November 2009. He is also a Vice President of the International Magnesium Association. 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 industry background in the funds management industry and in investment banking. From 1996 to 2000 Mr Andrews led the UBS Australian equity distribution desk in London and from 2000 to 2005 he served as a Managing Director at UBS Investment Bank 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.



XIE KANGMIN

Non-Executive Director (re-appointed 8 May 2015)

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

Graduate of Chongqing University

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

QSLM is a 29.32% substantial shareholder in Magontec Limited and the Company with whom Magontec Limited has entered into a Cooperation agreement in relation to the alloy production facility at Golmud in Qinghai province PRC.



ANDRE LABUSCHAGNE

Non-Executive Director (re-appointed 29 May 2014)

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

B. Comm (Potchefstroom University)

Mr Labuschagne is the Executive Chairman of Aeris Resources Limited (formerly Straits Resources Limited) which is a substantial shareholder of Magontec Limited to the extent of 13.21% at the date of this report.

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



LI ZHONGJUN

Non-Executive Director (re-appointed 8 May 2015)

Member of the Remuneration and Appointments Committee (REM)

Graduate of Wuhan University of Technology

Mr Li is the General Manager 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 processing factories in Hong Kong and Tianjin and a broad experience of the global magnesium industry. Mr Li is a major beneficial shareholder in Magontec Limited.

BOARD OF DIRECTORS

continued



ROBERT SHAW

**Independent Director
(re-appointed 29 May 2014)**

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

Member of the Remuneration and Appointments Committee (REM)

BE, MBA, MPA, FAICD, JP

Mr Shaw has extensive experience in business management in both an Executive and Non-Executive capacity. He has specialist skills in finance and financial analysis, audit committees and corporate governance. He is current Non-Executive Director of Credit Corp (CCP) where he is Chairman of the Audit and Risk Committee. Mr Shaw holds Bachelor of Industrial Engineering, Master of Business Administration and Master of Professional Accounting degrees.



ROBERT KAYE SC

**Independent Director
(re-appointed 29 May 2014)**

Chairman of the Remuneration and Appointments Committee (REM)

LLB (Syd), LLM (Cambridge) (Hons)

Mr Kaye was admitted to legal practice in 1978 and employed as a solicitor at Allen Allen & Hemsley Solicitors. Thereafter he pursued his legal career at the NSW Bar and was appointed Senior Counsel in 2003, practising in commercial law. He has been involved in an array of commercial matters both advisory and litigious in nature and served on a number of NSW Bar Association committees including the Professional Conduct Committee. He has also served as a director for various private companies. In the conduct of his practice as a barrister, he has acted for many financial institutions and commercial enterprises, both public and private and given both legal and strategic advice. He has had significant mediation experience and been involved in the successful resolution of complex commercial disputes. Mr Kaye is currently Chairman of Spicers Limited (formerly Paperlinx Limited), Chairman of Collins Foods Limited and a Non Executive Director of UGL Limited.



LI YONG

Alternate Non-Executive Director (appointed 29 May 2014)

In 2014, Mr Li was appointed as the Secretary of the Board of Qinghai Salt Lake Industry Co Ltd (QSLI), the parent company of QSLM. After graduating from the Sichuan School of Statistics in 1992, Mr Li joined the Qinghai Salt Lake group of companies. In 2009, he qualified as a member of The Chinese Institute of Chartered Accountants (CPA).

Within QSLI, he maintains responsibility for and is involved in a number of functions including investor relations, external reporting, economics, finance and accounting. He is the alternate director to Mr Xie Kangmin.

KEY MANAGEMENT PERSONNEL

(other than Executive Chairman)



JOHN TALBOT

**Chief Financial Officer
and Company Secretary**

B Bus, Accounting (UTS)

From 1988 to Sept 2000 Mr Talbot was a senior executive at the Commonwealth Bank of Australia 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.



TONG XUNYOU

President, Magontec Asia

Graduate of Dalian University

Tong joined Magontec Limited in 2003 in the role of Production Manager, Finance Manager and Deputy General Manager. In 2006 Tong was appointed General Manager and assumed responsibility for all of Magontec's Chinese activities, including recycling and joint ventures.

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

Tong holds a Bachelors degree in Chemistry from Dalian University of Science and Engineering and an MBA from Hong Kong Polytechnic University.



CHRISTOPH KLEIN-SCHMEINK

**President Magontec Europe,
North America and Middle
East**

MBA (Münster University)

Christoph joined Magontec Limited (then Hydro Magnesium) in 2000 as Sales and Marketing Manager responsible for global sales of the company's anode products. He was appointed Head of Sales and Marketing in 2007 and Vice-President of Global Sales and Marketing in 2011 and has responsibility for magnesium alloy and anode sales group-wide.

Prior to joining Magontec Christoph held the position of Sales Director Asia Pacific with the global mining services company Terex Mining Corp.

Christoph holds a Masters of Business Administration degree from Münster University.

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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 2015 were authorised for issue in accordance with a resolution of the directors on 24 February 2016. Magontec Limited is a company limited by shares incorporated in Australia. The shares are publicly traded on the Australian Securities Exchange under the code "MGL".

2. Glossary of 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 (formerly Advanced Magnesium Ltd).	Parent Company, the Company or MGL
Advanced Magnesium Technologies Pty Limited	Wholly owned subsidiary of Magontec Limited that acts as the administrative operating entity.	AMT
Varomet Holdings Limited	The holding company that owns the Group's operating businesses at Bottrop (Germany), Xi'an (PRC) and Suzhou (PRC). In turn, Magontec Limited owns all of the ordinary shares issued by Varomet Holdings Limited.	VHL
Operating entities		
Magontec GmbH	The wholly owned entity that owns the Group's operations in Bottrop, Germany	MAB
Magontec SRL	The wholly owned entity that owns the Group's operations in Santana, Romania	MAR
Magontec Xian Co Ltd.	The wholly owned entity that owns the Group's operations in Xi'an, PRC	MAX
Magontec Shanxi Company Limited	The joint venture operations in Jishan, Shanxi province PRC	MAY
Magontec Suzhou Co Ltd	The wholly owned entity that owns the Group's operations in Suzhou, PRC	MAS
Magontec Qinghai Co. Ltd.	The wholly owned entity that owns the Group's operations in Qinghai, PRC	MAQ
Major related shareholders		
Qinghai Salt Lake Magnesium Co. Limited	A subsidiary of Qinghai Salt Lake Industry Co. Limited (a company listed on the Shenzhen Securities Exchange) and a shareholder in MGL to the extent of 29.32% at the date of this report.	QSLM
Straits Mine Management Pty Limited	The company from which MGL acquired the Magontec group of companies on 4 July 2011. SMM, a subsidiary of Aeris Resources Limited remains a 13.21% substantial shareholder of MGL at the date of this report.	SMM
KWE (HK) Investment Development Co Ltd	Shareholder in Magontec Limited. Mr Li Zhongjun, a director of Magontec Limited is also a director and shareholder of KWE (HK) Investment Development Co Ltd.	KWE (HK)

3. Rounding errors

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

- the addition of items comprising total and sub totals; and
- the comparative balances of items from the financial accounts for the period ended 31 December 2014.

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

for the year ended 31 December 2015

The Directors of Magontec Limited submit herewith the Annual Financial Report of the Group for the twelve month period ended 31 December 2015. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

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

- Mr Nicholas Andrews (Executive Chairman)
- Mr Xie Kangmin (Non-Executive Director)
- Mr Li Yong (Alternate Director to Mr Xie Kangmin)
- Mr Li Zhongjun (Non-Executive Director)
- Mr Robert Shaw (Independent Director)
- Mr Robert Kaye (Independent Director)
- Mr Andre Labuschagne (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 Shaw is a Non-Executive Director of Credit Corp Group Limited
- Mr Robert Kaye is Chairman of Spicers Limited (formerly Paperlinx Limited), Chairman of Collins Foods Limited and a Non-Executive Director of UGL Limited
- Mr Andre Labuschagne is Executive Chairman of Aeris Resources Limited (formerly Straits Resources Limited)
- Mr Xie Kangmin is a director of Qinghai Salt Lake Industry Co. Limited

Company Secretary

Mr JD Talbot
B Bus (Acctg)

Mr Talbot joined MGL in February 2008. Prior to 2008 he was engaged as a financial consultant in the corporate finance field. Prior to 2000 he was a senior executive with the Commonwealth Bank of Australia.

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 magnesium alloys;
- Manufacture and distribution of magnesium and titanium cathodic corrosion protection products (anodes);
- Research and development of new proprietary magnesium alloys and technologies;
- Research and development of cathodic corrosion protection products (CCP); and
- Creating markets for new magnesium alloys and technologies by supporting demonstration trials and programs for developing new applications.

Directors' Meetings

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

Director	Board Meetings		FAC Meetings		REM ⁽²⁾ Meetings	
	Attended	Held	Attended	Held	Attended	Held
Mr Nicholas Andrews	8	8				
Mr Xie Kangmin	1	8	–	3		
Mr Li Yong ⁽¹⁾	6	8				
Mr Li Zhongjun	8	8			1	1
Mr Robert Shaw	8	8	3	3	1	1
Mr Robert Kaye	7	8	1	1	1	1
Mr Andre Labuschagne	8	8	2	2		

(1) Mr Li Yong is the alternate director to Mr Xie Kangmin.

(2) Remuneration & Appointments Committee

DIRECTORS' REPORT

continued

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	Security type	Number of shares as at Date of this Report
Mr Nicholas Andrews	Ordinary shares	18,993,502
Mr Xie Kangmin		–
Mr Li Yong (Alternate)		–
Mr Li Zhongjun	Ordinary shares	56,197,298
Mr Robert Shaw	Ordinary shares	800,000
Mr Robert Kaye		–
Mr Andre Labuschagne		–

REMUNERATION REPORT

The remuneration report for the year ended 31 December 2015 outlines the remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations.

The remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company. Directors and executives who have a direct reporting responsibility to the Executive Chairman are deemed to be such individuals.

The remuneration report is presented under the following sections:

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

1. INDIVIDUAL KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES

Details of KMP are set out below and their remuneration is detailed in the table on page 23.

Key Management Personnel

(i) Directors as at 31 December 2015

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

(ii) Executives (Being the Executive Chairman and his Direct Reports) as at 31 December 2015

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

DIRECTORS' REPORT

continued

2. REMUNERATION AT A GLANCE

Remuneration Strategy

The Group uses a combination of cash and non-cash mechanisms to remunerate KMP as a means of preserving its limited cash resources. At the Company's 2011 Annual General Meeting shareholders approved a plan for the issue of shares to the executives of the Group.

3. BOARD OVERSIGHT OF REMUNERATION

Remuneration Committee

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

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

Remuneration Approval Process

The board approves the remuneration arrangements of the Executive Chairman and executives and all issue of options under the Employee Share Option Plan (ESOP) following recommendations from the remuneration committee.

Remuneration Structure

The structure of NED and executive remuneration is a separate and distinct process.

4. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS

Remuneration Policy and Structure

The remuneration of NEDs consists of directors' fees. Options may only be issued to a Director pursuant to the Employee Share Option Plan if the issue complies with the requirements (if any) of the Corporations Act and the ASX Listing Rules.

The aggregate amount of Non-Executive Directors' fees is approved by Shareholders and is currently limited to \$600,000 per annum. Any increase must be approved by Shareholders. The Board decides how that aggregate or a lesser amount is divided between the Directors.

Within the constraint of the aggregate \$600,000 fees approved by Shareholders for Non-Executive Directors (NEDs), the Board has set compensation at \$35,000 per annum for each Non-Executive Director (inclusive of any payments for superannuation).

5. EXECUTIVE REMUNERATION ARRANGEMENTS

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

- When an executive or an employee is recruited, the Group's aim is to reward its staff at market rates within the manufacturing technology industry as determined and in consultation with a remuneration specialist where appropriate;
- The individual's package is flexible and can incorporate salary sacrifice components making the individual's package tax effective;
- The remuneration policy aims to retain key employees and align employee interests with Group performance and Shareholders' interests;
- An Employee Share Option Plan (ESOP) was established in October 2005 and modified at the 2010 AGM.
- An Executive Securities Issue Plan (ESIP) was approved by shareholders at the 2011 AGM.

The ESOP & ESIP are utilised to

- a. motivate key management personnel (KMP) to originate and innovate strategies for growth;
- b. reward KMP for the satisfaction of positive strategic and financial outcomes; and
- c. provide an adjunct to cash remuneration to preserve cash resources.

Staff remuneration has three components:

- a. Base or fixed remuneration;
- b. Variable (at risk) performance; and
- c. A long-term incentive in the form of options and/or share issues approved by shareholders.

Each KMP has a set of key performance indicators (KPIs) mutually agreed by the employee and the Executive Chairman/ Board (as appropriate) on an annual basis. The KPIs reflect the employee's ability to add value to the entity and increase shareholder wealth by ensuring productive gains such as increasing efficiencies, reduction in costs and increased profitability by maximising sales volumes and margins on sale revenues. Variable and long term incentives will only be paid if set objectives are achieved.

During the period ended 31 December 2015 shares were issued to one KMP Mr Tong Xunyou and one non KMP former employee, Mr Martin Tauber under the terms of the approval given by shareholders under resolution 8 of the 2011 Annual General Meeting.

This Board Policy will be reviewed periodically by the Remuneration and Appointments Committee. Where appropriate, recommendations to the Board for variations will be made.

DIRECTORS' REPORT

continued

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

Structure

The Group's limited resources mean that its remuneration structures must be simple. The arrangements therefore must balance ease of administration with appropriate reward. Any non-cash mechanisms are confined to shares and options. Complex remuneration packages involving after tax benefits are generally avoided. The issue of shares will be in terms of resolutions put to shareholders. Only a limited number of employees are eligible for the issue of options under the Employee Share Option Plan (ESOP). Technical services tend to be required by the Group on an irregular basis. There is a reliable base of technical consultants on which the Group can call upon when the need arises. This avoids the cost of maintaining permanent resources.

The executive remuneration framework consisted of the following components:

- fixed cash component;
- non cash component; and
- post-employment benefits (superannuation and certain social benefits for Chinese personnel).

Remuneration for KMP in the current reporting period is shown in the table following.

Key Management Personnel Remuneration 1 Jan 2015 to 31 Dec 2015

	Salary & Allowances \$	Termination Payment \$	Super & Other Statutory Benefits \$	Equity & Other Non Cash Benefits				Total \$
				Shares \$	Options \$	Motor Vehicle & Other Allowances \$	Date Shares Issued	
Mr N Andrews (Exec Chairman)	387,988	–	30,000	–	–	–	–	417,988
Mr C Klein-Schmeink (President Magontec Europe & North America)	253,881	–	18,433	–	–	26,925	–	299,239
Mr X Tong (President Magontec Asia)	275,719	–	13,492	95,261	–	–	12 May 15	384,472
Mr J Talbot (CFO & Coy Sec)	224,997	–	35,000	–	–	–	–	259,997
Mr K Xie (Non Exec Dr)	–	–	–	–	–	–	–	–
Mr Z Li (Non Exec Dr)	35,000	–	–	–	–	–	–	35,000
Mr R Shaw (Independent Dr)	32,110	–	2,890	–	–	–	–	35,000
Mr R Kaye (Independent Dr)	35,000	–	–	–	–	–	–	35,000
Mr A Labuschagne (Non Exec Dr)	35,000	–	–	–	–	–	–	35,000
Mr Y Li (Alternate Dr)	–	–	–	–	–	–	–	–
Total	1,279,695	–	99,815	95,261	–	26,925		1,501,696

Key management personnel are defined as Directors, the Executive Chairman and those with direct reporting responsibility to the Executive Chairman

Fixed Cash Remuneration

Executive contracts of employment do not include any guaranteed base pay increases.

Value of Options Issued to Key Management Personnel

No options were issued to KMP during the current financial period.

Value of Options – Basis of Calculation (Employee Share Option Plan – ESOP)

Under the Employee Share Option Plan approved on 4 October 2005, options allowing subscription of up to 5% of the issued share capital of MGL are available for issue to employees, with options over a further 5% of the issued share capital in the future based on performance.

As there are no options remaining unexercised at 31 December 2015 no valuation has been performed.

Security-based Payment Schemes

a. Employee Share Option Plan (ESOP) – Summary of Options Grants

As at 31 December 2015 and 31 December 2014 no unexercised options were held by KMP.

DIRECTORS' REPORT

continued

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

b. Executives' Securities Issue Plan (ESIP)

At the 2011 Annual General meeting of the Company held on 22 November 2011, in accordance with the terms of Resolution 8(a) shareholders approved a plan – referred to as the Executives Securities Issue Plan (ESIP) - for the issue of shares to Executives of the Company and its wholly owned subsidiaries.

The ESIP provided for three components.

1. Short term rewards

2. Retention rights scheme – a scheme designed to ensure the retention of five key executives within the Magontec group of companies upon its acquisition by the former Advanced Magnesium Limited. Retention Rights entitlements are equivalent to one-year's salary (prevailing as at the date of the 2011 AGM) for each of these executives. Shares issued under this scheme at the time were linked to the profitability of MGL over the next four years and will be priced at the 10-day VWAP of the Company's shares in the period prior to the date of grant of each award as follows:

- a minimum award of 10% was made on the day following the 2011 AGM;
- dependent on profitability of the Company, additional awards will be made on each of 1 July 2012, 1 July 2013, and 1 July 2014, but in any event a minimum award of 10% of the total award will be made on each of these dates; and
- any residual Retention Rights outstanding on 1 July 2015 will be awarded on that date.

As per Resolution 5 of the 2015 AGM, the conditions of issue of Retention Rights shares to Mr C Klein-Schmeink and Mr P Look were varied. The variation allows these employees at their option to elect that the shares be issued at the earlier of either 30 June 2016 or 30 June 2017 or within 5 business days of the date a takeover offer is made on the Company in compliance with the terms of the Corporations Act 2001.

3. Long term incentive scheme

Eligible Participants in Executives' Securities Issue Plan

Potential Participants	Position In Company	Eligibility 2012 to 2014	Eligibility 2015
Nicholas William Andrews	Executive Chairman	Eligible	Eligible
John David Talbot	CFO and Company Secretary	Eligible	Eligible
Christoph Klein-Schmeink	President Magontec Europe & North America	Eligible	Eligible
Patrick Look	CFO Magontec GmbH	Eligible	Eligible
Tong Xunyou	President Magontec Asia	Eligible	Eligible
Martin Tauber	Former Project Manager	Eligible	Eligible

DIRECTORS' REPORT

continued

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

c. Loans to Members of Key Management Personnel

As at 31 December 2015, there was an employee loan outstanding to Mr Christoph Klein-Schmeink of A\$21,399 (2014: A\$28,199) due for repayment by 30 November 2018. There were no other employee loans outstanding to key management personnel as at balance date.

Key Management Personnel Equity Holdings

Fully paid ordinary shares of Magontec Limited - 31 Dec 2015

	Balance @ 1/01/15 No.	Granted as remuneration No.	Received on exercise of options No.	Acquired On Market or Under Share Purchase Plan No.	Total balance (held directly and indirectly) @ 31/12/15 No.	Balance held nominally (indirectly) No.
Mr Z Li ⁽¹⁾	56,197,298	–	–	–	56,197,298	55,797,298
Mr N Andrews ⁽²⁾	18,993,502	–	–	–	18,993,502	15,409,401
Mr R Shaw	800,000	–	–	–	800,000	800,000
Mr C Klein-Schmeink	1,141,542	–	–	–	1,141,542	–
Mr X Tong	1,987,815	6,329,620	–	–	8,317,435	–
Mr J Talbot	4,000,768	–	–	77,512	4,078,280	–
	83,120,925	6,329,620	–	77,512	89,528,057	72,006,699

(1) 55,797,298 shares held via KWE (HK) Investment Development Co Limited and 400,000 shares are held directly.

(2) 15,409,401 shares are held via DEWBERRI PTY LIMITED as trustee for Andrews Superannuation Fund and 3,584,101 are held directly.

Fully paid ordinary shares of Magontec Limited - 31 Dec 2014

	Balance @ 1/01/14 No.	Granted as remuneration No.	Received on exercise of options No.	Acquired On Market or Under Share Purchase Plan No.	Total balance (held directly and indirectly) @ 31/12/14 No.	Balance held nominally (indirectly) No.
Mr Z Li ⁽¹⁾	56,197,298	–	–	–	56,197,298	55,797,298
Mr N Andrews ⁽²⁾	11,079,542	–	7,913,960	–	18,993,502	15,409,401
Mr R Shaw	200,000	–	200,000	400,000	800,000	800,000
Mr C Klein-Schmeink	1,141,542	–	–	–	1,141,542	–
Mr X Tong	1,987,815	–	–	–	1,987,815	–
Mr J Talbot	4,000,768	–	–	–	4,000,768	–
Total	74,606,965	–	8,113,960	400,000	83,120,925	72,006,699

(1) 55,797,298 shares held via KWE (HK) Investment Development Co Limited and 400,000 shares are held directly.

(2) 15,409,401 shares are held via DEWBERRI PTY LIMITED as trustee for Andrews Superannuation Fund and 3,584,101 are held directly.

DIRECTORS' REPORT

continued

6. GROUP PERFORMANCE AND THE LINK TO REMUNERATION

During the reporting period ended 31 December 2015, the focus of the Group's management resources is described in the Executive Chairman's address. 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 Golmud;
- initial marketing of potential production output from the new Golmud 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 will be 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

7. EXECUTIVE CONTRACTUAL ARRANGEMENTS

Remuneration arrangements for KMP whose employment is current as at 31 December 2015 are provided below.

Personnel	Position	2015 Remuneration ⁽¹⁾	Notice Period For Termination	Payment In Lieu of Notice	Other Provisions
Mr N Andrews	Executive Chairman	\$417,988	Employer initiated - 6 months Employee initiated - 6 months	6 months' pay	Eligible for participation in ESIP & ESOP ⁽²⁾
Mr C Klein-Schmeink	President Magontec Europe & North America	\$299,239	Employer initiated - 12 months Employee initiated - 12 months	12 months' pay	Eligible for participation in ESIP & ESOP ⁽²⁾
Mr X Tong	President Magontec Asia	\$384,472	Employer initiated - 6 months Employee initiated - 6 months	6 months' pay	Eligible for participation in ESIP & ESOP ⁽²⁾
Mr J Talbot	Chief Financial Officer & Company Secretary	\$259,997	Employer initiated - 6 weeks Employee initiated - 6 weeks	6 weeks' pay	Eligible for participation in ESIP & ESOP ⁽²⁾

(1) Total cost to the Group for the reporting period ended 31 December 2015.

Differences between "total cost to the Group" and current contractual arrangements are as follows:

- Mr Talbot's contractual cash remuneration reduced from \$275,000 to \$245,000 on 1 July 2015.
- Mr Tong's contractual cash remuneration at 31 December 2015 is \$285,765.

(2) ESIP = Executive Securities Issue Plan; ESOP = Employee Share Option Plan.

Financial Report

Please refer to page 6.

Operations Report

Please refer to page 10.

DIRECTORS' REPORT

continued

Summary Statement of Profit and Loss and Other Comprehensive Income

	12 months to 31 Dec 2015 \$'000	12 months to 31 Dec 2014 \$'000
Sales revenue	139,758	133,283
Cost of sales	(126,824)	(124,789)
Gross profit	12,934	8,495
Other income	908	1,797
Impairment of inventory, receivables & other financial assets	(881)	(247)
Interest expense	(1,291)	(1,127)
Foreign exchange gain/(loss)	771	297
Expenses	(12,246)	(10,648)
Profit/(Loss) before income tax expense from continuing operations	195	(1,434)
Income tax (expense)/benefit	(150)	(230)
Profit/(Loss) from continuing operations after income tax	45	(1,664)
Loss after income tax expense from discontinued operations	–	–
Profit/(Loss) after income tax expense	45	(1,664)
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement		
Net income/(expense) reflecting through Reserve accounts	740	(481)
Total Comprehensive Income	785	(2,145)
Total Comprehensive Income for the year is attributable to		
Minority interests	–	–
Members of the parent entity	785	(2,145)

DIRECTORS' REPORT

continued

Summary of Balance Sheet

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Assets		
Cash and cash equivalents	8,490	6,435
Receivables	22,163	25,242
Inventory	26,316	31,272
Property, plant & equipment	19,567	17,240
Prepayments and other	5,992	6,280
Total Assets	82,528	86,469
Liabilities		
Trade and other Payables	16,425	22,525
Bank loans	20,507	19,292
Provisions	10,435	10,448
Total Liabilities	47,367	52,265
Net Assets	35,161	34,204

Summary of Cash Flow

	12 months to 31 Dec 2015 \$'000	12 months to 31 Dec 2014 \$'000
Opening Cash Balance	6,435	7,375
Cash flows from operating activities		
Net interest (paid)/received	(1,223)	(1,008)
Taxation (paid)/received	(50)	(259)
Net working capital assets (outflow)/inflow	1,837	(113)
Cash generated from/(utilised in) underlying operating activities	3,506	692
Net cash (used)/generated in operating activities	4,070	(688)
Cash flows from investing and financing activities		
Net cash (outflow)/inflow on purchase/disposal of PP&E	(4,092)	(2,641)
Net cash (outflow)/inflow on group information technology software	(117)	(40)
Security Deposit	894	(888)
Other (Investing)	140	–
Principal reduction on debt owing to SMM	–	(2,100)
Bank debt inflow/(outflow)	677	2,763
Net capital raised from issue of securities	(4)	2,048
Net cash (used)/generated in investing and financing activities	(2,503)	(859)
Foreign exchange movements	488	606
Net Cash Inflows/(Outflows)	2,055	(941)
Closing Cash Balance	8,490	6,435

DIRECTORS' REPORT

continued

Dividends

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

Subsequent Events

Subsequent events are detailed in Note 27.

Future Developments

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

Non Audit Services

Camphin Boston (the Group's auditors) provided tax and other services during the financial year. Aggregate fees for non audit services paid in the financial year were \$13,848.

Auditor's Independence Declaration

The Auditor's independence declaration is included on page 30 of this Annual Report.

Indemnification of Officers and Auditors

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

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

On behalf of the Board of Directors



Mr N Andrews

Executive Chairman



Mr R Shaw

Non-Executive Director

Signed on the 24 February 2016 in accordance with a resolution of the Directors made pursuant to Section 298(2) of the Corporations Act 2001.

INDEPENDENT AUDIT DECLARATION

CAMPHIN BOSTON

CHARTERED ACCOUNTANTS

The Board of Directors
Magontec Limited
Suite 1.03, 46a Macleay Street
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 2015 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Camphin Boston
Chartered Accountants



Justin Woods
Partner

Declared this 24th February 2016 in Sydney

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Liability limited by a
scheme approved under
Professional Standards
Legislation

CONSOLIDATED STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2015

	Notes	12 months to 31 Dec 2015 \$'000	12 months to 31 Dec 2014 \$'000
Sale of goods	2(a)	139,758	133,283
Cost of sales	2(b)	(126,824)	(124,789)
Gross profit		12,934	8,495
Other income	2(c)	908	1,797
Interest expense		(1,291)	(1,127)
Impairment of inventory, receivables & other financial assets	2(d)	(881)	(247)
Travel accommodation and meals		(697)	(602)
Research, development, licensing and patent costs		(301)	(303)
Promotional activity		(45)	(61)
Information technology		(340)	(419)
Personnel	2(d)	(6,589)	(5,531)
Depreciation & Amortisation		(499)	(448)
Office expenses		(282)	(376)
Corporate		(3,339)	(2,908)
Foreign exchange gain/(loss)		771	297
Other Operating Expenses		(155)	–
Profit/(Loss) before income tax expense/benefit from continuing operations		195	(1,434)
Income tax (expense)/benefit	3(a)	(150)	(230)
Profit/(Loss) after income tax expense/benefit from continuing operations		45	(1,664)
Profit/(Loss) after income tax expense from discontinued operations		–	–
Profit/(Loss) after income tax expense/benefit including discontinued operations		45	(1,664)
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	608	429
Other Comprehensive Income - that will not emerge in the Profit and Loss Statement			
Movement in various actuarial assessments	17	132	(909)
Total Comprehensive Income		785	(2,145)
Profit/(Loss) after income tax expense for the year (incl discontinued operations) attributable to			
Minority interests		–	–
Members of the parent entity		45	(1,664)
Total		45	(1,664)
Comprehensive Income for the year attributable to			
Minority interests		–	–
Members of the parent entity		785	(2,145)
Total Comprehensive Income for the year		785	(2,145)

CONSOLIDATED STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME

continued

Profit/(Loss) per share	Notes	12 months to 31 Dec 2015 cents per share	12 months to 31 Dec 2014 cents per share
Profit/(Loss) per share			
Profit/(Loss) after income tax expense for the year (including discontinued operations)			
Members of the parent entity - Basic (cents per share)	19	0.004	(0.150)
Members of the parent entity - Diluted (cents per share)	19	0.004	(0.150)
Profit/(Loss) after income tax expense for the year (excluding discontinued operations)			
Members of the parent entity - Basic (cents per share)	19	0.004	(0.150)
Members of the parent entity - Diluted (cents per share)	19	0.004	(0.150)

CONSOLIDATED BALANCE SHEET

as as 31 December 2015

	Notes	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Current assets			
Cash and cash equivalents	25(d)	8,490	6,435
Trade & other receivables	6	22,163	25,242
Inventory	7	26,316	31,272
Other	8	220	393
Total current assets		57,188	63,342
Non-current assets			
Other receivables	9	1,092	1,046
Property, plant & equipment	10	19,567	17,240
Deferred tax assets	3(b)	1,653	1,783
Intangibles	11	3,028	3,057
Total non-current assets		25,339	23,126
TOTAL ASSETS		82,528	86,469
Current liabilities			
Trade & other payables	12	16,276	22,525
Bank Borrowings	13	20,272	18,663
Provisions	14	497	489
Total current liabilities		37,045	41,678
Non-current liabilities			
Other payables		149	–
Bank Borrowings	13	235	628
Provisions	15	9,937	9,958
Total non-current liabilities		10,322	10,586
TOTAL LIABILITIES		47,367	52,264
NET ASSETS		35,161	34,205
Equity attributable to members of MGL			
Share capital	16	58,433	58,262
Reserves	17	5,618	4,878
Accumulated (losses)/profits	18	(29,353)	(29,398)
Equity attributable to minority interests			
Share capital	16	463	463
Reserves	17	–	–
Accumulated (losses)/profits	18	–	–
Total equity		35,161	34,205

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

	Share Capital			Foreign Currency Translation Reserve	Capital Reserve	Actuarial Reserve	Expired Options Reserve	Minority Interests	Total Equity
	Ordinary \$'000	Options Valuation \$'000	Retained Earnings \$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance 1 Jan 2014	55,145	–	(27,732)	1,979	2,750	(1,007)	1,637	462	33,232
Profit/(Loss) attributable to members of parent entity	–	–	(1,664)	–	–	–	–	–	(1,664)
Other	–	–	(2)	–	–	–	–	2	–
Comprehensive income	–	–	–	429	–	(909)	–	–	(481)
Issue of shares	3,117	–	–	–	–	–	–	–	3,117
Minority share capital	–	–	–	–	–	–	–	–	–
Balance 31 Dec 2014	58,262	–	(29,398)	2,408	2,750	(1,917)	1,637	463	34,205
Balance 1 Jan 2015	58,262	–	(29,398)	2,408	2,750	(1,917)	1,637	463	34,205
Profit/(Loss) attributable to members of parent entity	–	–	45	–	–	–	–	–	45
Other	–	–	–	–	–	–	–	–	–
Comprehensive income	–	–	–	608	–	132	–	–	740
Issue of shares	171	–	–	–	–	–	–	–	171
Minority share capital	–	–	–	–	–	–	–	–	–
Balance 31 Dec 2015	58,433	–	(29,353)	3,016	2,750	(1,785)	1,637	463	35,161

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2015

	Notes	12 months to 31 Dec 2015 \$'000	12 months to 31 Dec 2014 \$'000
Cash flows from operating activities			
Profit before taxation		195	(1,434)
Adjustments for:			
– Non-cash Equity expense		174	16
– Depreciation & amortisation		1,811	1,919
– Foreign currency effects		(333)	(326)
– Other Non-cash items		1,659	517
Cash generated from/(utilised in) underlying operating activities		3,506	692
Movement in working capital balance sheet accounts			
– Trade and Other Receivables		1,017	3,022
– Inventory		5,922	(6,570)
– Trade and Other Payables		(5,013)	3,435
– Other		(88)	–
Cash generated from/(utilised in) underlying operational cash flow and net working capital assets		5,343	579
– Net Interest paid		(1,223)	(1,008)
– Income tax paid		(50)	(259)
Net cash generated from/(utilised in) all operating activities		4,070	(688)
Cash flows from investing activities			
Net cash out on purchase/disposal of property, plant & equipment		(4,092)	(2,641)
Group Information Technology software		(117)	(40)
Security Deposit		894	(888)
Other		140	–
Net cash provided by/(used in) investing activities		(3,176)	(3,569)
Cash flows from financing activities			
Principal reduction on debt owing to SMM		–	(2,100)
Bank Debt		677	2,763
Net capital raised from issue of securities		(4)	2,048
Net cash provided by financing activities		673	2,711
Net increase/(decrease) in cash and cash equivalents		1,567	(1,546)
Foreign exchange effects on total cash flow movement		488	606
Cash and cash equivalents at the beginning of the reporting period	25(d)	6,435	7,375
Cash and cash equivalents at the end of the reporting period	25(d)	8,490	6,435

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

1. SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

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

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

The audited accounts were authorised for issue by the Directors on 24 February 2016.

Adoption of new and revised Accounting Standards

The Group has adopted all new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2015. There were no significant changes from the prior year deemed relevant to the company.

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.

Significant Accounting Policies

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 specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Receivables

Trade receivables and other receivables are recognised initially at their fair value and subsequently at amortised cost less impairment.

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.

Exchange differences are recognised in profit or loss in the period in which they arise except that exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

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(s) 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 company/consolidated entity 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 Company 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).

NOTES TO THE FINANCIAL STATEMENTS

continued

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in Note 3 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 the impairment tests as outlined in (g) 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

Inventories are measured at the lower of cost and net realisable value. Costs are assigned to inventory using a weighted average cost method most appropriate to each particular class of inventory, being valued on a first in first out basis. 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 classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis over the life of the lease term.

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 Note 22 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 are 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, as appropriate, 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.

NOTES TO THE FINANCIAL STATEMENTS

continued

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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

Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The assets' estimated useful lives and residual values is 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 transferred 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 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

Equity-settled share-based payments are measured at fair value at the date of grant. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

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 consolidated entity's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

t. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

- actuarial assessment of future pension liabilities;
- value of trade debtors; and
- valuation of intellectual property acquired with the Magontec group of companies in July 2011.

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. New standards and disclosures that will be significant to the Group in future years include:

AASB 9 Financial Instruments, Effective from 1 January 2018

Caused by a re-write of the financial instruments standard by the International Accounting Standards Board this new standard will effect classification and measurement of financial assets (AASB 2009), classification, measurement and derecognition of financial liabilities (AASB 9 2010) and Hedge Accounting (AASB 9 2013).

IFRS 9 (2014) Financial Instruments - Impairment

Not yet approved by the AASB this standard will introduce a new model for testing impairment of financial instruments on an 'expected loss' basis.

IFRS 15 Revenue from Contracts with Customers

Effective from 1 January 2017 this standard will change the recognition of revenue to when a change of control of goods occurs from the current model of recognising revenue when risks and rewards are transferred.

v. Recognition of Cash Government Grant

A cash Government grant is recognised as revenue when irrevocably received.

NOTES TO THE FINANCIAL STATEMENTS

continued

2. RESULTS FROM OPERATIONS

	12 months to 31 Dec 2015 \$'000	12 months to 31 Dec 2014 \$'000
(a) Sales Revenue – continuing operations:		
Alloys	116,970	115,635
Anodes	22,788	17,649
	139,758	133,283
(b) Cost of Sales – continuing operations:		
Alloys	(110,500)	(111,895)
Anodes	(16,323)	(12,893)
	(126,824)	(124,789)
(c) Other Income in Comprehensive Income Statement		
Interest revenue	67	95
Government Grants ⁽¹⁾	165	704
Receipt/(Repayment) for insurance claims	94	(28)
Derivative market re-valuation	(40)	420
Gain on Disposal: Fixed Assets	–	27
Write back of provisions	303	313
Other	319	265
	908	1,797

(1) The government grants received have no unfulfilled conditions attached to them.

The 2014 number originally reported was \$580,000 and has been subsequently revised.

NOTES TO THE FINANCIAL STATEMENTS

continued

2. RESULTS FROM OPERATIONS (CONTINUED)

	12 months to 31 Dec 2015 \$'000	12 months to 31 Dec 2014 \$'000
(d) Significant expenses in Comprehensive Income Statement (not detailed elsewhere)		
Personnel Costs		
Consultancies	(283)	(287)
Shares issued under Executive Share Plan	(174)	(16)
Other staff termination payments	(149)	–
Defined contribution payments recognised as an expense	(896)	(637)
Other staff payments	(5,087)	(4,591)
Total personnel costs	(6,589)	(5,531)
Director fees	(140)	(138)
Asset impairment expense		
Write down of trade debtors	(506)	(160)
Write down of various assets at MAS	(371)	–
Other asset impairment expense	(4)	(87)
Total asset impairment expense	(881)	(247)

NOTES TO THE FINANCIAL STATEMENTS

continued

3. INCOME TAXES

	12 months to 31 Dec 2015 \$'000	12 months to 31 Dec 2014 \$'000
(a) Income tax recognised in profit and loss		
Tax expense comprises:		
Current tax expense – Australian entities	–	–
Under provision in prior year	(17)	–
Tax benefit/(expense) on recognition or reversal of deferred tax balances – foreign subsidiaries	(69)	109
Tax reimbursement/(payment) – foreign subsidiaries	(64)	(339)
Total tax benefit/(expense)	(150)	(230)
Attributable to:		
Continuing operations	(150)	(230)
Discontinued operations	–	–
	(150)	(230)
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) before tax from continuing operations	195	(1,434)
Profit/(Loss) from discontinued operations	–	–
Profit/(Loss) from total operations	195	(1,434)
Nominal Income tax benefit/(expense) calculated at 30%	(58)	430
Nominal tax benefit (expense) effected by:		
Permanent differences - Tax effect of income and expenses in P & L not being assessable or deductible for tax purposes.	(250)	(125)
Prior year adjustments to DTA & Provision for ITP ⁽¹⁾	91	} (535)
Adjusted for effect of tax rates in foreign jurisdictions	68	
Actual tax benefit/(expense)	(150)	(230)

(1) DTA = Deferred Tax Asset
ITP = Income Tax Payable

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
(b) Future Income tax benefit		
Current	–	–
Non-Current	1,653	1,783
Total	1,653	1,783

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

NOTES TO THE FINANCIAL STATEMENTS

continued

3. INCOME TAXES (CONTINUED)

Tax Consolidation

Relevance of Tax Consolidation to the Consolidated Entity

The parent Company and its wholly-owned Australian subsidiary have formed a tax-consolidated group with effect from 1 February 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Magontec Limited. The members of the tax-consolidated group are identified at Note 22.

Nature of Tax Funding Arrangements and Tax Sharing Agreements

Entities within the tax-consolidated group ensure that inter-company transactions are conducted at fair market value and at arm's length.

	Consolidated Parent Entity	
	31 Dec 2015 \$'000	31 Dec 2014 \$'000
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	35,081	34,542
DTA on capital losses	29,019	29,019
Subtotal Australian Tax Consolidated Group	145,681	145,143
Foreign Subsidiaries		
DTA on revenue losses	93	–
Sub Total Foreign Subsidiaries	93	–
Consolidated Group Total	271,937	271,936
These are based on the following tax losses:		
Aust consolidated group Tax losses – revenue pre-tax consolidation	116,936	115,141
Aust consolidated group Tax losses – revenue post-tax consolidation	372	–
Foreign subsidiaries Tax losses – revenue	96,732	96,731
Aust consolidated group Tax losses – capital	485,975	483,808
Consolidated Group Total	485,975	483,808

The benefit from the Australian deferred tax asset in respect of unused tax losses will only be obtained if:

- the tax consolidated group derives future Australian assessable income of a nature and amount sufficient to enable the benefits to be realised;
- the consolidated group continues to comply with the conditions for deductibility imposed by the tax law; and
- 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 \$116.9 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 2015.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

continued

3. INCOME TAXES (CONTINUED)

Based on testing performed by MGL and its advisors, MGL's pre consolidation losses should satisfy the loss integrity rules at 31 December 2015 subject to further testing and continued compliance with loss integrity rules. No detailed Available Fraction calculations have been performed as at 31 December 2015, 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 2015 and neither is any assessment expected to be received which will result in a tax liability for the period to 31 December 2015. Accordingly, there are no franking credits available for distribution in the year ending 31 December 2015.

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 2015 \$'000	12 months to 31 Dec 2014 \$'000
Short term employee benefits	1,280	1,192
Post-employment benefits	100	81
Motor vehicle	27	25
Equity based payment ⁽¹⁾	95	–
Total Remuneration KMP	1,502	1,297

(1) Shares issued under employee Retentions Rights Scheme approved by shareholders at 2011 AGM.

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

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Group auditor		
– Audit or review of the financial report	85	71
– Accounting/taxation services	14	18
Auditors of subsidiaries		
– Audit or review of the financial reports	88	112
– Accounting/taxation services	82	8
	269	208

The auditor of Magontec Limited is Camphin Boston Chartered Accountants. Magontec GmbH, Magontec Xian 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

	Note	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Trade receivables ⁽¹⁾		19,101	22,509
Allowance for doubtful debts		(705)	(788)
		18,396	21,720
Net GST/VAT recoverable		822	1,105
Security deposits		29	921
Derivatives fair value adjustment	25(f)	–	137
Other receivables due to operating entities		2,866	1,274
Other		51	86
		3,767	3,522
Total receivables		22,163	25,242

(1) Trade receivables represent 49.89 days sales at 31 Dec 2015 (61.64 days sales at 31 Dec 2014)

7. CURRENT INVENTORIES

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Inventory of finished alloy at cost	13,230	12,939
Provision for Inventory loss	(82)	(96)
Net value of finished goods inventory	13,148	12,843
Raw materials	12,538	18,404
Work in progress	630	24
Current inventories at net realisable value	26,316	31,272

8. OTHER CURRENT ASSETS

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Other Prepayments	220	393
	220	393

9. NON CURRENT TRADE AND OTHER RECEIVABLES

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Pension asset	456	453
Security deposits and prepayments	635	593
	1,092	1,046

NOTES TO THE FINANCIAL STATEMENTS

continued

10. PROPERTY PLANT AND EQUIPMENT

	Land & Buildings \$'000	Plant & Equipment \$'000	Total \$'000
Gross carrying amount			
Balance at 1 January 2014	17,240	23,362	40,602
Additions	1,699	943	2,641
Write Offs	–	–	–
Adjustments and reclassifications ⁽²⁾	–	–	–
Disposals	(70)	(12)	(81)
Net foreign currency exchange differences	(358)	(132)	(489)
Balance at 31 December 2014	18,512	24,160	42,672
Additions	3,187	906	4,092
Write Offs	(1)	(80)	(80)
Adjustments and reclassifications ⁽²⁾	64	(258)	(194)
Impairment at MAS ⁽¹⁾	–	(579)	(579)
Disposals	–	–	–
Net foreign currency exchange differences	338	696	1,034
Balance at 31 December 2015	22,100	24,845	46,945
Accumulated depreciation/amortisation and impairment			
Balance at 1 January 2014	6,998	17,125	24,123
Disposals	(70)	(5)	(75)
Write Offs	–	–	–
Adjustments and reclassifications ⁽²⁾	–	154	154
Depreciation expense	496	1,052	1,547
Net foreign currency exchange differences	(100)	(217)	(316)
Balance at 31 December 2014	7,324	18,108	25,432
Disposals	–	–	–
Write Offs	–	(78)	(78)
Adjustments and reclassifications ⁽²⁾	146	(173)	(27)
Impairment at MAS ⁽¹⁾	–	(328)	(328)
Depreciation expense	540	1,076	1,616
Net foreign currency exchange differences	139	623	762
Balance at 31 December 2015	8,148	19,230	27,377
Net Book Value As at 31 Dec 2014	11,188	6,052	17,240
Net Book Value As at 31 Dec 2015	13,952	5,616	19,567

Note 1. Impairment of assets at Suzhou recycling facility (MAS)

(1) The year ended 31 December 2015 saw the Group recognise an impairment loss at our recycling facility at MAS of –

– \$250,612 related to the write down of the net value of property, plant and equipment, being the carrying value of gross assets \$578,857 less accumulated depreciation of \$328,244 and;

– \$120,529 related to the write down of the net value of assets other than property, plant and equipment

Following the decrease in recycling volumes in 2015, the MAS cash generating unit was assessed for impairment by adopting a value in use model which assumed a discount rate of 12.1% and a terminal decline rate of 3%. The write down of \$250,612 in the net value of property, plant and equipment was determined after offsetting the terminal realisable value of selected property, plant and equipment that will be redeployed in other facilities within China which remain profitable.

Note 2. Adjustments and reclassifications

(2) Adjustments and reclassifications reflects the effects of the rebuild of the accounts in Romania to the opening balance sheet as at 31 December 2014.

Note 3. Land & buildings

(3) Land and buildings includes capital works in progress.

NOTES TO THE FINANCIAL STATEMENTS

continued

11. INTANGIBLES

	Indefinite Life ⁽¹⁾ \$'000	Finite Life \$'000	Total \$'000
Gross carrying amount			
Balance at 31 Dec 2014	2,800	1,264	4,064
Adjustments and reclassifications ⁽³⁾	–	–	–
Impairment at MAS ⁽²⁾	–	(4)	(4)
Net foreign currency exchange differences	–	13	13
Additions	–	117	117
Balance at 31 Dec 2015	2,800	1,391	4,191
Accumulated depreciation/amortisation and impairment			
Balance at 31 Dec 2014	–	1,007	1,007
Adjustments and reclassifications ⁽³⁾	–	(47)	(47)
Impairment at MAS ⁽²⁾	–	(4)	(4)
Depreciation/amortisation expense	–	195	195
Net foreign currency exchange differences	–	12	12
Balance at 31 Dec 2015	–	1,163	1,163
Net Book Value As at 31 Dec 2014	2,800	257	3,057
Net Book Value As at 31 Dec 2015	2,800	228	3,028

(1) Indefinite Life Intangible Assets – Patents in Relation to “AE44” and “Correx”

The indefinite life intangible assets comprise the patents held over the range of “AE” alloys and the “Correx” anode system. The Board believes both products enjoy a margin of technical superiority over possible alternatives and as such both continue to provide high gross margins.

In testing the value of this asset for impairment, the Group has applied a discount rate of 15% to management cash flow forecasts. A zero growth rate has been assumed over the initial 5 year period, with a declining terminal rate of decline of 20% per annum assumed thereafter. The final result found the value in use to be in excess of its carrying amount and thus no impairment loss was recorded.

(2) Refer footnote 1 at Note 10.

(3) The effect of the rebuild of the accounts in Romania to the opening balance sheet as at 31 December 2014.

12. CURRENT TRADE AND OTHER PAYABLES

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Trade creditors ⁽¹⁾	12,609	19,235
Other creditors and accruals	3,667	3,290
	16,276	22,525

(1) Trade creditors represent 36.29 days cost of goods sold (56.26 days cost of goods sold at 31 Dec 2014).

NOTES TO THE FINANCIAL STATEMENTS

continued

13. BORROWINGS

	Notes	31 Dec 2015 \$'000	31 Dec 2015 Maturity Date	31 Dec 2015 Interest pa ⁽¹⁾	31 Dec 2014 \$'000	31 Dec 2014 Maturity Date	31 Dec 2014 Interest pa ⁽¹⁾
Bank & Institutional Borrowings							
Magontec GmbH (Bank Loan) ^{(2) (6)}	25(g)	8,939	30-Jun-17	2.00%	8,881	30-Jun-17	2.22%
Magontec GmbH (Bank Loan) ^{(2) (6)}	25(g)	1,436	30-Jun-17	2.27%	2,832	30-Jun-17	2.32%
Magontec GmbH (Hire Purchase Facility) ⁽⁶⁾	25(g)	696	31-Dec-18	1.20%	693	31-Dec-18	1.20%
Magontec GmbH (Factoring Facility) ⁽⁴⁾		863	30-Nov-16	1.30%	2,116	30-Nov-16	1.52%
Magontec SRL (Working Capital Facility) ⁽³⁾		1,693	Open	3.15%	–	Open	5.54%
Magontec SRL (Bank Loan) ⁽³⁾		942	28-Apr-17	2.70%	628	28-Apr-17	3.25%
Magontec Xian Limited (Bank Loan) ⁽⁶⁾	25(g)	685	19-Aug-16	5.38%	698	7-Aug-15	6.34%
Magontec Xian Limited (Bank Loan) ⁽⁶⁾	25(g)	646	23-Sep-16	5.33%	821	25-Sep-15	6.30%
Magontec Xian Limited (Bank Loan) ⁽⁶⁾	25(g)	602	14-Oct-16	5.28%	788	27-Nov-15	6.02%
Magontec Xian Limited (Bank Loan) ⁽⁶⁾	25(g)	647	21-Oct-16	5.19%	–	–	–
Magontec Xian Limited (Bank Loan)		4,222	28-Apr-16	5.62%	3,951	22-Apr-15	6.40%
Total Bank Borrowings		21,370			21,408		
Current Borrowings							
Bank borrowings as above (excluding factoring facility)		20,272	Various	–	18,663	Various	
Total Current Borrowings		20,272			18,663		
Non-Current Borrowings							
Bank borrowings as above		235	28-Apr-17	–	628	28-Apr-17	
Total Non-Current borrowings		235			628		

(1) Interest rate is the rate that applied at the end of the relevant reporting period and is expressed as compounding annually in arrears.

(2) These borrowings are secured by a charge over MAB's trade debtors to the extent of €4,414,000 (\$6,576,281) and inventory of €6,164,000 (\$9,183,552).

(3) These borrowings are secured by a charge over MAR's trade debtors and inventory to the extent of RON 11,830,000 (\$3,897,811) and buildings of EUR 1,128,930 (\$1,681,958).

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

(5) Refer to the 'Financial Instruments' note for details of interest rate swaps which the group uses to hedge against adverse movements in variable rates.

(6) As at 31 December 2015, the company was in breach of its minimum net tangible worth ratio covenant with Commerzbank.

As such, all amounts owing to Commerzbank are deemed repayable on demand and classified as current liabilities in accordance with IFRS. Notwithstanding this breach, Management remains confident of the ongoing support of Commerzbank for the following reasons -

- such a breach, although a documentary breach, would not cause the Company to be viewed as an unacceptable credit risk;
- the Company will enjoy the continued support of its lenders as evidenced by such support in historical circumstances where the same breach has occurred;
- the Company has a sound working relationship with the Bank; and
- apart from the covenant breach in question, the Company conducts its facilities according to arrangements.

NOTES TO THE FINANCIAL STATEMENTS

continued

14. CURRENT PROVISIONS

	Note	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Provision for Annual & Long Service Leave		355	427
Provision for Income Tax Payable		80	16
Provision for Loss on FX hedges and interest rate swaps	25(f)	66	25
Other Current Provisions		(3)	22
Total		497	489

15. NON-CURRENT PROVISIONS

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Provision for defined benefit pension obligation	9,761	9,753
Other provisions	177	205
Total	9,937	9,958

Reconciliation of the Defined Benefit Pension Obligation

	Year Ended 31 Dec 2015 \$'000	Year Ended 31 Dec 2014 \$'000
Defined benefit obligation beginning of year	9,753	8,121
Current service cost	214	161
Interest cost	208	253
Total benefits paid – actual	(291)	(277)
Foreign currency exchange rate changes	64	(330)
Experience adjustments (gains)/losses	–	–
Actuarial (gains)/losses due to change of assumptions	(187)	1,826
Defined benefit obligation end of year	9,761	9,753

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

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

NOTES TO THE FINANCIAL STATEMENTS

continued

15. NON-CURRENT PROVISIONS (CONTINUED)

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

Key Actuarial Assumptions used in Calculation of the Defined Benefit Obligation

	Year Ended 31 Dec 2015 \$'000	Year Ended 31 Dec 2014 \$'000
Discount rate	2.30%	2.16%
Expected salary increase per annum	2.75%	2.75%
Expected pension increase per annum	1.75%	1.75%

Key Sensitivities of Actuarial Assumptions used in Calculation of Defined Benefit Obligation

	% chg	Year Ended 31 Dec 2015 \$'000	Year Ended 31 Dec 2014 \$'000
Discount rate (%)	+0.5%	(826)	(851)
	(0.5)%	951	983
Salary increase (%)	+0.5%	52	57
	(0.5)%	(49)	(54)
Pension increase (%)	+0.5%	688	703
	(0.5)%	(624)	(637)
Life expectancy (years)	+1 year	416	418

16. SHARE CAPITAL

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Opening balance of share capital attributable to members of MGL	58,262	55,145
Issue of shares to Executives of Magontec Limited ⁽¹⁾	174	16
Issue of securities in respect of conversion of listed options	–	5,596
Issue of securities to SMM in respect of conversion of Convertible Loan Notes	–	1,062
Monies received prior to 31 Dec 2013 for shares issued in 2014 now allocated	–	(3,548)
Various costs associated with above issues	(4)	(9)
Share capital on issued ordinary shares 1,127,311,901 (2014: 1,115,725,813)	58,433	58,262
Summary of share capital		
Share capital attributable to members of MGL	58,433	58,262
Share capital attributable to minority interest	463	463
Total share capital	58,896	58,725

(1) Shares issued in terms of entitlement under Resolution 5 of the Company's 2015 AGM held 8 May 2015.

NOTES TO THE FINANCIAL STATEMENTS

continued

16. SHARE CAPITAL (CONTINUED)

A reconciliation of the movement in fully paid ordinary shares at the line in Note 16 'Share capital on issued ordinary shares 1,127,311,901 (31 Dec 2014: 1,115,725,813) is set out below:

	Consolidated/Parent Entity			
	31 Dec 2015		31 Dec 2014	
	No.	\$'000	No.	\$'000
Fully paid ordinary shares				
Balance at beginning of financial year	1,115,725,813	58,262	813,588,666	51,597
Expenses of various issues	–	(4)	–	(9)
Issue of shares to Executives of Magontec Limited	11,586,088	174	681,981	16
Issue of securities in respect of conversion of listed options	–	–	280,203,903	5,596
Issue of securities to SMM in respect of conversion of Convertible Loan Notes ⁽¹⁾	–	–	21,251,263	1,063
	1,127,311,901	58,433	1,115,725,813	58,262

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

(1) Shares issued to Straits Mine Management Pty Limited in terms of conversion of Convertible Loan Notes (refer ASX announcement 25 November 2013).

Share Options

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

NOTES TO THE FINANCIAL STATEMENTS

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17. RESERVES

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Capital reserve		
Balance at beginning of financial year ⁽¹⁾	2,750	2,750
Balance at end of financial year	2,750	2,750
Foreign currency translation reserve		
Balance at beginning of financial year	2,408	1,979
Movement in VHL Consolidated accounts	608	429
Balance at end of financial year	3,016	2,408
Actuarial Reserves		
Balance at beginning of financial year	(1,917)	(1,007)
Derivatives	–	468
Deferred tax assets	(61)	448
Employee pensions	186	(1,826)
Other	6	–
Balance at end of financial year	(1,785)	(1,917)
Expired Options Reserve		
Balance at beginning of financial year	1,637	1,637
Balance at end of financial year	1,637	1,637
Total reserves	5,618	4,878
Reserves attributable to minority interests	–	–
Reserves attributable to members of MGL	5,618	4,878
Total reserves	5,618	4,878
Other Comprehensive Income – that may later emerge in the Profit and Loss Statement		
Exchange differences taken to reserves in equity – translation of overseas entities	608	429
Movement in various actuarial assessments	132	(909)
Total Other Comprehensive Income	740	(481)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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18. ACCUMULATED LOSSES

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Balance at beginning of financial year	(29,398)	(27,734)
Profit/(Loss) attributable to members of Magontec Limited	45	(1,664)
Profit/(Loss) attributable to minority interests	–	–
	(29,353)	(29,398)
Accumulated losses attributable to members of Magontec Limited	(29,353)	(29,398)
Accumulated losses attributable to minority interests	–	–
Total accumulated losses	(29,353)	(29,398)

19. EARNINGS/(LOSS) PER SHARE

	12 months to 31 Dec 2015 cents per share	12 months to 31 Dec 2014 cents per share
Basic earnings/(loss) per share (including Discontinued Operations):	0.004	(0.150)
Diluted earnings/(loss) per share (including Discontinued Operations):	0.004	(0.150)
Basic earnings/(loss) per share (excluding Discontinued Operations):	0.004	(0.150)
Diluted earnings/(loss) per share (excluding Discontinued Operations):	0.004	(0.150)

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 2015 \$'000	12 months to 31 Dec 2014 \$'000
Profit/(Loss) after income tax expense/benefit including discontinued operations		
Members of the parent entity	45	(1,664)
Profit/(Loss) after income tax expense/benefit from continuing operations		
Members of the parent entity	45	(1,664)
Weighted average number of ordinary securities on issue (for basic earnings calculation)	1,123,121,864	1,110,014,752
Unlisted employee options	–	–
Listed Options	–	–
Unlisted options in Con Loan Notes	–	–
Weighted average number of ordinary securities on issue (for diluted earnings calculation)	1,123,121,864	1,110,014,752

NOTES TO THE FINANCIAL STATEMENTS

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20. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

At 31 December 2015 a contingent asset exists in relation to the item describe at point 2(ii) in this Note.

1. MAR Fixed Asset Register

In the annual report for the year 31 December 2014, we noted that the local Romanian auditor had identified unreconciled differences in the fixed assets register of the MAR subsidiary. A full audit of the MAR accounts was completed prior to 30 June 2015. That audit revealed that Group net assets reported at 31 December 2014 were overstated by \$31,229 (at the exchange rate prevailing on 31 December 2014). This comprised a reduction in net assets of \$88,228 offset by an increase in the deferred tax asset of \$56,999. The necessary adjustments now reflect in the accounts as at 31 December 2015.

2. Romanian Tax Office Audit of MAR

Note 5 in the half year report at 30 June 2015 referred to an audit by the Romanian tax office of VAT matters at MAR. The audit was expanded to a full tax audit. The audit was completed in October 2015 and resulted in two primary adjustments –

- i. a reduction of \$105,447 in the Deferred Tax Asset at 31 December 2014; and
- ii. imposition of penalties and interest amounting to \$117,723 associated with denial of a VAT input credit.

The effect of both items now reflect in the accounts as at 31 December 2015.

Item (ii) may be recovered in 3 ways –

- under a formal objection lodged in November 2015;
- under a professional indemnity claim; and
- under Romanian amnesty legislation recently enacted.

3. Claim Against MAB for Overpayment by Customer of Trade Debtor Account

A German customer has made a claim of USD259,899.10 (AU\$356,319) against MAB for refund of an overpayment by that customer of a trade debt that occurred prior to 30 June 2012. Prior to 30 June 2012 MAB made several attempts to effect refund of the overpayment. At the time the refunds by MAB were attempted, the customer's systems did not recognise any amount owing by MAB and the refund was rejected. The customer's accounting system has now recognised the overpayment. Legal advice taken by MAB states that the customer is now barred from any claim against MAB by virtue of operation of the statute of limitations.

NOTES TO THE FINANCIAL STATEMENTS

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21. CAPITAL AND LEASING COMMITMENTS

a. Operating Lease Arrangements (contractual lease payments to lease expiry the Group is obligated to make)

Nature of Lease	Date of First Lease Payment	Date of Last Lease Payment	Frequency of Lease Payments	Lease Payment Per Frequency (AUD)	Current Year (2015) Lease Payments	Lease Payments Due Within 12 Months (ie year ended 31 Dec 2016)	Lease Payments Due Beyond 12 Months (ie beyond 31 Dec 2016)	Unexpired Lease Obligation
MAB company car	5-Jun-15	4-Jun-18	Monthly	\$1,029	\$7,206	\$12,354	\$18,531	\$30,885
MAB company car	11-May-12	10-May-16	Monthly	\$660	\$3,300	\$3,300	–	\$3,300
MAB company car	19-Mar-14	18-Mar-17	Monthly	\$506	\$6,076	\$6,076	\$1,519	\$7,595
MAB company car	28-Jan-15	27-Jan-19	Monthly	\$466	\$5,596	\$5,596	\$11,658	\$17,254
MAB wheel loader	20-Jun-13	31-Jan-17	Monthly	\$2,886	\$34,633	\$34,633	\$2,886	\$37,519
MAB forklift trucks	1-Jun-15	31-May-20	Monthly	\$2,086	\$14,601	\$25,030	\$87,604	\$112,634
MAB forklift trucks	2-Jul-09	30-Jun-19	Monthly	\$424	\$5,091	\$5,091	\$13,151	\$18,241
MAB forklift trucks	1-Nov-14	31-Oct-19	Monthly	\$1,140	\$13,674	\$13,674	\$39,883	\$53,558
MAB forklift trucks	1-Nov-14	31-Oct-19	Monthly	\$1,140	\$13,674	\$13,674	\$39,883	\$53,558
MAB forklift trucks	1-Jul-14	30-Jun-19	Monthly	\$1,374	\$16,484	\$16,484	\$42,583	\$59,066
MAB external storage facility ⁽¹⁾	1-Jun-06	31-Mar-16	Monthly	\$5,215	\$15,644	\$15,644	–	\$15,644
MAB Canon copy/scan systems	29-Jan-16	31-Jan-20	Monthly	\$411	\$4,936	\$4,936	\$15,219	\$20,155
MAR car operating lease	14-May-15	31-Dec-19	Monthly	\$1,326	\$15,912	\$15,912	\$49,061	\$64,973
MAY plant and equipment lease	1-Jul-12	1-Jun-17	Monthly	\$26,124	\$313,483	\$313,483	\$156,741	\$470,224
MAS plant lease	1 Jan 2015	15-Mar-16	Semi Annual	\$95,825	\$191,649	\$95,825	–	\$95,825
MGL head office lease	15-Jul-14	15-Jul-16	Monthly	\$3,387	\$40,320	\$23,707	–	\$23,707
TOTAL					\$702,278	\$605,417	\$478,720	\$1,084,137

(1) Able to be cancelled at any time with 3 months notice.

MAB = Magontec GmbH (Bottrop Germany)

MAS = Magontec SuZhou Co Ltd

MGL = Magontec Limited (Sydney head office)

MAY = Magontec Shanxi Company Limited

MAR = Magontec SRL (Romania)

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Non-cancellable operating lease payments		
Not longer than 1 year	605	653
Longer than 1 year and not longer than 5 years	479	606
Longer than 5 years	–	–
Total	1,084	1,258

b. Capital Expenditure Commitments

On 10 June 2012, the Company entered into an agreement with Qinghai Salt Lake Magnesium Company Limited (QSLM) to construct plant and equipment for an alloy manufacturing operation at Golmud in Qinghai province in China. Magontec will own and operate the magnesium alloy production plant and equipment to be installed in a building owned by QSLM adjacent to the Qinghai electrolytic magnesium smelter.

The plant and equipment is expected to cost approximately US\$11.0 million (A\$15.1 million).

NOTES TO THE FINANCIAL STATEMENTS

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21. CAPITAL AND LEASING COMMITMENTS (CONTINUED)

At least US\$ 3.0m to US\$ 4.0m (A\$ 4.0m to A\$ 5.5 m) of the project cost is expected to be incurred during 2016 and will be funded from a combination of:

- cash resources of A\$8.490 million as at 31 Dec 2015;
- cash generated from operations;
- the undrawn component of existing debt facilities; and
- potential new debt facilities to be negotiated

22. CONTROLLED ENTITIES

a. Consolidated Controlled Entities

Name of entity	Ownership Entity	Country of Incorporation	Ownership interest 31 Dec 2015	Ownership interest 31 Dec 2014
Parent entity				
Magontec Limited ^(a)		Australia	100%	100%
Directly Controlled Subsidiaries Of Parent				
Advanced Magnesium Technologies Pty Ltd ^(a)	Magontec Limited	Australia	100%	100%
AML China Ltd ^(b)	Magontec Limited	China	100%	100%
Varomet Holdings Limited	Magontec Limited	Cyprus	100%	100%
Magontec Qinghai Co. Ltd	Magontec Limited	China	100%	100%
Indirectly Controlled Subsidiaries of Parent – Level 1				
Magontec Xi'an Co. Ltd	Varomet Holdings Ltd	China	100%	100%
Magontec GmbH	Varomet Holdings Ltd	Germany	100%	100%
Magontec Suzhou Co. Ltd	Varomet Holdings Ltd	China	100%	100%
Indirectly Controlled Subsidiaries of Parent – Level 2				
Magontec Shanxi Co. Ltd ^(c)	Magontec Xian Co Ltd	China	70%	70%
Magontec SRL	Magontec GmbH	Romania	100%	100%

(a) Entities included in the Australian tax consolidated Group.

(b) Dormant from 30 June 2012.

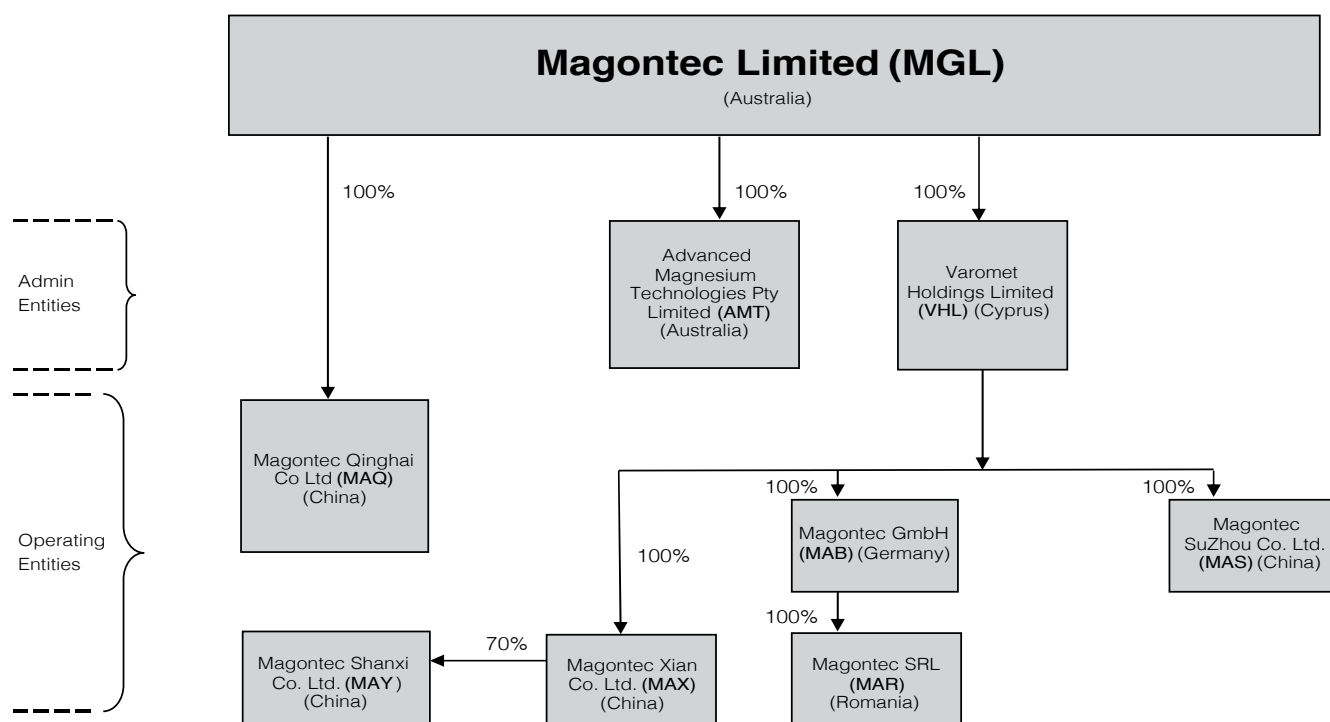
(c) Joint venture entity through which alloying operations are conducted at Shanxi. The joint venture arrangements provide that from 1 January 2013, 100% of the benefits and responsibilities of transactions on revenue account accrue to Magontec Xian Co Ltd. The Group's joint venture partner maintains an entitlement to a return of its original capital contribution.

NOTES TO THE FINANCIAL STATEMENTS

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22. CONTROLLED ENTITIES (CONTINUED)

b. Corporate Structure as at 31 December 2015



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.

NOTES TO THE FINANCIAL STATEMENTS

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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 2015, 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)
- 'PRC' = Magontec operating entities in the People's Republic of China comprising:
 - Magontec Xian Co. Ltd. (China)
 - Magontec Shanxi Co. Ltd. (China)
 - Magontec Suzhou Co. Ltd. (China)
 - Magontec Qinghai 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 Xian Co Limited (Xi'an, PRC) and Magontec Shanxi Company Limited (Shanxi, PRC) destined for Europe is sold.

The segment data on page 59 is presented net of intergroup transactions (other than sales).

NOTES TO THE FINANCIAL STATEMENTS

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23. SEGMENT INFORMATION (CONTINUED)

Statement of Comprehensive Income

	12 months to 31 December 2015				12 months to 31 December 2014			
	\$'000 Admin	\$'000 EUR	\$'000 PRC	\$'000 TOTAL	\$'000 Admin	\$'000 EUR	\$'000 PRC	\$'000 TOTAL
Sale of goods	–	81,182	66,501	147,683	4	83,346	59,049	142,399
Less Inter-company sales				(7,925)				(9,116)
Net Sales	–	81,182	66,501	139,758	4	83,346	59,049	133,283
Cost of sales	–	(73,219)	(61,530)	(134,749)	(4)	(76,534)	(57,366)	(133,905)
Less Inter-company sales				7,925				9,116
Net Cost of Sales	–	(73,219)	(61,530)	(126,824)	(4)	(76,534)	(57,366)	(124,789)
Gross Profit	–	7,963	4,971	12,934	–	6,812	1,683	8,495
Other income	162	295	451	908	122	864	811	1,797
Interest expense	–	(717)	(574)	(1,291)	(58)	(720)	(348)	(1,127)
Impairment of inventory, receivables & other financial assets	–	(40)	(841)	(881)	(113)	(45)	(89)	(247)
Travel accommodation and meals	(174)	(313)	(210)	(697)	(178)	(286)	(138)	(602)
Research, development, licensing and patent costs	(113)	(160)	(28)	(301)	(74)	(77)	(151)	(303)
Promotional activity	–	(39)	(6)	(45)	–	(51)	(10)	(61)
Information technology	(68)	(218)	(54)	(340)	(16)	(352)	(51)	(419)
Personnel	(1,217)	(3,673)	(1,700)	(6,589)	(918)	(3,563)	(1,050)	(5,531)
Depreciation & Amortisation	–	(444)	(55)	(499)	(10)	(389)	(50)	(448)
Office expenses	(48)	(101)	(132)	(282)	(53)	(220)	(103)	(376)
Corporate	(439)	(1,983)	(1,071)	(3,493)	(491)	(1,795)	(582)	(2,869)
Foreign exchange gain/(loss)	1,123	(143)	(209)	771	353	162	(219)	297
Other expenditure								
Profit/(Loss) before income tax expense	(774)	426	543	195	(1,436)	300	(297)	(1,434)
Income tax expense	–	(216)	66	(150)	–	(230)	–	(230)
Profit/(Loss) after income tax expense/benefit including discontinued operations	(774)	210	609	45	(1,436)	70	(297)	(1,664)
Other Comprehensive Income								
Movement in various actuarial assessments	–	132	–	132	–	(909)	–	(909)
Exchange differences taken to reserves in equity – translation of overseas entities	(37)	27	618	608	18	(178)	589	429
Total Comprehensive Income	(811)	369	1,228	785	(1,418)	(1,018)	291	(2,145)

NOTES TO THE FINANCIAL STATEMENTS

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23. SEGMENT INFORMATION (CONTINUED)

	31 Dec 2015 \$'000 Admin	31 Dec 2015 \$'000 EUR	31 Dec 2015 \$'000 PRC	31 Dec 2015 \$'000 TOTAL	31 Dec 2014 \$'000 Admin	31 Dec 2014 \$'000 EUR	31 Dec 2014 \$'000 PRC	31 Dec 2014 \$'000 TOTAL
Segment Assets								
Gross Segment assets	58,174	42,594	40,216	140,984	51,069	51,272	33,676	136,017
Eliminations								
– Inter-Coy Loans	(39,934)	(1,371)	(3,202)	(44,506)	(35,348)	(965)	(3,438)	(39,751)
– Investment in subsidiaries	(15,392)	–	–	(15,392)	(15,392)	–	–	(15,392)
– Other	1,461	198	(216)	1,442	5,598	51	(54)	5,595
As per Consolidated Balance Sheet	4,309	41,421	36,798	82,528	5,926	50,358	30,184	86,469
Segment Liabilities								
Gross Segment liabilities	27,480	38,990	25,368	91,838	21,839	47,682	22,954	92,477
Eliminations								
– Inter-Coy Loans	(27,258)	(7,762)	(9,528)	(44,548)	(21,709)	(10,534)	(7,593)	(39,837)
– Other	–	–	78	78	–	67	(443)	(376)
As per Consolidated Balance Sheet	222	31,228	15,917	47,367	130	37,215	14,918	52,264
Segment Disclosures								
– Acquisition of segment fixed assets	–	1,206	2,886	4,092	1	1,737	903	2,641
– Non-cash share based payments	174	–	–	174	16	–	–	16
Provisioning								
– Inventory Increase/(Decrease)	–	(14)	–	(14)	–	191	–	191
– Doubtful debts Increase/(Decrease)	–	(3)	(80)	(83)	–	33	(66)	(33)

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

Details of key management personnel compensation are disclosed in Note 4 to the financial statements and in the Remuneration Report.

c. Group Entity

The parent entity is Magontec Limited. Members of the group are set out in Note 22. Transactions during the financial year between group entities included:

- Investment in controlled entities;
- Repayment of interest free funds from controlled entities to the parent entity; and
- Incurring expenditure on behalf of other entities for office rental and related costs, travel costs, seconded employees and other sundry costs.

The entity is fully reimbursed for these costs on an actual cost basis.

NOTES TO THE FINANCIAL STATEMENTS

continued

25. FINANCIAL INSTRUMENTS

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 (generally not better than 15 days) and the sale of output (up to 120 days). The Group's senior management effort is aimed at firstly, arranging funding for working capital and secondly, negotiating with purchasers and buyers the best available terms.

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

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

c. Significant Accounting Policies

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

d. Categories and Maturity Profile of Financial Instruments and Interest Rate Risk

The following table details the consolidated entity's exposure to interest rate risk as at 31 December 2015.

31 December 2015	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		0.25%	7,366	–	1,124	8,490
Trade & other receivables (net of provision for loss)		–	–	–	22,163	22,163
Other		–	–	–	220	220
			7,366	–	23,507	30,873
Financial liabilities:						
Trade & other payables		–	–	–	16,276	16,276
Current Bank Borrowings	13	3.20%	20,272	–	–	20,272
Non-Current Bank Borrowings	13	2.70%	235	–	–	235
			20,507	–	16,276	36,783

NOTES TO THE FINANCIAL STATEMENTS

continued

25. FINANCIAL INSTRUMENTS (CONTINUED)

The following table details the consolidated entity's exposure to interest rate risk as at 31 December 2014.

31 December 2014	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		0.67%	6,421	–	13	6,435
Trade & other receivables (net of provision for loss)		–	–	–	25,242	25,242
Other		–	–	–	393	393
			6,421	–	25,649	32,070
Financial liabilities:						
Trade & other payables		–	–	–	22,525	22,525
Current Borrowings	13	3.57%	18,663	–	–	18,663
Non-Current Borrowings	13	3.25%	628	–	–	628
			19,291	–	22,525	41,816

e. Market Risk

Refer comments under headings a and b of Note 25.

f. 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			
	Liabilities		Assets	
	31 Dec 2015 \$'000	31 Dec 2014 \$'000	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Foreign currency monetary assets and liabilities				
Cash and cash equivalents			8,424	5,477
Trade and other receivables			22,020	24,778
Other non-current receivables			1,089	1,044
Trade and other payables	15,855	22,519		
Provisions	10,322	10,295		
Borrowings	20,507	19,292		
Other				
Other net assets and liabilities	682	158	50,994	55,170
Total	47,366	52,264	82,528	86,469

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.

NOTES TO THE FINANCIAL STATEMENTS

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25. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign Currency Sensitivity Analysis

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

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

USD impact			
	Note	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Effect on Loss of a 10% increase in USD rate	(i)	936	436
Effect on Loss of a 10% decrease in USD rate		(936)	(436)

EUR impact			
	Note	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Effect on Loss of a 10% increase in EUR rate	(ii)	(2,057)	(2,219)
Effect on Loss of a 10% decrease in EUR rate		2,057	2,219

RMB impact			
	Note	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Effect on Loss of a 10% increase in RMB rate	(iii)	(274)	(238)
Effect on Loss of a 10% decrease in RMB rate		274	238

RON impact			
	Note	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Effect on Loss of a 10% increase in RON rate	(iv)	(120)	(60)
Effect on Loss of a 10% decrease in RON rate		120	60

A positive number in the above table represents a reduction in the operating profit/loss.

- (i) Exposure to USD is represented by net monetary assets of USD6,825,586 in respect of period ended 31 Dec 2015 (exposure on net assets of USD3,566,247 in period ended 31 Dec 2014)
- (ii) Exposure to EUR is represented by net monetary liabilities of EUR13,807,372 in respect of period ended 31 Dec 2015 (exposure on net liabilities of EUR14,989,622 in period ended 31 Dec 2014)
- (iii) Exposure to RMB is represented by net monetary liabilities of RMB12,977,667 in respect of period ended 31 Dec 2015 (exposure on net liabilities of RMB12,097,479 in period ended 31 Dec 2014)
- (iv) Exposure to RON is represented by net monetary liabilities of RON3,635,666 in respect of period ended 31 Dec 2015 (exposure on net liabilities of RON1,811,523 in period ended 31 Dec 2014)

NOTES TO THE FINANCIAL STATEMENTS

continued

25. FINANCIAL INSTRUMENTS (CONTINUED)

Derivatives and Hedge Accounting

During the period, the Company engaged in both foreign exchange hedges and interest rate swaps in order to manage risks associated with:

1. securing the EUR:USD rate on real metal purchases of pure magnesium in USD; and
2. to protect against adverse movements in interest rates associated with the group's borrowing facilities.

The group designates these derivative financial instruments as cash flow hedges and records transactions in accordance with hedge accounting requirements. Specifically, gains and losses on positions are recognised through Other Comprehensive Income in equity, until such time that the position is liquidated for cash settlement (usually at maturity) at which point the gain or loss is recognised in the profit and loss statement.

The gains and losses associated with the ineffective portion of hedges (where applicable) 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 2015					
FX hedges	6	–	80	80	–
Interest rate swaps	14	(66)	(597)	(398)	(199)
31 December 2014					
FX hedges	6	137	137	137	–
Interest rate swaps	14	(25)	(858)	(343)	(515)

The sensitivity of FX hedges and interest rate swaps to a 10% movement in the relevant exchange rate and a 0.5% movement in interest rates respectively is outlined below:

	AUD impact of change	
	31 Dec 2015 \$'000	31 Dec 2014 \$'000
FX hedges		
Sensitivity to +10% change in USD EUR rate	361	262
Sensitivity to -10% change in USD EUR rate	(361)	(262)
Interest rate swaps		
Sensitivity to +0.5% change in interest rates	52	74
Sensitivity to -0.5% change in interest rates	(52)	(74)

NOTES TO THE FINANCIAL STATEMENTS

continued

25. FINANCIAL INSTRUMENTS (CONTINUED)

g. Capital Management and Interest Rate Risk Management

The Group has bank loans outstanding of \$13,650,948 (refer Note 13) owing to Commerzbank across Germany and China. As at 31 December 2015 the Group was in breach of its minimum net tangible worth ratio covenant. Management remains confident that Commerzbank will continue offering its facilities to the amount of EUR12.0 million (A\$17.8 million) for the reasons outlined in Note 13. However, the breach means all Commerzbank debt is required to be classified as current and may also result in an increase in the interest rate applying to the debt.

h. Credit Risk Management

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

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

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

i. 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.

j. 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.

NOTES TO THE FINANCIAL STATEMENTS

continued

26. PARENT ENTITY INFORMATION (MAGONTEC LIMITED)

Statement of Comprehensive Income

	Magontec Limited	
	12 months to 31 Dec 2015 \$'000	12 months to 31 Dec 2014 \$'000
Sale of goods	–	–
Cost of sales	–	–
Gross profit	–	–
Other income	752	179
Interest expense	–	(58)
Impairment of inventory, receivables & other financial assets	1,299	(1,669)
Travel accommodation and meals	(18)	(60)
Research, development, licensing and patent costs	(81)	(20)
Promotional activity	–	–
Information technology	(62)	(5)
Personnel	(174)	(30)
Depreciation & Amortisation	–	–
Office expenses	(2)	(3)
Corporate	(410)	(439)
Foreign exchange gain/(loss)	262	(136)
Other Operating Expenses	–	–
Profit/(loss) before income tax expense/benefit from continuing operations	1,566	(2,241)
Income tax (expense)/benefit	–	–
Profit/(loss) after income tax expense/benefit from continuing operations	1,566	(2,241)
Profit/(Loss) after income tax expense from discontinued operations	–	–
Profit/(loss) after income tax expense/benefit including discontinued operations	1,566	(2,241)
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	1,566	(2,241)
Profit/(Loss) after income tax expense for the year (incl discontinued operations) attributable to		
Minority interests	–	–
Members of the parent entity	1,566	(2,241)
Total	1,566	(2,241)
Comprehensive Income for the year attributable to		
Minority interests	–	–
Members of the parent entity	1,566	(2,241)
Total Comprehensive Income for the year	1,566	(2,241)

NOTES TO THE FINANCIAL STATEMENTS

continued

26. PARENT ENTITY INFORMATION (MAGONTEC LIMITED) (CONTINUED)

Balance Sheet

	Magontec Limited	
	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Cash and cash equivalents	1,168	850
Trade & other receivables	91	1,927
Other	94	75
Total current assets	1,353	2,852
Non-current assets		
Inter Company Loan Receivables (net of provisioning)	18,430	15,206
Investment in shares of subsidiaries (net of provisioning)	11,718	8,879
Total non-current assets	30,148	24,085
Total assets	31,501	26,937
Current liabilities		
Trade & other payables	95	40
Provisions	(38)	(38)
Total current liabilities	57	2
Non-current liabilities		
Other	4,285	1,513
Total non-current liabilities	4,285	1,513
Total liabilities	4,342	1,515
Net assets	27,159	25,422
Equity attributable to members of MGL		
Share capital	58,433	58,262
Reserves	1,637	1,637
Accumulated losses	(32,911)	(34,477)
Equity attributable to minority interests		
Share capital	—	—
Reserves	—	—
Accumulated losses	—	—
Total equity	27,159	25,422

NOTES TO THE FINANCIAL STATEMENTS

continued

26. PARENT ENTITY INFORMATION (MAGONTEC LIMITED) (CONTINUED)

Contingent Liabilities

The parent entity had no contingent liabilities as at 31 December 2015.

Capital Commitments – Property, Plant and Equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2015.

Significant Accounting Policies

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

27. SUBSEQUENT EVENTS

To the best of the company's knowledge there have been no other material subsequent events that require disclosure.

28. 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

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Potts Point, NSW 2011

Tel: 61 2 8005 4109

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DIRECTORS' DECLARATION

The Directors declare as follows:

- a. in the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;
- b. in the Directors' opinion, the financial statements and notes thereto set out on pages 31 to 68 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 s295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to s295A of the Corporations Act 2001.

On behalf of the Board of Directors



Mr N Andrews
Executive Chairman

24 February 2016



Mr R Shaw
Non-Executive Director

INDEPENDENT AUDIT REPORT



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAGONTEC LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Magontec Limited and Controlled Entities, which comprises the consolidated balance sheet as at 31 December 2015, 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.

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 control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the Group financial statements and notes comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence

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



INDEPENDENT AUDIT REPORT

continued



Auditor's Opinion

In our opinion:

- (a) the financial report of Magontec Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 21 to 26 of the directors' report for the year ended 31 December 2015. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Magontec Limited for the year ended 31 December 2015 complies with section 300A of the *Corporations Act 2001*.

Camphin Boston
Chartered Accountants

A handwritten signature in black ink, appearing to read "J Woods".

Justin Woods
Partner

Level 9, 5 Elizabeth Street, Sydney NSW 2000

Dated: 24 February 2016

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Liability limited by a
scheme approved under
Professional Standards
Legislation

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	%
SUBSTANTIAL SHAREHOLDERS		
1. QINGHAI SALT LAKE MAGNESIUM CO LTD	330,535,784	29.32
2. STRAITS MINE MANAGEMENT PTY LTD	148,874,507	13.21
3. J P MORGAN NOMINEES AUSTRALIA	101,234,887	8.98
4. CITICORP NOMINEES PTY LIMITED	89,481,422	7.94
OTHER SHAREHOLDERS		
5. KEWEIER METAL CO LTD & LI ZHONGJUN	56,197,298	4.99
6. NATIONAL NOMINEES LIMITED	23,719,625	2.10
7. HSBC CUSTODY NOMINEES	21,128,981	1.87
8. MR NICHOLAS WILLIAM ANDREWS	18,993,502	1.69
9. MRS DAWN PATRICIA DAVIS	13,600,000	1.21
10. MR SCOTT PARHAM	10,000,000	0.89
11. MR TONG XUNYOU	8,317,435	0.74
12. DALSI PTY LTD	8,000,000	0.71
13. MR MARTIN TAUBER	7,948,298	0.71
14. BRIAN GORMAN SELF MANAGED	7,000,000	0.62
15. MR PETER FABIAN HELLINGS	5,700,000	0.51
16. DADIASO HOLDINGS PTY LTD	5,515,784	0.49
17. DR ANDREW DUNCAN	5,100,000	0.45
18. MS MIRANDA PARHAM	5,000,000	0.44
19. MRS PAMELA ELIZABETH DRABSCH	4,800,000	0.43
20. MR DAVID ALOYSIUS DRABSCH	4,533,335	0.40
TOTAL	875,680,858	77.68

Distribution of Shareholders as at End Date of Current Reporting Period

Number Held	Holders	No. of Securities	Percentage
1–1,000	10,045	3,390,743	0.30
1,001–5,000	1,965	4,328,265	0.38
5,001–10,000	431	3,474,552	0.31
10,001–100,000	1,365	44,911,713	3.98
100,001 and over	435	1,071,206,628	95.02
TOTAL	14,241	1,127,311,901	100.00

SHAREHOLDER INFORMATION

continued

As at 31 Dec 2015 a marketable parcel of securities (\$500) is a holding of at least 22,727 securities (1).

1. Based on a closing share price of \$0.022

Issued Capital and Securities	On Issue at 31 Dec 2015
Ordinary Shares fully paid	1,127,311,901

Share Registry: Boardroom Pty Limited	Postal:	Local:	International
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