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The Manager
Company Announcements
ASX Limited
20 Bridge Street
Sydney 2000

2 March 2015

Dear Sirs

CORRECTIONS TO 2014 ANNUAL REPORT

Attached is an amended version of the Magontec Limited Annual Report for the year ended 31 December 2014, first released on Friday 27 February 2015.

Three pages have been amended to correct transcription errors in some text and charts in the Executive Chairman's report. The amendments are as follows.

Page 4 - The capital expenditure chart has now been updated to reflect consistency with the rest of the annual report.

Page 6 - The references in the text to available and drawn bank debt under the heading 'Financial Position' have now been updated to reflect consistency with the rest of the annual report.

Page 7 - The reference in the text to the net tangible assets per share and the related chart have both now been updated to reflect consistency with the rest of the annual report.

No other pages have been amended. The amendments do not affect the financial statements.

A handwritten signature in black ink, appearing to read "John Talbot". The signature is fluid and cursive, with a long, sweeping underline.

John Talbot
Company Secretary

ANNUAL REPORT

For the 12 months ended 31 December 2014

Magontec Limited

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 2014 were authorised for issue in accordance with a resolution of the directors on 27 February 2015. Magontec Limited is a company limited by shares incorporated in Australia. The shares are publicly traded on the Australian Stock Exchange under the code "MGL".

2. GLOSSARY OF ENTITIES REFERRED TO IN THIS REPORT

Formal Name of Entity	Description of Entity	Referred to As
Magontec Limited	The ultimate parent/holding company of the Group	Parent Company, the Company or "MGL"
Advanced Magnesium Limited	Former name of Magontec Limited	Advanced Magnesium Limited
Advanced Magnesium Technologies Pty Limited	Wholly owned subsidiary of Magontec Limited that acts as the administrative operating entity.	Advanced Magnesium Technologies Pty Limited
Henan Keweier Alloy Materials Co Ltd	Joint venture entity in Henan Province, China in which the Group had a 53% interest. MGL has commercially and legally exited this interest.	HNKWE
KWE(HK) Investment Development Co Ltd	Substantial shareholder in Magontec Limited. Mr Zhong Jun Li, a director of Magontec Limited is also a director and substantial shareholder of KWE(HK) Investment Development Co Ltd.	KWE(HK)
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
Straits Mine Management Pty Limited	The company from which MGL acquired the Magontec group of companies on 4 July 2011. SMM remains a substantial shareholder of Magontec at the date of this report. The purchase was made using a combination of shares valued at \$2,227,454 and a Convertible Loan Note No.1 having a face value of \$3,368,047. At the time of the purchase, Varomet Holdings Limited owed certain monies to SMM. Upon restructure of this debt (announced on 8 June 2012) \$5,115,152 was forgiven, and Convertible Loan Note No. 2 issued having a face value of \$3,500,000 leaving a residual debt owing of \$2,100,046. Convertible Loan Notes Nos. 1 and 2 and the residual debt owing to SMM of \$2,100,046 were the subject of the debt restructure announced on 25 November 2013.	SMM
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 29.63% at the date of this report.	QSLM
Magontec Xian Co Ltd.	The wholly owned entity that owns the Group's operations in Xi'an, PRC	MAX
Magontec GmbH	The wholly owned entity that owns the Group's operations in Bottrop, Germany	MAB
Magontec Suzhou Co Ltd	The wholly owned entity that owns the Group's operations in Suzhou, PRC	MAS
Magontec Shanxi Company Limited	The joint venture operations in Jishan, Shanxi province PRC	MAY
Magontec SRL	The wholly owned entity that owns the Group's operations in Santana, Romania	MAR
Magontec Qinghai Co. Ltd.	The wholly owned entity that owns the Group's operations in Qinghai, PRC	MAQ

Note: The abbreviation PRC throughout this report refers to 'The People's Republic of China'.

2. 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 2013.

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.

About Magontec

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

- Magontec buys pure magnesium and converts it into magnesium alloy ingots for sale into global markets
- Magontec recovers scrap magnesium from its customers and recycles this material into magnesium alloy ingots for re-sale
- Magontec converts magnesium alloys into anodes that provide cathodic corrosion protection for water heater applications

Magontec is the only western magnesium alloy producer with

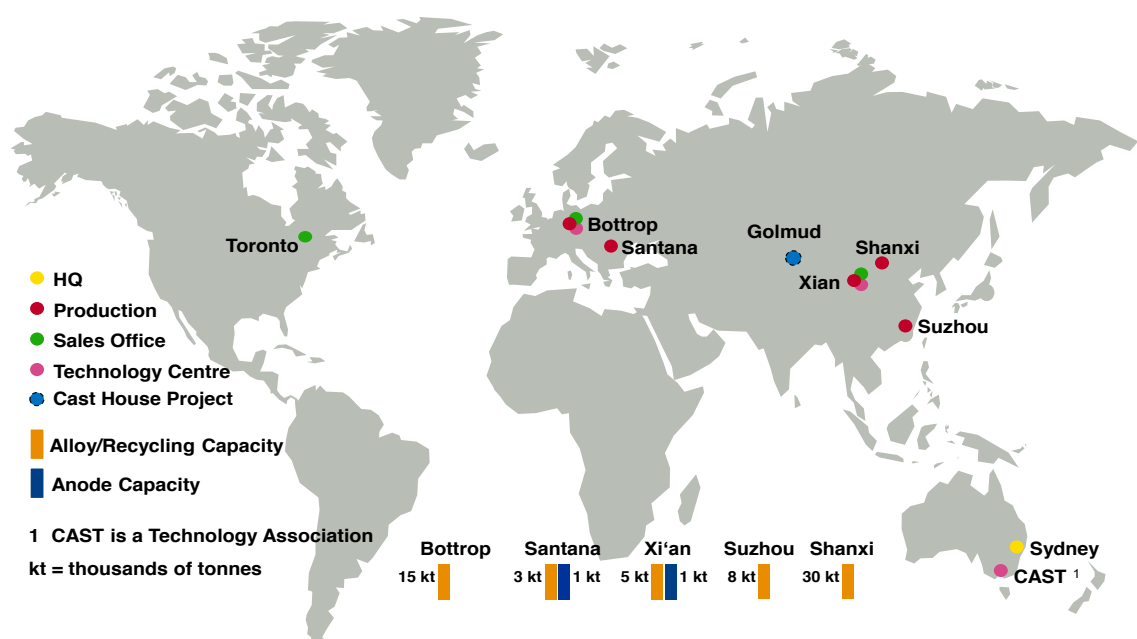
- Its own Chinese primary magnesium alloy manufacturing base
- Its own magnesium recycling facilities in Europe and Asia
- A global sales and logistics capability
- A comprehensive portfolio of proprietary magnesium alloys
- An active commitment to Research & Development

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. We have a reputation for delivering results for our customers.

Magontec is building an operating base for the future with investment in new plant and equipment in China and Europe.

Over the next 12 months Magontec will install casting lines and equipment in the Magontec Qinghai cast house in preparation for first commercial supply from Qinghai Salt Lake Magnesium Co Ltd. The ramp up phase is likely to continue through 2016 and 2017 before full production is achieved.

MAGONTEC LIMITED - GLOBAL LOCATIONS AND PRODUCTION CAPACITIES (ASX: MGL)



Annual Report Commentary

Operating and Financial Review for the twelve months to 31 December 2014

ANNUAL REPORT HIGHLIGHTS

Magontec Qinghai project

- Equipment delivered for the first alloy casting line
- Initial cast house equipment to be commissioned in April 2015
- Dehydration units and electrolytic cell-house close to completion

Financial

- Revenues up 3.4% over the previous corresponding period (PCP)
- EBITDA (excl foreign exchange) up strongly in 2014
- New ¥25 million (A\$4.92m) facility in place for PRC operations
- Debt level remains low. Net debt to equity at 37.6%.

Asian operations

- Improving cost of conversion driving PRC profitability
- Accident free period throughout 2014 across all PRC plants
- Suzhou recycling plant re-opened after 5-month government imposed shut down
- Asia and group performance negatively impacted by Suzhou closure
- Anode performance affected by low volumes and strong competition
- Strong anode volume recovery in early 2015

Europe & North American operations

- Capital expenditure driving recycling margins and volumes
- Overall magnesium alloy recycling sales volumes up 17% year-on-year
- Magnesium alloy recycling demand rises strongly in Romania
- Electronic anodes performed well as opportunities to expand are exploited
- Volume magnesium anodes underperformed in 2014

27 February 2015

Nicholas Andrews
Executive Chairman's Review



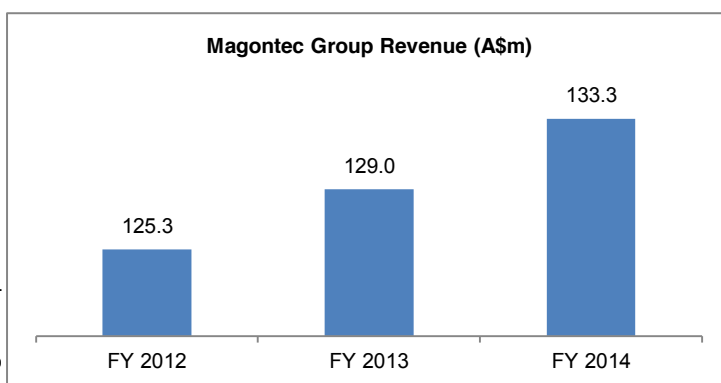
Summary

Over the 12 months to 31 December 2014 Magontec has continued to grow and develop its business. While the year was not without unexpected setbacks the group has also registered many achievements and much progress.

Installation of cast house equipment has commenced at the new project in Qinghai Province PRC, new capacity has been installed in our German recycling business and we are mid-way through a similar installation in Romania. In China, new investment in our primary magnesium alloy manufacturing plant in Shanxi has significantly improved competitiveness in a difficult local market.

Following the exercise of options associated with the 2013 rights issue, residual debt of A\$2.1 million owed to Straits Resources, the vendor of the principal assets of the company, was repaid in January 2014. Magontec now presents a relatively simple balance sheet and equity structure.

A challenging aspect of the year for Magontec was the forced closure of the Suzhou recycling plant. Magontec Suzhou was operating at close to full capacity of around 8,000 metric tonnes per annum (mtpa) when an explosion in a nearby aluminium factory (unrelated to Magontec) caused the death of 70 people. The Wujiang local government immediately ordered the closure of all magnesium and aluminium factories within its jurisdiction including our factory. The loss of this capacity, the costs associated with maintaining our experienced labour force in Suzhou, together with additional logistics and factory upgrades, cost the company over A\$1 million. We were very pleased to be able to re-open this factory in late December 2014.



In 2014 Magontec continued to grow its top line, registering another increase in revenue to \$133.3 million. In 2015 we expect that growth to continue as investment in new equipment improves competitiveness and the efforts of our regional sales teams continue to provide new opportunities.

Adjusting for the loss of 5 months production at the Suzhou factory, Magontec's metals business performed well. The Romanian recycling business operated at above rated capacity and will more than double capacity in the current financial year. The German recycling business secured new customers for tolling recycling and for primary metal in Europe and North America while the Chinese business achieved considerable cost and operating efficiency improvements.

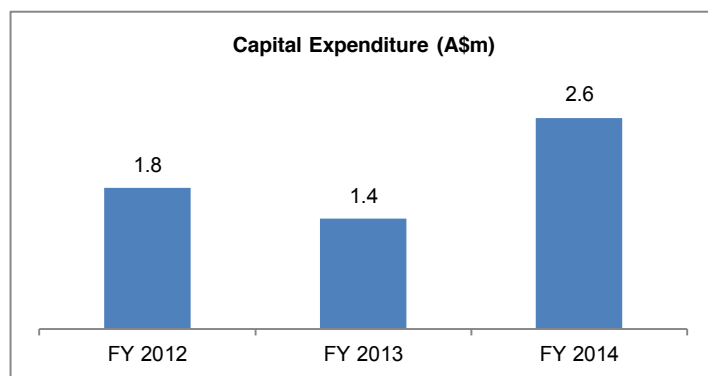
At this early stage in the year it is pleasing to note that our European recycling facilities have very full order books for the first half of 2015. By the end of the first quarter both the German and Romanian recycling facilities are expected to be operating at increased volumes in more efficient facilities.

Capital expenditure on new equipment and plant refurbishment has been the driver of much of this improvement. In the year to 31 December 2014 Magontec spent \$2.6 million on new capital equipment, a considerable jump on the previous corresponding period.

Looking forward we expect capital expenditure in the current financial year to show a further steep rise as we enter the critical investment phase for the Qinghai cast house project. Magontec's share of the Qinghai project is expected to be in the order of US\$11 million.

In the 12 months to 31 December 2014 the anode businesses in China and Europe experienced an 11.5% decline in revenues. The downstream magnesium anode business has experienced a difficult year in both Europe and China.

Despite investment in relocating both businesses to lower cost centres and investing in new processing and fabrication equipment, the magnesium anode business has suffered in the face of economic downturn in Europe and declining margins and volumes in both regions.



While higher volume magnesium anodes have performed poorly in 2014 more sophisticated magnesium products and Magontec's electronic anode businesses (ICAS) have performed in line with expectations. The trend among high-end customers is for increasingly sophisticated electronics delivering more energy efficient outcomes. The combination of electronic anodes with other control systems has allowed this product range to expand into solar and heat pump markets as part of a broader electronics package.

EXECUTIVE CHAIRMAN'S REPORT (Cont...)

Over the last 24 months we have been preparing our business for the commencement of production at Qinghai. The flow of Qinghai pure magnesium is expected to have a significant impact on the cost of our raw material, the competitiveness of our primary metal from China and in all the downstream businesses that Qinghai metal will feed into, including magnesium recycling and magnesium anode manufacturing.

While we keenly anticipate this event we have not stood still in our efforts to improve each of our operations. Indeed the changes to the Magontec business over the last three years include the relocation of anode manufacturing in China and Europe, the initial development and second phase investment of the Romanian recycling operations, the relocation of the Chinese primary magnesium manufacturing operation from Xi'an to Shanxi and investment in new and more efficient production equipment and processes. These actions have all contributed to making Magontec a more robust and competitive entity and provide a much stronger operational and financial platform for extracting the full benefit from the Qinghai project.

The Qinghai Project

In 2012 Magontec signed initial agreements to develop a new primary magnesium alloy cast house at Golmud in Qinghai Province. In 2014 the company signed a further series of agreements with the Qinghai Salt Lake Magnesium Co Ltd (QSLM). These agreements established the pricing mechanism under which QSLM would supply liquid pure magnesium to Magontec, the lease agreement between the two companies for a period of 10 years with a 10-year option thereafter and the operating basis upon which Magontec and QSLM would cooperate for the period of the lease.

In December 2014, as part of Stage One, the cast house building was completed and the first equipment for the four planned production lines arrived in Golmud. Through the first quarter of 2015 that equipment will be installed and then commissioned. This is a particularly exciting and challenging period for the company as we recruit personnel and seek other resources in Golmud to ensure that we manage this project to a successful conclusion.

Magontec Qinghai, as this subsidiary is called, will enable the group to compete in all magnesium markets, in China and around the world. We expect this venture to restore profitability for Magontec in an industry that has experienced high levels of volatility and change over many years. The nature of our agreements and the size and nature of our new project will propel Magontec to the forefront of this growth industry in terms of profitability, quality and volume.



The schematic above shows the current project under construction in red and the proposed stage two expansion in grey. From the top of the picture:

- (1) Dehydration units 1 & 2
- (2) Electrolytic cell house
- (3) Cast house

When completed the Qinghai electrolytic magnesium smelter will be among the largest in the world and will produce magnesium that has the lowest CO₂ output per tonne in the world. The total output from Qinghai will be 100,000 mtpa of pure magnesium, equivalent to 12.5% of the current estimated annual global production of 800,000 mtpa. This will rise to 18.75% of estimated annual global production on completion of Stage Two when an additional 50,000 mtpa will be added. The project is expected to grow to 450,000 mtpa at completion. Under the agreements, concluded last year with QSLM, Magontec will take 56,000 mtpa from Stage One for conversion into magnesium alloys.

On completion of Stage One the Qinghai project will triple the primary magnesium alloy production capacity of Magontec. Production is expected to begin in late 2015 and to ramp up over the following months. Managing the installation and commissioning of Qinghai, seeking customer qualification and transferring production to this new facility requires expertise and planning. The Magontec Qinghai team has been focussed on this task for nearly two years. The first full time Magontec Qinghai employees were engaged in 2013. As we move into the installation and commissioning phase we will be engaging further new employees and transferring other Magontec employees from our existing operations to ensure a smooth transition to production.

Qinghai Environmental Focus

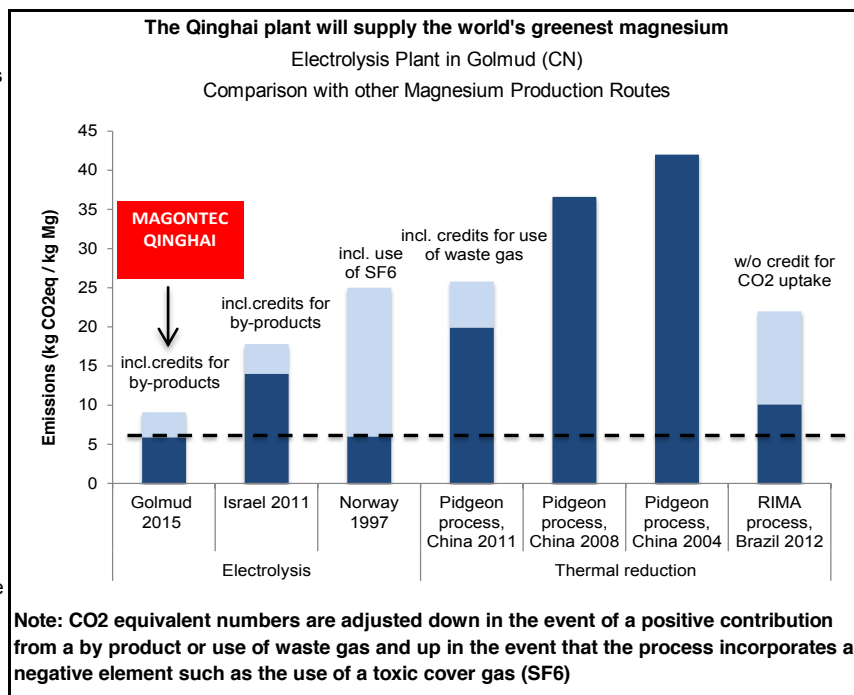
As we have discussed in previous commentaries and presentations, Magontec Qinghai will offer a markedly different product for Chinese and global consumers. In China today (China produces around 80% of all pure magnesium produced in the world) all pure magnesium is produced using the Pidgeon Process, a thermal reduction process developed in the 1940's. Through the 1990's, as the Chinese economy began to enter global markets, the production of Pidgeon Process magnesium grew quickly fed by power subsidies and the availability of cheap labour. By the early 2000's Pidgeon Process growth had replaced large-scale western electrolytic process manufacturing. In recent years power and labour prices have increased while the issue of CO₂ emissions has come sharply into focus. Chinese Pidgeon Process magnesium manufacturing has made significant steps to improve pollution metrics but it remains a high emissions industry. To address this issue and to retain a share of the global magnesium industry, the Chinese Government has promoted the development of the Qinghai Project and QSLM, a state owned enterprise, and chose Magontec as its partner to develop and commercialise a magnesium alloy solution.

At the commencement of commercial production Magontec will be able to offer an environmentally clean magnesium material in high volumes. We expect this will have a strong impact on global magnesium markets over the coming years. Our major customers are in the automotive, power tool and electronics industries while the aerospace and fast train industry are considered likely future customers. The availability of high volumes of environmentally clean metal will encourage manufacturers to look more favourably on magnesium as a light weight substitute for aluminium, zinc and iron, particularly in the high-end global automotive industry where weight is highly correlated with fuel efficiency and CO₂/kilometre emissions.

EXECUTIVE CHAIRMAN'S REPORT (Cont...)

In 2014 Magontec commissioned a study from the German Aerospace Centre Institute of Vehicle Concepts to assess the environmental credentials of the Magontec Qinghai project. This data will be shared with our major customers through 2015 as we approach commercial production. Already executives from major European automotive manufacturers have visited our construction site and in the coming months we expect to welcome many more. The Magontec Qinghai project is the most significant event in the world of magnesium alloy production for many years. It offers customers a new and more secure supply chain and a cleaner product at a time when the requirement to more closely investigate and make public upstream environmental impacts is increasingly incumbent on all industries.

The German Aerospace Centre study incorporated analysis of the electrolysis, alloying, logistics and recycling processes within the Magontec global network. In her summary, Simone Ehrenberger, the study coordinator, concluded that the Golmud plant would be the cleanest plant ever constructed, either thermal reduction or electrolytic. Her study demonstrated that a kilogram of magnesium alloy transported to Europe and recycled by Magontec generated just 7.8 kilograms of CO₂. The study assessed the current average Chinese Pidgeon Process magnesium plant emission, before any processing, transportation or recycling costs, at a minimum of 20 kilos of CO₂ per kilo of production.



On a like for like basis, production of pure magnesium at Golmud will emit just 5.9 kilos of CO₂ per kilo of production. All estimates include process chain credits such as use of off-gas in China or use of renewable energy where it is available. It is notable that these emissions figures are highly competitive with global aluminium production metrics, the major competitor metal for magnesium. Carbon fibre, a much-touted new material for automotive construction, is less competitive again.

Health & Safety

In 2014 the group experienced one of its safest years on record with an annualised TRIFR of just 0.95. There was in fact only one recorded injury across the group in 2014, and that was not a serious injury. The Board and Management of Magontec are keenly aware that our business involves handling of metallic materials at very high temperatures and play very close attention to the HSE metrics. Providing employees with appropriate training, clothing and safety procedures is the key to ensuring the highest possible safety levels across all of our operations.

In March of 2014 the Board requested a detailed safety report be presented on all metal production and anode manufacturing operations. This report highlighted a number of safety issues that required pre-emptive action and a program was initiated to deal with these issues.

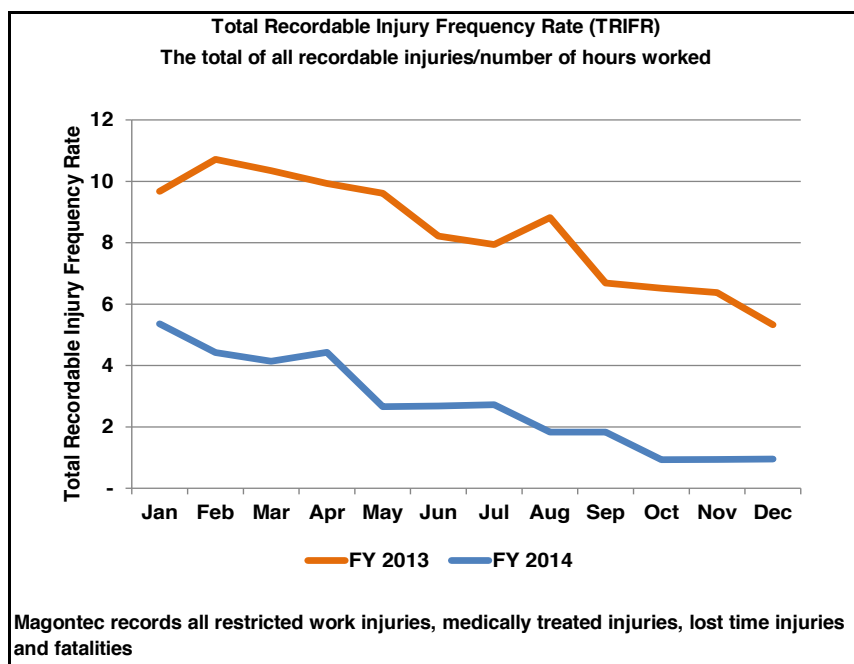
During the establishment of new manufacturing operations, particularly where an existing plant is acquired or taken over, transforming the culture of the work force and encouraging the observance of safe work practices can be a challenging process.

In this regard it is particularly pleasing to see the success of the Magontec Shanxi plant management which has introduced the Magontec safety culture into a workforce of 121 people in a region of the world where such regulations are rarely enforced.

Financial position

From a balance sheet perspective Magontec is in a relatively similar position to that at the end of 2013.

The most significant changes include the final repayment of all outstanding debt to Straits Resources, following the exercise of rights issue options in January 2014, and the rollover of A\$18.1 million of bank debt, due in 2014, with drawn facilities now at a total value of A\$21.4 million as at the date of this report.

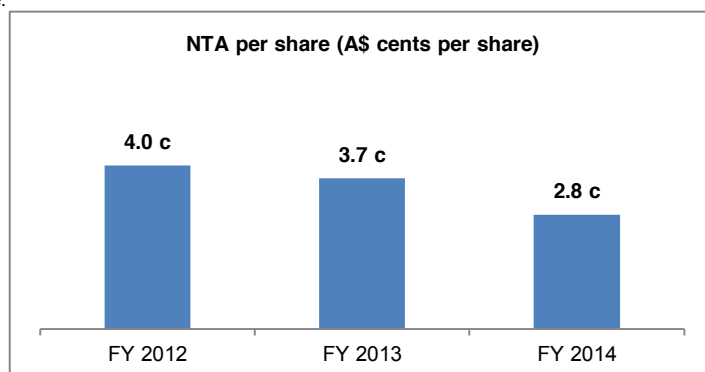


EXECUTIVE CHAIRMAN'S REPORT (Cont...)

The largest proportion of the new debt portfolio is sourced in Germany where the group has rolled over A\$14.5 million of debt at an average interest rate of 2.1%. The option exercise raised A\$5.6 million for an additional 280 million shares while the conversion of outstanding convertible notes resulted in a further 21 million shares being issued. As a result NTA per share has fallen to 2.8 cents per share.

As at year end another notable balance sheet change has been a A\$6.6 million increase in inventory.

This was in part the result of the forced closure of our Suzhou plant requiring storage of unprocessed scrap material through the last 5 months of the year and in part a decision by the European operations to acquire a forward inventory of pure magnesium for utilisation in the first six months of 2015. These inventories will be run down through the first half of 2015 and represent timing issues rather than any increase in underlying requirement for an increase in stockpiles of raw materials or finished goods. Further inventory reduction and sourcing new bank facilities to better manage receivables has been an on going task for the finance team and one that will continue into 2015 and 2016 as volumes at our revitalised recycling activities and in our new Chinese project experience further increases.



As at the end of 2014 Magontec had provided financing for Phase A of the Qinghai project, part of which had already been paid, and will incur additional capital expenditure on Phases B and C through 2015. The financing of these latter two tranches will be sourced from cash at hand, a reduction in inventory to more normal levels and new sources of debt finance in Germany, China and Romania.

Magontec currently finances net working capital of A\$34.0 million with just A\$12.9 million of net debt.

While in terms of profitability 2014 was considerably lower than our budget, the final result displayed some of the underlying strengths of the business. Gross Profit was marginally up on 2013 while Earnings Before Interest Tax and Depreciation (after excluding foreign exchange) was up strongly. As in previous years the impact of movements in the rates of foreign exchange between the Euro, the Chinese Renminbi, the Romanian Leu and the Australian Dollar has had a significant impact on the recorded profit. Operating in four different jurisdictions, raising debt in offshore locations and reporting in Australian Dollars ensures that each year foreign exchange plays a major role in our group calculations.

The volatility of foreign exchange markets in recent months has also been marked and contributes an added complexity to the Magontec accounts. Having regard to the decline in the Australian Dollar in recent months it is worth noting that the majority of Magontec's cash and assets are held in currencies other than Australian Dollars. As we have noted elsewhere in this commentary, a major drag on Magontec profit and loss account in 2014 was the closure of the Suzhou recycling plant. The cost of this closure, together with storage, remediation and additional manufacturing and transportation costs at other plants to fulfil contract obligations incurred by the Suzhou plant in the period between August and December 2014, was approximately A\$1 million before tax.

Profit and loss analysis excluding foreign exchange (FX)			
(A\$ 000)	2013	2014	% chg
Revenue	\$128,960	\$133,283	3.4%
Gross profit	\$8,428	\$8,495	0.8%
EBITDA - excl foreign exchange	\$619	\$1,315	112.3%
Depreciation & amortisation	\$1,559	\$1,919	23.1%
EBIT - excl foreign exchange	(\$940)	(\$604)	(35.7%)
Interest expense	(\$988)	(\$1,127)	14.1%
Foreign exchange gain/(loss)	\$2,167	\$297	(86.3%)
Profit/(loss) before income tax	\$239	(\$1,434)	(700.0%)

Outlook

Magnesium remains an industry in its infancy. The potential range of applications for magnesium is extremely broad and there are a number of underlying external factors that lend momentum. The automotive sector is faced with demanding CO2 emission targets in the years ahead and magnesium offers light-weighting opportunities; the aerospace sector has recently approved the use of magnesium alloys for seat frames and other applications in an industry where weight is the critical component; the fast train industry is growing quickly, particularly in Asia, and investigating new magnesium alloys applications; and the power tool industry has long been a magnesium end-user, particularly for hand held mechanical tool products, and is seeking to broaden its use of high temperature engine parts.

In the automotive industry, which consumes by far the largest proportion of magnesium die cast alloys, the use of lightweight metals is one of a number of strategies being adopted to meet emissions targets. The use of magnesium in steering wheels, instrument panel beams and seat frames among European, Japanese, Korean and American automotive manufacturers is increasingly ubiquitous. Magnesium die-casters and alloy manufacturers have developed a number of new applications and new products that are gaining growing market acceptance. These include large applications for body parts (such as the tail gate, roof and inner door parts) as well as new alloy compositions for more demanding applications such as gearbox casings.

A critical metric for magnesium in the global automotive industry remains supply chain security. Total global magnesium production in 2014 is estimated to be a little over 800,000 mtpa. This compares with aluminium, the most popular lightweight metal in automotive manufacturing, which produces nearly 53 million mtpa. While magnesium offers significant weight advantages over aluminium, and therefore energy and emission advantages, the magnesium supply chain is highly reliant on Chinese Pidgeon Process manufacturers who produce over 80% of global pure magnesium supply. Many of these Chinese companies produce pure magnesium as a by product (to consume off-gas from coke making activities) and many others operate at margins designed only to maintain cash flows but do not necessarily target accounting profits.

EXECUTIVE CHAIRMAN'S REPORT (Cont...)

For a major automotive company to adopt a high volume magnesium application a high level of supply chain confidence is required. The 100,000 mtpa Qinghai facility, of which 56,000 mtpa will flow to the Magontec Qinghai magnesium alloy cast house, will offer a level of supply security than has been absent hitherto. The Qinghai facility will use a continuous electrolytic process for manufacturing as opposed to the batch process of Pidgeon manufacturing. In the years ahead as Qinghai grows to 150,000mtpa and then to 450,000mtpa, supply security will recede as an obstacle to adopting magnesium alloys and relying on the magnesium alloy supply chain.

In the next 12 months Magontec will install casting lines and equipment in the Magontec Qinghai cast house in preparation for first commercial supply from Qinghai Salt Lake Magnesium Co Ltd. The ramp up phase is likely to continue through 2016 and 2017 before full production is achieved. This event will place Magontec Limited in a uniquely strong position to compete successfully, to win new customers and to promote the adoption of new applications and new alloys. It has already been a long journey from our first announcement of an agreement with Qinghai Salt Lake Industries Co Ltd in 2012, raising new capital, introducing Qinghai as a major shareholder and board member and beginning the planning for this most significant development phase. 2015 will be a critical year for Magontec in Qinghai as we install and commission and in the months and years ahead there will be many challenges.

The Magontec team is well placed to address and overcome these issues. The group is a world leader in the magnesium sector. We have the experience of 60 years of magnesium manufacturing history to draw upon. Our technical proficiency and organisational strengths have been demonstrated many times as we have developed and brought on stream new production facilities at Santana in Romania, Suzhou in eastern China and Shanxi in central China. We have an international team of world-class magnesium technicians and operators with demonstrated skills and knowledge.

While the Magontec Qinghai cast house is expected to deliver an opportunity to improve profitability it has not been the sole focus of attention. In 2015 as in 2014 improvements in operational processes, automation and investment in production capacity will deliver a more robust platform from which to launch the Qinghai product. In addition to the many small and large adjustments to our business over the last 12 months we continue to invest in research and development. In recent years we have spoken often of the opportunities presented by new magnesium alloys developed by Magontec's various partner organisations. The Australian Government funded Cooperative Research Council's sponsorship of CAST, a light metals research organisation based in Melbourne, was the driving force behind this innovation. While CAST has lost its Government funding it continues to play a role in managing intellectual property and coordinating research efforts.

Magontec now embraces a broader and more customer orientated research and development strategy partnering with major potential customers and seeking financial commitments to match the in-kind efforts and cash inputs of Magontec itself. In 2014 Magontec and two major European die-casting customers agreed to a three-year A\$1.4 million investment in R&D to investigate magnesium alloys suitable for high-temperature automotive and power tool applications. Elsewhere existing magnesium alloy patents, particularly those relating to rare earth based alloys, are finding new applications and customers.

Strategic actions - 2013 to 2016			
Magnesium alloy manufacturing and recycling - Building a competitive advantage in a global growth industry			
-	Recycling capacity in new die cast regions	→	Romania, China
-	Reduce manufacturing costs	→	Process change, automation
-	New primary magnesium alloy capacity	→	Golmud, Qinghai Province, PRC
-	Targeting new markets	→	Specialist alloys, Qinghai metal
-	Continuing focus on safety	→	Worldwide
Magnesium and Titanium anodes - Raise barriers to entry for smaller competitors			
-	Reduce conversion & fabrication costs	→	Romania, automation, process
-	Scale economies through increased volume	→	New markets & products
-	Increase product sophistication	→	ICAS, electronics

The outlook for the magnesium anode business, supplying cathodic corrosion products to the water heater industry, is relatively complex. While volumes in our Chinese business have recovered and will assist overall profitability, the anodes business requires further innovation and investment. To some extent the commencement of production at Qinghai will assist in reducing raw material costs but this alone will be insufficient. Our manufacturing processes and products need to step away from direct competition with low-end manufacturers and develop processes and products that deliver an acceptable return on the capital invested in this activity.

Magontec is well placed to make these changes as a producer of some of the most sophisticated magnesium and electronic anodes offered in global markets. Each year the group makes a considerable investment in research to ensure the efficacy of customer water tanks and in developing new and improved products. Our focus in 2015 will be to roll out new higher-end products in a wider variety of formats and through a greater number of channels.

In 2015 we expect our Chinese magnesium alloys business to deliver a recovery in earnings as the Suzhou plant returns to full operation and the Shanxi primary magnesium operation delivers a more competitive product through lower conversion costs. We have not included any volumes from Qinghai in our 2015 expectations at this point. In Europe we anticipate a stronger year for the magnesium alloy recycling business following an investment of over A\$1.5 million in new capacity and process improvements. Sales of primary magnesium alloys from China to European and North American markets are unlikely to be significantly improved. In the anodes business we expect a rise in volumes in China to generate an improved contribution to profitability while in Europe improvements in the costs of production and developing sales channels are expected to generate a more acceptable contribution.

John Talbot - Chief Financial Officer
Financial Report



Managing working capital is a critical feature of the finance department as Magontec has considerable working capital requirements in all of its operations and in multiple currencies. To assist shareholders better understand how cash and working capital are managed within Magontec the Financial Report looks closely at these issues and at the Group's banking arrangements and credit lines.

Cash Flow

During the last half of 2014, extensive work was undertaken in developing a detailed cash flow accounting model. The model has now been audited and provides a more detailed analysis of how shareholders' funds are employed in the business. In 2014 the net cash result showed consumption of A\$575,237 at the underlying operational level. (Underlying operational cash flow less net interest and taxation paid). This result includes the period in which the Suzhou operations were temporarily closed. The impact of this closure was approximately \$1 million.

Through the reporting period there was new investment of \$2.6 million in plant & equipment and \$6.6 million in inventory. Much of this latter investment is expected to be liquidated through the early part of 2015. Of the expenditure on plant and equipment, \$1.7 million was incurred in Europe, largely relating to the European recycling operations. Debt owing to Straits Mine Management Pty Ltd (\$3.1 million as at 31 December 2013) was repaid (\$2.1 million via cash and the balance via issue of shares). This expenditure plan was achieved with a redrawing of \$2.8 million in bank debt (excluding foreign exchange effects) after a \$8.8 million debt rundown in 2013.

	Year To Date 31-Dec-14 \$'000	Year To Date 31-Dec-13 \$'000
Operating Cash Flows		
Cash flow on working capital assets	(3,548)	5,049
Cash flow on working capital liabilities	3,435	(6,708)
Net cash movement in working capital demand	(113)	(1,659)
Underlying operational cash flow	692	2,442
Net interest paid & taxation	(1,267)	(1,928)
Net cash (used)/generated in operating activities	(688)	(1,144)
Investing Cash Flows		
Net cash out on purchase/disposal of property, plant & equipment	(2,641)	(1,378)
Group Information Technology software	(40)	(129)
Security Deposit	(888)	-
Loan owing by KWE(HK)	-	1,736
Investment in Subsidiaries & Other Financial Assets	-	-
Net cash provided by/(used in) investing activities	(3,569)	229
Financing Cash Flows		
Principal reduction on debt owing to Straits Mine Management Pty Limited	(2,100)	(2,000)
Bank Debt	2,763	(8,752)
Net capital raised from issue of securities	2,048	4,520
Net cash provided by financing activities	2,711	(6,232)
Net increase/(decrease) in cash and cash equivalents excluding foreign exchange effects	(1,546)	(7,147)

EXECUTIVE CHAIRMAN'S REPORT (Cont...)

Working Capital

In our analysis of working capital we remove the effects of unrealised foreign exchange by converting foreign exchange amounts at rates prevailing on 31 December 2014. Our working capital objectives through the year have been to minimise "Net Working Capital" demand and maximise the proportion of that demand that is funded by debt or creditors. At 31 December 2014 the amount of shareholders funds (including cash on hand) engaged in working capital of A\$21.1 million will be reduced via a combination of inventory reduction and the increased utilisation of bank debt facilities.

Bank facilities

Over the last two years, the finance team has worked hard to build banking relationships in China and Europe. Our target has been to build new debt facilities to relieve pressure on shareholders funds and to prepare the group for the expansion that will take place as the Qinghai project commences commercial production and ramps up to 56,000 mtpa. In 2014 our efforts and performance were rewarded when we secured a new Chinese facility for ¥25 million (A\$4.92 million) from Commerzbank.

As at 31 December 2014 an amount of A\$8.0 million can be drawn under existing bank facilities while significant current facilities available to our Chinese operations from a major Chinese bank will require refinancing negotiations in April 2015.

Our European subsidiaries are generally well serviced by the local banking industry and the terms of our European facilities means that we can expect funding for up to 80% of local "Net Working Capital" demand. Subject to continued observation of lending covenants, availability of funding is reasonably assured.

Bank & Institutional Borrowings as at 31 Dec 14					
Borrower	Bank/Finance Institution	Security	Facility amount \$'000	Drawn as at 31-Dec-14 \$'000	Repayment date
MAB	Commerzbank AG (Money Mkt Loan)	MAB Receivables & Inventories	\$8,881	\$8,881	30-Jun-17
MAB	Commerzbank AG (Overdraft Facility)	MAB Receivables & Inventories	\$5,067	\$2,832	30-Jun-17
MAB	Commerzbank (Leasing)	MAB Equipment	\$797	\$693	31-Dec-18
MAB	Postbank Factoring	MAB Receivables	\$2,116	\$2,116	30-Nov-16
MAX	Commerzbank Beijing	Guaranteed by MAB	\$4,923	\$698	7-Aug-15
MAX	Commerzbank Beijing	Guaranteed by MAB		\$821	25-Sep-15
MAX	Commerzbank Beijing	Guaranteed by MAB		\$788	27-Nov-15
MAX	China Bank of Communications	MAX Land and building	\$3,951	\$3,951	22-Apr-15
MAR	ING Bank	MAR Receivables & Inventories	\$2,220	\$0	Open
MAR	ING Bank	MAR Investment term loan	\$1,480	\$628	28-Apr-17
			\$29,436	\$21,408	

The funding of Magontec's China activities confronts more competitive conditions. Most banking facilities are only available on a short-term basis, refinance is not guaranteed and generally, banks do not have structured working capital facilities available meaning that funding is offered based on a percentage of the value of the real estate security the borrower is able to offer.

During 2014 new working capital facilities were made available by ING Bank to fund Magontec's Romanian operations and Commerzbank Beijing provided a new facility to the PRC operations. As these facilities are drawn so we expect the proportion of bank funding of working capital (currently 63.0%) to rise.

Christoph Klein-Schmeink - President Magontec Europe & America Europe and North America Operations Report



Magontec Europe and North America operates in two businesses and in two markets. In its European CCP (Cathodic Corrosion Protection) business Magontec manufactures magnesium anodes and impressed current anode systems (ICAS) using titanium anodes. Magontec is also Europe's largest recycler of magnesium alloys with production sites at Bottrop in Germany and at Santana in Romania. Magontec Europe and North America is also responsible for sales of primary magnesium alloys into these regions from China and for sales of anodes into US markets sourced from Europe and China.

European magnesium alloy recycling markets experienced a relatively robust year with the automotive industry, the principal customers, experiencing steady growth in 2014. The European light-vehicle industry increased overall production volumes by 5.0% to 16.9 million vehicles in 2014 (16.1 million in 2013) while US light-vehicle sales rose 5.8% from 15.6 to 16.5 million vehicles.

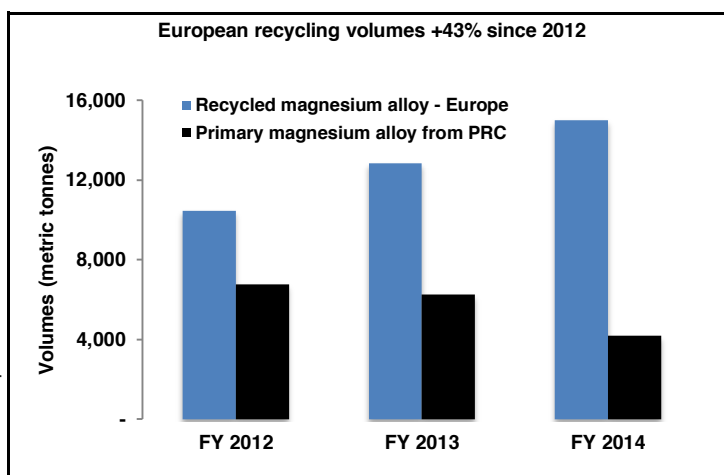
EXECUTIVE CHAIRMAN'S REPORT (Cont...)

In 2014 Magontec's European recycling plants operated at record levels with sales volumes increasing 17% over the previous corresponding year and up 43% since 2012. Total sales of recycled and primary magnesium alloys into Europe and North America were flat year-on-year. Magontec's increased market share of the European recycling markets has come in a period of significant pricing pressures. Magnesium alloy of Chinese origin continues to be sold into the European markets at heavily discounted prices and through this period Magontec's own exports from China to Europe have declined. To compete on this increasingly uneven playing field Magontec has grown production of primary magnesium alloys from its European base with sales into North America almost doubling in this period.

In addition to declining margins the price of pure magnesium (our key raw material) has also declined precipitously. While Magontec, as a buyer of pure magnesium, is largely insulated from price fluctuations, managing inventories and quoting on longer priced contracts in a period of rapid price and currency changes has been challenging. Chinese pure magnesium prices have fallen consistently over the last 30 months from a high of ¥18,500 (A\$3,643) per metric tonne in mid-2012 to ¥13,200 (A\$2,600) in late January 2015 representing a decline of nearly 30%.

Through 2014 much effort was focussed on the development and marketing of new specialty magnesium alloys. These products are particularly targeted at high-end market segments in Europe and the USA. In all of our magnesium alloy research projects we have sought to engage with end users through the development and commercialisation phases.

Over the last 12 months in particular we have successfully engaged with major manufacturers in the automotive and other sectors. To assist our efforts we have made a number of small investments to enable us to produce trial and commercial quantities of these products.



In 2014 we have successfully completed a major change to our German recycling plant involving the introduction of new processing technology and new production methods. We are in the process of replicating this in Romania in the first quarter of 2015. The German investment was completed on time and on budget and the Romania investment will complete in March this year. These facility upgrades and efficiency measures are designed to increase production volumes and reduce input costs. In the first few months of operation the German plant has experienced a significant improvement and in 2015 the combined effect of the upgrades in Romania and Germany are expected to have a further marked effect on profitability in the magnesium alloy recycling activities.

Over the last 12 months there have been a number of challenging trends in Magontec's anode markets. The market for this product, which supplies the water-heater industry, has been steadier after a number of years of slow decline in the Southern European region, although as yet few signs of growth. Elsewhere, particularly in Germany, Austria & Switzerland, demand has been more subdued than in previous years. By the end of October 2014, according to BDH (a German industry association), the German market experienced a 15% decline in the heat pump sector and a 25% decline in each of the solar-thermal and biomass sectors.

In 2014 Magontec's new European magnesium anode production site at Santana in Romania produced our entire anode product range following the transfer of production equipment from Germany in the previous year. We are very pleased to report that the plant was also accident free in this start-up period, a testament to the training and attention to detail by the European management and training teams. Overall the European magnesium anode business experienced volumes well below the previous year due to flat markets, financial difficulties experienced by a major customer as well as aggressive price competition. The ICAS (electronic anode) business performed much in line with 2014 delivering a strong result.

Management has sought to address the challenging situation in European anode markets by introducing new production technology and new cost control measures. Further technical improvements as well as a greater sales focus on markets where we have been under-represented are among the actions that will be implemented through 2015. While declining volumes and reduced prices have lead to an unsatisfactory financial performance in 2014, the move from Germany to Romania in 2013 limited the overall negative impact on profitability and provides the Group with the opportunity to address these challenges from a more competitive European location.

Technological innovation is also playing a role in boosting the performance of the ICAS titanium anode product. This is a product that is already a market leader and has the potential to be used in a broader suite of applications across the heat pump and solar water heater sectors. In 2014 the technology group, based in Germany, developed a new series of high-end controllers and will introduce these products through the first half of 2015.

Outlook - Europe

Market conditions for primary magnesium alloys will remain challenging but the Group's unique set up of regional production sites will help to maintain our strong position relative to our competitors. Together with process and technology improvements introduced through the year the magnesium alloy recycling business is well positioned for an improved financial result in 2015.

One potential cloud on the horizon for the recycling business is the impact of the unsolved Ukraine crisis. EU carmakers have reduced production for the Russian market in Western Europe and are experiencing declining volumes in Russia itself. On going weakness in all European economies has also caused automakers to announce major cost saving programs in their home markets. Despite this for the first 6 months of 2015 Magontec has a solid order book for both Germany and Romanian magnesium alloy recycling operations.

The outlook for the European magnesium anode business is less robust and there is no obvious short-term resolution to lower volumes and downward pricing pressure in the region. An acceptable result in 2015 in the magnesium anode market will result from the implementation of effective cost reduction actions and the introduction of process efficiency measures. Increasing supply to new areas such as the Middle East will further help to improve the financial performance of this business segment.

Tong Xunyou - President Magontec Asia
Asia Operations Report



Magontec's Chinese entity operates three businesses; primary magnesium alloy (original production of magnesium alloy ingots from pure magnesium and other alloying elements), magnesium alloy scrap recycling and magnesium anode manufacturing

We are very pleased to be able to report that Magontec Asia was accident free in 2014 at its Shanxi, Suzhou and Xi'an worksites. Throughout 2014 the group has continued its efforts to raise safety awareness and improve safe working practices at all of its operations in China. In the first half of 2014 the company conducted a detailed safety review and a number of operational changes have been implemented as a result of this report.

2014 was a difficult year for our business in China with rapidly declining pure magnesium raw material and magnesium alloy finished product prices, a sharp decline in demand from the electronics sector (cell phones, notepads and laptops) and in August the unforeseen closure of our recycling plant by the Suzhou authorities. The closure of Suzhou was the result of an explosion at a nearby aluminium plant owned and operated by another business, unrelated to Magontec. The local authorities took the view that all aluminium and magnesium operations in the Suzhou and Wujiang region should be closed immediately and required to apply for a new licence to operate. The cost to Magontec of the Suzhou closure in the 2014 financial year was in the order of ¥5 million (A\$1 million).

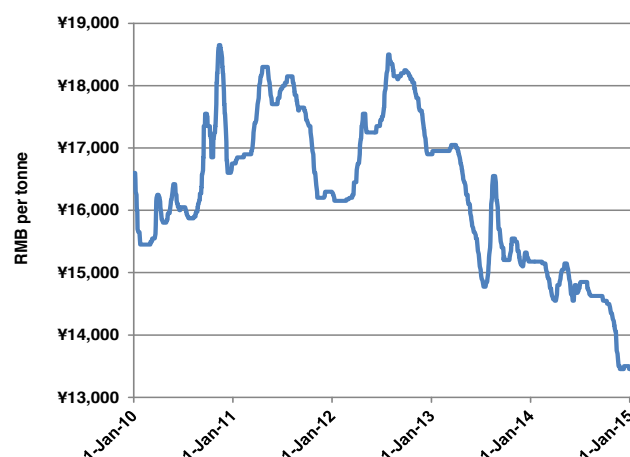
While the financial results for the Asian business have been disappointing I am pleased to report that our Suzhou operation is once again up and running, our main primary alloy factory in Shanxi has achieved an ambitious target for conversion costs (the cost of converting pure magnesium into magnesium alloy) and new applications in the automotive and telecommunications industry are likely to see volume improvements in the coming months. However, it remains the case that the Chinese magnesium industry is in oversupply and discounting in this industry has been a significant problem for all industry participants.

While sales to the Chinese domestic and European export markets have been subdued other Asian markets have been steady and sales into North American customers have grown strongly year-on-year. The US automotive manufacturers, where domestic automotive die casters have been forced out of the industry by US import tariffs, is now supplied almost exclusively from Canada and Mexico. Magontec's volumes into Mexico have grown strongly in 2014 as US automotive volumes and the general US economy experience a strong recovery. Meanwhile overall volumes from our Chinese factories fell by nearly 20% in 2014, principally the result of the Suzhou closure and the reduction in sales to Europe.

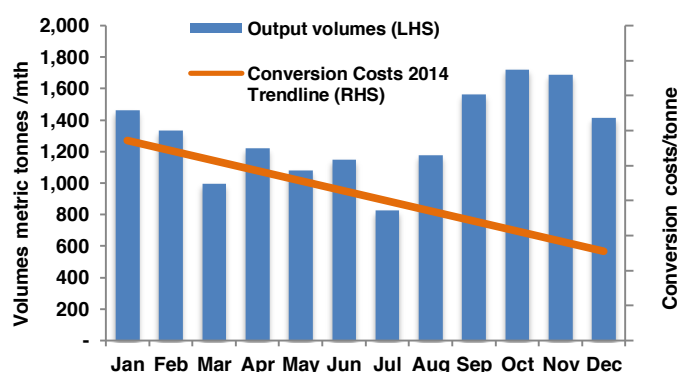
Magontec Asia has spent much time and effort in 2014 working towards the opening of the new Qinghai operation. In January 2015 our Phase A equipment arrived in Golmud and by April we expect this to be installed. Through 2015 additional lines will be added so that Magontec is fully prepared for the start of production from the Qinghai Salt Lake Magnesium Co Ltd dehydration units and electrolytic cell house. The commencement of production at Qinghai will be a watershed for the Asian business and will have a trickle down effect to other elements of the global Magontec business including in recycling and anode manufacturing. Primarily it will allow our Chinese business to increase sales volume and offer a considerably more competitive product into the domestic and international markets at a time when automotive volumes are rising and magnesium usage is becoming more common.

Magontec's Chinese magnesium anode business performed well in difficult markets increasing volumes by over 10% on the previous year. While the level of competition has not decreased the Xi'an-based anode manufacturing unit has introduced new casting and fabricating machines reducing operating and overhead costs and restoring competitiveness. In the last quarter of 2014 our efforts were rewarded with the recovery of a major anode manufacturing contract for a business that is highly sensitive to volume throughput. Our expectations are for a recovery in volumes towards 1,100 mtpa in 2015.

Pure Magnesium Price (Jan 2010 - Jan 2015)



**Magontec primary magnesium alloy
 Production volumes and conversion costs per tonne - 2014**



Conversion costs have fallen in 2014 driven by investment and new production processes

EXECUTIVE CHAIRMAN'S REPORT (Cont...)

Outlook - Asia

In the Western press there is much commentary on the outlook for the Chinese economy. Growth rates of more than 7% have been the norm in China for many years and it is our expectation that, as the economy switches from a manufacturing to a consumer focus, growth will continue at these levels. Indeed the products that Magontec manufactures principally go into consumer items such as automobiles and water-heaters. While there is overcapacity in both of these industries, and in many others, emerging demand for higher quality products in both sectors offers a positive longer-term prospect for Magontec products.

While the Chinese housing market, a key indicator of activity in the water-heater sector, has stalled in recent years, the electric water heater sector has grown by 8% in 2014 and, according to China Market Monitor, is forecast to grow by a further 4.9% in 2015. Furthermore the 25-year urbanisation trend in China is expected to resume an upward trend in the coming years. In the period to the end of December 2014 falling apartment prices reflect problems in certain sectors of the Chinese home building industry but recovering volumes of new and planned apartments augurs well for future sales of major home appliances. There is a broad consensus among economists and commentators that the health of the housing market is considered an important metric for the Chinese central government and more support for this sector of the economy is likely to be forthcoming. As important is the replacement market for appliances that are up to 10 years old and for higher end products including Magontec's proprietary electronic anode products.

The outlook for magnesium alloy sales in 2015 is more complex as the switch to aluminium in the cell phone and computer industry has been quite pronounced in 2014. The countervailing trend is the growth of domestic Chinese magnesium die-casting and the development of new applications for the telecommunications industry. While the latter products are at least 12 months away from volume production the automotive die cast sector has been boosted by the Chinese acquisition of a major North American company and the announcement of plans to expand production of magnesium die casting in China and around the world. Adding to our optimism for the alloy markets are the developments addressing thermal conductivity of magnesium. This critical characteristic has been the underlying cause of the shift to aluminium in the electronics sector. In 2014 Magontec has made considerable strides towards a new magnesium alloy that demonstrates superior thermal conductivity characteristics to aluminium. Through 2015 we expect to be demonstrating this to electronics manufacturers and their suppliers in a bid to regain some of the volumes lost in 2014.

CORPORATE GOVERNANCE STATEMENT

A summary of the Group's main corporate governance practices, as well as any disclosures required by the Australian Securities Exchange's second edition "Corporate Governance Principles" (as amended on 30 June 2010) are set out below.

Composition of the board

The Board reviews the mix of experience, expertise and other qualities of the Directors. In addition to its current skills base, the Board might seek new Directors with understanding of industrial marketing and manufacturing processes and other relevant skills. If a vacancy occurs on the Board, or if the size of the Board is to be increased, the Board will identify the experience, expertise and other qualities sought and identify appropriate candidates. The Remuneration and Appointments (REM) Committee considers these matters in concert with the Board.

There is no requirement in the Company's Constitution or the Corporations Act that compels a director to retire upon reaching the age of seventy years.

Board responsibilities

The Directors are responsible for protecting the rights and interests of the Shareholders through the development of sound strategies, ensuring their implementation, and by the development of an integrated framework of controls over the Group's resources, functions and assets and properly accounting for its liabilities.

The Board's responsibilities include:

- Steering strategic directions and establishing goals for management.
- Monitoring performance against these goals and objectives.
- Ensuring there are strong business controls and ethical standards of behaviour.
- Appointing the Chief Executive Officer or equivalent, evaluating performance and determining the remuneration of the Chief Executive Officer and senior executives.
- Ensuring the significant risks facing the business have been identified and appropriate and adequate control monitoring and reporting mechanisms are in place.
- Ensuring there are policies and procedures for recruitment, training, remuneration and succession planning.
- The Board has delegated responsibilities for day to day operation and administration of the Group to the Executive Chairman and key management personnel.
- Consideration of reports from the Executive Chairman regarding management of material business risks.

The Board has received assurance from the Executive Chairman and Chief Financial Officer that the declaration provided in accordance with s295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Committees of the Board

The Board of MGL has established and continues to operate the following committees:

- Finance, Audit and Compliance Committee (FAC) chaired by Mr Shaw with Messrs Kaye and Xie as members; and
- Remuneration and Appointments Committee (REM) chaired by Mr Kaye with Messrs Shaw and Li as members.

The committee terms of reference outline committee responsibilities and are available on request.

Membership and attendance at Board Committees is detailed in the Directors' Report.

Independence of directors

It is important to have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties. At the date of this report the Board comprises the Executive Chairman, three Non-Executive Directors and two Independent Directors plus one alternate Non-Executive Director. The Directors generally meet monthly and as required by special matters.

CORPORATE GOVERNANCE STATEMENT (Cont....)

Internal controls framework and risk management

The Board is responsible for the overall business control framework, but recognises that cost-effective control systems will not necessarily preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated a business control framework designed to safeguard the Group's assets and interests and to ensure the integrity of reporting. In addition, the Board constantly monitors the operational and financial aspects of the Group's activities. Through the Finance and Audit Committee, the Board considers the recommendations and advice of external auditors and other external advisors on the operational and financial risks that face the Group.

The Business Control Framework identifies risk management as a key area which is subject to regular reporting to the Board. In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties, and the employment and training of suitably qualified and experienced personnel.

ASX Second Edition "Corporate Governance Principles and Recommendations" (as amended on 30 June 2010)

Company Does Not Comply With:-	Company Complies With:-
Recommendation 2.2 The chair should be an independent director.	Recommendation 4.2 The audit committee should be structured so that it: • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members
Recommendation 2.3 The roles of chair and chief executive officer should not be exercised by the same individual.	Recommendation 8.2 The remuneration committee should be structured so that it: • consists of a majority of independent directors • is chaired by an independent director • has at least three members.
Recommendation 2.4 The board should establish a nomination committee.	
Recommendation 3.2 Companies should establish a policy concerning (employment) diversity.	
Recommendation 3.3 Disclose measurable objectives for achieving gender diversity.	

The board is highly cognisant of its fiduciary and corporate governance responsibilities to shareholders. MGL is a capital constrained company in the process of re-working its business strategy as it heads to its goal of building a profitable global magnesium products manufacturing and distribution business.

There is a small team of core executives whose primary tasks are the successful commercialisation of the Group's proprietary technologies and intense management (including re-working) of the Group's magnesium alloy production facilities within the constraint of limited funding. It is a management challenge quite different from the challenges confronting a large established business. The act of judiciously allocating funding to the prime business tasks and management practices is one that requires careful balance.

The current corporate governance practices have been undertaken only after due consideration of this balance.

Remuneration

The overall role of the Remuneration & Appointments Committee is to ensure that Group remuneration policies and practices are consistent with the Group's goals and objectives. Written detailed terms of reference have been completed.

The remuneration of individual Directors and key management personnel is presented in the Directors' Report and in NOTE 4 to the financial statements.

Independent professional advice

When Board members require advice, it is sought as advice for the full Board which will normally be arranged by the Executive Chairman at the request of the Board. Each member has unrestricted access to that advice and may suggest issues on which such advice should be sought.

However, if an individual Director requires separate advice concerning the proper performance of his or her duties in relation to the Group's operations or undertakings then, with the prior approval of the Executive Chairman, that Director may seek that advice at the Company's expense. A copy of the advice received by the Director must be made available to all members of the Board.

CORPORATE GOVERNANCE STATEMENT (Cont....)

Performance assessment

The Board reviews Key Performance Indicators (KPIs) for the Executive Chairman and the Management Team set on an annual basis. These annual KPIs are mutually agreed by the employee and his/her supervisor. The KPIs reflect the employee's ability to add value to the entity 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.

Non-Executive Directors do not receive any performance incentive payments.

External Auditor

The appointment of the external auditor, the audit fee, and any questions of resignation or dismissal are considered first by the FAC Committee. The FAC Committee then conveys its recommendation to the full Board. Our current external auditor was first appointed in 2008.

It is the policy of our auditor to rotate audit engagement partners conducting the audit on listed companies at least every five years. During the year ended 31 December 2013 the audit engagement partner at Camphin Boston, responsible for the Company's group audit, was rotated.

Code of Conduct

As well as behaving according to the laws, rules and regulations of various governing bodies, MGL requires all Board members, employees and consultants to behave according to the general principles expressed in the next paragraph. The principles are founded in the core values of honesty, integrity and respect for people.

All directors, managers and staff are expected to act with the utmost integrity and objectivity, in their dealings with each other, competitors, suppliers, customers and the community, striving at all times to enhance the reputation and performance of the Company. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

The requirement to comply with these ethical standards is taken as a matter of course and is emphasised to all employees.

Continuous disclosure and shareholder communication

The Group has a written continuous disclosure policy.

The Company Secretary is responsible for communications with the Australian Securities Exchange (ASX), including compliance with the ASX continuous disclosure requirements. These responsibilities are specified in the Company Secretary's written position description. The charter of the Finance, Audit and Compliance Committee also specifically includes the review of compliance with ASX and legal requirements.

Through regular shareholder communications such as the Annual Report, Half Year Report, Quarterly Cashflow Reports, and periodic ASX reports deemed material, the Board informs shareholders of significant developments affecting the Group. All company announcements are immediately posted on the company website. Shareholders are explicitly encouraged to attend general meetings in notices of meeting.

Dealing in shares

The Group has a formal share dealing policy for all employees, consultants and Directors. This policy reinforces the restrictions in the Corporations Act 2001 with respect to insider trading and use of price sensitive information. Under the terms of the policy applicable to Group staff, the Company's securities may only be sold or purchased outside the restricted period. The restricted period occurs during the following times:

- Two weeks prior to a Board Meeting.
- One month prior to the release of Half Year and Full Year Results to the ASX.
- The period 3 weeks prior to the announcement of a capital raising by the Group to the date of allotment of shares under such capital raising.
- One week prior to the release of Quarterly Cashflow Reports to the ASX.

If an employee, consultant or director needs to deal in the restricted period because of a special need they are required to contact the Company Secretary prior to entering into the transaction so that Management can determine whether the proposed dealing would be prohibited under the Corporations Act 2001.

DIRECTORS' REPORT

The Directors of Magontec Limited submit herewith the Annual Financial Report of the Group for the twelve month period ended 31 December 2014. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

The names and particulars of the Directors of the Company at the date of signing this Report are:

MR NICHOLAS ANDREWS

B Ec.

Executive Chairman

Mr Andrews has held a variety of positions in the Australian financial sector. Mr Andrews spent 10 years with a global investment bank in management and sales in London and Sydney, 11 years as an institutional equities investor in large and small cap securities in Australia and five years providing corporate advice to small cap companies before joining Magontec in 2009.

MR KANG MIN XIE

Non-executive Director (appointed 29 November 2012)

Member of Finance, Audit & Compliance Committee

Mr Xie holds a Bachelor of Engineering (Mining) degree from Chongqing University. Mr Xie joined the Qinghai Salt Lake group of companies in 1984. Over the last 30 years he has held a variety of positions in the group including senior roles in the Technology and Development subsidiaries. In 2007 Mr Xie was appointed Deputy General Manager of the Qinghai Salt Lake Industry Co Ltd (QSLI) and Vice President in 2008. In 2009 Mr Xie became a Director of QSLI and in 2011 Chairman of the Qinghai Salt Lake Magnesium Co Ltd, a subsidiary of QSLI and a 29.63% shareholder in Magontec Limited as at the date of this report.

MR ZHONGJUN LI

Non-executive Director (re-appointed 29 November 2012)

Member of the Remuneration & Appointments Committee

Mr. Li graduated from Wuhan University of Technology. He worked in the auto industry (manufacturing design) for 10 years. For more than 10 years he has owned and operated a metal recycling business (with a focus on magnesium). His experience and knowledge of the China metals market and understanding of the business practices in China is an important adjunct to the Company to further its magnesium production and marketing endeavours in China.

MR ROBERT SHAW

BE, MBA, MPA, F.A.I.C.D., JP

Independent Director (re-appointed 29 May 2014)

Chairman of Finance, Audit & Compliance Committee

Member of the Remuneration & Appointments Committee

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 a Non-Executive Director of Credit Corp (CCP) where he is Chairman of the Audit Committee.

MR ROBERT KAYE

LLB, LLM (Hons)

Independent Director (re-appointed 29 May 2014)

Chairman of Remuneration & Appointments Committee

Member of Finance, Audit & Compliance Committee

Mr Kaye is a senior counsel in NSW who has given legal and strategic advice and acted for many public and private financial institutions and commercial enterprises. Mr Kaye is currently the Chairman of Paperlinx Limited (PPX).

MR ANDRE LABUSCHAGNE

BComm

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

Mr Labuschagne is the Executive Chairman of Straits Resources Limited, a significant shareholder in Magontec.

Mr Labuschagne is an experienced mining executive with a career spanning more than 20 years, primarily in the gold industry in various executive roles in South Africa, PNG, Fiji and Australia for a number of leading gold companies, including Emperor Gold Mines, DRD Gold and Anglo Gold Ashanti. Mr Labuschagne was previously Managing Director of the ASX-listed gold company, Norton Gold Fields Limited.

Straits Resources Limited is a substantial shareholder in Magontec Limited. As at the date of this report it owns 15.07% of the ordinary shares of MGL.

DIRECTORS' REPORT (Cont....)

MR YONG LI

Alternate Non-executive Director (appointed 29 May 2014)

In 2014, Mr Yong 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 Kang Min Xie.

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

Mr Nicholas Andrews (Executive Chairman)
Mr Kang Min Xie (Non-Executive Director)
Mr Yong Li (Alternate Director to Mr Kang Min Xie) - appointed 29 May 2014
Mr Zhong Jun Li (Non-Executive Director)
Mr Robert Shaw (Independent Director)
Mr Robert Kaye (Independent Director)
Mr Andre Labuschagne (Non-Executive Director) - appointed 22 January 2014

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 Paperlinx Limited
Mr Andre Labuschagne is Executive Chairman of Straits Resources Limited
Mr Kang Min Xie is a director of Qinghai Salt Lake Industry Co. Limited

Company Secretary

Mr JD Talbot
B Bus (Acctg), CPA

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.

DIRECTORS' REPORT (Cont....)

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		Committee Meetings Attended			
	Attended	Held	FAC	Held	REM	Held
• Mr Nicholas Andrews	9	9				
• Mr Kang Min Xie	1	9	-	2		
• Mr Yong Li (1)	5	9				
• Mr Zhongjun Li	9	9			1	1
• Mr Robert Shaw	9	9	2	2	1	1
• Mr Robert Kaye	7	9	2	2	1	1
• Mr Andre Labuschagne	8	9				

(1) Mr Yong Li is the alternate director to Mr Kang Min Xie

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 Kang Min Xie		-
• Mr Yong Li (Alternate)		-
• Mr Zhongjun Li	Ordinary shares	56,197,298
• Mr Robert Shaw	Ordinary shares	800,000
• Mr Robert Kaye		-
• Mr Andre Labuschagne		-

REMUNERATION REPORT

This remuneration report for the year ended 31 December 2014 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.

DIRECTORS' REPORT (Cont....)
REMUNERATION REPORT (Cont...)

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 22.

Key management personnel

(i) Directors as at 31 December 2014

Mr Nicholas Andrews (Executive Chairman)
Mr Kang Min Xie (Non-Executive Director)
Mr Yong Li (Alternate Non Executive Director to Mr Kang Min Xie) - appointed 29 May 2014
Mr Zhong Jun Li (Non-Executive Director)
Mr Robert Shaw (Independent Director)
Mr Robert Kaye (Independent Director)
Mr Andre Labuschagne (Non-Executive Director) - appointed 22 January 2014

(ii) Executives (Being the Executive Chairman and his direct reports)

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

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 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.

DIRECTORS' REPORT (Cont....)
REMUNERATION REPORT (Cont...)

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;
- 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 such things as 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 2014 shares were issued to one non KMP employee, Mr Martin Tauber under the terms of the approval given by shareholders under resolution 8 of the 2011 Annual General Meeting. No KMP were issued with shares during this period.

During the year ended 31 December 2014, the Group entered into new employment contracts with the Executive Chairman and the Chief Financial Officer. The details of these contracts are contained in Table 7 'Executive Contractual Arrangements' in the Director's Report. Employment contracts for senior executives in Germany and China are conducted under local laws.

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

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.

DIRECTORS' REPORT (Cont....)
REMUNERATION REPORT (Cont...)

Key Management Personnel Remuneration 1-Jan-14 to 31-Dec-14

	Salary & Allowances	Termination Payment	Super & Other Statutory Benefits	Equity & Other Non Cash Benefits			Date Shares Issued	Total
	\$	\$	\$	Shares	Options	Motor Vehicle & Other Allowances	\$	\$
Mr N Andrews (Exec Chairman)	334,221	-	25,115	-	-	-	-	359,335
Mr C Klein-Schmeink President Magontec Europe & North America	250,265	-	19,078	-	-	24,542	-	293,886
Mr X Tong President Magontec Asia	231,996	-	11,353	-	-	-	-	243,349
Mr J Talbot (CFO & Coy Sec)	240,244	-	22,536	-	-	-	-	262,780
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) (1)	32,958	-	-	-	-	-	-	32,958
Mr Y Li (Alternate Dr) (2)	-	-	-	-	-	-	-	-
Total	1,191,794	-	80,972	-	-	24,542	-	1,297,309

(1) Appointed 22 January 2014

(2) Appointed 29 May 2014

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.

The options granted to employees on 16 August 2010 vested on 16 February 2012 and expired 3 years from issue on 16 August 2013. As there are no options remaining unexercised at 31 December 2014 no valuation has been performed.

Security-based Payment Schemes

a Employee Share Option Plan (ESOP) - summary of options grants

	Dec 2014		Dec 2013	
	Number of options	Weighted avg exercise price	Number of options	Weighted avg exercise price
Balance at beginning of the financial year	-	-	1,300,000	\$0.100
Granted during the financial year	-	-	-	-
Forfeited during the financial year	(i) -	-	-	-
Exercised during the financial year	-	-	-	-
Expired during the financial year	-	-	(1,300,000)	-
Balance at end of the financial year	-	-	-	-
Exercisable at end of the financial year	(ii) -	-	-	-

(i) Under the terms of the ESOP, employees leaving the MGL Group have 30 days from the date of termination to exercise their options holding (if any), or they are forfeited.

(ii) As at 31 December 2013, all options had expired unexercised.

DIRECTORS' REPORT (Cont....)
REMUNERATION REPORT (Cont...)

Share options of Magontec Limited - 31 Dec 2014

	Bal @ 1/01/14 Note. 1	Bal vested @ 1/01/14	Exercised / Lapsed	Net other change	Bal @ 31/12/14	Bal vested @ 31/12/14	Vested but not exercisable	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Key Mgt Personnel									
Mr N Andrews	7,913,960	7,913,960	7,913,960	-	-	-	-	-	-
Mr J Talbot	-	-	-	-	-	-	-	-	-
Mr R Shaw	200,000	200,000	200,000	-	-	-	-	-	-
	8,113,960	8,113,960	8,113,960	0	0	0	-	0	0

Share options of Magontec Limited - 31 Dec 2013

	Bal @ 31/12/13	Bal vested @ 1/01/13	Exercised / Lapsed	Net other change	Bal @ 31/12/13	Bal vested @ 31/12/13	Vested but not exercisable	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Key Mgt Personnel									
Mr N Andrews (1)	-	-	-	7,913,960	7,913,960	7,913,960	-	7,913,960	7,913,960
Mr J Talbot	600,000	600,000	600,000	-	-	-	-	-	-
Mr R Shaw (1)	-	-	-	200,000	200,000	200,000	-	200,000	200,000
Other Personnel									
Dr T Abbott	300,000	300,000	300,000	-	-	-	-	-	-
Mr S Erickson	200,000	200,000	200,000	-	-	-	-	-	-
Mr J Bolstad	200,000	200,000	200,000	-	-	-	-	-	-
	1,300,000	1,300,000	1,300,000	8,113,960	8,113,960	8,113,960	-	8,113,960	8,113,960

Note 1. An entitlement acquired on 3 January 2013 as a result of investments in the Company's Rights Issue

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.

3. Long term incentive scheme

DIRECTORS' REPORT (Cont....)
REMUNERATION REPORT (Cont...)

b Executives' Securities Issue Plan (ESIP) (Cont...)

Eligible Participants in Executives' Securities Issue Plan				
Potential Participants	Position In Company	Eligibility 2012	Eligibility 2013	Eligibility 2014
Nicholas William Andrews	Executive Chairman	Eligible	Eligible	Eligible
John David Talbot	CFO and Company Secretary	Eligible	Eligible	Eligible
Christoph Klein-Schmeink	President Magontec Europe & North America	Eligible	Eligible	Eligible
Martin Tauber	Project Manager	Eligible	Eligible	Eligible
Patrick Look	CFO Magontec GmbH	Eligible	Eligible	Eligible
Xunyou Tong	President Magontec Asia	Eligible	Eligible	Eligible

Shares Issued Under Executives' Securities Issue Plan to 31-Dec-14				
Participant	No. Of Ordinary Shares Issued As at 31-Dec-13	No. Of Ordinary Shares Issued As at 31-Dec-14	Value Of Ordinary Shares Issued to 31-Dec-14	Component of ESIP
Nicholas William Andrews	3,584,101	3,584,101	200,000	Short term rewards
John David Talbot	3,584,101	3,584,101	200,000	Short term rewards
Gunter Franke (1)	3,633,521	3,633,521	94,670	Retention rights scheme
Christoph Klein-Schmeink	1,141,542	1,141,542	45,462	Retention rights scheme
Martin Tauber	2,009,849	2,691,830	79,110	Retention rights scheme
Patrick Look	677,186	677,186	26,969	Retention rights scheme
Xunyou Tong	1,987,815	1,987,815	63,507	Retention rights scheme
Total shares issued	16,618,115	17,300,096	709,717	

(1) Gunter Franke retired from the company 28 February 2013

c Loans to members of key management personnel

As at 31 December 2014, there was an employee loan outstanding to Mr Christoph Klein-Schmeink of 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 2014

	Balance @ 1/01/14	Granted as remuneration	Received on exercise of options	Acquired On Market or Under Share Purchase Plan	Total balance (held directly and indirectly) @ 31/12/14	Balance held nominally (indirectly)
	No.	No.	No.	No.	No.	No.
Mr Z Li (1)	56,197,298	-	-	-	56,197,298	55,797,298
Mr N Andrews (2)	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	-
	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 personally

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

DIRECTORS' REPORT (Cont....)
REMUNERATION REPORT (Cont...)

Fully paid ordinary shares of Magontec Limited - 31 Dec 2013

	Balance @ 1/01/13	Granted as remuneration	Received on exercise of options	Acquired On Market or Under Share Purchase Plan	Total balance (held directly and indirectly) @ 31/12/13	Balance held nominally (indirectly)
	No.	No.	No.	No.	No.	No.
Mr Z Li (1)	56,197,298	-	-	-	56,197,298	55,797,298
Mr N Andrews (2)	7,122,562	-	-	3,956,980	11,079,542	7,495,441
Mr R Shaw	100,000	-	-	100,000	200,000	-
Mr G Franke (3)	536,615	-	-	-	536,615	-
Mr C Klein-Schmeink	1,141,542	-	-	-	1,141,542	-
Mr X Tong	1,173,221	814,594	-	-	1,987,815	-
Mr J Talbot	4,000,768	-	-	-	4,000,768	-
	70,272,006	814,594	-	4,056,980	75,143,580	63,292,739

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

(2) 7,495,441 shares are held via DEWBERRI PTY LIMITED as trustee for Andrews Superannuation Fund and 3,584,101 are held personally

(3) Mr G Franke retired from the position of Managing Director, Magontec Limited on 28 February 2013

6. GROUP PERFORMANCE AND THE LINK TO REMUNERATION

During the reporting period ended 31 December 2014, 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;
- market development; and

7. EXECUTIVE CONTRACTUAL ARRANGEMENTS

Remuneration arrangements for KMP whose employment is current as at 31 December 2014 are provided below.

Personnel	Position	Remuneration ⁽¹⁾	Notice Period For Termination	Payment In Lieu of Notice	Other Provisions
Mr N Andrews	Executive Chairman	\$359,335	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	\$293,886	Employer initiated - 12 months Employee initiated - 12 months	12 months' pay	Eligible for participation in ESIP & ESOP(2)
Mr X Tong	President Magontec Asia	\$243,349	Employer initiated - 6 months Employee initiated - 6 months	6 months' pay	Eligible for participation in ESIP & ESOP(2)
Mr J Talbot	Chief Financial Officer	\$262,780	Employer initiated - 6 weeks Employee initiated - 6 weeks	6 weeks' pay	Eligible for participation in ESIP & ESOP(2)

Notes

1. Total cost to the Group for the reporting period ended 31 December 2014.
2. ESIP = Executive Securities Issue Plan; ESOP = Employee Share Option Plan

DIRECTORS' REPORT (Cont....)

Review of Statement of Profit and Loss and Other Comprehensive Income

	CONSOLIDATED	
	12 months to	12 months to
	31-Dec-14	31-Dec-13
	\$'000	\$'000
Sales revenue	133,283	128,960
Cost of sales (1)	(124,789)	(120,531)
Gross profit	8,495	8,428
Other income (2)	1,797	1,104
Impairment of inventory, receivables & other financial assets	(247)	(459)
Interest expense (2)	(1,127)	(988)
Foreign exchange gain/(loss)	297	2,167
Expenses (1)	(10,648)	(10,014)
Profit/(Loss) before income tax expense from continuing operations	(1,434)	239
Income tax (expense)/benefit	(230)	63
Profit/(Loss) from continuing operations after income tax	(1,664)	303
Loss after income tax expense from discontinued operations	-	(10)
Profit/(Loss) after income tax expense	(1,664)	292
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement		
Net income/(expense) reflecting through Reserve accounts	(481)	2,377
Total Comprehensive Income	(2,145)	2,669
Total Comprehensive Income for the year is attributable to		
Minority interests	-	-
Members of the parent entity	(2,145)	2,669

Notes

- (1) For consistency with 2014, manufacturing depreciation & amortisation of \$909,000 in 2013 was reclassified from Expenses into Cost of Sales compared with previously reported numbers.
- (2) A redefinition of income adjustments on swap contracts has seen a \$16,000 increase to both other income and interest expense in 2013 compared with previously reported numbers.

DIRECTORS' REPORT (Cont....)

Review of Balance Sheet

Assets

Cash and cash equivalents
Receivables
Inventory
Property, plant & equipment
Prepayments and other

Total Assets

Liabilities

Trade and other Payables
Bank loans
Provisions
Owing to Straits Mine Management Pty Ltd
Other

Total Liabilities

Net Assets

CONSOLIDATED	
31-Dec 2014	31-Dec 2013
\$'000	\$'000

6,435	7,375
25,242	26,472
31,272	24,688
17,240	16,479
6,280	6,154
86,469	81,168

22,525	18,057
19,292	16,767
10,447	10,008
-	3,104
-	-
52,264	47,936

34,205	33,232
---------------	---------------

Summary of Cashflow

Opening Cash Balance

Cash flows from operating activities

Net interest (paid)/received
Taxation (paid)/received
Net working capital assets (outflow)/inflow
Adjustments for non cash items and unrealised foreign exchange gains/(losses)

Net cash (used)/generated in operating activities

Cash flows from investing and financing activities

Net cash (outflow)/inflow on purchase/disposal of PP&E
Net cash (outflow)/inflow on group information technology software
Loan owing by KWE (HK)
Principal reduction on debt owing to SMM
Bank debt inflow/(outflow)
Net capital raised from issue of securities
Other

Net cash (used)/generated in investing and financing activities

Foreign exchange movements

Net Cash Inflows/ (Outflows)

Closing Cash Balance

CONSOLIDATED	
12 months to 31-Dec-14	12 months to 31-Dec-13
\$'000	\$'000

7,375	13,540
--------------	---------------

(1,008)	(1,090)
(259)	(838)
(113)	(1,659)
692	2,442
(688)	(1,144)

(2,641)	(1,378)
(40)	(129)
-	1,736
(2,100)	(2,000)
2,763	(8,752)
2,048	4,520
(888)	-
(859)	(6,003)

606	983
-----	-----

(941)	(6,165)
6,435	7,375

DIRECTORS' REPORT (Cont....)

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 \$17,807.

Auditor's independence declaration

The Auditor's independence declaration is included on page 29 of the 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 27 February 2015 in accordance with a resolution of the Directors made pursuant to Section 298(2) of the Corporations Act 2001.

AUDITOR'S INDEPENDENCE DECLARATION

The Board of Directors
Magontec Limited
Suite 1.03, 46a Macleay Street
Potts Point NSW 2011

Dear Board Members

We hereby declare, that to the best of our knowledge and belief, during the financial year ended 31 December 2014 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.

Name of Firm: Camphin Boston
Chartered Accountants

Name of Partner:


Justin Woods

Address: Sydney

Dated this 27th February 2015

FINANCIAL REPORT FOR THE YEAR ENDED 31 December 2014

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CONSOLIDATED STATEMENT OF PROFIT & LOSS and OTHER COMPREHENSIVE INCOME

	NOTE	12 months to 31 Dec 2014 \$'000	12 Months to 31 Dec 2013 \$'000
Sale of goods	2(a)	133,283	128,960
Cost of sales	2(b)	(124,789)	(120,531)
Gross profit		8,495	8,428
Other income	2(c)	1,797	1,104
Interest expense	2(c)	(1,127)	(988)
Impairment of inventory, receivables & other financial assets	2(d)	(247)	(459)
Travel accommodation and meals		(602)	(646)
Research, development, licensing and patent costs		(303)	(551)
Promotional activity		(61)	(62)
Information technology		(419)	(395)
Personnel		(5,531)	(4,550)
Depreciation & Amortisation	2(b)	(448)	(650)
Office expenses		(376)	(249)
Corporate		(2,908)	(2,911)
Foreign exchange gain/(loss)		297	2,167
Profit/(Loss) before income tax expense/benefit from continuing operations		(1,434)	239
Income tax (expense)/benefit	3(a)	(230)	63
Profit/(Loss) after income tax expense/benefit from continuing operations		(1,664)	303
Loss after income tax expense from discontinued operations	2(e)	-	(10)
Profit/(Loss) after income tax expense/benefit including discontinued operations		(1,664)	292
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	429	2,158
Other Comprehensive Income - that will not emerge in the Profit and Loss Statement			
Movement in various actuarial assessments, derivatives & other	17	(909)	219
Total Comprehensive Income		(2,145)	2,669
Profit/(Loss) after income tax expense for the year (incl discontinued operations) attributable to			
Minority interests		-	-
Members of the parent entity		(1,664)	292
Total		(1,664)	292
Comprehensive Income for the year attributable to			
Minority interests		-	-
Members of the parent entity		(2,145)	2,669
Total Comprehensive Income for the year		(2,145)	2,669

CONSOLIDATED STATEMENT OF PROFIT & LOSS and OTHER COMPREHENSIVE INCOME (Cont.)

		12 months to 31 Dec 2014 cents per share	12 Months to 31 Dec 2013 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	(0.150)	0.044
Members of the parent entity - Diluted (cents per share) (1)	19	(0.150)	0.027
Profit/(Loss) after income tax expense for the year (excluding discontinued operations)			
Members of the parent entity - Basic (cents per share)	19	(0.150)	0.046
Members of the parent entity - Diluted (cents per share) (1)	19	(0.150)	0.028

Notes

1. 2013 calculated on basis of vested options being exercised - being 392,936,667 unexercised listed options and 21,251,263 unlisted options in Convertible Loan Note issued to SMM.

CONSOLIDATED BALANCE SHEET

	NOTE	31-Dec 2014 \$'000	31-Dec 2013 \$'000	1-Jan 2013 \$'000
Current assets				
Cash and cash equivalents	25(d)	6,435	7,375	13,540
Trade & other receivables	6,9	25,242	26,472	22,991
Inventory	7	31,272	24,688	25,727
Other	8	393	226	125
Total current assets		63,342	58,761	62,382
Non-current assets				
Other receivables	6,9	1,046	999	476
Property, plant & equipment	10	17,240	16,479	14,001
Future income tax benefit	3(b)	1,783	1,674	1,642
Intangibles	11	3,057	3,255	3,186
Total non-current assets		23,126	22,407	19,305
TOTAL ASSETS		86,469	81,168	81,687
Current liabilities				
Trade & other payables	12	22,525	18,057	19,804
Bank Borrowings	13	18,663	16,767	21,030
Owing to Straits Mine Management Pty Ltd		-	3,104	49
Provisions	14	489	1,692	2,704
Total current liabilities		41,678	39,620	43,586
Non-current liabilities				
Bank Borrowings	13	628	-	-
Owing to Straits Mine Management Pty Ltd	13	-	-	10,968
Provisions	15	9,958	8,315	6,826
Total non-current liabilities		10,586	8,315	17,794
TOTAL LIABILITIES		52,264	47,936	61,380
NET ASSETS		34,205	33,232	20,307
Equity attributable to members of MGL				
Share capital	16	58,262	55,145	44,915
Reserves	17	4,878	5,358	2,955
Accumulated (losses)/profits	18	(29,398)	(27,732)	(28,023)
Equity attributable to minority interests				
Share capital	16	463	463	456
Reserves	17	-	-	2
Accumulated (losses)/profits	18	-	(2)	2
Total equity		34,205	33,232	20,307

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital		Retained Earnings	Foreign Currency Translation Reserve	Capital Reserve	Actuarial Reserve	Expired Options Reserve	Minority Interests	Total Equity
	Ordinary	Options Valuation							
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance 1-Jan-13	44,890	25	(28,023)	(179)	2,750	(1,226)	1,612	458	20,307
Profit/(Loss) attributable to members of parent entity	-	-	292	-	-	-	-	-	292
Profit/(Loss) attributable to minority interests	-	-	-	-	-	-	-	-	-
Other	-	-	(1)	-	-	-	-	4	2
Comprehensive income	-	-	-	2,158	-	219	-	-	2,377
Expired Options	-	(25)	-	-	-	-	25	-	-
Issue of shares	10,254	-	-	-	-	-	-	-	10,254
Minority share capital	-	-	-	-	-	-	-	-	-
Balance 31-Dec-13	55,145	-	(27,732)	1,979	2,750	(1,007)	1,637	462	33,232
Balance 1-Jan-14	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)
Profit/(Loss) attributable to minority interests	-	-	-	-	-	-	-	-	-
Other	-	-	(2)	-	-	-	-	2	-
Comprehensive income	-	-	-	429	-	(909)	-	-	(481)
Expired Options	-	-	-	-	-	-	-	-	-
Issue of shares	3,117	-	-	-	-	-	-	-	3,117
Minority share capital	-	-	-	-	-	-	-	-	-
Balance 31-Dec-14	58,262	-	(29,398)	2,408	2,750	(1,917)	1,637	463	34,205

CONSOLIDATED CASHFLOW STATEMENT

	CONSOLIDATED	
	12 months to 31-Dec-14 \$'000	12 Months to 31-Dec-13 \$'000
Cash flows from operating activities		
Profit before taxation	(1,434)	239
Adjustments for:		
- Non-cash Equity expense (1)	16	(141)
- Depreciation & amortisation	1,919	1,559
- Unrealised Foreign currency (gain)/loss	(326)	(2,560)
- Non-cash Elimination items at the Group level	2,058	2,885
- Other Non-cash items	(1,542)	461
Underlying operational cash flow	692	2,442
Movement in working capital balance sheet accounts		
- Trade and Other Receivables	3,022	(1,292)
- Inventory	(6,570)	6,342
- Trade and Other Payables	3,435	(6,708)
Cash generated from/(utilised in) operating activities	579	784
- Net Interest paid	(1,008)	(1,090)
- Income tax paid	(259)	(838)
Net Cash generated from/(utilised in) operating activities	(688)	(1,144)
Cash flows from investing activities		
Net cash out on purchase/disposal of property, plant & equipment	(2,641)	(1,378)
Group Information Technology software	(40)	(129)
Security Deposit	(888)	-
Loan owing by KWE(HK)	-	1,736
Net cash provided by / (used in) investing activities	(3,569)	229
Cash flows from financing activities		
Principal reduction on debt owing to SMM	(2,100)	(2,000)
Bank Debt	2,763	(8,752)
Net capital raised from issue of securities	2,048	4,520
Net cash provided by financing activities	2,711	(6,232)
Net increase / (decrease) in cash and cash equivalents	(1,546)	(7,147)
Foreign exchange effects on total cash flow movement	606	983
Cash and cash equivalents at the beginning of the reporting period	7,375	13,540
Cash and cash equivalents at the end of the reporting period	6,435	7,375

Note 1

The negative \$141,000 non cash equity expense in the year ended 31 December 2013 relates to the write back of a provision made for an equity expense that was subsequently not incurred.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 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 27 February 2015.

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 2014. This includes:

- AASB 2013-9 Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments (Dec 2013).
- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Key Management Personnel Disclosure Requirements. Effective 1 July 2013. This change is a result of amendment to Corporations Regulation 2M3.03(1) of the Corporations Act, which requires details of share holdings, options and related party transactions for Key Management Personnel to be transferred from the notes to the Remuneration Report.

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.

Going Concern

The financial report has been prepared on a going concern basis as the Directors do not believe there is any intention or necessity to close the current operations or cease trading within twelve months from the reporting date.

The factors considered by the Directors in making this assessment, included:

- the broad business base (including alloy production, recycling and sacrificial anodes) and reduced dependence on commercialisation of technologies;
- focus on resource allocation and redirection to improve production efficiencies; and
- development of the Group's pivotal project in Qinghai Province PRC.

The Directors and management are unable to predict the Group's achievement of future outcomes with absolute certainty.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Cont...)

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Cont...)

(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 year end exchange rate. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Cont...)

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).

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Cont...)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Cont...)

(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.

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

NOTE 2

RESULTS FROM OPERATIONS

CONSOLIDATED	
12 months to 31-Dec-14 \$'000	12 months to 31-Dec-13 \$'000
115,635	109,022
17,649	19,938
-	-
-	-
133,283	128,960

(a) **Sales Revenue – continuing operations:**

Alloys
Anodes
Other

(b) **Cost of Sales – continuing operations:**

Alloys
Anodes
Other

(111,895)	(105,259)
(12,893)	(15,272)
-	-
(124,789)	(120,531)

The 2013 expense for 'Cost of Sales' reported in the 2014 half year report has been increased by \$909,000 and 'Depreciation and Amortisation' decreased by the same amount. This adjustment has been made to reflect depreciation on manufacturing assets in the calculation of gross profit consistent with IFRS. No net impact on the profit and loss statement arose as a consequence.

(c) **Other Income in Comprehensive Income Statement**

Interest revenue
Prior year income
Gain/(Loss) on disposal of fixed asset
Gain on termination of interest rate swap contract
Government subsidies (1)
Other revenue (2)

95	100
-	40
27	(67)
420	-
580	-
675	1,031
1,797	1,104

Notes

(1) The government subsidies which were received in the PRC business associated with the Qinghai project have no unfulfilled conditions attached to the grant.

(2) The 2013 'Other income' amount last reported in the 2014 half year report has been increased by \$15,681 and 'Interest expense' has also been increased by the same amount. No net impact on the profit and loss statement arose as a consequence.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2

RESULTS FROM OPERATIONS (Cont....)

(d) **Significant expenses in Comprehensive Income Statement (not detailed elsewhere)**

Personnel Costs

Consultancies	
Shares issued under Executive Share Plan	
Others staff termination payments	
Defined contribution payments recognised as an expense	
Other staff payments	
Total personnel costs	
Director fees	

CONSOLIDATED	
12 months to 31-Dec-14	12 months to 31-Dec-13
\$'000	\$'000

(287)	(258)
(16)	(80)
-	(271)
(637)	(619)
(4,591)	(3,322)
(5,531)	(4,550)
(138)	(99)

Asset impairment expense

Write down of trade debtors	
Other asset impairment expense	
Total asset impairment expense	

(160)	(459)
(87)	-
(247)	(459)

(e) **(Loss)/Profit after income tax expense from discontinued operations**

Gross profit	
Other income	
Promotional activity	
Travel accommodation and meals	
Research, development, licensing and patent costs	
Other operating costs	
Corporate	
Profit/(Loss) before income tax expense/benefit from discontinued operations	

CONSOLIDATED	
12 months to 31-Dec-14	12 months to 31-Dec-13
\$'000	\$'000
-	-
-	-
-	-
-	-
-	-
-	-
-	(10)
-	(10)

Other Comprehensive Income - that may later emerge in the Profit and Loss Statement

Exchange differences taken to reserves in equity – translation of overseas entities	
Total Comprehensive Income	

-	3
-	(7)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3

INCOME TAXES

The aggregate amount of income tax attributable to the financial year differs from the amount calculated on the profit.

CONSOLIDATED	
12 months to 31-Dec-14	12 months to 31-Dec-13
\$'000	\$'000

(a) **Income tax recognised in profit and loss**

Tax expense comprises:

Current tax expense – Australian entities

Tax benefit/(expense) on recognition or reversal of deferred tax balances - foreign subsidiaries

Tax reimbursement/ (payment) – foreign subsidiaries

Total tax benefit/(expense)

-	-
109	279
(339)	(215)
(230)	63

Attributable to:

Continuing operations

Discontinued operations

(230)	63
-	-
(230)	63

The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:

Profit/(Loss) from continuing operations

Profit/(Loss) from discontinued operations

Profit/(Loss) from total operations

Nominal Income tax benefit/(expense) calculated at 30%

Nominal income tax benefit reduced by:

Timing differences - Tax effect of income and expenses in P & L being assessed or deducted for tax purposes at a different incidence

Permanent differences - Tax effect of income and expenses in P & L not being assessable or deductible for tax purposes.

Tax reimbursement/ (payment) – foreign subsidiaries

(1,434)	239
-	(10)
(1,434)	229
430	(69)

(535)	(502)
(125)	634
(230)	63

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3

INCOME TAXES (Cont....)

CONSOLIDATED	
31-Dec	31-Dec
2014	2013
\$'000	\$'000

(b) Future Income tax benefit

Current
Non Current
Total

-	-
1,783	1,674
1,783	1,674

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.

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	31-Dec
2014	2013
\$'000	\$'000

(c) Unrecognised deferred tax balances

The following deferred tax assets have not been brought to account as assets:

Deferred Tax Asset (DTA) on pre-tax consolidation revenue losses
DTA on post-tax consolidation revenue losses
DTA on capital losses

81,581	81,581
34,543	35,703
29,019	29,019
145,143	146,303
271,936	271,936
115,141	111,831
96,731	96,731
483,808	480,499

These are based on the following tax losses:

Tax losses – revenue pre-tax consolidation
Tax losses – revenue post-tax consolidation
Tax losses – capital

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

- (a) the tax consolidated group derives future Australian assessable income of a nature and amount sufficient to enable the benefits to be realised;
- (b) the consolidated group continues to comply with the conditions for deductibility imposed by the tax law; and
- (c) no changes in tax legislation adversely affect the consolidated group in realising the benefit of the losses.

No deferred tax asset has been brought to account as an asset because it is not probable that taxable profit will be available against which such an asset could be utilised.

Unused tax losses incurred after the formation of the former Advanced Magnesium Limited (the former name of Magontec Limited) consolidated group are \$115,140,722. 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 2014.

Unused tax losses incurred prior to the formation of the former Advanced Magnesium Limited (the former name of Magontec Limited) consolidated group were \$271,936,272. These losses will be subject to restricted use (Available Fraction rules).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3

INCOME TAXES (Cont....)

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:

$$\text{Available Fraction} \times \text{Taxable income for year} = \text{Pre consolidation losses available for use for year}$$

Based on testing performed by MGL and its advisors, MGL's pre consolidation losses should satisfy the loss integrity rules at 31 December 2014 subject to further testing and continued compliance with loss integrity rules. No detailed Available Fraction calculations have been performed as at 31 December 2014, 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 2014 and neither is any assessment expected to be received which will result in a tax liability for the period to 31 December 2014. Accordingly, there are no franking credits available for distribution in the year ending 31 December 2014.

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.

NOTE 4

KEY MANAGEMENT PERSONNEL (KMP) REMUNERATION

The aggregate compensation of the key management personnel of the Group is set out below:

	CONSOLIDATED	
	12 months to 31-Dec-14 \$'000	12 months to 31-Dec-13 \$'000
Short term employee benefits	1,192	1,084
Termination benefits	-	-
Post-employment benefits	81	76
Motor vehicle	25	26
Equity based payment (1)	-	82
Total Remuneration KMP	1,297	1,268

Note 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.

NOTE 5

REMUNERATION OF AUDITORS

Group auditor

- Audit or review of the financial report
- Accounting/taxation services

Auditors of subsidiaries

- Audit or review of the financial reports
- Accounting/taxation services

	CONSOLIDATED	
	12 months to 31-Dec-14 \$'000	12 months to 31-Dec-13 \$'000
	71	81
	18	18
	112	41
	8	13
	208	152

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

NOTE 6

CURRENT TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	31-Dec	31-Dec
	2014	2013
	\$'000	\$'000
Trade receivables (1) (2)	22,509	25,996
Allowance for doubtful debts	(788)	(755)
	21,720	25,241
Net GST/VAT recoverable	1,105	-
Security deposits (2)	921	42
Derivatives fair value adjustment	137	11
Other receivables due to operating entities	1,274	1,084
Other	86	94
	3,522	1,231
Total receivables	25,242	26,472

(1) Trade receivables represent 61.64 days sales at 31 Dec 14 (73.58 days sales at 31 Dec 13)

(2) In the 30 June 2014 half year report, 'Trade receivables' and 'Current Borrowings' at 31 December 2013 were reduced by \$1,354,000 from the numbers originally reported in the 2013 annual report. This reflects the offset of a receivables factoring facility incorrectly recorded in the balance sheet as a 'Current Borrowing'. 'Trade receivables' was also a further reduced by \$22,000 (immaterial) giving a total reduction of \$1,376,000.

(3) 'Security deposits' at 31 December 2013 have been reduced by \$555,000 with long term 'Non Current Trade and Other Receivables' increased by the same amount to reflect the reclassification of a non current rental deposit.

NOTE 7

CURRENT INVENTORIES

	CONSOLIDATED	
	31-Dec	31-Dec
	2014	2013
	\$'000	\$'000
Inventory of finished alloy at cost	12,939	16,497
Provision for Inventory loss	(96)	(287)
Net value of finished goods inventory	12,843	16,210
Raw materials	18,404	7,877
Work in progress	24	601
Current inventories at net realisable value	31,272	24,688

NOTE 8

OTHER CURRENT ASSETS

	CONSOLIDATED	
	31-Dec	31-Dec
	2014	2013
	\$'000	\$'000
Other Prepayments	393	226
	393	226

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9

NON CURRENT TRADE AND OTHER RECEIVABLES

Amount due from HNKWE
Pension asset
Security deposits and prepayments (1)

CONSOLIDATED	
31-Dec 2014	31-Dec 2013
\$'000	\$'000
-	-
453	442
593	557
1,046	999

(1) Security deposits at 31 December 2013 have been increased by \$555,000 due to the reclassification from 'Current Trade & Other Receivables'.

NOTE 10

PROPERTY PLANT & EQUIPMENT

Gross carrying amount

Balance at 1 January 2013

Additions
Write Offs
Disposals
Net foreign currency exchange differences

Balance at 31 December 2013

Additions
Write Offs
Disposals
Net foreign currency exchange differences

Balance at 31 December 2014

CONSOLIDATED		
Land & Buildings \$'000	Plant & Equipment \$'000	Total \$'000

13,664	21,057	34,721
676	703	1,379
-	(1,118)	(1,119)
-	(1,574)	(1,574)
2,901	4,293	7,194
17,240	23,361	40,602
1,699	943	2,641
-	-	-
(70)	(12)	(81)
(357)	(132)	(489)
18,511	24,160	42,672

Accumulated depreciation/ amortisation and impairment

Balance at 1 January 2013

Disposals
Write Offs
Depreciation expense
Net foreign currency exchange differences

Balance at 31 December 2013

Disposals
Write Offs
Depreciation expense
Net foreign currency exchange differences

Balance at 31 December 2014

5,423	15,298	20,721
-	(1,398)	(1,398)
-	(1,079)	(1,079)
369	1,065	1,434
1,207	3,239	4,445
6,997	17,125	24,123
(70)	(5)	(75)
-	-	-
496	1,205	1,701
(99)	(217)	(316)
7,324	18,108	25,432

Net Book Value As at 31 Dec 13

Net Book Value As at 31 Dec 14

10,243	6,236	16,479
11,188	6,052	17,240

Consideration of impairment

As at 31 December 2014, it was determined that there were indicators of impairment in the gross value of assets in the Group's Romanian operations, which has been identified as an individual cash generating unit (CGU).

The carrying amount of the CGU was compared with its recoverable amount (higher of fair value less costs to sell or its value in use). As a result, the value in use of the CGU was found to be in excess of its carrying amount. As such, no impairment loss has been recorded during the period.

In performing this testing, the company used management cash flow forecasts with an assumed discount rate and long term terminal decline rate of 8% and 10% per annum respectively.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11

INTANGIBLES

Gross carrying amount

Balance at 31-Dec-13

Disposals/ Write Offs

Net foreign currency exchange differences

Additions

Balance at 31-Dec-14

Accumulated depreciation/ amortisation and impairment

Balance at 31-Dec-13

Disposals/ Write Offs

Depreciation/amortisation expense

Net foreign currency exchange differences

Net Book Value As at 31 Dec 13

Net Book Value As at 31 Dec 13

Net Book Value As at 31 Dec 14

CONSOLIDATED		
Indefinite Life(1)	Finite Life	Total
\$'000	\$'000	\$'000
2,800	1,270	4,070
-	-	-
-	(46)	(46)
-	40	40
2,800	1,264	4,064

-	816	816
-	(3)	(3)
-	218	218
-	(23)	(23)
-	1,007	1,007

2,800	455	3,255
2,800	257	3,057

Note 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.

NOTE 12

CURRENT TRADE AND OTHER PAYABLES

Trade creditors (1)

Net GST/VAT payable

Excess payment by QSLM for subscription to Magontec options maturing 3 January 2014.

Other creditors and accruals

CONSOLIDATED	
31-Dec	31-Dec
2014	2013
\$'000	\$'000
19,235	14,813
-	279
-	53
3,290	2,912
22,525	18,057

(1) Trade creditors represent 56.26 days cost of goods sold (36.37 days cost of goods sold at 31 Dec 13)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13

BORROWINGS

		31-Dec 2014	31-Dec 2014	31-Dec 2014	31-Dec 2013	31-Dec 2013	31-Dec 2013
	Notes	\$'000	Maturity Date	Interest pa(1)	\$'000	Maturity Date	Interest pa(1)
Bank & Institutional Borrowings							
Magontec GmbH (Bank Loan) (2) (7)	25(g)	8,881	30-Jun-17	2.22%	9,258	30-Jun-14	3.24%
Magontec GmbH (Bank Loan) (2) (7)	25(g)	2,832	30-Jun-17	2.32%	3,270	30-Jun-14	3.01%
Magontec GmbH (Hire Purchase Facility) (7)	25(g)	693	31-Dec-18	1.20%	-	-	-
Magontec GmbH (Factoring Facility) (3)		2,116	30-Nov-16	1.52%	1,354	30-Nov-14	1.99%
Magontec SRL (Working Capital Facility)		-	Open	5.54%	-	-	-
Magontec SRL (Bank Loan)		628	28-Apr-17	3.25%	-	-	-
Magontec SRL (Finance Lease)		-	-	-	16	30-Jun-15	8.79%
Magontec Xian Limited (Bank Loan) (7)	25(g)	698	7-Aug-15	6.34%	-	-	-
Magontec Xian Limited (Bank Loan) (7)	25(g)	821	25-Sep-15	6.30%	-	-	-
Magontec Xian Limited (Bank Loan) (7)	25(g)	788	27-Nov-15	6.02%	-	-	-
Magontec Xian Limited (Bank Loan)		3,951	22-Apr-15	6.40%	4,224	1-Apr-14	6.50%
Total Bank Borrowings		21,408			18,121		

Current Borrowings

Bank borrowings as above (excluding factoring facility)	18,663	Various	-	16,767	Various	-
Owing to Straits Mine Management Pty Ltd (4)	-	-	-	2,100	3-Jan-14	-
Convertible Loan Note 2 - Straits Mine Management Pty Ltd (5)	-	-	-	1,004	3-Jan-14	-
Other Current Borrowings	-	-	-	-	-	-
Total Current Borrowings	18,663			19,871		

Non Current Borrowings

Bank borrowings as above	628	28-Apr-17	-	-	Various	-
Total Non Current borrowings	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 and inventory. Trade debtors are charged to the extent of €8,670,000 (\$12,833,037).

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

(4) This debt was repaid on 3 January 2014 from proceeds of the conversion of listed options.

(5) This debt was converted to ordinary shares in Magontec Limited on 3 January 2014.

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

(7) As at 31 December 2014, the company was in breach of its 'minimum net tangible worth ratio' covenant with Commerzbank. This was driven mostly by the increase in the pension defined benefit obligation during the year, with the discount rate assumption falling to 2.16% as at 31 Dec 2014 (from 3.3% as at 31 Dec 2013) driving a A\$1.6 million increase in the 'Non Current Provisions' liability with a corresponding charge also recognised in Other Comprehensive Income.

Because of this technical breach, all amounts owing to Commerzbank are deemed to be repayable on demand and are required to be classified as current liabilities in accordance with IFRS. Notwithstanding, the Group remains confident of the ongoing support of Commerzbank and has received written confirmation that the bank intends to continue offering facilities up to the value of EUR 12.0 million (A\$17.8 million)

NOTE 14

CURRENT PROVISIONS

	CONSOLIDATED	
	31-Dec 2014	31-Dec 2013
	\$'000	\$'000
Provision for Annual Leave	427	310
Provision for Income Tax Payable	16	202
Provision for Loss on FX hedges and interest rate swaps	25	1,029
Other Current Provisions	22	151
	489	1,692

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15

NON-CURRENT PROVISIONS

Provision for redundancy	
Provision for defined benefit pension obligation	
Other provisions	

CONSOLIDATED	
31-Dec 2014 \$'000	31-Dec 2013 \$'000
-	-
9,753	8,121
205	195
9,958	8,315

Reconciliation of the defined benefit pension obligation

Defined benefit obligation beginning of year

Current service cost	
Interest cost	
Total benefits paid - actual	
Foreign currency exchange rate changes	
Experience adjustments (gains)/ losses	
Actuarial (gains)/ losses due to change of assumptions	

Year Ended 31-Dec-14 \$'000	Year Ended 31-Dec-13 \$'000
8,121	6,676
161	167
253	269
(277)	(259)
(330)	1,445
-	-
1,826	(176)
9,753	8,121

Defined benefit obligation end of year

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

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

The defined benefit plan is an unfunded plan which has been provided to employees in the European business. Increasing interest rates will act to decrease the Provision. The converse is also true. In the context of falling interest rates in Europe (where the beneficiaries of this pension plan are domiciled) there has been upward pressure on the Provision. Other factors (including the AUD-EUR exchange rate) have brought the overall provision up as at 31 Dec 2014. 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

Discount rate
Expected salary increase per annum
Expected pension increase per annum

Year Ended 31-Dec-14 \$'000	Year Ended 31-Dec-13 \$'000
2.16%	3.30%
2.75%	2.75%
1.75%	1.75%

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

	% chg	Impact on Liability \$'000
Discount rate (%)	+0.5%	(850,758)
	(0.5)%	982,520
Salary increase (%)	+0.5%	56,915
	(0.5)%	(53,622)
Pension increase (%)	+0.5%	702,590
	(0.5)%	(636,588)
Life expectancy (years)	+ 1 year	417,508

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16

SHARE CAPITAL

Opening balance of share capital attributable to members of MGL

Shares issued to staff (Guenter Franke) (1)

Issue of shares to Executives of Magontec Limited (2)

Capital subscribed (net of costs) to Nov 2012 rights issue

Issue of securities in respect of conversion of listed options

Issue of securities to SMM in respect of conversion of Convertible Loan Notes

Monies received prior to 31 Dec 2013 for shares issued in 2014 now allocated

Various costs associated with above issues

Share capital on issued ordinary shares 1,115,725,813 (2013: 813,588,666)

QSLM monies received for conversion of options in respect of shares issued post 31 December 2013

Subscriptions in respect of conversion of listed options for which securities are to be issued

Share capital attributable to members of MGL

CONSOLIDATED	
31-Dec 2014 \$'000	31-Dec 2013 \$'000
55,145	33,971
-	65
16	36
-	11,026
5,596	963
1,063	5,908
(3,548)	-
(9)	(371)
58,262	51,597
-	3,000
-	548
58,262	55,145

Summary of share capital

Share capital attributable to members of MGL

Share capital attributable to minority interest

Total share capital

58,262	55,145
463	463
58,725	55,608

(1) At 31-Dec-13 this was the balance of shares to be issued to Guenter Franke upon his retirement (28 February 2013) in terms of entitlement under Resolution 8(b) of the Company's 2011 AGM held 22 Nov 2011.

(2) Shares issued in terms of entitlement under Resolution 8(b) of the Company's 2011 AGM held 22 Nov 2011 to an executive (Mr. Martin Tauber) not included in KMP.

A reconciliation of the movement in fully paid ordinary shares in Note 16 'Share capital on issued ordinary shares 1,115,725,813 (31 Dec 2013: 813,588,666) is set out below.

Fully paid ordinary shares

Balance at beginning of financial year

Expenses of various issues

Issue of shares to Executives of Magontec Limited

Issue of securities under 2012 Rights issue

Issue of securities in respect of conversion of listed options

Issue of securities to SMM in respect of conversion of Convertible Loan Notes (1)

CONSOLIDATED / PARENT ENTITY			
31-Dec-2014		31-Dec-2013	
No.	\$'000	No.	\$'000
813,588,666	51,597	428,097,560	33,971
-	(9)	-	(371)
681,981	16	4,796,793	100
-	-	220,531,254	11,027
280,203,903	5,596	48,125,841	963
21,251,263	1,063	112,037,218	5,908
1,115,725,813	58,262	813,588,666	51,597

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

NOTE 17

RESERVES

Capital reserve

Balance at beginning of financial year(1)

Balance at end of financial year

Foreign currency translation reserve

Balance at beginning of financial year

Movement in VHL Consolidated accounts

Balance at end of financial year

Actuarial Reserves

Balance at beginning of financial year

Derivatives

Deferred tax assets

Employee pensions

Balance at end of financial year

Expired Options Reserve

Balance at beginning of financial year

ESOP options expiry

Balance at end of financial year

Total reserves

Reserves attributable to minority interests

Reserves attributable to members of MGL

Total reserves

Other Comprehensive Income - that may later emerge in the Profit and Loss Statement

Exchange differences taken to reserves in equity – translation of overseas entities

Movement in various actuarial assessments, derivatives & other

Total Other Comprehensive Income

CONSOLIDATED	
31-Dec 2014 \$'000	31-Dec 2013 \$'000
2,750	2,750
2,750	2,750

1,979	(179)
429	2,158
2,408	1,979

(1,008)	(1,226)
468	150
447	(108)
(1,825)	176
(1,917)	(1,008)

1,637	1,612
-	24
1,637	1,637
4,878	5,358

-	-
4,878	5,358
4,878	5,358

429	2,158
(909)	219
(481)	2,377

Notes

(1) The **capital reserve** is a historical reserve from 2002 that arose after calculation of the outside equity interest in the (as it was then)

Australian Magnesium Investments Pty Ltd consolidated entity.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18

ACCUMULATED LOSSES

	CONSOLIDATED	
	31-Dec	31-Dec
	2014	2013
	\$'000	\$'000
Balance at beginning of financial year	(27,734)	(28,021)
Adjustment to opening balance	-	(5)
Profit/(Loss) attributable to members of Magontec Limited	(1,664)	292
Profit/(Loss) attributable to minority interests	-	-
	(29,398)	(27,734)
Accumulated losses attributable to members of Magontec Limited	(29,398)	(27,732)
Accumulated losses attributable to minority interests	-	(2)
Total accumulated losses	(29,398)	(27,734)

NOTE 19

EARNINGS/(LOSS) PER SHARE

	CONSOLIDATED	
	12 months to	12 Months to
	31-Dec-14	31-Dec-13
	cents per share	cents per share
Basic earnings/(loss) per share (including Discontinued Operations):	(0.150)	0.044
Diluted earnings/(loss) per share (including Discontinued Operations):	(0.150)	0.027
Basic earnings/(loss) per share (excluding Discontinued Operations):	(0.150)	0.046
Diluted earnings/(loss) per share (excluding Discontinued Operations):	(0.150)	0.028

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share are as follows:

	CONSOLIDATED	
	12 months to	12 Months to
	31-Dec-14	31-Dec-13
	\$'000	\$'000
Profit/(Loss) after income tax expense/benefit including discontinued operations		
Members of the parent entity	(1,664)	292
Profit/(Loss) after income tax expense/benefit from continuing operations		
Members of the parent entity	(1,664)	303
Weighted average number of ordinary securities on issue (for basic earnings calculation)	1,110,014,752	659,044,011
Listed Options exercisable on or before 3 January 2014	-	392,936,667
Unlisted options in Con Loan Note No. 2 issued to SMM expiring 28 November 2015	-	21,251,263
Weighted average number of ordinary securities on issue (for diluted earnings calculation)	1,110,014,752	1,073,231,941

NOTE 20

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent assets for the group as at 31 December 2014.

As at the date of this report, an audit of VAT by the Romanian tax office on MAR activity is in progress. The outcome of this audit is unknown.

The local Romanian auditor has identified in his report unreconciled differences in the fixed assets register. The aggregate net value of the MAR fixed assets at 31 December 2014 in the group accounts is \$9.2 million. It is expected these differences will be reconciled by mid 2015.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 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 (2014) Lease Payments	Lease Payments Due Within 12 Months (ie year ended 31-Dec-15)	Lease Payments Due Beyond 12 Months (ie beyond 31-Dec-15)	Unexpired Lease Obligation
MAB company car	17-Apr-12	16-Apr-15	Monthly	\$928	\$11,140	\$3,713	-	\$3,713
MAB company car	11-May-12	10-May-16	Monthly	\$656	\$7,869	\$7,869	\$3,279	\$11,147
MAB company car	19-Mar-14	18-Mar-17	Monthly	\$503	\$6,036	\$6,036	\$7,545	\$13,582
MAB wheel loader	20-Jun-13	31-Jan-17	Monthly	\$2,867	\$34,408	\$34,408	\$37,275	\$71,683
MAB forklift trucks	1-Jul-14	30-Jun-19	Monthly	\$2,217	\$26,609	\$26,609	\$95,350	\$121,959
MAR car lease	25-Jun-11	25-Jun-15	Monthly	\$1,262	\$15,143	\$7,572	-	\$7,572
MAR company car	1-Aug-11	1-May-15	Monthly	\$15,565	\$186,785	\$77,827	-	\$77,827
MAY plant and equipment lease	1-Jul-12	1-Jun-17	Monthly	\$24,374	\$292,483	\$292,483	\$438,725	\$731,208
MAS plant lease	1-Jan-15	31-Dec-15	Semi Annual	\$78,230	\$156,460	\$156,460	-	\$156,460
MGL head office lease	15-Jul-14	15-Jul-16	Monthly	\$3,333	\$40,000	\$40,000	\$23,333	\$63,333
Total					\$776,933	\$652,977	\$605,507	\$1,258,483

MAB = Magontec GmbH (Bottrop Germany)

MAY = Magontec Shanxi Company Limited

MAS = Magontec SuZhou Co Ltd

MAR = Magontec SRL (Romania)

MGL = Magontec Limited (Sydney head office)

CONSOLIDATED	
31-Dec 2014	31-Dec 2013
\$'000	\$'000
653	450
606	805
-	-
1,258	1,255

Non-cancellable operating lease payments

Not longer than 1 year

Longer than 1 year and not longer than 5 years

Longer than 5 years

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\$13.4 million).

Approximately US\$6.0 million (A\$7.3 million) of the project cost is expected to be incurred during 2015 and will be funded from a combination of:

- cash resources of A\$6.4 million as at 31 Dec 2014;
- cash generated from operations;
- the undrawn component of existing debt facilities (currently A\$8.0 million); and
- potential new debt facilities to be negotiated

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22

CONTROLLED ENTITIES

a Consolidated Controlled Entities

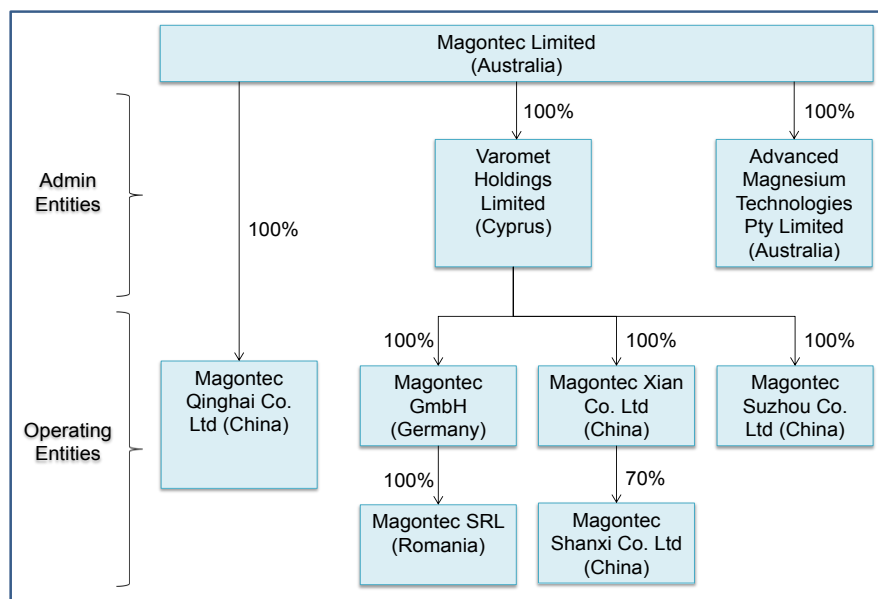
Name of entity	Ownership	Country of	Ownership	Ownership
	Entity	Incorporation	interest	interest
			31-Dec-2014	31-Dec-2013
<u>Parent entity</u>				
Magontec Limited (a)		Australia	100%	100%
<u>Directly Controlled Subsidiaries Of Parent</u>				
Advanced Magnesium Technologies Pty Ltd (a)	Magontec Limited	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%
<u>Indirectly Controlled Subsidiaries of Parent - Level 1</u>				
Magontec Xian 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%
<u>Indirectly Controlled Subsidiaries of Parent - Level 2</u>				
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.

b Corporate Structure as at 31 December 2014



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

NOTE 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 2014, 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) as described in the chart at NOTE 22b 'Corporate Structure as at 31 December 2014';
Advanced Magnesium Technologies Pty Limited (Australia) as described in the chart at NOTE 22b 'Corporate Structure as at 31 December 2014'; and
Varomet Holdings Limited (Cyprus) as described in the chart at NOTE 22b 'Corporate Structure as at 31 December 2014';
- 'EUR' = Magontec operating entities in Europe comprising -
Magontec GmbH (Germany) as described in the chart at NOTE 22b 'Corporate Structure as at 31 December 2014'; and
Magontec SRL (Romania) as described in the chart at NOTE 22b 'Corporate Structure as at 31 December 2014'.
- 'PRC' = Magontec operating entities in the People's Republic of China comprising -
Magontec Xian Co. Ltd. (China) as described in the chart at NOTE 22b 'Corporate Structure as at 31 December 2014';
Magontec Shanxi Co. Ltd. (China) as described in the chart at NOTE 22b 'Corporate Structure as at 31 December 2014';
Magontec Suzhou Co. Ltd. (China) as described in the chart at NOTE 22b 'Corporate Structure as at 31 December 2014'; and
Magontec Qinghai Co. Ltd. (China) as described in the chart at NOTE 22b 'Corporate Structure as at 31 December 2014'.

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23

SEGMENT INFORMATION (Cont....)

Statement of Comprehensive Income

	12 months to 31 December 2014				12 Months to 31 December 2013			
	\$'000 Admin	\$'000 EUR	\$'000 PRC	\$'000 TOTAL	\$'000 Admin	\$'000 EUR	\$'000 PRC	\$'000 TOTAL
Sale of goods	4	83,346	59,049	142,399	-	86,492	60,901	147,393
Less Inter-company sales				(9,116)				(18,433)
Net Sales	4	83,346	59,049	133,283	-	86,492	60,901	128,960
Cost of sales	(4)	(76,534)	(57,366)	(133,905)	-	(80,508)	(58,457)	(138,964)
Less Inter-company sales				9,116				18,433
Net Cost of Sales	(4)	(76,534)	(57,366)	(124,789)	-	(80,508)	(58,457)	(120,531)
Gross Profit	-	6,812	1,683	8,495	-	5,984	2,445	8,428
Other income	122	864	811	1,797	222	503	379	1,104
Interest expense	(58)	(720)	(348)	(1,127)	-	(688)	(300)	(988)
Impairment of inventory, receivables & other financial assets	(113)	(45)	(89)	(247)	(1)	(457)	-	(459)
Travel accommodation and meals	(178)	(286)	(138)	(602)	(171)	(269)	(206)	(646)
Research, development, licensing and patent costs	(74)	(77)	(151)	(303)	(96)	(299)	(156)	(551)
Promotional activity	-	(51)	(10)	(61)	(2)	(55)	(6)	(62)
Information technology	(16)	(352)	(51)	(419)	(24)	(285)	(86)	(395)
Personnel	(918)	(3,563)	(1,050)	(5,531)	(754)	(2,766)	(1,031)	(4,550)
Depreciation & Amortisation	(10)	(389)	(50)	(448)	(1)	(606)	(43)	(650)
Office expenses	(53)	(220)	(103)	(376)	(33)	(140)	(76)	(249)
Corporate	(491)	(1,835)	(582)	(2,908)	(484)	(1,655)	(783)	(2,922)
Foreign exchange gain/(loss)	353	162	(219)	297	2,331	(72)	(92)	2,167
Other operating costs								
Profit/(Loss) before income tax expense	(1,436)	300	(297)	(1,434)	988	(804)	45	229
Income tax expense/reimbursement	-	(230)	-	(230)	(114)	196	(19)	63
Profit/(Loss) after income tax expense/benefit including discontinued operations	(1,436)	70	(297)	(1,664)	874	(608)	27	292
Other Comprehensive Income								
Movement in various actuarial assessments, derivatives & other	-	(909)	-	(909)	-	219	-	219
Exchange differences taken to reserves in equity – translation of overseas entities	18	(178)	589	429	61	796	1,300	2,158
Total Comprehensive Income	(1,418)	(1,018)	291	(2,145)	935	407	1,327	2,669

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23

SEGMENT INFORMATION (Cont....) (Cont....)

Segment Assets	31-Dec-14	31-Dec-14	31-Dec-14	31-Dec-14	31-Dec-13	31-Dec-13	31-Dec-13	31-Dec-13
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	Admin	EUR	PRC	TOTAL	Admin	EUR	PRC	TOTAL
Gross Segment assets	51,069	51,272	33,676	136,017	45,246	58,342	31,520	135,107
Adjustment(1)	-	-	-	-	-	(1,354)	-	(1,354)
Eliminations	-	-	-	-	-	-	-	-
- Inter-Coy Loans	(35,348)	(965)	(3,438)	(39,751)	(29,049)	(11,498)	(2,968)	(43,515)
- Investment in subsidiaries	(15,392)	-	-	(15,392)	(15,392)	(63)	-	(15,455)
- Other	5,598	51	(54)	5,595	6,401	213	(230)	6,385
As per Consolidated Balance Sheet	5,926	50,358	30,184	86,469	7,206	45,640	28,321	81,168

Segment Liabilities

Gross Segment liabilities	21,840	47,682	22,954	92,477	19,111	50,819	22,776	92,705
Adjustment(1)	-	-	-	-	-	(1,354)	-	(1,354)
Eliminations	-	-	-	-	-	-	-	-
- Inter-Coy Loans	(21,709)	(10,534)	(7,593)	(39,837)	(15,597)	(20,838)	(7,147)	(43,583)
- Other	-	67	(443)	(376)	167	-	-	167
As per Consolidated Balance Sheet	131	37,215	14,918	52,264	3,680	28,626	15,628	47,936

Note 1. Adjustment to 2013 Gross Assets and Liabilities for set off of factoring debt.

Segment Disclosures

- Acquisition of segment fixed assets	1	1,737	903	2,641	1	957	421	1,379
- Non-cash share based payments	16	-	-	16	80	-	-	80

Provisioning

- Inventory Increase/(Decrease)	-	191	-	191	-	(235)	-	(235)
- Doubtful debts Increase/(Decrease)	-	33	(66)	(33)	-	(476)	(279)	(755)

NOTE 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

NOTE 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 2014.

31 December 2014		Weighted average effective interest rate	Variable interest rate	Fixed interest rate	Non interest bearing	Total
	Notes	%	\$'000	\$'000	\$'000	\$'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
Loan owing by KWE (HK)		-	-	-	-	-
Receivable in respect of sale of HNKWE		-	-	-	-	-
Other		-	-	-	393	393
			6,421	-	25,649	32,070
Financial liabilities:						
Trade & other payables		-	-	-	22,525	22,525
Current Bank Borrowings	13	3.57%	18,663	-	-	18,663
Bank accepted bills issued to suppliers	13	-	-	-	-	-
Non Current Bank Borrowings	13	3.25%	-	-	628	628
Current Owing to Straits Mine Management Pty Ltd	13	-	-	-	-	-
			18,663	-	23,153	41,817

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25

FINANCIAL INSTRUMENTS (Cont...)

The following table details the consolidated entity's exposure to interest rate risk as at 31 December 2013.

31 December 2013

		Weighted average effective interest rate	Variable interest rate	Fixed maturity dates	Non interest bearing	Total
	Notes	%	\$'000	\$'000	\$'000	\$'000
Financial assets:						
Cash and cash equivalents		1.40%	7,373	-	3	7,375
Trade & other receivables (net of provision for loss)		-	-	-	26,472	26,472
Loan owing by KWE (HK)		-	-	-	-	-
Receivable in respect of sale of HNKWE		-	-	-	-	-
Other		-	-	-	226	226
			7,373	-	26,700	34,073
Financial liabilities:						
Trade & other payables		-	-	-	18,057	18,057
Current Borrowings	13	3.87%	16,767	-	-	16,767
Bank accepted bills issued to suppliers	13	-	-	-	-	-
Non Current Borrowings	13	-	-	-	-	-
Non Current Owing to Straits Mine Management Pty Ltd	13	-	-	-	3,104	3,104
			16,767	-	21,162	37,928

(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 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	
\$'000	\$'000	\$'000	\$'000	
Foreign currency monetary assets and liabilities				
Cash and cash equivalents		5,477	5,688	
Trade and other receivables		24,778	25,968	
Other non current receivables		1,044	997	
Trade and other payables	22,519	18,045		
Provisions	10,295	9,845		
Borrowings	19,292	16,767		
Other				
Other net assets and liabilities	158	3,279	55,170	48,515
Total	52,264	47,936	86,469	81,168

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

NOTE 25

FINANCIAL INSTRUMENTS (Cont...)

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10% increase and 10% decrease in relevant foreign currencies 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 denominated items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

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

	Notes	USD impact	
		Consolidated 31 Dec 2014 \$'000	Consolidated 31 Dec 2013 \$'000
Effect on Loss of a 10% increase in USD rate	(i)	436	234
Effect on Loss of a 10% decrease in USD rate		(436)	(234)
		EUR impact	
		Consolidated 31 Dec 2014 \$'000	Consolidated 31 Dec 2013 \$'000
Effect on Loss of a 10% increase in EUR rate	(ii)	(944)	(383)
Effect on Loss of a 10% decrease in EUR rate		944	383
		RMB impact	
		Consolidated 31 Dec 2014 \$'000	Consolidated 31 Dec 2013 \$'000
Effect on Loss of a 10% increase in RMB rate	(iii)	481	519
Effect on Loss of a 10% decrease in RMB rate		(481)	(519)
		RON impact	
		Consolidated 31 Dec 2014 \$'000	Consolidated 31 Dec 2013 \$'000
Effect on Loss of a 10% increase in RON rate	(iv)	17	(372)
Effect on Loss of a 10% decrease in RON rate		(17)	372

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

- (i) Exposure to USD is represented by net assets of USD3,566,184 in respect of period ended 31-Dec-14 (exposure on net assets of USD2,085,129 in period ended 31-Dec-13)
- (ii) Exposure to EUR is represented by net liabilities of EUR6,376,221 in respect of period ended 31-Dec-14 (exposure on net liabilities of EUR2,480,027 in period ended 31-Dec-13)
- (iii) Exposure to RMB is represented by net assets of RMB24,417,870 in respect of period ended 31-Dec-14 (exposure on net assets of RMB28,077,990 in period ended 31-Dec-13)
- (iv) Exposure to RON is represented by net assets of RON510,182 in respect of period ended 31-Dec-14 (exposure on net liabilities of RON10,754,821 in period ended 31-Dec-13)

The Group's sensitivity to foreign currency has increased during the current period due to increased trade and other payables predominantly in Germany.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25

FINANCIAL INSTRUMENTS (Cont...)

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.

	CONSOLIDATED			
	Carrying	Market	Cash flow due	Cash flow due
	value	value	within 1 year	after 1 year
	\$'000	\$'000	\$'000	\$'000
31 December 2014				
FX hedges	137	137	137	-
Interest rate swaps	(25)	(858)	(343)	(515)
31 December 2013				
FX profitable hedges	11	11	11	-
FX unprofitable hedges	(51)	(51)	(51)	-
IR swap	(978)	(978)	(391)	(587)

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:

	CONSOLIDATED	
	AUD impact of change	
	31 Dec 2014	31 Dec 2013
	\$'000	\$'000
FX hedges		
Sensitivity to +10% change in USD EUR rate	262	302
Sensitivity to -10% change in USD EUR rate	(262)	(302)
Sensitivity to +10% change in RMB EUR rate	-	127
Sensitivity to -10% change in RMB EUR rate	-	(127)
Interest rate swaps		
Sensitivity to +0.5% change in interest rates	74	77
Sensitivity to -0.5% change in interest rates	(74)	(77)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25

FINANCIAL INSTRUMENTS (Cont...)

(g) Capital Management and Interest rate risk management

The consolidated entity has bank loans outstanding of \$14,712,225 (refer Note 13) owing to Commerzbank across Germany and China. As at 31 Dec 2014 the Company was in breach of certain covenants under which the facilities are governed. As such, the Group has obtained written confirmation from Commerzbank that it intends to continue offering its facilities to the amount of EUR12.0 million (A\$17.8 million). 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

NOTE 26

PARENT ENTITY INFORMATION (MAGONTEC LIMITED)

STATEMENT OF COMPREHENSIVE INCOME

	PARENT ENTITY	
	12 months to	12 months to
	31-Dec-14	31-Dec-13
	\$'000	\$'000
Sale of goods	-	-
Cost of sales	-	-
Gross profit	-	-
Other income	179	314
Interest expense	(58)	-
Impairment of inventory, receivables & other financial assets	(1,669)	(2,816)
Travel accommodation and meals	(60)	(28)
Research, development, licensing and patent costs	(20)	-
Promotional activity	-	(1)
Information technology	(5)	(16)
Personnel	(30)	(84)
Depreciation & Amortisation	-	-
Office expenses	(3)	(1)
Corporate	(439)	(381)
Foreign exchange gain/(loss)	(136)	1,054
Other operating costs	-	-
Profit/(Loss) before income tax expense/benefit from continuing operations	(2,241)	(1,959)
Income tax (expense)/benefit	-	-
Profit/(Loss) after income tax expense/benefit from continuing operations	(2,241)	(1,959)
Loss after income tax expense from discontinued operations	-	-
Profit/(Loss) after income tax expense/benefit including discontinued operations	(2,241)	(1,959)
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, derivatives & other	-	-
Total Comprehensive Income	(2,241)	(1,959)
Profit/(Loss) after income tax expense for the year (incl discontinued operations) attributable to		
Minority interests	-	-
Members of the parent entity	(2,241)	(1,959)
Total	(2,241)	(1,959)
Comprehensive Income for the year attributable to		
Minority interests	-	-
Members of the parent entity	(2,241)	(1,959)
Total Comprehensive Income for the year	(2,241)	(1,959)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 26

PARENT ENTITY INFORMATION (MAGONTEC LIMITED) (Cont...)

BALANCE SHEET

	PARENT ENTITY	
	31-Dec	31-Dec
	2014	2013
	\$'000	\$'000
Cash and cash equivalents	850	1,668
Trade & other receivables	1,927	1,743
Other	75	11
Total current assets	2,852	3,422
Non-current assets		
Inter Company Loan Receivables (net of provisioning)	15,206	11,910
Investment in shares of subsidiaries (net of provisioning)	8,879	6,574
Total non-current assets	24,085	18,484
Total assets	26,937	21,906
Current liabilities		
Trade & other payables	40	72
Bank Borrowings	-	-
Owing to Straits Mine Management Pty Ltd	-	1,004
Provisions	(38)	77
Total current liabilities	2	1,154
Non-current liabilities		
Borrowings from/payables to related parties	-	-
Owing to Straits Mine Management Pty Ltd	-	-
Provisions	-	-
Other	1,513	(793)
Total non-current liabilities	1,513	(793)
Total liabilities	1,515	360
Net assets	25,422	21,546
Equity attributable to members of MGL		
Share capital	58,262	52,145
Reserves	1,637	1,637
Accumulated losses	(34,477)	(32,236)
Equity attributable to minority interests		
Share capital	-	-
Reserves	-	-
Accumulated losses	-	-
Total equity	25,422	21,546

NOTES TO THE FINANCIAL STATEMENTS

NOTE 26

PARENT ENTITY INFORMATION (MAGONTEC LIMITED) (Cont...)

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2014.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2014.

Significant accounting policies

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

NOTE 27

SUBSEQUENT EVENTS

- 1** In the ASX Announcement released on 27th August 2014, MGL announced the temporary closure of its Suzhou magnesium recycling plant in Jiangsu Province, PRC. This came about due to an accident in early August at an aluminium factory in Kunshan, Jiangsu Province (PRC) which led to the death of around 70 employees and injured many others. Although this factory is NOT connected with Magontec in any way, the relevant authorities immediately requested the closure of over 200 aluminium and magnesium processing factories in the Suzhou city area, pending further investigation into safety standards and conditions.

Magontec was subsequently informed by the Suzhou Wujiang Administration of Work Safety that the company's magnesium recycling factory in Suzhou has now been approved to recommence production as announced to the ASX in January 2015. Further detail is provided in the Executive Chairman's Report.

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

NOTE 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
46A Macleay St
Potts Point, NSW 2011
Tel: 61 2 8005 4109
Fax: 612 9252 8960

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes thereto, set out on pages 30 to 67:

- (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 attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and give a true and fair view of the financial position and performance of the Group; and
- (c) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Board of Directors



MR N ANDREWS
EXECUTIVE CHAIRMAN
27 February 2015



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 2014, and the consolidated statement of profit & loss and other comprehensive income, statement of changes in equity and 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 compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

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 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 Declaration

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

INDEPENDENT AUDIT REPORT



Basis of Qualified Opinion

We refer to Note 20, which discloses an unreconciled difference in fixed assets in the accounting records of Magontec SRL, the Group's 100% owned Romanian subsidiary. We have been unable to obtain sufficient appropriate audit evidence to confirm the value of fixed assets at reporting date as the accounting records are incomplete.

Qualified Auditor's Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph:

- (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 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and 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 19 to 25 of the directors' report for the year ended 31 December 2014. 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 2014 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: 27 February 2015

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	Percentage
Substantial Shareholders		
1 QINGHAI SALT LAKE MAGNESIUM CO LTD	330,535,784	29.63
2 STRAITS MINE MANAGEMENT PTY	168,143,886	15.07
3 J P MORGAN NOMINEES AUSTRALIA	111,366,417	9.98
4 CITICORP NOMINEES PTY LIMITED	89,481,923	8.02
5 KWE (HK) INVESTMENT	55,797,298	5.00
Other Shareholders		
6 NATIONAL NOMINEES LIMITED	23,719,625	2.13
7 HSBC CUSTODY NOMINEES	21,792,544	1.95
8 MR NICHOLAS WILLIAM ANDREWS	18,993,502	1.70
9 MRS DAWN PATRICIA DAVIS	13,600,000	1.22
10 DALSIZ PTY LTD	7,500,000	0.67
11 MR PETER FABIAN HELLINGS	5,030,000	0.45
12 MS MIRANDA PARHAM	5,000,000	0.45
13 MR SCOTT PARHAM	5,000,000	0.45
14 MRS PAMELA ELIZABETH DRABSCH	4,800,000	0.43
15 MR DAVID ALOYSIUS DRABSCH	4,533,335	0.41
16 AG & GK PTY LTD	4,198,461	0.38
17 MR JOHN DAVID TALBOT	4,000,768	0.36
18 BRIAN GORMAN SELF MANAGED	4,000,000	0.36
19 MR GUENTER FRANKE	3,633,521	0.33
20 DR ANDREW DUNCAN	3,631,877	0.33
Total	884,758,941	79.30

Distribution of Shareholders as at End Date of Current Reporting Period

Number Held	Holders	No. of Securities	Percentage
1-1000	10,174	3,451,039	0.31
1001-5000	2,005	4,426,738	0.40
5001-10000	455	3,674,879	0.33
10001-100000	1,413	45,850,540	4.11
100001 and over	436	1,058,322,617	94.86
TOTAL	14,483	1,115,725,813	100.00

As at 31-Dec-2014 a marketable parcel of securities (\$500) is a holding of at least 25,000 securities (1).

1. Based on a closing share price of \$0.020

Issued Capital and Securities	On Issue at 31 Dec 14
Ordinary Shares fully paid	1,115,725,813
Listed Options exercisable on or before 3 Jan 2014	-
Unlisted options inherent in Convertible Loan Note	-
Unlisted Employee Options	-

Share Registry: Boardroom Pty Limited

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